
International Financial Institutions: The “development” business

Development can provide --indeed, it does-- great opportunities for corporations eager to profit from business in so-called “developing” countries. International Financial Institutions (IFIs) have proved to be extremely good instruments for achieving that, and extremely bad for improving southern peoples’ livelihoods or protecting the environment.

The World Bank Group –which includes the World Bank (WB) and the International Finance Corporation (IFC)- the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Investment Bank (EIB), the International Monetary Fund (IMF), and Export-Credit Agencies are the major IFIs.

How do they exert their power? Inequality in the distribution of votes in the IFIs allows for their control. Representation on the executive board is based on the proportion of funding. The IFIs are structurally based on voting power that does not operate on one vote one country but is determined by the amount of money invested by each member country. The significance of the basic vote allocated to all members has declined in proportion to the number of votes allocated according to a country's economic strength. The failure to maintain the value of the basic vote has shifted the balance of power further to industrialised countries. As this 'equity factor' has diminished in significance, the allocation of votes has moved much closer to one-dollar-one-vote.

While more than 180 countries are members of the IMF five of them (USA, Britain, Germany France, Japan and Saudi Arabia) control 44% of the votes. The United States has a controlling share of over 16 per cent of the total votes in both institutions, giving it veto power for major decisions. In the case of the WB, the 24 OECD countries control more than two thirds of the votes. The Board of regional multilateral banks like the Asian Development Bank (AsDB) and the African Development Bank (AfDB), apart from following the same structure of “one-dollar-one-vote”, are controlled mainly by non-regional countries, which integrating the banks allows their corporations to benefit from the concessions granted through “development” projects. In the AsDB, the country that holds the highest voting power is the United States, followed by Japan, Canada and Germany (http://www.bicusa.org/bicusa/issues/ADB_Voting_power_by_country2003.pdf). In the AfDB, Nigeria leads the list, but followed suit by USA, Japan and Germany (http://www.afdb.org/pls/portal/docs/PAGE/ADB_ADMIN_PG/DOCUMENTS/FINANCIALINFORMATION/2005-VP-ENG-MAY.PDF).

The unequal allocation of votes is magnified by the system of allocating seats on the IMF and World Bank boards on the basis of one per constituency with the five largest vote holders allocated one seat each (the US, UK, France, Germany and Japan). A further three countries are in single-country constituencies and therefore have guaranteed seats on the boards (China, Russia and Saudi Arabia). The remaining 176 member countries share just 16 seats between them.

This inequality means that the IFIs are a tool whereby G7 countries (Canada, France, Germany, Japan, Italy, UK, US) pursue their economic and foreign policy goals. This small group of countries can agree policies outside the IFIs and implement these policies through them. Southern countries

are continually adjusting to the latest economic fashions of the IFIs, which in turn are influenced by the needs of industrialised countries.

Transactions carried out by IFIs in (mis)development projects and other business ventures have several implications. They have taken and still take place in an uneven field: rich nations lend money to impoverished nations, enlarging their already large foreign debt. It's worth noting that in many countries their debt burden soared during military dictatorships through loans granted by IFIs, who have long supported dictatorial regimes.

Although many countries have swept away dictatorships, their governments anyway inherited those debts. Once caught in the trap, indebted countries have to service their financial debt at the expense of their own economy, diverting resources from other areas, including social and environmental programmes.

IFIs are thus related to the circle of an external debt over which dependence is built. By means of dependence powerful nations can impose their conditions on the policies that governments must follow in order to receive the loans.

The policy recipe of IFIs includes structural adjustment programs (SAP) to recover macroeconomic stability in the short-term. SAPs entail a package of economic policies designed to fix the countries' imbalances in trade improving their balance of payments, by increasing exports and reducing imports. Thus, Southern countries have embarked on export-led intensive extraction of natural resources and monoculture activities (the so called "commodities"), also to generate foreign exchange with which to pay the foreign debt. Further policies have forced countries to open their national economies to transnational companies for investment in the exploitation of the countries' natural resources.

Those policies and IFI's investments have more than often implied negative environmental and social consequences as long as they put an increasing and indiscriminate pressure on nature. Fossil fuel projects (like the Bolivia-Brazil Gas Pipeline or the Camisea Gas Project in Peru), mining projects (like the Ok Tedi mine and the Lihir Mine in Papua New Guinea), dams (like Nam Theun 2 dam in Laos), shrimp farming (like the WB/IFC's funded Shrimp Culture Project in Bangladesh, Fisheries Support Services Project in Indonesia, or Shrimp and Fish Culture Project in India), roads, and industrial plantations (eucalyptus, oil palm, teak, rubber trees, soya) everywhere, destroy local and regional environments and livelihoods and lead to deforestation and destruction of other biologically rich areas.

Quite away from any idea of "aid", Northern countries seek their best opportunity everywhere, including the "development" field. Experiences over the past years further show – as in Cambodia, East Timor, Afghanistan and Iraq— that post-conflict, post-war and disaster reconstruction have been another operation field for IFIs, whose reconstruction programmes do not contribute in any meaningful manner to the rebuilding and rehabilitation of the lives of affected peoples and communities. Governments which do not comply with their recipes and conditions are black-listed, which means that investment and technology transfers are frozen and export and import credits are often blocked.

In order to expose how investment in IFIs is profitable for industrialized countries, let the government of the United States speak for itself (it has spared us the task of trying to decode its message!): "US participation in the development banks provides essential financial support for the work of US export promotion agencies. (...) The development bank's structural adjustment and sectoral lending

programs have been extremely important in promoting more open trading systems. In Latin America and the Caribbean, this type of lending, in conjunction with the adjustment programs of the International Monetary Fund, has led to fundamental economic policy reform in some of the larger countries. (...) As a consequence, they are becoming larger and more important export markets for the United States and other industrial countries. (...) The important role of the MDBs in the international economy and the economic benefits they provide to the US are not well known. (...) Since the founding of the World Bank in 1945, we have been their largest and most influential contributing member. We have also been their largest beneficiary in terms of contracts awarded to U.S. firms to help borrowing countries carry out projects financed through the banks. The U.S. procurement record in the development banks reflects the enormous economic stake we as a nation have in promoting continued growth in the international economy. More and more this is where the economic action is. To do well at home, we must be engaged abroad.” (“The Multilateral Development Banks: Increasing U.S. Exports and Creating U.S. Jobs”, report of the U.S. Department of the Treasury, May 1994.)

Flowing of resources from the South to the North, which can be traced back to colonial times when the powers took over the wealth of their colonies to build Northern “development”, is today sustained by IFIs. A massive loss of capital from the poor countries to the rich countries in the North was estimated in \$50 billion in 1985 alone. In 1990 there was a net transfer of \$156 billion from the "third world" to the North. From Africa alone, the flow to the IMF and WB from 1986 to 1990 was 4.7 billion dollars, while in the case of Latin America alone over 700 billion dollars were transferred as payments to Europe and U.S. banks and multinationals from 1990-98. In other words, as a result of the lending, and the requirement to repay with interest, there is a reverse flow from the South to the North, on an unprecedented scale.

This takes place within a framework of an unfair system of trade controlled by the major countries through the World Trade Organization, bilateral “free trade” agreements, a whole array of commercial devices, and Foreign Direct Investment channeled through the IFIs.

At the root of all this lies the overproduction, overconsumption, and overwaste pattern of Northern industrialized societies, the target of most of Southern production. Their way of living is made possible through the appropriation of resources and cheap labour from Southern countries, and their environmental destruction, including deforestation.

However, resistance expresses in many ways, from local struggles to global campaigns and new insights that add to the construction of other possible worlds that challenge the predominant globalizing model.

The concept of the Ecological Debt, being one of those expressions, is rooted in the historical, social, environmental and cultural debt of the North with the South, the colonialist plunder left in impunity that cut down forests to extract minerals and grow cash crops, appropriated ancestral knowledge, enslaved Southern peoples and brought about irreparable environmental and social harm.

The Ecological Debt builds not only on the underpaid export prices of Southern products that failed to include the several local and global social and environmental costs, but also on the environmental services of their natural wealth that are not paid at all, like their forests, rivers, and biodiversity.

Shifting the position from where to face the debt that has enslaved Southern countries, the Ecological Debt makes Northern countries debtors to Southern countries since it is so huge and historical that the financial debts owed by Southern countries to IFIs have rendered insignificant. The South has already largely paid its debt.

However, incommensurability demolishes the concept of compensation. What's the price of cases of harm to health or death, destruction of cultures or the environment? Can they be compensated with cash? Several indigenous communities, like the U'Wa in Colombia, have rejected money compensation from Occidental Petroleum company to leave their land because for them it has no price, it is their mother earth.

The Ecological Debt is not about turning nature into merchandise but opposing the Ecological Debt to the external debt, which is now being challenged as illegitimate, inhuman and immoral.

Awareness of IFI's role in maintaining an unfair international order that impacts on the environment and on people is increasing. With this bulletin, we join to the several organizations from North and South that are monitoring and disclosing IFI's activities in the search of social and environmental justice.

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