Understanding Global Finance, Building International Resistance

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Session on "The Crisis of Multilateral Institutions of Global Financial Governance"
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Congratulations to the opening presenters for their strong class analysis. My remarks follow up on earlier presentations, notably Prabhat Patnaik's statement that no matter which government is in power, policies remain the same. My remarks underline how IFIs wield enormous influence in establishing and maintaining government policies.

Everyone participating in our conference has given so much thought to the issues this panel addresses that it is challenging to add value. What is more I suspect we are pretty like-minded on these issues. Still, to stimulate discussion, I humbly present a few ideas on this panel's questions highlighted below, hoping panel colleagues will address the other panel issues.

How are multilateral financial institutions financed and what is their relationship to developing countries?

<u>Multilateral financing has several sources</u>. Sources include profits from multilateral loans to developing countries, sales of multilateral bonds in developed countries, and grants from developed countries to multilaterals:
(a) Loans to middle income countries earn market rate interest payments which compose a major source of multilateral profit.
(b) "Concessional" loans to least developed countries include low interest rates but even so, low interest payments are augmented by front end, closing and other management fees which not only increase multilateral's profit, but creates poor country debt.
(c) Bond sales in capital markets raise funds for multilateral loans.
(d) Grants from developed countries provide financing for concessional multilateral loans, for example to support the World Bank's International Development Association which makes concessional loans to least developed countries.

<u>The relationship of multilaterals to developing countries</u> is patriarchal at best with the multilaterals dictating loan conditions to Least Developed Countries (LDCs). Multilateral patriarchy is manifested in policy conditionalities attached to loans. Through conditionalities, whether they are old-fashioned tranche release conditionalities, or newer ex-ante prior action conditionalities, and whatever name multilaterals call conditionalities when they attempt to disguise them, multilaterals infringe on and dominate borrower country policy space. Multilaterals have little regard for national sovereignty which they squeeze to open up developing country economies to

international finance capital.

Although multilaterals claim to have relaxed or eliminated conditionalities, their conditionalities continue to thrive through subtler approaches like awarding countries for a priori reforms. For example on a visit to Bangladesh a couple of years ago the World Bank chief economist for Bangladesh told me that the Bank had just made a massive policy-based loan to reward the government which on its own privatized and/or shut down much of the jute sector entailing massive social dislocations including job layoffs. The Bank did not need to make shutting down jute mills a loan condition because the government did so on its own following Bank advice.

Such restructuring reforms benefit international finance capital and developing country elites but hurt poorer people. Multilateral conditionalities benefiting TNCs and local elites epitomize multilateral patriarchy.

Multilateral relationships are not benignly patriarchal. Rather multilaterals often strong-arm developing countries. Strong-arming dictators who are unaccountable to developing country people has been a pattern. For example the World Bank Group has financed some 60 investments in mining operations most under dictatorships in the Democratic Republic of the Congo, to open up DRC mines to international finance capital.

To what extent are institutions of global and regional financial governance serving public and private interests (including procurement, tied aid, tax havens etc.)?

My remarks address the examples of procurement and tied aid:

<u>Procurement</u>: During the early multilateral decades of the 1950-70s, when the MDBs supported many state owned enterprises and public sector infrastructure projects, and since 1980 when multilaterals shifted support to privatizing everything public from heavy infrastructure like transport to social infrastructure like hospitals and schools, multilaterals have always, through their required International Competitive Bidding (ICB) process, together with their government partners, awarded procurement contracts to private sector TNCs which have been the major beneficiaries of the ICB procurement process. Both public and private multilateral phases have served private TNCs. The multilaterals claim that poor people in borrower countries are their project beneficiaries when in reality corporations which win project procurement contracts are the main beneficiaries.

You probably all can supply examples showing private corporations have been the main beneficiaries of multilateral operations. Here is one country and one sector example:

Mozambique provides the country example. When I visited Mozambique a couple of years ago, it was astonishing to see widespread desperate poverty in a country which enjoyed a decade of high GDP growth, estimated at around 10 percent GDP growth per annum. What caused this contradiction? My investigation revealed that about a half a dozen enclave export-oriented projects which won multilateral procurement contracts.

ensured profits for TNCs and local elites but little benefited the majority of poor Mozambiquans. These multilateral-financed projects are capital-intensive not labor-intensive.

Oil provides the sector example. In 2004, the Institute for Policy Studies (IPS) in the US released a report that demonstrated that Halliburton has been main beneficiary of World Bank oil projects, that 6 of 12 beneficiaries of Bank oil projects are US-based, and that Bank oil projects benefit northern countries. IPS found that Bank oil projects are export-based and do nothing to provide energy to poor countries. Since the IPS report appeared in 2004, we have heard increasing examples of Halliberton and other US-based TNCs firms like Bechtel winning Bank procurement contracts.

These two examples of multilateral financial institution projects in Mozambique and in oil typify multilateral projects across the world.

Tied Aid: Multilaterals claim their "aid" is not tied, in contrast to the tied aid of bilateral "donor" agencies which directly benefits firms and consultants residing in donor countries. The United States Agency for International Development (USAID) provides a great example: USAID contractors must fly US airlines to project countries. Only US corporations and consultants may obtain USAID contracts with the exception of some small local sub-contracts.

Multilaterals are also involved in tied aid, provided through bilateral "trust funds" located inside multilaterals. Each multilateral hosts numerous trust funds financed by specific developed countries, for example, a "Canada Trust Fund", "Dutch Trust Fund", and a "Swedish Trust Fund". These trust funds operate on the principle of tied aid, by awarding funds to Canadian, Dutch, Swedish, etc corporations and consultants for participating in multilateral projects. Country trust funds have long financed multilateral "seconded" staff. This trend is growing markedly in the social sectors through staff from trust fund countries being seconded to multilaterals. The World Bank recently accepted several seconded trust fund supported staff to replace a few of the 40 percent staff whose jobs were cut in the Bank's health sector reduction over the last few years.

Conclusion

What can we do? Our anti-IMF and broader anti-multilateral advocacy campaigns need accelerating and expanding. This conference will provide an impetus to both these strategies. We need to step up our concerted campaigns to eliminate conditionalities and cancel debt as intermediate measures, while focusing on the longer term goal of shrinking and sinking the international financial institutions. Doing so requires us to focus our work at all levels: global, national and grassroots.