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IFIs: Coherence and Cohesion in World Domination

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Asia Pacific Movement for Debt and Development

Introduction

For more than sixty years, the International Monetary Fund and the World Bank together with their partner regional development banks, various ODA's and export credit agencies, have used international finance capital to exercise control and restructure a country like India and the societies of the South to serve the interests of global private corporations and the economic and geopolitical agenda of the few powerful nations that control these institutions. These 'terrible twins' typically play the Good Cop, Bad Cop comedy on poor nations and their people in a pincer like move, whereby the Bad Cop (IMF) first imposes conditionalities on its loans that chokes social sector and other welfare activities, and the Good Cop (World Bank) steps in through Social Safety Nets, poverty alleviation and other prescriptive loans to throttle nations in spirals of debt, with accompanying loss of sovereignty.

The resulting effects on people's lives, on communities, on the environment, and on the economic as well as political structures in the South have been profound and over the years have generated numerous resistance struggles against these institutions.

Despite well-documented evidence and countless testimonies, that will be substantially enlarged at this Tribunal, to the destruction, displacement and dispossession their policies and operations have caused, these institutions persist in legitimizing their role. In recent years they have even declared themselves to be champions of "poverty reduction" and "good governance" strategies.

So where did they come from?

- In the beginning, it was about achieving global economic stability by rebuilding war-torn countries and institutionalizing a set of international rules to avoid the mistakes of the past—crises such as the Great Depression. But as the plot unfolded, the creation of supranational entities acting as mechanisms (and mercenaries?) to establish global governance turned out to be the greatest scam ever told. All along, the World Bank, together with the International Monetary Fund and the Asian Development Bank, toyed with people's lives to achieve a world order that only serves the interest of a few economic masters—Northern countries and their global corporations. How each international financial institution played its part was almost seamless: a choir with three voices singing to the tune of neoliberal globalization.

- Backdrop of the World Bank and IMF's emergence: *The USA, as we know, emerged from the Second World War as the only major industrial power whose industries were intact, and whose territories had not been badly damaged by wartime destruction. US industries had, of course, been perfecting their efficiencies for over a century. This long-term economic development combined with the literal collapse of the economic structures of the other major loci of world production gave the USA a productivity edge that was enormous, at least for a time, and made it easy for US products to dominate the world market. It made possible, furthermore, the largest expansion of both value and real production in the history of the capitalist world-economy, creating simultaneously great wealth and great social strain in the world social system.*

  As of 1945, the USA had two major problems. It needed a relatively stable world order in which to profit from its economic advantages. And it needed to re-establish some effective demand in the rest of the world, if expected to have customers for its flourishing productive enterprises. In the period 1945-55, the USA was able to solve both these problems without too much difficulty. The problem of world order was resolved in two parts. On the one hand, there was the establishment of a set of interstate institutions – notably, the UN, the IMF and the World Bank – all of which the USA was able to control politically and which provided the formal framework of order. And on the other hand, and more importantly, the USA came to an arrangement with the only other serious military power in the post-1945 world, the USSR – an arrangement which we have come to refer by the code-name 'Yalta'.

  (Immanuel Wallerstein, Globalization or the Age of Transition A Long-Term View of the Trajectory of the World System)

- In 1944, the UN Monetary and Financial Conference was held at Bretton Woods, New Hampshire. The Conference is now *commonly known as **Bretton Woods Conference**, was a gathering of 730 delegates from all 45 Allied nations at the Mount Washington Hotel, situated in Bretton Woods, New Hampshire to regulate the international monetary and financial order after the conclusion of World War II.*

  The conference was held from 1 July to 22 July 1944, when the agreements were signed to set up the International Bank for Reconstruction and Development, the General Agreement on Tariffs and Trade (GATT), and the International Monetary Fund (IMF).

  As a result of the conference, the Bretton Woods system of exchange rate management was set up, which remained in place until the early 1970s.

The Bretton Woods Conference took place in July of 1944, but did not become operative until 1959, when all the European currencies became convertible. Under this system, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development were established. The IMF was developed as a permanent international body. The summary of agreements from July 22, 1944 states, "The nations should consult and agree on international monetary changes which affect each other. They should outlaw practices which are agreed to be harmful to world prosperity, and they should assist each other to overcome short-term exchange difficulties." The International Bank was created to speed up post-war reconstruction, to aid political stability, and to foster peace. This was to be fulfilled through the establishment of programs for reconstruction and development.

The main terms of this agreement were:

1. *Formation of IMF and IBRD (presently part of the World Bank).*
2. *Adjustable peg FX rates system: The exchange rates were fixed, with the provision of changing them if necessary.*
3. *Currencies were required to be convertible for trade related and other current account transactions. The governments, however, had the power to regulate capital flows.*
4. *As it was possible that exchange rates thus established may not be favourable to a country's BoP position, the governments had the power to revise them by up to 10%.*
5. *All member countries were required to subscribe to IMF's capital.*

Encouraging open markets

The seminal idea behind the Bretton Woods Conference was the notion of open markets. In Henry Morgenthau's farewell remarks at the conference, he stated that the establishment of the International Monetary Fund and the World Bank marked the end of economic nationalism. This meant countries would maintain their national interest, but trade blocks and economic spheres of influence would no longer be their means. The second idea behind the Bretton Woods Conference was joint management of the Western political-economic order. Meaning that the foremost industrial democratic nations must lower barriers to trade and the movement of capital, in addition to their responsibility to govern the system.

Monetary order in a post-war world

The need for postwar Western economic order was resolved with the agreements made on monetary order and open system of trade at the 1944 Bretton Woods Conference which allowed for the synthesis of Britain's desire for full employment and economic stability and the United States' desire for free trade.

(United Nations Monetary and Financial Conference)

- The goal of the conference participants was to establish a framework for economic cooperation and development that would lead to a more stable and prosperous global economy. *International concern over the competing currency devaluations and inflationary tendencies that characterized the interwar years and the fear of a post-war economic depression had been the genesis of the conference and the Fund proposal.*

(from World Bank Historical Chronology 1944-2004)

The Global Economic Dictators

- **World Bank** – currently claims it is made up of two development institutions known as the International Bank for Rural Reconstruction and Development (IBRD) and International Development Association (IDA) and lists the following former Bank family members as affiliates:
  - International Finance Corporation (IFC)
  - Multilateral Investment Guarantee Agency (MIGA)
  - International Centre for Settlement of Investments Dispute (ICSID)

  The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support to help countries reform particular sectors or implement specific projects—for example, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. World Bank assistance is generally long term and is funded both by member country contributions and through bond issuance. World Bank staff are often specialists in particular issues, sectors, or techniques.

  (www.imf.org)

  - *The Bank, on the other hand, was conceived of primarily as an instrument through which the physical assets of the post-war world might be rebuilt. Development financing was envisaged as an activity in which the Bank would ultimately but not immediately engage.*

  - Reasons why the Bank was created*: to provide the financing necessary to re-build war-torn countries; the experience of the 1920's demonstrated that international lending could, without guidance, lose its way; and that even after reconstruction was completed, development programs might not be able to find adequate financing through private channels alone.*

  (from World Bank Historical Chronology 1944-2004)

  - *The World Bank was established at the Bretton Woods Conference at the same time as the IMF. Its purpose was to help war-ravaged countries rebuild. The earliest recipients of its loans were the European countries and Japan. By the early 1960s, these countries no longer needed World Bank assistance, and its* *lending was redirected to the newly independent and emerging nations of Africa, Asia, Latin America, and the Middle East, and, in the 1990s, to the transition countries of Central and Eastern Europe.*

(www.imf.org)

- **The International Monetary Fund is** a *specialized agency of the United Nations system, created by treaty in 1944 during the UN Monetary and Financial Conference held at Bretton Woods, New Hampshire. The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for sustainable economic growth and rising living standards.*

  (http://encarta.msn.com/encyclopedia_761553862/International_Monetary_Fund.html)

  - *To maintain stability and **prevent crises** in the international monetary system, the IMF reviews national, regional, and global economic and financial developments. It **provides advice** to its 184 member countries, encouraging them to adopt policies that foster economic stability, reduce their vulnerability to economic and financial crises, and raise living standards, and **serves as a forum** where they can discuss the national, regional, and global consequences of their policies.*
  - *The IMF also makes **financing** temporarily available to member countries to help them address balance of payments problems—that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings.*
  - *And it provides **technical assistance and training** to help countries build the expertise and institutions they need for economic stability and growth.*
  - *The IMF promotes international monetary cooperation and provides policy advice and technical assistance to help countries build and maintain strong economies. The Fund also makes loans and helps countries devise policy programs to solve balance of payments problems—that is, situations where sufficient financing on affordable terms cannot be obtained to meet net international payments. IMF loans are relatively short term and funded mainly by the pool of quota contributions that its members provide. IMF staff are primarily economists with wide experience in macroeconomic and financial policies.*

  (www.imf.org)

- The **Asian Development Bank** *was founded in 1966 as a regionally focused clone of the IBRD (World Bank), with the primary impetus coming from the US, Japan and Western European (especially Nordic and Germanic) governments. The bank has traditionally funded its lending activities by issuing supranational-rated bonds in the euromarkets. For many years the bank was the only Asia-ex Japan issuer of eurobonds. Although recent economic growth in many member* *countries have led to a change in emphasis to some degree, throughout most of its history the bank has operated on a project basis, specifically in the areas of infrastructure investment, agricultural development and loans to basic industries in member countries. Although by definition the bank is a lender to governments and government entities, it has also participated as a liquidity enhancer and best practice enabler in the private sectors of regional member countries. The primary human capital asset of the bank is its staff of professionals, encompassing academic and/or practical experts in the areas of agriculture, civil engineering, economics, public policy and finance. These professionals are drawn from all across the globe and given various incentives to relocate to Manila, including diplomatic status and tax-free incomes. It is conceivable that once all of Asia-Pacific reaches a certain level of living standard the bank will be wound down or reconfigured to operate as a commercial enterprise. (wikipedia.com)*

Coherence in Promoting Neoliberal Policies

Greater coherence between the World Bank, IMF, WTO, UN, regional banks, bilateral donors and others on neoliberal programs and policies has always been on the agenda globally. This coherence agenda involves liberalization in goods, services, investment, trade-related capacity-building, improving global financial stability through capital account liberalization and channeling increased investment to developing countries and assisting borrower countries to improve coherence in their national policies.

- *Almost every few weeks, another high-level statement calls for greater coherence between the Bretton Woods institutions, the WTO, the UN, the baby banks, bilateral donors and so on. This coherence agenda means support for the Doha work programme of the WTO – liberalization in goods, services, investment, trade-related capacity-building, improving global financial stability through capital account liberalization (didn't that work well in Thailand and Korea in the 1990s) and channelling increased investment to developing countries and assisting borrower countries to improve coherence in their national policies.*
- *In 2001, L. Alan Winters, (Director of the World Bank's Development Research Group, Economic Professor at University of Sussex, and advisor to numerous international organizations on trade and development including the WTO, Organization for Economic Cooperation and Development (OECD), the InterAmerican Development Bank (IADB), the European Commission and UN Conference on Trade and Development (UNCTAD) wrote[vii]: "The WTO and the BWOs are already rather highly coherent. All subscribe to basically the same model of society and the economy, favouring markets over direction, advocating transparency and predictability, seeing international trade and investment as routes to prosperity and peace, accepting the importance of development and poverty alleviation, and recognizing the possibility that adjustment is painful. Hence much of what the three bodies do is mutually supportive, and incoherence is mostly just a matter of detail. This is not the impression one would get from some of the rhetoric behind calls for coherence." This does not mean that there are not differences among these organizations in areas where they have jurisdictional overlap, especially in relation to financial liberalization.*

- *Besides shared commitment to neoliberalism, the WTO, IMF and World Bank have formal relationships to achieve 'policy coherence'. The Ministerial Declaration on the Contribution of the [World] Trade Organization to Achieving Greater Coherence in Global Economic Policymaking, in the Uruguay Round Act 1994, Part III.2[viii] urged the IMF, the World Bank and the WTO to follow "consistent and mutually supportive policies…with a view to achieving greater coherence in global economic policymaking." This is expressed in various agreements, ministerial declarations and decisions between the institutions. In May 2003, senior officials of the three institutions, including IMF Managing Director Horst Koehler, WTO Director General Supachai Panitchpakdi and World Bank President James Wolfensohn met in Geneva under the umbrella of the WTO General Council to develop a common approach to global economic policies – the "coherence agenda.".*
- *The IMF and World Bank offer "technical assistance" and loans for adjusting debtor countries' economies to full trade and investment liberalization. "Technical assistance" sounds benign enough. In reality it means coercing countries of the South to swallow more neoliberal medicine, sometimes in sectors over which they have been disputing further liberalization at the WTO. World Bank and IMF loan conditionalities generally insist that governments lower or eliminate tariffs, remove restrictions on foreign investment, modify customs procedures, fiscal and labour regulations and procurement policies, and promote private sector ownership. Privatization, deregulation and trade and investment liberalization have been core to Structural Adjustment Programmes (SAPs) and the so-called Poverty Reduction Strategy Papers (PRSPs) which the World Bank and IMF now insist countries adopt in order to receive continued loans. Former World Bank chief economist and US Treasury Secretary Larry Summers claimed in 1998: "IMF and…World Bank programs not just in East Asia but in India, Latin America, Central Europe and Africa, have led to more systematic trade liberalization than…bilateral or multilateral negotiations have ever achieved."*

(Aziz Choudry, Monkey-Wrenching the Globalization Gang,
<u>Toward Freedom</u>, August 25, 2005
http://www.globalpolicy.org/globaliz/econ/2005/0825monkey.htm)

- World Bank, IMF and ADB loan conditionalities generally insist that governments lower or eliminate tariffs, remove restrictions on foreign investment, modify customs procedures, fiscal and labour regulations and procurement policies, and promote private sector ownership.

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- *The IMF and the World Bank complement each other's work. While the IMF's focus is chiefly on macroeconomic and financial sector issues, the World Bank is concerned mainly with longer-term development and poverty reduction. Its loans finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms.*

Countries must join the IMF to be eligible for World Bank membership.

The IMF and World Bank collaborate regularly and at many levels on assistance to member countries and are involved in several joint initiatives. The terms for their cooperation were set out in a concordat in 1989 to ensure effective collaboration in areas where responsibilities overlap. While these terms have since been elaborated in guidelines dealing with specific issues, an External Review Committee currently is undertaking a comprehensive review of Fund-Bank collaboration, taking into account new or overlapping mandates in areas such as financial sector work. The Committee will recommend how the two organizations can continue to best meet the needs of the global community through efficient and effective cooperation.

***Regular collaboration**: Collaboration on country assistance is underpinned by regular meetings between the staffs of the IMF and the Bank as well as routine exchanges of information. The two institutions also sometimes conduct country missions in parallel and have staff participate in each other's missions. IMF assessments of a country's general economic situation and policies provide input to the Bank's assessments of potential development projects or reforms. Similarly, Bank advice on structural and sectoral reforms is taken into account by the IMF in its policy advice. The staffs of the two institutions also cooperate on the conditionality involved in their respective lending programs.*

The Managing Director of the IMF and the President of the World Bank meet regularly to consult on major issues. They issue joint statements and occasionally write joint articles in the world press, and they have made joint visits to several regions and countries.

***Joint initiatives**: During the 1990s, the IMF and World Bank together launched two major initiatives to help poor countries. In 1996, the organizations introduced the Heavily Indebted Poor Countries (HIPC) Initiative to reduce the external debt burdens of the most heavily indebted poor countries. In 1999, the IMF and the World Bank initiated the Poverty Reduction Strategy Paper (PRSP) approach—a country-led strategy for linking national policies, donor support, and the development outcomes needed to reduce poverty in low-income countries. PRSPs underpin the HIPC Initiative and concessional lending by the IMF and World Bank.*

In July 2004, the Fund and Bank launched the Global Monitoring Report *(GMR). This annual report assesses progress on policies and actions needed to achieve the UN Millennium Development Goals* (MDGs)*. The GMR also considers how well developing countries, developed countries, and the international financial institutions are contributing to the development partnership and strategy to meet the MDGs as reaffirmed at a summit in Monterrey in March 2002.*

The IMF and World Bank are also working together to make financial sectors in member countries resilient and well regulated. The Financial Sector Assessment Program (FSAP) was introduced in 1999 to identify the strengths and vulnerabilities of a country's financial system and recommend the appropriate policy responses.

High-level coordination: *The Annual Meetings of the Boards of Governors of the IMF and the World Bank provide another forum for Fund-Bank collaboration. Governors consult and present their countries' views on current issues in international economics and finance. The Boards of Governors decide how to address international economic issues and approve corresponding resolutions.*

A group of IMF and World Bank Governors also convene during the semi-annual meetings of the Development Committee. This committee was established in 1974 to advise the two institutions on critical development issues and on the financial resources required to promote economic development in low-income countries.

Directors sitting on the Executive Boards of the Fund and Bank—which meet at least three times each week at their respective Washington, D.C., headquarters—consult regularly. A few countries have a single Executive Director who sits on both Boards.

Collaborating with other institutions

The IMF collaborates with the World Bank, the regional development banks, the World Trade Organization, United Nations agencies, and other international bodies. Each of these institutions has its own area of responsibility and specialization and its particular contribution to make to the world economy.

The IMF's collaboration with the World Bank on poverty reduction is especially close because the Bank is the leading international institution promoting economic development. Areas in which the IMF and World Bank collaborate include social policies, assessments of member countries' financial sectors, development of standards and codes, and improvement of the quality, availability, and coverage of data on external debt.

The IMF is also a member of the Financial Stability Forum, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, committees of central bank experts, and international financial institutions. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors.

Collaboration with the World Trade Organization takes place formally as well as informally. The IMF has observer status at WTO meetings and IMF staff contribute to the work of the WTO Working Group on Trade, Debt, and Finance.

The IMF is also involved in the WTO-led Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries, whose other members are the International Trade Commission, UNCTAD, UNDP, and the World Bank.

Cooperation between the three bodies is not new. The WTO director general often attends meetings of the IMFC - the assembly of the IMF and Bank governors - and of the development committee, the senior decision making body of the institutions.

Most recently, he attended the IMFC meeting in April 2003 and briefed finance ministers on the Doha trade negotiations and work program, according to WTO documents.

The IMF and the World Bank have also been paying greater attention to trade issues in the past few years, both in the course of their regular country work and research papers. Documents have been flooding out of the two organizations in support of "free" trade.

In 2002, they issued a joint staff paper on "Market Access for Developing Countries' Exports", which examined patterns and costs of restrictions and distortions on developing countries' exports.

(www.imf.org)

Capital Account Liberalization (CAL)

During the aftermath of the Asian Financial Crisis in 1997-98, economist, academics and activists called for regulation of capital accounts, especially commercial capital accounts to safeguard developing countries from the devastating effect of this economic policy.

- *For the past years before the turn of the century, the IMF has been violating its original mandate (as mentioned in its Articles of Agreement) by advocating removal of controls and regulations on capital movements. This is evident in the IMF's loan agreements with its member countries where the removal of controls on capital movement is put forward as a necessary precondition to attract foreign investment. In several cases (e.g., Mexico and South Korea), assistance was provided by the IMF explicitly to enable countries to withstand capital flight without imposing controls.*

  This is quite ironic for the IMF to have advocated this policy, because in its inception, its main rationale was supposed to maintain stability and prevent crises in the international monetary system. But with its push for CAL, it has pushed *countries such as the Philippines, Indonesia, South Korea and others into economic disaster in the later part of the 90s.*

- *The IMF is not the only international organization promoting Capital Account Liberalization. Its twin the World Bank, too, had been encouraging liberalization of capital markets through its affiliate, the International Finance Corporation. However, in the wake of the Southeast Asian crisis, the World Bank, along with ADB has done some rethinking on its previous position while the IMF continues to prescribe liberalization of capital account. Obligations regarding international capital transfers are also included in regional treaties such as the NAFTA and in the treaties of friendship, commerce and Navigation.*

Taming Global Financial Flows, A Citizen's Guide,
Kavaljit Singh, India, 2000

Trade Liberalization

As mentioned earlier, according to former World Bank chief economist and US Treasury Secretary Larry Summers in 1998: the "IMF and… World Bank programs not just in East Asia but in India, Latin America, Central Europe and Africa, have led to more systematic trade liberalization than… bilateral or multilateral negotiations have ever achieved."

- *The spread of World Bank-led diagnostic trade studies is forcing rapid unilateral trade liberalization into national development plans through the back door.*

- *The IMF, meanwhile, remains the global gatekeeper for aid, the most important single agency in signaling the quality of a country's macro-economic environment and creditworthiness to other donors. The IMF's Poverty Reduction and Growth Facility (PRGF) complements and interlocks with the World Bank's PRSP and the work of the WTO. Its platform is trade liberalization, privatization and a reduced role for the state. In April 2004, the IMF launched its Trade Integrated Mechanism (TIM) to assist member countries meet balance of payment shortfalls resulting from multilateral trade liberalization (like reduction in export revenues, and increased import bills). Its first recipients were Bangladesh and Dominican Republic. The IMF has also boosted technical assistance and research on trade.*

- *A 10 December 1999 World Bank-IMF operational document on PRGF-PRSP argues: "The impediments to faster sustainable growth should be identified and policies agreed to promote more rapid growth: such as structural reforms to create free and more open markets, including trade liberalization, privatization and tas reform and policies that create a stable and predictable environment for private sector activity."*

(Aziz Choudry, Monkey-Wrenching the Globalization Gang,
Toward Freedom, August 25, 2005

http://www.globalpolicy.org/globaliz/econ/2005/0825monkey.htm)

Privatization of Basic Essential Services

- *Asian Development Bank's Water Policy "Water for All" set the ADB agenda in the water sector in the Asian Region. This policy has been criticized by the public for its approach which promotes water as a commodity. The tradable water rights, full-cost recovery, private sector participation have set the process for converting water as a common good to an economic good. This policy does not recognize the notion "water is a human right", instead, it takes the approach of water as a human need. ADB Water Policy is playing the role of model policy among Asian developing member countries. Sri Lanka Indonesia, Philippines, India and many other countries in the region have introduced their national policies based on this policy. ADB provides assistance and conditional loans to bring these local policies. ADB has created many negative impacts to the local water sector.*

  (http://www.forum-adb.org/campaigns/Policycritique-Running%20Dry.html)

- *In Nicaragua, the Bank and Fund have demanded that the country privatise its water resources—including its hydroelectric dams—as a condition to further loans. The condition comes in the wake of legislation passed by the Nicaraguan National Assembly in August 2002, suspending all water privatisation plans until a national debate on the issue takes place. By insisting on such conditionality, the Fund is disregarding and undermining national democratic process in Nicaragua.*

- *In the Solomon Islands, the IMF, supported by bilateral donors, refused to provide funds for the country's National Economic Recovery Plan unless the country first agreed to reduce government spending and implement severe job cuts. The retrenchment will result in 1300 job losses—about 30 percent of an already downsized public sector work force—and along with other IMF prescribed austerity measures, will compound the country's already severe economic and social crisis*

  (Jenina Joy Chavez and Shalmali Guttal, Best Practice: Are World Bank policies of development at odds with the successful practices used by the 'tiger' Asian economies?)

- *Over the years, there has been consistent and vehement opposition to power sector restructuring and privatisation. CSOs and trade unions in most DMCs have staunchly fought against these approaches as they tend to unjustly increase tariff rates and increase government debts shouldered by the consumers, especially the poor. But in the Draft Strategy, it is clear that the ADB equates governance reform in power sector with privatisation (Paragraphs 65, page 25; and 89, page 28), but this is clearly a fundamentally flawed proposition. There are many ways in which power sector needs reforms to achieve greater transparency, accountability, participation, equity, sustainability and efficiency.*

Privatisation is not necessary to achieve any of these and in a basically monopoly sector like the power sector, there is little benefit in privatisation.

Further, the Draft Strategy merely affirms the power sector restructuring and reforms that the ADB has pushed in countries like the Philippines. However, the experience in the Philippines, being one of the countries that ADB claims to have attained an advanced level in restructuring, has not shown improvements in the lives of its citizenry. The Bank has refused to acknowledge its contribution to the current mess – higher electricity rates and ballooning government debts – through the reforms it has pushed in the Philippines. From 2001-2006, 99.6 percent of the ADB assistance to the Philippine energy sector has been in the area of power sector development. Today, price of electricity in the Philippines has doubled and among the top seven most expensive in the world while power outages have been more frequent than before the reforms. It has created more debts, not only for the state-owned power corporation, but to the national government as well. These debts are eventually being passed on to the public through taxes and less social services and electricity consumers through additional electricity charges.

(http://www.forum-adb.org/PDF-Energy/Forum%20Network%20Comments%20on%20the%20Energy%20Strategy%20Paper.pdf)

Roles that IFIs Play in Privatization

International Monetary Fund:

Puts pressure on governments to privatize by including privatization as one of the

- conditionalities to its loans (stand-by facility, PRGF etc)
- policy conditionalities contained in PRSPs (poverty reduction strategy papers)
- policy prescriptions in its evaluation of economic performance of countries under IMF programs or those under post-program monitoring

Asian Development Bank

- Put pressure on governments to privatize by including privatization as conditionalities to its loans
- Finances projects that are designed to pave the pay for privatization – "enabling policy environment." "Infrastructure improvements," feasibility studies etc.
- Finances the privatization process itself
- Provide technical assistance for the implementation of privatization

World Bank

- Put pressure on governments to privatize by including privatization as conditionalities to its loans
- Finances projects that are designed to pave the pay for privatization
- Finance the privatization process itself
- Provide technical assistance for the implementation of privatization ("tapping private sector involvement"); using several facilities such as the PPIAF – Public-Private Infrastructure Advisory Facility
- Provide risk guarantees and equity for private corporations involved in privatization – through the International Finance Corporation (IFC)
- Provides and promotes policy and operational frameworks for privatization (ex. cost recovery principle
- Promotes information, analysis, research, and ideological justification and rationale for privatization

Export Credit Agencies

- Provides loans for equity and investments
- Provides political rsik guarantees
- Provides investment guarantees

For governments and private corporations involved in privatization and privatization-related ventures (such as Build-Operate-Tansfer or BOO etc projects)

(Diagram by Lidy Nacpil, JS-APMDD, presented during the Asia/Pacific Strategy Conference on Privatization of Essential Services (Focus on Water and Power), Pattaya, Thailand, 10-12 July 2007)

On the UN Millennium Development Goals

The MDGs ignore structural issues at the root of poverty such as debt, unfair trade and economic policies. Perhaps that is unsurprising. They were essentially drawn up by ministers from OECD countries, with no participation by governments from the South let alone those most directly affected. How exactly will governments finance primary health care and education while they are being forced to cut public expenditure and privatize services under neoliberal conditionalities of IFIs? How can the poor afford commercialized healthcare, water, education? How can even the rather modest goals of the MDGs be achieved by any country in the grip of neoliberalism, privatisation, and debt slavery? The social development goals are little more than a whitewash of the continuing policies of structural adjustment and liberalization – policies which worsen poverty and stunt genuine development.

Monkey-Wrenching the Globalization Gang,
Aziz Choundry, August 25, 2005

Debt as Leverage

When a country borrows from the IMF, its government makes commitments on economic and financial policies—a requirement known as conditionality. Conditionality is a way for the IMF to monitor that its loan is being used effectively in resolving the borrower's economic difficulties, so that the country will be able to repay promptly, and make the funds available to other members in need. In recent years, the IMF has worked to focus and streamline conditionality, in order to promote national ownership of strong and effective policies.

IMF loans are generally conditional on the adoption of appropriate policies to resolve a country's balance of payments difficulties, and to enable the government to repay the Fund. Conditionality also gives confidence to the borrowing country by clarifying the terms on which the IMF will continue to make its financial resources available.

Policies should be designed not just to resolve the immediate balance of payments problem but also to lay the basis for sustainability and economic growth over the longer term by achieving broader economic stability—for example, measures to contain inflation, reduce public debt, or strengthen financial systems. Policies may also address structural impediments to healthy growth—like price and trade liberalization or improvements in governance.

Together, these policies constitute a member country's "policy program," which is described in a letter of intent (which often has a memorandum of economic and financial policies attached to it) that accompanies the country's request for IMF financing. The specific objectives of a program and the types of policies adopted depend on a country's circumstances. However, the overarching goal in all cases is to restore or maintain balance of payments viability and macroeconomic stability, while setting the stage for sustained, high-quality growth.

How is compliance with program conditions assessed?

Most IMF loans feature **phased disbursements**. This allows the IMF to verify that a country is continuing to adhere to its commitments before disbursing successive installments. Program monitoring relies on several different tools:

How has conditionality evolved in recent years?

IMF lending has involved policy conditions since the 1950s. Up to the early 1980s, IMF conditionality largely focused on macroeconomic policies. Subsequently, however, the complexity and scope of the structural conditions attached to IMF loans increased significantly. This broadening and deepening of conditionality reflected in part the IMF's growing involvement in low-income and transition countries, where structural problems hampering broader economic stability and growth were particularly severe.

In 2002, the IMF concluded an extensive review of conditionality—a consultative process, including public involvement—aimed at enhancing the effectiveness of Fund-supported programs. This review recognized that successful economic policy programs must be founded on strong country ownership. Accordingly, the IMF has been striving to focus more sharply and be more clear about the conditions attached to its financing, and to be flexible and responsive in discussing alternative policies with countries requesting financial assistance. Revised guidelines on conditionality, which take these objectives into account, were adopted by the IMF's Board in September 2002. The Fund's Executive Board reviewed the application of the new guidelines in March 2005, concluding that substantial progress had been made, and encouraging the staff to take these efforts further.

(www.imf.org)

Conclusion

Attempts by global financial institutions to synchronize their policies on developing nations threaten to further entrench a one-sided approach to development, fuel instability and widen the gap between the world's rich and poor.

The voting structures of the IMF and World Bank are heavily biased towards rich countries. Their leaders, for instance, are chosen through processes open only to U.S. and European citizens.

The IMF and the Bank have for years been peddling trade liberalization, deregulation, privatization and budget austerity to developing countries, and the results are disappointing.

Feverish privatization urged by the Bank and the Fund, especially of public services like water and utilities, has smoothed the way for foreign corporations to supply these services and introduce commercial pricing systems, which have often led to higher rates for poor citizens, jeopardizing their access and pushing them further into poverty.

Under the new distributions of roles, the IMF and the Bank help ease the way for full liberalization of trade by offering "technical and financial support".

The Washington-based organizations "assist" developing nations to manage lower revenues because of reduced tariffs, withstand a period in which their trade preferences in industrialized nations are eliminated, secure funds to support increased trade and, finally, help create export oriented economies.

The IMF and the Bank also raise the profile of trade in borrowing countries. Poverty Reduction Strategy Papers (PRSP) and Country Assistance Strategies (CAS), documents developed with the support of the two lenders that function as borrowers' economic roadmaps.

In return, the IMF and World Bank receive observer status in the trade negotiations committee, which handles individual negotiating issues at the WTO and its subsidiary bodies, coupled with a role at the WTO secretariat, a body often accused of bias on disputes between rich and poor countries.

(Emad Mekay, IMF, World Bank Join Forces with WTO, Inter Press Service, May 13, 2003)

Extracts from Call for Global Actions against IFI's; September 2006

1. Open, transparent and participatory External Audit of the lending operations and related policies of the International Financial Institutions, beginning with the World Bank and IMF

Debt campaigns, movements, people's organizations, and NGOs are now involved in preparing for and conducting country-level independent Citizens' Audits of Debts claimed from South countries as well as calling on South governments to conduct transparent, open and participatory Government Audits (e.g. Parliamentary) of these debts. These audits are aimed at examining the origins and causes of the debt problem, taking stock of effects and impacts, bringing to light the dubious and illegitimate character of the debts, identifying responsibility and accountability, and establishing and strengthening the basis for urgent changes in national policies on the debt and related issues. We challenge the international financial institutions to subject themselves to similar independent audits of the loans they have released, their lending policies, processes and operations, and the terms and conditionalities that have accompanied these loans, and take stock of the effects and impacts. Such audits should look into the culpability and accountability of these international financial institutions, and asses what restitution and reparations must be made. The international financial institutions have recently been stepping up efforts to portray themselves as champions of good governance, including the announcement of renewed efforts and strategies to fight corruption. We challenge these institutions to begin with themselves and examine how they have been involved in creating and exacerbating the problem of corruption. External, independent audits of their loans, lending operations and conditionalities should include this question. Further, corruption must be seen as a systemic problem that also involves the private sector, especially transnational corporations.

2. Stop the imposition of conditions and the promotion of neoliberal policies and projects.

Through the conditions attached to their loans and programs, the IMF and World Bank have succeeded in restructuring the global economy. The widespread use of "structural adjustment programs" from the early 1980s in countries with significant debt, poverty, and financial problems has forced most of the South countries' economic policies to ape those of the industrialized countries, regardless of how inappropriate those policies may have been for the countries' development needs. Because of the imposition of neo-liberal policies on countries desperate for access to credit, peoples across the South now confront economies oriented to export production rather than providing for local markets, devastated manufacturing sectors, a large percentage of economic actors in foreign hands, valuable public assets privatized, health and other social sectors crippled by decades of de-funding, environmental resources devastated by over-exploitation, small farms and businesses wiped out by denial of credit and subsidies, and massive unemployment. Our struggle against debt domination is waged in large part to win freedom from the conditions that indebted governments are blackmailed into accepting.

3. In this 50th anniversary year of the International Finance Corporation (IFC), the IFIs end the promotion of privatization of public services and the use of public resources to support private profits.

The IMF and especially the World Bank have been the main drivers in the global push for the privatization of basic services. They are joined by other financial institutions like regional development banks and export credit agencies. The international financial institutions promote privatization of public services through policy conditions and policy advice, financing of projects that pave the way for privatization, providing technical assistance in the preparation of feasibility studies as well as the process of implementation, and even direct support for private companies taking over public utilities. The International Finance Corporation plays a major role in providing risk guarantees as well as equity assistance for these private companies, and facilitating government bail-outs of privatized utilities in distress. The continued emphasis on privatizing basic services such as water provision – or, when no company is interested in purchasing the utility, arranging leases and service contracts – and the "commercialization" of even life-saving agencies such as those managing food reserves reflects a fixation on markets as the only organizing principle for economies even in the face of overwhelming contradictory evidence. Failure after failure of water privatizations in the South has not deterred the IFIs from their mission to wrest assets from public ownership.

Our message to the IFC and its multilateral partners is clear: no more public resources for support of private profit.

4. Stop IFI funding and involvement in environmentally destructive projects beginning with big dams, oil, gas and mining and implement the major recommendations of the Extractive Industries Review.

The international financial institutions are also presenting themselves as leading in the fight against climate change and environmental destruction. However, no amount of clever rhetoric about stronger commitments and new strategies can hide the fact that many projects designed, driven and supported by international financial institutions violate the already watered-down standards and safeguards avowed by these same institutions and cause massive environmental as well as social problems.
The World Bank is itself a major ecological debtor, having funded major projects such as hydro-electric dams, mines, pipelines and petroleum exploration and development projects which have displaced populations and wrought major environmental damage. The World Bank has refused to implement major recommendations of its own Extractive Industries Review including 1) the principle that communities faced with resource extraction projects must give free, prior and informed consent, 2) and the phase out of investment in hydrocarbon extraction projects. The World Bank's attempt to claim leadership on the issue of climate change with the application of its development of carbon credit trading is another tragic example of market fundamentalism. Entrusting the precarious future of the world's climate to the World Bank's clever market solutions distracts the major actors from focusing on the overconsumption that threaten to doom the planet and all who live on it. Meanwhile, the World Bank Group, which claims leadership in developing alternative energy, devotes much greater resources to developing conventional energy sources. Indeed, the World Bank is the world's leading financer of projects producing greenhouse gases.

5. Immediately stop imposing conditions that exacerbate health crises like the AIDS pandemic and make restitution for past practices such as requiring user fees for public education and health care services.

IFI policies have aggravated health crises like the AIDS pandemic in a number of ways. Austerity measures have constrained health budgets, prevented the hiring of

critically needed teachers and health care workers due to limits on spending for public sector employees, and kept people out of clinics and children away from schools by insisting on user fees. The macroeconomic policies the International Financial Institutions have imposed over the last 25 years – including fiscal austerity, high interest rates, unilateral trade liberalization and privatization of essential
services - have led to lower growth rates and fewer improvements in social indicators than had occurred over the two decades between 1960 and 1980.

The IFIs owe an enormous social debt to countries whose public services have been damaged by their policies. Their creditors are the women of South countries, who have had to step in to provide the health care, the food, the teaching, the water, and the other basic goods and services put out of reach by IFI policies. The World Bank and the IMF should pay for free primary education and primary health care as a form of reparations or restitution for the damage their policies have caused.