The World Bank: Development Agency, Credit Union, or Institutional Dinosaur?

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As an agent of global social reproduction, the World Bank itself is also subject to forces pushing for privatization (in this case, divestment of its development lending role to private capital markets), much in the way that welfarist states are urged to selectively offload their more profitable (or commercially viable) social services to the private sector. Jessica Einhorn's call to wind down the IBRD (Foreign Affairs, January/February 2006) follows upon the recommendations of the Meltzer Commission (US Congress, 2000) for a triage of borrower countries: debt cancellation, performance-based grants for the most destitute of highly-indebted countries, as opposed to the more "credit-worthy" borrowers with access to capital markets, who should be weaned from multilateral lending agencies and henceforth be serviced by private lending sources (i.e. the financial analogue of "targeted" programs in health services). Indeed, this targeted approach is the persuasive face and generic template for the privatization of social services.

A Targeted Approach to Development Financing

In 1995, James Wolfensohn's appointment as president of the World Bank[2] provided the occasion for strident calls from the American Enterprise Institute (AEI) urging Wolfensohn "*to begin an orderly transition to private ownership. For the same skills through which Wolfensohn achieved his great success in the world of finance [as a Wall Street investment banker] could be turned toward a successful privatization of this huge financial institution. Transition to private Bank ownership promises to save taxpayers in America and other Western countries billions of dollars in the coming years - even to refund billions of dollars to their national treasuries. No less important, a privately owned and operated World Bank could be more effective at promoting and supporting international economic development than the current organization -- whose very*

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[2] shorthand for the "World Bank Group" which includes the International Bank for Reconstruction and Development (IBRD), lending to the governments of middle- and lower-middle income countries at market-based rates, the International Development Association (IDA), which provides concessional rates and performance-based grants to the poorest countries, and the International Finance Corporation (IFC), which promotes private sector involvement in development and its financing. Kenneth Rogoff, professor of economics at Harvard University and former chief economist at the International Monetary Fund (IMF) explains that *"the IBRD has only a small amount of paid-in capital [5 percent of callable capital]. It finances most of its lending activities, which amount to more than $100 billion, through borrowing. That is, the IBRD taps international capital markets using its triple-A rating, and then lends to developing countries and emerging markets at a mark-up of between 0.5 percent and 0.75 percent, generally (but not always) far below the rate at which they could borrow on their own. The Bank uses the difference to help defray the Bank's $1.5 billion in operating expenses, including the cost of its 10,000-plus employees" (Economist, July 24, 2004).*

structure encourages unsound, even perverse, economic practices in the countries to which it lends"[3].

In the event, Wolfensohn ignored these calls and proceeded with a makeover of a multilateral development lender faced with mounting criticisms over its undemocratic governance and its promotion of a neo-liberal orthodoxy (structural adjustment, privatization, deregulation and liberalization, retrenchment of the developmentalist/ welfarist state, a *laissez faire* global capitalism) and its alleged impact on the environment, on gender and social equity, on marginalized indigenous communities, and indeed, on economic growth[4]. Notwithstanding this latest re-discovery of the distributional consequences of market-driven growth[5], the renewed focus on poverty reduction *("enhancing the voice and participation of the poor to achieve more equitable outcomes")* by no means sidelined economic growth and infrastructural development as bank lending priorities, let alone the undiminished efforts to establish or to reinforce the legal and judicial institutions for the functioning of capitalist market economies *("improving governance, strengthening the rule of law, and stamping out corruption").*

In giving prominence to the bank's poverty reduction mission however, Wolfensohn laid the ground for a subsequent challenge to the bank to confine its efforts to the poorer member countries - via monitored *grants* targeted at poor countries which lacked investment-grade ratings - while outsourcing to private capital markets its development *lending* to "market-capable" middle-income countries. In short, a more nuanced privatization of the bank's development lending activities which was less concerned with private *ownership* of the bank as such.

This of course was a key recommendation of the Meltzer Commission in its report[6] to the US Congress in 2000: a triage of borrower countries offering debt cancellation and performance-based grants for the most destitute of highly-indebted countries, as opposed to the more "credit-worthy" borrowers with access to capital markets, who should be weaned from multilateral lending agencies and henceforth be serviced by private lending

[3] Nicholas Eberstadt & Clifford Lewis. Privatizing the World Bank. *The National Interest, Summer 1995*. A year earlier, AEI senior fellow Alan Walters, a former professor of economics at the London School of Economics & Political Science as well as chief economic adviser to Margaret Thatcher, had written that *"as distinct from practical policy, the ideal solution would be to abolish the Fund and the Bank – wind them up and disperse their expertise to other activities. The Bank and the Fund were the progeny of a generation that regarded government management of banking and finance as being the only way forward. Yet in the intervening years, we have become increasingly aware of the advantages of getting government and politics out of monetary policy and finance. The widespread and rapid movement towards independent central banks or towards currency board arrangements is the most obvious example of this change … The practical, in contrast to the ideal, reforms I have emphasised – capping Bank and Fund total portfolios and differential interest rates related to market rates [i.e. risk-adjusted interest rates] – are quite modest, but still unlikely…All attempts to downsize [the BWIs] end up by making them bigger…"* Alan Walters. 1994. *Do We Need the IMF and the World Bank?* London: Institute of Economic Affairs.

[4] Branko Milanovic. 2003. The Two Faces of Globalization: Against Globalization as We Know It. *World Development 31(4):667-683.*

[5] *see for example* Hollis Chenery, Montek Ahluwalia, Clive Bell, John Dulloy and Richard Jolly. 1974 *Redistribution with Growth: Policies to Improve Income Distribution in Developing Countries in the Context of Economic Growth.* (A Joint Study by the World Bank's Development Research Center and the Institute of Development Studies, University of Sussex). London: Oxford University Press.

[6] *Report of the International Financial Institution Advisory Commission (chair: Allan H Meltzer),* March 2000, US Congress www.house.gov/jec/imf/meltzer.htm *(accessed on January 3, 2002)*

sources (i.e. the financial analogue of "targeted" programs in health services[7]). Indeed, this targeted approach is the persuasive face and generic template for the privatization of social services[8].

The Privatization of Development Financing

Along with Meltzer, the most sustained calls to outsource the IBRD's lending have come from his colleague Adam Lerrick, a Carnegie Mellon University economist and visiting scholar at the American Enterprise Institute. Lerrick, who had served as senior advisor to Meltzer during his tenure as chairman of the *International Financial Institution Advisory Commission (1999-2000)* has 25 years experience as an investment banker.

Early in his career, he was responsible for new products development for international capital markets at Salomon Brothers and Credit Suisse First Boston (1982-1988). He went on to specialize in syndicating sovereign bond issues in the 1980s, i.e. private lending to sovereign borrowers which included the governments of Sweden, West Germany, Italy, Denmark and France among others, and moved on to restructuring of distressed assets and loans in the 1990s. Currently, he is chairman of *Sovereign Debt Solutions Limited*, a capital markets advisory firm which was retained from 2003-2005 to negotiate on behalf of 30,000 European retail investors, in collaboration with HypoVereinsbank (Germany's second largest bank), and DSW, the largest German investor rights protection organization, which collectively constituted the largest group of foreign creditor claimants in the $100 billion Argentina debt restructuring.

In calling for the disbandment of the IBRD, Lerrick has emphasized its diminishing relevance and modest contribution to global development financing, amounting to less than five percent of private capital flows to IBRD's investment-grade middle-income borrowers (emerging market economies).

On the eve of the East Asian currency crisis, the IMF quarterly *Finance & Development* reported in June 1997 that official development finance (multilateral and bilateral grants and loans) had declined from US$56.3 billion in 1990 to US$40.8 billion in 1996 *("Developing countries get more private investment, less aid").* Concessional aid and grants, increasingly targeted at refugee and emergency relief, held fairly steady at about US$30 billion annually, but the non-concessional loan component of official net flows fell from US$27.1 billion (1990) to US$9.5 billion in 1996. Over the same period however, private net capital flows (commercial bank loans, bonds, foreign direct investment, and portfolio equity investments) increased dramatically from US$44.4 billion to US$243.8 billion. In 2003, official and private net flows were returning to pre-

[7] for a critical analysis of the World Bank's targeted approach in *Investing in Health* (World Development Report, 1993), *see* Asa Cristina Laurell & Oliva Lopez Arellano. 1996. Market Commodities and Poor Relief: The World Bank Proposal for Health. *Int J Health Services 26(1):1-18.*

[8] for a discussion of *universalism* and *targeting* in social policy and development practice, see: Thandika Mkandawire. 2005. *Targeting and Universalism in Poverty Reduction.* United Nations Research Institute for Social Development, Social Policy and Development Programme Paper Number 23. Geneva: UNRISD; CK Chan. 2006. What's new in the Arusha statement on New Frontiers of Social Policy? *Global Social Policy 6(3):265-270*

crisis levels, with volumes of $28 billion and $200 billion respectively. By 2006, private net flows to developing countries had reached $646 billion.

David de Ferranti, who retired in 2005 as World Bank vice-president for the Latin America and Caribbean department, points out however that private flows to emerging markets go mostly to private investments – car factories, hotel and tourist resorts, Cola bottling plants, and such like. Private lending for public (or publicly guaranteed) projects on the other hand is roughly comparable in scale to the lending of official agencies, including the IBRD's gross disbursements of about $10-12 billion in recent years[9].

But more important perhaps than IBRD's market share of sovereign lending is its very existence as an option for lower-priced loans. As a fallback option, it allows some bargaining leverage to sovereign borrowers in the international capital markets, and thus acts as a price bulwark (price brake) against what might otherwise be even higher-priced loans from private lenders. (Private lenders, who complain endlessly about the "unfair competition" of IBRD's "subsidized" lending, leveraged from its cost-free shareholder capital, for the same reasons would be wary about any move to further scale-up lending by the IFC to private borrowers, and greater flexibility extended to IBRD for lending to sub-national public borrowers without the hitherto requisite sovereign guarantees).

The interest spread between multilateral and private lending would be especially dramatic in times of extreme capital market volatility. This was the case during the 1997 Asian financial turmoil when the crisis-affected countries were faced with two options – exorbitant rates demanded by private lenders with the appetite for extraordinary risk[10], and lower (but still ramped-up) rates and stiffer conditionalities from multilateral lenders (e.g. the BWIs' demands for market-opening concessions in the financial and other sectors in South Korea, as part of their emergency loans).

In less tumultuous times, middle-income governments appreciate the longer maturities of IBRD loans along with the lower interest rates (and sometimes the technical assistance which comes bundled with it). But this however is offset against the "hassle" factors: longer negotiations, BWI policy dictates (conditionalities), more stringent fiduciary requirements, and stipulated procedures for procurements. Their borrowing patterns from private vs. multilateral lenders consequently reflect a fluid mix of circumstances which includes the prevailing interest rate differentials between the two lending sources.

Multilateral Lending in Crisis?

IBRD lending to middle-income borrowers nonetheless has been on a downward trend for more than a decade[11], declining from about $18 billion annually in the early 1990s to

[9] David de Ferranti 2006. The World Bank and the Middle Income Countries, in *Rescuing the World Bank (ed. Nancy Birdsall)* Wash. DC: Center for Global Development

[10] the risk premium for emerging market borrowers was as high as 12% two years after the Asian financial crisis of 1997 (*see* Adam Lerrick. *Why Is the World Bank Still Lending?* Wall Street Journal, 28 October 2005*).* The difference has since fallen to less than 2 percentage points because of the continuing glut of liquidity and the perception that risk in the emerging markets had receded.

[11] presentation of Nancy Birdsall (Center for Global Development), from a transcript of a seminar *The World Bank Under Wolfowitz* at the American Enterprise Institute (AEI), Washington, DC, June 7, 2005. *(see also de Ferranti, 2006)*

$11 billion in 2004 before recovering to $14.1 billion in 2006. The surfeit of capital in the global financial markets clearly has contributed towards IBRD's declining loan portfolio. More recently, buoyant commodity prices and brisk economic growth, and migrant remittances ($25 billion from expatriate Indians alone, in 2005-2006)[12], have enabled some countries to make early repayments on their outstanding loans to the Bretton Woods institutions. Less obvious was the fact that with privatization, large infrastructure projects in some countries (dams, water, energy, communications, highways) which in the past might have been undertaken by national governments[13] became ineligible for IBRD lending, since sovereign guarantees are required of IBRD loans which cannot be extended to privatized entities or projects. As long as global capital markets were awash with liquidity, borrowing from private lenders was a feasible alternative for development financing, and indeed the availability

According to the World Bank's *Infrastructure Action Plan (July 2003)*, IBRD lending for "bricks and mortar" infrastructure projects declined by 50 percent between 1993 and 2002, but over that same period, IFC infrastructure lending increased by 88 percent. At the same time, IBRD lending for infrastructure-related "policy and regulatory reforms, and institutional capacity building" increased by 104 percent, to create the policy and regulatory environment for the operation of privatized infrastructure and utilities.

IBRD's current budget concerns, more specifically, the declining income streams from existing and projected loan portfolios, are thus in part a consequence, ironically, of its neo-liberal push for privatisation (and decentralisation). The shifting balance between sovereign vs. private sector lending by the World Bank Group is evident from the increasing share of the IFC's lending, which more than doubled from $2.7 billion in 2001 to $6.7 billion in 2006. Over the same period, IBRD lending recovered at a more measured pace from $10.5 billion to $14.1 billion. To boost IBRD lending volumes further, there are also moves to re-think and perhaps amend the World Bank Group's Articles of Agreement to allow the IBRD (or a separate lending window) to lend to sub-national public borrowers without the need for a sovereign guarantee, a requirement under the existing regulations which limits IBRD's potential clientele and its lending volumes[14].

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[12] Siddharth Srivastava. 2007. Indian-Americans stake their political claim. *Asia Times online, September 14, 2007* (citing the Reserve Bank of India)

[13] *"..after a decade of rapid growth, infrastructure lending reached $8.5 billion in 1987, representing half of total Bank lending in that year. It then fluctuated around this volume till 1998, representing on average about 40 percent of Bank lending during the period. In the next four years, infrastructure lending declined sharply to an average of $5.7 billion per year, or less than 30 percent of total Bank lending (an all-time low)…"* (Infrastructure: Lessons from the Last Two Decades of World Bank Engagement. World Bank Infrastructure Network. Discussion Paper, January 30, 2006). The shift to private lending sources for infrastructure was significantly slowed in the early 1990s by the mounting resistance of social movements and NGOs campaigning against the social inequities and environmental costs of these projects. Private investor confidence further plunged in the wake of the Asian and other financial crises, paving the way for a revival of World Bank Group lending for infrastructure from 2003, along with "public-private partnerships" and other initiatives for mitigating investment risk.

[14] IBRD's lending to sub-national entities hitherto had been restricted to loans to national governments for on-lending to sub-national entities, or direct loans to sub-nationals which were secured by sovereign guarantees. With decentralization, the market potential for sub-national lending has expanded, and IBRD, in conjunction with IFC has embarked on a pilot project, the *Sub-National Development Program* (2007-2009, with projected commitments of $800 million) which will develop and pursue lending possibilities to local governments and local utilities in (mostly) middle-income countries. Taking advantage of the IFC's less restrictive Articles of Agreement which were principally

Over and above this, in the wake of repeated financial crises in Asia and elsewhere, the BWIs have been severely criticized for their instrumental roles in the premature liberalization of capital accounts in countries without the requisite depth and maturity of capital markets, nor the institutional capacity to cope with volatile and damaging capital flows in these shallower markets. The Asian crisis was furthermore much exacerbated by the IMF's deflationary prescriptions to crisis-affected borrowers *(raise interest rates, cut government spending)*, which transformed what began as a currency crisis into full-blown financial and economic disasters.

Most dramatically, Argentina, which had assiduously complied with the IMF's macroeconomic policy prescriptions, collapsed in 2002 resulting in widespread economic damage and misery, with more than 40 percent of the population plunged below the poverty threshold by early 2003. Following an arduous recovery, Argentina, along with Brazil decided on an early payback of IMF loans to free themselves from further policy dictates from the BWIs[15]. This was followed by declarations of similar intent by Indonesia, Thailand, Russia, Venezuela, and Uruguay, such that by 2006, Turkey alone accounted for about 75 percent of the IMF's loan portfolio. Meanwhile, the Philippines, India, and China announced that they would henceforth be borrowing less from the IMF, while the World Bank projected that major borrowers including China, Indonesia, Mexico, and Brazil would similarly scale down their borrowings from the IBRD *(see footnote 16, N Woods).* The bank's biggest borrowers have repaid $26 billion more than they took out in new loans during the five year period 2001-2006.

Ngaire Woods, the founding director of the Global Economic Governance Program at Oxford University elaborates on the problems thus created for the BWIs[16], which had become increasingly reliant since the 1980s on lending incomes from middle-income borrowers:

> *Many people imagine that rich countries pay for the IMF and World Bank. United States and G7 contributions [actually] waned rapidly over the past twenty years [when] a large part of the bill for the IMF and the World Bank was shifted to poorer or borrowing countries during the 1980s. By charging borrowing countries more for loans, each institution built up reserves and investment*

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designed for lending to the private sector and did not require sovereign guarantees, the pilot project would build upon the IFC's experience with lending to municipal entities, and could eventually lead to a separate institution within the World Bank Group, a lending window for sub-national entities without the requirement of sovereign guarantees. (see: *Sub-National Development Program: A proposed World Bank Group initiative to scale up and mainstream technical assistance and financial support to sub-national entities (June 30, 2006).* Washington, DC: World Bank

[15] in the wake of these highly disruptive episodes of capital market volatility, the BWIs' credibility and influence has been severely battered, in much of Latin America, in East Asia in the wake of the 1997 currency crises, in the ex-Soviet states, and further undermined by trenchant critiques from establishment luminaries and insiders such as the Nobel economics laureate Joseph Stiglitz. Indeed, it may well be the declining influence of the BWIs, whose neo-liberal policy dictates in any case are increasingly enforced via the leverage and workings of private capital markets and the international ratings agencies, which allows some ruling circles to contemplate the eventual demise of the BWIs without undue alarm or lament.

[16] Ngaire Woods. 2006. *The Globalizers in Search of a Future: Four reasons why the IMF and World Bank must change, and four ways they can.* (CGD Brief, April 2006). Washington, DC: Center for Global Development

> *income, relieving wealthy countries of responsibility [which nonetheless] retained control of the organizations. The problem for the institutions [in recent years] is that income from their investments has diminished at the same time as their lending has slowed down. The IMF has relied for the lion's share of its income on large emerging market borrowers. But by 2006 Brazil, Argentina, and other emerging economies had repaid large loans from the organization. The IMF was projecting that payments of charges and interest to the organization would more than halve from $3.19 billion in 2005 to $1.39 billion in 2006 and halve again to $635 million in 2009. The World Bank has also reported a drop in income from borrowers' fees and charges from $8.143 billion in 2001 to $4.403 billion in 2004, [while] its investment income dropped from $1.540 billion in 2001 to $304 million in 2004. The Bank's response has been to cut loan fees and to raise the lending limit for big borrowers in the hope that this will regenerate a desire to borrow from the Bank. Some of the largest borrowers from the IMF and World Bank are now turning elsewhere for loans and for monetary and financial insurance… In Asia, monetary authorities will have amassed reserves reaching $1.430 trillion by 2006, up from a level of $496.9 billion in 2002. The costs to these countries of holding reserves is [nonetheless] very high, as can be the cost of private sector finance.*

Adam Lerrick evidently is alert to the challenge that the BWIs' responses might pose for private lenders, in the form of heightened competition:

> *…[it is a] fiction that the Bank actually wants countries to graduate from [eligibility for] its lending programs. In the two most recently available years, 2002 and 2003, the emerging economies actually repaid a net $10 billion to the Bank [taking advantage of prevailing low interest rates to prepay on older higher-interest loans]. Unfortunately, the Bank thinks of itself as a bank and not as a development agency. No bank wants to lose its best clients, and because the Bank charges the same interest rate to all of its borrowers, it has every incentive to lend to its best lowest-risk clients and retain their business. As the cost of borrowing in the capital markets for emerging countries has declined, the Bank has lost its cost advantage [relative to private lenders]. Instead of applauding these countries' success in attracting private capital and refocusing its resources on the poorest countries without access to private financing, the Bank is pursuing its former clients…*[17]

Indeed, Lerrick goes so far as to accuse the IBRD of sacrificing its environmental and social standards[18] in its desperation to hold on to its credit-worthy clients:

> *It's attempting to woo them back by reducing the financial costs of the loans and by reducing the non-economic conditions [social and environmental safeguards,*

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[17] symposium transcript *The Future of the World Bank* (Center for Global Development, Washington, DC, September 23, 2005), panel on *Who Needs the World Bank? The Future of China, India and the Middle-Income Countries.* David de Ferranti, Adam Lerrick, Lawrence MacDonald (moderator).

[18] a concession, of contested substance, to the lobbying efforts of social activists. *see also* Bosshard, 2004 *(footnote 23).*

impact on local community, indigenous peoples, gender] that are attached to them. Only 6 weeks ago the Bank actually reduced its commitment charges and its lending spread in order to attempt to bring back the middle-income countries.

In a 2005 *Wall Street Journal* article[19], Lerrick continues in the same vein:

Middle-income borrowers are clearly good for the Bank. Loans are more likely to be paid and projects more likely to succeed. Without these prime clients to raise the value of its portfolio, both its credit and its credibility would be challenged. But is the Bank good for middle-income borrowers? With its monopoly power lost, the Bank is struggling to maintain market share by lowering the costs to borrowers. There is little wiggle room in the 0.75% annual charge the Bank adds to its cost of raising money to cover its own expenses. But as the Bank abandons its conservative strictures and searches for innovative financial instruments, the result will be more risk without remuneration. At the same time, it is cutting down on the social demands that are the very reason for its lending.

Desperately Seeking Markets

The perception of the IBRD as a competitor to private lenders, and the call for its privatization should come as no surprise. Very similar sentiments (and specious arguments) were articulated about the need to privatize Japan Post[20], the world's largest financial institution, in the run-up to the September 2005 general elections in Japan[21]:

with Japan's private banks struggling to boost profitability, the last thing they need is a collection of big government lenders - backed by explicit and implicit subsidies - depressing lending rates and competing with them for business, although [some of Japan's] government financial institutions (GFIs) are also serving some borrowers which no private bank would touch… [Japan's private] banks are [now] better capitalised and keen to lend. There are too many banking assets chasing too few borrowers, so corporate lending remains woefully unprofitable...

Indeed, the surfeit of capital in global financial markets was fuelling not just "sub-prime" mortgage lending in the US (and credit card debt), but was also striving to expand its lending opportunities in microfinance in developing countries[22]:

What stands in the way of more for-profit investment from the private sector? Paradoxically, micro-credit's biggest backers, the IFIs [International Financial Institutions], may also be an impediment to its further evolution.

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[19] Adam Lerrick. 2005. Why Is the World Bank Still Lending? *(Wall Street Journal, 28 October 2005).*

[20] Gavan McCormack. 2005. Koizumi's Coup. *New Left Review No. 35 (September-October 2005)*

[21] The State as Sugar Daddy *(Economist, 30 July 2005);* CK Chan. 2005. Neo-liberalism vs. Communitarian Capitalism: Japan's Dilemma. http://japanfocus.org/products/details/2163 *(posted on* 22 *September 2005).*

[22] *Economist, March 17, 2007,* citing Julie Abrams & Damian von Stauffenberg. 2007. *Role Reversal: Are Public Development Institutions Crowding Out Private Investment in Microfinance?* Wash. DC: MicroRate, Inc

> *IFIs concentrate their loans on the big micro-lenders that do not need them, pouring 88% more money into these groups in 2005 than they did in the previous year. This crowds out commercial investors. Why would IFIs get in the way? Investing in a handful of large micro-lenders is easier than making dozens of smaller loans to untested, fledgling ones. It is also safer and more profitable. Some argue that irresponsible lending by philanthropists is just as harmful. They, too, can crowd out for-profit money. Aid money is better spent where commercial cash fears to tread - such as on the next generation of microfinance institutions. Subsidies are often needed to lend to the rural poor, where small, scattered populations make it hard for commercial lenders to cover their costs. IFIs, in particular, can press foreign governments to get rid of interest-rate caps and other misguided regulations that impede micro-lending. Aid agencies, philanthropists and well-meaning "social" investors can help attract [private lenders] by investing only where commercial outfits will not.*

At the 40th Annual Meeting of the Asian Development Bank (ADB) in May 2007, where much of the discussion focused on the future role of a development bank in a region which had experienced significant poverty reduction, the US delegation head Kenneth Peel (US Treasury, Deputy Assistant Secretary for Development Finance and Debt) was at pains to stress that *"We should celebrate when countries no longer need ADB to finance their development needs, not seek ways to artificially create incentives to lend to them"*[23]. Echoing the recommendations of the Meltzer Commission, Peel added that countries that had conquered poverty should turn instead to the private sector for their capital needs and the ADB *"should step aside and declare victory"* and not *"seek new mandates that stray from the mission [of poverty reduction]"*.

There are signs that these imbalances between accumulation and consumption[24], reinforced by growing inequality in income and wealth, are systemic and worldwide. Global production overcapacity, massive increases in speculative financial flows, historically low interest rates, property and asset bubbles, volatile swings in appetite for risk among investors, and resurgent militarist Keynesianism suggest a systemic glut of capital ceaselessly seeking out profitable outlets for deployment and redeployment.

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[23] statement of Kenneth Peel, head of US delegation, 40th Annual Meeting of the Board of Governors of the Asian Development Bank, Kyoto, May 6-7, 2007 www.adb.org/AnnualMeeting/2007/govs/am2007-usa.pdf accessed on 4 September 2007.

[24] in the terminology of the neo-Keynesian French Regulation School, this would be an instance of "regulation failure" and crisis of the existing regime of accumulation: *"there are long periods of time when things work, when the configuration of social relations that defines capitalism, for instance, reproduces itself in a stabilized way. We call such a continuing system a regime of accumulation. This refers, of course, to economics but this can be extended to politics, diplomacy, and so on… we have to think [also] about the ways this regime of accumulation is achieved… individual expectations and behavior must take shape so that they are in line with the needs of each particular regime of accumulation. There are two aspects of the process. The first operates as habitus, as Bourdieu would say, in the minds of individuals with a particular culture and willingness to play by the rules of the game. The other operates through a set of institutions [which] may vary widely, even within the same basic pattern of social relations. Wage relations, market relations, and gender relations have, for example, changed a lot since they first developed. We call a set of such behavioral patterns and institutions a mode of regulation…"* Alain Lipietz. 1987. Rebel Sons: The [French] Regulation School - An interview conducted by Jane Jenson. *French Politics & Society, Volume 5, n°4, September 1987.* [If we add an element of periodicity, it calls to mind Kondratieff waves (business cycles) and the periodic build-up (and dissipation or destruction) of over-accumulated capital and excess capacity].

Indeed, Paul Sweezy and his colleagues, over the course of a half century had elaborated a theory of capitalist stagnation drawing upon the Marxist and Keynesian traditions in their analyses of monopolistic capitalism and the generation, realization and absorption of surplus (value)[25]. In the later versions, they gave increasing attention to *financialisation*[26] in mature capitalist economies, as over-accumulated capital extended its circuits into financial services and risk management, and of late, along with the increasing perception and designation of *risk* as a staple of modern life[27] (and inevitably, the commodification of "risk reduction" options in diverse forms extending from derivatives and swaps to annuities and insurance for health and welfare security, etc).

In the same vein, the neo-liberal agenda of privatization, market creation and market deepening, and retrenchment of the welfarist and developmentalist states, is arguably sustained by over-accumulated capital seeking to extend its circuits into hitherto non-commercial public sector (and domestic) domains as expanded arenas for continued accumulation.

As an agent of global social reproduction, the World Bank itself is subject to forces pushing for privatization (in this case, divestment of its development lending role to private capital markets), much in the way that welfarist states are urged to selectively offload their more profitable (or commercially viable) social services to the private sector.

As an institutional response and accommodation, the World Bank seems to have re-positioned itself to be an even more influential agent which can promote the interests of private capital, even as it tries to harmonize this with "poverty reduction" (trickle down theory, a rising tide lifts all boats, what's next? a sideways lurch towards horizontal equity?).

We see, for instance, expanded roles for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) within the World Bank Group *(IFC and MIGA commitments, which promote private sector involvement in development, rose from 3.3% of World Bank loans in 1980 to 25% in 2000)*[28].

Nonetheless, in the wake of the Meltzer Commission report, the World Bank's Private Sector Development Strategy (2002) was clearly sensitive to charges that multilateral lenders in their pursuit of sovereign as well as private sector borrowers were competing with private investors who were similarly keen on these lending opportunities to credit-worthy clients:

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[25] Paul M. Sweezy. 1956. *The Theory of Capitalist Development.* New York: Monthly Review Press; Paul A. Baran and Paul M. Sweezy. 1966. *Monopoly Capital.* New York: Monthly Review Press.
[26] Harry Magdoff & Paul Sweezy. 1987. *Stagnation and the Financial Explosion*. New York: Monthly Review.
[27] Ulrich Beck. 1992. *Risk Society: Towards a New Modernity*. New Delhi: Sage (translated from the German *Risikogesellschaft* published in 1986).
[28] Private Sector Development Strategy – Directions for the World Bank Group, para. 60 (*April 9, 2002*). Washington, DC: World Bank.

> *Overall, World Bank Group activities have been designed to complement and support private investors rather than displacing them. For IBRD countries, World Bank loans are falling rapidly as a share of total private lending to such countries. At the same time, IFC and MIGA have helped catalyze private investment in more risky environments. During the 1990s, a higher proportion of IFC's investments have gone to high-risk countries than is the case with private FDI flows (35 percent vs. 28 percent during 1990-98). There may have been cases where the Group has lent or invested in countries or firms that might have had access to commercial markets, or had written political risk insurance that might have been provided by private insurers. However, overall, the World Bank Group appears to have supported the development of cross-border private investment and has crowded in private investment rather than crowding it out. (World Bank Private Sector Development Strategy, 2002, para. 87).*

Privatisation? A Capital Idea, But Not For Us *(World Bank)*
To secure its continuing relevance, indeed survival as a multilateral development lender, David de Ferranti, currently a senior fellow at the Brookings Institution in Washington, DC, found it necessary to re-iterate that *"much of what the World Bank actually does directly helps to improve the climate for private investment: implementing trade reforms and removing restrictive regulations on foreign direct investment; expanding private provision of utilities and infrastructure; strengthening essential legal and judicial infrastructure for private markets; freeing business from harmful and superfluous regulations"* [29].

Along with Nancy Birdsall[30], founding president of the Washington-based Center for Global Development (CGD), de Ferranti has been prominent among "developmental multilateralists" in mounting a stout defense of the World Bank and its continuing role in development lending. Their case has been crafted over several years, articulated most recently in a CGD publication[31] timed for release just prior to the September 2006 joint meetings of the IMF and World Bank in Singapore. Complete with deft deflections, compromises, and tactical alliances, its substance in unadorned language includes the following:

- re-affirm an expanding, lead role for the private sector in national and international development
- re-affirm a continuing role for multilateral development lending to sovereign borrowers as well as to private sector borrowers
- re-affirm the strategic role of multilateral lenders in promoting policy reforms and in fostering institutional capacity to support orderly capitalist market economies

[29] David de Ferranti 2006. The World Bank and the Middle Income Countries, in *Rescuing the World Bank (ed. Nancy Birdsall)* Wash. DC: Center for Global Development
[30] Nancy Birdsall had previously held senior positions in multilateral development financing institutions, as executive vice-president of the Inter-American Development Bank (1993-1998) and before that, as director of the policy research department of the World Bank.
[31] Nancy Birdsall (ed.). 2006. *Rescuing the World Bank.* Wash. DC: Center for Global Development

- regain market share in international development lending, by easing off on irksome conditionalities attached to World Bank loans (including social and environmental safeguards)[32], and by reducing the "hassle" factors (and imputed costs) which credit-worthy clients consider unwarranted or disagreeable
- expand the range of financial products offered by the World Bank Group to retain and to expand further its borrowing clientele – more flexibility on the sovereign guarantee required of loans to governmental entities thus allowing for expanded lending by the World Bank Group to sub-national public borrowers (and conversely, to potential regional and supra-national clients as well)
- more lending in local currency (along with risk mitigation instruments for foreign exchange risk); more insurance products and structured financial products which take a diversified pool of investments, unpack the risks, and repack them into different tranches matching the risk/reward appetites, priorities, and capabilities of different investors
- merging the balance sheets of IFC and IBRD, ramp up IFC lending to the private sector, and MIGA investment insurance products and guarantees
- development financing for global public goods addressing global CO_2 emissions, knowledge banking, protected areas of ecological significance, neglected (tropical) diseases, and threatening infectious pandemics

These elements also provided the bases for Nancy Birdsall to urge a re-conceptualization of the World Bank as a *global credit union* whose members allegedly derive benefits whether as borrowers or as non-borrowers, as opposed to a *development agency* largely concerned with "poor relief" for the most marginalized and indebted poor countries[33]. To consolidate an alliance in support of continued World Bank lending, Birdsall favors a less lopsided governance structure with increased voting powers for the major borrowers as stakeholders.

In the event, there were limited increases to the quotas and voting shares of a few of the larger IMF borrowers (China, South Korea, Turkey and Mexico) in September 2006, as part of an interim deal at the IMF/World Bank joint meetings in Singapore. For the World Bank, however, the issue which garnered the media's attention (after the NGOs had been sidelined) was Paul Wolfowitz's highly publicized crusade against corruption.

A Wolfowitz in Sheep's Clothing?

When Paul Wolfowitz began his tenure as World Bank president in June 2005, he disavowed a big bang presidency and affected instead a consultative listening approach, presumably to put at ease those quarters nervous about his neo-conservative and unilateralist credentials, not least his blood-stained record in the Middle East.

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[32] Peter Bosshard. 2004. *The World Bank's Safeguard Policies Under Pressure: A Critique of the World Bank's New Middle Income Country Strategy*. Berkeley, Calif: International Rivers Network (May 17, 2004)

[33] Nancy Birdsall. 2006. A Global Credit Club, Not Another Development Agency, in *Rescuing the World Bank (ed. Nancy Birdsall)* Wash. DC: Center for Global Development.

The multilateralists led by Nancy Birdsall and David de Ferranti cautiously gave voice to wishful expressions that no major departures in the role and functioning of the WBG would be forthcoming, most pertinently, the IBRD's lending activities to middle-income borrowers. Would institutional contingencies yet make a multilateralist out of one such as Wolfowitz? Or would the man make the institution?

By early 2006, Wolfowitz's priorities became clearer in a hardening stance to freeze loans to India, Bangladesh, Kenya, Chad, Ethiopia, Cameroon and Argentina amounting to over $1 billion. The anti-corruption refrain was made explicit in an April 2006 speech in Jakarta[34], culminating in Wolfowitz's assertive crusade in Singapore[35] in September 2006.

From one perspective, it was an astute strategy which covered multiple bases: by saddling World Bank loans (and grants) with tougher anti-corruption conditionalities, it played along with AEI neo-liberals intent on hobbling if not dismantling the IBRD; it also played well with US legislators' ceaseless (and selective) carping about corruption in development assistance and foreign aid; it outflanked NGO critics of the BWIs and sowed confusion and disarray among their diverse ranks; and it put pressure on dependent LDCs (and World Bank staffers) and helped keep them in line.

Whether this anti-corruption drive would have significantly diminished or arrested an uptrend in IBRD lending, let alone amounted to stealth dismantling of the World Bank Group's lending windows, was to remain speculative however. In an ironic turn of events, Wolfowitz himself was forced to leave the World Bank in June 2007 amidst accusations of impropriety for his involvement in arranging a lucrative promotion for his lover and subordinate at the World Bank, Shaha Ali Riza, which rendered his continued presidency untenable[36].

In any case, those segments of private financial capital with a more systemic view of the global political economy, learning from their experiences during the Third World debt crises of the 1980s, will find it useful to retain an institutional intermediary which underwrites or absorbs the financial risks of development lending.

Rather than assume the risks directly as they did with their reckless lending in the Third World in the 1970s and 1980s (and then relying on the BWIs' muscle for debt collection when the loans went sour), finance capital much prefers to mitigate these risks, via World Bank bonds and other financial instruments (including "structured finance" to cater to investors with varying appetites for risk and reward), or offload them onto a rump IBRD

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[34] Paul Wolfowitz, *Good Governance and Development: A Time for Action*, speech delivered in Jakarta, Indonesia, April 11, 2006

[35] it was not coincidental that Singapore was chosen as the venue for the 2006 IMF/World Bank joint meetings. Quite apart from the Singapore government's intolerant approach to dissent and civil liberties, Singapore is also a highly efficient, technocratic, comprador state, a "development showcase" equally known for its "pragmatism" and its remarkably low level of corrupt practices (in the restricted "governance" sense) among government functionaries.

[36] Statement of Executive Directors, World Bank, Washington, DC *(May 17, 2007)*; Wolfowitz Resigns, Ending Long Fight at World Bank *(New York Times, May 18, 2007)*

working in conjunction with the IFC and MIGA to facilitate "public-private partnerships" in development financing and risk management.

The substance of such "public-private partnerships" is evident from this *Economist (February 13, 1999)* report:

> *"traditionally, the World Bank's main products have been loans. But in recent years it has offered partial guarantees for investment projects as well, taking on some of the risks that investors eschew…World Bank guarantees [for sovereign or corporate bonds] have many advantages over loans. They help countries to regain access to private capital markets, can be tailored to cover the particular risks that worry investors most, and can help countries extend the maturities of their borrowing. Those inside the Bank who deal with guarantees reckon that perhaps a dozen such deals could be done a year. Yet some of their colleagues are skeptical. They point out that private money with a World Bank guarantee costs a country more than a straight World Bank loan. They worry that such guarantees are an inefficient use of Bank money: under the Bank's conservative rules, guarantees must be accounted for (on a net present value basis) exactly as if they were loans. They fret about "stripping": that investors would repackage the bonds, selling the World Bank's guarantees separately in a way that might raise the Bank's own borrowing costs. For a guarantee to be acceptable to investors, it has to be irrevocable; once a bond is guaranteed, the World Bank is committed"*

Robert Zoellick, who succeeded Paul Wolfowitz as World Bank president seems undeterred by such considerations, as he seeks to strike a balance between the WBG's institutional interests, and those of the financial services industries. Two months into his new job, the former Goldman Sachs vice chairman concluded that 'the [World Bank] group must behave more like a Wall Street investment firm to halt a worldwide slide in lending. At stake is the bank's survival in a rising sea of private capital. At Zoellick's direction, the agency is pushing sophisticated products such as loans that hedge against the risk of a commodity-price collapse or a surge in interest rates. "Wall Street has pioneered many of the concepts and tools; the World Bank can help apply them as a package of development solutions for problems and clients that are not priorities for Wall Street," Zoellick said. To lure back customers, Zoellick wants the bank to offer products that countries with poorer credit profiles can't get in the private market. He cites as an example hurricane insurance that allowed a group of Caribbean island nations to pool risk and cut premiums by 40 percent. He's trying to revive interest in financial instruments known as swaps that can protect countries from abrupt shifts in the value of their currencies. The bank is [also] offering loans that would be activated in the event of a natural disaster" *(International Herald Tribune, August 28, 2007).*

As with the shriveling welfarist states, the rump IBRD would also retain those tasks which remain unattractive to private capital - unprofitable or uncommodifiable services, global public goods and global commons, and externalities which accrue for example from the development of vaccines and drugs for neglected diseases, or research into environmentally-friendly technologies or public health measures to cope with threatening emergent pandemics.

The poorer credit risks for sovereign lending of course would remain the province of the IDA, which might then face even more straitened circumstances due to reduced off-budget transfers (cross subsidies) from IBRD incomes, and become increasingly dependent on the tender mercies of "philanthropic Keynesianism" *a la* Gates, or the uncertain promises of MDG fund-raising[37].

The Left Perspective: A Tactical Alliance, and Alternative Development Financing

Meanwhile, leftwing activists find themselves in a tactical alliance with "unilateral" neo-liberals in pushing for the dismantling of the BWIs. Some adopt this stance as a negotiating posture for eventual reforms to the BWIs, others are convinced that the BWIs are irredeemably compromised and that efforts at reform are futile, i.e. the only meaningful option is a search for viable (and perhaps, heroic) alternatives within a different configuration of power:

> *For many Asian countries, a regional institution, which understands the complexities of a region better than the IMF and which would thus be less indiscriminate in imposing conditionalities, is the answer. The Asian Monetary Fund (AMF) that was vetoed by Washington and the IMF during the Asian financial crisis would have filled this role. Indeed, with the "ASEAN Plus Three" arrangement, the East Asian countries may now be moving in the direction of setting up such a regional financial grouping. There is also movement in Latin America towards a regional institution that would have as one of its functions serving as a source of capital and as a lender of last resort: the Bolivarian Alternative for the Americas (ALBA), pushed by Venezuela, Bolivia, and Cuba[38].*

This comes on the heels of an existing "borrowers' club", the *Corporación Andina de Fomento*, (*CAF*, or Andean Development Corporation) which in 2001 had become the largest source of multilateral finance in the Andean region. By 2006, CAF accounted for more than half of all multilateral development lending to the five Andean countries, while the shares of the Inter-American Development Bank (IDB) and the World Bank had

[37] after failing repeatedly since the 1970s to deliver on promises of 0.7% of GNP from rich countries as development aid, UK Chancellor of the Exchequer Gordon Brown proposed in January 2003 an International Finance Facility (IFF) to raise up to $50 billion annually from these countries in the decade up to 2015, to support the Millenium Development Goals (MDGs). The IFF would issue bonds in the international capital markets backed by legally binding long-term donor commitments. On maturity, the bondholders would be paid through future donor payment streams, and the development aid thus mobilized would be disbursed through existing multilateral and bilateral mechanisms. President Lula da Silva of Brazil meanwhile spoke out in favor of an alternative mechanism which relies upon global taxes on international currency transactions and on arms sales (variations on this proposal extend these global taxes to carbon-use (greenhouse gas emissions), air travel, and profits of multinational corporations). For a more comprehensive overview of proposals to scale up international development financing, see AB Atkinson (ed.) 2004. *New Sources of Development Finance.* Oxford: Oxford University Press.

[38] The IMF - Shrink it or Sink it: A Consensus Declaration and Strategy Paper. *2006 campaign spearheaded by Focus on the Global South http://www.focusweb.org/content/view/985/27/ accessed on 15 Sept 2006*

dropped to 25 percent and 20 percent respectively (combined total of $5-$7 billion)[39]. In 2007, the CAF was expected to surpass the IDB as Latin America's largest multilateral lender. To retain a sense of proportion however, CAF's annual disbursements of about $6 billion is merely one-fifth of the annual lending (nearly $30 billion) of Brazil's National Bank of Economic and Social Development (BNDES).

The five Andean sovereign shareholders (Bolivia, Colombia, Ecuador, Peru and, Venezuela) contribute over 95% of the paid-in capital and 99% of the callable capital. They have collectively borrowed nearly $25 billion from international capital markets up till 2001, on more favorable terms than they would have obtained as individual sovereign borrowers.

The CAF's high paid-in capital (50% of callable capital, as against 5% for the World Bank) along with cautious financial management give it a higher credit rating (and hence lower borrowing costs) in international capital markets, compared to its individual sovereign members[40]. But this also means that the CAF and its member countries are careful to accommodate the priorities of international capital markets in order to retain its confidence, not to mention the implicit (opportunity) costs of the paid-in capital.

As for monetary (currency) stability, in the absence of similar arrangements for alternative lenders of last resort, some countries have resorted to building up large foreign exchange reserves as a hedge against speculative currency attacks and also to avoid the need for IMF loans and accompanying policy dictates when faced with volatile capital flows.

Such reserves however entail even larger opportunity costs and furthermore deprive a country of domestic investment and growth prospects, and hence are not a long-term solution. Inevitably, alternatives involving regional pooling of reserves have been explored, and the *Chiang Mai Initiative (May 2000)* was one such attempt by Asian countries, in essence an interim risk pool which revives on a smaller scale the idea of an Asian Monetary Fund:

> *The Chiang Mai Initiative was designed to expand the existing ASEAN Swap Arrangement (ASA) to all members of ASEAN[41] and to create a network of bilateral swap agreements (BSAs) between the countries of ASEAN+3 [ASEAN, plus China, Japan, and South Korea]. ASA, first established in August 1977, was designed to alleviate temporary liquidity shortages in member countries [through] quick activation and disbursement. The funds available under ASA and the first 10 percent of the drawing available under the BSAs are unconditional. Under the expanded ASA, the Agent Bank, whose appointment is subject to rotation among the members, has the task of*

[39] Vince McElhinny. 2007. *Banco del Sur: A reflection of declining IFI relevance in Latin America*. Bank Information Center, 1 May 2007 *accessed on September 2, 2007*

[40] The Role of the Multilateral Development Banks in Emerging Market Economies. 2001. Washington, DC: Carnegie Endowment for International Peace.

[41] member countries in 2006 comprised Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

> *confirming a request for liquidity and assessing and processing it as expeditiously as possible in consultation with other member banks. Member banks are allowed to swap their own currencies for major international currencies for a period of up to six months and for a sum up to twice the amount committed by the member under ASA. The idea is that a country under speculative attack can borrow foreign currency, usually the United States dollar, from another country and use the funds to buy its own currency so as to stabilize the exchange rate. The general terms of borrowing are a maturity of 90 days, renewable up to a maximum of seven times, with interest to be paid at a rate based on the London Inter-bank Offered Rate (LIBOR) plus a spread. Although the maximum amount of the automatic disbursement, which is free of any linkage to an IMF program or conditionality, is currently limited to 10 percent of the BSA facility, additional assistance can be provided to members requesting it under an IMF program or an activated Contingent Credit Line*[42].

As of May 2007, the 16 bilateral swap arrangements among eight countries had reached a combined facility size of $80 billion. Meeting on the sidelines of the 40th Annual Meeting of the Board of Governors of the Asian Development Bank in May 2007, finance ministers of the Asean + 3 countries agreed to pool these foreign reserves to establish a multilateral currency swap scheme[43]. In effect, this was an agreement to multi-lateralize the Chiang Mai Initiative (CMI) and to extend it to all Asean + 3 member countries.

In June 2003, an Asian Bond Fund (ABF) was launched by the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP, the regional association of central bankers). This was an initiative to promote the development of regional and domestic bond markets which could tap into and re-channel some of the huge foreign exchange reserves of East Asia, hitherto invested in "safe haven" developed country securities, back into the Asian region.

As of July 2005, the Asian Bond Fund had committed US$1 billion to be invested in US dollar denominated bonds and another US$2 billion in local currency bonds, all issued by sovereign and quasi-sovereign borrowers from among the EMEAP member countries (currently, Thailand, Indonesia, Malaysia, Singapore, the Philippines, China, Hong Kong, South Korea, Japan, Australia and New Zealand)[44]. In June-July 2007, Hong Kong was used as a test-bed by mainland Chinese banks (Export-Import Bank of China, China Development Bank) for issuing 7 billion yuan worth of renminbi bonds[45] (equivalent $930 million).

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[42] Wang Seok-Dong. 2002. Regional Financial Cooperation in East Asia: the Chiang Mai Initiative and Beyond. *Bulletin on Asia-Pacific Perspectives 2002/03. Asia-Pacific Economies: Sustaining Growth Amidst Uncertainties.* Bangkok: UNESCAP.

[43] ASEAN+3 agree to cash swap scheme / Countries to pool reserves for stability. *(The Yomiuri Shimbun online, May 6, 2007)* http://www.yomiuri.co.jp/dy/business/20070506TDY01003.htm (accessed on May 7, 2007)

[44] "The Asian Bond Fund 2 has moved into Implementation Phase" *(EMEAP Press Statement, 12 May 2005)* http://www.emeap.org/press/12may05.htm (accessed on December 21, 2006)

[45] *China Daily, 26 July 2007, p.10.*

Meanwhile, Venezuela's president, Hugo Chavez has announced plans for a *'Bond of the South'*, to be jointly issued with Argentina to mobilize resources as a buffer against financial and economic shocks. For 2006-2007, it was anticipated that $2.5 billion worth of bonds would be issued. Argentina's president, Nestor Kirchner, called the bond the first step *"in the construction of a bank, a financial space in the south that will permit us to generate lines of finance"*[46] independent of the IMF, in times of financial volatility and crises. Venezuela's purchases of $2.5 billion of Argentine government bonds had helped replenish Argentina's reserves after it repaid $9.5 billion of debt to the IMF in late 2005.

On May 22, 2007, Argentina, Bolivia, Brazil, Ecuador, Paraguay and Venezuela reached an agreement in Asunción (Paraguay) to proceed with the establishment of the *Banco del Sur*, with an initial plan to raise $7 billion of paid-in capital. One important feature that emerged was the principle of equal voting rights of member states and a consensus to work towards a regional common currency. Still unresolved however was whether *Banco del Sur* would function primarily as a development bank, or whether it would also take on a role as a monetary stabilization fund instead of devolving this to a later stage or to a separate institution altogether[47]. In a region as large as Latin America, with its varying ethnic and class constellations and modes of articulation with globalizing capital, it is not surprising that internal divisions and conflicting priorities are played out in the founding process of the bank, much as they are evident in the ideological spectrum extending from the more radical ALBA through to CAF and Mercosur (regional common market with Argentina, Brazil, Paraguay, Uruguay, and Venezuela as full members), in relation to the preferred balance between the developmentalist state and the market, between a needs-driven, rights perspective in development and a pragmatic accommodation (if not collusion) with existing global economic and political forces, and on environmental, cultural, and social protection[48].

Regional banks, borrowers' clubs, and pooled reserves in the short to medium term may be more expensive sources of loans than the global multilateral sources (the price for flexibility and enlarged policy space). Private lenders keen to spike the competitiveness of multilateral or alternative lenders will understandably be carefully monitoring these developments.

From the perspective of Africa however, which is much less endowed with capital resources than Asia or Latin America, the option of pooling reserves for a regional development bank or a lender of last resort is less feasible. Its debt dependency *vis a vis* the World Bank and the IMF has been described in these terms by Patrick Bond of the University of the Kwazulu Natal in South Africa:

> *Africa's debt crisis worsened during the era of globalisation. The continent now repays more than it ever received, according to the World Bank, with outflow in*

[46] *Tinkering at the edges of governance reform: IMF quota proposals.* Bretton Woods Project website *(11 September 2006)* accessed on 20 September 2006.
[47] McElhinny, *ibid.*
[48] interview with Plinio Soares de Arruda (economist, State University of Campinas) on Brazil and Banco del Sur, May 18, 2007 http://www.zmag.org/content/showarticle.cfm?ItemID=12847 accessed on September 1, 2007

> *the form of debt repayments equivalent to three times the inflow in loans and, in most African countries, far exceeding export earnings. During the 1980s and 90s, Africa repaid $255 billion, or 4.2 times the continent's original 1980 debt. Repayments are equivalent to three times the current inflow of loans, with a net flow deficit, by 2000, of $6.2 billion. For 21 African countries, the debt reached at least 300% of exports by 2002. While 'debt relief' rose from around $1.5 billion in 2000 to $6 billion in 2003, it continues to be provided in a way that deepens, not lessens, dependence and Northern control*[49].

In recent years, the situation has eased somewhat owing to buoyant commodity prices, and the emergence of China (and to a lesser extent, India) as a significant source of development finance for sub-Saharan Africa. According to the IMF, development lending by China to Africa had risen to $5 billion in 2004, double the figure ten years earlier[50], in comparison with IDA grants and loans to Africa which had increased from $3.4 billion in 2001 to $5.8 billion in 2007[51].

In November 2006, President Hu Jintao announced at the Beijing Forum on China-Africa Cooperation that China would double its assistance to Africa by 2009, and it would also provide an additional $5 billion in preferential loans and preferential buyers' credits. In addition, debt in the form of all interest-free government loans that matured at the end of 2005 owed by heavily indebted and least developed countries in Africa would be cancelled, and China would increase from 190 to over 440 the number of import items receiving zero-tariff treatment, originating from the least developed countries in Africa[52].

The Export-Import Bank of China plays a key role in China's development lending and development aid. Isabel Ortiz, citing Peter Bosshard[53] and a World Bank report on China and India's economic ties with Africa[54], writes that *"since its foundation in 1994 to 2006, Exim Bank China developed 259 loans in Africa alone (concentrated in Angola, Nigeria, Mozambique, Sudan and Zimbabwe), most of them large infrastructure projects: energy and mineral extraction (40 per cent), multi-sector (24 per cent), transport (20 per cent), telecoms (12 per cent) and water (4 per cent). Most known examples include oil facilities (Nigeria), copper mines (Congo and Zambia), railways (Benguela and Port Sudan), dams (Merowe in Sudan; Bui in Ghana; and Mphanda Nkuwa in Zambia) and thermal power plants (Nigeria and Sudan). According to the Exim Bank China Annual Report 2005, only 78 loans of the total Bank loan portfolio were concessional, below-market rate loans. When the terms are concessional, interest rates can go as low as 0.25 per cent per*

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[49] Patrick Bond. 2006. *The Dispossession of African Wealth at the Cost of African Health.* Equinet discussion paper number 30 (March 2006). Harare, Zimbabwe: Equinet.
[50] *Financial Times, December 7, 2006.*
[51] World Bank Commits Record $5.8 Billion to Africa. *(World Bank press release, September 4, 2007).*
[52] full text of President Hu Jintao's speech at the Beijing Forum on China-Africa Cooperation http://news.xinhuanet.com/english/2006-11/04/content_5289052.htm accessed on September 2, 2007.
[53] Peter Bosshard. 2007. *China's Role in Financing African Infrastructure*. Berkeley: International River Network and Oxfam. For African perspectives on the emergence of China as a major source of development finance, see Firoze Manji & Stephen Marks (eds). 2007. *African Perspectives on China in Africa.* Cape Town: Fahamu; see also Todd Moss & Sarah Rose. 2006. *China ExIm Bank and Africa: New Lending, New Challenges.* CGD Notes, November 2006. Wash. DC: Center for Global Development.
[54] Harry Broadman. 2007. *Africa's Silk Road: China and India's New Economic Frontier.* Wash. DC: World Bank

annum, subsidized by the Chinese Government; however most of the procurement has to be imported from China. Apart from this condition [and adherence to a one-China foreign policy], there are no other strings attached to these loans, this is, no policy conditions, no environmental or social standards required. International and national organizations, including civil society groups, have criticized that China is supporting highly repressive regimes (Burma, Sudan, Uzbekistan, Zimbabwe) to satisfy China's need for natural resources, particularly oil; creating new debt in low income countries to promote Chinese exports; undermining the fight against corruption and the promotion of environmental and social standards. In view of this, Exim Bank China recently approved an Environmental Policy; it has no social safeguards yet but there are signs that this may be reversed". (www.networkideas.org, August 22, 2007).

Concluding Remarks

Michal Kalecki, in analyzing the systemic tendency of mature capitalist economies towards stagnation and crisis, remarked that "the tragedy of investment is that it is useful"[55]. For capital-poor countries seeking to build up industrial and technological capacities, one might add that the dilemma of investment is that it is useful, and therefore necessary.

The emergence of multi-polar sources of development financing in recent years (multilateral, regional alternatives, bilateral, private capital markets, private philanthropy) has created some leverage for borrowers in their negotiations with lenders over the terms of borrowing. This leverage however can be deployed to various ends. It could diminish the leverage and policy dictates of dominant lenders and their priorities which may be detrimental to the national interests and well-being of people in the borrowing countries. On the other hand, it could also undermine the efforts aimed at securing equitable and socially just development, at fostering environmentally-responsible development, and at reducing corruption, political repression and violation of civil rights. The independent role of social movements in helping to bring about a more favorable conjuncture, for minimizing the former and maximizing the latter, will remain relevant under any of these evolving scenarios.

Penang, Malaysia
September 20, 2007 (revised)

[55] Michal Kalecki. 1939. *Essays in the Theory of Economic Fluctuations (p.149).* London: Allen and Unwin.