

Who owes who? : External Financing in Lula's Administration



1. Introduction: The Multilateral Financial Institutions

To create alternatives to the current international economic and political order and to the vicious circle of foreign debt demands an understanding of the functioning and evolution of the global financing system. Said system, since its creation in 1944 during the *Bretton Woods* conference in New Hampshire, US, has perpetuated poverty, inequality and environmental degradation. During this conference, 700 participants from 44 countries held a meeting with the object of designing the course of the post-second war non-communist world. The lending experiences of 1920 and 1930, the global recession in the 1930s and the second world war resulted in proposals for a new economic 'order' which would demand the creation of a "stabilization fund" so as to control international economy and a "bank for reconstruction and development". The main argument Americans had in mind was that the US would suffer financial difficulties as a consequence of weak trade partners, and so would have to reconstruct Europe and help Latin American, African and Asian countries develop up to

international market levels; an activity which would demand a considerable amount of investment.

After 21 days of conference, the main results were the creation of the:

- International Bank for Reconstruction and Development (IBRD), and the
- International Monetary Fund (IMF)

It can be said, therefore, that these institutions were basically created by the US and have continued under its authority to this day. The IBRD is now the central institution of the World Bank Group which is also currently made up of the International Development Association (IDA), International Finance Corporation (IFC) – which lends to the private sector – the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Brazil receives financing from the IBRD and the IFC.

The Inter-American Development Bank (IADB) was created in 1959 within the same context, being under control of the US as well and operating as a regional development Bank.

2. The External Debt and the MFIs

The volume of indebtedness of the so-called Southern countries is alarming, and so is its growth rate. In spite of increasing tax collection in countries such as Brazil, resources for effective social investment – beyond unsuccessful compensation programmes – have remained at levels that are insufficient to improve people's living conditions. As a consequence of the economic policy, existing resources are allocated to the payment of debt interest, without taking into consideration the social cost.

This economic policy is the result of measures imposed by the Multilateral Financial Institutions (MFIs) – World Bank, IMF, IADB, and other national financial institutions of a transnational character like the BNDES - National Bank for Economic and Social Development. Such demands include:

- . increase in tax burden,
- . reduction of public investment and expenditure,
- . high internal interest rates,
- . privatisations,
- . financial opening,
- . primary surplus,
- . foreign exchange liberalisation,
- . trade liberalisation.

Said measures, and others within social areas such as labour market flexibilization, are basically aimed at securing payment of the external debt. In addition to the well-known consequences such as the increase in public indebtedness, negligible or negative growth, and socioenvironmental degradation, these measures reassert a dependency of borrowing countries on

'creditors'. As a result of that dependency, MFIs impose conditionalities on loans, thus securing the perpetuation of their policies. This is, obviously, feasible when dealing with submissive governments. In addition, they generate more and more illegitimate debt through loans used for fostering the debt financial circle and favouring the financial capital without favouring the population.

Although MFIs, especially the IMF, claim to put limits to rash foreign lending, they have authorized borrowing processes beyond the payment capacity of many countries. Moreover, many debts incurred by Southern countries, with the MFIs's complicity, occurred during military regimes or governments headed by authoritarian and corrupt leaders responsible for crimes against humanity, such as Carlos Salinas, Carlos Menem, Alberto Fujimori, and also the Brazilian *de-facto* governments. Said governments received ample support from the IMF, with interests imposed by MFIs at will. During the 1970s, the unilateral decision of the US (endorsed by the IMF) to increase the interest rate from the historical level of 4-6 per cent to more than 20 per cent over a few months was a breach of contracts and, in addition to forcing debtor nations to ask for loans to pay for debt interest, brought about an extra payment amounting to a R\$ 236 billion loss (as per today's interest rate) for Latin America. Within this context, MFIs cannot (though they actually do so) invoke the lawfulness of agreements entered into with criminal governments and furthermore demand repayment of debts incurred in a fraudulent way through their close collaboration.

3. Situation of Brazil:

The Lula Administration has maintained the subordination and dependency of Brazil in relation to MFIs and their policies. In addition, the current government policies are focused on poverty reduction, taking as a strategy a development model which is incompatible with socioenvironmental sustainability. Said model gives priority to economic development at all costs, through great infrastructure projects, and to an extended access to export markets, being an increased trade a condition for development.

What Brazil paid by way of debt interest in 2003 surpassed the budgets of the Ministries of Social Security (R\$110 billion) and Health (R\$30 billion). In 2004, debt charges totalled R\$139 billion, more than was invested in social areas (only R\$84 billion). Over the first 4 months of the year 2005, payment of interest and charges amounted to 51.2 billion, whereas social expenses were only R\$21.6 billion over the same period. Until September 2005, interest reached R\$105 billion, whereas the budget for the sectors of health, education, social welfare, agriculture, public security, urban planning, environmental management, housing, culture, sanitation, all put together, amounted to R\$ 82 bilhões¹.

By March 31 2005, the general total external debt amounted to R\$ 410.9 billion, of which the "debt" with FMIs was the following:

¹ Brazil Budget Forum: Discussion Papers: Primary surplus, May 2004.

International Institutions	Total debt	Public Sector	Private Sector
IMF	R\$ 51.8 billion	R\$ 51.8 billion	-
World Bank	R\$ 18.1 billion	R\$ 18.55 billion	R\$ 45 million
IADB	R\$ 26.3 billion	R\$ 24 billion	R\$ 2.3 billion
IFC	R\$ 2.7 billion	-	R\$ 2.7 billion
Others	R\$ 2 billion	R\$ 1.2 billion	R\$ 765 million
Total debt with IFIs	R\$ 100.9 billion	R\$ 95.1 billion	R\$ 5.8 billion

Source: Central Bank of Brazil. Conversion rate: US\$1 = R\$ 2,23

This value represents approximately 25% of total Brazilian external debt. This may not seem much but the major issue concerning debt is its use as an instrument of domination, of neocolonialism. The MFIs are collecting a debt which we have already paid off many times. They grant us loans to help us pay for it, but they impose conditionalities - resulting in the implementation of policies that generate a socioenvironmental debt which is impossible to pay and of which we are the true creditors. At any rate, with R\$ 100.9 billion the government could, for instance:

- Create 5 million jobs in agriculture (the average cost per job being R\$ 20 thousand); and
- Settle two and a half million landless families – little more than half the members of the landless movement in Brazil;

It is also worth pointing out that while financing for the public sector is more significant than for the private sector, the current trend is for loans to the private sector to increase – based on the argument that governments are no longer profitable to MFIs! That does not mean our external public debt is going to decrease because private debt has a direct impact on public debt and is often transferred to the government. Besides, increasing financing to the private sector within the current “development” model brings about increasing socioenvironmental debt – its main activities being infrastructure mega-projects.

Note that the financing flow from the IBRD and IADB during the Lula Administration shows that our balance regarding these institutions is actually negative – we pay much more than we receive; we receive so as to pay!

YEAR	Payment	Amortization	Interest and Charges	Transfer (payment – amortization and interest)
2003	5,314	8,174	2,512	-5,372
2004	4,370	7,669	1,895	-5,194
2005*	1,029	2,290	890	-2,150

*until June 2005

Source: SEAIN - Foreign Affairs Secretariat, Ministry of Planning and Management – conversion rate: US\$ 1 = R\$2,23

4. How much of this goes to social programmes?

Several social programmes within the Lula Administration are granted external financing. This means that these social programmes are related to the conditions imposed by the MFIs. In some cases the resource may even be relatively small, but conditionalities are never so. What is more, MFIs use their power and influence over central governments through the so-called “technical assistance”. These are some specific examples:

Programme	Union	IBRD	IADB
Family Grant (Bolsa Família)	R\$ 6.5 billion	R\$ 1.2 billion	R\$ 2 billion (signed contract)
University diversity	R\$ 8.9 million	-	R\$ 11.1 million
Support Programme for the Sustainability of the AIDS - AIDS III Project	R\$ 100 million	R\$ 100 million	-
Programme for Land Credit and Action Against Rural Poverty	R\$ 356.8 million (States = R\$ 44.6 million Beneficiaries = R\$ 44.6 million)	R\$ 450.6 million	-
Health Quality Improvement Project (Qualisus) - PHASE 1	R\$ 166.8 million	R\$ 189.5 million	R\$ 189.5 million

Source: SEAIN. Conversion rate: US\$1 = R\$ 2,23

Nowadays, both the World Bank and the IADB generally invest more, in terms of resources, in projects in the area of infrastructure. The Table below, of June 2005, shows that the IBRD invests 30% of its resources in infrastructure projects.

Percentage of IBRD Resources allocated to Development by Areas:

SECTOR OF INVESTMENT	Percentage
Infrastructure	30.15%
Social Protection	14.09%
Education	13.15%
Water Resources	9.32%
The Environment, Management of Soil and Natural Resources	8.66%
Health	7.21%
Combat to Rural Poverty	6.41%
Urban development and sanitation	5.71%
Fiscal and Financial Development	2.08%

Source: *Rede Brasil*, World Bank Projects portfolio (www.rbrasil.org.br)

The current IADB priority is the Initiative for Integration of Regional Infrastructure in South America (IIRSA), an initiative which will also have the support of the World Bank and the BNDES, among other funders. IIRSA's focal

points of action are: transport, energy and communications, which involve considerable infrastructure works with the aim of turning the region into a more competitive one within the international market. These works involve the opening and paving of roads; construction of hydroelectric centrals and extension of the energy network (not only for the energy which will not benefit those who need it most, but for the obtention of navigable waters); construction of sluices, among others.

The IIRSA is gaining momentum based on measures taken by the Brazilian government, current leader in this process. The current government's "development" model is implemented through the activities of Brazilian private undertakings – Odebrecht, for instance – and state-run enterprises – such as Petrobrás – and the BNDES financing, whose intention is to allocate part of its R\$ 60 billion budget to this initiative, said budget being 10% higher than the World Bank's. For the Lula Administration, IIRSA is the materialization of the South American Community of Nations, and also the single decisive step of the Brazilian government towards regional integration. IIRSA has become a synonym of integration.

And now what?

In order to understand the influence of the measures imposed by MFIs on the indebtedness process, it is necessary to audit every country's debt thoroughly, so as to bring the truth about the indebtedness process to light. The MFIs often carry out financial audits on borrowing countries, but they do not respect people's right – despite their being directly impacted on by the payment of an illegitimate debt – to be informed about said debt, why it grew so, who is responsible for it, and who profits from that process.

It is time to put an end to the conditionality imposed by these institutions, cancel the debt, and regain our sovereignty. A change in the direction of financial, socioenvironmental and cultural issues will only occur upon a thorough analysis of the debt and after MFIs have undertaken responsibilities that are historically theirs, thus ending their immunity as regards inquiries.

Debt?

“WE DO NOT OWE, WE DO NOT PAY; WE ARE THE CREDITORS”