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Introduction

Debt is one of the major obstacles to development for a large number of low and middle-income countries. In the past four or five years, the soon-to-finish Jubilee 2000 campaign has made extraordinary gains getting debt onto the agenda of some First World governments, yet the gap between rhetoric and political action is wide and most countries find their debt position either unchanged or getting worse. What's more, several Asian countries — Thailand, Indonesia and Korea — which previously had relatively low levels of external debt, found their debt to GDP ratios tripling and quadrupling after the financial collapse of 1997, to say nothing of Russia!

Social justice and debt activists in the South and the North realise that the pressure not only to cancel Third World debt but also to break out of the debt-trap must be ratcheted-up and linked to the wider social movement resisting neo-liberal policies of trade and financial liberalistion and privatisation. Jubilee South, the international network of South debt campaigns, held its first Asia Pacific meeting in Bangkok in early October at which activists and researchers from Pakistan to Fiji launched the Asia Pacific Debt and Development Coalition. And next month in Dakar, Senegal, the African debt network will meet to consolidate and plan its work for beyond 2000. Many of the Jubilee 2000 campaigns and the Jubilee South network will also be at this meeting, which is a key moment for building a common agenda, consolidating understandings and developing strategies beyond 2000.

In this issue of Focus on Trade Chanida Bamford looks at the chronic problem of farmers' debt in Thailand, Alberto Acosta sweeps away the smoke and mirrors of Ecuador's Paris Club negotiations, Marie Teresa Diokno-Pascual tells the long ands sorry story of debt and structural adjustment in the Philippines while Menno Salverda shows that alternatives are possible in his article about the meaning of money.

But first, just one week after the World Commission on Dams (WCD) released its final report concluding, amongst other things, that no dams should be built without the agreement of the people directly effected, stooges acting on behalf of Thailand's electricity authority, EGAT, intimidated villagers and torched their homes at the Pak Mun protest site. The villagers' protests received a boost two months ago when an independent commission reporting to the WCD concluded that the Pak Mun project was deeply flawed and had proceeded without due consultation and on the basis of inaccurate and inappropriate projections of impacts. Nonetheless, the project continues, staunchly defended by both the Thai government and the World Bank, in spite of the fact that the Bank's president James Wolfensohn personally claims for having established the WCD!

The Dirty Underside of the Land of Smiles: Power company "guardians" burn protest village

The following piece has been compiled through eyewitness reports b y Assembly of the Poor protestors at the Pak Mun Dam site and news reports from the Bangkok Post and The Nation.

On November 19, about 200 men who called themselves "guardians" of the Electricity Generating Authority of Thailand's (EGAT) property repeatedly entered and attacked the protest village sites of Mae Mun Man Yuen 1 and Mae Mun Man Yeun 7 at the Pak Mun Dam. The raids took place when only women and elderly villagers were in the camps. Most of the male villagers had left the area for harvesting work.

EGAT's guardians started by tearing down five houses and then proceeded to set fire to other houses in the village. When village residents tried to protect their homes, they were beaten-up by the attackers. More than 30 village residents were injured, three of them seriously. Many protestors lost their homes, clothes and household items—in fact, their only belongings. At present, more than 150 village residents and protestors affected by the Pak Mun dam still occupy the dam crest at the protest village of Mae Mun Man Yuen 1.

Here is the chronology of events as described by the protestors.

The first incident began at 5.30 a.m. on November 19, when the EGAT "guardians" first entered the village, tore down five houses and set fire to other houses. At 3 p.m. an EGAT guard of more than 100 people again invaded the village and threatened the villagers, asking them to move out of the village. Despite requests from village residents that their belongings not be destroyed, the EGAT guards attacked the villagers and set fire to the whole village. At that time, more than 10 villagers were injured.

At 5.30 p.m., gunshots echoed around the village and then the entire village was set on fire again. At that time more than 20 villagers were injured, three of them seriously. At 7.50 p.m., around 572 houses of Mae Mun Man Yuen 1 Village were completely burned. Residents moved out from Mae Mun Man Yuen to the village of Baan Hua Hue, about 1.7 km. away. Fire-extinguishing units were on the site, but no effort was made to put out the fire. About ten policemen also arrived on the scene but ignored the events.

On 20 November at 6 am, the EGAT "guardians" set the Mae Mun Mun Yuen 1 Village on fire yet again, and the entire village was destroyed by fire.

At 10 am on the same day, Mr Rungrit Makarapong, the Governor of Ubon Rachathani Province (where the Pak Mun Dam is located) arrived at the dam site to ask for more information about the incident. When asked who would be held responsible for the events, Mr Rungrit said that he had no authority in dealing with this violence. Village residents then asked him to resign, or move out to another province.

After the Governor left the scene, the situation became tense again. About 30 men, armed with batons and knives, grouped together near the Mae Mun Man Yuen 7 village began to make a shelter and to observe the goings on in the village. When Mr Pana Chaitrong, one of the protest's leaders, walked into the area, attempts were made to attack him. When Mr Somphorn Khamsawat, another protest leader and photographer of the Assembly the Poor, took photographs of the burned huts, attempts were made to attack him as well, which fortunately were unsuccessful. Further, village residents from Hua Hew Village reported that EGAT's officials and hired guardians brought two large sacks containing shotguns. The guns were put at the EGAT's office east of the Pak Mun Dam. This may be a sign of a stronger attack in planning.

According to the Bangkok Post, EGAT yesterday (19 November) admitted that the group that attacked Pak Moon dam protesters on Sunday was in its employ. Boonlert Mongkholvit, EGAT's assistant public relations chief, told the Bangkok Post that those involved in the attack (the "guardians") were hired to help the agency take care of the dam. According to EGAT, the hired group was instructed by EGAT to ask the Pak Moon dam protesters to move out of the dam site "politely." Mr Boonlert told the Bangkok Post that insisting that the protesters move out of the dam site was correct: "This act was justified because EGAT and the government have complied with all the protesters' demands," he said. "It is about time they went home. Their presence has obstructed our work and their shacks on our property and outside Government House are an eyesore." Mr. Boonlert denied the allegation that the EGAT "guardians" had used guns or set fire to the shacks. He also said that reports from EGAT's local office indicated that police

were present when the fight broke out but were unable to intervene and the cause of the fire could not be established. (Bangkok Post, November 20, 2000)

The local police denied that they were part of any conspiracy with EGAT. Pol Maj-Gen Bamrung Sukpanich, deputy commander of the Ubon Ratchathani police force, said that the protesters had barred them from the site during the brawl, and the police observed the developments from outside because of the on-going confusion. However, police yesterday deployed units to separate the two sides to prevent further violence. Protest leaders have also filed a complaint with police to investigate the incident and act against the raiders.

In Bangkok, a group of dam protesters filed a petition with the Senate. Senator Chermsak Pinthong, who accepted the petition, said there was ground to believe EGAT officials were behind the attack because of the systematic way in which it was conducted. According to him "the Pak Moon problem has dragged on for several years but I have yet to see PM's Office Minister Savit Bhodivihok [who oversees EGAT] show any clear stance in solving it. This is tantamount to lending support to EGAT to employ violence against the Assembly of the Poor protesters." (Bangkok Post November 20, 2000)

Mr Chermsak asked that EGAT stop using violence as a solution and that the police take action against the EGAT hired guards. He said he would submit the matter to the Senate panels on administration, justice, and human rights. However, this violence is not likely to end soon since the group hired by EGAT are positioned at the local EGAT office, and may attack the protesters again.

For further information about the Pak Mun, please contact the Southeast Asia Rivers Network-Thailand Chapter, 78 Moo 10, Suthep Road, Muang Chiang Mai 50200, Thailand.
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Micro Credit equals Micro Debt

*by Chanida Chanyapate Bamford**

One of the outcomes of the economic crisis in Thailand has been a closer public scrutiny of the issue of who should have the right to be bailed out by public funds. It has become apparent that apart from losing the 500 billion baht in loans that were extended to ailing financial firms, the government now stands to lose another 1-2 trillion baht after closing down 56 firms and becoming responsible for the liquidation of their assets and liabilities. All because the previous government had passed a law that provides a 100% state guarantee for all depositors.

Among the most vocal protestors of this process of nationalization of private debt (which is running alongside an IMF-promoted policy of privatization of state assets) are the 5 million farming households who are indebted to the state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC) to the tune of 400 billion baht. With the decline of all major agricultural produce prices to levels below production costs this year and the current extensive damage of farmland by floods which will effect the prospects for next year's harvest, their voices are becoming louder. They are asking the government why they are expected to shoulder the losses themselves and still pay back their BAAC loans promptly when the circumstances of the losses, as anyone can see, are beyond their control. The injustice seems plain.

The general public perception is, as stated by the BAAC, that "the agricultural sector has not been very sensitive to the impact of the economic crisis; on the other hand, it has helped absorb the impact on other sectors to a certain degree." However, "there are constraints in the structure of production and productivity, that is farmers are engaged in only a few varieties of crops without much change, with lower productivity levels than other countries."

A local BAAC official boasted that while customers of commercial banks were going bankrupt, BAAC customers still survived the economic crisis because they are mainly small debtors. The figures provided by BAAC on non-performing loans (NPLs) confirm this. BAAC NPLs total only 15-16% of the loan portfolio compared with an average of 30-40% for commercial banks, even though this represents an increase of 60% when compared to the years before the crisis.

A 'Debt-Bonding' Process

The same official reported that in his sub-district, where most farmers are engaged in growing baby corn on contract for export, the average BAAC loan per household was 60,000 Baht. It is well known that 20 Baht out of every 100 Baht loan is used for purposes other than agricultural production, but officials have good relationships with the customers and are conciliatory toward their needs. Overdue loans account for only 6.8% of the total, which implies that growing baby corn is still viable even with lower prices. In another sub-district where farmers try everything such as garlic and white, red and green onions, the overdue rate is higher at 14%.

The sub-district chief, however, told a different story. At the time when the BAAC loan is due, most farmers do not have the cash to pay back. The usual practice is to take another loan at a higher amount so that they can pay back the old loan principal plus the 12% interest and still have some cash left to spend, particularly to cover the expenses of sending their children to school. He noted the danger in such increasing indebtedness, but said that families with children of schooling age do not have much choice. Another village chief in the same sub-district, though, pointed to the current proliferation of washing machines in people's homes after televisions and refrigerators as an example of increasing consumption which is accompanying increasing indebtedness.

In fact, the usual practice reported by farmers is to take a loan from local loan sharks at 5-10% per month interest rate to pay back their BAAC debts when they become due in March of every year. They then wait a couple of months to get new loans from BAAC for the next planting season. This is then used to pay back the loan sharks. This, of course, makes it even less likely that the BAAC loan will be used to improve productivity.

Apart from the fact that BAAC's interest rates are usually slightly lower than commercial banks' rates, and much lower than the going local informal rates, farmers want to keep on its good side because of the condition that a new loan will not be given unless the old one is paid back. More importantly, a good customer can get a larger loan every time he pays back promptly. This probably explains why a survey carried out by two academic institutes in 1998 and 1999 found that 75% and 80% of BAAC customers

believe their household conditions have improved since their joining BAAC loan schemes.

A local BAAC official was asked whether he thought there was a chance farmers could get out of debt. "Being in debt is a natural thing, you can get out of it when you die," he answered. This is because the BAAC has ensured that debtors become members of funeral clubs, thus effectively making debtors insure their BAAC loans. When the debtor dies, family members receive a lump sum of money. This is intended to cover not just the funeral costs, but the outstanding BAAC debt as well.

Worrying Trends

A study by the Office of Agricultural Economics, Ministry of Agriculture and Cooperatives, clearly shows the trend of debt accumulation among farming households. During the 30 year period from the first to the sixth National Economic and Social Development Plans (1961-1991), the average amount of debt per farming household increased ten times, just about the same level as the increase of net income per household. The debt increase, however, continues at a higher rate of 40-60% a year from 1991-1999, while available figures from the same source show that the average net income from agriculture per household actually decreased by 6% between 1992-1997.

The study looked into the impact of the economic crisis on the farmers' capacity to service their debt by comparing the average assets and liabilities per household between the 1995/96 and 1998/99 farming seasons. This study found that the ratio of agricultural assets to liabilities decreased by 47% within two years, which is in line with the impact on other sectors of production. This is based on the fact that while household assets decreased by about 20% during this period, the amount of debt increased by 50%. The Office of Agricultural Economics expressed a warning that if this trend continues, the agricultural sector will face insolvency like businesses in other sectors. They were concerned that this will have a long-term impact on the country's agricultural productivity because "unpayable accumulated debt is a barrier to productivity improvement as the opportunity to seek new resources to improve productivity for this sector is limited".

Another worrying trend is the increase in the reliance on informal creditors. Before the crisis, statistics showed that 91% of farmers' loans are from formal institutions; in fact, reducing farmers' dependence on loan sharks was one of the achievements claimed by the Bank for Agriculture and Agricultural Cooperatives. After the crisis, however, the proportion of informal sector debt rose to 17% of the total debt.

A Bank Is a Bank

In the context of these worrying trends, however, the Bank of Agriculture and Agricultural Cooperatives seems to be changing its conciliatory practice towards their clients. At the local level, one official reported that they have been receiving orders to ensure their lending adheres more strictly to rules and regulations and to resort to legal action when necessary. Many farmers who gathered at a recent seminar on public debt and farmers' debt, while joking about how they jumped every time a visitor appeared at their doors, were apparently under a great deal of stress. One woman, a single mother, narrated how she was hounded by BAAC officials to pay 15,000 baht which was a part of a group guarantee for one member who had defaulted while she herself had trouble paying back her own 10,000 baht loan. One man took a 10-year loan contract to replace cassava with a rubber plantation and managed to pay back 200,000 baht so far. But his loan principal of 400,000 Baht had accrued another 430,000 Baht in interest; with lower rubber prices, his prospects of clearing his debt burden were indeed dim. What made him rather bitter about this situation was that the cassava replacement scheme was funded by a grant from the European Union, which the BAAC turned into interest-bearing loans. Thus, farmers alone are responsible for the risks involved while the BAAC reaps all the benefits in the form of interest.

The BAAC has certainly been a successful bank throughout its 33 years of operation. It was able to utilize low-interest (less than 1%) loans from the Japanese government to build up its capital and turned into a full-fledged bank currently with 60% of capital coming from customers' deposits. Its 600 branches are housed in modern buildings and a work force of 13,000 strong have become the epitome of prospering capitalist institutions in the rural landscape to many of its debtors.

From a theoretical perspective, higher levels of farmer indebtedness point to a higher level of investment in agricultural production, which should be 'a good thing'. Many businesses go into debt to expand; progressive, commercial agricultural production would fall into the same pattern. Agricultural credit has been the government's instrument to stimulate adoption of new technology which, according to plans, should increase yields and, therefore, raise farmers' income from the sale of products. From the

business point of view, the ratio of farmers' assets to liabilities, at 20.86 in 1998/99 cultivation year, is not problematic; in fact, an academic confirms that it still shows a fairly high level of financial security according to accepted standards.

At the policy level, BAAC announced expansion in 1999 of its credit line "in support of the government's policies of accelerating economic recovery through increasing the productivity of the agricultural sector, reducing unemployment in the rural areas, including credit extension to the non-farm sector, in order to increase the income of the farming households" while at the same time maintaining "appropriate levels of financial stability, liquidity and profit margins". Its vision is to transform itself into a "Green Bank", whatever that means.

The Real Costs of Credit

A large proportion of BAAC loans were one component of agricultural extension packages for particular new crops and technology that the government wanted to promote and experiment with. In these cases, loans were often given, not in cash but in inputs (seeds, fertilizer and insecticide), although repayment always had to be in cash. However the majority of these extension projects failed in the three decades of such agricultural credit policies. Only through farmers' concerted and continued pressure on the government to recognize its responsibility for the failures did it seriously consider writing off the 10 billion baht debt for projects as cashew nuts, sericulture, bamboo shoots and beef and dairy cattle. This, however, has not stopped the government from building BAAC loans into extension projects, most recently into projects funded by a 600 million dollar loan from the Asian Development Bank, that was negotiated as part of the restructuring process after the 1997 economic collapse. There are reasons to believe that the government is effectively transforming its ADB loan into farmer debt.

In terms of farmers' income from agricultural production for which credit has been extended, there seems to be no report available on any follow-up or assessment of the direct effect of credit policies on debtors' agricultural income. It is granted that a bank is not normally required to monitor their customers' earnings as long as the loans are being repaid. But apart from macro-level statistics showing a decline in average net income from agriculture from even before the crisis, the growing number of protests against falling prices of produce this year testifies to the desperate position of the majority of farmers. It is common sense that to be able to pay back debt, farmers have to earn a profit at least equal to the interest that they have to pay on their investment, which means 9-12% for most farmers. Some agronomists doubt that soil fertility levels in the poorer parts of the country could ever achieve this, even under the best of conditions, and current newspaper reports indicate that farmers are operating at a loss in all major crops: rice, corn, rubber, sugarcane and cassava. With the economy still stagnant after the recession, non-farm income, which used to see farmers through the year of borrowings and repayments, has shrunk by as much as 20% according to some estimates. This removes a rural cashflow 'cushion' and exacerbates the debt problem.

In this economy, farmers have virtually no control over market prices, either for inputs or their produce. What they produce, however, has been very much influenced by government policy, which has consistently promoted cash crops, many targeted at the export market. These crops typically require higher levels of input than traditional subsistence crops, increasing the farmers' need for credit to finance each production cycle. Once enmeshed in the debt net, it is extremely difficult for farmers to extricate them-

selves. One bad harvest, or collapse in crop prices, can produce a debt crisis.

What is worse that over the long-term, the high-input agriculture promoted by government policies reveals long-term environmental problems. Repeated application of pesticides increases the likelihood of pest resistance, leading to even greater use of pesticides and/or crop losses, i.e. higher costs and/or lower income. Artificial fertilizer (often provided in lieu of cash as part of a BAAC loan) can often reduce long-term soil fertility. Agriculture in many parts of the country is approaching an environmental crisis.

Many farmers therefore have expressed an interest in moving towards low-input agriculture, based on indigenous crops, self-reliant systems of pest control, soil fertility conservation and water conservation, and production primarily for home consumption rather than for the market. The means for achieving this in the major agro-ecological conditions in Thailand are now well known, the result of work by 'guru' farmers and NGOs, rather than by government agencies.

However, many farmers find that their existing debt is an insurmountable barrier to conversion to sustainable, low-input, or organic farming systems, which at the beginning cannot guarantee them sufficient cash income to repay their debt. Ironically, by linking credit to misguided extension projects, by giving credit in the form of artificial fertilizers and pesticides, and by promoting agriculture that is almost exclusively oriented to production for the cash economy, the Thai government, through the BAAC, has been the major architect of the current crisis in the rural economy and environment.

The one thing that the government-conceived rural credit system has been without doubt most successful is the total integration of rural households' production and consumption patterns into the market-oriented cash economy. The least the government could do is to repair the damages is to allow those enlightened farmers to start anew a life without debt and provide appropriate support for truly sustainable agricultural systems to take root and grow.

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Fallacies of the Renegotiation of the Ecuadorian External Debt

*by Alberto Acosta**

"War is the continuation of politics by other means"
"War is an act of violence whose objective is to force the adversary to do our bidding"
Karl Von Clauswitz (1780-1831), "The Art of War"

Amidst great fanfare, and ovations from both the press and various multilateral organisations, the Ecuadorian government presented the results of the re-negotiation of the commercial and bi-lateral external debt as a major triumph. The principal objective of the negotiations, expressly recognised by the regime, was "to put Ecuador on the road to the reopening of access to international markets (keeping payments on international obligations up to date) [(1)], something much more urgent now that the dollarisation of the economy is under way.

At the same time, the re-negotiation was seen as a way to lighten the burden on the country's fiscal accounts, at least in the short term, as well as to improve the sustainability indices of the debt, and concretely, to reduce the percentage of the debt as related to GDP, which, it is expected, will experience an average growth of less than 3% over the next five years.[(2)]

Another of the sub products of the renegotiations is a reduction in the "country risk" premium. This would encourage direct foreign investment and, in turn, the possibility of financing social spending by using the resources freed up due to both the lower cost of debt service and the debt swaps to be agreed to in the not too distant future. From this perspective the government is presenting financial management of the debt within the logic of "globalisation", and painting it over with concern for social issues in order to facilitate the job.

As we will see however, what was obtained is quite limited, if not negative, for the country. Once again, as Simon Bolivar pointed out when referring to the external debt which arose due "to the work of usurers and merchants", (we see how) "the lenders and the intermediaries, wise in the alchemist's art, change any old pebble into a golden ornament"

The Rebirth of the External Debt

In many Latin American countries it was firmly believed until recently, that the problem of the external debt had been resolved. While the debt itself had not disappeared, it had at least been relegated to a lower plane. And as part of this optimistic spirit, the end of the economic crisis was also spoken of, given that between 1990 and 1994 the region had experienced a small expansion of its economies and a reduction of inflation in the midst of a significant inflow of capital.

In almost all the countries of the region the regularisation of debt service served to confirm this viewpoint. Beginning in 1992, the majority of countries in arrears had found some way of regularising their debt payments and thus reversing the process of accumulation of back payments. In particular, with the beginning of renegotiations within the Brady Plan, to which Ecuador was admitted between 1994 and 1995, this situation appeared to be consolidated

The resulting message was clear: the external debt problem can be resolved. Furthermore, there is a technical solution to the problem, in particular through the use of the mechanisms offered by the Brady Plan, and other complementary options. New possibilities for external financing were opened up through the emission of sovereign bonds, such as the Eurobonds issued by Ecuador in 1997. In light of the above, the orthodox adjustments aimed at achieving liberalisation and market access at all costs were seen as more viable.

However, in 1995, due to the Mexican crisis and its consequences, known as the Tequila effect, this initial enthusiasm suffered its first blow. In addition, the continuing high cost of debt service, the concentration of capital inflows in only a few countries, not to mention the extremely modest rates of growth in the majority of countries of the region, also seemed to indicate that it was imprudent to draw hasty conclusions about viability. On the other hand, once the fright of the Tequila effect had been overcome, the Latin

American economy returned to “normal”.

The return to tranquillity did not last very long. From mid 1997, fragments of news began to filter through about a distant, and difficult to understand, crisis. Within a short time the countries of South East Asia entered a state of financial melt down. The situation was converted into a major shock when Russia fell into an accelerated recessive spiral and the financial tremors began to shake apparently solid South American economies such as those of Brazil, Argentina, Peru, Colombia, and Chile. Ecuador, plagued by the fall in oil prices; the Asian Crisis itself; the El Niño phenomenon; political instability; and social resistance; as well as problems related to structural adjustment and moral problems related to the bailout of the banking system, entered one of the worst crisis in its entire history.

Given this context it should come as no surprise that the Ecuadorian debt crisis has become more acute. What was initially seen, in 1982, as a temporary problem related to lack of liquidity, became a more problematic situation demanding a diversified treatment, in which the accepted outcomes were always inspired by the needs of the creditors. The initial approach of the debtor countries, that of renegotiating the debt to obtain better terms of payment in exchange for acquired commitments, and thus to lighten the weight of their debt service, turned into a permanent mechanism. A series of apparently new financial instruments were also added (debt for social spending swaps for example). This approach, which almost always required the consent of the IMF, whether in the framework of the Paris Club (bilateral or official debt) or the negotiation committees, and now the Brady Bonds (commercial debt), has simultaneously served as a lever for the application of stabilisation and structural adjustment programmes.

As a response to this situation, the only effective (but insufficient) tactic used by the debtor countries has been the moratorium. Time and again, almost all the indebted countries, including Ecuador, have turned to temporary suspension of debt service payments, almost always due to incapacity to pay rather than as the result of an alternative strategy. For diverse reasons, including complicity, the various proposals for a joint solution from the debtor’s point of view, have gone no further than the proposal stage. In fact if we look at past experience, we can see that the relationship between the Latin American countries and the international financial markets is one of a series of moratoria. Moratoria have been seen as a problem to be immediately overcome, accepting conditions which would often make the very deal that was obtained non viable, as with the Brady Bonds in the Ecuadorian case.

So it was that between July and September 2000, after the Ecuadorian moratorium of the second half of 1999, with a new and even hasty conventional negotiation, Brady Bonds were exchanged for Euro and Global Bonds.

With the pocket of the creditors and not the Ecuadorian interest in mind

The rapid acceptance of the Ecuadorian proposal by the private creditors was a foregone conclusion. It was an operation which was assured beforehand; it had the approval of the IMF and the support of important consulting firms charged with protecting the interests of the creditors. The Ecuadorian national interest was not on the agenda, and apparently how much Ecuador could and should pay was not a matter for consideration.

In terms of the financial mechanism itself, the government exchanged Brady Bonds (3) and Eurobonds (4) for Global Bonds. With the exchange of prematurely aged bonds for new bonds, a reduction in the cost of debt service of about US$ 1,500 million was achieved over the next five years: an average of about $300 million per year (5). According to the External Debt Renegotiating Committee, the discount exceeded 40%. And all this in less than a month from the time the proposal was presented publicly, a record time, which would serve as another government success story.

Such a marvel, does not, however, stand up to serious scrutiny.

In the first place, the US Treasury Zero Coupon Bonds, to the amount of some US $750 million, which should have been paid in 2025, were taken off the hands of the creditors before they came due. So the holders of Ecuadorian debt bonds received advance payment of the capital owed as part of the collateralised Brady Bonds (par and discount).

With regard to the discount thus obtained, the figures are contradictory. According to official documents released in July and August 2000, $1,250 million of Global B Bonds (12 years) and “approximately” $2,700 million of Global A Bonds (30 years) (6) were to be issued, totaling US$ 3,950 of Global Bonds.

Compared with the existing US$ 6,946 million of Brady and Euro Bonds [7] this represents a discount of 43%, a figure which could rise due to the programmed repurchase of the new bonds on the secondary market.

If we accept the official figures mentioned above and the logic of their calculation, as well as the fact that Ecuador has already surrendered the collateral in order to pay the capital we find that the discount is not 43% but barely 30%. But this is not all. According to figures found in Presidential Decree No 618, published in the Official Register No 147 of August 22, 2000, the government will in fact issue US$ 1,250 million of Global B Bonds and $4,500 million of Global A bonds. These are destined exclusively as exchange for Brady Bonds (par, discount, PDI and IE) and Euro Bonds. This gives us a new total for the Global Bonds of US$ 5,750 million, not the $3,950 million initially stated by the government. This variation, which according to government spokespeople is explainable by "the renegotiation mechanism", implies a discount of only 17%

Whatever the case, even if we accept that the discount is 40%, the figure obtained is minimal in terms of the national interest. The creditors themselves expected that Ecuador would request a 50% real reduction, on papers which were quoted at a discount of 70 to 75% or even less. So at the end of the day, the creditors, especially those who had speculated with the purchase of cheap Ecuadorian debt during the moratorium, made hay. In one case, the Mexican telephone company (Telmex), which during the moratorium period had acquired US$ 675 million worth of Brady Bonds (11% of the Ecuadorian commercial debt) at a discount of close to 70%, made a multi million dollar profit simply because the announcement of an agreement caused the price of debt bonds to rise [8].

But, once again, this is not all. What is perhaps more important is to estimate the cost of servicing the debt now that the capital corresponding to the Brady Bonds has been paid. If we calculate the nominal value of the cost of service, we find that compared to the cost of servicing the Brady Bonds, after a reduction in the short term (5 years) that of the Global Bonds begins to climb. In the end, the cost of servicing the Global Bonds will be U.S$ 3,000 million greater than that of the Brady Bonds, which signifies, in practice, new debt.

As we will see in the following, the new bonds, with six monthly due dates, also offer a series of advantages and incentives for the holders (both foreign and national):

In the case that Ecuador does not comply with its new financial obligations, the government has imposed sanctions on itself. So, if there is a delay in payments on the new bonds within the first three years, more bonds will be issued to a value of 1.3 times the original, a sanction of 30%. After the fourth year the sanction is reduced to 20% and after seven years to 10%

The repurchase of debt will be programmed: calling it "active debt management". Ecuador will repurchase the equivalent of 3% per year of the original value of its debt, at market rates, beginning in the 13th year after emission of the Global A bonds. In the case of the Global B bonds, the repurchase will be 10% after the sixth year. However, once the bond exchange has been concluded, which is almost immediate, the bonds can be repurchased, which will almost certainly be done with the money from privatisations; but these repurchased bonds will be compensated for in the future according to the framework of the "active debt management". Thus, discarding the possibility of creative intervention in the market, the high price of the Global Bonds will be maintained for the benefit of their holders

The interest on the Global A bonds will rise from 4% to 10%, at an annual rate of 1%. The interest on the Global B bonds is set at 12%, which explains the increasing pressure of the debt service.

The periods for the service of the new bonds are similar to the Brady Plan, which means that there is no grace period in order to ease the critical situation of the national economy.

One hundred and forty million dollars in arrears will be paid immediately.

Thus sweetened, the Global Bonds will keep their high price and will consequently lower the "country risk", a true reflection of the submissiveness and generosity of the Ecuadorian government.

Noise and empty vessels at the Paris Club.
As a complement to the renegotiation of the commercial debt, the renegotiating committee went straight to the Paris Club [9], where, according to the official, and officious, spokespeople, the results have also been

formidable. However, once again, a more detailed analysis shows that what was achieved in Paris in September is neither new nor sufficient. In order to obtain an agreement based on the "Houston Terms", there was nothing more to be done than to wait in line.

For the seventh time since July 1983 [10], the above mentioned creditors cartel accepted a conventional reprogramming of Ecuador's debts. The commercial credits will be paid within 18 years, at market rates, and with a grace period of three years. Those debts considered as support for development (ODA) will be paid in 20 years, with a 10-year grace period, and under concessionary terms [11]. Eight hundred and eighty million dollars worth of arrears and payments pending have been consolidated until the 31st of April 2001.

There has been no reduction of the debt, nor of the present net cost of its service. What was offered was some debt swaps, to be negotiated bi-laterally, which provide the possibility of converting 100% of the official debt and 20% of the commercial debt. And according to official statements, when Ecuador enters a renegotiation with the IMF Extended Credit Facility in April 2001, it will also return to the table with the Paris Club [12], waiting on the results of the coming renegotiation of the Club with Russia and Nigeria.

The interest unpaid during the grace period will be capitalised. And so, when the payments begin, Ecuador will be faced with much higher quotas. Even worse, the country, which was not paying a substantial part of its bi-lateral debt, this year will pay 109 of the 459 million dollars requested by the Paris Club, while the rest will be capitalised. These are precisely the Houston Terms.

The debt for social spending swaps fall into the bi-lateral sphere. It is not a Paris Club issue, even though the Ecuadorian government arrived there with a swap proposal signed by two UN bodies, UNICEF and the UNDP, as well as the civil society organisation [13] which lead the development of the proposal, but which had not specifically authorised its use by the government. The renegotiating committee of the Gustavo Noboa government thereby hoped to project an image to the international creditors of being supported by important civil society actors. [14]

It also needs to be mentioned that the possibility for social spending swaps was already open, but had not been used by the national authorities due to the internal difficulties in releasing the required resources. In the context of bi-lateral debt we should also remember that years previously, the Belgians had unconditionally cancelled the whole of their Ecuadorian debt, while the Swiss did it by establishing an equivalent fund for social investment and the Germans had wiped out parts of a debt that wasn't being paid.

No matter how much official rhetoric inflates them, the amounts to be gained in this way will always be small and spread out over time; amounts which otherwise would have to be found internally. However, the small amount of resources destined for social spending will give the government the opportunity, with the help of a lot of populist rhetoric and patronage, to assure itself of the support of society's most impoverished groups, and to try to weaken the resistance of broad based, organised sectors, while carrying privatisations and structural adjustment to the limit.

We should bear in mind that the whole of the renegotiation process had the support and advice of the IMF. The urgent need to move forward with the renegotiations was foreseen in the Letter of Intent signed in April 2000, and from which the basic receipt for the acceleration of the structural adjustment and privatisation agenda was derived. What is more, from the beginning it was expected that the country would not seek the terms of the Highly Indebted Poor Countries (HIPC) program [15]. According to some official spokespeople it was not convenient to assume the position of "beggars", as this would have meant discouraging foreign investment... even though, according to other officials, demonstrating the poverty of the country helped to achieve the results mentioned.

So what's all the shouting about? Just for the option to go further into debt? It would appear so. The value of the "successes" of the renegotiation, is that new external debt can be negotiated, debt which will soon be indispensable in financing the dollarisation process, which, far from being, as some claim, a powerful medicine for all that ails us, will not in fact eliminate fiscal or external imbalances. Indeed, it seems that with a rigid and irrevocable exchange rate such as the dollarisation, a type of addiction to external debt is produced. This can clearly be seen in the experience of those economies that have opted for dollarisation or convertability, such as Panama and Argentina.

So, if the cost of servicing the external debt rises in the foreseeable future, the country will once again be able to opt for the traditional form of postponing the problem through successive refinancing processes;

opening up one hole in order to fill another, time and time again. But before that happens, it is proposed that the resources can be found to reduce the weight of the debt and its service cost by means of the privatisation process (via repurchase). Another urgent complementary measure in this financial operation is the handing over of the State oil company Petroecuador's producing oil fields (by means of the so-called shared production contracts: an assault in every sense) in exchange for which in the short term the country will receive a juicy oil bonus, and the construction of the heavy oil pipeline (OCP in Spanish). The OCP will enable a greater amount of oil to be transported in order to meet acquired financial obligations, as was evidenced by some of the proposals for its construction. Debt service and the contracting of new debt, more oil production (there is already talk of a third pipeline), and privatisations, are an inseparable trilogy for the support of the official dollarised monetary scheme.

In this framework we need to understand the reach of the commercial debt renegotiation and the arrangements with the Paris Club. The balance of such highly trumpeted agreements is very poor in terms of national development, even though they may open the door to new credit. In fact they are just another link in the long chain of the "eternal debt". There is no evidence of creativity. The national economy's real capacity to pay is not considered. There are no contingency clauses in the case of a fall in GDP, a reduction in the price of oil, or another Niño phenomenon. No thought was given to a grace period in order to allow the Ecuadorian economy, which experienced a brutal fall of 8% in GDP and 9.8% in per capita income last year, to recover. Other elements such as the legality of the debt, or the claim for the ecological debt, are also not incorporated. And as on numerous other occasions, ample benefits were provided to the creditors.

In short, the country lost a great opportunity to fashion a different response to those traditionally engineered. It wasted a historic moment for a definitive resolution to its debt. Ecuador could have been the driving force behind a process based on justice and transparency, and given the repeated failures of the traditional negotiations (six previous attempts between Ecuador and the Club of Paris) the country could have turned to international arbitration. In this situation, with a real national policy, the country could even have tackled the international credit organisations over the impacts of the huge debt.

An important point here is the political economy conditionalities which are imposed in all debt management processes. The ultimate interest of the creditors, without ceding their right to demand repayment, was, and continues to be, to promote a submissive reinsertion of the indebted economies into the world market. With the dollarisation, Ecuador has taken on the sad role of guinea pig to Washington's geopolitical interests. As Ecuador has learned since the 1980s, these conditionalities are made manifest in a greater internationalisation of the capital market, a virtually indiscriminate opening of commercial markets, an exaggerated financial liberalisation, and a "re-primerisation" of its economy. This is the setting in which the dollarisation and the renegotiation of the debt operate, and exert pressure for the completion of the modernisation of the State, preferably by means of privatisations.

The debt is not only a problem of quantity but also one of quality. It is a truly political and ideological challenge which demands ethical responses and not simply isolated measures born of pragmatic complicity. Paraphrasing Von Clauswitz it has once again been shown that the debt, due to both the externally and internally precipitated impacts in the society of the debtor country, is the continuation of politics by other means. And its management is linked to another axiom of Von Clauswitz , that for our purposes can be read as saying that the debt is an act of violence whose objective is to force the debtor country to do the bidding of the creditors. We well know that the total repayment of the debt is not that important compared with the fact that countries such as Ecuador should submissively accept the conditions of the new international division of labour known as "globalisation". And what is even more perverse, that this action — thanks to debt swaps and to the demagoguery fed by possible social investment — will even be a motive for thanking the creditors.

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Notes:

1. There are seventy million dollars still to be renegotiated. The money is in the hands of the Deposit Guarantee Agency which assumed the debts of a series of banks now controlled by the State.
2. The expected growth is: 3.55 in 2001, 2.5% in 2002 and 2003, and 3% in 2004 and 2005. Certainly low expectations.
3. The issuing of these bonds, which were exchanged for previous commercial debt, which had also been suspended since 1987, dates from 1995. That is, of a programmed life of 30 years, the bonds lasted less than 5 years.
4. These bonds, known as sovereign bonds, were placed on the financial market in two operations during 1997.

5. In the year 2000 the reduction will be U.S.$ 300 million, 110 million in 2001, 505 million in 2002, 300 million in 2004, and 300 million in 2005.
6. For each 100 Global A Bonds, the creditors can opt for 65 Global B.
7. PDI 2,877 million, PAR 1,739, IE 155, Discount 1,597, Euro02 405, and Euro03 173.
8. As a reference, the price of the PAR Bonds (for the Discount Bonds, the values are in parenthesis) which at their lowest point had reached 30.00 (32.90) and which had an average price of 33.10 (35.23) in the three months previous, rose to 35.41 (37.50) on the 24th of July and to 38.44 (46.69) on the 28th of July. The Eurobonds rose in the same period from 36.00 to 50.00
9. The Ecuadorian creditors are Germany, EE.UU, Spain, Israel, France, U.K., Italy, Japan, and Norway.
10. The first settlement was achieved on the 28th of July 1983, the second on the 24th April 1985, these two agreements are no longer valid. The third agreement was reached on the 20th of January 1988, the fourth on the 24th October 1989, the fifth on the 20th of January 1992, the sixth on the 27th of June 1994, and the seventh on the 15th of September 2000.
11. The official debt is U.S.$1,339 million, the commercial $936 million, and the capital and interest due 193.5 million.
12. Days later in Prague, the Ecuadorian negotiator, Jorge Gallardo, had to admit that what was obtained at the "Club" was "profoundly conventional" (El Expresso27/9/2000).
13. The Jubilee 2000 Guayaquil Network
14. The manoeuvre was laid bare in Paris itself, as, while the Renegotiating Commission was meeting with the Creditors, a delegate of the Confederation of Indigenous Nationalities of Ecuador (CONAIE), and many other popular Civil Society organisations, arrived in order to deliver a proposal to the peoples and governments of the Paris Club. The proposal demanded the immediate and total cancellation of the debt, and the application of a series of positive conditionalities for the use of the liberated resources. Also included in this proposal was a request for international arbitration, such as that suggested by the organisations linked to the Jubilee 2000 campaign, especially in Europe.
15. The debt indicators would have allowed Ecuador to qualify for the HIPC without a problem, even its GDP per capita approaching the established limits. What is still lacking is compliance with all the demands of neoliberal adjustment, above all in the fields of privatisation and fiscal reform.

The Turbulent and Dismal Record of World Bank Structural Adjustment Lending in the Philippines

*by Maria Teresa Diokno-Pascual**

Since 1962 when it obtained its first standby loan from the International Monetary Fund (IMF), the Philippines has been undergoing some kind of IMF stabilization program. The Ramos government (1992-1998) had been bragging that the country was soon to exit from IMF lending, but before that could happen the Asian financial crisis intervened and the Ramos government found itself knocking on the doors of the IMF for yet another stabilization program. To this day we have yet to break away from IMF "supervision".

With regard to structural adjustment, the Philippines has been an experimental guinea pig of the World Bank since the early 1980s. It has received 10 structural adjustment loans from the Bank, with one more currently in the pipeline (under negotiation, not yet approved). The first structural adjustment loans to the Philippines, accompanied by an IMF stabilization loan, targeted the agricultural, financial and energy sectors during the final years of the Marcos dictatorship. This meant that in exchange for money from the World Bank to support the fiscal deficit and the balance of payments deficit, the Philippine government "surrendered" the agricultural, banking and energy sectors to the World Bank. The World Bank reviewed the policies in these sectors and then told the government which policies to change and how to change them. Structural adjustment lending by the World Bank, especially during the Marcos dictatorship, was undertaken under much secrecy and with very little transparency. Even government bureaucrats did not know what the World Bank was doing! The Bank and the Philippine government cared much less about disclosing anything to the Filipino people, even though the policies being imposed were to have a serious impact on our lives. Not surprisingly, the World Bank has rated its first two structural adjustment loans to the Philippines as "unsatisfactory".

With the ouster of the Marcos dictatorship the economy was in shambles, devastated by heavy borrowing that largely disappeared from the country as capital flight, worsened by cronyism and corruption. Poverty was at its worst, with 60% of the population falling below the poverty line. Unemployment in Metro Manila, where most of the jobs are concentrated, was a high 25%. The Aquino government obtained an "Economic Recovery Loan" from the World Bank to support its economy recovery program, again, together with an IMF stabilization program. The Bank and IMF found the Aquino government to be more willing to comply with their policies than the previous Marcos regime. (That is, after they had persuaded President Aquino to remove her first economic planning minister, Solita Collas-Monsod, who had been pushing her government to adopt a more independent debt policy.) This was the period when the Bank-IMF embarked on more intensive structural adjustment in the Philippines.

This entailed, among others, the following major policies: introducing value-added tax ("rationalizing" the tax system); import liberalization; eliminating quantitative trade restrictions; reforms in the tariff structure to promote export-oriented activities; and rehabilitation of the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP), government-owned banks made bankrupt by crony debt. The rehabilitation, however, required the National Government to absorb the bad debts and non-performing loans of these two banks, while the crony-borrowers and the bank officials that lent the money would be spared from prosecution.

Even by the World Bank's own reckoning, the Economic Recovery Loan failed to improve tax administration and failed to raise tax revenues. It failed to bring investment spending by the government to a level that would support economic recovery. And it reduced the incidence of poverty by only 3 percentage points between 1985 and 1988. Furthermore it could not prevent the economy from entering into another crisis in 1991, in large part because of the heavy failed debts of the Marcos regime that the Aquino government had been made to absorb.

World Bank Structural Adjustment Loans to the Philippines

	Amount (US$M)	Approval Date
Contractual savings reform	100.0	Pipeline
Banking system reform	300.0	03-Dec-98
Economic integration	200.0	10-Dec-92
Environment & natural resource management	224.0	25-Jun-91

Debt management program	200.0	21-Dec-89
Financial sector adjustment	300.0	04-May-89
Program for government corporations	200.0	15-Jun-88
Economic recovery program	300.0	17-Mar-87
Agricultural sector/input	150.0	04-Sep-84
Structural adjustment loan (SAL) II	302.3	26-Apr-83
Structural adjustment loan (SAL) I	200.0	16-Sep-80
Total	2,476.3	

Source: World Bank

During this time the Philippines was also going through a financial sector adjustment loan (approved in May 1989). While this loan was being implemented under strict Bank supervision the Central Bank of the Philippines became bankrupt. Its cumulative losses of PhP180 billion (1983-1993) were equivalent to 12.2% of gross domestic product or GDP. The losses stemmed from the CB's failed onlending program. It had borrowed money for relending to the local banks (and therefore Marcos family and cronies) but was unable to collect from the banks to which it had onlent the borrowed funds. The World Bank's financial sector adjustment loan did not anticipate at all that the Central Bank would go bankrupt; its eventual liquidation and its reconstitution as Bangko Sentral ng Pilipinas was a very costly exercise. To this day Filipino taxpayers are paying for this.

Enter the Debt Management Program Loan to the Philippines, approved by the World Bank in 1990. This was the seventh "adjustment operation" of the Bank in the country, which was supposedly intended to reduce the country's debt burden. What it did was to enable the Philippine government to borrow money, some of which came from the Bank, to buy back some of its debt at a discount from the world debt markets. The government then converted these debts into Brady Bonds, which had to be backed up with collateral in the form of US treasury bonds. So the Philippine government also had to borrow money to purchase US treasury bonds. In the end there was little reduction, and many of the bad debts of the Philippines, including fraudulent debts involving Marcos and his cronies, were depoliticized through this process. In fact the main objective of the Debt Management Program Loan was to enable the Philippines to borrow again. In this narrow and mendicant sense the loan was successful: the country's debt grew.

The recent financial crisis that hit Asia has spawned many new adjustment programs from the World Bank. These include the Banking System Reform Loan (approved 3 December 1998); Financial and Corporate Sector Adjustment Loan (for contractual savings finance reform; in the pipeline): Public Sector Reform Loan (formerly in the pipeline but eventually dropped)

However, current World Bank and multilateral lending to the Philippines does not always need a structural adjustment loan in order to push policies that are within the framework of the neo-liberal model, a model that has in fact been seriously brought to question by the recent Asian financial crisis. At present we are having to fight against the privatization of the state power corporation and the deregulation/restructuring of the electricity industry; the privatization of rural electric cooperatives, the National Food Authority, the Philippine National Railways and two government financial institutions that manage workers' pension funds. Local water districts are also a target for the penetration of foreign capital. And food security in the Philippines is being threatened further by the push to "modernize" agriculture.

All these form the World Bank's country assistance strategy for the Philippines, its framework for providing assistance to the Philippines. To quote a World Bank document on the Philippines: "To help the economy reach its growth potential, fortify its capacity to withstand domestic and global exigencies, and reduce poverty, the Bank should focus its assistance on helping the government pursue and deepen its unfinished reform agenda…. Remaining policy and institutional constraints in the social sectors, in agriculture, in natural resource management, and in infrastructure must be eased or removed." (Gianni Zanini, Philippines: From Crisis to Opportunity – Country Assistance Review, Washington DC: The World Bank, 1999, p. 27; emphasis supplied)

Our Analysis of Structural Adjustment Lending

FDC'S campaigns and advocacy work is based on the following analysis of our country's debt problem and economic condition:

a) The debt problem remains as serious today as it was when the coalition was established in 1988. The debt problematique certainly does not manifest itself in the same way that it did in the early 80s. But it

continues to be a problem, a big headache, especially for government. And this continues to have a heavy impact on people's lives.

The debt crisis and liquidity crunch of the 1980s led to a serious economic debacle that saw per capita real GDP fall to below the 1982 level. Since then ours has been a tumultuous climb to recover what the dictatorship wasted. In the last two decades of the 20th century we went through a power crisis, at least two economic recessions and more recently a financial crisis. Today as we enter the 21st century we are still a long way from recovering the fall in per capita real GDP. And the Estrada government is showing signs of suffering from a deep fiscal crisis as it faces a severe crisis of confidence.

Thanks in large part to the revival of cronyism the Estrada government has not been meeting its revenue goals. Last year the Estrada government fell short of its revised revenue target by P12 billion. A similar pattern is unfolding this year. From January to September 2000 government revenues totaled P376.5 billion, P43.6 billion (10.4%) short of the 9-month target of P420 billion. (Department of Finance/DoF) Its deficit in 1999 of P113 billion was seven times the original deficit target, and more than double the 1998 deficit. By September 2000 its deficit had reached P83 billion, exceeding the target for the entire year of P62.5 billion. This is the third consecutive year that the government has gone into deficit.

The mounting deficits of the Estrada government are not due to pump-priming but are a direct result of its failure to collect taxes, particularly from businesses and from wealthy individuals. Data for January to September 2000 in fact show that the government has been cutting back on spending (by P8.1 billion). Over the same period the Estrada government borrowed P134.5 billion from foreign and domestic sources to finance its deficit. The amounts borrowed in the first nine months of this year already exceed the planned borrowing for the entire year.

Today, too, we see a new form of indebtedness emerging the magnitude of which threatens to surpass anything and everything we have ever experienced in our debacle-filled history. We are referring to the non-loan guarantees that the government has committed itself to make with private sector companies under some form of a build-operate-transfer (BOT) contract. Such contracts enabled the Ramos government to put an end to the power outages of the early 1990s that turned out to be more disruptive than the coup threats of the military during the Aquino years. But we now are informed that in order to attract private sector participation the government agreed to purchase a guaranteed level of capacity, quoted in US dollars at a price much higher than it would cost the government to generate such capacity. The government also guaranteed fuel cost and such other business risks. The result of these non-loan guarantees is heavy obligations running to billions of pesos yearly. We do not know the exact amount; we have been told that the government itself does not know exactly how much these non-loan guarantees amount to. But we are already noting the continued financial bleeding of the state-owned National Power Corporation, budgetary allocations to honor similar guarantees, and borrowing from bilateral and multilateral sources, as well as through the bond market, to finance such liabilities. In fact, in order to make the privatization of the state power corporation palatable to the people, the Lower House of Congress is proposing to pass on to the National Treasury from P150 to P200 billion of such liabilities. This is strongly reminiscent of the way the National Government absorbed the behest and fraudulent loans of the Marcos era, among them the Bataan Nuclear Power Plant, and passed on the losses of the bankrupt Central Bank to the Filipino taxpayers.

b) The way the debt crisis of the 1980s was managed has resulted in heavy costs for our people and our economy. To illustrate, government spends only P4,540 per pupil enrolled in public elementary schools, a mere seventh of Thailand's education spending of P28,000 per pupil. Education Secretary Andrew Gonzalez estimates that the government needs to spend P20 billion more each year just to overcome its backlog: a shortage of 9,760 teachers nationwide in 1999, and a backlog of 14,615 classrooms. "We need at least P20 billion worth of catching up; once we do that, we have to increase our budget every year by 9 percent, or at least by 5 percent just to take care of the increase in the number of students." (Today, 31 January 2000)

Through automatic appropriations for debt service, the creditors are given highest spending priority over the poor and over such social development needs as education and health. It is the creditors, not the poor, who have a safety net in the form of automatic appropriations. Assigning the highest priority to creditors has placed development in the backburner for more than a decade now. Worse, it is teaching us the wrong lessons after having gone through the debt crisis of the 1980s and subsequent crises:
1) that you can be a corrupt dictator and his crony and get away with it

2) that you can lend money to a corrupt dictator, his cronies and his bankrupt government and still get your money back, thanks largely to the World Bank and the IMF.
3) that a foreign/multinational company can be party to this cronyism and still be bailed out by its government and the entire creditor community.
4) that you can always pass the buck to the people.
c) The package of neo-liberal and structural adjustment policies that the government is being made to adopt and implement largely, but not only, through structural adjustment programs merely adds to the problem. It will not help the economy recover and it will not reduce poverty. In fact it is more likely to exacerbate poverty.

First of all, a caveat: We are not against a level playing field. On the contrary how we wish there was truly a level playing field, within our borders and across the globe. But we know the rhetoric was never intended to be reality. Which brings us to our point: In the Philippines a level playing field needs more than market-oriented reforms. It needs redistribution of assets and wealth, as well as a reversal of the existing order that reinforces the wealth, income and power of a few.

Which brings us to the next point: Market-oriented reforms without programs to address inequality only serve to further exclude the already excluded. Besides, given the elitist nature of governance in the Philippines, we know that such reforms are invariably and inevitably watered down to suit those already in control of the industry or sector being liberalized, deregulated and/or privatized. In short, we see little if any benefits for the people.

We believe our country is desperately in need of structural change that is more equitable and just. We know this can be done only with a program of policies that begin with the people, a program where people matter more than the market. This is not what the neo-liberal model is all about.

After more than 10 years of WB-IMF supervision, structural adjustment in the Philippines has not done much to reduce poverty in the Philippines, and it has failed miserably in addressing problems of inequality, which always worsen during a crisis.

Another supposed objective of structural adjustment is to achieve sustainable high growth. Again in this regard the record of structural adjustment lending is very dismal. The Philippine economy has repeatedly gone through cycles of crisis and recovery. Between the mid-70s to the present the highest our gross domestic product (GDP) has grown is 6.75%, in 1988. We have yet to experience sustained GDP growth of over 5% for at least 5 consecutive years. To this day we have yet to get back to the historically highest per capita real GDP level of P12,869 attained in 1982. Even the boom of 1996 was short-lived and by now it is clear that the source of that boom was highly volatile portfolio capital inflows that fuelled the real estate sector. The subsequent disappearance of portfolio capital and the financial crisis that began in 1997 only highlight the feeble and fickle nature of such growth.

People's lives are now more vulnerable than ever. Jobs are scarce, and workers with jobs are less secure with the introduction of contractual employment and the notion of labor flexibility. The few jobs that are available are mostly found in Metro Manila, the capital, and areas encircling Metro Manila. Here food prices are high. Skilled workers end up overseas—not always for skilled work—whenever and wherever the opportunity arises, and they become the real safety net of the family they leave behind. Consumers are increasingly without protection from the government with the deregulation of the oil industry, the privatization of the Manila water district, very weak regulation of banks, public utilities and other public goods. On top of this government delivery of social services (education, health and housing) and its ability to maintain adequate roads, transport and communication infrastructure remain mired in corruption and are heavily constrained by the servicing of its debt.

In the countryside where most of the poor live the agricultural sector has seen little progress with regard to land reform. Farmers and fisherfolk not only face additional stress due to destruction of the environment but are also being made to compete with heavily subsidized farmers from the US, Europe and other developed countries. Indigenous people, despite legislation in their favor, continue to face difficulty in the recognition of their ancestral lands. Their lives are being threatened with the encouragement by the government of multinational mining investments.

Our Struggle against Structural Adjustment in the Philippines
Our struggle against structural adjustment in the Philippines is an ongoing one, and it takes on many

forms. Many adjustment policies must be translated into law, or into modifications of existing laws. So one important arena of struggle is the Philippine Congress, which is composed of the House of Representatives and the Senate. The men and women of Congress, however, are largely traditional politicians who are greedy for money and power and care little about public opinion except when it is election time. So we in FDC take our battle also to the media, through the print and broadcast media. This adds pressure on the politicians especially when we single them out. We also place great value on our presence in the streets. We believe our public protests make ordinary people aware that important decisions are being made without their knowledge and participation.

Since these policies come from the World Bank, the IMF and the Asian Development Bank, we also take our protests into their Manila offices. And we engage them in critical dialogue whenever we have the chance, or whenever we encounter them in other public forums. These institutions, however, remain largely unresponsive to our criticisms. We know they have found a "use" for non-governmental organizations, particularly in monitoring their projects and serving as a counterfoil particularly vis-à-vis corrupt governments. But they have remained intransigent when it comes to discussions on their framework and ideology. For this reason we are beginning to question the usefulness of dialogue no matter how critical, and are finding international calls to close down these institutions increasingly relevant.

Our campaigns are mostly national campaigns, but many of the arenas of struggle are increasingly becoming local. For example, the privatization of rural electric cooperatives and local water districts throughout the country, dam projects in resource-rich areas, mining projects in ancestral lands of the indigenous people, take place in areas far away from the media and from the attention of Metro Manila. So we are also finding the need to conduct our campaign in a manner that would bring together micro-realities with macro policies. This is an area we still need to strengthen but we are very conscious of the need to develop our capabilities here.

We also realize that many problems our country faces, such as the debt, trade and environment-related problems, require regional and international solutions. For this reason our campaigns must also have a global/international dimension. With regard to the debt we were very active in helping to set up Jubilee South last year. This is a network of debt and development movements from Africa, Asia and the Pacific, and Latin America and the Caribbean that aims to strengthen and empower the work of these movements internationally and in their respective countries. We will continue our efforts to strengthen Jubilee South over the coming years. We have also done our best to participate in the growing number of international campaigns and movements aimed at shutting down the World Bank, the IMF, the WTO and the like.

In recent years the Freedom from Debt Coalition (FDC) has embarked on several campaigns to challenge the neo-liberal framework that the World Bank and other multilateral financial institutions have been imposing on our government. Specifically with regard to structural adjustment, we have been part of an international initiative called CASA–Citizens' Assessment of Structural Adjustment. We have been spearheading the CASA initiative in the Philippines. This is currently ongoing, and we are about to reach completion in the coming months. We helped to convene two national assemblies to discuss the issue of structural adjustment with many grassroots sectors. We are in the process of completing our assessment of specific areas such as social services and social spending, the indigenous people and mining sector, and State and markets. These efforts will culminate in a concluding National Assembly.

In 1996 until 1997 we engaged in a "legislative battle" with the Philippine Congress when it was tackling the proposed comprehensive tax reform package that was part of an IMF stabilization program. We pushed for tax relief for fixed income workers, arguing on the basis of a living wage which is actually mandated by the Philippine Constitution. We also advocated a more progressive tax policy and structure, and urged Congress to plug leakages in the tax administration which traditionally enable the rich and wealthy to evade and avoid paying taxes. Because of our efforts Congress had to raise the household income level that would not be subject to income tax. But our success was admittedly limited.

We also fought against the passage of the bill that would deregulate the oil industry, but were unable to block its passage. However we then questioned the validity of the Bill before the Supreme Court, which surprisingly paid attention to our petition. Consequently Congress had to revise the Bill in accordance with the Supreme Court decision. Again we are not fully satisfied with the results. We continue to monitor the oil industry, which we believe remains a monopoly to this day, despite the intention of the Bill to introduce competition into the industry. In the face of rising oil prices that are no longer subject to regulation by the State we are concerned that consumers again have no protection.

An ongoing campaign we have is also against the privatization of the state-owned National Power Corporation (NPC) and the restructuring of the electricity industry. Again the rationale here is to introduce competition that should bring down electricity rates, which are second highest in Asia, second only to Japan. We have challenged the notion of competition in many public forums organized by ourselves and by proponents of this bill. We have questioned the accuracy of the claims of the proponents by presenting facts about the deregulation experience in the electricity industries of the United Kingdom and more recently San Diego, California. We have done a lot of study and research for this campaign, especially because we were repeatedly told by the proponents of the Bill that the issues were “too technical” for us to understand. We were able to expose many of the myths that the proponents of the Bill were propagating. But we were unable to stop its passage in the Lower House. The Senate, however, still has to pass its version of the Bill. We are grateful that the current “Jueteng-gate” scandal that has exposed President Estrada as the supreme gambling lord of the country has shifted the Senate’s attention away from this Bill.

We have learned many lessons especially from the campaign against the NPC privatization. In the case of the latter we found our lobby work was made more difficult by the many interests involved—crony and business, both foreign and local. The influence money involved in the lobby by these groups was monumental. The proponents of the Bill were able to get the Lower House to pass it in exchange for bribe money—what we call “payola”, and the amounts involved were reportedly record high. So we exposed this with the help of two members of the opposition in the Lower House. The NPC bill also was the subject of IMF intervention. We learned that in December 1999 the IMF had written to the chair of the energy committee of the Lower House, complaining about the slow progress regarding the bill’s passage. We also exposed the IMF intervention and put the chair of the committee on the defensive.

The offensive of the WB-IMF together with Asian Development Bank and the governments of the developed world, to push the neo-liberal framework in our country, has never been more aggressively undertaken than at the present time after the Asian financial crisis. We at FDC see a lot of hard work still ahead of us. We are prepared for a long and hard struggle.

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Balancing the Power of Money

*by Menno Salverda**

We know that we can not always express 'value' in terms of money; some activities or objects could be valued higher and some lower than the 'price' they bear. Nevertheless, our decision-making processes with impacts on our economic and social lives are rooted almost solely in the monetary sphere.

According to the 1998 United Nations Human Development Report, the income disparity between the top 20 and the bottom 20 percent of the world's population is now 150 to 1, double what it was 30 years ago. The 225 richest individuals on this planet have a combined wealth equal to the annual income of half of humanity. Income inequality of Thailand is one of the highest in the world, whilst Indonesia faces rising income inequalities since the onset of the crisis.

The national debt has, in many countries, exceeded what countries earn in the real economy, making it virtually impossible to repay those debts. The debt problem is not just prominent on a macro level; In Thailand, 4.7 out of the 5.7 million farming families in the country face long life cycles of debt .

Goods are transported enormous distances before they reach us as consumers. Britain for example will this year export 111 million litres of milk and 47 million kilograms of butter, while simultaneously importing 173 million of litres of milk and 49 million kilograms of butter. Why? We have arranged our pricing system such that this makes economic sense.

The role that money plays in causing these problems cannot be underestimated. This article claims that reducing the power of money, is required to reverse the trend of alienation from the social and cultural settings in which our economic production takes place and to re-adjust the allocation mechanisms in order for resources to be distributed more fairly . Too often, we simply accept the current monetary system as a given – an immutable fact of nature. In fact, the monetary system is a fallible human creation. This article will look into some of the economic alternatives currently at practice. 'Islamic Banking', 'demurrage' or, the enactment of a tax on money, and Community Currency Systems, will allow us to re-examine what function money can and should play. But before this discussion, let's start by taking a closer look at some traditional characteristics of money.

Credit and Interest Rates

Credit functions as a way to allocate financial resources to those in need of capital …money. At the same time we are led to believe that credit is not something which should be given for free. Hence, interest rates!

But why can credit not be free? Economists claim that interest rates are justified because of the 'time preference of money'. This is a difficult term for a theory which tells us that people who are willing to give up consumption today by saving money, should be compensated for this (temporary lack of money) so they can consume tomorrow.

With positive interest rates people with money can make money without doing anything for it in return. People in need of credit, and the poorer parts of the population always are, borrow money provided by creditors. In order to repay this money plus an interest rate payment, borrowers obviously have to work. If their harvest is destroyed by a rainstorm or trampled by an elephant—risk factors in real life— they have to work even harder. The rules of the game do not change of course—the debt only increases with time, so repay your debt or lose your land (collateral). Ubon Uwaa, an NGO leader in Northeastern Thailand, pointed out that the 'cheap' loans to farmers, through a government agricultural bank, with double digit interest rates, are unrealistic compared to the physical capacity of the climate, soil quality and suitable crops and inputs that are available to the farmers to repay the loan and interest .

Creditors do not face the risk of a harvest loss, or have to pay the cost of depreciation of machines (rust), stored seed (mildew), etc. Creditors protect themselves from risk by reserving the power to deny a loan to a farmer who is not 'creditworthy'. With interest rates, money keeps its value and the creditor can sit back, relax and wait until the most profitable borrower walks in. The borrower does not have this same luxury; the rains are coming, the seeds need to be bought, and the buffaloes need fodder to gain enough strength to pull the plough. Remember, with a time preference of money there is an incentive to sell all your goods and stocks, you do not need immediately; after all, it is better to have money which you can put

on a bank where it makes money, rather than to be stuck with goods, which reduce in value. More likely however, the farmer will have sold his/her goods already directly after harvest, in order to pay off debt (also termed 'distress sale' or 'forced commerce') . The same NGO leader I referred to above, said that loan repayment schedules exceed income and expenditures of a farming unit. In effect, once a farmer goes into debt, he never comes out.

Box 1: Local Savings Groups in Southern Thailand

Some popular local savings groups in Southern Thailand aim to increase the welfare of their communities through reducing the reliance on the mainstream banking system. They charge very high interest rates on money lent to their members (interest rates higher than the mainstream banks!). The profits from these interest payments are used to create welfare funds, to which all members of the savings group (borrowers and savers) have equal access. True, this is a much better arrangement than borrowing from a mainstream bank, as profits paid in the form of interest are kept within the community.

But there are some other consequences. First of all, with a pre-fixed interest rate, it is the borrower and not the saver carrying the risks of production. The borrower is after all not sure about the productivity of the money invested, while the amount of money to be repaid is pre-fixed. The interest rates being very high, they create even a bigger burden to the borrower. True, interest rates are a method to connect savings with investments as well as to create welfare funds, but not clear is why the burden of making these 'community merits' should be with the borrower and not the saver. Regulations, like limitations to the amount saved per member, would mitigate the increase of income inequality the levying of high interest rates could generate between borrowers and savers.

Another important effect of the levying of artificial high interest rates, is, that it implies that money needs to come from outside the community. This results in households focusing on selling goods and services for the outside market. Apart from being increasingly dependent on the outside market on which community members have no control, this will also lead to unsustainable production methods.

This article claims there are ways of connecting savings and investments more fairly and sustainably, for example through sharing profits instead of using interest rates.

One of the questions we should ask ourselves is the following. Why should people without any money be happy to pay interest to the people with money who lend it? Let's turn this rationale on its head. Why don't the lenders pay the borrowers a fee for using the money, because, without any borrowers, what would they do with their money?

Creating Money without Value

With money we buy goods and services. As such, money represents a 'claim' or 'demand' on the real economy. If we claim too much, the real economy can not cope with the pressure; it causes prices to increase or it leads to undervaluation of environmental or social capital. A balance is required between the real economy and the money economy, through which the claims are generated. We have seen that the levying of an interest rate is one factor causing the balance to be disturbed. But, it is not the only factor.

Since 1971, when the gold standard was abandoned, money has been created by fiat; it is not backed by anything material. Governments create money by issuing bonds. These are claims on the real economy; claims on taxpayers of the current and of the future generation. Often, debt figures of countries have exceeded the total annual income of the real economy in those countries.

The money creation process (read 'debt-creating process') is propelled through fractional reserve banking, practised by commercial banks. Through this mechanism, commercial banks are required to keep a certain percentage of deposits as reserves. With a fractional reserve requirement of 10 percent, commercial banks can issue 10 dollars in loans for every dollar deposit. These loans are then used to purchase goods and services, winding up as a deposit in another bank. Then the process starts all over again . In this way, most of the money we see in our pockets, or in our bankbooks, was created by commercial banks as debt — not covered by gold or any other real resource or real value base. Its value is dependent on the trust people put in it. Nobody knows why people still do. Inevitably these increasing debts have to be serviced at some point — by the real sector! This requires the real economy to grow faster and faster, inevitably at the expense of our stock of social, cultural and physical capital.

The madness of the monetary system is further illustrated by the fact that worldwide, for every $1 circulating in the productive economy, $20 to $50 circulates in the economy of 'pure finance'—though no one knows the ratios for sure. The bidding of assets is another way of creating money without value: "As this

growth [of money flows] occurs, the financial or buying power of those who control the newly created money expands, compared with other members of society who are creating value, but whose real and relative compensation is declining."

The Asian crisis of 1997 was created by a decade of excessive monetary inflows. The crash came with the realisation that the real economy could not possibly cope with this growth. Fingers were pointed at crony capitalists and foreign speculators, but not at a global money creation system, which drives this cycle of boom and bust.

Profits

Farms or any kind of business under the pressure of repaying debt, focus on activities which expedite profits. Profits which arise out of these kind of activities may often be made at the expense of the environment and social / cultural relationships. Cassava and eucalyptus trees are not popular because they are highly valued. On the contrary, they cause soil depletion. They are popular because they make money. Factors such as soil quality can not easily be quantified and are, therefore, externalised from the resource allocation equations of the money system.

Social relationships and cultural factors underlie many of our economic activities: like helping your old neighbour on the farm with weeding, or donating rice to the temple for the support of the poor. In mainstream thought, the time devoted to these activities is considered as money 'lost', and is, therefore, a threat to the capacity to repay debt. This implies that it is the cultural factors that prevent businesses making profit, or, in other words, the existing social system with its cultural factors should abide by the rules of money! (See also box 2)

Box 2: Urban Poor Women in Cicadas, Bandung, Indonesia .

During my stay in Bandung, I was fortunate to visit a group of women, who live in the slum area of Cicadas. Akatiga, one of the NGO hosts in Bandung of the seminar I attended, studied the impact of the crisis on poor urban women in this area. Traditionally women manage the household and are responsible for the daily sustenance of the family. Men are responsible for the monetary expenses, which they earned in the textile factory. These traditional 'male' jobs have disappeared and only some, find, occasionally, work as a driver on a bicycle taxi, a becak. With no money income, women were forced to seek additional income from 'female' (low-paid) jobs such as laundry, cooking, nursing, delivery services or opening a store. Women's obligations as homemakers are not considered as 'work', and are therefore not valued. Other than, loss of (men's) income and increased pressure on women's labour, a hike in prices of basic needs (i.e. rice 300 %) has further increased the burden on women.

Some women's groups have started informal mutual credit arrangements to help each other. This has increased a sense of community among its members. One homemaker mentioned to me that she does not charge her neighbour any interest; she knew that some day she would need some money herself. In another neighbourhood, some community members, in desperate search for money, have become gambling agents, causing enormous amounts of money to leave the community.

Since the monetary system does not factor social work into the economic decision-making process, the search for money is to the detriment of the social well-being of women. It has gone so far as to cause individuals to exploit their fellow community members through gambling schemes. The informal credit schemes, set up by women, are a way to reduce the dependency on the market over which community members have no control.

In this paper we do not judge social and cultural norms in a community. However, the morality of the profit-making business is fairly clear. Dependent on making money, it induces greed and undermines the values of externalities. What we need to do is to create another form of money which reduces our dependency on the national currency. A money which supports a more equitable allocation of resources, a money which does not determine our social relationships, a money which is used to represent values instead of prices. So, how do we create this new money?

In fact, we should be clear on one thing, which is, we do not need money! What we do need is the goods and services, for consumption or for working capital or even investment. The most important function of money is as a tool which allows us to procure those goods and services, what economists call the function of medium of exchange.

Interest free money

Money, designed to act as a medium of exchange, should be interest free. As pointed out above, borrowers and creditors are interdependent and a new framework should incorporate this realisation.

Islamic Banking
Islamic Banking is based on religious principles, one of the central tenets of which is that interest payments are a form of usury and are therefore, a sin. In allocating savings to investments, instead of using interest rates, Islamic banks work with the profit-and-loss-sharing principle. If there is a profit, lender and borrower benefit; if the harvest is destroyed, the lender and the borrower both share this loss. Thus Islamic Banking is a monetary system with the clear advantage that the risks (like harvest loss due to a storm) in the real economy are not entirely borne by the borrowers.

There are two more advantages of Islamic Banking. First, resources will be distributed more efficiently as the funds will go to where expected profits will be highest; not to the most creditworthy. Second, the money creation is in line with productivity levels in the real economy and therefore makes the system more stable.

Despite the advantages of risk-sharing over interest-based systems, Islamic Banking is not widely practised. It faces the difficulty of operating in an interest-based financial environment. In this environment, individuals would be able to cheat the system and not report their full profits to the bank. If the bank discovers this and refuses them further funds, the fund seeker does not risk being put out of business; they can still go back to the interest-based banks.

Furthermore, entrepreneurs with very promising projects might choose interest-based loans that would leave them a larger percentage of profits as compared to risk-sharing. In contrast, those who are less sure about the profitability of their ventures would prefer profit-sharing, as it would, at the least, relieve them of the obligation of paying a fixed return on the funds obtained. This would result in lower profits for Islamic banks than would be possible in a purely profit-sharing environment.

Linking the financial economy with the real economy, through interest free lending and sharing risks, encourages the creation of real wealth over purely monetary wealth. Nevertheless, it can be argued that while focusing on sharing profits, the system still does not allow for environmental and social factors to be incorporated in making economic decisions. Thus a small farmer, might not have access to Islamic funds as her expected profits are lower than the farmer in a next door village where soils are of better quality.

The lender-borrower relationship in Islamic banking has a parallel in CSA (Community Supported Agriculture). CSA is a marketing system where producers and consumers share the risks of production. As both consumers and producers are aware of their interdependence, just like borrowers and lenders in the Islamic banking system, consumers make advance payments of working capital to the producer and they see their investments repaid in agricultural output throughout the growing season.

Demurrage
Alternative money systems attempt to re-link the money economy to the real economy. Silvio Gesell, a money reformer who formulated his “natural economic order” in 1890, claims that as money is a public good, it should be accessible to anyone in need and must not be hoarded. A fee on money (‘demurrage’, or a sort of negative interest rate) is levied and is justified by the argument that if money represents goods, it should depreciate in value just as fast as goods do; money should “rust”.

Creditors should face the same risks as producers. If money ‘rusts’, creditors will be forced to make financial resources available to the ones in a position to use it. As a consequence, a demurrage charge increases the rate of circulation. Suddenly the ‘time preference of money’ has been turned upside down; money becomes worth less over time and the real economy gains in importance. In a demurrage economy, making money, is not the main priority of the economic actors, and neither is making profits, at least not necessarily in the short term. Money functions as a medium of exchange and as a means to invest, where profits can be reaped at a future date. As such, individuals have greater opportunity, to value social exchanges.

Community Currency Systems
Community Currency Systems (CCS) are mutual credit-creating systems, specifically designed for local communities. Members of the system create their own money, which they use to exchange locally available goods and services with each other. Trade with the outside takes place in national currency.

HOURS-based community currencies employ a piece of paper (‘notes’ or ‘coupons’) as the medium of

Box 3: Community Currency Systems in Thailand

The financial crisis of 1997 has started discussions in Thailand about the real benefits of the boom of the decade before the crisis and on alternative paths of development which would prevent such a crisis from happening again. NGOs and People's Organisations in Thailand have shown an increasing interest in Community Currency Systems (CCS). The TCCS project has, for the last two years, explored ways to implement a CCS in Thailand.

After having attended a seminar about CCS, some villagers from Yasothon province in the Northeast of Thailand, have decided to learn more about how the system works and to try to set up such a system. A small group of villagers have taken up the task to prepare the implementation and generate enough interest amongst the 495 households, spread over 5 villages, which have been designated as a pilot community. The members of the 5 villages, have strong geographical, economic, social and cultural links. In the future it would be possible to incorporate another 4 villages nearby, if they so wish.

Community workers are working with villagers to prepare the launch of a 'hybrid system' early in 2000. A hybrid system is a combination of a LETS and a 'notes' based system. It works as follows: those who want to become members of the CCS, go to the community bank, where they can open an account. They can withdraw community currency, interest free, from this account. The money will be in the form of a note called 'Bia', named after a seashell used as currency before the introduction of metal coins. These notes will carry pictures of culturally and socially significant events designed by local school children, symbolising the fact that this money does not carry just a monetary value. By withdrawing 'Bia', money has been created which can then be used with whomever wants to accept it. It should be noted that the 'Bia' can be spent by villagers who are not members of the system (who do not have an account), however, it can not be spent outside the community. It is unlikely that somebody who lives outside the community, would actually accept the 'Bia' unless she is a regular visitor.

The CCS organisers, believe that community members will be able to rely on 'Bia' for their exchange of local goods and services, thereby reducing national currency expenses and dependency on credit. Furthermore, the 'Bia' will circulate within the community, creating more economic activity, as opposed to the national currency which leaves the community very quickly in its search for higher profits. In effect the use of 'Bia' stops the leaking of resources from the community. If villagers choose to increase their use of 'Bia', an incentive will have been created to support local economic activities. This would make investments in, for example, herbal production and indigenous knowledge more likely.

It should be stressed that the CCS organisers do not seek to isolate the pilot villages from the outer world. CCS are a tool to increase bargaining power in trade relations with other markets by first strengthening the local economic base. One might suggest that a CCS could be undermined by free-riders (cheaters), but experience so far has shown that social controls prevent this from happening. Nevertheless to prevent problems in the initial phases the organisers have decided that a credit limit be imposed on the amount members can withdraw from their accounts. By turning this argument on its head, a strong case can be made that the co-operation and trust which the process of establishing a CCS engenders is vital to the accumulation of social capital.

exchange, while LETS (Local Employment and Trading System) use credits and debits in an account ledger, with no physical representation of the currency. The value of these currencies is determined by members of the community. Variously, the value has been tied to the national currency; equated to an hour of labour; or allowed to determine itself through members' exchanges.

It is estimated that worldwide there are over 2000 LETS-type community currency systems, where total number of members varies from as small as 20 to over 2000. Trade in these systems still happens mainly in the services sector, although many also have small businesses participating. Currently about 100 'note'-type systems operate in North America. In the HOURS system in Ithaca New York, monthly trade volume is estimated at 6,000 HOURS (60,000 US$) between 1,500-2,000 people . In Third World countries, systems have started in Mexico , Argentina, Paraguay and Senegal.

As in the case of Islamic Banking, CCS are interest-free, credit-creating systems. Some systems charge demurrage. Community currency practitioners claim that community currencies fulfill the two most essential functions of money .

They provide
-a standard of measure, to compare the value of goods and services, and
-a medium of exchange, to facilitate the exchange of goods and services.

In a CCS, community currency is created when community members exchange goods and services with each other. This money can not be spent outside the community and it will thus circulate within the community, creating more economic activity through the multiplier effect.

The accounts of sellers and buyers increase or decrease by the value of the goods and services traded; no more community currency is created or is needed to realise this trade. In this way, the system re-links the real economy with the financial economy.

Apart from creating this stability, CCS also has the advantage of allowing goods and services to be given a value independent of the price set by the outside market. This can include social obligations, as in the case of the household managers in Cicadas (see box 2), or valuing local education in indigenous knowledge, as planned in Yasothon (see box 3). Admittedly, it remains very difficult to fully quantify such activities, but it is easier to value externalities within a community then to try to internalise them using a macro economic model (due apologies to environmental economists, who, instead of reducing the power of money, try to appreciate the value of environmental and social concerns!).

It must be noted that community currency systems are backed by the resources within the community, including the labour of its members and the trust, members have in each other. Luis Lopezllera, an experienced NGO worker and CCS practitioner in Mexico, mentioned that the objective of CCS should be: "to teach people the forgotten values of the social and cultural ingredients of our lives, now predominantly undermined by poisoned money!"

In this respect, we can learn a great deal from indigenous exchange systems, like reciprocal labour systems, which were based in a gift economy. Reciprocity does not mean to borrow money and to go into debt; rather, it means a complex web of social relationships between members of a community (and sometimes outside) to exchange goods and services, based on mutual benefit, responsibility and interdependence. There was no money and no time preference involved. (Note: philosophically we can probably still speak of money whose value is determined by the gift economy.) It should be noted that in a gift economy investments do not easily take place as the connection between savings and investments is not really established. Should a community choose to investment in a local business, the required capital may be mobilised through a profit-sharing arrangement.

Conclusion

The power of money is responsible for income inequality, social degradation and the destruction of the environment. The excessive power of money expresses itself through interest rates, the creation of money by banks as debt and the inability to incorporate externalities and real risks in the economic decision making processes through which resources are allocated.

Interest based money increases in value, transferring all the risks from money makers (creditors) to producers (who are also borrowers). Governments and bankers are responsible for creating enormous amounts of money, as debts. These debts function as claims on the real economy, and hence put pressure on people to repay those claims, in taxes; often there is no choice but to jeopardise social obligations, such as looking after your children, and sell national resources, such as tropical forests. Trillions of dollars move around global markets every day; most of it (over 98 %) as speculative money in the currency and stock markets, not in the markets where you buy your food. The size of the money economy has no relationship with the real economy or anything of value. Reducing the power of money would allow us to re-assess what we value and base our activities on those values.

Islamic Banking bases its monetary system on sharing risks in the real economy between debtors and creditors. Those profits generated by investors using Islamic funds in the real economy are shared. Thus, the growth of the money economy is linked to the profitability of real activities, rather than a fixed interest rate and ever-increasing debt. However, it is not clear whether such systems are able to incorporate externalities into the allocation of financial resources or whether the pressure to produce profits remains higher than compared to the ability of the real economy to satisfy those same demands.

The second alternative discussed was demurrage. Not so much a system, demurrage is a theoretical tool to be incorporated into a more equitable monetary system. Charging a fee on money causes money to lose its value over time, forcing users to invest in the real economy rather than in the monetary economy. Those in possession of funds with no inventive idea how to use it will be more likely to invest it with someone who does not have money, but needs it to invest in some kind of economic activity.

Community Currency Systems have the potential to create interest-free mutual credit, based on an under-

standing of interdependency and mutual responsibility between community members, creditors and debtors, consumers and producers. Apart from creating only as much money as the real economy requires, CCS allow an independent assessment of values. In other words, CCS have the potential to incorporate externalities.

CCS is different from the other alternatives, in that it has the potential to work independently from the pressures of the global market. A community does not have to wait for the money creators to change their course against their self-interest, and reform the monetary market. Communities can start a system right now. Although in essence political, since a CCS may change the position of the actors in the economic landscape, the practise of the system does not necessitate confrontation with policy makers. Remember that it is not the objective of CCS to replace the national currency. Rather an attempt is made to increase self-reliance thereby increasing bargaining power in relations with other actors. As such they are seeds planted, of which the benefits can be used by other communities, monetary reform campaigners and development workers.

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