

Financing and the environment:

Big problems and big solutions

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**Seminar on Environment and
New Regional Financial
Architecture
(Ecuadorian Presidential Commission
for the New Regional Financial
Architecture)**

**Quito, Ecuador
4 August 2009**

Cartoons by Zapiro

A GIFT FROM THE CORPORATE WORLD!

Johannesburg
World Summit
2002

SUSTAINABLE
DEVELOPMENT

- PROFIT
- SELF-REGULATION
- UNFAIR TRADE



This presentation addresses three primary challenges:

- **Understanding capitalist crisis context
for broken financial architecture**
- 2. Against and beyond policies of the
Bretton Woods Institutions**
- 3. Ecological debt and environmental
stewardship as a starting point for new
financial architecture**

1. Capitalist crisis as context

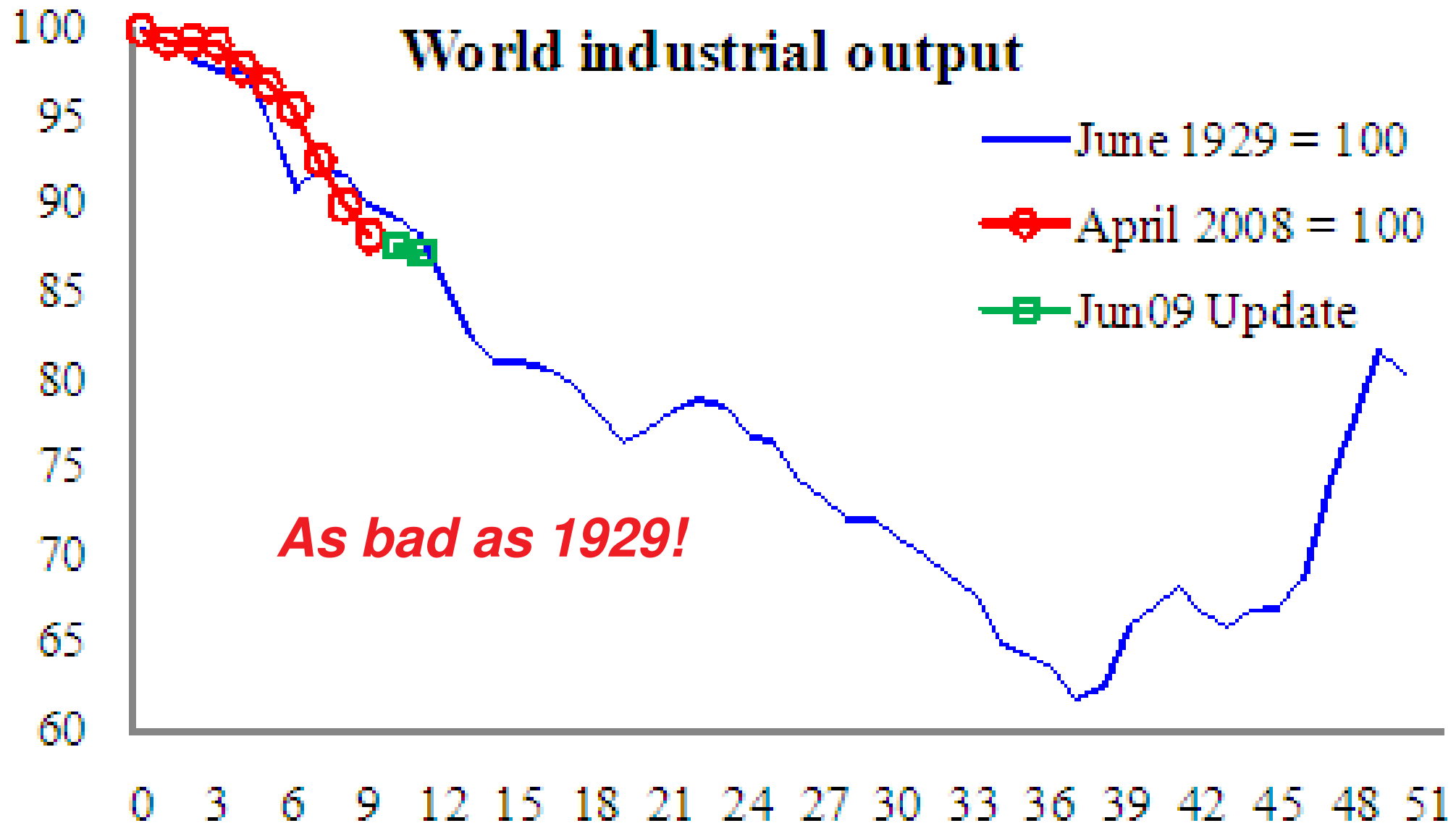
Recent events are not limited to a 'financial bubble' or even US-centred financial cronyism... the problem is eco-catastrophic capitalism

“I found a flaw in the model that I perceived is the critical functioning structure that defines how the world works... [and am] in a state of shocked disbelief.” —

Alan Greenspan
23 October 2008



Crisis! Production crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

Crisis! Trade crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

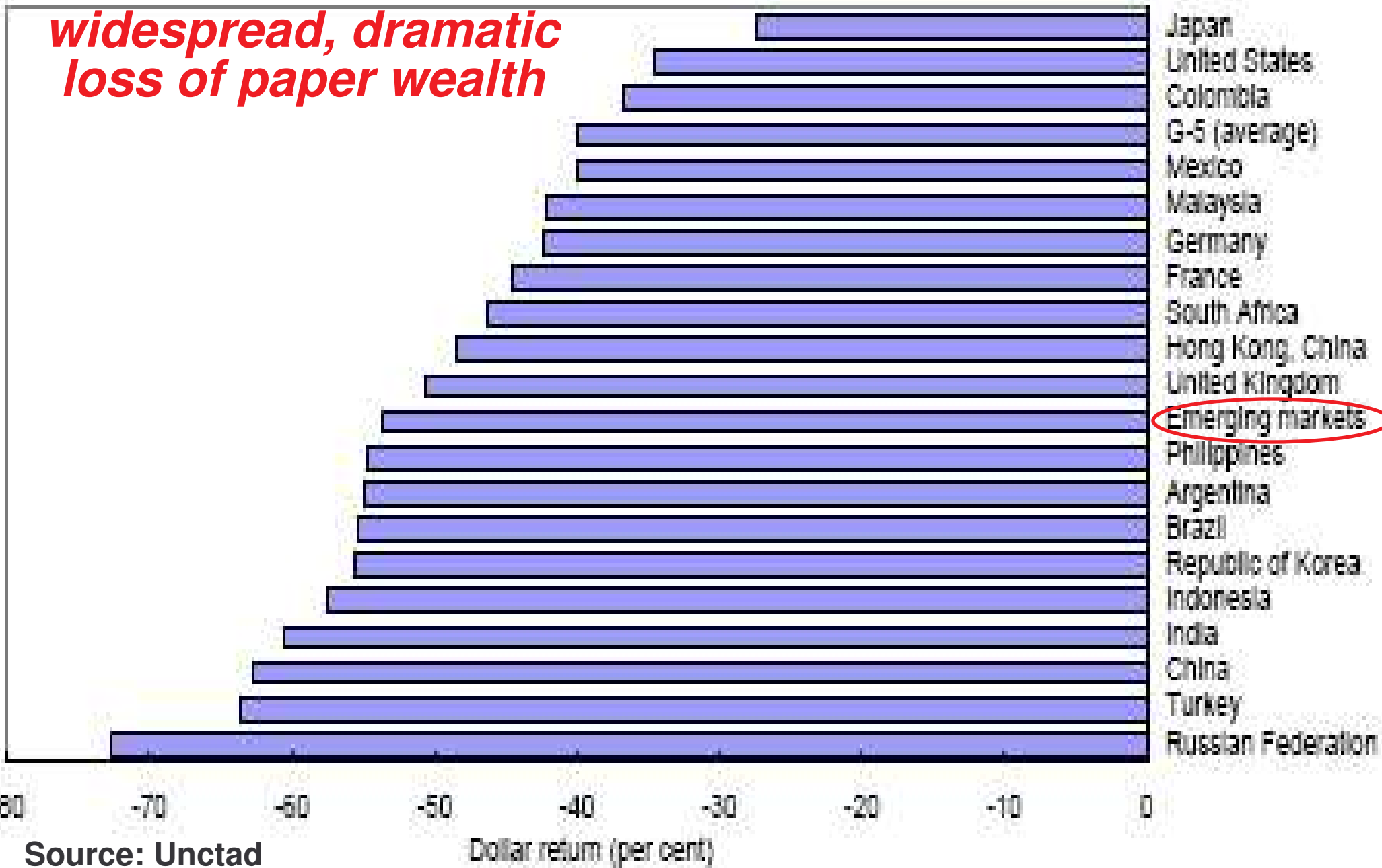
Crisis! Stock market crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

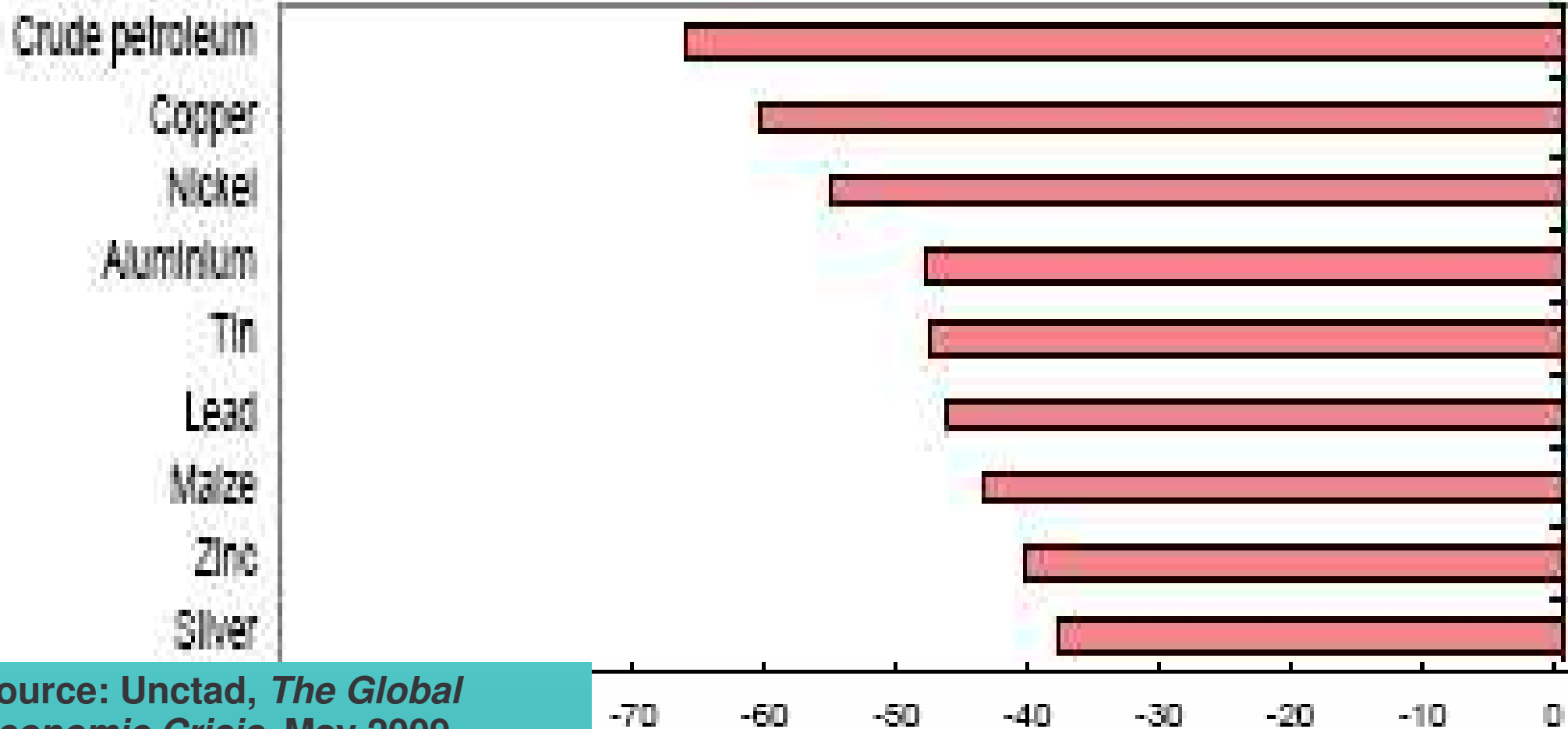
Stock market volatility in 2008

*widespread, dramatic
loss of paper wealth*



Commodity devaluations: Change in prices, July – December 2008

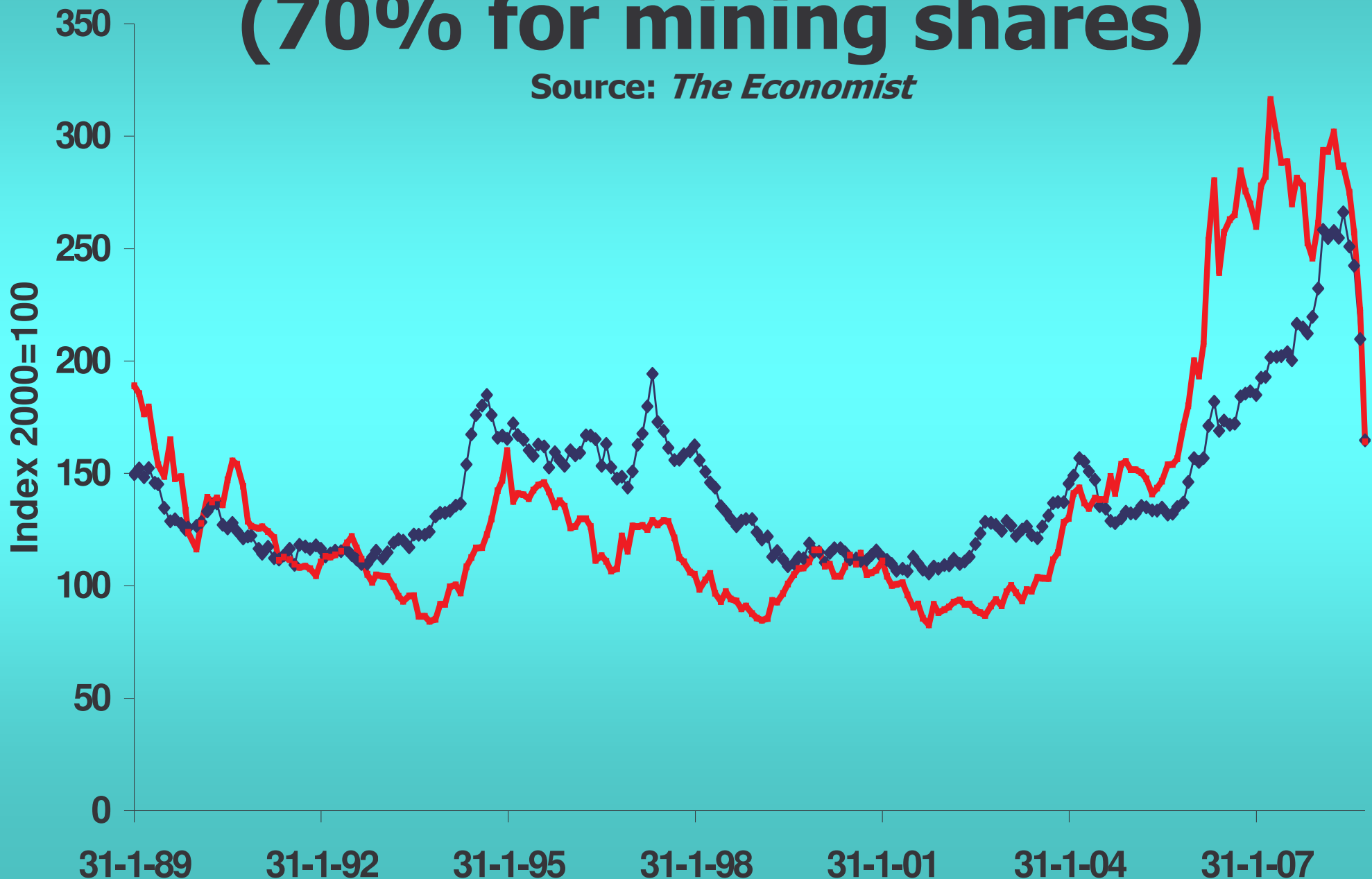
...particularly devastating for African countries addicted to export-led extractive-industry 'growth'...



Source: Unctad, *The Global Economic Crisis*, May 2009

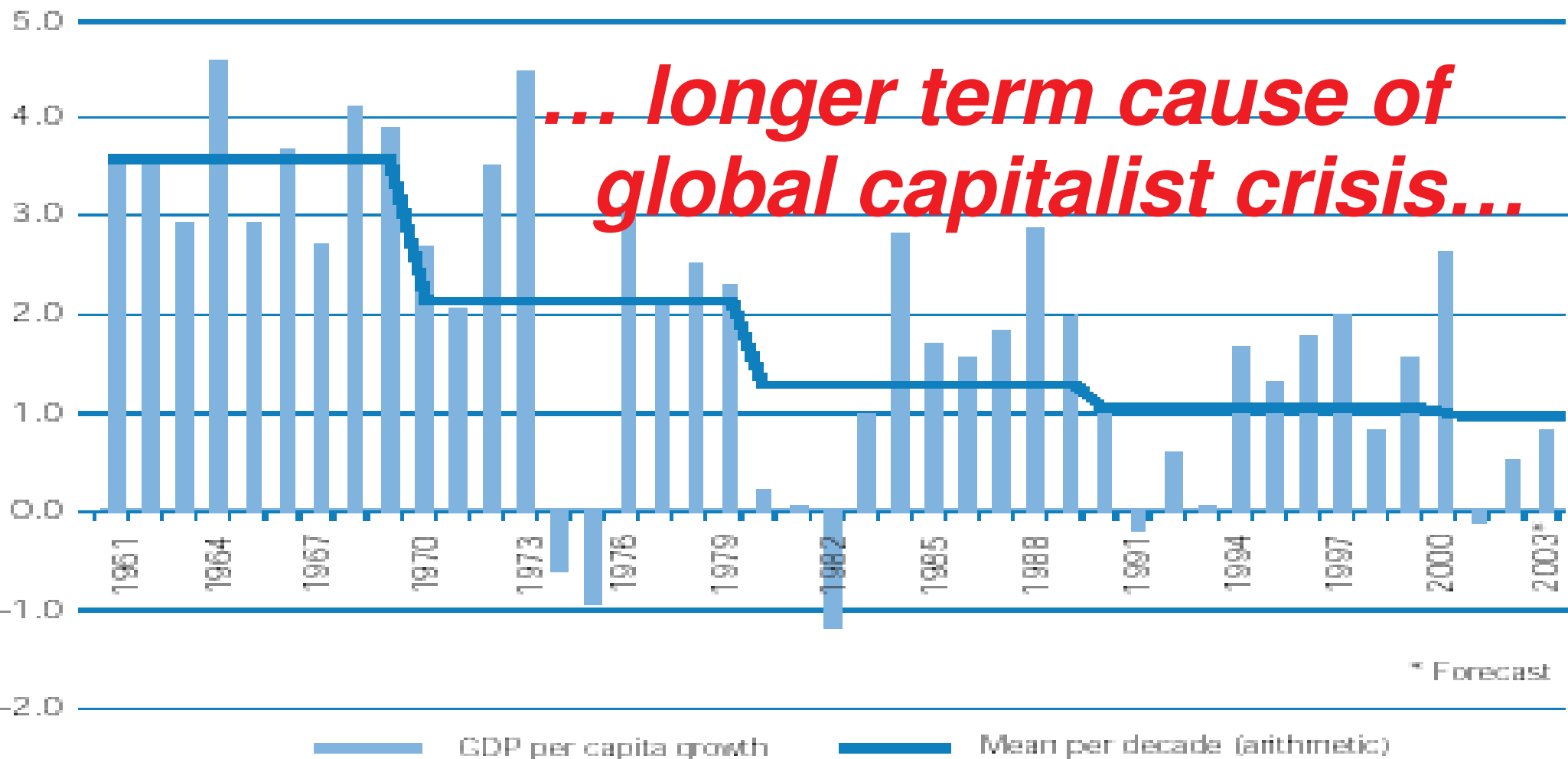
Since mid-2008, commodity crash (70% for mining shares)

Source: *The Economist*



Stagnant global real annual GDP growth, 1970-2000s

World GDP per capita growth, 1961-2003 (annual change in per cent)

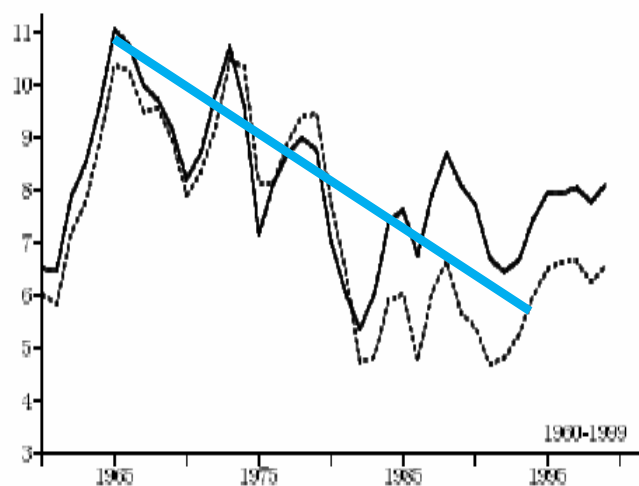


* Forecast

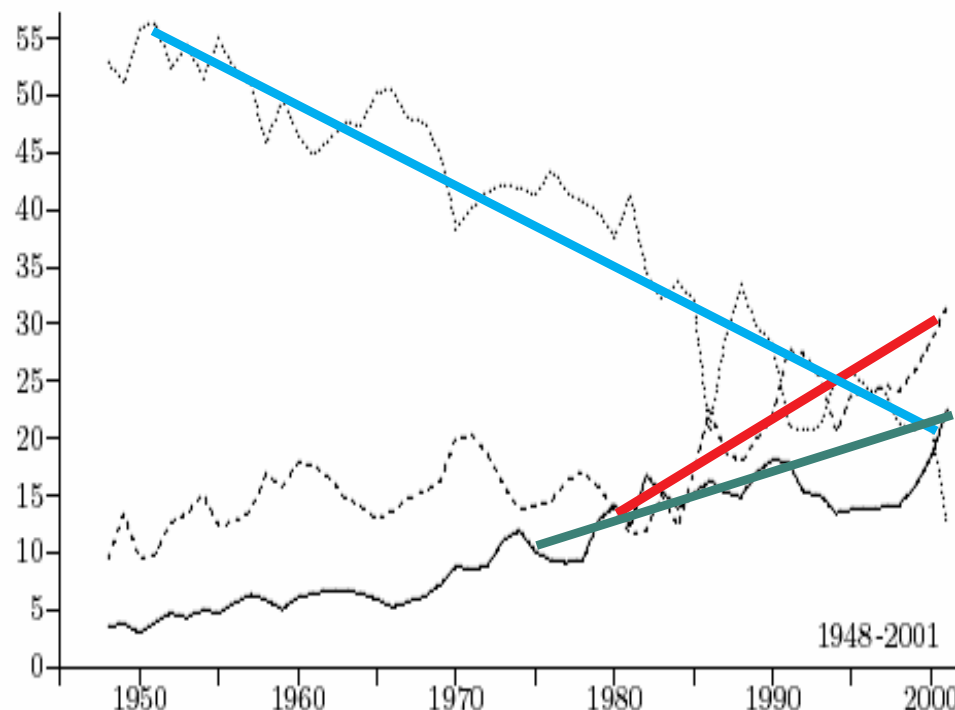
Sources: World Bank, *World Development Indicators 2003* (online version) and World Bank, *Global Economic Prospects 2004*.

Root 'overaccumulation' process: source of declining US profits during globalisation/financialisation era

Figure 3 US, nonfinancial corporations: Profit rates prior to the payment of real interest (—) and after (-----), %



In the first series, profits are equal to the net product minus the cost of labor, and business and profit taxes. They are divided by the net worth (total assets minus debt). For the second series, real interest is subtracted from profits, i.e., interest minus a correction for the depreciation of debt resulting from inflation.



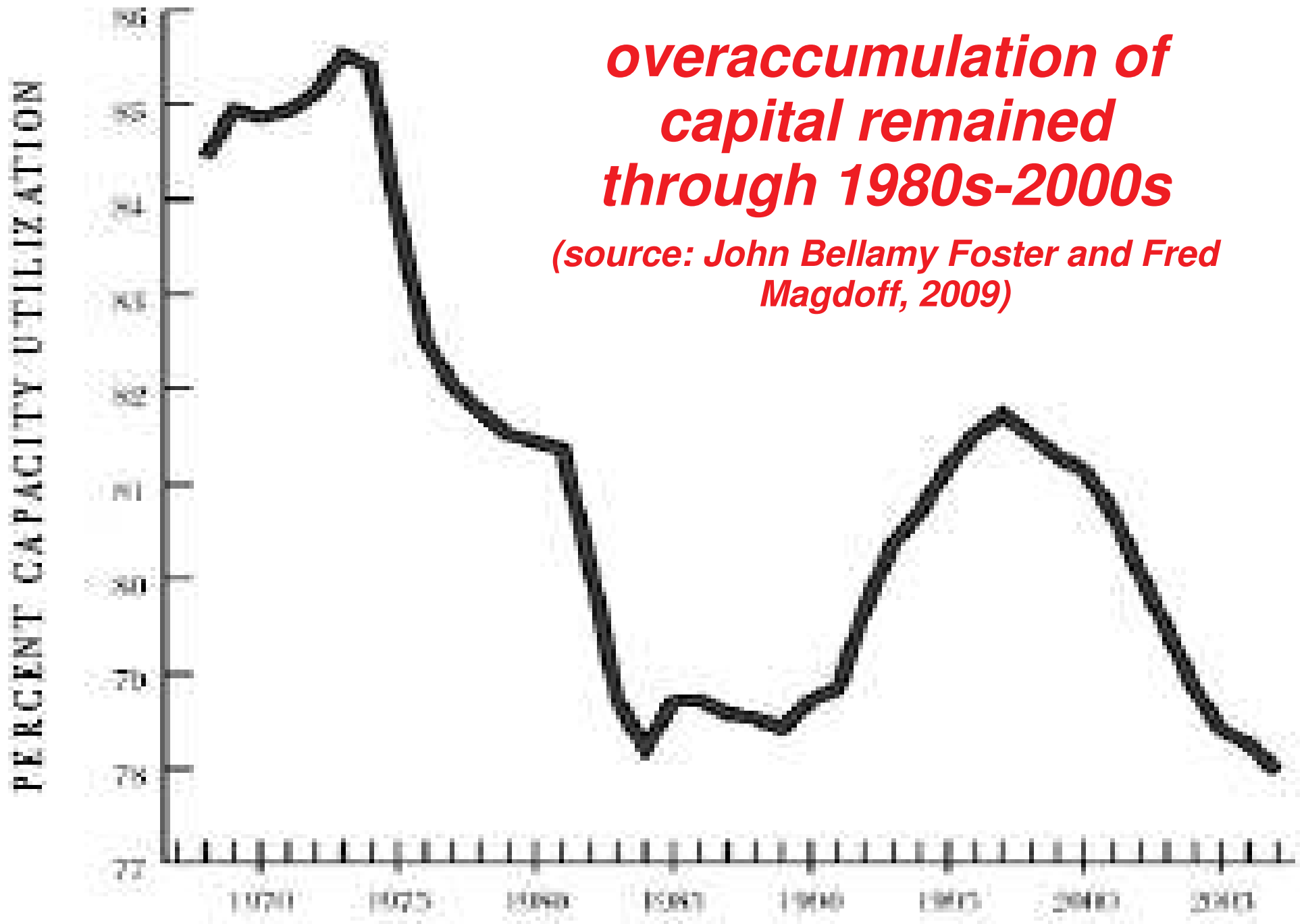
Rest of the world: (—); Financial sector: (-----); Manufacturing: (.....)

Profits are measured before profit taxes. The *rest of the world* corresponds to the excess of profits made on US investments abroad over the profits made by the rest of the world on foreign direct investment in the US. (These profits may remain in the country where the investment is made.) Trade, Construction, Public Utilities, Transportation and Communications, and services are not represented.

Source: NIPA (BEA).

US corporate profits derived **much less from manufacturing products**; **much greater sources of profits came from abroad**; **profits also came more from returns on financial assets.**

Source: Gerard Dumenil and Dominique Levy



***overaccumulation of
capital remained
through 1980s-2000s***

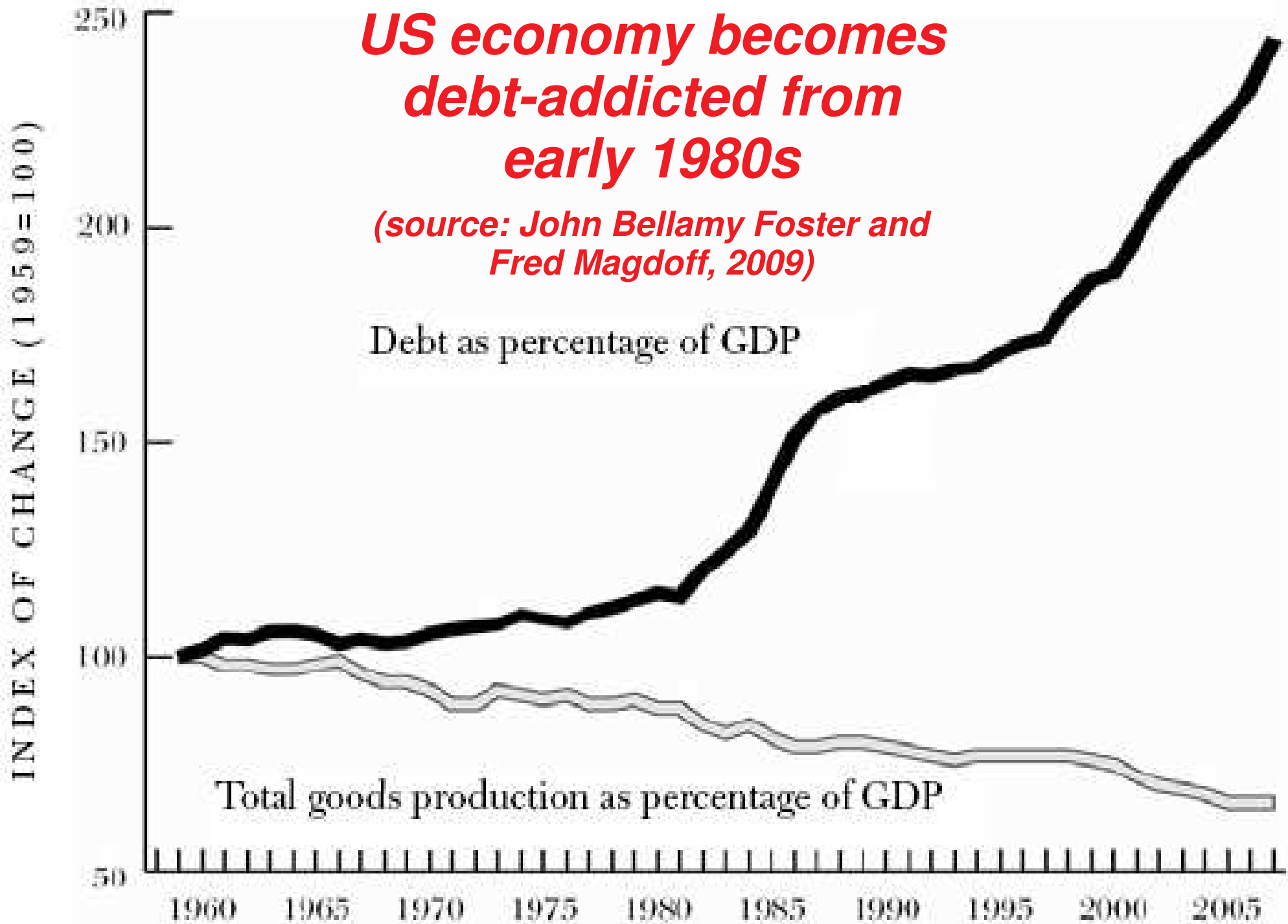
***(source: John Bellamy Foster and Fred
Magdoff, 2009)***

***US economy becomes
debt-addicted from
early 1980s***

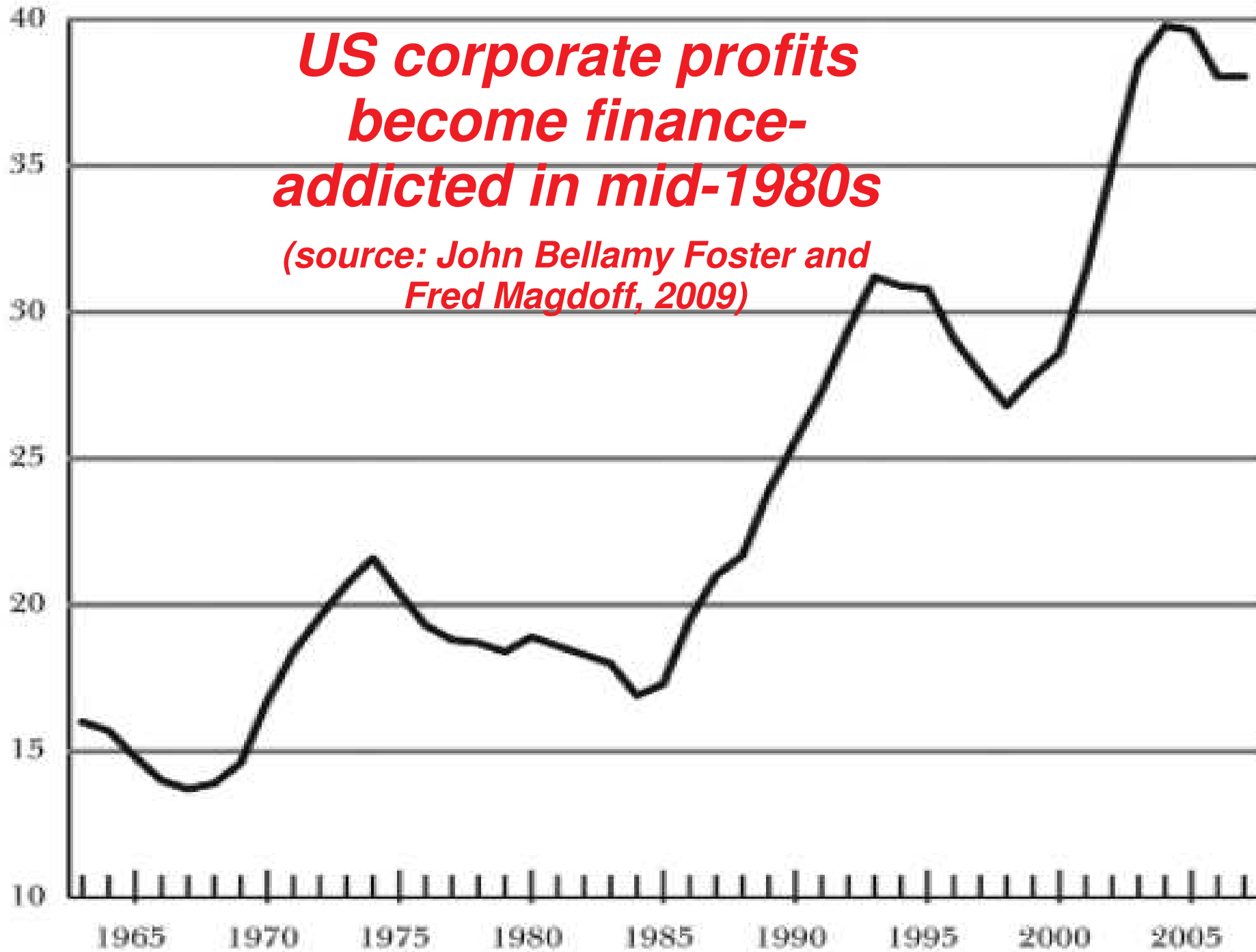
***(source: John Bellamy Foster and
Fred Magdoff, 2009)***

Debt as percentage of GDP

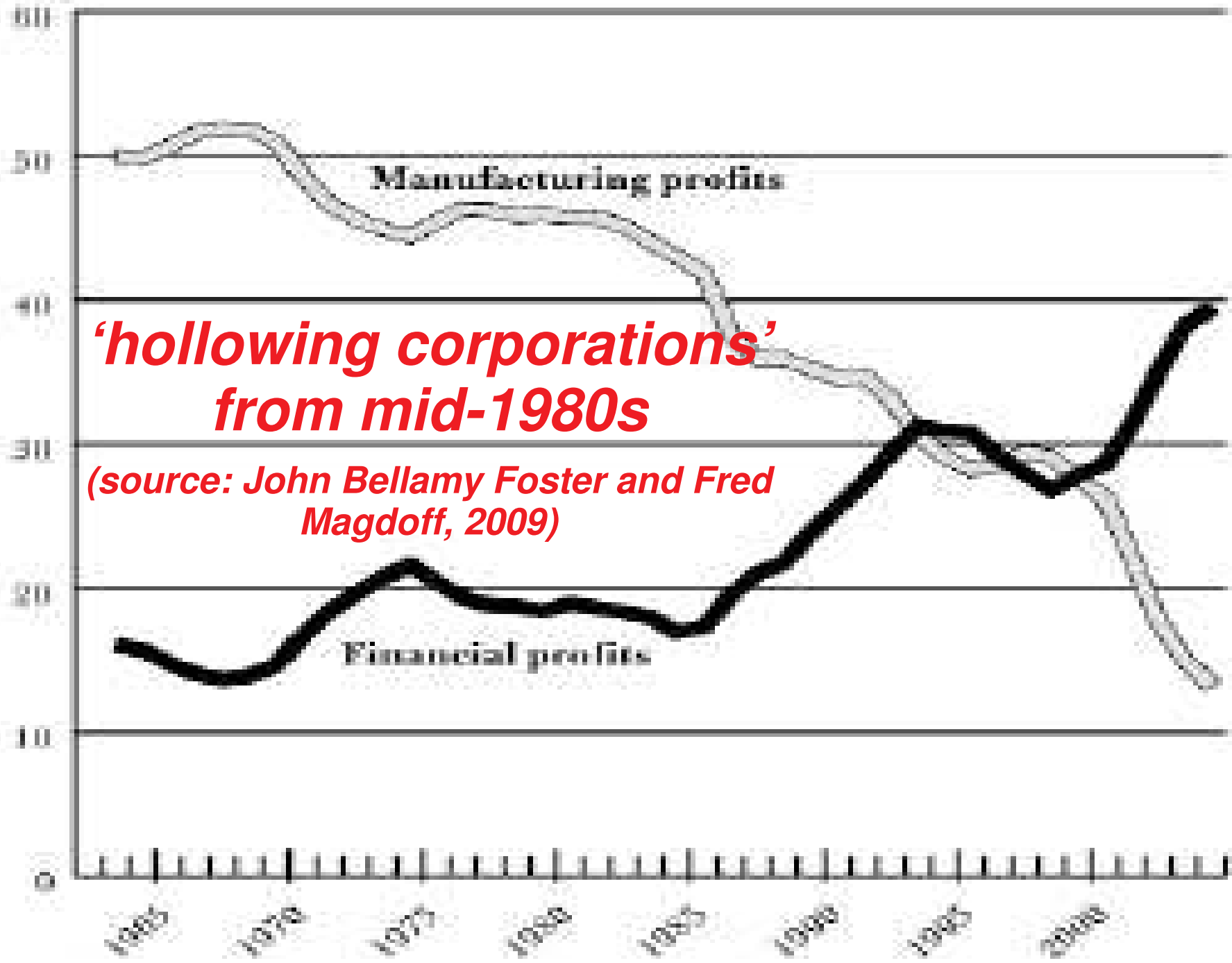
Total goods production as percentage of GDP



FINANCIAL PROFITS AS A PERCENTAGE OF
TOTAL DOMESTIC PROFITS



PERCENT OF TOTAL DOMESTIC PROFITS

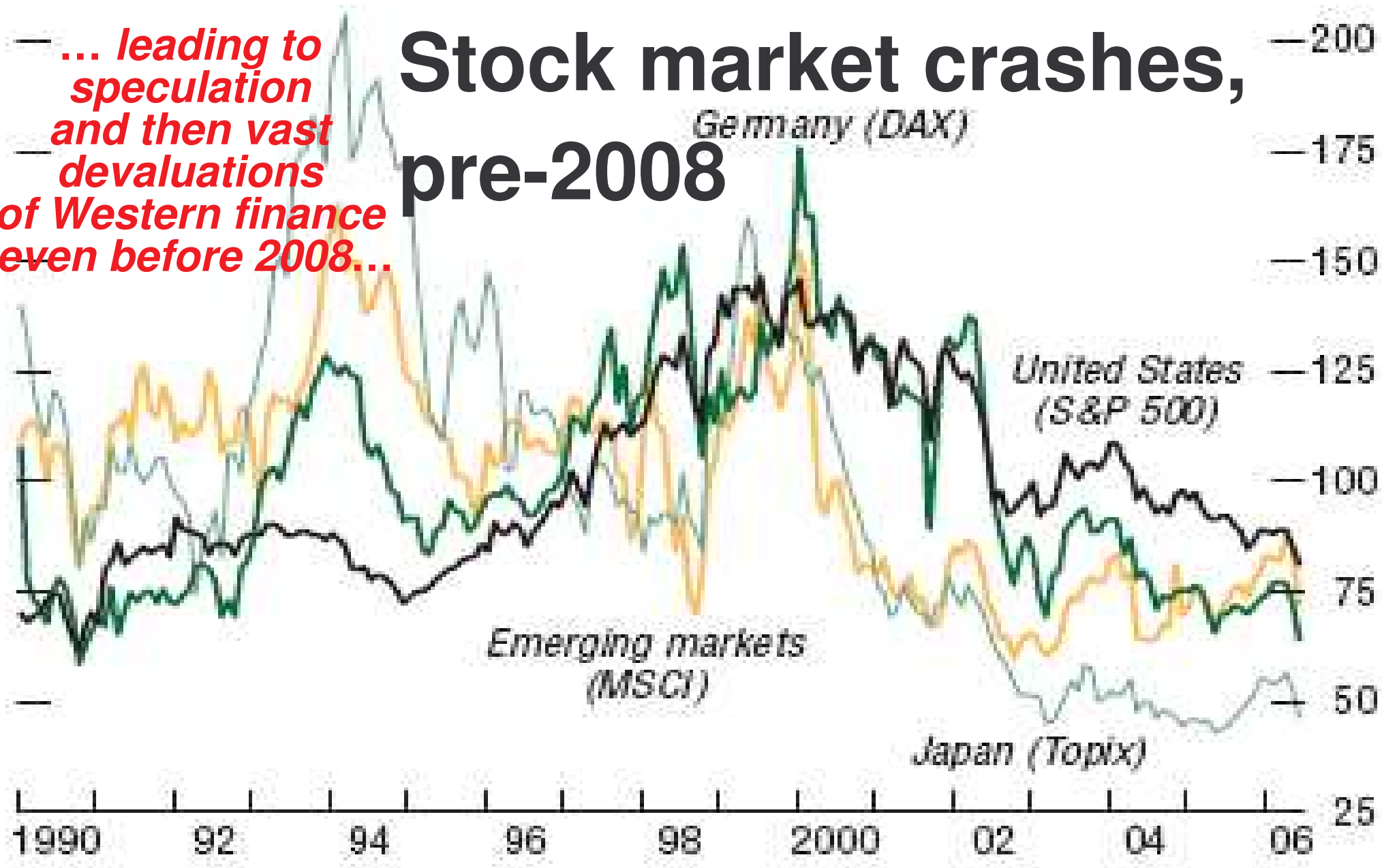


***'hollowing corporations'
from mid-1980s***

***(source: John Bellamy Foster and Fred
Magdoff, 2009)***

— ... leading to speculation and then vast devaluations of Western finance even before 2008...

Stock market crashes, pre-2008



Sources: Thomson Financial I/B/E/S; and IMF staff estimates.

Stock market volatility: emerging markets

... smaller stock markets in middle-income countries especially prone to boom/bust during late 2000s ...

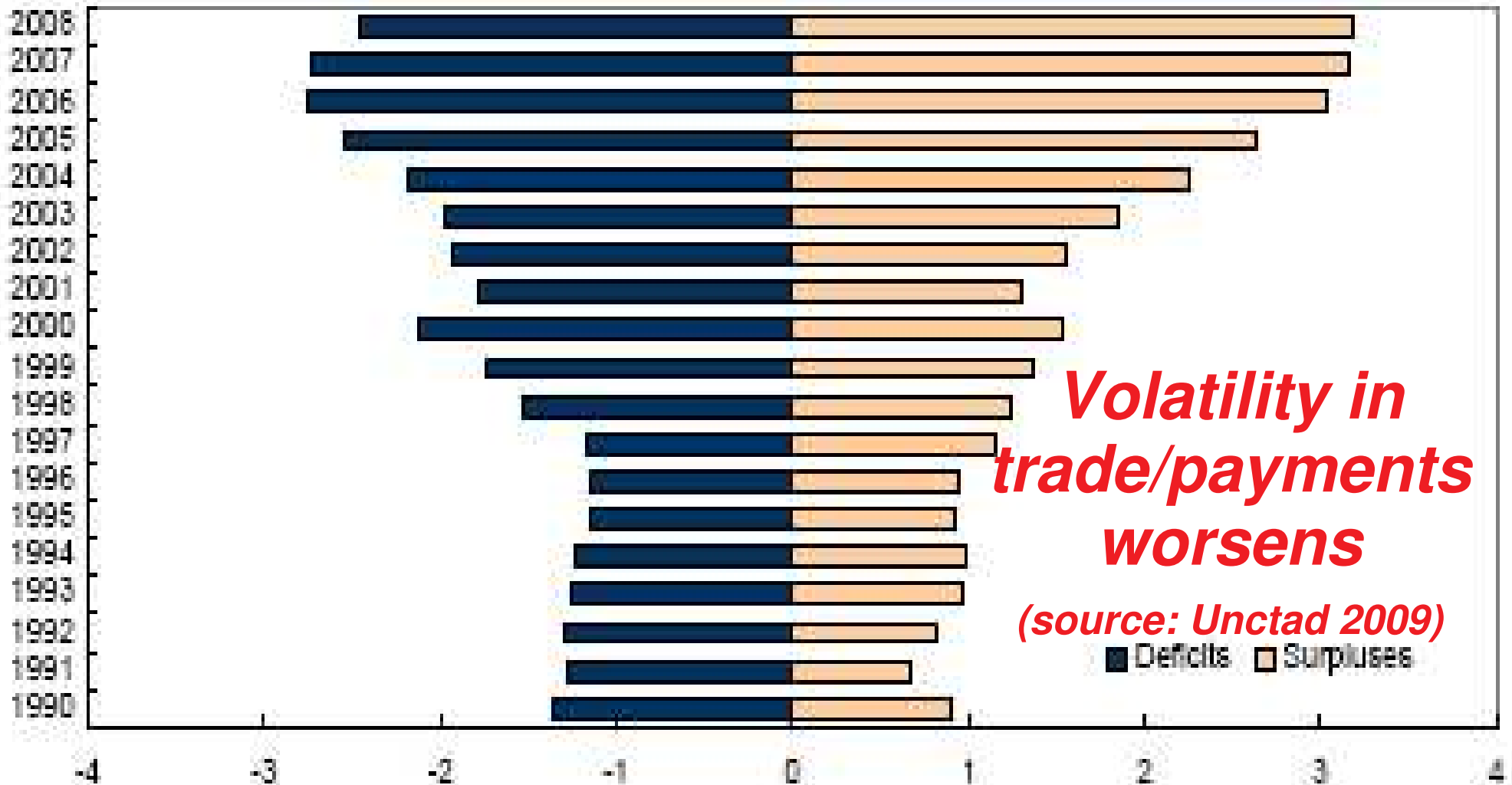
MSCI Emerging Markets index¹



Source: International Monetary Fund *Global Financial Stability Report*

GLOBAL CURRENT-ACCOUNT BALANCE, 1990–2008

(Per cent of GDP)

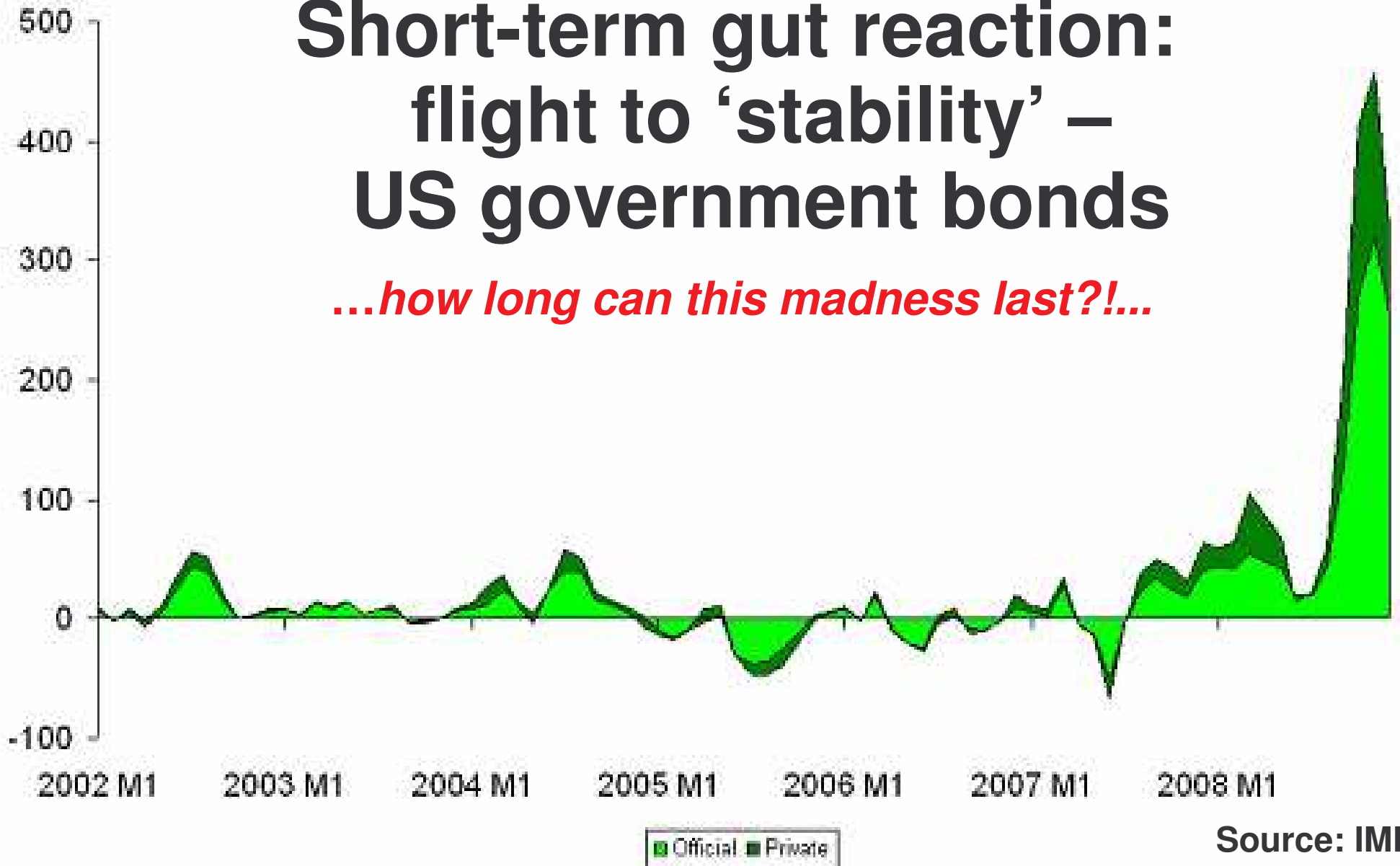


Source: UCTAD secretariat calculations, based on data from Thomson DataStream.
Note: Data refer to 122 countries.

Foreign T-bill purchases:\$ billion, rolling 3m sums

Short-term gut reaction: flight to 'stability' – US government bonds

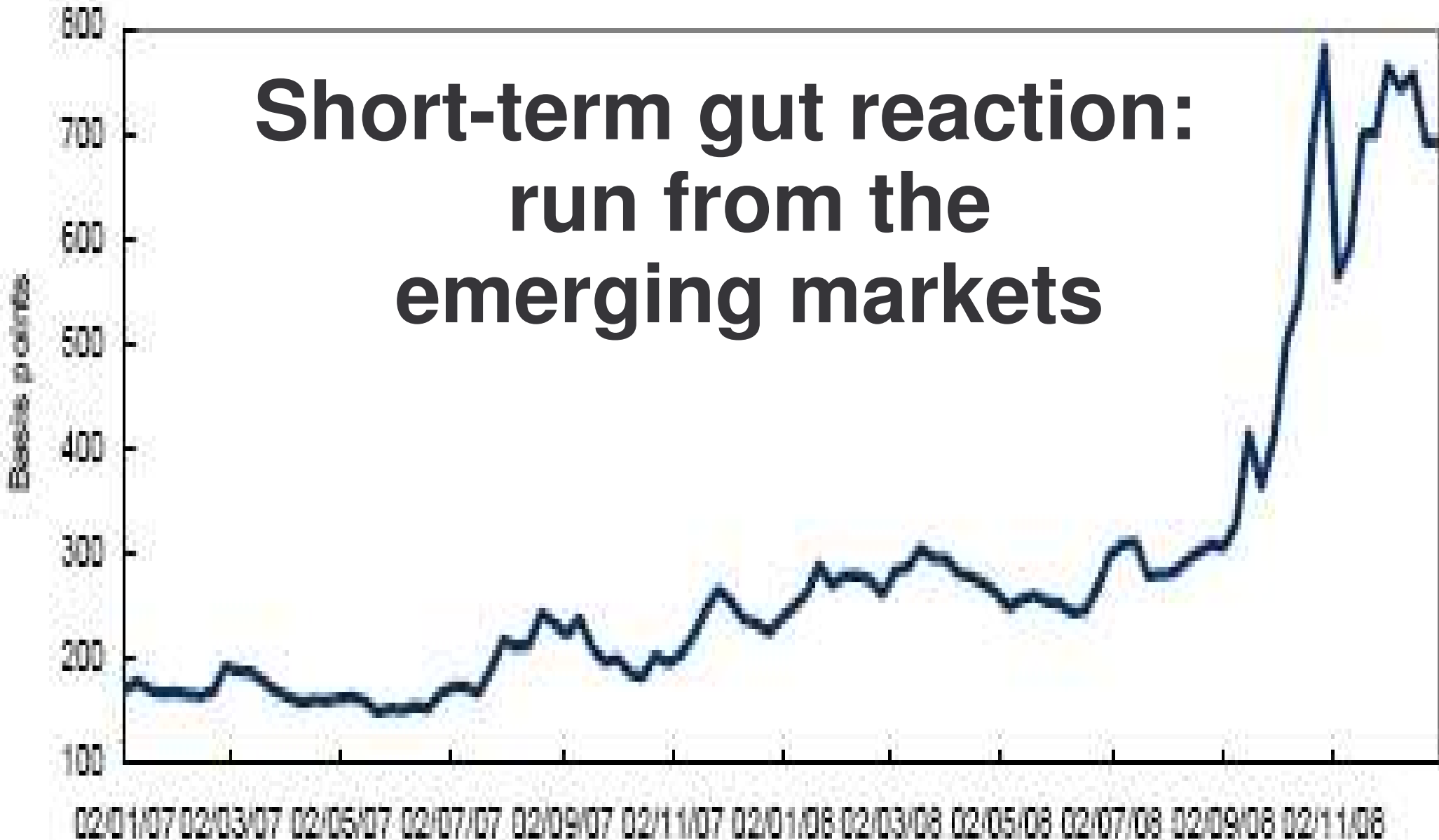
...how long can this madness last?!...



Source: IMF

EMERGING MARKET SPREAD, JANUARY 2007-DECEMBER 2008

**Short-term gut reaction:
run from the
emerging markets**



Source: UNCTAD

Long-term state bankruptcy trends

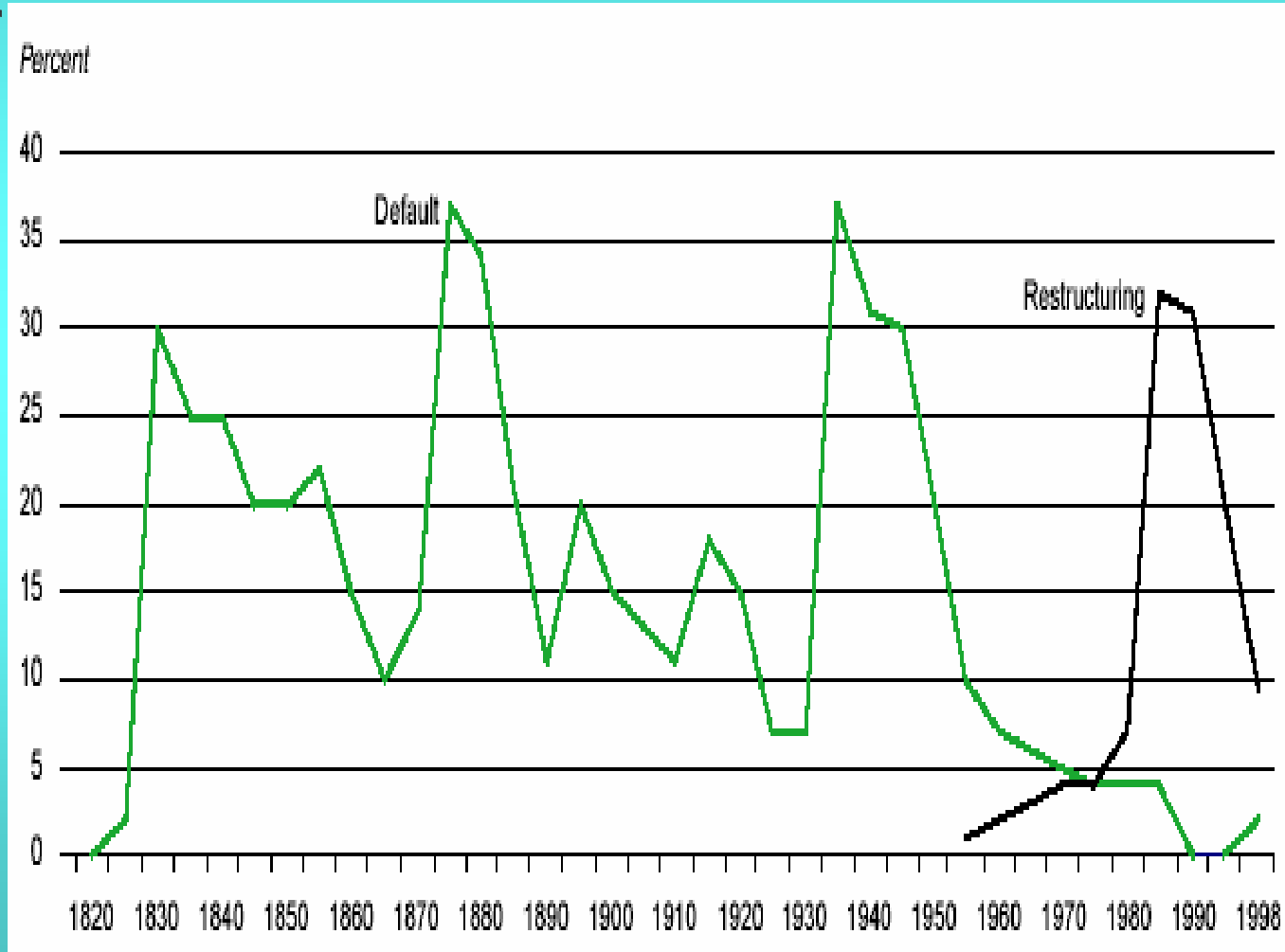
% of countries in default, 1820-1999

⏏ During debt crises of the 1830s, 1880s and 1930s, response was **default**;

⏏ During crises of 1980s-90s, response was **'restructuring'** (IMF/WB bailouts plus structural adjustment)

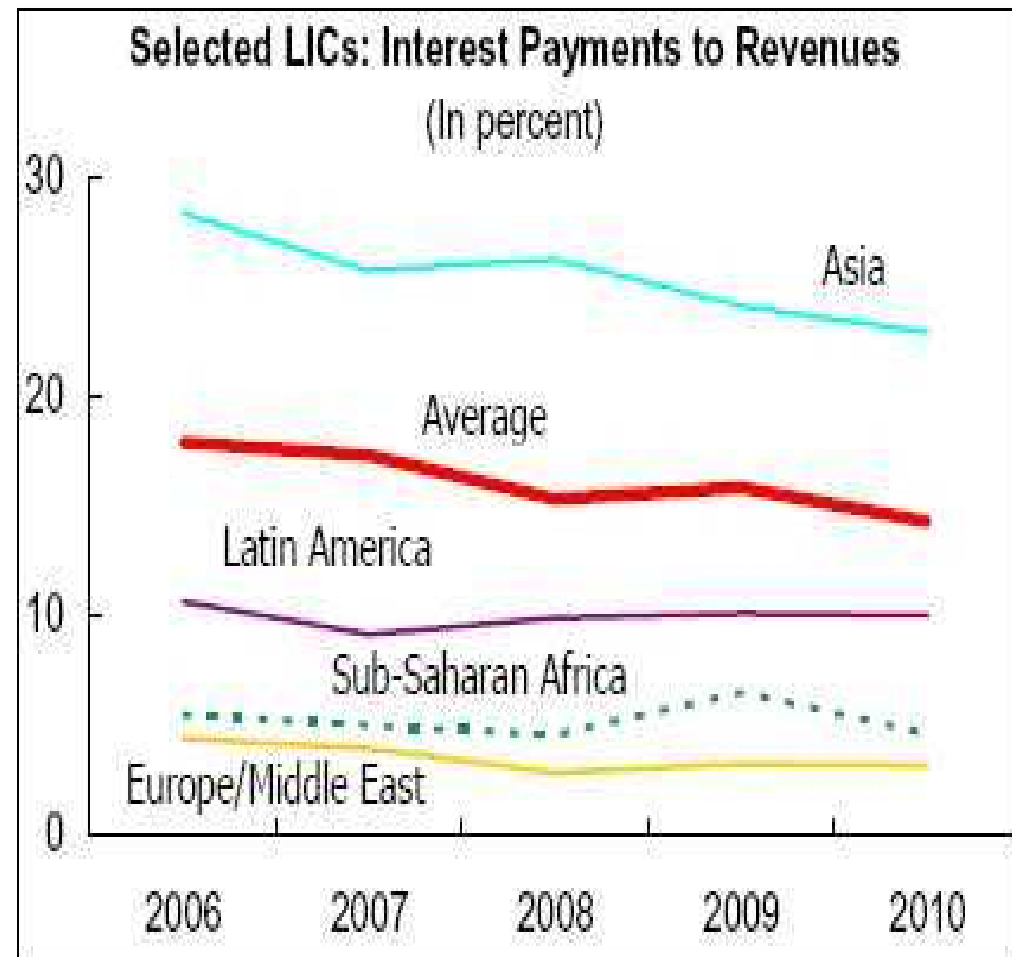
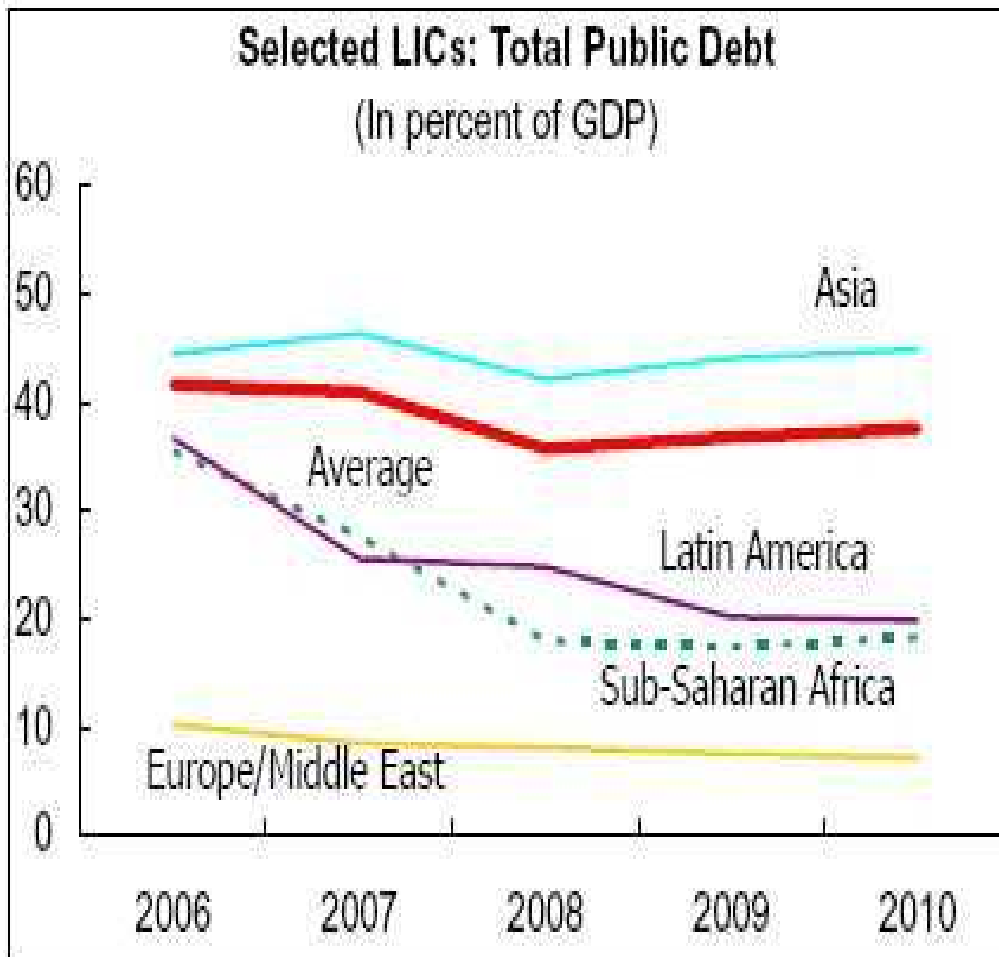
⏏ Key variable: IMF/WB **centralised creditor power**.

⏏ Source: World Bank (2000), *Global Finance Tables 2000*, Appendix G, Washington.



Even after 2005 'relief', Third World debt repayment remains severe

Although there was debt cancellation it was of unrepayable debt, so debt servicing charges for low-income African countries rise!



Source: International Monetary Fund. 2009

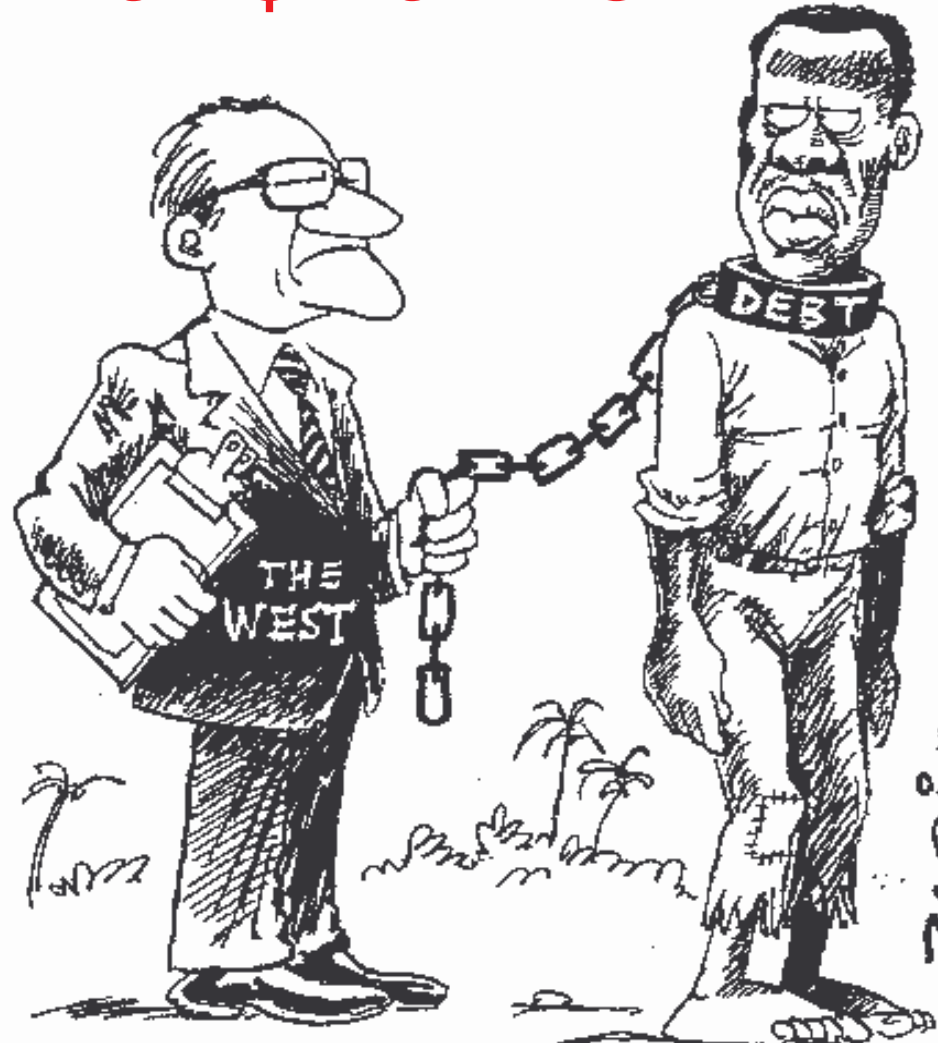
AFRICA THEN

G20's return to debt peonage:

IMF recapitalized with \$1 trillion +



AFRICA NOW



2. Against and beyond the Bretton Woods Institutions

**We cannot rely on
Washington Consensus
finance either for world
economic stability or for
Third World 'development'**

Do Third World countries need World Bank and IMF loans?

- **Grants** needed, not loans (which are costly to repay when currency value declines);
- hard-currency (US\$) component of International Financial Institution (IFI) lending is **inappropriate for basic needs goods** that are most desperately needed;
- to repay \$ loans means more intense **export orientation** (cash crops instead of food);
- elites use hard currency for **luxury imports**;
- **local-currency financing** should be arranged instead.

WB/IMF reforms don't work

- Chief economist Joe Stiglitz offered mild-mannered reforms, and was **fired** in Sept' 1999;
- No change in economic policy even after 2008 crisis
- reforms on gender, environment, governance and (genuine) participation were **unsuccessful**;
- multi-stakeholder commissions are a waste of time, because of **WB staff sabotage**:
 - World Commission on Dams,
 - Structural Adjustment Participatory Review Initiative,
 - Extractive Industries Review;
- PRSPs and HIPC maintain same **conditionalities plus privatisation**.

Reforms don't work:

1. Macroeconomic austerity

- 1.1 IFIs persist in promoting 'Washington Consensus';
- 1.2 IFIs ignored calls for a 'Post-Washington Consensus' that would take seriously market failure and sustainable development, even after 2008;
- 1.3 IFIs continue to insist on extremely **high debt repayments**, even in clear cases of 'Odious Debt,' through the Highly Indebted Poor Countries initiative, which has failed even on its own limited terms;

Reforms don't work:

1. Macroeconomic austerity

- 1.4 IFIs have not begun task of addressing demands for **reparations, for lending that led to exploitation and underdevelopment**;
- 1.5 IFIs typically insist upon **'hard-currency'** financing, even for basic-needs development projects;
- 1.6 IFIs have **'policy coherence' with WTO** and donors, linking power of financing, aid and trade, so as to close off space for non-neoliberal development strategies;
- 1.7 IFIs continue to **manipulate statistics**, especially because they rely upon outdated, narrow economic calculations of gross domestic product which do not take into account non-renewable resource extraction and other ecological damage, unpaid women's labour, and other non-monetised features of society, notwithstanding efforts by ecological economist Herman Daly to change scope of statistical measurement.

Reforms don't work:

2. Microeconomic commodification

- 2.1 IFIs simply **renamed privatisation** 'public-private partnerships,' and continue applying the strategy to basic services including water, energy, telecommunications and transport;
- 2.2 even before privatisation, IFIs insist that state enterprises adopt **commercialisation**, which leads to job losses and rising state utility prices on basic services;
- 2.3 IFIs promote **decentralisation** - transfer of responsibilities to lower-tier governments - without needed transfer of financial resources;
- 2.4 IFIs defend patents and **property rights** religiously (with sole exception of AIDS medicines, thanks to popular protests);
- 2.5 IFIs have subsidiaries such as the International Finance Corporation, which take a **for-profit stake in local corporations** at same time IFIs are advising on pro-corporate policies - a clear conflict of interest.

Reforms don't work:

3. Environmental unsustainability

- 3.1 IFIs are **resisting 2001 World Commission on Dams** report that offers ecological principles for large dams, and instead are **promoting 'high risk' megaprojects** (including hydropower) via 2003 Camdessus Commission, which offers generous corporate risk insurance on large dam projects;
- 3.2 IFIs - especially World Bank - are **resisting Extractive Industries Review**, which would address global warming by halting public-funded subsidisation of oil and coal extraction;
- 3.3 IFIs are **contributing to global warming** by funding fossil fuel projects and financing 'false solutions' such as World Bank's Prototype Carbon Fund for emissions trading;
- 3.4 IFIs continue to promote **corporate agribusiness and export-oriented cash-crop commodity markets** - based upon biopiracy, green revolution and predatory maritime activities - which lead to biohazards and depletion of fisheries.

The 'impeccable' neocolonial logic of the waste trade

DATE: December 12, 1991
TO: Distribution
FR: Lawrence H. Summers

... I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that... I've always thought that under-populated countries in Africa are vastly UNDER-polluted.

(full memo at www.whirledbank.org)

Lawrence Summers

The Bank
Memo



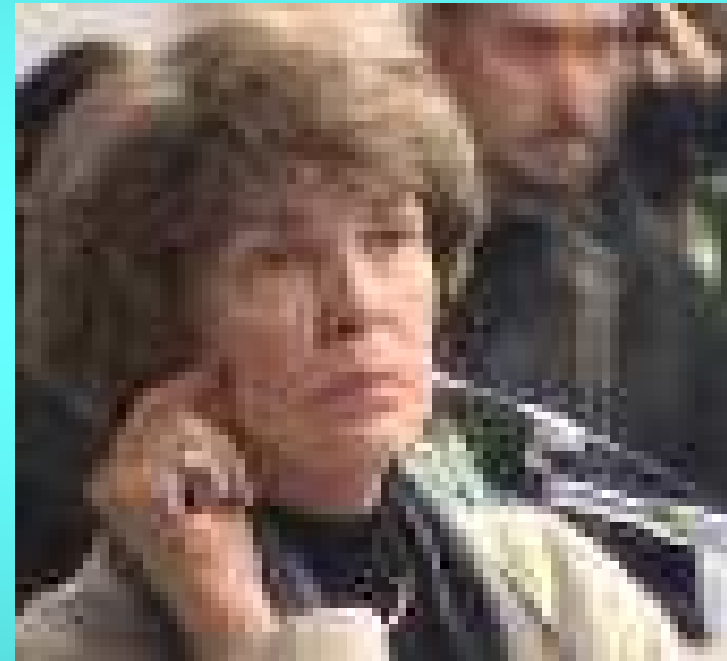
On December 12, 1991, the chief economist for the World Bank, Lawrence Summers, wrote an internal memo that was leaked to the environmental community ...

Voices for IMF/World Bank closure:

Susan George

renowned author and a leader of ATTAC, France

- *These institutions have had their chance. Anytime anyone asks, 'And what would you put in its place?' I am tempted to respond, 'And what would you put in the place of cancer?'*



Voices for IMF/WB closure: Archbishop of Cape Town Njongonkulu Ndungane



- [If] we must release ourselves from debt peonage - by demanding the repudiation and cancellation of debt - we will campaign to that end. And if the World Bank and IMF continue to stand in the way of social progress, movements like Jubilee South Africa will have **no regrets about calling for their abolition.**

To that end, the **World Bank Bonds Boycott** movement is gaining even great momentum. Even a money centre city like San Francisco decided to redirect funds away from Bank bonds into other investments, on the moral grounds that taking profits from World Bank operations contributes to poverty, misery and ecological degradation. More and more investors are realising that **profiting from poverty through World Bank bonds is not only immoral, but will not make good financial sense as the market shrinks.**

Ndungane, N. (2003), *A World with a Human Face: A Voice from Africa*, Cape Town, David Philip, p.31.

3. Ecological financing

**Definitions, components,
implications – from debt to
'leaving resources in the
ground'**

Accion Ecologica: ecological debt
is the debt accumulated by
Northern, industrial countries
toward Third World countries on
account of **resource plundering,**
environmental damages, and the
free occupation of environmental
space to deposit wastes, such as
greenhouse gases, from the
industrial countries.

Joan Martinez-Alier: “The notion of an **Ecological Debt is not particularly radical. Think of the **environmental liabilities incurred by firms** (under the United States Superfund legislation), or of the engineering field called **‘restoration ecology’**, or the proposals by the Swedish government in the early 1990s to calculate the country’s environmental debt.”**

Types of ecological debt

(Joan Martinez-Alier):

- **renewable resources that have been exported;**
- **future lack of availability of destroyed resources;**
- **damages produced by exports (smelter sulphur dioxide, mine tailings, water pollution by mining);**
- **profits from stolen genetic resources ('biopiracy');**
- **imports of solid or liquid toxic waste; and**
- **disproportionate use of 'Environmental Space', e.g. (unpaid) costs of free disposal of gas residues (carbon dioxide, CFCs, etc) assuming equal rights to sinks and reservoirs**

“although it is not possible to make an exact accounting, it is necessary to **establish the principal categories and certain orders of magnitude** in order to stimulate discussion... If we take the present human-made emissions of carbon, [this represents] a **total annual subsidy of \$75 billion is forthcoming from South to North.**”

Martinez-Alier, J. (1998) 'Ecological Debt - External Debt', Quito, Acción Ecológica.

leading ecofeminist Vandana Shiva and former South Centre director Yash Tandon estimate that **biopiracy of 'wild seed varieties have contributed some \$66 billion annually to the US economy.'**

Examples of biopiracy in Africa

2005 study commissioned by **Edmonds Institute, African Centre for Biosafety**:
* three dozen cases of African resources – worth \$billions - captured by firms for resale without adequate 'Access and Benefit Sharing' agreements between producers and the people who first used the natural products

- * **diabetes drug** produced by a Kenyan microbe and Libyan/Ethiopian treatment;
- * **antibiotics** from Gambian termite hill and giant West African land snails;
- * **antifungal** from Namibian giraffe and **nematocidal fungi** from Burkina Faso;
 - * **infection-fighting amoeba** from Mauritius;
 - * Congo (Brazzaville) treatment for **impotence**;
 - * **vaccines** from Egyptian microbes;
 - * South African and Namibian indigenous **appetite suppressant Hoodia**;
- * **drug addiction treatments**, multipurpose kombo butter from Central, W.Africa;
 - * **beauty, healing treatment** from Okoumé resin in Central Africa;
- * **skin and hair care** from the argan tree in Morocco, Egyptian 'Pharaoh's Wheat',
 - * bambara groundnut and 'resurrection plant';
 - * endophytes and improved fescues from Algeria and Morocco;
 - * groundnuts from Malawi, Senegal, Mozambique, Sudan and Nigeria;
 - * Tanzanian impatiens; and
 - * molluscicides from the Horn of Africa

Rich Countries Owe Poor a Huge Environmental Debt

The Guardian UK

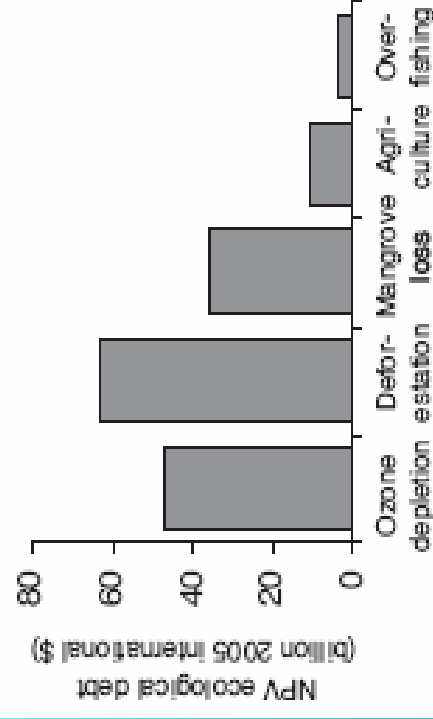
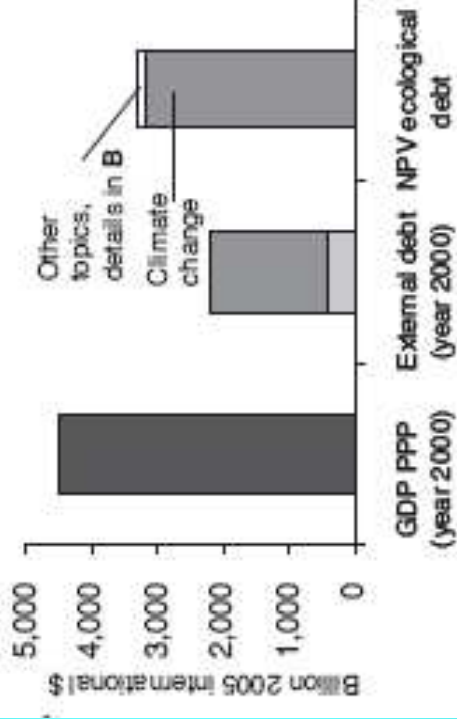
Monday, January 21, 2008 -- The environmental damage caused to developing nations by the world's richest countries amounts to **more than the entire third world debt of \$1.8 trillion**, according to the first systematic global analysis of the ecological damage imposed by rich countries. The study found that there are huge disparities in the ecological footprint inflicted by rich and poor countries on the rest of the world because of differences in consumption.

The debt of nations and the distribution of ecological impacts from human activities

U. Thara Srinivasan^{a,b}, Susan P. Carey^c, Eric Hallstein^d, Paul A. T. Higgins^{d,e}, Amber C. Kerr^d, Laura E. Koteen^d, Adam B. Smith^d, Reg Watson^f, John Harte^{c,d}, and Richard B. Norgaard^d

^aPacific Ecoinformatics and Computational Ecology Laboratory, Berkeley, CA 94703; ^dEnergy and Resources Group, 310 Barrows Hall, University of California, Berkeley, CA 94720-3050; ^cDepartment of Environmental Science, Policy, and Management, University of California, Berkeley, CA 94720-3114; ^eAmerican Meteorological Society, 1120 G Street NW, Washington, DC 20005-3826; and ^fSea Around Us Project, Fisheries Centre, University of British Columbia, Vancouver, BC, Canada V6T 1Z4

Category	Direct or indirect driver
Climate change	Greenhouse gas emissions (carbon dioxide, methane, nitrous oxide)
Stratospheric ozone-layer depletion	Chlorofluorocarbon emissions
Agricultural intensification and expansion	Consumption of agricultural goods
Deforestation	Consumption of agricultural goods and wood-related goods, weighted equally
Overfishing	Consumption of fish and fisheries products
Mangrove loss	Consumption of farmed shrimp



As human impacts to the environment accelerate, disparities in the distribution of damages between rich and poor nations mount. Globally, environmental change is dramatically affecting the flow of ecosystem services, but the distribution of ecological damages and their driving forces has not been estimated. Here, we conservatively estimate the environmental costs of human activities over 1961–2000 in six major categories (climate change, stratospheric ozone depletion, agricultural intensification and expansion, deforestation, overfishing, and mangrove conversion), quantitatively connecting costs borne by poor, middle-income, and rich nations to specific activities by each of these groups. Adjusting impact valuations for different standards of living across the groups as commonly practiced, we find striking imbalances. Climate change and ozone depletion impacts predicted for low-income nations have been overwhelmingly driven by emissions from the other two groups, a pattern also observed for overfishing damages indirectly driven by the consumption of fishery products. Indeed, through disproportionate emissions of greenhouse gases alone, the rich group may have imposed climate damages on the poor group greater than the latter's current foreign debt. Our analysis provides *prima facie* evidence for an uneven distribution pattern of damages across income groups. Moreover, our estimates of each group's share in various damaging activities are independent from controversies in environmental valuation methods. In a world increasingly connected ecologically and economically, our analysis is thus an early step toward reframing issues of environmental responsibility, development, and globalization in accordance with ecological costs.

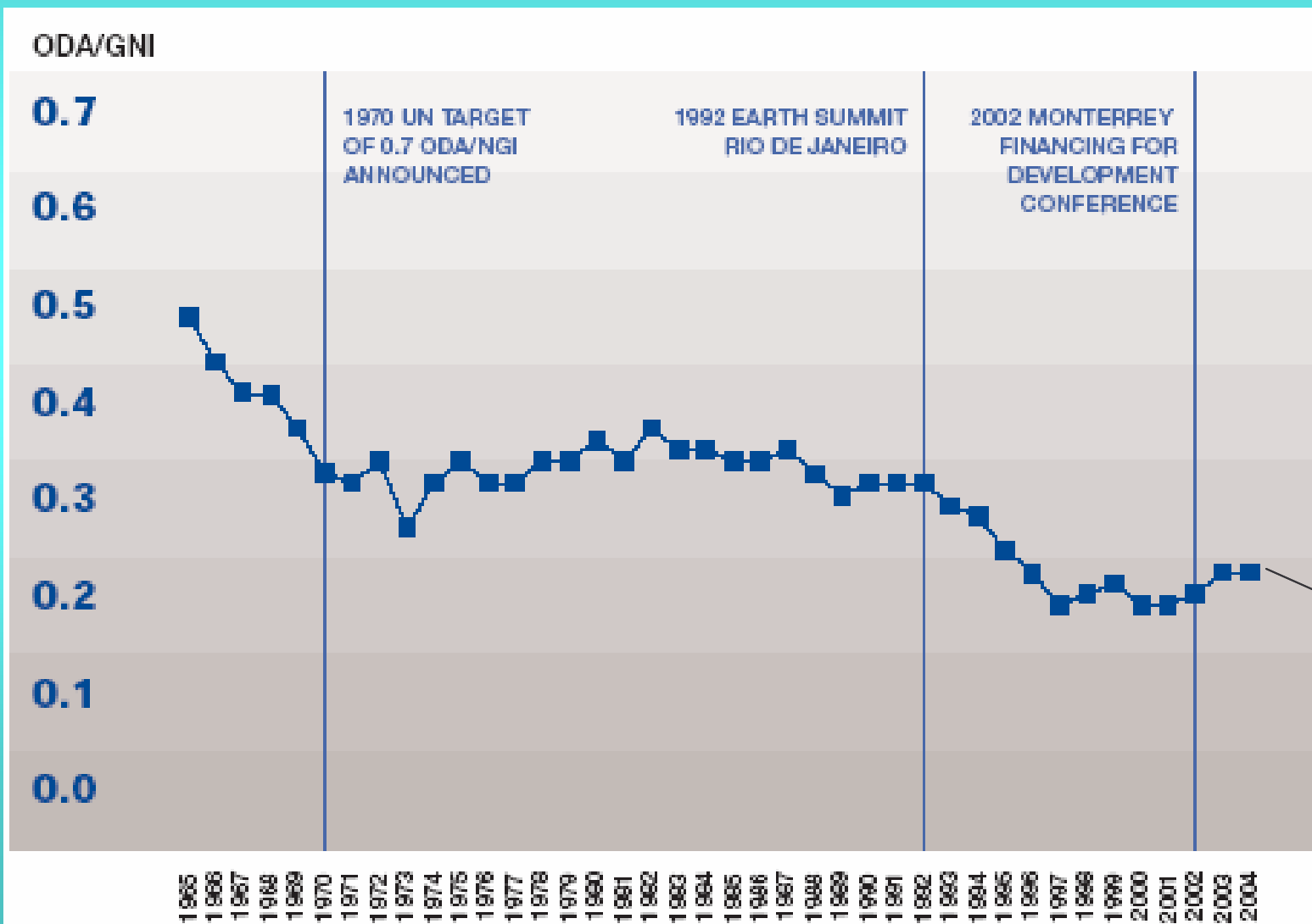
**Submission by Republic of Bolivia to the Ad Hoc Working
Group on Long-term Cooperative Action under the UN
Framework Convention on Climate Change
April 2009**

The climate debt of developed countries must be repaid, and this payment must begin with the outcomes to be agreed in Copenhagen. Developing countries are not seeking economic handouts to solve a problem we did not cause. What we call for is full payment of the debt owed to us by developed countries for threatening the integrity of the Earth's climate system, for over-consuming a shared resource that belongs fairly and equally to all people, and for maintaining lifestyles that continue to threaten the lives and livelihoods of the poor majority of the planet's population. This debt must be repaid by freeing up environmental space for developing countries and particular the poorest communities.

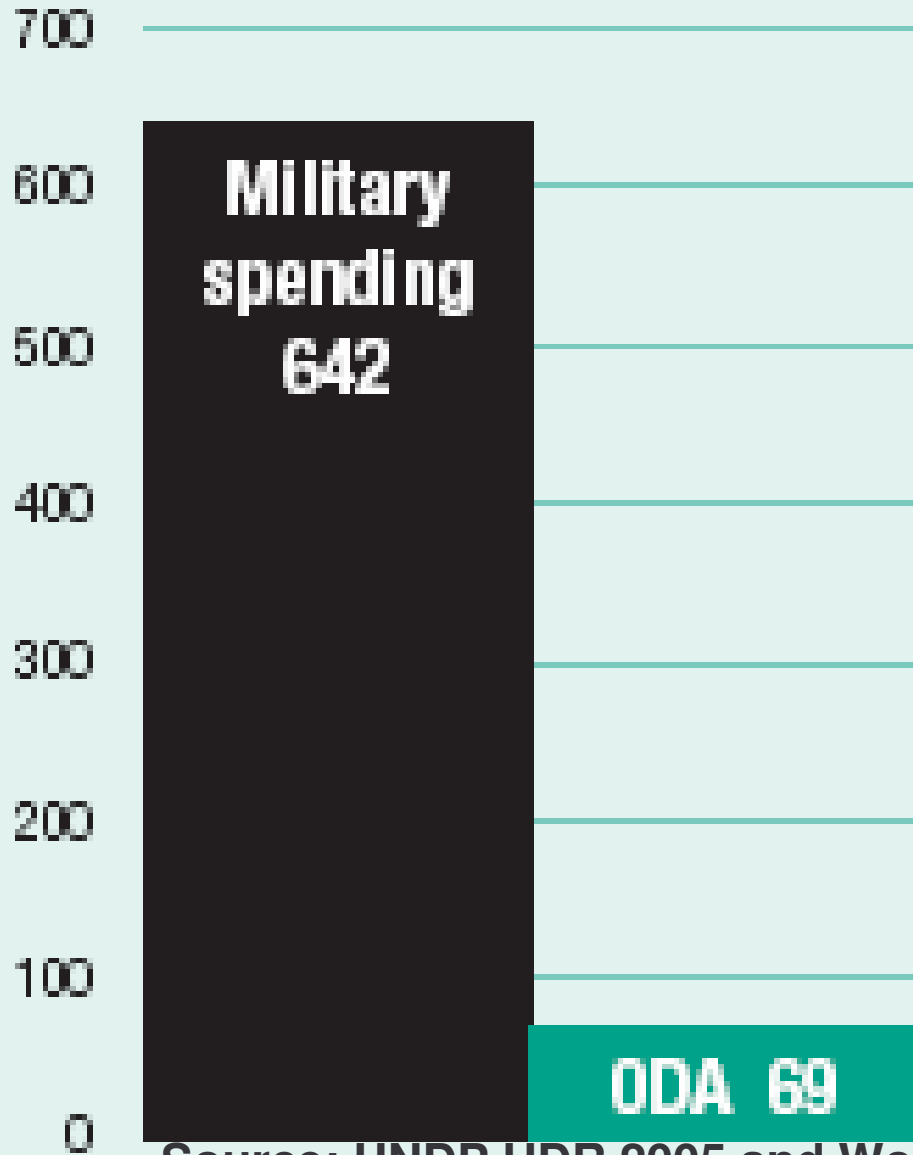
REPAYMENT VIA AID?

Declining commitments

Source: World Development Movement

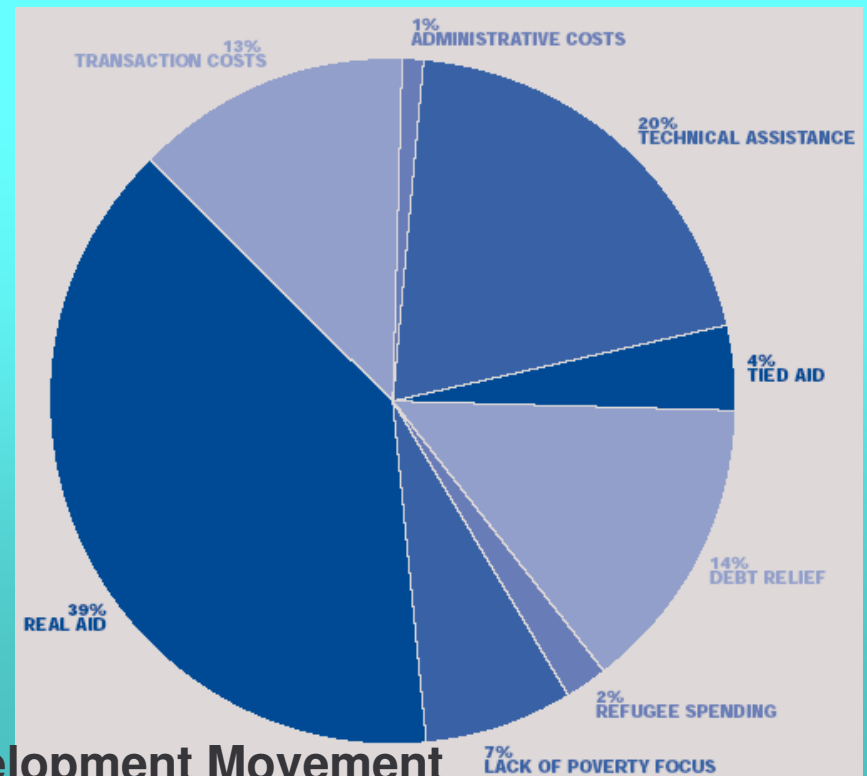


Spending by OECD donors, 2003
(US\$ billions)



Source: UNDP HDR 2005 and World Development Movement

**AID IN CONTEXT:
Far less than
military spending
- and 60% is
'phantom aid'**



act:onaid

Who should pay to tackle climate change in developing countries?

An ActionAid rough guide

May 2009

ActionAid ask: How much is required for climate mitigation, 2020?

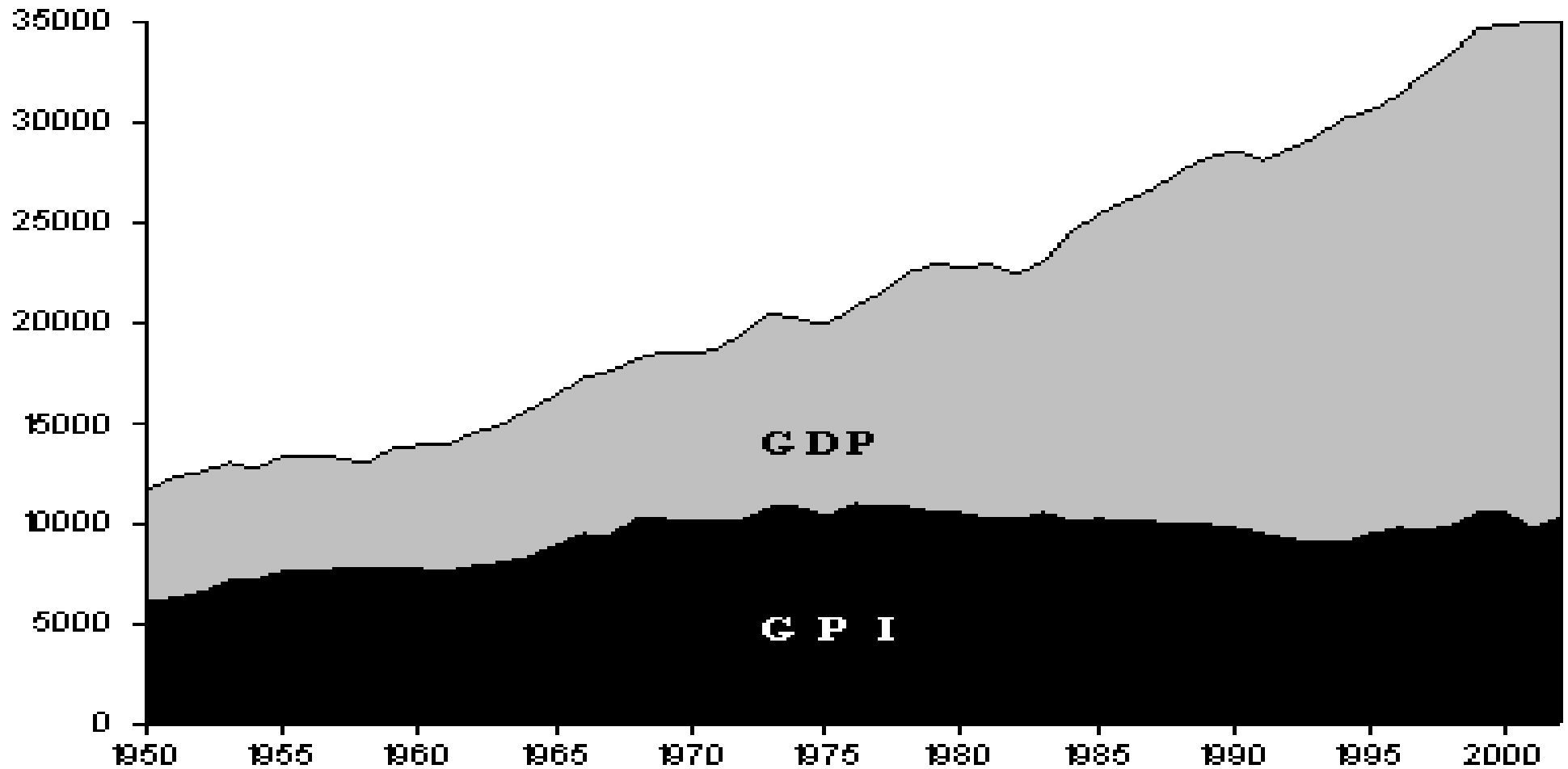
Issue	Amount required per year
Adaptation ¹	US\$86 billion
Clean technology ³	US\$65 billion
Combating deforestation ⁴	US\$24 billion
Agricultural mitigation ⁵	US\$7 billion
TOTAL	US\$182 billion

... how much is pledged?

Fund	Amounts pledged
Special Climate Change Fund	US\$12 million
Least Developed Countries Fund	US\$182 million
Kyoto Protocol Adaptation Fund	US\$61 million
TOTAL	US\$255 million

act:onaid

Urgent to correct GDP bias (global) for pollution, resource extraction, etc



A "genuine progress indicator corrects the bias in GDP"

Source: redefiningprogress.org

**World Bank
method for
adjusting
savings to
account for a
country's
tangible wealth
and resource
depletion:
The case of
Ghana, 2000**

(per capita US\$ measure)

(Where is the Wealth of Nations?, 2006)

Tangible wealth		Adjusted net saving	
Subsoil assets	85	Gross National Saving	40
Timber resources	290	Education expenditure	7
		Consumption fixed	
NTFR	78	capital	19
Protected areas	7	Energy depletion	0
Cropland	855	Mineral depletion	4
Pastureland	43	Net forest depletion	8
Produced capital	888		
<hr/>			
Total tangible		Adjusted net saving	18
wealth	2022		
Population growth	1.7%	Δ Wealth per capita	-18

Note: Data for 2000. NTFR: nontimber forest resources.

	GNI per capita	Population growth rate (%)	Adjusted net saving per capita	Change in wealth per capita
Benin	360	2.6	14	-42
Botswana	2925	1.7	1021	814
Burkina Faso	230	2.5	15	-36
Burundi	97	1.9	-10	-37
Cameroon	548	2.2	-8	-152
Cape Verde	1195	2.7	43	-81
Chad	174	3.1	-8	-74
Comoros	367	2.5	-17	-73
Congo, Rep. of	660	3.2	-227	-727
Côte d'Ivoire	625	2.3	-5	-100
Ethiopia	101	2.4	-4	-27
Gabon	3370	2.3	-1183	-2241
Gambia, The	305	3.4	-5	-45
Ghana	255	1.7	16	-18
Kenya	343	2.3	40	-11
Madagascar	245	3.1	9	-56
Malawi	162	2.1	-2	-29
Mali	221	2.4	20	-47
Mauritania	382	2.9	-30	-147
Mauritius	3897	1.1	645	514
Mozambique	195	2.2	15	-20
Namibia	1820	3.2	392	140
Niger	166	3.3	-10	-83
Nigeria	297	2.4	-97	-210
Rwanda	233	2.9	14	-60
Senegal	449	2.6	31	-27
Seychelles	7089	0.9	1182	904
South Africa	2837	2.5	246	-2
Swaziland	1375	2.5	129	8
Togo	285	4.0	-20	-88
Zambia	312	2.0	-13	-63
Zimbabwe	550	2.0	53	-4

Note: All dollars at nominal exchange rates.

Where *is* Africa's wealth? World Bank recording of African countries' adjusted national wealth gap, 2000

(World Bank, *Where is the Wealth of Nations?*, 2006)

Petro-mineral resources: Leave the oil in the soil Leave the coal in the hole Leave the tar sand in the land

- **Alaska wilderness and California offshore drilling campaigners**
- **Oil Watch network (formerly Quito, now in Pt Harcourt, Nigeria)**
- **women of the Niger Delta, Environmental Rights Action, MEND**
- **Australian *Rising Tide* in Newcastle, British climate camp**
- **Climate Justice Now! movement**
- **Attac, Norway**
- **Alberta, Canada tar sands green & indigenous activists**
- **South Durban Community Environmental Alliance against new pipeline that will double petrol flow to Johannesburg**
- **Ecuadoran indigenous activists, Accion Ecologica and Rafael Correa** - agree that Ecuador's main oil reserve (Ishpingo-Tiputini-Tambococha, in Yasuní National Park) should stay in the ground (August 2007), to be financed by Germany (June 2009)

Climate Justice Now!

Bali, December 2007

Movement demands:

- **reduced consumption;**
- **huge financial transfers from North to South based on historical responsibility and ecological debt for adaptation and mitigation costs paid for by redirecting military budgets, innovative taxes and debt cancellation;**
- **leaving fossil fuels in the ground and investing in appropriate energy-efficiency and safe, clean and community-led renewable energy;**
- **rights-based resource conservation that enforces Indigenous land rights and promotes peoples' sovereignty over energy, forests, land and water; and**
- **sustainable family farming and peoples' food sovereignty.**

**CONFEDERATION OF INDIGENOUS NATIONALITIES
OF THE ECUADORIAN AMAZON (CONFENIAE)**

(Logo and letterhead, list of members including organizations of the Shuar, Kichwa, Achuar, Waorani, Siona, Secoya, Cofan, Zapara, Shiwiar and Andoa Peoples)

STATEMENT

Unión Base, Puyo August 3rd, 2009

**CONFENIAE REJECTS
ALL KINDS OF ENVIRONMENTAL NEGOTIATIONS ON FORESTS
AND EXTRACTIVE POLICIES
THAT DAMAGE THE TERRITORIES OF THE
AMAZONIAN INDIGENOUS NATIONALITIES AND PEOPLES OF ECUADOR**

... The CONFENIAE will not negotiate nor dialogue without the consent of the grassroots on the issues of Oil Extraction Activities, Mining, Hydroelectric Dams, the SocioBosque Plan, REDD business, Environmental Services, etc., since certain entities, like the Energy, Environment and Population institution, the World Bank and Carbon Traders in alliance with Latin American governments are trying to negotiate the lives of the Indigenous Nationalities and Peoples [and] undermine our Rights to our Territories.

Conclusions: New financing needed

Hugo Chavez: International Monetary Fund (IMF) should “dissolve itself” and “disappear from the Earth”

Pedro Paez: society must “reclaim the leading role that has been kidnapped by the centres of political and economic power ... the capitalist system is not the only option”