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Transnational Banks, the International Monetary Fund and External Debt of Developing Countries

The objective of this paper is to examine the relationship between transnational banks and the International Monetary Fund (IMF) in handling the external debt of developing countries. This issue has assumed critical importance because the balance of payments deficits of developing countries, since 1973, have been financed, to a significant extent, by borrowing from transnational banks. This borrowing was partly due to the limited financing available from the IMF and the harsh conditionality which discouraged or, at least, did not induce developing countries to avail themselves of these facilities. The external debt of developing countries has attained alarming proportions and, given the significant share owed to transnational banks, appears to be jeopardsing the international financial system. The IMF, as the institution charged with providing balance of payments financing and ensuring adjustment, is central to the debt problem. It is the state of the balance of payments of developing countries which determines their ability to borrow and to repay their loans.

ship between transnational corporations and banks of a particular nationality both at home and abroad).[12]

(b) The diversification of assets portfolio. That is to say, an internationally diversified asset portfolio reduces the risk of unfavourable effects of economic and political developments in any single country or in one region and bankers have stressed this point.[13] For example, Citicorp explains that "Citicorp's world-wide policy of broad diversification of both assets and liabilities helps to maintain stability and reduces risk of excessive concentration in any one particular country, currency or industry.[14]

(c) To escape home country regulations[15] which refers particularly the case of the United States of America where limits on expansion across state lines made international growth attractive. In the case of the Federal Republic of Germany, the stimulant to transnationalisation was capital controls, while in Canada, domestic interest rate ceilings spurred external lending. This freedom from national regulations have led to the establishment of branches in offshore, tax haven financial centres.[16]

(d) To the increase of these profits by taking advantage of interest rates differentials and exchange rate changes[17] in different national money markets.

BANK LENDING TO DEVELOPING COUNTRIES

The rapid growth in loans from transnational banks to developing countries after 1973 occurred because of the coincidence of a number of factors. On the supply side, there were three main factors:

(a) The capacity of transnational banks to lend to developing countries increased significantly after 1973 because loan demand in the developed capitalist countries had not grown sufficiently due to the recession which commenced during 1971, and the recycling of the OPEC surplus. This was committant with a rapid phase in the expansion of transnational banking led by US banks[18] and joined by European, Canadian and Japanese banks.

(b) Lending to developed countries was spurred by the fierce competition between banks and their drive for profits and asset growth. The intense competition caused banks, in 1973-74, to abandon their conservative tenets of banking and to assume an aggressive attitude of offering loans to countries at attractive terms *e.g.* Peru.[19] The lending was supply induced because export earnings of oil exporting countries left from US$39.0 billion in 1973 to US$7.9 billion in 1974, and even after increased imports their current surplus increased from US$6.7 billion to US$68.3 billions.[20]

(c) The principal motive for transnational bank lending to developing countries has been its profitability both in absolute terms and relative to profits on national operations. Banks earned high rates of profits on loans to developing countries because the high rates of interest charged and the fees on syndicated loans, for example, management fees, participation fees and commitment fees. A large part of loans to developing countries have been syndicated bank Eurodollar loans with a floating interest rate which is a margin over London Inter-bank Offered Rates (LIBOR). The margin over LIBOR and which depends on overall market conditions and risk assessments of the individual borrower.

Loans to developing countries were therefore made at rates of interest above those to industrial countries in the Eurodollar market (See Table 2) and compared to primary rates in those countries. For example the average yield on syndicate loans to developing countries was about one percentage point higher than the US prime rate during 1973-1978[21]. The fees charged varied from 0.25 per cent up to 2.5 per cent[22].

TABLE 2: AVERAGE MARGINS ON EUROCREDITS: 1975-1980
(% over LIBOR)

	Average Margins		Ranges a	
	Industrial Countries	Developing Countries	Industrial Countries	Developing Countries
1975	1.39	1.59	1.00-1.75	1.25-2.00
1976	1.36	1.62	1.00-1.75	1.00-2.25
1977	0.96	1.42	0.50-1.50	0.75-2.00
1978	0.60	1.10	0.25-1.25	0.50-2.00
1979	0.48	0.78	0.25-1.00	0.25-1.50
1980 d	0.44	0.74	0.25-0.75	0.25-1.50
1980 c	0.42	0.85	0.25-0.75	0.25-1.50

Note: a Excludes top and bottom 10 per cent of distribution.
b First half.
c Second half.

Source: Richard O'Brien, Private Banking Lending to Developing Countries, *World Bank Staff Working Paper No. 482*, August, 1981.

Foreign operations of US transnational banks became very profitable in the 1970s and accounted for an increased share of total profits. A study of thirteen large US bank holding companies revealed that between 1970 and 1976, their foreign earnings increased by about US$700 million while domestic earning rose by less than US$40 million. Therefore, 95 per cent of the incruased in total earnings orginated from international operations.[23] By 1975, foreign earnings averaged 52 per cent of total earnings. The profitability of foreign operations declined between 1976 and 1979, reducing their shares of total earnings to 43 per cent in 1979.[24]

On the demand side, the principal factor was the ever increasing balance of payments deficit of developing countries after 1973. A combination of deteriorating terms of trade, fluctuating primary product prices, inflation in import prices, especially oil prices, stagnating capital flows, and slow growth in export demand led to sharp increases in balance of payments deficits. Current account deficits of the non-oil developing countries increased from US$11.6 billion in 1973 to US$46.5 billion in 1975 to US$99.0 billion in 1981. This presents an increase of eight times in an eight year period (See Table 3). At the same time, the IMF did not have enough funds to provide adequate financing for the deficits of developing countries as total Fund quotas fell from about 12 per cent of world imports in the early 1960s to about 4 per cent at the end of 1980, despite the increase of the Fund Capital under the Seventh General Review of Quotas in November 1980[25]. Total outstanding use of IMF credit by non-oil producing countries amounted to only US$14. billion in 1981 (See Table 4).

In any event the conditionality stipulated by the IMF for use of its higher credit tranches discouraged borrowing. The *Brandt Report* bemoans the fact that "over the years the IMF has imposed such rigorous conditions that deficit countries have failed to make use of their quotas or make use of them too late, preferring the private banks instead. The conditional resources that the Fund can make available, limited as they are, have been greatly under-utilised."[26] A recent report of UNCTAD confirms the under-utilisation of

TABLE 3 BALANCE OF PAYMENTS OF NON-OIL DEVELOPING COUNTRIES
1973-1982 (US$ billion)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
...ports (f.o.b.)	82.3	114.3	112.6	134.6	168.9	194.9	250.4	317.1	326.9	350.5
...ports (f.o.b.)	93.0	147.1	153.0	160.4	191.9	227.8	298.0	387.7	402.1	426.1
Trade Balance	–10.5	–32.8	–40.4	–25.4	–23.0	–33.0	–47.6	–70.6	–75.2	–75.7
...Services and Private Transfers	– 1.0	–4.2	–6.1	–6.3	–5.3	–6.2	–11.4	–15.6	–23.7	–21.3
...rent Account Balance	–11.5	–37.0	–46.5	–32.0	–28.3	–39.2	–58.8	–86.2	–99.0	–97.0
...ancing										
...Non-Debt Creating Flows	10.1	13.0	11.8	12.0	14.9	17.2	23.0	24.1	26.3	27.8
...Borrowing and use of Reserves	1.5	23.9	34.7	20.1	13.4	22.0	35.9	62.1	72.7	69.2
...duction of Reserve Assets	–9.7	–2.4	1.9	–13.8	–12.4	–15.8	–12.4	–4.9	–1.6	–4.0
...External Borrowing	11.2	23.3	32.9	31.2	25.8	37.8	48.4	67.1	74.3	73.2
...ate Financial Institution	7.1	12.6	13.8	17.0	19.4	23.9	32.4	30.1	35.5	37.0

Discrepancies in figures due to rounding of figures 1973, 1974, 1976 and 1977.
– = Increase
...rce: *IMF Occasional Paper No. 9; World Economic Outlook 1982* (Washington D.C.; IMF, 1982) p. 161, 166.

TABLE 4

Non-Oil Developing Countries: Outstanding Use of Fund Credit, 1973-1981
(In billions of Us dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total outstanding use of Fund credit by non-oil developing countries	1.2	2.8	4.8	8.0	8.0	8.0	8.3	9.5	14.9
By analytical group									
Net oil exporters	1.1	0.1	0.1	0.9	1.1	1.1	1.0	0.8	0.8
Net oil importers	0.1	2.6	4.7	7.2	7.0	7.0	7.3	8.7	14.1
Major exporters of	0.1	2.6	4.7	7.2	7.0	7.0	7.3	8.7	14.1
manufactures	0.2	0.5	1.2	2.4	2.4	1.8	1.4	1.9	2.7
Low-income countries	0.5	1.3	2.1	2.2	2.0	1.9	2.1	2.7	4.7
Other net oil importers	0.4	0.6	1.4	2.5	2.6	3.2	3.7	4.2	6.8

Source: World Economic Outlook *International Monetary Fund, Occasional Paper No. 9 April, 1982*

IMF facilities by developing countries.[27].

It is in this context that the developing countries became substantially indebted to the transnational banks. The non-oil developing countries faced the choice of draconian reductions in economic growth and standard of living, with the probability of serious social and political upheaval or financing balance of payments deficits by borrowing from private sources *e.g.* transnational banks, through the Eurodollar market. During the period 1971 to 1980, syndicated bank credits to developing countries amounted to US$184.4 billion or 48.2 per cent of all credits (See Table 5). These Eurodollar loans were used both for balance of payments financing and for funding projects in both the public and private sectors.

In examining the external indebtedness of the developing countries, the focus is on the non-oil developing countries, with the exception of the oil exporting countries.[28] The reason for this is that it is in regard to the external debt of the non-oil developing countries that the relationship between the IMF and the banks is most developed and most important. The total external debt of non-oil developing countries increased from US$96.8 billion in 1973 to US$502 billion in 1973 and outstanding debt to private financial institutions grew from US$14.0 billion in 1973 to US$162.6 billion in 1982 (Table 6) The share of external debt owed to private financial institutions increased from 35.7 per cent in 1973 to 52.7 per cent in 1982 (Table 7) By 1982, outstanding external debt, as a ratio of GDP, was 25.2 per cent and as a ratio of exports of goods and services was 109.1 per cent compared to 16.6 per cent and 88.7 per cent respectively in 1973.[29] Debt servicing had risen from US$15.3 billion in 1973 to US$107.8 billion in 1982, while the debt service ratio stood at 22.3 per cent in 1982 (See Table 8).

Loans from transnational banks are concentrated on the more affluent of the non-developing countries and as a result a few countries account for the bulk of debt owed to banks. It is estimated that at the end of 1981, the two largest borrowers accounted for 38 per cent of outstanding bank loans, while the top twenty were responsible for about 90 per cent.[30]

TABLE 5 SYNDICATED BANK CREDITS TO DEVELOPING COUNTRIES 1970-1980 (US$ billion)

Group	1971-75	1976-80	Total 1971-80	Total % of 1971-80
Non-oil developing countries	21.4	109.9	131.3	34.3
OPEC	8.0	45.1	53.1	13.9
All developing countries	29.4	155.0	184.4	48.2
World total	83.2	299.6	382.8	100.0

Source: Richard O'Brien, "Private Banking Lending to Developing Countries", *World Bank Staff Working Paper No. 482, August 1981.*

TABLE 6

Non-Oil Developing Countries: Long Term External Debt, 1973-1982[1]
(In billions of US dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total outstanding debt of non-oil developing countries	96.8	120.1	146.8	181.4	221.8	276.4	324.4	375.4	436.9	505.2
By type of creditor										
Official creditors	48.3	58.2	67.9	82.2	98.2	117.4	133.3	155.5	175.6	199.5
Governments	35.7	42.6	48.5	57.5	67.4	79.6	88.9	102.1	114.3	128.1
International institutions	12.6	15.7	19.4	24.7	30.8	37.8	44.5	53.4	61.4	71.4
Private creditors	48.5	61.8	78.9	99.2	123.6	159.0	191.1	220.0	261.4	305.7
Unguaranteed debt	20.6	25.3	31.5	38.7	44.0	52.4	58.6	68.8	84.8	101.5
Guaranteed debt	27.9	36.5	47.4	60.5	79.6	106.6	132.5	151.2	176.5	204.2
Financial institutions	14.0	22.8	31.2	41.9	57.5	75.4	101.9	117.4	138.8	162.6
Other private creditors	13.9	13.8	16.2	18.6	22.1	31.2	30.6	33.8	37.7	41.6

[1] Excludes data for the People's Republic of China prior to 1977.
Source: World Economic Outlook *International Monetary Fund, Occasional Paper No. 9, April 1982.*

TABLE 7

Non-Oil Developing Countries: Distribution of Debt by Class of Creditor, End of Year, 1973-82[1]

(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total outstanding debt of non-oil developing countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
To official creditors	49.9	48.5	46.2	45.3	44.3	42.5	41.1	41.4	40.1	39.4
Governments	36.9	35.5	33.0	31.7	30.4	28.8	27.4	27.2	25.9	25.1
International insititutions	13.0	13.1	13.2	13.6	13.9	13.7	13.7	14.2	14.2	14.3
To private creditors	50.1	51.5	53.7	54.7	55.7	57.5	58.9	58.6	59.9	60.6
Financial institutions	35.7	40.0	42.7	44.4	45.8	46.2	49.5	49.6	51.4	52.7
Other private creditors	14.4	11.5	11.0	10.3	10.0	11.3	9.4	9.0	8.5	7.9

[1] Excludes data for the People's Republic of China prior to 1977.

Source: World Economic Outlook *Monetary Fund, Occasional Paper No. 9, April, 1982.*

TABLE 8

Non-Oil Developing Countries: Debt Service Payments on Long-Term External Debt, 1973-82[1]

(Values in billions of U.S. dollars; ratios in per cent)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
All non-oil developing countries										
Value of debt service payments	15.3	17.1	21.1	24.6	30.7	44.7	60.2	68.6	92.3	107.8
Interest payments	4.6	5.7	7.5	8.3	10.1	14.2	20.7	30.1	37.5	40.8
Amortizations	10.7	11.4	13.6	16.3	20.6	30.5	39.5	38.5	54.8	67.0
Debt service ratio[2]	9.8	7.7	9.0	9.2	9.4	11.8	11.9	9.2	12,5	13.8

[1] Excludes data for the People's Republic of China prior to 1977.

[2] Payments (interest, amortization, or both) as percentages of exports of goods and services.

Source: World Economic Outlook *International Monetary Fund, Occasional Paper No. 9, April, 1982.*

IMF IN THE WORLD CAPITALIST SYSTEM

The world capitalist economy requires not only the complete mobility of capital and commodities but also that payments for commodities be effected promptly and in an internationally acceptable currency. And, that capital, in its international movements, can quickly and easily transform itself into money capital, dominated in any currency. In addition, the world capitalist economy requires an international monetary system of convertible currencies with the stable exchange rates by which countries are in a position to meet their international payments on a current basis. The international monetary system has to have an institution to enforce these rules and that institution is the International Monetary Fund. *Article VIII, Section 2(a) of the IMF's Articles of Agreement* states that "no Member shall, without the approval of the Fund, impose restrictions on the making of payments or transfers for current international transactions". Current international transactions are defined by *Article XXX(d):*

> (i) All payments due in connection with foreign trade, other current business including services, and normal short term banking and credit facilities;
>
> (ii) Payments due as interest on loans and as net income from other investment; and
>
> (iii) Payments of moderate amount for amortization of loans for depreciation of direct investments.

The IMF does not have the power to enforce the rules on the developed capitalist countries or on the oil exporting developing countries. These countries jointly enforce the rules on each other and cooperate in financing their balance of payments deficits. Therefore, the function of the IMF is to enforce the rules on the developing countries to meet their international payments on a current basis as their balance of payments must be prevented from experiencing large and prolonged disequilibrium. Thus the IMF's task is the elimination of persistent balance of payments disequilibruim by virtue of being the lender of last resort and imposing "conditionality" on borrowers. The IMF usually makes the repatriation of profits and debt repayment one of the first charges on the foreign exchange earnings of developing countries and

this is not only to ensure the international mobility of capital, but to encourage inflows of foreign capital which are often the equilibrating factor in the balance of payments deficits of developing countries. But the Fund does not provide amounts of foreign exchange sufficient to facilitate balance of payments adjustment in developing countries, only enough is provided to prevent collapse. This is a deliberate policy because the IMF's job is to set the stage for foreign investment, foreign loans and action by local capitalists. The function of "conditionality" is to provide the opportunity, incentive and the conditions for high profit rates on investments and loans. Managing Director J. de Larosiere, admits that:

> Fund financing by itself, was insufficient to bridge the prospective deficits, but agreement between the Fund and the countries concerned, on the policy elements of the programmes, made it possible to reach agreement with the banks. According to the terms of these arrangements, the banks are commited to provide specific amounts of financing in parallel with the Fund.[32]

This was the case in the recent cries in Argentina, Brazil and Mexico[33]

IMF COMMERCIAL BANK RELATIONSHIP[34]

There is an uneasy alliance between the IMF and the transnational commercial banks (TCB) in which both parties need each other. The IMF needs the banks to supplement its inadequate financing of balance of payments deficits and the banks need IMF adjustment programmes to ensure repayment of loans to developing countries. The role of the Fund is explained by de Larosiere:

> It is true, of course, that the Fund's financial resources are limited in scale. But, Fund financing has had an important effect in restoring confidence on the part of other lenders and, thereby,unlocking access by the country concerned to additional external finance. It has been estimated that every dollar of Fund financing in support of adjustment programmes has in the recent past generateted an additional four dollars of new commercial lending.[35]

As Walter B. Wriston, Chairman of Citicorp has said, the fundamental contribution of the Fund is the discipline imposed on debtor countries, not on the amount it lends.[36]

Bankers view the Fund's ability to impose policy on

developing countries as a mainstay of the international monetary system[37] and requires an IMF programme as a basis for continued or renewed lending[38] *e.g.* Jamaica[39] or refinancing or rescheduling[40] as in the case of Peru.[41] Banks have their own analyses of credit worthiness and are not bound to follow IMF signals.[42] An IMF programme is a necessary, not sufficient condition for bank lending. Michael Manley, when Prime Minister of Jamaica, commented that:

> When the IMF lends money, it is not allowed to lend you enough. The banking system is supposed to lend you the rest. But, the banking system is not an umbrella for aid. It is a parasol for bright weather.[43]

For developing countries experiencing balance of payments problems, an IMF programme is a prerequisite for securing loans from transnational commercial banks. Director of the Western Hemisphere Department of the IMF states that:

> Countries with stand-by or extended arrangements with the Fund should not have any serious difficulty in convincing the private international financial community that their medium term economic programmes are, in fact, equilibrium programmes and that they will be observed.[44]

The IMF cannot ensure bank loans, it can only encourage lending by trying to create conditions which satisfy the banks and the possibility of borrowing from banks was the benefit many developing countries expected to derive from the implementation of the IMF programmes.

The banks and the Fund work closely together both formally and, to an even greater extent, they cooperate informally. Despite the absence of formal links and denials and refusals to provide documents to banks[45] there is a very close working relationship. A recent IMF occasional paper on external indebtedness of developing countries, admitted that:

> While the banks have generally sought assurance about a country's stabilisation effort by tying debt relief to a programme supported by Fund resources, efforts to design a viable stabilisation programme have, in turn, often resulted in implicit or explicit demands on the banks. . . . The Fund staff at times not only have sought indications from the banks of the likely magnitudes involved in a restructing but also has indicated to the banks, the level of bank financing that it considered crucial to the success of a reasonable adjustment effort.[46]

The case of Jamaica[47] provides clear evidence of the

close relationship between the IMF and the transnational banks. In March 1978 when Jamaica and the IMF could not agree on the details of the Extended Fund Facility programme, the chief negotiator had a meeting with the banks and told the Jamaican government that the banks would not support the programme the government was proposing. After the meeting with the banks, the IMF's position on the need for a huge devaluation hardened. The IMF official adamantly demanded a 40 per cent devaluation. No technical justification was offered. The extent of the devaluation was used to indicate Jamaica's seriousness about economic discipline and the IMF's ability to impose it.

At the 1979 IMF-World Bank annual meeting in Belgrade, the Jamaican delegation was approached by a representative of Kuhn Loeb Lehman/Warburg/Lazard Freres, acting on information gathered at a luncheon with top IMF officials, who offered to provide services to facilitate debt rescheduling, citing experience in Indonesia, Sri Lanka, Zaire and Turkey. In January 1980, the IMF officials told the Ministry of Finance that the banks were hardening their attitude towards Jamaica because of Mr. Manley's anti-imperialist speech at the Non-Aligned Conference in Havana (1979) and the return of leftist Dr. D.K. Duncan to the post of General Secretary of the People's National Party (PNP). These events, the banks felt, would discourage foreign investment. The IMF and the transnational commercial banks subsequently worked in tandem to pressure the Manley administration to tailor their foreign policy and domestic politics to suit the needs of the foreign capital.

The banks wanted to lend as profitably as possible and with the minimum risk (and lending to developing countries is now an important aspect of their transnational operations). There are two dimensions to bank lending to developing countries. First, the conditions for continued lending, and second, ensuring the repayment of outstanding loans on schedule or with the minimum refinancing and rescheduling. Transnational commercial banks have lent to developing countries with the conviction that if situations arise which threaten repayment, the IMF could be relied upon to rectify

the problem. These banks are also confident of the support of the governments of their home countries, in the event of a crisis.[48] Transnational banks have economic and political evidence.[49] This is especially true in the case of U.S. banks which have significant political influence.[50]

The IMF, by imposing measures which ensure that the repayment of debt is the first charge on the country's foreign exchange earnings (a) rescues banks in situations where repayment is in jeopardy or repayment schedule have been interrupted; and (b) creates opportunities for banks to make loans, reducing the repayment risk. When questioned about "bailing out" banks, the then Managing Director of the IMF, Mr Witteveen explained the dual function performed by the IMF for the banks. He stated that:

> "We want to stimulate such countries to take measures to restore reasonable equilibrium in their external accounts. This may, in time, also make it possible for them to repay outstanding loans; but our experience shows that they would become eligible to borrow again from the banks — which they would not be able to do without the corrective measures."[51]

The possibility of getting commercial bank loans, once an IMF programme is in place, induces developing countries to accept IMF programmes which do not provide sufficient financing. However, bank loans have not always been forthcoming.[52] The present Managing Director, J. de Larosiere has argued that:

> What we have been doing is using our catalytic role to get more money from the banks to countries in question.... so if anything, we have been bailing banks in, not out.[53]

But, the most important method of securing a role for the IMF in the relationship between banks and the indebted developing countries is by writing the adherence to IMF programmes into their loan agreements.

LOAN AGREEMENTS AND IMF PROGRAMMES

There is no formal arrangement between the transnational banks and the IMF, but the banks seek to protect their loans by "cross default" clauses in their loan agreements.[54] These clauses define a country to be in default if it is not in "good standing with the Fund. This can be interpreted as being eligible to use the facilities of the IMF. The term ineli-

gible to use Fund resources" has specific meanings as stated in the *Articles of Agreement*, but the banks may interpret the phrase in a broader sense.

Transnational banks stipulate in the loan agreements that "the borrower" is in default on the loan if the country is not in an IMF programme. For example, the loan agreement between First Chicago Syndicate and the Government of Jamaica states what constitutes a default in *Section 16; Events of Default* states:

> the borrower shall cease to be a member in good standing of the International Monetary Fund or to be eligible to use its resources or shall fail to comply with any requirements of the International Monetary Fund, pertaining to the total amount of outstanding external indebtedness.[56]

This loan agreement was signed in June 1975, two and a half years before Jamaica entered into a stand-by agreement with the IMF. This type of clause is a standard part of loan agreements and refinancing agreements between a syndicate of TCB and the Government of Jamaica states under *Article VIII, Events of Default, Section 8.01 (h)* that a default has occured if:

> the obligor shall cease to be eligible to use resources of the IMF; or the Obligor shall fail to make any purchase of funds under the Extended Arrangement or any Replacement Arrangement; or the IMF shall terminate the Extended Arrangement or any Replacement Arrangements.[58]

The agreement between the Government of Peru and Manufacturers Hanover Trust Company states in *Section 9; Events of Default, 9 (h)*.

> The Obligor shall cease to be a member of the IMF or eligible to use the resources thereof; or the Stand-by Arrangement shall cease to be in full force and effect.[59]

These IMF default clauses are also part of the loan agreements with State enterprises which are guaranteed by governments of developing countries.

The transnational commercial banks infringe on the sovereignty of the developing country by alising the exercise of certain economic policies, by defining the country's legitimate right to pursue these policies to constitute an event of default. The loan agreement between Orion Syndicate and the Government of Jamaica, of March 20, 1974, states that in

addition to being in good standing with the IMF, it would constitute a default if "the Government of Jamaica or any agency thereof shall announce an intention to propose exchange control restrictions from which the banks may reasonably conclude that it is improbable that the borrower will be able to make any payment in freely transferable United States dollars under this Agreement".[60] The loan agreement between the Manufacturers Hanover Trust Company and the Government of Peru defines default to be occasioned by a situation in which "the international monetary reserves (or any portion thereof) of the Obligor shall at any time be subject to any mortgage, lien, security interest, pledge or other charge or encumbrance or preferred arrangement of any kind."[61]

The banks go to the extreme of giving themselves the right to decide what constitutes a default and, therefore, even if a country has met all the terms of the loan agreement, the TCB can still decide that the country is in default. For example, the loan agreement between Citicorp and the Government of Jamaica states that the borrower is in default if "an extraordinary situation occurs which gives reasonable grounds to conclude in the judgement of the Majority Banks, that the borrower will be unable to perform or observe in the normal course its obligations under this Agreement."[62] The term "reasonable grounds" is capable of many interpretations, both of a political and economic character, and may be applied both at a national and an institutional level. The Manufacturers Hanover/Peru agreement defines default to have occurred if "any Governmental Agency shall be adjudicated, or otherwise declared by any legal process to be, insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefits or creditor."[63]

Any section deemed by the banks to constitute default triggers a clause which empowers them to create a payments crisis by calling for immediate payment of all outstanding debt. The loan agreement between First Chicago Syndicate and the Government of Jamaica dated June, 1975 states that in the event of a default,

> "the Agent may, and upon the request of any two or more

banks having together more than 50 per cent of the aggregate principal amount of each loan and note and all fees and all other amounts payable hereunder and thereunder, whereupon the principal amount of each loan and note than outstanding together with accrued interest thereon, and any fees and any other amounts payable hereunder up to and including the date of such notice, shall become immediately due without demand or other notice or any kind."[64]

THE BANKS' PERSPECTIVE

The transnational banks' lending to developing countries is motivated principally by profit making which can only be achieved if repayment is on schedule. This requires that "full and prompt servicing of external debt to private lenders must have top priority in foreign exchange usage"[65]. Although the banks feel safer with an IMF programme in place they, nonetheless, wait to ascertain if targets and objectives are being achieved. Their caution is understandable. A survey by two Fund economists, revealed that for seventy nine stand-by agreements between 1963 and 1972, the rate of failure was one in four.[66] In addition, twenty one stand-by arrangements between 1973 and 1983 showed a failure to achieve objectives in 66.5 per cent or two out of three cases.[67] Banks make their own assessments of the debt situations of developing countries, but the methods of evaluations vary considerably. According to one observer "like beauty, credit worthiness exists in the eye of the beholder."[68]

The IMF is the lender of last resort and the disciplinarian of developing countries which are recalcitrant in the speed and/or character of balance of payments adjustment. In addition to this, the banks would like a closer relationship with the Fund.[69] For example, T.H. Bevan, Chairman of Barclays Bank has called for a closer working relationship encompassing both formal and informal mechanisms "such as regular meetings between the IMF country officer and their counterparts in the main international banks."[70] The objectives of closer ties centre around the need for more information[71] and should provide a country rating system.[72]

More direct forms of IMF involvement include an "interest rate stabilisation fund" which would convert floating interest rate loans into fixed interest rate loans, with an interest rate ceiling.[73] Banks have been suggesting, for some

time, that there should be co-financing by banks and the IMF of balance of payments loans.[74] It has also been suggested that the IMF borrow from the banks and re-lend to countries. This would reduce the risk entailed in the profitable business of lending to developing countries and could benefit borrowers if the Fund operated a subsidy account so that it could lend at lower rates than it borrowed.[75] One demand by banks which have been met increasingly by the IMF is that the Fund be directly involved in rescheduling exercises. To date, the Fund has played the role of (a) providing assessments of the economic conditions of the debtor; and (b) assisting developing countries to prepare for renegotiation meetings.[76]

However, the IMF intention of the Fund, according to Managing Director de Larosiere, is to take certain measures in relation to the handling of debt in developing countries. Firstly, by strengthening its surveillance over the external policies of member countries through improved data collection, regular consultation and providing technical assistance and secondly, it hopes to service itself, banks and debtor countries by compiling and publishing statistics of the external debt of countries and international banking flows.[77]

The IMF will not openly or formally provide information to the banks on developing countries as it must respect the confidentiality of information on member countries.

CONCLUSION

The IMF and the transnational commercial banks are not in a conspiracy against developing countries, although there is a close relationship between top management of these institutions. While there is an overall commonality of interest, especially in regard to the economic policies of developing countries, there are situations in which there is a clear divergence of interests or difference of opinion on how to handle a particular problem. These differences arise from the different and specific logic which informs and determines the behaviour of the IMF and the banks. The IMF has a designated role to perform in world capitalism. The ambit and

nature of this role is determined by the developed capitalist countries which control the IMF. The transnational commercial banks are driven by profit maximisation on a world-wide basis. The interests of the IMF and the banks do not necessarily coincide and in certain circumstances may be contradictory. The IMF is "worried",[78] for example that bank lending has made it possible for some countries to avoid the IMF programmes or delay adjustment, as was the case in Peru in 1976,[79] while the banks feel that the IMF's deflationary policy has often been counter productive.

There is interdependence between the IMF and the transnational commercial banks, but it is not a mutual or symmetrical dependence. The banks rely on the IMF to reduce the risk of lending. The IMF's programme stipulate policies which reduce "sovereign risk", *i.e.* refusal to pay loans or to permit repayment and the balance of payments financing reduces "transfer risk" such as difficulties in converting domestic currency into foreign exchange. The functioning of the IMF is triggered automatically, but can be and often is influenced by pressure from the transnational banks. The IMF relies on the banks to utilise the opportunities created by its programmes and the inadequacy of the financing it provides to developing countries. The banks may or may not furnish loans. Usually the IMF "seal of good-housing" triggers loans from transnational commercial banks, e.g. Argentina,[80] but in some situations an IMF programme is not enough to induce the banks to lend as in the case of Jamaica.[81] Banks wait to ascertain that the IMF programmes are being successful. The IMF has limited influence on the policy of the banks, indeed, the transnational commercial banks are almost free of national and international regulation. Their transnational structure and operations, through off-shore, tax haven financial centres and Euro dollar market make it extremely difficult to regulate and monitor their activities

Although not formally institutionalised, it is likely that there will be an even closer relation between banks and the IMF, in relation to the problems of external indebtedness of developing countries. This tendency is clearly evident in the recent handling of the debt crisis of Mexico.

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