

## *From the Washington Consensus to the Monterrey Consensus?*

### *Spring Meetings Aim to Focus on Implementation of "New Development Partnership"/ Debt Relief Efforts Continue to Fall Short*

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#### Summary

*Inside the World Bank and the IMF, the world's finance elite lauded what it perceived to be the successful shift from the old economic one-way rigorism of the "Washington Consensus" to the more consensual "Monterrey Consensus" - a mutual commitment for a partnership between developing and developed countries for development - as the new way of doing business in the aftermath of the UN Financing for Development Conference, concluded just weeks earlier in Monterrey, Mexico. Outside, on the street, in numerous workshops, NGO strategy sessions and encounters with the media, several hundred protestors and civil society activists expressed their suspicion that aside from the change of the label no fundamental policy shift has occurred within the Bretton Woods institutions (BWI) and the supporting governments. While the Spring Meetings produced an action plan on achieving universal primary education for every child by 2015, endorsing the World Bank's "Education For All" strategy (although it failed to commit the funds necessary for its speedy implementation), the discussions among development and finance ministers and central bank governors failed to broaden the HIPC initiative on debt relief for the poorest countries, most of which remain far from even coming close to a measure of debt sustainability or manageable debt. The meetings fell also short in resolving the transatlantic dispute about a replenishment of the funds of the International Development Association (IDA), the soft lending arm of the World Bank Group. Member country governments failed to give unambiguous support to recent concrete suggestions from the IMF management for a sovereign debt restructuring mechanism (SDRM) for countries unable to continue servicing their debts. Lastly, even as the Argentine economy hurtled inexorably towards a total collapse, during the meetings, there was no sign of an IMF rescue package being close to finalization.*

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## Protests and Civil Society Activities During the Spring Meetings

Throughout the weekend of the Spring Meetings, protests were held in Washington, on various issues. Criticism of corporate globalization remained a focus, with several hundred protestors rallying in front of the World Bank and the IMF and at the Washington Monument to denounce global capitalism for working against the world's poor. The rally and march were organized by the Washington based organizations *Mobilization for Global Justice* and the *50 Years Is Enough Network* ([www.50years.org](http://www.50years.org)), which spearheaded the massive protests at the spring meetings two years ago. While World Bank President **James Wolfensohn** in various press appearances tried to downplay the importance of the anti-IFI protests, saying "There will always be a role for those who tell us we haven't done enough, but I wish they would change their tone," the demonstrations nevertheless underlined that despite some changes in IMF and World Bank policies over the past years continued pressure from the NGO community on the street remains an indispensable tool of a wider array of civil society forms of engagement with the Bretton Wood twins. The legitimacy and power of peaceful street protests was also underlined in a public forum "*From Engagement to Protest*", organized by *The Structural Adjustment Participatory Review International Network* (SAPRI N), *The Development GAP* ([www.developmentgap.org](http://www.developmentgap.org)) and the *International Rivers Network* ([www.irn.org](http://www.irn.org)) in the days before the Spring Meeting. The two-day forum which drew some 200 participants was supported by the HBS Washington Office. The forum reviewed recent unsuccessful civil society attempts to engage the World Bank constructively which resulted in the World Bank ignoring or disavowing critical findings. These failed attempts include the World Commission on Dams (WCD), ongoing poverty reduction strategy paper (PRSP) processes in several countries and the SAPRI exercise (see next section). NGO representatives involved in the Extractive Industries Review (EIR) currently underway at the World Bank are already cautioning that it might repeat the disappointments of the earlier joint civil society-World Bank efforts. Instead, activists stressed that grass root public campaigns on a municipal or local level like the *World Bank Bonds Boycott* ([www.worldbankboycott.org](http://www.worldbankboycott.org)), a more effective interaction with mainstream media, more focused civil society work with national legislatures, or an engagement with the United Nations system (as in the FfD process) could be viewed as venerable additional venues to promote change and public accountability at the IFIs.

## The Experience of the SAPRI Exercise<sup>1</sup>

After a five year process that began in 1997 as a joint World Bank/civil society initiative, the *Structural Adjustment Participatory Review Initiative* (SAPRI) recently released the results of its investigations in eight countries about the effects World Bank-inspired structural adjustment policies had on their economies and societies. The initiative, initially enthusiastically endorsed by World Bank President **James Wolfensohn**, involved the extensive mobilization of civil society, national public for a and joint participatory research by the World Bank and SAPRI N, the participating civil-society network. The Heinrich Boell Foundation has been a continuous supporter of the SAPRI Exercise. The resulting report shows a systematic weakening of the productive capacity of countries implementing Bank policies and their inability to generate productive employment at a living wage. Poverty in these countries has in fact been further deepened, according to the authors of the study, by the inability of the poor to

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<sup>1</sup> The complete almost 200 pages report of the SAPRI N findings is available on the SAPRI N website ([www.saprin.org](http://www.saprin.org)) under [http://www.saprin.org/SAPRI\\_N\\_Findings.pdf](http://www.saprin.org/SAPRI_N_Findings.pdf).

access essential services at affordable rate due to vast privatization efforts. The preliminary findings were presented to the Bank management in a forum in July 2001 – a meeting that neither President Wolfensohn nor Bank top management attended as agreed. Until a recent public and media-covered presentation of the SAPRI findings in Brussels just weeks ago, the World Bank has neither acknowledged the findings, nor taking any action to address the serious problems the exercise highlighted. **Steve and Doug Hellinger** of *The Development GAP*, SAPRI N's global coordinator, accused Wolfensohn to have effectively dropped out of the process, once it became clear that the findings would be critical of the World Bank's activities, demonstrating as mere hollow rhetoric the World Bank's claim that it is ready to engage its critics from the North and the South in constructive and productive dialogue. The welcomed Wolfensohn's most recent offer to discuss the SAPRI report with them, but indicated their expectations for a fruitful exchange after their experiences with the SAPRI exercise are low.

### **The World Bank "Education for All" Action Plan – A Watershed for Development?**

Acknowledging the linkage between a lack of basic education, the persistence of poverty worldwide and the perspectives for comprehensive development in many parts of the world, world financial leaders during the Spring Meeting pledged to advance fast with a World Bank Action Plan "Education for All"<sup>2</sup> that would strive to get all elementary-aged children into classrooms by 2015. The commitment to get a basic five year elementary education for an estimated 125 million children worldwide, roughly two thirds of them girls, who currently do not attend school, was one of the Millennium Development Goals (MDG) more than 180 world leaders supported in September 2000. The Action Plan was endorsed by the Development Committee at its meeting, which instructed the World Bank to pay particular attention to efforts to achieve gender equality in primary and secondary education by 2005. It also underlines the centrality of education in national poverty reduction strategies as part of the PRSP process. According to the Bank's plan, some 10 developing countries will be "fast-tracked" as role models for the other estimated 88 developing countries lacking in universal schooling and in danger of missing, without outside assistance, the 2015 target. This fast-tracking is supposed to be done within the PRSP framework and implemented through a multi-donor education consortium. These ten model countries will be selected in time for the G8 Economic Summit in June 2000 in Kananaskis, Canada; they will likely include Bangladesh and Tanzania.

In a break with its past practices, the World Bank and its member governments admitted their own misguided policy on so-called user fees for primary schooling and vowed to abolish the practice. User fees in the past couple of years had been introduced in many developing countries as part of IMF and World Bank mandated structural adjustment programs and effectively prevented many poor parents from sending their children to school. The case of Tanzania proves the point: with school fees dropped in January of this year, school attendance doubled within just a few months, bringing another 1.5 million into Tanzania's classrooms. Likewise, in Malawi, primary school enrollment soared by 50 percent following the government's decision to eliminate school fees and mandatory uniforms in 1994. Malawi has now achieved

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<sup>2</sup> The WB Action Plan on EFA can be found at [http://Inweb18.worldbank.org/DCS/devcom.nsf/\(documentsattachmentsweb\)/April2002EnglishDC20020005Rev1/\\$FILE/DC2002-0005-1.pdf](http://Inweb18.worldbank.org/DCS/devcom.nsf/(documentsattachmentsweb)/April2002EnglishDC20020005Rev1/$FILE/DC2002-0005-1.pdf). For the most recent WB study on the feasibility of EFA by 2015 see the following report: <http://www1.worldbank.org/education/pdf/EFA%20Complete%20Draft.pdf>

gender parity in primary school enrollment. Yet, these achievements have put added strain on countries' education system. Even before anticipated increased enrollment, developing countries rarely have had the teachers, books and other supplies to meet the demand. And the issue of HIV/AIDS, particularly in Africa, is confounding the challenge since the disease affects a growing percentage of African teachers.

While this World Bank initiative marks the first focused plan to deliver a central MDG and as such could constitute a potential "watershed" for development, the proposal could prove to be yet another of many platitudes and ill-fated mini-initiatives advanced by the G8 if the industrialized countries fail to back political commitments in communiqués and media appearances with the finances necessary for their implementation. According to World Bank estimates, it would cost \$2.5 billion to \$5 billion annually to help the 47 poorest countries meet the education for all target, and the cost of achieving the goal in all developing countries is projected at perhaps triple that amount. The development organization *Oxfam UK* ([www.oxfam.org.uk](http://www.oxfam.org.uk)) and its affiliates worldwide, which has been spearheading the international NGO *Global Campaign for Education* ([www.campaignforeducation.org/](http://www.campaignforeducation.org/)) for the last two years, even suggest it could cost as much as \$10 to \$15 billion a year to achieve education for all in every developing country.<sup>3</sup> Oxfam, while calling the World Bank Action Plan "the best chance in a generation to achieve education for all," pinpointed the plan's central weakness as lacking clarity on how financing through the cooperation of multiple bilateral and multilateral donors could be provided. The organization challenged the world's finance ministers to back the fast-tracking initiative of the Bank's Action Plan with an immediate \$ 1 billion commitment as downpayment for future fund contributions.

So far, only a few countries, among them Germany and The Netherlands, have already promised concrete financial support toward a new fund intended to help nations with credible education policies. A firm financial commitment from many major donors, most notably the United States, is still lacking. Advocates of the initiative warned that it could fail without a sizable contribution by the US administration.

## Monterrey Results and Implementation

With what amounted to a lot of self-congratulatory elation, development and finance ministers and central bankers from all over the world lauded the results of the UN Financing for Development (FFD) Conference in Monterrey, Mexico in mid-March as the beginning of a new phase in development cooperation between rich and poor countries with the goal of eradicating poverty.<sup>4</sup> The "new spirit" of the "Monterrey Consensus" with its supposed shift from an imposed neoliberal economic orthodoxy to a multi-stakeholder multi-participatory approach was also applauded by Germany's Minister for Economic Cooperation and Development, **Heidmarie Wieszoreck-Zeul**. In her meetings with NGO representatives during the Spring Meetings, she pointed – with a nod to the United States' war on terrorism – to the role of development

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<sup>3</sup> More information on the Oxfam-led campaign for global education can be found at the Oxfam UK website, particularly the following reports: <http://www.oxfam.org.uk/educationnow/edreport/report.htm> and <http://www.oxfam.org.uk/policy/papers/20school/20school.html>.

<sup>4</sup> For information on the various draft reports of the FFD preparatory process, visit the official UN Financing for Development site at [www.un.org/esa/ffd](http://www.un.org/esa/ffd). You also find information on the process, some papers and references to FFD on our website at [www.boell.org](http://www.boell.org).

policy as non-military security policy in preventing the terror of poverty, hunger and the associated lack of hope and urged long-term commitments from the developed world.

Indeed, Monterrey succeeded in putting development issues back on the global agenda and signaled somewhat of a reversal in the trend of falling official development assistance (ODA) that had marked the last decade, with the European Union and the United States both pledging to increase development assistance over the next several years. The EU committed itself to raising the percentage of average ODA by 2006 from currently 0.33 to 0.39 percent. Likewise, the United States, starting from an even lower percentage level of ODA, pledged to create a "Millennium Challenge Account" and to raise its foreign aid by a total of \$10 billion or almost 50 percent over three years, leading to a \$5 billion annual increase over current levels by 2006. However, the allocations would not start until 2004, subject to Congress approval. The Bush administration's announcement has produced some cautious support, but also provoked questions and criticisms. Concern centers on the eligibility criteria for countries, currently loosely described as rewarding "good policies, democracy and good governance." Some groups worry that these criteria might be too stringent and be used highly political, excluding those countries that would need the support the most. US NGOs have thus demanded to be included in determining which countries should qualify to receive funds from the US Millennium challenge account. The World Bank will also likely play a role in determining the selection criteria, which the US plans to have worked out in time for the G8 summit.

The EU and US commitments of ODA increases, as many civil society groups have pointed out, although a first step in the right direction still fall well short of the additional \$40 to \$60 billion a year needed to reach the Millennium Development Goals. And they are no way close to the 0.7 percent of GDP target for foreign aid demanded for decades. In addition, those unilateral commitments, while hopeful in signaling industrialized countries' understanding that they need to contribute more aid to help poorer countries, rather weakened than strengthened the multilateral framework of the FfD process, particularly the nascent role of the UN in development financing.

Contrary to expectations early in the process, the Conference with its pre-drafted outcome, labeled the "Monterrey Consensus," was short on bold new initiatives and the mobilization of new and innovative financial resources that many supporters had hoped for. The United States in particular, throughout the preparatory process, prevented any reference to new financial instruments, like a currency transaction tax (CTT or "Tobin Tax"), instead pushing the final declaration toward its heavy reliance on the mobilization of domestic resources and foreign direct investment as way out of underdevelopment. Debt cancellation for Southern countries, the financing of global public goods or a fair and transparent arbitration process, civil society demands and proposals reiterated during the civil society "**Foro Global**" in Monterrey, held just days before the official conference, did not find a way into the Monterrey Consensus during the various preparatory meetings. A commitment to a systemic reform of the current global financial architecture, specifically the role of the Bretton Woods Institutions, and to improve the participation of developing countries in the decision-making structures of the BWIs was likewise missing. In rejecting the official Monterrey Consensus, some 900 NGO activists from all over the world who attended the **Foro Global** offered instead their own visions and concrete proposals - in sharp contrast to the lack of vision and political will apparent in the official

document. The *Foro Global* and the work of the Mexican NGO Coordinating Committee were supported by the Heinrich Böll Foundation<sup>5</sup>

During the Spring Meetings, the joint IMF-World Bank Development Committee discussed implications of the Monterrey outcome for both institutions. They expect a scaling up of their efforts in implementing policy and governance reforms and the trade agenda (capacity-building and market opening) in the aid recipient countries. Both institutions will funnel help predominantly through the PRSP framework. In the BWI's division of labor, the IMF is supposed to contribute the promotion of global financial stability, while the World Bank's efforts will focus on capacity-building measures to assist countries in mobilizing domestic financial resources and to create a favorable investment climate to mobilize foreign direct investment (FDI) and other private flows through its new and highly controversial World Bank Private Sector Development strategy (PSD)<sup>6</sup> and the work programs of the World Bank group's International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

The BWI's lauded the acknowledgement of developing country governments that they must take responsibility for good governance and sound policies as part of the new development partnership between developed and developing countries. The *New Economic Partnership for Africa's Development* (NEPAD) regional development strategy ([www.nepad.org](http://www.nepad.org)) is seen as a kind of model for this partnership development framework of mutual responsibility the Monterrey Consensus is supposed to implement. However, while giving NEPAD the benefit of the doubt, critics point out the top-down approach of the initiative, which failed to include civil society, and that the acceptance and enthusiastic reception the initiative has received from global financial institutions and the world's economic elite rests mainly on the fact that African leaders are themselves repeating the development mantra of the Bretton Woods Institutions: sound macroeconomic policies, tackling corruption, good governance, establishing an investment climate to attract private capital. In this view, NEPAD, too, reveals the supposed new Monterrey Consensus as being more of the same old Washington one.<sup>7</sup>

As a first concrete outcome of the FfD process and as part of its follow-up mechanism, a UN ECOSOC special high-level meeting with the boards of the Bretton Woods Institutions was held in New York to discuss implementation of the Monterrey commitments. These meetings are to be held at least biannually, coinciding with the meetings of IMF and World Bank. While expectations for these meetings should not be too high, they might serve at a minimum in

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<sup>5</sup> For information on the Foro Global and its final statement, read to the official Conference plenary, see [www.ffdforglobal.org](http://www.ffdforglobal.org). For another civil society perspective, see the analysis of the London-based New Economics Foundation (NEF), *Chasing Shadows: Re-Imagining Finance for Development*, available at <http://www.jubileeplus.org/analysis/reports/chasingshadows.pdf>

<sup>6</sup> For information on the World Bank PSD strategy, visit <http://rru.worldbank.org/Strategy/index.asp>. A comprehensive civil society critique of the PSD strategy is provided by the Washington NGO *Globalization Challenge Initiative*, available at [www.challengeglobalization.org](http://www.challengeglobalization.org).

<sup>7</sup> A critical analysis of NEPAD is provided by Patrick Bond from the University of Witwatersrand. It is available at the website of *Foreign Policy in Focus* (FPiF), a web-based progressive think-tank, at <http://www.fpiif.org/papers/nepad/index.html>. In late April, the *Mazingira Institute*, the *African Academy of Sciences* and the *Heinrich Böll Foundation East Africa Regional Office* held a forum focusing on, where African scholars scrutinized NEPAD. The forum heavily criticized that NEPAD follows the neo-liberal paradigm instead of consequently addressing the needs of the people; was entirely designed without involving African civil society; and pursues social and economic measures that fail to properly address gender justice and gender mainstreaming. The 18 papers presented at the forum are now available at <http://www.worldsummit2002.org/activities/nepadforum.htm>.

establishing a long-term stake of the UN in global financial matters, giving the organization at least a seat at the same table with the IMF, the World Bank and the WTO.

## Millennium Development Goals and World Development Indicators 2002

The FfD process was supposed to, above all, develop a credible and ambitious multilateral development agenda for action, that specifically tied progress in poverty reduction to the eight development goals internationally agreed to at the UN Millennium Summit in September 2000.<sup>8</sup> During the Spring Meetings, a new World Bank study, *World Development Indicators 2002*, was released that showed that many poor countries are in danger of falling short of reaching the Millennium Development Goals. The report, presented by the World Bank's Chief Economist **Nick Stern** paints a grim picture of human misery on a number of fronts and points to the challenges that the international community faces in the years ahead.

While progress has been made in reducing the number of 1.2 billion people currently living in extreme poverty of less than \$1 a day (125 million less today than in 1990), to achieve the goal of halving their number, 260 million more people would have to be lifted out of poverty by 2015, the World Bank analysis shows. This is a particular challenge for African nations, as their economies would have to grow much faster than they have grown in the last decade to even come close to the target. The report found the number of people living in poverty in Sub-Saharan Africa will likely surge to 345 million by 2015 from 300 million in 1999. Sub-Saharan Africa is also in danger of missing other MDGs, for example the quest to reduce child mortality and maternal deaths. The MDGs call for a two-third reduction of infant deaths by 2015, which would mean cutting the current 11 million child deaths per year significantly. However, while some 40 countries seem to be on track to achieving this ambitious goal, Sub-Saharan Africa is the only region in the world where mortality rates have increased since 1990. Likewise, about half of the estimated 500,000 maternal deaths each year are in Africa; in Rwanda, one mother dies for every 40 live births - a maternal death rate more than 200 times the level in rich countries. In some countries, a half-century of progress in extending life expectancy has suffered serious setbacks. In the past decade, life expectancy fell four years in Russia, five years in Uganda, and a staggering 14 years in South Africa, with the declines in Africa mostly the result of HIV/AIDS. HIV/AIDS today is the leading cause of death in Sub-Saharan Africa, and it has left some 13 million orphans from parent deaths, a number that could double by 2010. More than 1 billion people, mostly in rural areas in South Asia and Africa, lack access to a minimally acceptable source of drinking water; some 2.4 billion people lack proper sanitation. And one in every three women in the developing world cannot read or write.

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<sup>8</sup> The eight MDGs are: 1. Eradicate extreme poverty and hunger (by halving, between 1990 and 2015 the proportion of people whose income is less than a dollar a day and who suffer from hunger); 2. Achieve universal primary education (by 2015, all children everywhere, boys and girls alike, will be able to complete five years of primary schooling); 3. Promote gender equality and empower women (eliminate the gender disparity in primary and secondary education by 2005 and to all levels of education by 2015); 4. Reduce child mortality (those under five years old) by two-thirds by 2015; 5. Improve maternal health by reducing by three quarters, between 1990 and 2015, the maternal mortality ratio; 6. Combat HIV/AIDS, malaria and other major diseases by halting and beginning to reverse the spread of HIV/AIDS and by halting and beginning to reverse the incidence of malaria and other major diseases; 7. Ensure environmental sustainability by halving by 2015 the proportion of people without sustainable access to safe drinking water and by beginning to improve by 2020 the lives of at least 100 million slum dwellers. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources; 8. Develop a global partnership for development

The report and its authors are quite frank about the steps needed in their view to make further progress on the MDGs in hopes of reaching all of them. They depend on the political will for a partnership for development with mutual responsibilities for poor and industrialized countries. But while Nick Stern sees developing countries fulfilling their part of the mutual responsibility, particularly changes in national policies, institutions and governance structures — not the least under pressure of the IMF and the World Bank —, the rich countries have been laggard to take up their side of the bargain, trade and aid.

The World Bank Chief Economist points out that rich nations must dramatically reduce tariffs, subsidies, and other non-tariff barriers that undermine developing countries efforts to compete in global markets in areas where they have competitive advantage, primarily agriculture and textiles. These actions can and should be taken now, without waiting for the results of protracted World Trade Organization negotiations. Rich country agricultural subsidies of \$300 billion a year undercut the farm exports of poor countries. These subsidies, roughly the same as the GDP of Sub-Saharan Africa, go mainly to a relatively small number of large agribusiness corporations and not the small family farms that the EU and the US government like to cite as justification for the payments. A case in point is the recently passed US farm bill which actually raises US agricultural direct income support by some \$83 billion over the next ten years to a total of \$180 billion. Already, agricultural subsidies of OECD countries are five times what the rich countries provide in foreign aid to a developing world of close to 5 billion people.

The need for coherence between trade and aid policies was underlined repeatedly during the Spring Meetings and explicitly mentioned in the Development Committee Communiqué. Both World Bank President **James Wolfensohn** and IMF Managing Director **Horst Köhler** in their speeches and press conferences pressed the industrialized countries, particularly the G7, to open up their markets to developing country products. The G7 Communiqué acknowledged the need to improving market access for poor countries, but it lacked a concrete commitment or a timetable for reducing harmful rich country subsidies. In addition to calling for more market access, the G24 in its statement specifically asked the IMF and the World Bank to play a more active role in coordinating trade-related technical assistance and capacity-building so as to allow developing country governments to participate more effectively than in previous global trade rounds in the new round of multilateral trade negotiations kicked off in November 2001 in Doha. This close cooperation between the WTO, the IMF, the World Bank and regional development banks, which forms an official part of the Monterrey Consensus, is viewed with growing concern by development NGOs all over the world.<sup>9</sup> Civil society groups are incensed that the BWIs over the past two decades have pushed trade liberalization and rapid developing country market openings at the request of and under political pressure from industrialized countries in their structural adjustment programs, the World Bank's comprehensive development framework (CDF) and now under the PRSP process without reciprocal action by the developed countries. Worse, the collaboration of IMF, World Bank and WTO in trade-related issues cements as unquestionable truth the notion of a path to development and out of poverty based primarily on export-led economic growth, without allowing governments in the South to consider development alternatives, f.ex. a strengthening of domestic production and consumption.

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<sup>9</sup> See for example the analysis of Celine Tan for the London-based *Bretton Woods Project*. The paper *Bank and Fund watchers must watch WTO* is available at <http://www.brettonwoodsproject.org/topic/adjustment/a26wtobrief.html>.

Not surprisingly, the new “Fair Trade” Campaign of Oxfam International,<sup>10</sup> which — with its heavy focus on market access for developing country products in industrialized country markets — echoes many World Bank arguments, has also come under heavy criticism from many, mainly Southern civil society organizations. The report, which was published shortly before the Spring Meetings, might be useful in providing some updated data and case studies on the adverse effects of the current trade system on the poor in the South. But it fails to look beyond market access to consider localisation and self-reliance, the reorientation of production from export-oriented goods and agricultural products to small-farmer, small firms and cooperatives based production for the domestic market through reliance on local investments, as alternatives. Many development NGOs warn that increased market access would lead to even more devastating South-South competition with adverse effects for food security, environmental sustainability, and developing country workers’ rights and compensation.<sup>11</sup>

### The Recent Debate about Aid Effectiveness

In the lead-up to Monterrey, the World Bank had published an internal research paper that estimated that additional foreign aid required to reach the MDGs by 2015 would be between \$40 and \$60 billion a year.<sup>12</sup> This estimate contrasts sharply with current official development assistance (ODA) levels of around \$50 billion per year. The World Bank analysis was rejected by the US government as exaggerated and inaccurate. The Bush administration under the lead of US Treasury Secretary **Paul O’Neill** attempted to portray the problem not as one of primarily insufficient foreign aid. Instead, O’Neill turned the debate around to the question of aid effectiveness, claiming that a huge proportion of public funds in the past had been used without producing significant results. So it came as a surprise, when the United States – under heavy political and moral pressure from at home and abroad — committed additional aid resources in Monterrey.

In their deliberations during the Spring Meeting, the Development Committee, calling for “increased and more effective development assistance,” endorsed a World Bank paper, which looked at the role and effectiveness of development assistance. The paper was based on a more detailed study that the World Bank presented at the UN FfD Conference in March in Monterrey, partly in response to the US rejection of international demands for increased ODA.<sup>13</sup> It refutes the US administration’s and World Bank critics’ claim of inefficiency of ODA, particularly in World Bank projects (the World Bank lends about \$20 billion per year). It

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<sup>10</sup> For information on Oxfam’s fair trade campaign, see [www.maketradefair.com](http://www.maketradefair.com) and the accompanying Oxfam Research Report, *Rigged Rules and Double Standards*, available at <http://www.maketradefair.org/stylesheet.asp?file=03042002121618&cat=2&subcat=6&select=1>.

<sup>11</sup> Oxfam’s Fair Trade Campaign is highly controversial within the organization itself. Many of the Southern cooperation partners and affiliates of Oxfam have expressed their disappointment in what they see as the wrong primary focus of the campaign. In the meantime, a senior policy advisor for Oxfam America on trade issues, **Severina Rivera**, has resigned in opposition to the campaign. For Southern NGO criticism of the Oxfam report see for example **Walden Bello** from *Focus on the Global South*, **Annuradha Mittal** of *Food First*, or **Martin Khor** from *Third World Network*. For an alternative perspective on development that features localisation, see the summary report of the *International Forum on Globalization* summary report, *A Better World is Possible*, available at [www.ifc.org](http://www.ifc.org).

<sup>12</sup> Shantayanan Devarajan, Margaret J. Miller, Eric V. Swanson, *Development Goals: History, Prospects and Costs*, World Bank Policy Research Working Paper, March 2002.

<sup>13</sup> The study *The Role and Effectiveness of Development Assistance. Lessons from World Bank Experience* is available online at <http://econ.worldbank.org/>.

points out that well-targeted aid, such as IDA funding, has very high overall returns, claiming it leads to “crowding in” of additional private investment for every dollar of IDA funding spent. The study underscores that given the scarcity of public funds (ODA totaled about \$54 billion in 2000; this was just one-third of foreign direct investment in developing countries and just a tiny fraction of total investments of nearly \$1.5 trillion), for ODA to make a difference in the fight against poverty, it has to be directed to improvements in institutions and invested in enabling people (health, education, capacity-building). World Bank engagement in global programs and campaigns, f.ex. the campaign to eradicate riverblindness or the Consultative Group for International Agricultural Research (CGIAR), is cited as another example of initiatives with a large return on funds invested. Currently, the World Bank is engaged in some 200 global initiatives, prompting calls for a tighter focus on fewer priorities.

But donor countries and agencies have to shoulder their fair share of blame for ineffective aid as well, f.ex. for allowing aid allocations to be driven by geopolitical aims rather than by poverty-reduction goals, for donor insistence on isolated projects and a neglect of the unique and specific needs of the recipient country in the design, sequencing and implementation of reforms. The latter holds particularly true with respect to World Bank adjustment lending. In a meeting with NGOs, the lead author of the study, **Ian Goldin**, Director of Development Policy at the World Bank, acknowledged that structural adjustment lending and its accompanying conditionality too often in the past failed to focus sufficiently on poverty. He also admitted to some shortcomings of the study, which deals only thinly with Africa and fails to point out the greater effectiveness of directing aid to women, specifically in developing countries with weak governments and underdeveloped institutional and regulatory structures.

From the point of view of recipient countries of ODA, aid effectiveness could be vastly improved if bilateral and multilateral donors agreed to a harmonization of aid policies and procedures and the coordination of disbursement and delivery mechanisms. The untying of aid, long demanded by development organizations and pro-poor advocates, and direct budgetary support for programs developed under the leadership of the recipient countries, f.ex. as specified in country-generated PRSPs, are further necessary steps to make sure that the monetary assistance provided by the international community to relieve poverty reaches those it is intended to reach.

Related to the World Bank's efforts to placate critics of the effectiveness of its programs is the appointment of **Joanne Salop** as new Vice President for Results. This move owes much to the calls from the US administration and senior US officials for improved reporting on World Bank project impacts. The Bush administration had also indicated that it would make its contribution to the World Bank's IDA arm conditional on annual World Bank reports of results achieved. In a meeting with NGOs during the Spring Meeting, Joanne Salop stressed that her appointment was an indication of a move within the Bank to “results-based management”, not in response to outside pressure, but as a natural progression of developments within the World Bank after years of focusing on delivery of programs and services.

## The Replenishment of IDA (IDA 13): The Grants vs. Loan Debate<sup>14</sup>

In a rare public display of transatlantic disagreement with regard to major World Bank policies, the negotiations over the 13th fund replenishment for IDA, the soft lending arm of the World Bank, (IDA 13) have been stalled since December of last year. Differences between the US administration and other donors, mainly Great Britain, remain just weeks away from what is considered the final deadline on June 30th. Previous efforts to come to an agreement among the donors failed in the lead-up to Monterrey, at the FfD Conference itself and now during the Spring Meetings. June 30<sup>th</sup> is the date that the last IDA replenishment funds from three years ago (IDA 12) will run out. The World Bank is requesting a total of \$12.5 billion in extra cash for IDA to come from the aid budgets of rich countries. Currently, IDA lends out about \$7 billion a year in loans to fund development projects in the eligible poorer World Bank member countries on highly concessional terms (i.e. very low rates of interest and for the very long term).

The transatlantic bickering – displaying very different perceptions about the way official aid works – began when US President **George W. Bush** proposed in July of last year that the IDA raise the proportion of money it gives out in grants to 50 percent, making increased US contribution to IDA 13 proposed to be the first in ten years (going up by \$850 million in the first year, \$950 million in the second, and \$1.05 billion in the third year – an overall 18 percent increase) conditional on such a move and on output measures to show a productivity increase of IDA funds. The European donor governments meanwhile, though some differences have started to appear in their once united position over weeks of transatlantic negotiations, mostly oppose the US plan.<sup>15</sup> While some governments seem to be willing to allow for as much as 18 percent of IDA funds to be dispersed as grants, Great Britain's Development Secretary **Claire Short** – in an exchange with O'Neill that has turned increasingly testy and personal – is drawing the limit at more than 10 percent IDA funds as grants, except if some of the new cash injection is used to for the World Bank's HIPC debt relief program. The European donors' main concern is that a large percentage of grants in IDA's operations would gradually deplete an important part of IDA's current funding, namely the repayment of existing loans. Thus, the US proposal, while seemingly generous, could eventually reduce the availability of money with IDA, particularly since the US proposal did not come with the political commitment to make up for medium- to long-term financing shortfalls.

NGO observers are split in their assessment of the proposal. Many have opposed it as an attempt to bleed IDA into irrelevance. Others have cautiously suggested that a transfer from loans to grants would give many poor countries with unsustainable debt burden at least some breathing space. A broad coalition of US NGOs, calling the US government's possible bluff, has asked the Bush administration to promote a policy requiring 50 percent of all new

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<sup>14</sup> For a comprehensive overview over issues and positions related to the IDA 13 replenishment, see the documentation of the US **Bank Information Center** (BIC) at <http://www.bicusa.org/usgovtoversight/ida13.htm#grantsloans>.

<sup>15</sup> IDA's charter states that "Financing by the Association shall take the form of loans" unless IDA donors "expressly authorize" IDA to provide other types of financing such as grants (Article V, Sec. 2). In the IDA-11 and IDA-12 replenishment agreements IDA donors authorized the limited use of grants for specific purposes, such as debt-relief and post-conflict reconstruction. There are currently 39 IDA donor countries, and a two-thirds vote of the donors is required to approve a new IDA replenishment agreement.

assistance to IDA-only countries to be in the form of grants, "while ensuring that overall levels of assistance to these countries are maintained or increased".<sup>16</sup>

Analysts point to the poor record of the US as the world's most niggardly aid giver among rich countries (just about 0.1 percent of GDP) in casting serious doubts about the motives behind the US proposal. One possible explanation for the surprising US position could be a new post-September 11<sup>th</sup> awareness of poverty as a breeding ground for terrorism, and thus a new appreciation of the IMF and the World Bank as instrument of US foreign and security policy. Another suspicion dates back to the suggestions of the conservative congressionally mandated Meltzer-Report from 2000, which had proposed to turn the World Bank into a World Development Agency, thereby dramatically scaling back its current reach and influence. Many experts at that time had suggested that the Meltzer Report could serve as the blueprint for the US policy toward the international financial institutions under a conservative Bush administration. Certainly, the Bush proposal seems to be in sync with the majority's thinking in the US Congress. The *US General Accounting Office*, the investigative arm of congress, just released a new report, *Developing Countries: Switching Some Multilateral Loans to Grants Lessens Poor Country Debt Burdens*, at the request of the Senate Foreign Relations Committee and the House International Monetary Policy Committee. The report analyzes ten countries and finds, echoing the Bush administration's main argument, that a shift from loans to grants would lessen their debt burden and increase their ability to repay future debt.<sup>17</sup>

During the Spring Meetings, developing country representatives gave the US proposal a frosty reception. South African Finance Minister and Development Committee Chairman **Trevor Manuel** expressed regret that the discussions had remained a "North Atlantic" one and excluded developing countries. He worried that grants would carry the risk to "essentially depend on political choices." Nigerian Finance Minister and G24 Chairman **Mallam Adam Ciroma** also pointed out that it would be in the long-term interests of IDA for the current system to be maintained. The G24 issued a statement saying they opposed the grant idea because they feared it was not in the longer term interests of low income countries.

The World Bank, trying to quell concerns that the continuity of IDA could be endangered if the US proposal was to be enacted, in a recent paper looked at some possible grant schemes for IDA and its implications. The paper concludes that although grants schemes are implementable, for example allowing IDA countries to choose between a larger loan and a smaller grant, they could bring a considerable amount of complexity (and expense) to the management of IDA resources. The paper basically suggests to take a gradualist approach (i.e. earmark only a small percentage as grants in IDA 13) and to revisit the subject matter in IDA 14 and subsequent negotiations in a more comprehensive manner.<sup>18</sup>

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<sup>16</sup> The US NGO report, *Responsible Reform of the World Bank: The Role of the United States in Improving the Development Effectiveness of World Bank Operations*, is available at [http://www.bicusa.org/usgovtoversight/Responsible\\_Reform\\_of\\_the%20\\_World\\_Bank.pdf](http://www.bicusa.org/usgovtoversight/Responsible_Reform_of_the%20_World_Bank.pdf)

<sup>17</sup> The GAO report is available on the web at <http://www.gao.gov/new.items/d02593.pdf>.

<sup>18</sup> The World Bank position paper can be found on the web at <http://www.worldbank.org/ida/Grantstheoptions.pdf>.

## The Shortfalls of the HIPC Initiative and Discussions about further Debt Relief

The elated mood of world financial and development leaders over a new global deal on development was severely dampened at the Spring Meetings at the presentation of mounting evidence that an important component of the deal, the Heavily Indebted Poor Countries (HIPC) initiative, is not going far enough to guarantee debt sustainability and is thus not making the major contribution hoped for to lift HIPC countries out of poverty.<sup>19</sup> Currently, some 40 countries, mostly in Africa, receive some debt forgiveness under the initiative which was launched in 1996 and “enhanced” in 1999. A World Bank/IMF staff report presented at the Spring Meeting suggests that the recent economic slowdown, coupled with a further deterioration of key commodity prices has further weakened HIPC countries’ prospects. It will almost be impossible for many HIPC countries to make significant progress in reaching the Millennium Development Goals without further debt relief.<sup>20</sup>

The G24 expressed their disappointment that after six years of operation, only five out of 38 eligible countries requiring debt relief have reached the completion point, blaming in part a lengthy and unfocused process with unnecessarily stringent conditions attached. All in all, some 26 countries are now part of the initiative. The G24 also chided some of the creditors for not providing their share of debt relief. IMF and World Bank, which have already committed some \$36 billion through the HIPC trust fund to partial debt relief, have in effect acknowledged that it is not enough for some countries. Uganda, for example, which was considered to be the model country of debt relief, spending the debt repayments saved on poverty-reduction programs in health and education, is in dire stress because of the falling prices for its main commodity, coffee. Already debt relief to one nation, Burkina Faso, the latest country so far to reach the completion point, has been increased significantly (an additional \$129 million to the original \$195 million in debt forgiveness) to mitigate the effect on its debt ratios resulting from exogenous shocks. Several watchdog organizations and think tanks have preceded the BWIs in reaching the same conclusion. For several years, a number of them have repeatedly warned that the IMF/World Bank projections for serviceable debt ratios for HIPC countries were based on unrealized growth projections for the affected countries’ economies. A number of new studies from civil society organizations reiterate earlier calls for further debt cancellation, not only from bilateral and private creditors, but also from the IMF and the World Bank group. In their view, the “preferred creditor status” both organizations claim with respect to international debt restructuring proceedings is no longer tenable and cancellation of the debt owed to them by HIPC countries financially feasible without harm to the institutions.

**Nancy Birdsall**, Director of the new Washington-based think tank *Center for Global Development* ([www.cgdev.org](http://www.cgdev.org)), affiliated with the *Institute for International Economics, IIE* suggests in a new book she co-authored that additional debt reduction could be paid for by mobilization of a share of the IMF’s undervalued gold reserves, mainly to fund reduction in debt owed to the IMF itself, as well as by increased foreign aid. This money would be spent on a debt relief plan that would limit annual debt payments of all poor countries to 2 percent of their GDP; extend eligibility for debt relief to all poor countries, including larger ones such as

<sup>19</sup> The HIPC initiative’s aim is to reduce the net present value of debt at the decision point to a maximum of 150 percent of exports, or for small open economies, 250 percent of government revenues. NGOs criticize the chosen sustainability criteria, demanding instead a focus on percentage of GDP, not exports.

<sup>20</sup> A new paper from the New Economics Foundation provides a detailed analysis of the link between debt relief and reaching the MDGs. The report, *The unbreakable link – debt relief and the millennium development goals*, is available at [http://www.jubileeplus.org/analysis/reports/unbreakable\\_link.pdf](http://www.jubileeplus.org/analysis/reports/unbreakable_link.pdf).

Indonesia, Nigeria and Pakistan – a long-standing NGO demand - ; and create a contingency fund to protect these countries against external shocks.<sup>21</sup> Likewise, a new analysis by the *European Network on Debt and Development* (EURODAD, [www.eurodad.org](http://www.eurodad.org)) calculates that in order to bring down the debts of a group of 21 HIPC countries that have attained the decision point under the HIPC initiative the IMF would have to cancel an additional \$1.2 billion, the World Bank group an additional \$1.5 billion. But the paper suggests that both organizations have significant resources available that would allow them to provide debt forgiveness to an even larger group of countries.<sup>22</sup>

The IMFC and the Development Committee asked IMF and World Bank management to continue reviewing the debt sustainability of HIPC countries as they move toward and beyond their completion point. The next Development Committee meeting at the end of September in Washington will pick up the issue in formal discussions.

### **BWI Review of the Poverty Reduction Strategy Paper (PRSP) Approach**

The poverty reduction strategy paper (PRSP) is a highly indebted poor country's comprehensive national program on how to reduce poverty and spur development. It is supposed to be country-owned and prepared with broad participation of domestic civil society. The preparation of a PRSP or an Interim-PRSP<sup>23</sup> and a minimum of a one-year period of satisfactory PRSP implementation are the preconditions for poor indebted countries to achieve debt relief under the HIPC initiative ("completion point"). The approach was adopted by World Bank and IMF in 1999, at which time an assessment of the process after two years was mandated. The importance of the PRSP approach for official development aid cannot be overstated. Today, nearly all donors, bilateral and multilateral, attempt to align their programs with PRSPs. Thus, from a civil society perspective, a critical assessment of some of the weaknesses and opportunities of the approach is indispensable.

At the Spring Meetings, IMF and World Bank management presented the results of a joint review of the PRSP approach, launched in the summer of last year.<sup>24</sup> The IMF's concessional lending window for low-income countries, the Poverty Reduction and Growth Facility (PRGF) was also included in the review. The IMFC and the Development Committee both endorsed the PRSP approach as the suitable framework for low-income countries and their international partners to achieve poverty reduction and asked both Fund and Bank to work toward continuous improvement of some of the deficiencies of early PRSPs. The joint paper acknowledges that less than three years into the process, it is still too early to assess the PRSP approach's impact on poverty reduction and development in low-income countries. It stressed that further

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<sup>21</sup> The book, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture*, can be ordered at [www.iie.com](http://www.iie.com). A 8-page brief summarizes the book's main findings is available at <http://www.cgdev.org/briefs%5Ccqdbrief001.pdf>.

<sup>22</sup> The paper, *Going the Extra Mile*, as well as other recent EURODAD reports on debt issues and PRSPs are available at [www.eurodad.org](http://www.eurodad.org).

<sup>23</sup> Acknowledging that the preparation of a full PRSP can take more than a year and bind scarce low-income country expertise and capacity, IMF and World Bank Boards began to accept Interim-PRSPs, which are intended to be short documents that describe a country's current poverty situation and policies and present a plan for preparing a full PRSP.

<sup>24</sup> The joint IMF/World Bank paper, *Review of the Poverty Reduction Strategy Paper Approach* as well as background material and submissions to the review can be found at <http://www.imf.org/external/np/prspgen/review/2001/index.htm>. A World Bank paper submitted to the Development Committee, *Poverty Reduction Strategy Papers — Progress in Implementation*, is available at <http://poverty.worldbank.org/files/progressreport041801.pdf>.

actions are needed to improve the preparation and content of PRSPs, particularly openness and transparency in countries' dialogue with stakeholders, broader civil society participation and a more realistic setting of goals and targets. Country ownership and leadership was re-emphasized as guiding principle of the process, although the limited technical and institutional capacity of low-income countries was recognized as a key problem. The review paper admits that poverty and social impact analysis (PSIA) of major policies and programs has so far typically not been undertaken as part of PRSPs. This is a major weakness of PRSPs civil society has repeatedly pointed out. Vis-à-vis the Fund, the Bank is viewed as the lead agency on PSIA, although the reports tasks the Fund to better assess the impact of macroeconomic policies on the poor in its PRGF-supported programs. A better prioritization of public actions and policy choices and improvements in public expenditure management (PEM), for example through the development of domestic medium-term expenditure frameworks (MTEF), are further conclusions the paper draws after soliciting input from the 60 low-income countries that currently utilize the PRSP approach. Since 1999, ten countries have completed their first full PRSP, some 42 countries have completed Interim-PRSPs.

Many development NGOs have been following the PRSP process over the past years. A number of civil society organizations has also been involved in the official review process. Their continued and growing criticism of the PRSP approach centers on a lack of genuine choices for macroeconomic and structural policy design, the need for social impact analysis and the quality of the supposed broad participatory process of drafting national PRSPs. Repeated complaints note that too often only a few prominent NGOs, predominantly in a country's capital cities, are involved in the drafting process, which in many cases is driven by finance and planning ministries, while other government branches, such as health and education agencies, play a subordinate role. Less conventional NGOs, f.ex. community groups or women organizations, are typically given little attention, a gender analysis is often missing entirely. The problem of only select civil society participation is frequently confounded by the fact that draft papers and relevant documents are often not translated into local or indigenous languages. In their view, PRSPs in many cases "recycle" policy recommendations of previous structural adjustment measures. And while NGOs generally were allowed to provide input on the development of poverty-reduction goals, they usually were not consulted on the nature of the policies to achieve those goals. In another blow to the public accountability and transparency of PRSPs, the role of parliaments in the preparation, approval and monitoring of country strategies has generally been limited.<sup>25</sup>

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<sup>25</sup> A plethora of good NGO reports and detailed analysis on specific country PRSPs have cemented the belief among many observers that the PRSP approach constitutes in fact a "new" label for the old Washington Consensus-based approach of doing business. Some of the more recent reports on specific country PRSPs can be found at <http://www.eurodad.org>. The Asian NGO *Focus on the Global South* has also issued a report assessing PRSP processes in several Asian countries. The report is available at [www.focusweb.org/publications/Research%20and%20Policy%20papers/2002/PRSP.pdf](http://www.focusweb.org/publications/Research%20and%20Policy%20papers/2002/PRSP.pdf). A case study on the Uganda PRSP process, *New Strategies, Old Loan Conditions*, has been published jointly by *the Uganda National NGO Forum* and *Results Educational Fund*. The report is available at [http://resultsusa.org/pubs/global/Uganda%20PRSP%20Report/Uganda\\_PRSP\\_Report.htm](http://resultsusa.org/pubs/global/Uganda%20PRSP%20Report/Uganda_PRSP_Report.htm).

## New Approaches to Crisis Prevention and Resolution: A Sovereign Debt Restructuring Mechanism (SDRM) and Limits to Official Sector Lending

Amidst the deepening crisis in Argentina with the world's largest sovereign debt default, the criticism of the past few years, particularly from the United States, of large-scale IMF bail-out rescue packages for emerging market economies in financial crisis, and the continued burden of unsustainable debt for HIPC's, the international policy debate about an international debt arbitration procedure for sovereign states has gained new momentum. The idea of an international bankruptcy system is an old one. Several concrete proposals for creating sovereign bankruptcy reorganization procedures at the international level were made from the early 1970s on.<sup>26</sup> Many civil society groups, in the past seven years most prominently the debt relief campaign of **Jubilee 2000**, put forward their own frameworks and suggestions.<sup>27</sup> But the idea gained only respectability in international finance circles and was no longer shrugged off as "NGO utopia," when IMF Deputy Managing Director **Anne Krueger** late last year took up the issue in a series of speeches and papers.<sup>28</sup> While Jubilee would prefer to see a UN-appointed body adjudicate over restructurings with the involvement of the civil society of the affected country, Anne Krueger proposed that the IMF should be in the driving seat as supervisor and initiator of such a mechanism.

The NGO community involved in the campaign for a Fair and Transparent Debt Arbitration Procedure (FTAP) has found itself in the unusual position of on the one hand applauding and encouraging the IMF for its foray into thinking aloud about an international insolvency framework and on the other hand criticizing it for not going far enough in its proposal. There are some points of agreement with the IMF on proposed features of SDRM, including the strong emphasis on its preventive character, the fact that it could only be activated by the debtor nation itself (not the IMF or any other institution), the creation of a single international somewhat independent entity, and the suggestion that beyond emerging-market countries the principles of an SDRM could also be applicable to highly indebted poor countries (HIPC's). However, civil society proponents disagree mostly with the special role the IMF would ascribe to itself in such a mechanism, mainly its proposed function as a gatekeeper, who would approve an initial debtor request, and with the IMF's insistence on its own "preferred creditor status" (i.e. IMF loans would be excluded from any sovereign debt restructuring efforts). Likewise, provisions for civil society participation and transparency rules are absent from the IMF proposal.<sup>29</sup>

Predictably, the US Department of Treasury as well as the international financial industry reacted sharply and disapprovingly to the Krueger proposal. Undersecretary of Treasury for International Affairs, **John Taylor**, at the beginning of April dismissed the idea of a judicial

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<sup>26</sup> For a good overview over different proposals, see the IMF Working Paper 02/57, *Early Ideas on Sovereign Bankruptcy Reorganization: A Survey*, available at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=15752.0>.

<sup>27</sup> The Jubilee Framework for international insolvency is summarized in the recent Jubilee Plus brief *Chapter 9/11?*, available at [http://www.jubileeplus.org/analysis/reports/jubilee\\_framework.html](http://www.jubileeplus.org/analysis/reports/jubilee_framework.html).

<sup>28</sup> A summary of Ms. Krueger's proposals and clarifications and the most recent thinking of Fund Management on SDRM can be found in the IMF publication *A New Approach to Sovereign Debt Restructuring*, available at <http://www.imf.org/external/pubs/ft/exrp/sdrm/eng/index.htm>. Another IMF report from the office of executive directors, *The New Approach to Sovereign Debt Restructuring: Setting the Incentives Right*, can be found on the web at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=15661.0>.

<sup>29</sup> This summary is based on an analysis by **Jürgen Kaiser** from the German *Erlassjahr* campaign, which circulated via the FTAP listserv. For infos on or to subscribe to this listserv on issues related to sovereign debt restructuring, contact [ftap@blue21.de](mailto:ftap@blue21.de).

framework to oversee and arbitrate debt restructuring of bankrupt governments outright in a public speech.<sup>30</sup> Such a framework would mandate a change to the IMF Articles of Agreement which would require an 85 percent majority vote of shareholders (i.e. US approval since the US controls 17 percent of the vote). A few days later, however, the Bush administration (which had endorsed Anne Krueger's appointment to the IMF in 2000) indicated that Taylor's remark were only meant to underscore that for the immediate future a market-based solution would be favorable while the details of a judicial framework, along the line of the IMF proposal would be worked out.

During the Spring Meetings, this US position basically set the stage for the consideration of the IMF proposal for an international insolvency procedure in the G7 finance minister meeting and the meeting of the International Monetary and Financial Committee (IMFC). The G7 in their statement and action plan – while voicing theoretical support for further work by the IMF on proposed statutory approaches to sovereign debt restructuring – stopped nevertheless short of giving unequivocal approval of the IMF plan for a judicial international framework. Pointing to the significant time that the changes in international treaties, national legislation or amendments to the Articles of Agreement of the IMF could take, the world's leading industrialized countries instead endorsed "the expeditious implementation" of a US-backed plan to prod countries and their creditors to adopt a market-oriented approach to sovereign debt restructuring with more-flexible loan terms. Under this new approach, new contingency clauses – primarily super-majority decision-making ("collective action clauses") by creditors – would be incorporated under debt contracts. New debt issued by developing nations would include contractual agreements with investors allowing a smaller proportion of bondholders to agree on new repayment terms. The incorporation of collective action clauses in bond contracts would thus deal with a structural weakness of current market-based debt restructuring schemes. Under current practice, poor nations have great difficulty working out agreements for new repayment schedules with the investors who purchase their bonds because such agreements effectively require unanimous backing of the bondholders. Likewise, the G10 in its communiqué clearly favored a focus on the collective action clauses in the contractual approach, while the IMFC encouraged the Fund to examine both the statutory and a contractual approach to sovereign debt restructuring, calling the two approaches "complementary and self-reinforcing."

Developing countries, on the other hand, particularly the major emerging-market governments, weren't too enthusiastic about the US suggestion that the best defense against chaotic sovereign defaults would be to change the way developing country governments borrow money in the first place. Their concern is that investors will see the mere inclusion of such clauses as a signal that default could be likely. This might not only would increase their borrowing costs, but could also discourage higher capital flows to emerging-market economies.<sup>31</sup> The communiqué of the G24 instead of referring directly to either the G7 or the IMF proposal thus only stressed the need for voluntary and country-specific approaches to crisis resolution.

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<sup>30</sup> See the speech **John Taylor** gave on April 2, 2002 at the IIE (available at <http://iie.com/papers/taylor0402.htm>).

<sup>31</sup> The Washington-based *Institute of International Finance* (IIF), which represents more than 300 of the world's largest financial institutions and seeks to portray itself as the legitimate representative of the private financial sector, forecasts that total net private capital flows to emerging markets should reach nearly \$160 billion in 2002, up from \$132 billion last year and returning to levels seen during the period of robust global economic growth in 1999 and 2000. But those inflows remain well below the levels seen during the emerging market investment boom of the mid-1990s.

As part of the new market-based approach to sovereign debt restructuring, the G7 declared to be "prepared to limit" official sector lending, read the size of future IMF bailout packages, in the future in favor of more private sector lending. However, the G7, principle and all, allowed themselves the escape clause "except when circumstances justify an exception." Some analysts have called this ambiguity the "Turkey exemption," pointing to the fact that Turkey at the end of last year received the largest IMF rescue package of any country (\$16 billion) since the Asian financial crisis several years ago. The cynical gist of this qualifier of the G7 Action Plan's new tough stand on bailouts thus seem to be that the IMF might show a new willingness to be let a country slip into debt default - as long as it is neither strategically or economically important. Argentina apparently in the eyes of the IMF and the international financial elite is neither and could prove to be the guinea pig for the new G7 approach.

### The Global Economy and the World Economic Outlook

In its April 2002 *World Economic Outlook* (WEO), the IMF's bi-annual report on the state of the economies of the world, the Fund painted a more optimistic picture of worldwide economic growth than just a few months ago. It revised upward its estimate to 2.8 percent global growth in 2002 for a total world Gross Domestic Product (GDP) of \$49 trillion. This is mainly in response to the recovery currently underway in the United States, which is expected to grow 2.4 percent in 2003. Europe, too, will enjoy mild growth rates (an estimated 2.9 percent in 2003 after 1.5 percent in 2002), while Japan's economic recovery is expected to remain fragile and doubtful (just 0.8 percent in 2003).

Developing countries, too, will enjoy accelerated growth with 4.3 percent this year and 5.5 percent in 2003 while transition countries - mostly former Soviet republics - will see growth taper off to 3.9 percent in 2002 and rise to 4.4 percent next year. The WEO forecasts that Africa should enjoy modest economic growth this year, but prospects will be largely determined by commodity prices, the effectiveness of domestic policies and the scope of armed conflict. While African output this year has slowed slightly to 3.4 percent after 3.7 percent in 2001, it's projected to be 4.2 percent in 2003.

According to the IMF, the global economy probably averted a recession over the past year though, in the words of IMF Chief Economist and Director of Research **Kenneth Rogoff**, it was "a close call." However, although the severe economic downturn of last year seems to have past, several areas of vulnerability remain, among them global financial imbalances, most notably persistent current account deficits in the United States, a sustained weakness of the Japanese economy, the high level of corporate and consumer debt threatening global financial stability and lastly, the specter of non-economic events such as an oil price spike or further terrorist attacks.

Interestingly, the current crisis in Argentina seems to have only little or no major economic effects on the rest of the world, according to IMF researchers. Although Argentina's economy likely will shrink by 10 to 15 percent this year with inflation running as high as 30 percent, contagion from Argentina in Latin America has been relatively moderate, with South America largest economy, Brazil, still maintaining moderate growth rates. Kenneth Rogoff attributes the lower than expected regional outfall of the Argentine crisis to the fact that Argentina's trade links with the rest of the world are relatively low, that the Argentine

situation was largely anticipated and that financial flows to emerging markets like Argentina have been low for a sustained period, thus avoiding severe contagion, which historically tends to come at times of peak financial flows. Nevertheless, the WEO did revise earlier growth predictions for Latin America of 1.7 percent for this year made in December 2001 down to only 0.7 percent in its April 2002 analysis.

### **Argentine Financial Crisis and Role of the IMF**

Although expected by many observers, the IMF and the world finance elite offered no relief for crisis-ridden Argentina during their Spring Meetings. Instead the IMF announced only the dispatch of a new mission to Argentina, which is to discuss a Letter of Intent to outline an IMF aid program. **Horst Köhler**, the managing director of the IMF, underlined that Buenos Aires still needed to adopt key reforms to qualify for a resumption of aid. Negotiations with the IMF remain stalled on the issue of fiscal deficit, and the structural changes the IMF is demanding. The IMF's insistence on changes before releasing any money flows from its experience of last year when two rescue packages totaling \$ 28 billion failed. It is also in response to the current US administration's criticism of large IMF bail outs. Apart from a balanced budget, the IMF wants the central bank to stop intervening in the exchange market, and the 24 provinces to stop issuing bonds. The finance ministers of the G7, during their meeting, expressed concern over the crisis, but solidly backed the stance of the IMF in holding back with financial support for the Latin American country and urged Buenos Aires to come to terms with the IMF.

Following just days after the Spring Meetings, Argentina slid further into financial crisis when the country's government ordered the indefinite closure of the nation's bank in an attempt to prevent the collapse of its economy. The measure was intended to stem the growing tide of money – some estimate more than 10 percent of total deposits since January – that have been withdrawn from the Argentine banking system. Early in May, foreign exchange markets and banks were reopened in a move to please the IMF. Argentina is hoping to win billions of dollars in new financing from the fund to try and end a deep recession. The IMF froze its lending to Argentina in December after the country missed a tough set of fiscal targets in its economic agreement with the IMF. Argentina has hefty repayments coming due in May to the IMF and the World Bank. The World Bank has said it is considering redirecting \$350 million from existing projects in Argentina to new ones and is also thinking about some \$350 million in new money for social projects. However, any additional World Bank support will depend on a deal with the IMF, which has already lent \$14 billion, about 520 per cent of Argentine's lending quota, compared with a normal limit of 300 per cent. A tough economic reform program for Argentina would necessitate net new lending of \$2.5 billion (over and above refinancing of existing loans) from the IMF and up to the same amount from the World Bank and Inter-American Development Bank according to analysts who claim that the country is obtaining substantial benefits, between \$8 billion to \$12 billion a year from failing to service its debts.

The IMF's handling of the Argentine crisis has been criticized by several economists, most of which commented on the fall from grace that Argentina, the former poster child of successful IMF mandated policies in emerging markets in the last decade, suffered. Among those critically reflecting on the role the IMF played in the Argentina's path "from triumph to tragedy" are renowned Nobel Prize Winner **Joseph Stiglitz**, the former chief economist at the

World Bank (1997-99), **Michael Mussa**, who held the same position at the IMF from 1991 to 2001, and **Mark Weisbrot** from the Washington *Center for Economic and Policy Research* ([www.cepr.net](http://www.cepr.net)).<sup>32</sup> However, their conclusions are different: All three of them put some blame for the country's decline on failed IMF policies, particularly the IMF's encouragement of anchoring (pegging) the Argentine currency to the US Dollar instead of allowing a more flexible exchange rate. But while Stiglitz and Weisbrot argue that the IMF during the 2000-2001 global downturn falsely encouraged a contractionary fiscal policy, i.e. a significant cut in public spending that worsened the depression, Mussa, in contrast, concludes that the Fund failed to push the Argentine government rigorously enough to implement an even tighter fiscal policy.

### **The BWI's Role in Combating Money Laundering and the Financing of Terrorism**

Following up on a mandate by the IMFC at their last meeting in November, in a report prepared for the Spring Meetings, the IMF reported on advances made in the international arena in combating money laundering and the financing of terrorism. According to this analysis, so far only about 40 of its over 180 member countries have responded to a request to report steps they are taking to deny suspected terrorists access to money. This is of major concern to the United States and its G7 allies who at the G7 finance minister meeting moved forward with efforts to implement a joint designation of terrorist entities and the associated freezing of assets in the G7 countries. The IMFC Communiqué thus urges all countries to ratify and implement fully the UN instruments to counter terrorism financing, ensure information sharing, establish financial intelligence units and freeze terrorist assets. IMF and World Bank are called to continue to assess gaps in national anti-money laundering and combating the financing of terrorism (AML/CFT) regimes, particularly through the provision of technical assistance. The IMFC and the G7 also suggest the speedy completion of a comprehensive AML/CFT methodology based on standards developed by the IMF's Financial Action Task Force (FATF). While the G24, the representation of developing countries at the Spring Meetings, stated their support for coordinated international and national action in this area, the G24 warned the Bretton Woods Institutions not to overstep their mandate by acting as a police force on behalf of industrialized countries. They reiterated a recurring complaint that developing countries are not adequately represented in standard-setting bodies like the FATF while put under pressure to fully comply with standards and codes whose observance ought to be voluntary according to international agreements.

### **The IMF's Conditionality Review and Implementation**

The IMF is still in the process of reviewing the conditions attached to its financing. The process was initiated by Managing Director Horst Köhler shortly after taking up his position in May 2000 and the IMF Executive Board has discussed this issue repeatedly, the last time in

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<sup>32</sup> Michael Mussa is now a Senior Analyst at the Washington think tank *Institute for International Economics* (IIE). His paper on the Argentine crisis, *Argentina and the Fund: From Triumph to Tragedy* is available at <http://www.iie.com/papers/mussa0302-1.htm>. Joseph Stiglitz teaches now at Columbia University in New York. His article, *Lessons from Argentina's Debacle*, which first appeared in January 2002, can be found at <http://www.globalpolicy.org/soecon/bwi-wto/imf/2002/0110stiglitz.htm>. Mark Weisbrot paper, *When "Good Parents" Go Bad: The IMF in Argentina*, can be found at [http://www.cepr.net/When\\_Good\\_Parents\\_Go\\_Bad.htm](http://www.cepr.net/When_Good_Parents_Go_Bad.htm). Another commentary, supporting Weisbrot and Stiglitz' argumentation (*Economic Debacle In Argentina: The IMF Strikes Again*) is available at [http://www.fpi.org/commentary/2002/0201argentina\\_body.html](http://www.fpi.org/commentary/2002/0201argentina_body.html).

sApril 2002. The issue was also taken up in the discussion of the IMFC during the Spring Meetings. The IMFC mandated that the Fund over the summer consider new guidelines on conditionality to be presented at its next meeting at the Annual Meeting in September. The stated goal of the review is for Fund conditionality to be streamlined and applied more parsimoniously in the future, focused on the core Fund areas of fiscal, financial and exchange rate policies. However, many NGO observers and developing country representatives worry that this review could mean a shift of conditionality from the Fund to the World Bank or the regional development banks, effectively leaving unchanged the overall burden of conditionality. In addition, civil society observers have pointed out that the Fund might rely increasingly on “prior actions,” i.e. conditions a country has to meet before the disbursement of IMF financing.

### **BWI WSSD Activities and a Preview of the World Development Report 2003**

A World Bank team is currently preparing the next *World Development Report* (WDR) entitled *Sustainable Development with a Dynamic Economy*, which will be launched at the World Summit for Sustainable Development (WSSD) in Johannesburg this September. The report, the Bank's flagship publication, aims to assess the sustainability of different development paths over the next twenty to fifty years. In the words of its lead author, **Zmarak Shalizi**, the report will attempt to move beyond traditional analysis of economic output and consumption to look at the relationship between economic growth, natural resources, quality of life and global inequality. The draft report is accessible on the World Bank website only until May 30th.<sup>33</sup> It has been available for comments just for about five weeks since its posting in mid-March. The London-based *Bretton Woods Project* ([www.brettonwoodsproject.org](http://www.brettonwoodsproject.org)) has criticized that the World Bank has not attempted to solicit broader public participation for such a major report from a public institution which is to be widely disseminated at such an important public policy summit.

It remains to be seen, how critical the WDR can be of current unsustainable economic activities, particularly of production and consumption patterns in developed countries. If the experience of previous WDRs is any indication, it is doubtful whether the WDR 2002/2003 can be the “substantial contribution to the debate on sustainable growth and development,” a staff paper prepared for the Spring Meeting claims it can be. One might recall the case of the WDR 2000 on poverty: more progressive first drafts and stronger arguments were ultimately diluted by the interventions from the Bank's major shareholder — leading in the end to the resignation of the WDR lead author in protest. Commentators gave the WDR 2003 draft report a mixed reception. While raising the political and social context of sustainability, the report seems to be too timid in following through, f.ex. failing to admit that the problem of global climate change could be tackled with market-based activity or in considering the question of international institutional mandates, including its own role. The WDR team is currently redrafting the report for Board consideration within the next weeks.

Besides the WDR, the World Bank and the IMF (together with other agencies, among them UNDP, UNEP and the EU) are engaged in several issues in the lead-up for Johannesburg including reports on innovative financing for sustainable development, poverty/environment linkages and global public goods. The IMF is also engaged in a study on environmentally-sustainable fiscal reforms.

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<sup>33</sup> A draft of the WDR 2003 can be downloaded from the World Bank website at [http://econ.worldbank.org/wdr/structured\\_doc.php?sp=2433&st=&sd=13545](http://econ.worldbank.org/wdr/structured_doc.php?sp=2433&st=&sd=13545).

However, IMF and World Bank would be better served — and could serve the issue of sustainable development much better — if their staff in preparation of the WSSD could tackle the socially and environmentally devastating impacts of the institutions' structural adjustment policies in research and practice. While the World Bank has some safeguard policies in place that mandate environmental impact assessment (EIAs) for some of its project lending, these policies do not apply to structural adjustment programs. And the IMF does not even have any safeguard policies in place and fails to consider environmental consequences of mandated structural reforms in its lending programs at all.

Washington, DC  
May 8, 2002

### **Info-Box:**

#### **The Biannual Meetings of IMF and World Bank**

During the course of the twice-yearly meetings of IMF and World Bank, which brings together finance ministers, development ministers and central bankers of the more than 180 member countries of the Bretton Wood Institutions (BWIs), two important advisory committees to the IMF/World Bank Board of Governors, namely the *International Monetary and Financial Committee of the Board of Governors of the IMF* (IMFC)<sup>1</sup> and the *Joint Bank-Fund Development Committee*<sup>1</sup> convene in separate sessions and in a joint session.

Traditionally in the course of the meetings, Bank and Fund also release periodic studies and data sets like the IMF's *World Economic Outlook* (WEO) or the World Bank's *World Development Indicators* (WDI) as well as progress papers commissioned by the executive boards of both institutions. Those gatherings serve also as the regular backdrop for a meeting of the Group of Seven (G-7)<sup>1</sup> at the finance ministers' and central bank governors' level, as well as for a meeting of the Group of 24 (G-24)<sup>1</sup>, the representative body for developing countries in negotiations on international monetary matters.

**International Monetary and Financial Committee (IMFC):** The IMFC is the main advisory committee of the IMF Board of Governors. Its 24 members are governors of the IMF (generally ministers of finance or central bank governors); its composition reflects that of the Executive Board. A number of international institutions, including the World Bank, participate as observers in its meetings. The IMFC meets twice a year right before the Bank-Fund spring and annual meetings.

**Development Committee:** Formally the Development Committee is called the *Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries*. It has 24 members (generally ministers of finance or development), which are representative of the full membership of the Bank and the Fund. Its mandate is to advise both Boards of Governors on critical development issues and on the financial resources required to promote economic development in developing countries.

**Group of Seven (G7):** The Group of Seven has been bringing together the seven major industrial countries (usually the heads of state) on a regular basis since their first meeting in 1975. The member countries are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

**Group of 24 (G24):** The Group of 24 has existed since 1972 and is officially known as the *Intergovernmental Group of 24 on International Monetary Affairs*. Although it is not an organ of the IMF, the IMF provides secretariat services for the Group, whose meetings usually take place in conjunction with those of the *International Monetary and Financial Committee* (IMFC) and the Development Committee, to enable developing country members to discuss agenda items before the meetings of the two committees. The G-24 comprises eight members each from Africa, Asia, and Latin America with a number of developing countries attending sessions as observers (including China as "special invitee").