Finance for Development

A Dialogue with the
Bretton Woods Institutions
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By Nancy C. Alexander
Globalization Challenge Initiative, Washington, D.C.

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In October 1998, a group of 20 colleagues of the Friedrich Ebert Stiftung engaged in a dialogue with the UN and the Bretton Woods Institutions in New York and Washington, DC. The idea was to get a better understanding of the work of these organizations and to present our work in the field of development to them, bearing in mind the possibilities of future cooperation.

In order to be prepared for substantial discussions with the World Bank and the IMF, we asked Nancy Alexander, the Director of Globalization Challenge Initiative, who has been working on the Bretton Woods Institutions for many years, to write a primer for FES staff. We found this paper to be of such good quality that we decided to publish it. This way it may reach the broader audience it deserves.

The primer is followed by the conference's proceedings. We asked Nancy Alexander to write up the proceedings, which summarize the discussion. I would like to express my most sincere gratitude to her, for her support in preparing and carrying out the conference as well as for the formidable job of writing this report. The conference agenda can be found in the appendix.

In view of the new prominence that the World Bank and especially the International Monetary Fund have acquired over the last year, the publication of a substantiated critical perspective seems more important than ever. Our intention with this conference, however, was not to blame the Bretton Woods Institutions for all problems of development, but to find constructive ways of how to critically assess the current problems in international development. I sincerely hope that this publication reflects this intention.

While the primer provides the reader with the necessary background information on the issues, the conference proceedings give the participants from the World Bank and IMF the possibility to respond to the criticisms. I would therefore like to urge the reader to read both parts, in order to get a balanced presentation of the views.

Manfred Bardeleben
Director, New York Office
Friedrich Ebert Stiftung
Part I: A Call to Reform the IMF and the World Bank

A Background Primer on the Bretton Woods Institutions
A Call to Reform the IMF and the World Bank

A. BACKGROUND:
THE GLOBAL ECONOMIC CRISIS

1) A Collapsing International System

The FES “Dialogue with the Bretton Woods Institutions” is occurring at an extraordinary time. Like dominoes, economies in country after country are collapsing, with profound and enduring consequences for the people caught in the wreckage.

Global markets are moving from “irrational exuberance” to panic. Capital is flowing from the periphery to the center, causing a capital “feeding frenzy” among countries at the periphery.

Some, such as investor George Soros, see the potential for disintegration of the global capitalist system, particularly if protectionism grows among developed countries.

In his September speech to the Council on Foreign Relations, U.S. President Clinton echoed this concern by saying that many think that the process of replacing command and control economies is inevitable and irreversible. He indicated that failure to head off the biggest financial challenge in a half century could stem the rising tide of political liberty throughout the world.

Analysts characterize the recovery from the 1995 Mexican financial crisis as a “V-shaped” recovery; that is, the Mexican economy hit bottom and rebounded, at least in GDP terms. The current crisis is characterized as “L-shaped;” that is, in the medium term (through 1999), recovery is not anticipated. To the contrary, Asian economies have not yet hit bottom and Latin American economies are going under.

In the international system, there is a hierarchy of concern about countries in crisis. Greatest concern is directed towards countries that pose a potential military threat, such as Russia, which in the words of one expert is “too nuclear to fail.” Second, there is concern with the decline of large economies, such as Brazil’s, which can pull other economies into a recessionary vortex. The fate of small economies, notably the highly indebted poor countries (HIPC), which are concentrated in sub-Saharan Africa, do not feature prominently on the global agenda.

During the crises, the World Bank and IMF lending skyrocketed. In fiscal year 1998 IMF lending totaled $25.6 billion, which is four times the 1996-1997 level. Moreover, the IMF’s $23 billion emergency line of credit (the “General Arrangements to Borrow”) was drawn down in July 1998 for the first time in 20 years.

World Bank loan operations are also skyrocketing in number and loan volume. In fiscal year 1998, World Bank loan commitments were $28.5 billion dollars; 40% of the total were commitments for structural adjustment operations. In fiscal year 1997, loan commitments were at the level of $19.1 billion, with 27% of the total for structural adjustment. As lending operations boom, staff is being downsized and selective budget cuts are being made.

In mid-1998, the annual rate of project approvals was projected to grow by about 30% by 2001! Given the expanding global crisis, this projection may be revised upward.

Bank President Wolfensohn is now leading an effort to double safety net operations in crisis countries. Ironically, some World Bank safety nets will be softening the impact of IMF programs.

Before this crisis, the Bank was concerned about declining demand for its loans and sharp reductions in levels of its net income. Net income declined to $1.2 billion last year and may drop to $700 million in 1999.

2) Goal of the Bretton Woods Institutions: Facilitating Capital Mobility

As the handmaidens of the “Washington Consensus” on economic liberalization, the IMF and the World Bank helped to push the globalization “ genie” – international capital – “out of the bottle.” These same institutions are now expected to put the genie back in the bottle or, at least, to tame it.

Governors of the institutions (mostly Finance Ministers) are trained to honor the premise of the Washington Consensus - namely, that unfettered mobility of capital will foster global prosperity. As U.S. Representative Barney Frank said in a recent Banking Committee hearing:

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1 Princeton Professor of Economics Alan Blinder in testimony before the Banking Committee of the U.S. House of Representatives on September 14, 1998.
2 Why is net income dropping and why does it matter? It is dropping because profitable fixed rate loans are expiring and low world interest rates have reduced the Bank’s return on equity. The situation is serious because net income funds the administrative budget, which is increasing in order to deal with the financial crisis; it also funds grants, debt reduction, post-conflict assistance, expanded reserves, and transfers to IDA. Demands on net income have risen sharply, from $870 million in FY 1995 to more than $1.5 billion in FY 1998.
3 Last year the Bank earned $7.2 billion in interest on its loan portfolio and $834 million from investments.
4 See Box 1 for details.
Everything is done to make the owners of capital happy. This has negative equity consequences. The international financial institutions have not only been cognizant of these consequences, but have exacerbated them. Policies foster instability when they consistently favor investors, often at the expense of borrowing country constituencies. Structural adjustment programs (SAPs) often have this bias. (See box 4.)

Facilitating capital mobility should not be a goal of the global economic system. It should be a means to achieve goals that can improve the quality of life: democratization, equity, labor standards, consumer protection and environmental protection.

At the Annual General Meetings, finance ministers and central bankers from around the world will prepare a report to heads of state recommending an emergency plan to rescue the global economy. Some of the recommendations (e.g. the creation of a new fund to help countries combat speculative attacks on their currencies) will do nothing to jeopardize capital mobility and may facilitate it.

3) Reform Goals: Transparency, Participation and Accountability in Global Economic Decision-Making

In the old days, elected national officials usually made economic decisions, now they are often made by unelected international bureaucrats in the IMF, the World Bank and the World Trade Organizations. Despite the fact that the IMF and World Bank are public institutions that operate with the backing of public money, they often behave like private institutions: closed and secretive.

The Friedrich Ebert Stiftung New York Office surveyed FES Resident Representatives and FES officials at headquarters in Bonn and found overwhelming support among its staff for more democratic decision-making processes by the IMF and World Bank. Specifically, staff called for greater openness, transparency, participation and accountability. FES staff anticipates that greater openness to the interests of workers and vulnerable populations will put social and environmental goals at the forefront of the institutions’ agenda.

Such a sweeping reform agenda may require a alteration in the architecture and missions of international institutions and the international equivalent of the U.S. “New Deal” to address equity implications of the financial system.

The international equivalent of the U.S. “New Deal” must involve fundamental changes in the design of SAPs, not just new and improved safety nets.

New architecture must include mechanisms to ensure accountability of international financial institutions to localities and citizens affected by the programs. “All politics are local” and “all economies are (increasingly) global.” “Bridges” –accountant mechanisms– must connect localities to decide the apex, or summit, of international institution.

B. PERSPECTIVES ON THE U.S. ROLE IN THE BRETON WOODS INSTITUTIONS

To date, it has been assumed that the industrial economies were immune to the contagion effect of financial decline in developing countries. Now we know that the Global North is not immune. As U.S. Federal Reserve Chair Alan Greenspan said, the U.S. (and other industrialized nations) cannot be an “oasis of prosperity” indefinitely. Recent witness before the Banking Committee of the U.S. House of Representatives put this sentiment more forcefully when he suggested that “eagles” are soaring in a strong wind and they have a downdraft, they could crash.

1) Clinton Calls For Emergency Action on the Global Economy

In his September speech before the Council on Foreign Relations in New York City, U.S. President Clinton called for finance ministers and central bankers to forge an emergency plan to address global economic crisis. He indicated some requirements of the plan, including:

- Coordinated G-7 action to spur growth, perhaps by cutting interest rates;
- A new strategy to reduce the debt burdens of Asian corporations;
- A World Bank-led program to double the support for social safety nets;

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5 In remarks at a Banking Committee hearing on September 15, 1998.
6 Professor Marshall Goldman in testimony on September 14, 1998.
• Readiness to use the IMF emergency line of credit [The “General Arrangements to Borrow (GAB)] to halt the contagion before it spreads through Latin America;
• An intense, 3-month initiative by the U.S. Export-Import Bank to finance projects in crisis-ridden countries; and
• Willingness on the part of the U.S. Congress to expand the resource base of the IMF.

Clinton also made a strong appeal for reforms to enhance the transparency, participation and accountability of the international institutions. In particular, he said that the World Trade Organization should be open to participation by the public, which is concerned that competition will become a "race to the bottom." That is, in seeking to boost their comparative advantage, there is an expectation that countries will continue to reduce wages and abandon labor standards and environmental protection.

Indeed, Clinton indicated that such institutional reforms were required to address global inequalities and ensure that “ordinary people” benefit from globalization. At this point, he stressed, a quarter of the world’s population is living in countries with zero or negative growth.

Leadership by the U.S. Government in the reform process can be expected to advance the interests of the U.S. Government. U.S. interests may or may not dovetail with the interests of other shareholders. One might expect that World Bank and IMF operations in some countries (e.g. Mexico) might reflect U.S. interests. One might also observe the Bretton Woods Institutions applying double standards to borrowers in ways that reflect the interests of major shareholders. For instance, the World Bank and IMF promote a “good governance” agenda more aggressively in their dealings with poorer governments than in their dealings with creditworthy borrowers. The institutions put little, if any, pressure on the Government of China to practice “good governance” while, at the same time, putting considerable pressure on the Government of Kenya. [See section D for details.]

Officials at the Annual General Meeting of the IMF and World Bank will consider calls by Clinton and other global leaders for long-term efforts to reform and strengthen trade and financial institutions. The Group of 7 (G-7) has been planning new “architecture” for the international system ever since their 1995 meeting in Halifax. Since the 1998 G-7 meeting in Birmingham, members of developing countries (the G-22) have joined the G-7 planning process.  

2) The U.S. Congress Asks: Is the IMF Part of the Problem or Part of the Solution?

Clinton’s call for the U.S. Congress to ante up $18 billion in financial backing for the IMF may or may not be heeded. Currently, the U.S. controls nearly 18% of votes on the Fund’s Board. If the U.S. financial support for the Fund declines, Germany and Japan promise to expand their support.

Democrats and Republicans are incensed that the IMF has not successfully helped to predict or avert crises and, in fact, has exacerbated crises. That is, rescue operations, which were intended to douse the flames of financial crisis, actually fanned the flames of crisis and diminished investor confidence.

Many politicians object to IMF bailouts of the private sector.

Political forces on the “left,” including social justice and environmental movements, attack IMF and the World Bank structural adjustment programs (SAPs), which can undermine non-economic goals: democratization, equity, labor standards, and environmental protection. The “left” asks: “How can you ask countries to democratize and then insist that they adopt austerity measures that electorates hate?”

In March, the U.S. Senate approved an IMF funding package of $18 billion — $14.5 billion for an increase in quotas — $3.5 billion for a new emergency line of credit. The House only approved the $3.5 billion component of the request. At press time, the Congress was preparing for a Conference Committee to reconcile Senate and House recommendations.

Confidence in the IMF continues to decline — most recently due to the institution’s poor management of the Russian financial meltdown. The institution is calling for fiscal austerity and tight monetary policy, which is the wrong prescription for economies in recession or depression.

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1 Their agenda includes issues, such as: financial sector reform, transparency of decision-making and private sector burden sharing.

2 This line of questioning was pursued vigorously by U.S. Representative Barney Frank in Banking Committee hearings on September 14, 1998.
Notwithstanding the decline in the IMF’s credibility, the IMF funding package may pass because, at election time, members of Congress will not want to be blamed for withholding funds for the IMF that could, arguably, staunch U.S. stock market losses.


Any Congressional approval of financial backing for the IMF will be conditional. Specifically, the legislation makes the release of funds conditional upon IMF adoption of a policy requiring borrowing countries to liberalize restrictions on trade in goods and services and on investment as called for in international trade and investment agreements; and eliminate government subsidies to businesses or government-directed lending.\(^7\)

Senators Hagel and McConnel crafted this legislation at the behest of business and agricultural interests.

This legislation is a prime example of the way in which policy-makers exalt the goal of capital mobility over all other goals. Because of the restrictive wording of the legislation, the IMF would be required to discipline borrowers in non-compliance with trade and investment agreements for ANY reason, including for purposes such as: environmental protection, poverty reduction, or protection of labor or human rights.

The language in House legislation, which encourages the IMF to consider impacts of its programs on poor people and on labor rights, is non-binding.

4) Future Congressional Action

The vulnerability of the World Bank and IMF grows when they are seeking resources from donor governments. Currently, the IMF is seeking approval for a major expansion in its resources for ordinary and emergency lending.

Next year the World Bank will seek support for its concessional facility - the International Development Association (IDA). Negotiations for the twelfth replenishment (3-year funding cycle) of IDA are expected to conclude later this year.

Even in usual circumstances, provision of resources for these facilities is hotly controversial. We can be certain that the coming year will be no exception.

C. Roles Of The IMF and World Bank

1) Changes since 1944

In 1944, the founders of the World Bank and IMF met in Bretton Woods, New Hampshire to establish institutions which could help maintain a stable monetary system, rebuild Europe and prevent the trade protectionism that contributed to the Great Depression and World War II.

Today, the locus of Bank business is among developing country governments, most of which did not exist when the Bank was founded. While the IMF’s mandate is global in scope, its active borrowers are primarily in developing and transition governments.\(^1\) Now the Bank and the IMF have 180 and 181 member governments, respectively. The challenges facing the institutions, especially since the independence movements of the 1960s are vastly different than those of the post-war period.

In 1944, the founders of the Bretton Woods Institutions established the World Bank to rebuild Europe and deal with long-term development challenges, especially by building infrastructure. Today, the World Bank is involved in all sectors of developing countries’ economies. The founders would be surprised to see the World Bank employing not only engineers, but also anthropologists, educators, and environmentalists. The founders imagined World Bank engineers building roads and bridges and factories, not ensuring the preservation of rainforests or seeing that young children learn their numbers and ate a wholesome lunch.

The IMF’s mandate has broadened considerably. Originally, the founders set up the institution to prevent short-term balance of payments difficulties by circulating resources from governments with surpluses to those with deficits. It was intended that the IMF restrict itself to macroeconomic matters: the internal and external account balances of member governments, exchange rates, openness of the economy and so on.

The IMF broadened its purview from macro to microeconomics, while the World Bank broadened its purview from microeconomics to macroeconomics. Within the macroeconomic domain, the IMF used to specialize in stabilization (e.g. demand constriction),

\(^7\) The requirement for compliance with investment agreements was later dropped.

\(^1\) Technically, governments with active IMF programs are not “borrowers,” although the term is employed in this paper. They are actually “purchasers” of resources, some of which they contribute to the IMF.
while the World Bank specialized in export expansion. Now, this distinction is blurred.

Thus, the IMF and World Bank have disregarded the division of labor prescribed for them.

Both institutions involve themselves in governance, or political, questions, to an extent that would have been unthinkable in 1944.

If, at their meeting in 1944, the founders had a crystal ball and could see the IMF in 1998, they might be stunned to see that the institution is:

- doing business without the gold standard, which it was established to oversee. The founders intended that the gold standard be used as the basis for establishing the worth and power of each government’s currency.

- routinely recommending currency devaluations. The IMF was set up to set up to prevent the competitive devaluations of the 1930s.

- managing only a tiny fraction of global liquidity and, hence, lacking the capacity to tame massive and volatile flows. They might wonder whether the World Bank and the IMF substantially contribute to the economic volatility that they ostensibly seek to tame.

- often subordinating the needs of labor to the needs of capital. The big actors are no longer governments, but investors, who are the “pipers” who “call the tunes.” Among other things, SAPs have helped to extract debt service for investors and build Southern markets for goods and services of mostly Northern-based multinational corporations. At the same time, however, the IMF and World Bank have advanced the growth prospects of some countries, especially those with solid commitments to human investment and successful export strategies.

- broadening its mandate significantly. The IMF’s mandate is no longer limited to short-term macroeconomic considerations. The institution has ventured into long-term development challenges. For instance, the “second generation” of structural adjustment programs involves the IMF as well as the World Bank in four areas;

- financial systems - for instance, paying greater attention to the soundness of banking systems;

- “good governance,” including reducing corruption, encouraging transparency of public accounts, improving public resource management and the stability and transparency of the economic and regulatory environment for private sector activity;

- composition of fiscal adjustment: reducing unproductive expenditures such as military spending and focusing spending on social sectors; and

- deeper structural reform, including civil service reform, labor market reform, trade, and regulatory reform and agrarian reform.\[11\]

IMF involvement in these “second generation” SAPs is revolutionary. The founders would be shocked to see the World Bank, much less the IMF, engaged in such activities. They wrote the Articles of Agreement to help ensure that the IMF stayed OUT of such issues, which they saw as the concerns of the sovereign member governments. In other words, social and political concerns were viewed as none of the IMF’s business.

Historically, the IMF has stipulated the monetary and fiscal targets that governments should meet in order to preserve their access to IMF resources. The IMF was concerned with whether governments achieved monetary or fiscal targets, not how such targets were achieved. It was fair play for a borrower to meet a fiscal target by cutting spending on health and education while maintaining or increasing military spending. In the IMF’s world, the end justified the means.

This is beginning to change. The IMF expresses concern if a government has high levels of military expenditures or low levels of social expenditures. Is this a positive development? Should the importance of structural reform — protecting social expenditures or privatizing banks — justify deeper IMF intrusion into budget decision-making and micromanagement within a borrowing government? These are questions that many people are trying to answer.

The founders would approve of the trade liberalization emphasis of the institutions. But they might wonder whether the way in which liberalization is sometimes administered—as “shock treatment”—might be a cure worse than the disease. Abrupt and premature liberalization can kill off, rather than foster, strong and competitive domestic enterprises. They might observe the way in which misguided liberalization policies invite Northern-based investors to prey upon and buy up the goods and services sectors of developing country economies.

The founders would see that the institutions have developed a double standard regarding the “second generation” of reforms. That is, these deeper structural reforms are pursued more aggressively with poor, indebted governments than with large, creditworthy governments.

2) The Relative Power of the Bretton Woods Institutions

a) The U.N. System
The power and status of the IMF is greater than that of the World Bank. Although officially “offspring” of the United Nations system, the Bretton Woods Institutions have little, if any, accountability to that system. In most respects, the “offspring” have more power than their parents: the United Nations system.

Over the years, the Bretton Woods Institutions have absorbed many functions previously performed by the United Nations. The United States, the U.K., Germany, France and other developed countries trust the Bretton Woods Institutions, over which they have significant control, more than the United Nations.

b) Preferred Creditor Status
The IMF and World Bank are “preferred creditors,” which means that governments must service their debt to these institutions or risk losing their privileges with other creditors and trading partners. The IMF is the “very preferred creditor” in the sense that it “signals,” or gives its “seal of approval,” to other creditor governments and institutions whether monetary and financial policies of developing country governments are “adequate.”

Performance of this “signaling” function gives the IMF inordinate and inappropriate levels of power in the international financial system. A more diversified signaling process, which draws upon the perspectives of several international actors, would better serve the interests of the international system.

3) Mechanisms for Enforcing Economic Liberalization
The IMF and World Bank have binding requirements attached to individual SAPs and medium-term frameworks for lending. It is through these binding requirements that the tenets of the “Washington Consensus” are transmitted to borrowers. (See Box 1 for a description of the Washington Consensus.)

a) Structural Adjustment Programs (SAPs)
The World Bank and IMF attach “conditions” to structural adjustment programs (SAPs). Conditions are either binding—that is, they require government compliance—or non-binding. The flow of resource to a government depend on the government’s compliance with binding conditions.

World Bank
Binding conditions on World Bank SAPs are called “early on” or “tranche release conditions.” “Early on” conditions are imposed when a loan is negotiated or prior to its appraisal; these conditions are not usually documented. Compliance with “tranche release” conditions is required for the Bank to release successive tranches, or installments, of SAPs.

IMF
Binding conditions attached to IMF SAPs are called “performance criteria.” Non-binding IMF requirements are called “structural benchmarks.” The IMF judges the adequacy of a government’s performance based upon its accomplishment of performance criteria.

As pointed out below, conditions which require budget cutting are usually binding, whereas conditions which would protect social sector expenditures are usually not binding. In the case of the IMF, they are NEVER binding.

SAPs are controversial due to questions related to the process of imposing SAPs (who makes decisions?); their content (which policies foster sustainable development?); and their impact (who wins? who loses?) Ideally, such questions would be
Box 1

WASHINGTON CONSENSUS AND AMENDMENTS

In 1996, John Williamson amended the Washington Consensus, which he originally articulated in 1989.

<table>
<thead>
<tr>
<th>1989 Consensus</th>
<th>1996 Amendments</th>
</tr>
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<tbody>
<tr>
<td>• Fiscal discipline</td>
<td>• Increase savings, including by fiscal discipline</td>
</tr>
<tr>
<td>• Public expenditure priorities including primary health and education</td>
<td>• Reorient public expenditure including targeted</td>
</tr>
<tr>
<td>• Tax reform, incl. cutting marginal tax rates, broadening tax base,</td>
<td>social expenditures and infrastructure</td>
</tr>
<tr>
<td>improving administration, tax capital flight</td>
<td>• Tax reform, including internalizing</td>
</tr>
<tr>
<td>• Financial deregulation</td>
<td>externalities through eco-sensitive land tax</td>
</tr>
<tr>
<td>• Unified competitive exchange rate (for trade)</td>
<td>• Adequate banking supervision</td>
</tr>
<tr>
<td>• Unilateral trade liberalization;</td>
<td>• Competitive exchange rate (not floating);</td>
</tr>
<tr>
<td>• Replace quantitative restrictions with (progressively lower) tariffs</td>
<td>nor use of exchange rate as nominal anchor</td>
</tr>
<tr>
<td>• Liberalize Foreign Direct Investment (FDI) rules</td>
<td>• Regional free trade regions/</td>
</tr>
<tr>
<td>• Privatization and deregulation</td>
<td>continued tariff reductions</td>
</tr>
<tr>
<td>• Property rights</td>
<td>• Liberalized rules on FDI: Fully accomplished</td>
</tr>
<tr>
<td></td>
<td>• A competitive economy: Privatization and</td>
</tr>
<tr>
<td></td>
<td>deregulation should improve competition between</td>
</tr>
<tr>
<td></td>
<td>firms and improve conditions for market entry</td>
</tr>
<tr>
<td></td>
<td>• Property rights, including land reform</td>
</tr>
</tbody>
</table>

Williamson added two new elements to the Consensus in 1996.

1) Institution building: "The focus of policy needs to shift from cutting back a state that had become bloated to strengthening a number of key state institutions whose efficient functioning is important for rapid and/or equitable growth...[e.g. independent central banks, strong budget offices, independent, incorruptible judiciary, and an agency to sponsor productivity missions]."

2) Improved education: Need to spend more and to refocus expenditure on primary and secondary education

addressed through consultative process. However, the World Bank and IMF tend to view SAPs as products that they need to sell, or market, to borrowing governments. To facilitate the sales process, the World Bank is persuading its member governments to implement Information, Exchange and Communications (IEC) programs in order to market the need for certain economic reforms to the public. The Bank states that IEC programs:

...demonstrate the value in terms of higher rates of return, of communicating with beneficiaries during project development so that they are informed about the operation - its purpose, design rationale, and how it will be implemented."

The Bank and borrowing governments seldom solicit popular participation in SAP decision-making. A current initiative, the Structural Adjustment Participatory Review Initiative (SAPRI) seeks to amplify the voices of people affected by SAPs. Thus, SAPRI supporters hope to influence the design of SAPs. SAPRI is an experimental initiative relying heavily upon a good working relationship between the national government and NGOs.

Box 2

**Key Terms for the “Master Plans” of Each Institution: The World Bank, The IDB, and The IMF**

**Q:** What is the World Bank’s “Master Plan” or medium-term strategy for a borrowing country called?

**A:** Country Assistance Strategy (CAS)

**Q:** What is the IMF-led “Master Plan” for the poorest countries called?

**A:** Policy Framework Paper (PFP)

**Q:** What is the Inter-American Development Bank’s “Master Plan” called?

**A:** Country Paper (CP)

**Key Terms Regarding SAPs**

**Q:** What are the binding conditions of World Bank SAPs called?

**A:** Early on or Tranche Release Conditions

**Q:** What are the binding conditions of IMF SAPs called?

**A:** Performance Criteria

Over a decade of advocacy against non-participatory SAPs has had little effect on the Bank or the IMF. The external reviewers of the IMF’s Enhanced Structural Adjustment Facility (ESAF) noted significant lack of ownership of SAP reform programs on the part of borrowing governments. They recommended that (1) rather than presenting borrowing governments with a pre-cooked set of adjustment prescriptions, the IMF should present governments with a variety of options for government consideration; (2) rather than dealing strictly with Finance Ministries, the IMF should work with Economic Management Teams comprised of representatives from different parts of the government; and (3) Economic Management Teams should consult widely with civil society organizations.

A recent document on SAPs in Africa states that:

*The transparency of the design process was usually low, and the agreed reform conditionality was frequently kept secret.*

The document noted that while some consultation occurred in 9 of 14 adjustment operations, such consultation related primarily to private sector groups.14

b) Medium-Term Plans for Borrowing Countries15

Virtualall donor governments and creditor institutions prepare medium-term plans, or strategies, for individual recipient countries. For instance, Germany prepares “Country Concepts” for the countries that receive German assistance.

In theory, donor cooperation mechanisms should ensure that donor and credit operations in developing countries are complementary and mutually supporting. In practice, donor cooperation is a rarity, especially at the national level. Cooperation is sometimes more successful at the sector level (e.g. agriculture, health, industry).

Technically, governments that borrow from the Enhanced Structural Adjustment Facility (ESAF) are supposed to prepare strategic plans - called “Policy Framework Papers” (PFPs). In fact, the IMF usually prepares PFPs for these governments.16 The IMF enlists the Bank’s help in preparing the social aspects of the PFP. As already noted, binding requirements in IMF programs, which address macroeconomic and fiscal issues, are called “performance criteria.” Hortatory targets in IMF programs are called “structural benchmarks.” Structural benchmarks, which are not binding, may, for instance, encourage a government to maintain spending for health and education.

Historically, World Bank input to the PFP lacks substance. This is unfortunate, insofar as the Bank has access to information about socioeconomic groups

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13 This section discusses the medium term plans of the IMF, World Bank and IDB for their borrowers. It should be noted that ALL creditors and donors have such plans. Some names of these plans are: The Country Operational Strategy Study (COSS) of the Asian Development Bank; the Country Strategy Paper of the African Development Bank; the Country Cooperation Framework of the U.N. Development Program.

14 The IMF prepares macroeconomic reviews—called Article IV consultations—for ALL member governments.
within countries, which the IMF could use to design its programs more effectively. Now, as a response to the internal and external evaluations of its programs, the IMF and World Bank plan to undertake pilot programs of collaboration in selected countries. These programs would involve identifying vulnerable groups ex ante, and ensuring that IMF programs are designed and monitored in ways that protect the interests of the groups. In order to expedite effective, bold, and authoritative decision-making, the highest managerial authorities in the institutions - President Wolfensohn and Managing Director Camdessus - are personally involved in decision-making in the pilot programs.

The World Bank has its own medium-term plan for borrowers called the “Country Assistance Strategy” (CAS) which provides the rationale for Bank assistance and proposes specific investment programs.

Theoretically, the Poverty Assessments, which the Bank performs with or for its borrowers, should inform the CAS and the PFP. However, the Bank’s Operations Evaluation Department found that Poverty Assessments are often poor in quality and exert only a weak or modest influence on the Bank’s lending strategies. The Bank should upgrade the quality of Poverty Assessments and perform them regularly in conjunction with borrowers and civil society organizations. Their strategic findings should be the basis for the medium-term strategies of the Bank and, to some extent, the Fund.

The CAS identifies the actions (called “trigger” actions) which a government must accomplish in order to be maintain or increase its access to Bank credit. If a government fails to comply with trigger conditions, the Bank may not raise the government’s credit limit and may, in fact, lower it.

Triggers are mechanisms through which the World Bank enforces IMF conditions. IMF performance criteria are among the trigger actions in more than 40% of all World Bank CASs and 64% of CASs for low-income countries.

How do triggers adjust a government’s credit limit? For the Government of Brazil, the World Bank stipulated a trigger action relating to the fiscal deficit. It required the Government to maintain a deficit of less than 7.5% of GDP or risk a loss of Bank support. The Bank stated that its support could drop from its current 3-year range of $4 billion to $6 billion to, perhaps, as low as $2 billion. (Now that the Brazilian economy is collapsing, the trigger will, no doubt, be modified.)

The medium-term plan prepared by the Inter-American Development Bank (IDB) for its borrowers is called the “Country Paper” (CP). While the IDB does not generally implement SAPs, it does imple-

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**Box 3**

**The Policy Content of Triggers in Recent CASs**

<table>
<thead>
<tr>
<th>Most common triggers:</th>
<th>% of CASs</th>
<th>Least common triggers:</th>
<th>% of CASs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal balance</td>
<td>&gt;70</td>
<td>Trade Reform</td>
<td>&gt;10</td>
</tr>
<tr>
<td>IMF package</td>
<td>&gt;40</td>
<td>Health/Education Expenditures</td>
<td>15</td>
</tr>
<tr>
<td>Financial Reforms</td>
<td>40</td>
<td>Revenue Target</td>
<td>10</td>
</tr>
<tr>
<td>Privatization</td>
<td>40</td>
<td>Project-specific actions</td>
<td>&lt;10</td>
</tr>
<tr>
<td>Number of Problem Projects</td>
<td>&gt;30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursement Lags</td>
<td>&gt;30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*From information produced by the Bank*

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11 Internal and external evaluations of the IMF’s Enhanced Structural Adjustment Facility (ESAF) were published in December, 1997 and January, 1998.
**BOX 4**

**SOME POPULAR PERSPECTIVES ON SAPS AND PRIVATIZATION EFFORTS**

The conditions, or "strings," attached to adjustment loans require governments to take actions intended to help achieve fiscal equilibrium and macroeconomic stability and stimulate growth. SAPs aim at such outcomes by restricting domestic demand and expanding production of exports. Typical SAP measures include: downsizing or decentralizing government, devaluing the currency, removing import barriers, providing incentives to exporters, reforming the tax or legal system and revising labor codes.

Critics contend that SAPs frequently cause substantial short-term pain and hardship for poor and vulnerable groups offset only by a promise of long-term gains that may or may not materialize. In other words, adjustment may not always produce economic growth and, if it does, the benefits do not always "trickle down" to poor people. In fact, many NGOs contend that vulnerable groups, such as poor people and women, are often disproportionately hurt by adjustment and receive no tangible benefits. (See box 5, "The Social Dimensions of Lending Operations in Poland.") Even when the costs of adjustment are widely shared, SAPs may bring disappointment to upper-income groups, but hunger and higher rates of mortality to low-income groups.

Incomes, especially those of low-income populations, are vulnerable due to a variety of dynamics: competitive pressures can bid down wages; union bargaining power can diminish; budget cuts often retrench civil servants, cut subsidies for basic staples, cut pension and social security benefits. Tight credit can reduce consumption and investment. Privatization of services can raise costs.

SAPs can also redress inequalities. For instance, progressive tax systems can redistribute assets to lower income people; removal of subsidies for urban dwellers can redress biases against rural populations. In general, however, SAPs often reinforce existing inequities in the distribution of assets, wealth and income.

Many analysts note that SAPs have contributed to rising inequality within and between industrialized and developing countries. They assert that the World Bank sometimes asks developing country governments to accept a pace and/or sequence of adjustment measures that exposes local enterprises to international competitive pressures in imprudent ways. While competition is a worthy value, it is important that the structural advantages of transnational corporations are not systematically reinforced at the expense of local enterprises.

Critics also object to the incentives that SAPs provide to exporters, who can extract natural resources in unsustainable ways and despoil the environment in order to generate foreign exchange.

Privatization. State-owned enterprises have often been grossly inefficient, sometimes subsidized by taxes on low-income agricultural producers. But privatization sometimes creates private monopolies or competitive systems that do not service regions in which the majority of poor populations are located. In addition, when user fees are imposed to recoup costs of primary health care and basic education, there is evidence that some poor people can no longer afford to pay for services.

By definition, SAPs and privatization processes do not have to sacrifice the priorities of long-term development.\(^{18}\)

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ment sectoral adjustment programs (SECALs), which enforce SAPs at the sector level (e.g. agriculture, energy, and education). (See Attachment A regarding the role of the regional development banks.)

Governments own PFPs; the World Bank owns CASs. After the IMF's Board reviews the PFP and after the World Bank's Board reviews the CAS, the documents can be released only if the relevant government consents.

It is through the mechanisms of triggers and performance criteria that the World Bank and IMF enforce economic liberalization. Yet, the Bank and Fund almost never analyze the social impact of these mechanisms. Such analysis should be required.

As mentioned above, these mechanisms are not promoted with equal vigor with all borrowing governments. The Bank's strategy for China does not include triggers, which would pressure that power-

\(^{18}\) This section was adapted from the author's publication entitled, "Accountable to Whom? The World Bank and its Strategic Allies," May, 1998.
ful government. The Bank needs China more than China needs the Bank. Often, the IMF and World Bank promote the harshest conditions with the poorest governments, which are most heavily dependent upon their resources.

4) The Social Impacts of Adjustment

Available evidence from the World Bank and independent analysts indicates that, during the 1980s, economic outcomes in adjusting countries, especially low-income adjusting countries, were disappointing. SAPs often placed the burden of adjustment on those least able to bear it: the poor and vulnerable. Meanwhile, they routinely failed to protect social sector budget expenditures and, frequently, resulted in cuts in such expenditures. SAP conditions often pressured governments to impose cost recovery measures, even for basic health and primary education services.¹⁹

In the 1990s, SAPs often encourage governments to protect levels of social sector expenditures. At the same time, many SAPs require budget cuts. Put differently, IMF and World Bank conditions (in SAPs, CASs and PPFs) that require budget cutting are often *binding* conditions.²⁰ World Bank conditions calling for protection of social sector spending levels are sometimes discretionary. In the case of the IMF, such conditions are always discretionary, or optional.

To protect vulnerable populations during adjustment, the IMF and World Bank sometimes put safety nets in place. Unfortunately, these safety nets usually offer vulnerable populations too little, too late.²¹ One IMF official stated that over the course of the last 10 years, the IMF has probably had only ten missions go to borrowing countries to design safety nets. Perhaps, the IMF should not design safety nets for its own programs, but rather rely upon national and international agencies and civil society organizations with appropriate expertise.

It appears that, after the Bank exerts pressure on budgets, which can lead to reduced social sector spending, it offers external finance for the social sectors. Currently, the World Bank channels significant resources (over $1.5 billion) to about 30 borrowing countries for Social Investment Funds (SIFs), which provide grants to civil society organizations for poverty reduction.

Many evaluations of SIFs have been produced. They show cases in which SIFs became slush funds for politicians. They also find that SIF activities are often carried out in parallel with federal and state programs, almost like another line ministry. In order to make a sustainable, lasting contribution to social well-being, SIF activities will need to be integrated with mainstream social programs offered at the federal, state and local levels.

Critiques of Adjustment

The Bank and the Fund often assail the credibility of external critiques of adjustment which assert that adjustment exacerbated poverty. They generally assert the "counterfactual" argument that one cannot determine how low-income groups would have fared in the absence of an adjustment program. This is a valid criticism. One can, however, determine whether adjustment succeeded or failed in protecting the incomes of poor people and the public expenditures upon which poor people depend.

One can also compare indicators in adjusting and non-adjusting countries. Fernando Reimers of the Harvard Institute for International Development found that, in Sub-Saharan Africa, sixty-four percent (64%) of countries suffered declines in per capita income during the 1980s. Only 46% of non-adjusting countries suffered declines in income compared to 71% of adjusting countries. He found that, in Latin America, 71% of countries suffered declines in incomes, including seven non-adjusting countries and seven adjusting countries. Four adjusting countries had rising per capita incomes.²²


- Per capita social spending fell in two-thirds of the countries and the composition of social spending worsened.
- Total discretionary spending declined in 24 of 34 countries; social spending declined in 17 of 34 countries.


¹⁹ A thorough analysis of the impact of adjustment should take into account not only the impact of economy-wide SAPs, but also sectoral adjustment loans (SECALS) and sector investment loans (SECILs) implemented by the World Bank and the regional development banks.

²⁰ As discussed above, legally binding SAP conditions are called "tranche release" conditions (in the case of the Bank) and performance criteria (in the case of the IMF). CAS mega-conditions are called "triggers."

²¹ The deficiencies of safety nets are described in detail in the report of the external evaluators of the IMF’s Enhanced Structural Adjustment Facility (ESAF).

Concern over the budget deficit has sometimes overshadowed the allocation of expenditure, especially social sector expenditures. In a number of adjustment operations, the composition of spending cuts has not been analyzed and agreed in detail. As a result, they have often been detrimental to maintenance, and in some cases to primary education and health care.

...the available evidence seems to indicate that in most countries fiscal adjustment has not improved the efficiency and effectiveness of public expenditures to alleviate poverty. In many countries, expenditure cuts may have exacerbated the existing biases and inefficiencies in public expenditure programs.

Fewer than 1% (30) of the 3,040 conditionals in SAL operations were related to social sectors. Only eight of these conditions called explicitly for increased allocations to primary education and health care, or improvement of the wage-nonwage balance in the social sectors.

The IMF compared social spending in countries with IMF programs to countries without IMF programs in two time slices: the mid-1980s and the mid-1990s. The IMF’s 1998 volume entitled Fiscal Reforms in Low-Income Countries reports that, in countries with IMF-supported programs, there are sharper increases in public spending on education and health than in countries without IMF programs.

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**Box 5**

**The Social Dimension of Lending Operations in Poland**

During the years 1990-1994, Germany and the U.S.A. each committed $5.5 billion in assistance to Poland. The IMF committed $4.3 billion; France, $4.2 billion and the World Bank $3.9 billion. Together, assistance provided by these five external sources represented 65% of all external finance to Poland.

From 1990-1997, Poland has absorbed about a third ($4.1 billion) of all World Bank assistance to Central and Eastern Europe. (See Attachment B, “World Bank Policy Toward Central and Eastern Europe.”) From 1990-96, 55% of Bank disbursements were in the form of adjustment loans. In the mid-1990s, the Bank focused on (a) reforming public finance to reduce social transfers, which represent 15% of GDP; (b) closing down inefficient state enterprises; (c) reforming the financial sector; (d) providing incentives to the private sector; and (e) social investments.

Because of the Bank’s rush to lend, many operations were designed without participation from affected groups and with flawed assumptions. A significant number of failing operations were subsequently shut down. Twenty-six projects totaling $3.7 billion were proposed and later dropped.

When subsidies were cut and free social services were curtailed, the cost of living rose and wages fell sharply. Yet only $230 million of the $4.1 billion extended to Poland during this decade focused on social issues, including health, housing, and employment promotion. These were the areas in which loan failure was pronounced.

Bank assistance also failed to give adequate attention to the gender and environmental implications of SAPs.

Although Poland is ranked as a “top performer” because of its commitment to economic liberalization, unemployment and poverty remain very high.

Currently, Bank assistance to Poland is tailing off, because of a deteriorating relationship between the Polish Government and the World Bank and the Government’s access to alternative sources of credit.


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These are welcome findings. However, a thorough review of the IMF’s methodology is called for. Its findings appear problematic for three reasons. First, the IMF has chosen to compare spending in the mid-1990s with spending in the mid-1980s, when social sector budgets had been ravaged. Second, the IMF is using GDP deflators to obtain their results. 90% of education spending is wage-related. Thus, wage deflators would give a more accurate reading of actual trends. Third, the IMF analysis only analyzes the amount of education spending, which is a supply side variable. A fuller analysis would take into account the elasticity of demand for services among populations, especially vulnerable groups.

D. AN INSTITUTIONAL REFORM AGENDA

1) Governance of the Bretton Woods Institutions

Good governance is increasingly viewed as essential to the success of Bank investments.\(^{14}\) As Box 6 shows, the term “governance” is usually employed to describe a borrowing government’s character—that is, its accountability, transparency and participation. Historically, governance issues were “off limits” or beyond the mandated purview of the IMF and World Bank. The taboo on dealing with these issues was broken at the 1996 Annual Meeting of the IMF and World Bank.\(^{15}\)

The expansion of IMF and World Bank purviews is problematic. It is questionable whether the insti-

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Box 6

THE MEANING OF “GOVERNANCE”

After a careful review of Bank literature on governance, one Bank expert, Ngaire Woods at Oxford University, identified the key aspects of governance:

“[Governance] is about the formal and informal rules defining practices, assigning rules, and guiding behavior in respect of: policy formulation; decision-making; implementation; information flows; and the relations between the rulers and the ruled. ‘Good’ governance is a value judgement about the nature of these formal and informal rules.”

Woods says that when the IMF and World Bank urge borrowers to practice “good” governance, it means the following:

(1) Political accountability (e.g. through elections or some direct link between those who rule and those who are ruled);

(2) Participation and ownership (of — or by — those most affected or at whom the benefit of any development project is ultimately aimed);

(3) Effective rule of law (predictability, and impartial and objective application and enforcement of the law); and

(4) Transparency and information flows (the appropriate collection and release of data about the policies and performance of governing institutions so that citizens can monitor and scrutinize the management of public funds).\(^{16}\)

In practice, what this often boils down to is IMF and World Bank pressure to curb blatant corruption; involve the private sector in key adjustment decisions; involve civil society organizations in information exchanges; establish commercial codes and property rights laws; and release financial information for investors.

*Quotes from Woods, Ngaire, Governance in International Organizations: The Case for Reform in the Bretton Woods Institutions.

\(^{14}\) Research by Dollar and Burnside (World Bank, 1997) showed that aid is only likely to foster economic growth when invested with borrowing governments which are good performers. Projects of governments that are good performers are 86% successful, with relatively high rates of return, whereas projects of governments that are weak performers are only 48% successful. The study by Dollar and Pritchett, Assessing Aid: What Works, What Doesn’t and Why, World Bank, 1998, shows that good governance can minimize the “flypaper effect,” (e.g. resources “sticking” to the federal government and not trickling down to localities).

\(^{15}\) At that meeting, the IMF’s Interim Committee issued an 11-point charter on good economic governance, euphemistically called the Declaration on Partnership for Sustainable Global Growth.
tutions are the appropriate agencies for political intervention (normally a United Nations function) and whether they have the capability to execute political functions.

Furthermore, there is a danger that the Bank may establish a double standard—namely, curbing lending to poorer IDA governments with questionable governance practices while, at the same time, turning a blind eye to corruption among large borrowers from the IBRD. The Bank is dependent upon large borrowers for its income. Will the Bank “bite the hands” that feed it?

Too often, the Bank and the IMF shine the spotlight on the governance of their borrowers when their own institutional governance is in disrepair. As the Asian financial crisis spreads, greater attention is being given to the governance of the institutions.

The following sections review governance issues relative to the World Bank and, to a lesser extent, the IMF. It focuses on institutional practices with respect to: addressing corruption in borrowing countries; addressing corruption involving World Bank funds; transparency, specifically, information disclosure; participation of stakeholders; and accountability.

a) Addressing corruption in borrowing countries

Transparency International claimed that a third of all developing country debt has been created because of corruption and that up to 10% of capital flows to developing countries were in the form of bribes. Significant blame for global corrupt practices lies with Northern countries,20 but the World Bank focuses on developing countries.

The World Bank has conceded that it has ignored blatant corrupt practices in some borrowing countries, most notably Indonesia.

At one point, Ricardo Hausman, Chief Economist of the Inter-American Development Bank, commented about corruption in Latin America, saying, “The Ministries of Trade and Industry were like Ali Baba and the 40 thieves...living off consumers and distorting production in the trade liberalization process.”21

Privatization processes have frequently transferred wealth from the nation state to a class of robber barons. Still, the equity consequences of privatization have not been a high priority for the development banks.

How will governance standards apply to Kenya? China? IDA Negotiators are disturbed that, using the Bank’s usual standards for borrower performance (see Box 7 for a list of standards), corrupt governments can be given high ratings. High performance ratings make governments eligible for higher levels of borrowing.

Using current standards, the Government of Kenya—well known for corrupt practices—rates “above average” in terms of performance. Thus, the negotiators are developing new standards of “good performance” which measure governance as well as macroeconomic performance and other factors. When the new standards are developed, it is likely that China will still receive high ratings.

It is unclear how the Bank and IDA will put its new standards, or criteria, for evaluating government performance into practice. Many poor countries, which IDA serves, are not good performers. Good performers are generally creditworthy and have less need for Bank resources.

**Recommendation:** The World Bank and IMF should work with UN agencies and CSOs, such as Transparency International, to designate governments (Southern and Northern) with significant levels of corrupt practices. The institutions should refrain from transactions with such governments except under certain designated circumstances (e.g. humanitarian relief).

b) Addressing corruption involving World Bank funds

The press has publicized the Bank’s efforts to rout out corruption among its own staff. The Bank has established an Oversight Committee on Fraud and Corruption to investigate internal wrongdoing. It is investigating alleged misuse of a Trust Fund established by the Japanese government and the involvement of Bank employees in kickback schemes.

A far more serious problem than employee malfeasance is largely ignored—namely, the siphoning off of World Bank funds for unintended purposes.

While Bank officials are adept at railing against phantom workers in the civil service cadres of bor-

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20 Transparency International blamed the U.S., Japan and Germany as the “major and principal source of corruption in international business transactions.” (Emerging Markets, October 3, 1996, p. 9.)

21 Comment made in a private seminar.
rowing governments, they are novices at spotting phantom Bank-financed projects.

The Bank will soon release an important Policy Research Report, *Assessing Aid: What Works, What Doesn’t and Why,* that will explain that, because money is fungible, it is virtually impossible to trace a dollar of Bank assistance. The report asserts that, on average, every $1 of assistance results in about 29 cents of public investment. It concludes that the productivity of assistance depends upon the nature of the borrowing government - its policies, accountability and transparency. Thus, the evolving policy of the Bank and the IDA Deputies emphasizes the importance of investing in borrowing countries with good governance. However, there are implementation problems: governance is difficult to measure. Furthermore, countries with good governance are those least in need of assistance from the Bank and IMF.

**Recommendation:** The Bank should work with borrowing country stakeholders to design monitoring and evaluation systems that ensure that loan resources are spent in the designated manner.

c) Transparency, and Information Disclosure

The World Bank and, especially, the IMF have been publicly excoriated for their closed and secretive natures. The U.S. government claims to be the only government that pushes for more open information

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**Box 7**

**How the World Bank Rates the Performance of Borrowing Governments**

A) How Borrower Performance is Evaluated

The performance of borrowing governments is rated according to the following performance criteria:

1. **Development Policies:** Are policies adequate in promoting employment-generating growth and in providing public services and safety nets for the relative benefit of the poor? Policies include:
   - Private Sector Development: competition policy and incentives; trade and exchange system; financial sector; environment.
   - Public Sector Efficiency: public expenditure and civil administration, public enterprises and privatization.

2. **Macroeconomic Stability:** Inflation, debt management, fiscal deficit, and external deficit.

3. **Portfolio Performance.**

Governance, principally corruption, is being discussed as a crosscutting issue affecting all of the above. The Deputies endorsed a proposal that the Bank’s assessments of borrower performance should give more attention and weight to economic governance. One of the key indicators of good governance will include the composition of public expenditures.

B) Country-by-Country Ratings (“Report Cards”) and Percentage of IDA Resources (FY95-97) by Rating Category

**Top Performers** receiving 35% of IDA resources: Armenia, Benin, Bhutan, Bolivia, China, Cote d’Ivoire, FYR Macedonia, Georgia, India, Kyrgyz Republic, Lesotho, Malawi, Maldives, Nicaragua, Sri Lanka, Uganda

**Above Average Performers** receiving 32% of IDA resources: Bangladesh, Cape Verde, Eritrea, Ghana, Guyana, Honduras, Kenya, Kiribati, Laos, Mauritania, Senegal, Tonga, Vanuatu, Vietnam, Zambia, Zimbabwe

**Adequate Performers** receiving 12% of IDA resources: Azerbaijan, Burkina Faso, Egypt, Ethiopia, Gambia, Grenada, Mali, Moldova, Mongolia, Mozambique, Nepal, Pakistan, Samoa, St. Lucia, St. Vincent, Yemen

**Below Average Performers** receiving 19% of IDA resources: Cambodia, Cameroon, Chad, Comoros, Congo, Djibouti, Dominica, Guinea, Guinea-Bissau, Haiti, Madagascar, Niger, Sao Tome and Principe, Sierra Leone, Tanzania, Togo

**Poor Performers/Non-Performers** receiving 2% of IDA resources: Afghanistan, Albania, Angola, Bosnia, Burundi, C.A.R., Equatorial Guinea, Liberia, Myanmar, Nigeria, Rwanda, Solomon Islands, Somalia, Sudan, Tajikistan, D.R. Congo

The Bank/IDA intends to lower the level of assistance to governments included in the bottom two quintiles of performance.
Box 8

NGOs Call for IMF Reform

Many NGOs urge that the IMF stick to, and improve, its core business of facilitating fiscal and monetary adjustments required to restore internal and external account balances. Such a position militates against the IMF getting onto the turf of other institutions by, for instance, involving itself in long-term development activities and governance reforms (e.g. "second generation" adjustment reforms) of the type being promoted in Argentina and elsewhere.

Most NGOs oppose amending the IMF’s Articles of Agreement to expand the IMF’s jurisdiction to encompass capital account liberalization. IMF advice to Thailand to liberalize its regulation of capital inflows and outflows is seen by many as a factor that triggered the Asian crisis.

Over ninety NGOs, which signed a September, 1997, proposed improvements in the IMF’s conduct of its core business letter to IMF Managing Director Camdessus. The letter, coordinated by Friends of the Earth, calls for

- Public participation in the design and evaluation of all structural adjustment programs;
- Establishment of a comprehensive information disclosure policy;
- Systematic, independent review of all structural adjustment loans;
- Immediate and significant debt relief for Heavily Indebted Countries;
- Harmonization of IMF policies with internationally recognized worker rights;
- Systematic assessment of social and environmental impacts of all adjustment loans; and
- Integration of environmental costs and benefits in national income accounting.

disclosure policies, but, in fact, the Netherlands and other countries are allies in this regard.

U.S. pressure was decisive in the World Bank’s revamping of its information disclosure policies. The U.S. Congress made such reform a condition of the U.S. contribution to IDA. While the Bank’s information disclosure policies have improved in recent years, they still pose a significant barrier to popular participation in the design, implementation, monitoring and evaluation of policies and projects.

**Recommendation:** The World Bank should make information about its activities as accessible to communities affected by its operations as it is to Washington or European-based civil society organizations. Expanded translation and dissemination services will be required.

The Bank and the IMF can disclose their medium-term strategies, the Policy Framework Papers (PFPs) and Country Assistance Strategies (CAS), only after Board review, if the borrowing government consents. Thus, in-country groups are precluded from providing input to these documents in draft form.

**Recommendation:** The IMF and World Bank should release their medium-term strategies in draft form to facilitate input by governmental and non-governmental stakeholders to the formulation of the final strategy. The final strategy should take the form of an agreement between the Bank or Fund and the borrowing government.

In a welcome development, the IMF has begun to make Letters of Intent (LOIs) public, with the consent of governments. In addition, the IMF should: issue statements at the conclusion of Article IV consultations, which are the IMF’s annual assessments of the economies of each member government; publish staff reports prepared for consultations; disseminate policy reports to the Interim Committee and the Board of Governors, and release minutes of Executive Board meetings. Current minutes are available 30 years after they occur.29

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28 The IMF does publish Public Information Notices (PINs) on Article IV consultations, with the consent of the government.

d) Participation of stakeholders

The IMF

The IMF is constrained from dealing with civil society organizations by its Articles of Agreement which stipulate that the institution should deal only with national treasuries and central banks. Nonetheless, the IMF is increasingly reaching out to educate stakeholders - the media, parliaments, businesses, labor groups, and civil society organizations - about its policies and practices.

The IMF tends to view labor unions as more legitimate interlocutors than other civil society organizations. The International Confederation of Free Trade Unions (ICFTU) has consistently urged the IMF to take into account social concerns (e.g. employment, education, health, sanitation, housing, and inequality). Every year over the past decade, the Confederation has submitted policy statements to the IMF and World Bank Annual Meetings. In addition, over several years, the Confederation has organized 28 national conference on SAPs.

Recommendation: One analyst of the Fund suggests a number of ways that the IMF could become more accessible, including by: amending its Articles of Agreement to ‘legalize’ contacts with civil society; encouraging the establishment of national mechanisms to consider SAP-related issues; designating civil society liaison officials; setting up an IMF-NGO Committee; establishing a system of accreditation for civic organizations seeking to deal with the Fund; revamping mission guidelines to ensure that Fund officials glean views from civil society organization; and assessing the extent of “ownership” of IMF programs by in-country stakeholders.30

The external reviewers of the IMF’s ESAF recommend that the IMF work with government “economic management teams” from a variety of min-

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Box 9

How Alliances Often Redistribute Power and Responsibility

As developing countries governments (DCGs) downsize, they often transfer power to the private sector and responsibilities for social service provision to the private sector and civil society organizations (CSOs). The World Bank is increasingly building strategic alliances, some of which facilitate these shifts in power and responsibility. CSO’s advocacy and service provision should be informed by an understanding of the overall paradigmatic shifts to which they relate.

CSOs can also help ensure that the Bank supports (or does not undermine) the actual or potential processes of accountability of borrowing governments to their citizens.

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istries and that such teams actively engage civil society organizations about policy options.

**The World Bank**
The World Bank began to reach out more broadly to civil society organizations after James Wolfensohn became President of the institution four years ago. As a top priority, the Bank has expanded its outreach and services to the private sector. It has also expanded outreach to NGOs by, among other things, assigning NGO liaison officers to many of its Resident Missions and expanding NGO involvement, especially in social sector-related projects.

Some see the Bank allying itself with powerful partners to pursue its SAP agenda and allying with relatively powerless parties to mitigate the negative effects of SAPs and, on the periphery, support social and environmental progress.

The culture and incentives of the Bank together with the scale and pace of lending operations mitigate against meaningful participation. The World Bank requires borrowing governments to disburse monies in an efficient and timely way. Nonetheless, some factions within the Bank recognize that—especially in certain sectors—the adequacy of project design and, hence, project success, often depends upon meaningful involvement by affected parties.

Few governments on the Boards of the IMF and World Bank support expanded participatory activities. Most developing country governments believe that World Bank participatory efforts overstep the institution's mandate and pose the risk of undercutting their authority. The Bank's Board was hostile to management's proposal to establish a Development Grants Facility (DGF) that would extend grants to various entities, including NGOs and governments in post-conflict situations. While the Board approved establishment of the DGF in 1997, it put significant restrictions on Bank financing of NGOs.

Some developing country governments (DCGs) and NGOs oppose Bank participatory efforts that seek to transfer responsibility for service delivery from the national government to NGOs. Box 9 ("How Alliances Often Redistribute Power and Responsibility") illustrates how, as developing country governments downsize, they often transfer power to the private sector and responsibilities for social service provision to the private sector and civil society organizations.

African NGOs have protested the way in which the Bank, in consulting with civil society organizations about CASs, can short-circuit dialogue between NGOs and their government. Ideally, the Bank would facilitate and support government-civil society dialogue rather than supplant it. Clearly, the Bank should not undermine the accountability of borrowing governments to their citizens.

However, in some circumstances, governments forbid Bank contacts with civil society. For instance, after the Bank consulted widely with indigenous groups in Guatemala about the Guatemalan CAS, the Government of Guatemala forbade future consultations of that nature.

In general, Bank participation efforts are useful when they are broadening access to information about Bank activities in a country.

**Recommendation:** Many NGOs advocate that the Bank should:

- determine whether or how different levels and types of interaction (e.g., consultation or participation) improve development outcomes or increase rates of return on investments;
- support and encourage borrowing governments to solicit participation in formulation and execution of all lending operations, especially SAPs;
- support the creation of new mechanisms for power sharing among state and civil society organizations;
- build the capacity of public sector and civil society institutions to monitor and evaluate lending operations;
- translate project documents into local languages in a timely manner;
- in tracking participation, distinguish sharply between:
  - participatory processes managed by developing country governments and
their citizens and those primarily managed by the World Bank;

- superficial consultation (information and opinion-gathering) and genuine participation in decision-making;

- Bank interaction with civil society with respect to "soft," social sectors and those related to the "hard" sectors: industry, energy, etc.;

- involvement of civil society in a project component as opposed to an entire project. Often, involvement is limited to a minor component of a major project.

ej) Accountability

Board Issues
Responsibility for implementing accountable policies and practices ultimately rests with the Boards of the IMF and World Bank. Since voting power is allocated on a one dollar-one vote basis, developed countries control an inordinate amount of power on the Board.

Often, governments do not use appropriate criteria for the selection of their representatives to the Boards. Thus, some Board members are ill-equipped to execute their responsibilities.

Furthermore, the Board has shifted its focus. It devotes less time to reviewing individual projects and more time to monitoring policy issues and medium-term country plans (CASS). In fact, major policy shifts in recent years have not been subjected to Board oversight. 31

Recommendation: Member governments should develop strict selection criteria for use by governments when they nominate candidates for Board positions. The Boards should exercise more rigorous oversight of institutional policies and operations.

Program Design Issues
For many years, the IMF has resisted calls that it design and implement its programs with greater concern for human rights, job creation, labor standards, poor people or the environment. While the World Bank claims to take such issues into account, its performance does not always inspire confidence. 32

Recommendation: The IMF and World Bank should work with and rely upon the policies and standards of agencies of the United Nations in designing and carrying out programs with impacts related to jobs, labor standards, human rights, poverty and the environment. In collaboration with other agencies, it should: (a) monitor and publish environmental and social spending figures; (b) publish changes in environmental or social laws that are the result of IMF agreements; (c) include social and environmental ministers in program negotiations; (d) institute environmental accounting processes in member countries; (e) urge borrowers to impose "green taxes" on large industrial producers and resource extractors; and (f) commission environmental impact assessments of IMF operations. 33

Evaluation Issues
The IMF has resisted establishing an independent audit or inspection unit for many years. On an experimental basis, the Board agreed in principle to have two to three external evaluations in each. In practice, they have had one external evaluation in two years.

Recommendation: The shareholders of the IMF should establish an independent audit or inspection unit to assess the programs of the institution.

The World Bank’s Operations Evaluation Department (OED) assesses the results of Bank operations only after completion. Despite the generally high quality of OED’s work, the Bank’s management frequently ignores OED’s recommendations. Bank management was incensed last year at the OED’s critical review of Bank performance relative to its poverty assessments for borrowing countries.

Policy Compliance Issues
This summer, the Bank established a policy compliance unit which will monitor Bank compliance with the nine mandatory safeguard policies. 34 This unit may spot compliance problems before they take a toll on the ecology and communities affected by Bank-financed operations. To date, the unit has received only half (just over $500,000) of the budget it requested.

Inspection Panel
The World Bank’s Inspection Panel was created in 1994 as a condition for receiving contributions from


32 For instance, the Country Assistance Review for Poland states that the Bank's Poverty Assessment for Poland "does not address how labor intensive growth and investment in the human resources of the poor could contribute to poverty reduction."

33 For further information, see Durbin, Andrea and Welch, Carol, Greening the Bretton Woods Institutions, Friends of the Earth, December 1998.

the U.S. Government for IDA. The establishment of the Panel caused intense resentment on the part of most members of the Bank's Board and management.

The job of the Inspection Panel is to investigate claims from parties affected by Bank operations that the Bank has violated its own policies. Currently, the Board is deeply divided about the future of the Inspection Panel and whether the authority of the Panel should be enhanced or diminished. A subcommittee of the Board (comprised of representatives from Switzerland, the Netherlands, Canada, Brazil, India and China) is preparing recommendations for the Board, which will determine the fate of the Panel.

**Recommendations:** NGOs want to see the powers of the Panel altered in order to: (a) give the Inspection Panel the prerogative to evaluate a claim based on its evaluation of the claim and management's response - except where a majority of the Board objected; (b) give the Panel the authority to establish the eligibility of a claim and the terms of reference for its investigation; (c) involve claimants in responding to analyses of their claim, as well as provide claimants with access to the final report of the Panel in their language; and (d) establish Action Plans for damage mitigation which support, rather than undermine, the claims process and which involve claimants and the Panel in monitoring its implementation.35

NGOs also support establishment of independent processes to inspect operations financed by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). They urge that these processes should permit filing of claims throughout the life of a project; provide remedies for claimants; and protect claimants against recrimination.

2) The Hegemony of Private Sector Actors

Historically, the IMF and World Bank have been attentive to the needs of investors by helping to ensure that government debts are repaid. More recently, the institution has become engaged in removing barriers to capital mobility.

Since the end of the Cold War and the Mexican peso crisis, the institutions have become more attuned to the needs of the private sector.

a) The IMF

Many eminent economists and politicians accuse the IMF of pushing the Northern trade and investment agenda upon their Southern borrowers. Harvard’s Martin Feldstein says that the IMF should resist pressure from the U.S., Japan and other major shareholders to make their trade and investment agenda part of the IMF funding conditions. Such pressure will be legalized if proposed U.S. legislation passes. Proposed legislation stipulates that, in order to obtain U.S. financial backing, the IMF will, among other things, have to ensure borrower compliance with trade and investment treaties.

The following developments illustrate the IMF’s evolving relationship to the private sector:

- Especially since 1996, the IMF encourages borrowing governments to enhance their transparency and, in particular, to release information needed by the private sector to make investment decisions.
- The IMF may create a Private Sector Advisory Committee at the behest of bankers and investment houses, which have a stake in overseeing IMF policies, especially toward emerging market countries.
- The IMF is seeking an amendment to its Articles of Agreement to expand its jurisdiction to capital account liberalization, including inflows and outflows of foreign direct investment (FDI), portfolio investment, and bank-to-bank credit transactions. Liberalizing capital accounts involves reducing the capacity of a government to control, or moderate, these inflows and outflows. Capital regulations are analogous to valves. Valves can help ensure that flows do not become tidal waves that do more harm than good. Many analysts believe that the lack of capital controls are a significant cause of the current financial crisis.
- The IMF may shift its interest rate policy. The institution’s advice is widely believed to reflect ignorance about the role of the pri-

35 From NGO letter coordinated by the Bank Information Center.
vate sector. Economist Paul Krugman recently confessed that his support for IMF policies was misplaced.\(^{15}\) He noted that Asia’s economies have turned out to be far more vulnerable to high interest rates than he or IMF officials originally envisioned. This is because Asian corporations are highly leveraged. The South China Morning Post carried Krugman’s “confession” that:

“When your debt is four or five times your equity — an unheard-of ratio in the West but standard practice in South Korea — it doesn’t take very long for recession plus high interest rates to wipe you out.”

- The IMF may also shift its fiscal policies. In Asia, the IMF has erred by prescribing public sector solutions — fiscal austerity — for essentially private sector problems.
- The IMF and World Bank are cooperating in a financial sector reform initiative that, among other things, encourages bank privatization, strengthened Bank supervision and enactment of legal reforms.

b) The World Bank

In the post-Cold War era, the Bank has come under fire — especially from the U.S. Congress — for fostering statism. The Bank has responded by increasing its sensitivity to the needs of Wall Street, fighting big government, facilitating the transfer of state functions to private actors, launching new lending instruments to facilitate private sector investment, and offering new services to businesses, including contractors.

The International Finance Corporation (IFC) created a Business Advisory Council and a Banking Advisory Panel. The Bank launched a Corporate Citizenship Initiative to examine the roles and contributions of business as a partner with government and civil society.

The Bank’s posture on the role of the state has been highly controversial among the Bank’s major shareholders. For instance, Japan objected to the Bank’s revisionist history of the “East Asian Miracle” which largely ignored the role of government.

**Recommendation:** NGO advocates urge that the Bank:

- Harmonize its policies across the World Bank Group

  Bank affiliates – the IFC and MIGA work directly with the private sector. With respect to policy enforcement and information disclosure, the Bank has one standard for the IBRD and IDA and another for the IFC and MIGA. NGOs advocate “harmonization” of standards across the Bank.

- Harmonize its policies across lending instruments

  The Bank Group has expanded the menu of lending instruments to include new varieties of partial risk and partial credit guarantees.\(^{16}\)

- Apply policies to all borrowing entities at federal, state and municipal levels

  Last year, the Bank began offering lending services directly to states and municipalities. There are now a significant number of state-level SAPs and privatization operations.

- Exercise greater selectivity in its private sector operations

  Support should be limited to projects that have a positive development impact in terms of social equity, environmental sustainability or governance.

  Private sector actors should not be given greater access to and clout in the Bretton Woods Institutions than civil society organizations. The governance structure of the IMF and World Bank must include mechanisms, which represent and advance the views of civil society organizations - especially those representing the most vulnerable populations. If such structures are missing, the Bretton Woods Institutions will find themselves increasingly unable to advance equitable and sustainable development.

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\(^{15}\) Published in Fortune magazine (September 1998) and published at greater length in the South China Morning Post, 9/7/98.

\(^{16}\) Partial risk guarantees ensure debt repayment to lenders if a government is in default. Partial credit guarantees cover all events of non-payment for designated parts of a project’s financing. Most NGOs oppose guarantees for foreign exchange enclave projects and the new pilot program, which permits IDA to offer guarantees.
3) The Forgotten Debtors: the Highly Indebted Poor Countries (HIPCs)

The global crisis is taking the heaviest toll among expanding poor populations, especially those in the poorest countries. Declining demand for primary commodities produced in poor countries and drops in commodity prices is causing the debt burden of Highly Indebted Poor Countries (HIPC) to skyrocket. Creditors and donors will be unable to meet the need for grant and concessional resources by poor countries.

The HIPC initiative, which was launched by the Bank, the IMF and other donors and creditors two years ago, will need to be revamped. The initiative will need to rapidly channel significant levels of debt relief to an increasing number of eligible countries. For an explanation of how the HIPC initiative needs revamping, see Attachment C: Oxfam International’s Position Paper: Making Debt Relief Work: A Test of Political Will and Oxfam International’s Briefing: The HIPC Review Paper: A Wasted Opportunity.

Grassroots initiatives are increasingly targeting the Fund as the main obstacle in debt reduction efforts. For instance, the transborder Jubilee 2000 Campaign that mobilizes affiliates in 38 countries focuses its calls for debt forgiveness mainly on the IMF.

As debt reduction efforts are scaled up, much more should be done to ensure that the benefits of debt reduction are channeled into poverty reduction efforts. As Attachment C suggests, donors and creditors should learn from the good example of Uganda. Uganda offers a positive example of how HIP can promote dialogue between government and civil society while, at the same time, channeling resources into expansion of primary education.

4) Environmental and Social Concerns in the Reorganized Bank

a) The Reorganization Process

From 1996 to the present, the World Bank has undergone a massive process of reorganization and decentralization.

In the reorganized Bank, the Country Directors, who run Country Management Units (CMUs) have the “power of the purse.” Services are demanded by Country Directors and supplied by the Sector Management Units (SMUs) of the Bank’s Networks:

- Poverty Reduction & Economic Management (PREM) Network;
- Finance, Private Sector and Infrastructure (FPSI) Network;
- Environmentally & Socially Sustainable Development (ESSD) Network;
- Human Development (HD) Network; and
- Operational Core Services (OCS) Network.

Most of the Bank’s staffers are employed by a Network and deployed to work on country-based operations. They are dependent upon Country Department “contracts” for employment security.

The ESSD Network carries out the majority of environmental, social, and participation work. The PREM and the ESSD Networks address gender issues.

b) Environmental and Energy Concerns

The Bank’s reorganization decentralized work on the environment to each of the Bank’s six regional departments. The central environment unit was essentially gutted. Some regions have strong environmental units (e.g. Africa); others have been weakened.

NGO advocates have challenged many aspects of the Bank’s environmental and energy work, including emphases on:

- Financing of large-scale dams;
- Carbon-based energy growth;
- Road building and rehabilitation designed for personal vehicles;
- Incentives for extractive industries (e.g. timber);
- Programs which have weakened government regulatory capacity;
- Input-intensive agricultural technologies; inadequate and inequitable extension services; slow progress in supporting integrated pest management (IPM) approaches; and limitations on rural credit created by SAPs;
More fundamentally, NGO advocates call for “green accounting” and the use of cost-benefit analyses for policy and project formulation that internalize environmental costs and benefits. Many NGOs support the Global Environmental Facility (GEF) in its work to finance the incremental costs incurred by governments to serve the global agenda by means such as biodiversity conservation, climate change and international waters protection. Many NGOs also herald the inclusion of NGOs in the governance structure of the GEF. At the same time, the GEF is criticized for diverting attention from the greening of the Bank’s regular portfolio.38

**Recommendation:** NGOs urge the Bank to:

- Set lending targets, beginning with the energy sector: i.e. progressively greater amounts of its energy portfolio (beginning with 20%) should support investments in alternative/renewable energy, demand side management and energy efficiency programs;
- Refuse financing for certain types of projects: i.e. infrastructure or extractive projects in frontier or primary tropical, temperate or boreal forests; logging or extractive forest projects which do not comply with criteria for certification; projects in or affecting specified protected areas; projects involving the commercial manufacture of ozone-depleting substances or the production or use of persistent organic pollutants; gold mining projects that involve cyanide leachate processing;
- Strengthen government’s capacity to establish and enforce environmental laws;
- Integrate environmental issues into sectoral and structural adjustment lending;
- Perform environmental impact assessments (EIAs) for all projects with significant impacts, rather than a small proportion of the projects, as is currently the case;
- Use the findings of EIAs to design projects;
- Highlight environmental concerns in all Country Assistance Strategies (CASs) and in a range of Bank-supported operations, including privatizations, sector reform, private sector and guarantee operations;
- Adopt more progressive environmental guidelines (e.g. those of the U.S. Overseas Private Investment Corporation – OPIC);
- Improve, and rigorously adhere to, its own operational policies; and
- Harmonize upward the information disclosure, social and environmental policies of the members of the World Bank Group.

c) Poverty and Social Development Concerns

For the last two years, attention to social issues has increased. However, non-economic social scientists (NESSies) do not have the status of economists in the BWI and the ratio of economists to NESSies is about 28:1.

When the Bank prepares its medium-term plan, the Country Assistance Strategy (CAS), for a country, one often hears that a Chief Economist vetoed proposals for social, gender-related or environmental work in a given country.

However, the emphasis on preparing social assessments is most welcome. In FY98 (ending June 30), 125 social assessments were performed, which represents 37% of the 342 projects in the pipeline. (Most participatory social assessments were launched in the Europe and Central Asia region.) A social assessment ranges in cost from $20,000 to $200,000 and averages between $50,000 to $75,000.

Some purposes of Bank social programs and social assessments include: ameliorating the impacts of Bank and IMF SAPs and Bank projects (see foregoing section on the social impact of adjustment); designing projects with sensitivity to the needs of vulnerable groups; targeting project benefits to poor populations; and engendering development by taking the role of women and girls into account.

In the current fiscal year, the Social Development Group will focus on the topics of:

- Social inclusion, with an emphasis on questions, such as: How do social factors, such as gender and ethnicity, foster exclusion and influence income and welfare? How do

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38 For further information, see Durbin, Andrea and Welch, Carol, Greening the Bretton Woods Institutions: Sustainable Development Recommendations for the World Bank and International Monetary Fund, Friends of the Earth, December 1996.
borrowing governments foster inclusion and how can the Bank assist in this process?

- Institutions, with a focus on learning about local community views about the roles and responsibilities of the public, private and independent sectors. In Bolivia, Burkina Faso, Indonesia, and many other countries studies are underway of local institutions and social capital.

A study of the roles of the three sectors should also distinguish between the roles of federal, state, and local governments. The Bank is significantly expanding its lending directly to state and municipal governments, thus, potentially undercutting the administrative capability and accountability of federal governments.

The Bank's social development specialists will provide their findings to the team authoring the World Development Report 2000 on poverty. (See Attachment D.)

Recommendations: A reform agenda to reduce poverty and advance social development should emphasize:

- The importance of civil society participation in establishing IMF performance criteria and World Bank trigger conditions - as well as participation in social, gender and environmental assessments of such conditions;
- Use of World Bank Poverty Assessments (produced with borrowing country constituencies) as the basis for IMF programs and World Bank Country Assistance Strategies (CASs); and improvement in the quality of analysis underlying these Assessments, especially as the analysis pertains to the impact of growth strategies on low-income and marginalized groups and women;
- A switch in adjustment program priorities that would result in income and employment benefits for low-income and marginalized groups and women, hence, minimizing the need for safety nets;
- Design of social safety nets as an integral part of adjustment operations, not as add-ons;
- Integration of Social Investment Fund (SIF) operations with the mainstream social sector operations of government ministries. In most cases, such processes should strengthen government capacity to ensure that all citizens have access to basic services, e.g. basic health care and education, water and sanitation services;
- Involvement of labor groups and women's organizations in designing labor-intensive growth schemes, including public sector modernization and labor "flexibility" efforts;
- Involvement of civil society organizations in establishing any social conditionality related to loan and debt reduction operations;
- IMF and World Bank support for the establishment by borrowers of transparent budget processes so that civil society organizations can help identify budget priorities;
- Moderating social sector lending so that governments do not contract excessive external, hard currency debt for social functions that should be funded with domestic resources;
- IMF reliance upon the World Bank, UN Agencies and NGOs in designing the social and environmental components of its programs;
- Involvement of affected communities in designing, implementing, monitoring and evaluating all project and program operations (See section on "participation," above); and
- Respect for the analytical and advocacy roles of accountable non-governmental organizations.
5. Conclusion

This primer identifies the fundamental problem with the Bretton Woods Institutions: the facilitation of capital mobility is treated as a goal in and of itself. For instance, legislation under consideration by the U.S. Congress would require that the IMF become the handmaiden of investors by ensuring borrower compliance with trade and investment agreements. For reasons discussed in this primer, such stipulations imposed by one shareholding government would have overwhelmingly negative implications.

The facilitation of capital mobility should be a means to the goals that can improve the quality of life: democratization, equity, labor standards, consumer protection and environmental protection. The Bretton Woods Institutions, which are part of the U.N. system, are PUBLIC institutions, which operate with the backing of taxpayer dollars. As such, they have an obligation to serve the public interest.

To serve the public interest, the Bretton Woods Institutions must be democratized. They must practice the “good governance” that they preach to borrowers. Their architecture must be altered to include mechanisms that can bridge the gap between local and global realities. The voices of local and national constituencies must be amplified, so that global economic decisions reflect regard for and accountability to constituencies.

Bank and IMF programs affect the populations of developing and transition countries. Therefore, consideration should also be given to expanding that voting power and authority of developing country governments, subject to agreement on the part of all shareholders to establish accountability mechanisms. All shareholders should act as representatives of constituencies of civil society organizations. Such organizations need and deserve as much clout as the investment community, which is currently the power behind the thrones of the institutions and their governors.
Part II: A Dialogue with the Bretton Woods Institutions

Proceedings of a Friedrich Ebert Stiftung Conference
October 25th – October 30th, 1998
A. Defining the Turf: The Different Roles of the World Bank and IMF

Bruno Mauprivez, Acting Chief of the IMF’s External Relations Department, described some basic facts about the institution:

- **The IMF oversees a code of conduct.**
  Through the surveillance, or oversight, process, the institution administers a code of conduct agreed to by the institution’s 182 member countries.

- **The IMF works like a credit union.** The IMF, which has 2600 staff members, is set up like a credit union in which each member pays in a quota or subscription proportionate to the size of its economy. About 25% of its subscriptions must be in “acceptable” hard currency.

  When in difficulty, member governments buy “money” from the IMF and pay a charge. The IMF does not make a profit; rather it breaks even, except for the fact that it sets aside money for its reserves.

  Governments must repay their debt to the IMF in hard currency, which requires that it export goods and services in order to earn hard currency.

- **The IMF fights “contagious” financial crises.**
  Recently, the IMF has been called upon to perform new and different functions. The IMF is becoming more cognizant of the impact of its decisions on the market. It is also engaged in fighting “contagion” – a new and disturbing phenomenon in which financial ailments of one country spill over into other countries and even other regions.

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**Box 1’**

**Who Runs the IMF?**

IMF Representative: The IMF, as an institution, does not operate without the direction of its member governments. Thus, “whatever we do, we do because the world wants us to do it.”

NGO Representative: Strictly speaking, it is not the case that the IMF does what the “world wants.” The IMF is not a country-one vote forum; the power of shareholders is proportionate to their economic power. It can be shown that the IMF sometimes acts at the behest of the G-3 (the U.S., Germany and Japan) or the G-7. Sometimes the IMF responds directly to a small cadre of decision-makers down the street in the U.S. Treasury. Recent U.S. legislation may strengthen the U.S. hold over the IMF.

Furthermore, governments should do what their citizens ask them to do rather than what external actors, or the “world,” asks them to do.

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**Amar Bhattacharya,** Advisor for the Bank’s Poverty Reduction and Economic Management (PREM) Network, described some characteristics of Bank operations:

- **Volume of lending.** In FY98, the Bank made loan commitments totaling nearly $30 billion—double the level of FY96. IDA commitments represent about a quarter of the total.

- **A shift from project lending to adjustment, or policy-based, lending.** The Bank shifted its orientation to lending in the early 1980s. Prior to that time, the Bank focused almost exclusively on project investments—e.g. factories, bridges, hospitals. However, in the early 1980s with the burgeoning debt crisis, the Bank shifted into policy-based lending. The IMF’s job is policy-based lending, so the work of the institutions converges in this area.

Policy-based lending helped countries achieve internal and external account balances at a time when debt burdens were rising, often sharply.

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*Text contained in boxes represents paraphrased exchanges among participants in the conference.*
Box 2

**THE IMF’S AND WORLD BANK’S DIVISION OF LABOR**

In 1989, after a dispute over lending to Argentina, the World Bank and IMF shaped a “concordat,” or agreement, which designated their respective areas of responsibility. That concordat was revised at the 1998 Annual Meeting of the institutions.

The revised agreement named the following issues as under the jurisdiction of both institutions: financial sector, tax policy and administration, transparency, governance, corruption, legislative reform, trade policy, debt, and spending on infrastructure and basic health and education.

The IMF has a strong interest in the issues which remain under the jurisdiction of the World Bank: public sector reform, administrative and civil service reform, corporate sector reform, judicial reforms, environment and social protection and development.

The institutions will coordinate their activities in several pilot programs in low-income countries and in post-conflict countries.

A Joint Working Group of the IMF and World Bank will design new confidentiality procedures to govern the joint activities of the institutions.

Washington-based NGOs, Nancy Alexander of Globalization Challenge Initiative and Lisa Jordan of the Bank Information Center, raised the following points:

- **Preferred creditors.** The IMF and World Bank are “preferred creditors,” meaning that governments put a higher priority on servicing debt to these institutions than servicing debt to other creditors.

- **The IMF “seal of approval.”** However, even if the IMF controlled NO financial resources it would have great power. Why? The IMF provides a “seal of approval” for the macroeconomic policies of member governments. Governments with this “seal” have access to credit from a range of sources: e.g. commercial banks and bilateral government. Governments without this seal are left “high and dry.”

- **World Bank & IMF SAPs.** The IMF does 100% of its transactions in the arena of structural adjustment. In FY98, 40% of Bank-financed operations were for structural adjustment programs (SAPs). Thus, there is a substantial overlap in the jurisdictions of the institutions. Importantly, most of the remaining 60% of Bank-financed operations reinforce and complement SAPs.

- **How the World Bank enforces IMF conditions.** The World Bank uses a “carrot and stick” approach to allocating its resources. Where a government has an active IMF program, the extent of a government’s access to World Bank loans depends not only upon its compliance with World Bank conditions, but also upon its compliance with IMF conditions. In other words, the World Bank incorporates IMF conditions in the course of its own operations. (Some of the binding conditions on World Bank loans are called “tranche release” conditions; binding mega-conditions placed on a government’s entire loan portfolio are called “triggers”.)

- **The IMF and civil society.** It is NOT part of the IMF’s mandate to consult with CSOs. In fact, Article V, Section 1 explicitly discourages the IMF from consulting with domestic organizations.

Advocacy by CSOs is intended to promote greater transparency, accountability and participation on the part of the IMF and World Bank.
Panel hears claims of communities affected by Bank-financed operations (related to material harm arising from Bank violations of its own policies). Presently, the Panel is under attack, especially by borrowing countries and Bank management.

During discussion, FES Resident Representatives expressed views about a range of issues, including:

- **Who decides IMF policies?** The voting rights of members depend on their capital contribution. How can this system be reconciled with the needs of vulnerable groups whose interests are never put “on the table?”

- **The IMF should address corruption.** In the case of Indonesia, the IMF didn’t care about the country’s governance. In 1996, it was asserted that 20% of Bank loans (amounting to about $10 billion) disappeared. The Bank’s Resident Representative Dennis

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**Box 3**

**The IMF as Doctor? The World Bank as Pharmacist?**

NGO Representative: One NGO described the work of the IMF as that of a “doctor” who prescribes economic medicine. The World Bank is the “pharmacist” who, over a longer period of time, doles out the medicine. The country is the “patient” who returns to the Bank again and again for prescription refills. The country government is seen as lacking the knowledge to prescribe or administer its own medicine.

If the patient gets sicker or requires surgery, it still must pay for treatment and operations. Where the doctors make mistakes, the doctor never pays.

This violates market principles. In the market, if your advice or product is faulty, you lose market share. The IMF and World Bank get paid back “no matter what.” Thus, the IMF and World Bank are not really market-based institutions; they are not subject to the discipline of the market.

IMF Representative: We are often in a lose-lose scenario. That is, if the patient is cured, the doctor is not remembered. If the patient is not cured, the doctor is blamed.

World Bank Representative: The Bank is a market-based institution. We have due diligence meetings to address the rating of Bank bonds and their interest rate spread (30-40 points above U.S. Treasury rates).

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**Box 4**

**The World Bank: Development Institution or Bank?**

NGO Representative: The Bank’s top-down system responds to the needs of global capital not to development goals.

There is a large gap between the World Bank’s rhetoric (that of a development institution) and its actions as a lender. In many areas, this gap is widening.

World Bank Representative: It is a difficult act to convince the markets of the soundness of our investments while, at the same time, implementing a development agenda.

IMF Representative: Our concerns go beyond the market. We are attempting to enhance our accountability. For instance, recently, the IMF disclosed an external evaluation of its Enhanced Structural Adjustment Facility (ESAF).
DeTray dismissed this allegation. Then, two years later, a World Bank report showed the truth of the allegation.

- **The institutions control the terms of debate.** They define questions, debate them within, and provide answers to the global community. This process has gone awry in many countries. In Thailand, the IMF has lost credibility. The Government’s Letter of Intent (LOI) to the IMF was out-dated within weeks of formulation. In formulating the LOI, the IMF used a data base that was nine months old and neglected labor market/unemployment data.

The IMF is also responsible for faulty forecasting in Korea. Furthermore, IMF consultations with Korean labor groups are a façade if the views of these constituencies are not systematically taken into account in the formulation of IMF programs.

- **The capacity of the state has been diminished.** During the past few years, the “reform” of the state through SAPs has significantly destroyed its capacity. Consequently, one wonders whether the state is capable of carrying out consultative processes.

- **SAP prescriptions are standardized and ideological.** Like the IMF, the World Bank works with an ideology that is not bound to circumstances. Furthermore, the institutions only consider a narrow range of factors in designing policies for borrowers. Borrowing country constituencies (rather than the institutions) should have the right to proclaim which policies are “right” for them.

In Latin America, the institutions generally urge borrowers to establish free production zones and adopt labor “flexibility” policies. Often, such policies are promoted in ways which weaken organized labor and standards for worker protection.

- **The IMF enforces some reforms; not others.** In Egypt, one IMF program called for the introduction of a new labor law that would give unions collective bargaining power and the right to strike. The IMF worked for reforms in other areas (e.g. customs, tariffs), but not in the labor area.

IMF and World Bank representatives stressed several themes.

- The Board of Governors establishes the voting rights system. The IMF’s management cannot influence the system.
- The IMF and World Bank are moving ahead with new initiative to promote good governance and curb corruption.
- The terms of debate around policy reform are always shifting. The institutions do not have a monopoly on advice. Complex country-specific situations require complex trade-offs.
- There are several areas (e.g. labor reform) that an institution, such as the IMF, which attempts to be apolitical, tries to avoid. However, the institutions are trying to reach out to civil society and find mechanisms, such as the World Bank’s Country Assistance Strategy (CAS) consultations, to take the views of CSOs into account.

### Box 5

**Dealing with Bankruptcy**

FES Representative: Why aren’t the institutions considering bankruptcy procedures for governments? For many, their debt burden is too great. Since commodity prices are dropping, debts will balloon to even greater proportions.

World Bank Representative: The institutions are, in fact, considering mechanisms for dealing with bankruptcy. In a sense, the mechanism for dealing with the debt of the Highly Indebted Poor Countries (HIPC) is a sort of bankruptcy mechanism that writes off private sector, bilateral and multilateral debt.

Regarding private sector debt, there is agreement when a government cannot meet its debt obligations, commercial creditors must not walk out unscathed. We see this agreement in the G-22 proposals for a new financial architecture.
B. The Impact of IMF and World Bank Policies: The Asian Crisis

Pia Bungarten, FES Resident Representative in Thailand, made a presentation on the effect of the Asian crisis on Thailand.

Thais view the current crisis as being a major historical event.

Most see the crisis as homegrown. At the same time, there is agreement that the IMF made a bad situation worse. The IMF turned a financial crisis into an economic and social disaster.

The World Bank has generally been viewed in a positive light. It has listened to the views of Thai constituencies and urged the government to establish social safety nets and emergency employment schemes. The Social Investment Fund (SIF) channels resources to municipalities. However, in the process the corrupt government takes the lion’s share of the money.

There is a sense that the IMF plan has succeeded. For instance, the currency has stabilized and inflation has been brought under control. But the costs imposed by this plan are not low or transitory. The recapitalization and reform of the banking sector is a long-term proposition. Manufacturing and capital utilization are down and corporate failures are up. There is no hope of an export-led recovery.

The social costs are enormous and family networks, Thailand’s safety net, are strained.

People feel that they are the “pets of an IMF master” and that the IMF is a predator, not an enabler. They see the IMF as marketing one recipe, which doesn’t address Thailand’s problems in the private sector. Thus, IMF policies have brought the nation from illiquidity to insolvency. The privatization plan has been a “fire sale” that is resulting in private sector monopolies supplanting public sector monopolies. The consequences have included: socializing losses, higher costs of services and job loss.

Anti-Western sentiment has risen since people don’t see the IMF as serving Thais, but rather being used as a tool of superpowers.

Many Thais reject the orthodox model, which created such great ecological damage and a great gulf between rich and poor. They are ready for an alternative which focuses on domestic development and lessens the nation’s dependence on foreign actors and, in particular, on speculative capital.

Box 6

Views on Lessons of the Crisis

FES Resident Representative Pia Bungarten:

Because Thais reject the orthodox model, which created such great ecological damage and a great gulf between rich and poor, they are ready for the message promoted by Walden Bello (Co-Director, FOCUS on the Global South, Bangkok). That message would focus on domestic development and lessen the nation’s dependence on foreign actors.

NGO Representative: Pia’s message about not turning away from the global economy but relying on domestic investment and markets is important. Yet IMF and World Bank interest rate policy is geared toward attracting foreign capital. Thus, there is a fundamental clash of approaches. We see the consequences of this policy everywhere. In Mexico, there are more than 3000 border factories but the high interest rates are killing off domestic business. This policy creates imbalance and vulnerability.

IMF Representative: What does the Asian crisis teach us? Countries, such as Vietnam, are not just victims of external forces; they create their own problems. The lesson is that we need to build resilient economies. In Vietnam, reforms have stalled in the arenas of banking and state enterprises. For instance, state banks are not intermediating credit effectively. In addition, we need international standards for statistics and information disclosure together with prudential, regulatory and accounting standards. In Korea, the government accepted short-term money and took all the risk for unproductive investments. If there had been proper risk accounting and prudential supervision, sounder decisions would have been made.

Finally, we need to devise ways to manage debtor-creditor relationships and avoid herd behavior. For instance, we need rules about when to classify loans as “bad” loans.
Anthony Elson, Senior Advisor for the IMF’s Asia and Pacific Department, noted that Asia has been hit by numerous cyclical and external shocks, such as adverse terms of trade affecting the market for semiconductors and a downturn in Japan.

He asserted that the IMF has taken a middle course with respect to interest and exchange rates. He noted that raising interest rates promoted savings while, at the same time, dampening speculation on exchange rate movements and pressure to depreciate the baht. In fact, he noted that the real (inflation-adjusted) interest rate has not even increased. Furthermore, since the government ran out of reserves and the baht was initially over-valued, the baht had to float and couldn’t be pegged at a new rate.

On the fiscal side, the initial impact was contractionary because the fiscal deficit and current account deficit was expanding. The fiscal policy was seen as relieving burdens that would have otherwise fallen on the private sector.

Now the fiscal stance is expansionary. In addition, there is a realization that social safety nets are needed.

In bank restructuring, we are distinguishing between the stabilization phase and the structural adjustment phase. Insolvency requires a long-term commitment to recapitalization. The large debt overhang (both public and private) will take considerable time to work out.

Roland Peters, Deputy Manager of the Bank’s Poverty Reduction and Economic Management (PREM) Network for the East Asia/Pacific Region welcomed the positive reception that the Bank receives in many quarters in Thailand.

There is evidence that the World Bank’s decentralization effort connects it more effectively to country circumstances and that greater institutional openness and consultation are bearing fruit. He noted that the World Bank is analogous to “long-distance runner,” not a “sprinter” (like the IMF). But, he said that in the recent crisis, “we are sometimes forced to sprint.”

The Bank’s agenda in the region include work in the area of governance and corruption. Other highlights include:

- Bank and corporate restructuring in the five crisis countries. Although the countries have usable regulatory and bankruptcy frameworks, the work-out periods will be extended. The work-out of the United States Savings & Loan crisis took only a year or so, but the Resolution Trust Corporation dealt with the disposition of a small fraction (under 2%) of U.S. financial assets.

- Social development.
  a) Social Investment Funds (SIFs). The SIF in Thailand ($400 million) is still not effective. There are also problems with the SIF in Indonesia. Given the large size of these loans, the World Bank is a blunt instrument.
  b) Composition of expenditure. We advocate expanded spending and adequate implementation of programs, which are focused on the poor.
  c) Public works programs are important for employment generation.
  d) Targeted subsidy programs for staples (e.g. rice) are essential to poor populations.

An NGO representative, John Cavanagh of the Institute for Policy Studies, said that there are many critiques of the Bank and the Fund from the political right (e.g. regarding the “French socialist” who runs the IMF and interferes with the workings of the market). There are also critiques from the corporate sector which sees its profits evaporating from investments in Asia.

He raised the following points:

- The IMF turned financial problems into an economic crisis. For instance, in Indonesia, the bank closings in November of 1997 resulted in panic. The January ‘98 IMF agreement precipitated the collapse of the rupiah; and the removal of subsidies in May ‘98 led to riots.

- The liberalization of the capital account in the early 1990s precipitated the financial collapse by expanding the influx of short-term capital and leading to extreme volatility. For

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2 The phrase “French socialist” was used by U.S. Senate Majority Leader Trent Lott (Republican Party) to describe Michel Camdessus, the Managing Director of the IMF.
the Philippines, the collapse was like a fall from a 20-story building. For Indonesia, it was like a fall from a 100-story building.

- The development model, known as the "Washington Consensus," emphasizes exporting more and spending less. This formula has not served countries well. For instance in the Philippines, despite the small budget deficit, the IMF has pressured the government to cut spending. This is having severe repercussions. Staff of the Philippine Environment Department say that budget cuts are leading to less monitoring of illegal logging, removal of the log export ban and a proliferation of foreign investment contracts.

- Some think that the Bank is redefining itself as the institution that puts out the fires that the IMF starts, but the World Bank was not established to promote a social agenda.

- The crisis calls for humility on the part of all parties. All have made errors.

Box 7

**EXPORT ORIENTATION OF CRISIS COUNTRIES**

NGO Representative: The development model emphasizes exporting more and spending less. This formula has not served countries well.

FES Representative: I agree. In Vietnam, exports are dropping. Meanwhile, imports are so much cheaper than domestically manufactured goods that the country is drowning in imports. Of what use are policies with such consequences?

IMF Representative: The crisis doesn’t invalidate an export orientation. Along with this orientation, you saw high savings and human investment. In terms of environmental repercussions, it is tax policies which were undermining the sustainable use and harvesting of natural resources.

The discussion period focused on issues relating to: the role of civil society organizations (CSOs), capital account liberalization, and ideas for preventing future crisis.

Box 8

**VIEWS ON CAPITAL ACCOUNT LIBERALIZATION (CAL)**

NGO Representative: The liberalization of the capital account in the early 1990s precipitated the financial collapse by expanding the influx of short-term capital and leading to extreme volatility. For the Philippines, the collapse was like a fall from a 20-story building. For Indonesia, it was like a fall from a 100-story building.

FES Representatives: In the crisis countries, we saw premature liberalization in places, which lacked sound institutions. Thus, macroeconomic decisions led to a nuclear-type explosion. It is too easy to blame the IMF for this. We need to look more deeply at the paradigm and the factors that created an economic catastrophe out of a financial crisis.

The prudential regulation of banking is insufficient, given the fast growth rates we’ve seen in Asia.

The fundamental problems in Indonesia are deeper than those named by the IMF. The IMF didn’t understand that the regime was illegitimate, so the IMF was like the arsonist commissioned to extinguish the fire. Changed the case for capital account liberalization (CAL). But it has taught us the importance of sequencing and that short-term flows shouldn’t be liberalized before long-term flows & FDI are liberalized. Furthermore, domestic counterpart institutions are needed: sound, regulated banks.

IMF Representative: I saw Indonesia liberalize capital controls in 1972. The main issue is the framework into which capital flows. Indonesia has been hit with multiple crisis (e.g. drought, low oil prices) of epic proportions. However, experience hasn’t changed the case for capital account liberalization (CAL). But it has taught us the importance of sequencing and that short-term flows shouldn’t be liberalized before long-term flows & FDI are liberalized. Furthermore, domestic counterpart institutions are needed: sound, regulated banks.
The New Financial Architecture

FES Representatives: We need a system to protect countries from crises - perhaps an internationally agreed-upon insurance system or resurrection of the idea of an Asian Monetary Fund to protect countries against speculative attacks.

The ideas related to the New Financial Architecture - better information and surveillance - represent "more of the same." Why is it that the advantages of short-term capital mobility are never questioned?

NGO Representative: Clinton liked the idea of a private insurance fund promoted by George Soros and others, but U.S. Treasury Secretary Rubin nixed it.

The New Financial Architecture (NFA) proposals involve "rearranging the deck chairs" (on the Titanic), because fatally flawed assumptions are not being questioned. The G-7 and the Bretton Woods Institutions claimed that many of the measures being suggested now were put into force after the peso crisis.

We need to think about three key ideas: selective capital controls, a tax on international capital flows (e.g. Tobin tax), and the development model.

IMF Representative: There are many elements, which should be considered in the new financial architecture:

1) A more transparent and accountable IMF. The US appropriation for the IMF imposes disclosure requirements regarding LOIs, PFPs and even minutes of the Board (after a lapse of three months).

2) The requested quota increase.

3) Improved surveillance which would involve civil society organizations and steps to prevent crises. The IMF knew that Thailand was in an unsustainable position, however, that knowledge was not broadcast. The IMF needs a "yellow card" system (a football analogy) to warn of impending danger.

4) More rigorous standards. After the Mexican crisis, the special and general information data dissemination standards (SDDS) were developed, but the crisis countries were not in full compliance. Later this year the standards will be elaborated with respect to matters, such as reserve positions and external liabilities and external indebtedness. Also, information will be requested on fiscal transparency and International standards on supervision (by the Bank of International Settlements (BIS)).

5) International bankruptcy proceedings, which will enable countries to suspend payments without creating panic. These procedures will distinguish between countries that are solvent and those that are illiquid.

The Role of CSOs. An FES Representative emphasized the view that CSOs can provide checks and balances in governance systems. In Thailand, there is a new constitution and a mechanism for reporting corruption whereby citizens can launch a referendum to petition for the expulsion of corrupt officials. There are also land and tax reform initiatives underway. It will be a challenge to avoid excessive reliance on external private investment.

An NGO Representative concurred with this view, saying that there is cause for optimism relative to the Philippines and Korea because democratic institutions are vibrant in those countries.
C. FROM THE WASHINGTON-TO THE POST-WASHINGTON
CONSENSUS: NEW INSTRUMENTS AND GOALS OF
THE BRETON WOODS INSTITUTIONS

Werner Puschra, FES Representative in Egypt,
began the session by presenting key issues and
questions about the post-Washington Consensus,
including:

The Role of Governments. Government ownership
is important but, at the same time, governments may
not aspire to goals related to environmental sustain-
ability, social justice and popular participation.

Organizations, such as FES, can facilitate govern-
ment ownership. For instance, in Egypt, the World
Bank proposed a pollution abatement project,
which involved closing down some factories and
opening others. The Government of Egypt objected
to the project because of the prospective job losses.
FES set up a project preparation unit with Egypt’s
Environmental Protection Agency and discussed the
pollution abatement plan with constituencies (e.g.
through surveys of 200 companies). Now there is a
sense of ownership of the project, which is seen as
Egypt’s, not the Bank’s.

The Role of Civil Society. There are many dilem-
as concerning the role of civil society in the post-
Washington Consensus. For instance,

- Where government, private sector and civil
  society are all weak, how can civil society
  help promote sustainable development?

- The interests of civil society groups are
diverse; they also involve temporal trade-
offs. For instance, groups which may experi-
ence short-term losses during privatization
may block reforms, even if they are expected
to gain in the long-term.

- CSOs need visions and strategies. To this
  end, perhaps more CSOs could work with
  the World Bank.

- The post-Washington Consensus is about
  more dialogue and communication, but how
  are such processes being advanced? What
  are the IMF and World Bank’s instruments
  for implementing consultative processes?

Social and Environmental Aspects of IMF and
World Bank Operations. The IMF and World Bank
need to cooperate with other donors and NGOs,
especially in the design of poverty projects. In this
process, new social and environmental indicators of
development are needed.

IMF macroeconomic measures shouldn’t be imple-
mented apart from the social and environmental
measures. In Egypt’s 1991 SAP, the social aspects
were integral (involving changes in labor law giving
unions the right to strike and collective bargaining,
plus flexibility and social assistance). Regrettably,
the IMF did not push for these social aspects.

Aziz Ali Mohammed, a former IMF official, who
has headed up the Liaison Office of the G-24 named
limitations of the so-called “Washington
Consensus.” He, then, questioned whether a
Consensus actually exists.

He listed the foci of the Consensus:

1) Getting Prices Right: realistic exchange
   rates and interest rates

2) Liberalization: trade in goods, services and
capital

3) Deregulation: the role of the state vis a vis
markets, privatization

The Consensus was unclear or did not extend to
many questions, such as:

- the desirability of maintaining capital con-
trols in a world in which $1.2 trillion in for-
ign exchange is traded daily;

- the need to target the current account
deficit;

- the advisability of stabilizing the business
cycle;

- wage and price policies;

- indexation;

- compensatory taxation (% of GDP to the
public sector)

- redistribution;

- which model has greatest value: the
European social market; the Anglo-Saxon
model; or the Japanese model of corporate responsibility to multiple stakeholders.

- population control and environmental policies.

- governance, the rule of law, or the role of civil society. These elements have since become central to our way of thinking.

He proceeded to question whether, in fact, there is a Washington Consensus. Given the recently enacted U.S. legislation, borrowing governments will need to see if the U.S. Government approves of IMF terms! Measures which are imposed unilaterally - from above and from abroad - hardly represent a consensus. Specifically, the legislation makes U.S. financial support to the IMF conditional upon:

- Agreement by the IMF's major shareholders that any use of IMF resources must require the borrower to:
  1) liberalize trade in goods and services consistent with international agreements;
  2) eliminate systemic practices of government-directed lending; and
  3) eliminate any legal basis for discriminatory treatment of domestic and foreign borrowings.

- Greater IMF transparency. Within three months of any Article IV consultation (e.g. IMF surveillance) or change in policies, the minutes of Executive Board meetings must be published, except for information relating to national security, market sensitive, and proprietary information. Currently, these minutes are released 30 years after the Board meetings. Furthermore, every Letter of Intent (LOI), Memorandum of Understanding (MOU), or Policy Framework Paper (PFP) should be made available for public inspection. Since some of these documents are owned by borrowing governments, the U.S. law represents an exercise in extra-territorial sovereignty.

- Higher interest rates on transactions to deal with balance of payment financing in the event of a sudden loss of confidence. Already, the supplemental reserve facility raises normal charges for such transactions by 300 basis points initially and an additional 50 points per year thereafter until the total reaches 500 basis points.

There are also sections of the law which call for:

- A report to Congress by the Secretary of the Treasury before each disbursement of funds to Korea regarding whether money is being used for certain purposes (e.g. steel, auto, apparel, textile, etc.).

- A commission to address the IMF's mission and capability; its management of international financial crisis; its role in international economic policy cooperation, including among the G7 (e.g. cross border flows in exchange rate relations); its implementation of international cooperation in supervision and regulation of financial institutions; its strengthening of financial sectors in emerging market countries; the manner in which the European integration proceeds.

Homi Kharas, Director of Economic Policy for the Poverty Reduction and Economic Management (PREM) Network of the World Bank, addressed ways in which the Washington Consensus is evolving through structural adjustment programs (SAPs).

He began by noting that the author of the Washington Consensus, John Williamson, never intended the Consensus to be a normative statement. Rather, Williamson was setting forth elements of the development paradigm which are supported by creditor and borrower countries. If the Consensus were to be up-dated, he suggested it would include additional elements (e.g. the importance of girls' education).

Then, he noted distinctive features of SAPs as they are now implemented:

- **Flexibility.** Bank lending operations are becoming more flexible. That is, they value the process of interacting with stakeholders as well as the product. Beyond some elements of price reform, the Bank deals with complex institutions to achieve an array of goals (e.g. debt management, prudential regulation,
financial supervision), which aren’t time-based targets or project-specific. As a consequence, flexible, “programmatic” SAPs are required.

Emergency SAPs are also used to deal with urgent problems, such as corporate restructuring, in a way that can lay the foundation for long-term development.

- **Subnational Lending.** The central government is not the only player, subnational units are key, especially in the social sectors. Whereas lending to the central government is analogous to wholesaling; lending to state and municipal governments is like retailing. The Bank is learning to “drill down” and use adjustment lending at state and municipal levels. But then, in the case of Brazil, one is dealing with 26 states and over 5,500 municipalities. The sheer scale of this outreach is daunting.

Some resources are borrowed independently; some channeled through the central government, but there are always federal guarantees.

To monitor fiscal discipline, the Bank creates monitoring units in the federal government to manage the collection of state debts owed to the federal government. Among other things, debt management requires that one quantify off-budget, or contingent liabilities (e.g. infrastructure projects which often have “take or pay” contracts). Guarantees can account for as much as half of the indebtedness in a given sector.

- **Sustained Lending.** Stop and go (or on and off) lending, especially in the social sectors, is disruptive. The Bank cannot simply stop lending when adjustment stalls. SAPs have greater success in maintaining good policies (e.g. Uganda, Ghana) than in reforming policies.

He noted that the Bank is developing new poverty indicators and new approaches to project evaluation, which will provide empirical evidence for broadening the consensus.

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**Box 10**

**NORMS AND THE WASHINGTON CONSENSUS**

Bank representative: In formulating the Washington Consensus, John Williamson was trying to articulate the policies that had worked successfully in the past. He tried to avoid making normative statements. He assumed that there would be questions about details - about how to get “from here to there” - and that political trade-offs would be required in different circumstances. The Consensus lists policies which are necessary, but not sufficient.

International NGO representative: I disagree with the position that the consensus is positive, not normative. There are hierarchies of policies and value judgements applied. If one reviews the trigger policies for numerous Country Assistance Strategies, one sees that a higher value is placed upon monetary and fiscal performance and privatization than upon social development. Borrower performance relative to macroeconomic triggers determine the borrower's credit limit with the World Bank.

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**Veena Siddharth,** a representative of Oxfam International, stated that “Washington” is a key part of the “Washington Consensus.” That is, the U.S. Treasury plays a major role in programmatic decisions for some borrowers.

The consensus is normative in the sense that one sees the hierarchy, or the sharp distinction, among growth policies, on the one hand, and social policies, on the other.

Currently, the IMF and World Bank differ in their approaches to the financial crisis. There is evidence of IMF mismanagement in the crisis and a lack of coherence and cooperation between the institutions. The Bank doesn’t want to simply be a cash machine for the Fund.

The Bank is more open and transparent; there is less mystique about it. At the same time, much basic information is still confidential. For instance, while the Bank invites civil society organizations (CSOs) to give input to its Country Assistance
Strategies (CAS), CSOs are not allowed to see the draft CAS.

During the discussion, some FES Representatives stressed that there is not really agreement about the Washington Consensus. FES and many other institutions embrace the fundamental questions about the Consensus raised by Bank Chief Economist Joseph Stiglitz and others. Stiglitz has challenged the manner in which the Bretton Woods Institutions have approached macroeconomic fundamentals, such as inflation reduction, trade liberalization, and privatization.

Controversy abounds with respect to these elements of the “old” consensus as well as with respect to newer elements of the emerging consensus relating to social, environmental and political issues.

Participants also discussed the following questions:

• Will the relevance of the Bretton Woods Institutions decline as governments shrink and weaken? Given the mediating role of governments, how can the Bretton Woods Institutions work with civil society organizations? The Institutions can only relate to CSOs approved by the government and governments generally approve CSOs which represent vested interests. This can create a negative and distortionary dynamic which could be reinforced if the Institutions are permitted to give grants to NGOs.

• Are Social Investment Funds (SIFs) part of the problem or part of the solution? They are often parallel and permanent structures that highlight, and attempt to compensate for, the problems with SAPs.

• What are the expected impacts of U.S. legislation, especially on poorer countries that are marginalized by international agreements?

D. World Bank Policy in Eastern Europe and 1 Former Soviet Union: A Discussion With Marcelo Selowsky

Marcelo Selowsky, Chief Economist of the Euro & Central Asia Regional Office, recounted how, in the Commonwealth of Independent States (CIS), there is a complex taxonomy of countries. Ukraine and Russia have been the most difficult, with significant interruptions in their programs and no steady dialogue with leaders. There are significant tension between parliaments and executive branches.

In Russia, the fiscal deficit was funded with foreign debt and creditors were reluctant to roll over domestic debt, which was about $50 billion or 10% of GDP. Non-payment resulted in a pyramiding of debt...

In Eastern Europe, there have been huge fiscal imbalances as transfers from Russia were cut. But growth rates in the 5% to 7% range and incentive for capital accumulation and investment are encouraging.

Several comments from FES representatives probe the political nature and purpose of World Bank involvement in the region, in general, and Russia, in particular. Dr. Selowsky stated that, initially, the Bank and IMF could have worked more cohesively in Russia. The IMF has more leverage than the Bank, but the Bank attempted to use its leverage responsibly through providing technical assistance, guarantees to private investors, targeted social benefits, and a rehabilitation SAP.

Throughout the region, the Bank is deeply involved in pension reform efforts.

When FES Representatives asked what the Bank had learned through its privatization experiences, Dr. Selowsky noted the need to address transparency problems, especially with central banks.

With respect to the future, Dr. Selowsky suggested that while Yeltsin’s departure will be negative, the spill-over effects of the Russian debacle will be contained since Russia’s GDP is small (its per capita income is half of Brazil’s). Still, there will be effects on Ukraine, the Balkans, etc.
E. SOCIAL IMPACTS OF ADJUSTMENT

Peter Mayer, FES Representative in South Korea, described negative aspects of that nation’s adjustment experience, including: the rush to privatization without a proper regulatory framework; high interest rates which precipitated the collapse of enterprises; massive dislocation due to labor market “flexibility” requirements; ex post tinkering with social safety nets; and the absence of any mechanism for consultation with CSOs or trade unions. The GDP has declined by 7% and unemployment stands at 8%. To its credit, the IMF is adjusting its forecasts and programs.

The IMF also recommended public works expansion and unemployment benefits, but it is unclear how such costly programs could be reconciled with reductions in the budget deficit.

Overall, Mayer suggested that U.S. values and philosophies frame the South Korean program. The World Bank doesn’t ask non-U.S. experts to join missions looking at issues, such as unemployment.

The Bank defines “participation” as “influencing and sharing control over decisions.” It only uses participatory approaches to project investments. With respect to SAPs, it acts in a superior, unilateral way.

Mayer called for: a) participatory approaches to designing SAPs and social security systems; b) appreciation for diverse approaches and heterodox inputs to SAPs; c) constructive relationships between unions and corporate structures; and d) respect for institution-building needs. Institutions need to shape SAPs (they should not be foisted upon constituencies) and develop the capabilities for administration of programs (e.g. unemployment benefit programs).

Ashraf Ghani, Principal Social Scientist of the Bank’s Social Development Group, reviewed the Bank’s assessment of, and response to, the social impact of adjustment.

- **Assessment:** From 1980-92, the Bank found that, in a majority of cases, adjustment operations were associated with poverty reduction, but that: (1) the annual average reduction was very small; (2) decreases in poverty were not matched by reductions in income inequality; and (3) mitigation of negative social impacts of adjustment had limited effectiveness due to the reduction of social expenditures resulting from adjustment programs.

- **Response:** The Bank is responding to this assessment by means of: assessments of impacts of adjustment on social groups; institutional analysis to tailor strategies to local conditions and constraints; emphasis on processes of social inclusion; creating structures for participation; analysis of the political economy of reform and building of coalitions for reform; and coordination with other donors and NGOs and community organizations to promote an integrated approach to adjustment.

- **Current Status:** The Bank has evolved in its understanding about SAPs, especially since the social summit. In 1997 and 1998, 34 of 66 adjustment operations contained poverty reduction measures, but these were often too ambitious for effective implementation.

- **Example of Russia:** Examples of the complexity of an integrated approach were provided by citing the example of a $1.3 billion sector adjustment loan to Russia which tried to “put people first.” In this situation, there was extensive consultation with unions and miners in the coal industry to analyze social impacts and target mitigation measures. There also was extensive impact monitoring (a survey every 4-6 months, to see if benefits were being delivered properly) and communities were the unit of analysis (not just miners). The social expenditures were targeted as well as earmarked. The goals were to:

  1) get redundancy benefits directly to miners without interference by the unions or companies.

  2) get money to local communities without regional governments taking a share, and

  3) enable local groups to set up a mechanism to oversee management of the targeting mechanisms.
The miners trusted the Bank more than the unions or the government. Nonetheless, problems were encountered: 1) There was no coalition for reform; 2) participation mechanisms were problematic; and 3) job creation processes were not transparent or accountable.

Sanjeev Gupta, Division Chief of the IMF Fiscal Affairs Department, reviewed the IMF’s mandate and its position on social issues. The IMF’s mandate is macroeconomic; it promotes economic stability, growth and trade. It strives to achieve “high quality” growth - that is, growth with equity, poverty reduction and human investment. To that end, it engages in three activities: surveillance, structural adjustment programs, and technical assistance.

The Fund believes that sound macroeconomic policies are required to promote growth. Safety nets are also promoted. When engaged in devaluation and civil service reform, the Fund has made allowance in the budget targets for social progress. Some countries (e.g. the former Soviet Union) have more instruments for social protection than others (e.g. CFA Franc zone). The Fund emphasizes the importance of the composition of public expenditures - that is, reducing unproductive expenditures and shifting public expenditures to basic health and education programs.

In the last three years, the Letters of Intent from borrowing governments to the IMF have included basic health and education targets. In this regard, there are special efforts in the HIPC countries where resources arising from debt relief should be shifted to social investment. To facilitate progress, the IMF’s Managing Director has asked the staff to collect data and monitor social expenditures. Unfortunately, data provided by decentralized units will not be available for years.

The speaker noted that IMF and World Bank will be collaborating in five pilot countries to ensure that the needs of vulnerable populations are addressed during the adjustment process.

Gemma Adaba, Director of the Washington Office of the International Confederation of Free Trade Unions, and Barbara Shallor, Director of the AFL-CIO’s Department for International Affairs, criticized the development paradigm and suggested that the needs of workers be considered in designing SAPs.

They asserted that in the context of globalization, there is a trend toward increasingly adverse impacts of adjustment in terms of distribution of wealth and income, erosion of worker rights, and increases in child labor in the world. The recent UNDP Human Development Report stated that the 225 richest people control over $1 trillion. This is equivalent to the income of 2.2 billion people or 47% of the world’s population. Despite (or because of) high concentration of resources, there are no controls over capital flows.

The AFL-CIO representative called for a “raw, flat-out” political discussion of the role of core labor standards in trade agreements and asserted that without incorporation of such standards, there will be a protectionist backlash against free trade.

The IFCU representative noted that proposals for the New Financial Architecture put an emphasis of transparent and sound governance, including sound fiscal and monetary policy. They welcomed the proposal by U.K. Chancellor Gordon Brown of establishing a Code of Social Policy. As it is, they claimed that the IMF and World Bank give cosmetic attention to people and quality of life issues without seeing self-determination as a value. Social solidarity is lacking in the orthodox approach. It’s not enough to have unions pigeon-holed into collective bargaining exercises when they need to engage in dialog at many levels. The emphasis is on exports and fiscal austerity.

At the same time, however, World Bank President James Wolfensohn is showing leadership by calling for a balance among social and economic goals and the incorporation of social goals into the design of adjustment programs. The Bank is also exercising leadership in calling for institution-building.

The speaker suggested that the IMF Article IV Consultations are too limited in scope. They could expand to incorporate social as well as macroeconomic targets, capacity and institution-building goals, and a recognition of core labor and employment standards based on collective bargaining.

The Bretton Woods Institutions need to systematize their consideration of the social dimensions of
development rather than cite isolated examples of “best practice.” If the IMF can change its Articles of Agreement to liberalize capital accounts, it can surely change its Articles to include respect for a social code.

During the discussion, FES representatives called for clarity about programs to protect the poor by

1) redistributing productive assets,

2) improving labor options, and

3) providing subsidies.

A Bank representative claimed that this conceptual approach is flawed because (1) it assumes a static, rather than an expanding, budget pie; and (2) it is based upon Western institutional assumptions. Frequently, the institutions are dealing with dysfunctional, unaccountable systems and need to choose the “least bad” option. It was suggested that concerns about equity are also (or especially) the purview of bilateral donor governments.

FES representatives noted that the effectiveness of social expenditures is key. Even in the North, the culture of the market in capitalist countries differs; there are three major models and that the Bank relies upon the Anglo-Saxon model. In fact, 80% of the Bank and Fund economists have been trained in the United States. The Bank representative acknowledged that the institution’s culture is a problem.

A representative of the institutions said that while it is appropriate to recognize the importance of the role of the state, asset distribution is not the job of the Bank or IMF. SAPs should be designed so that the burden does not fall so heavily on the poor. At the same time, the institutions can’t distort incentives by redistributing the same size pie. However, they can protest expenditure policies that subsidize higher education or provide scholarships for rich people to go abroad for school.

There are challenges with respect to the administration of social programs. In Indonesian public works programs, money was neither spent nor leaked. In Thailand, there was also poor implementation of programs.

In Korea, the government initially resisted pressure to extend unemployment benefits. However, benefit coverage was increased from 30% to 70% of unemployed workers. The attitudes of the authorities changed. The IMF’s Board continually revised Korea’s SAP. Initially, subsidies (at 7.5% of GDP in June), which were intended to subsidize staples, benefited smugglers instead.

The Bank representative said that the difficulties in addressing the social dimensions of adjustment are a challenge, not a call to surrender. The challenge is within the institution - namely, to diversify its “mental model” of development. Now there is an opportunity to bring many macroeconomic and social goals into focus through the same “lens” of policy-based lending.

F. The Role of the State in a Changing World: The Issue of Governance

Alexander Kallweit, Senior Officer from FES’s Department for Eastern Europe in Bonn, launched the session by stating the premise that governments should render services in keeping with the preferences of citizens. Previously there were distortions in favor of public provision of goods, especially in non-market economies. The Communist Party had its operatives in government agencies, which made decisions.

After 1991, each formerly Communist government was like a bus without a driver. Central Europe began adopting a Western governance model. Now, key issues for Eastern Europe (EE) and the Former Soviet Union include:

1. How to help EE in a technical sense, since there is interdependence among the countries (e.g. Ukraine looks to Poland).

2. How to deal with the stand-offs between Executive Branches and Congresses which stymie progress. In this regard, the role of the bilaterals should be considered. For instance, Ukraine is the 3rd largest bilateral recipient of USAID, which is focused on that country’s governance.

3. Corruption: Problems arise not only with respect to governments, but also with respect to opportunistic CSOs.
Günther Maihold, senior officer at FES’s Department for Latin America and the Caribbean in Bonn, compared the first and second generations of adjustment. In the first generation of adjustment, there was a focus on prices, tariffs, deregulation, inflation, fiscal indicators, and so on. A few people in a short time could accomplish some of these things. But in the second generation, there is the challenge of institutional development, which requires consensus around key reforms. The process is crucial and rests upon the legitimacy and capacity of government.

Maihold noted the similarities between the first and second generation:

- The first generation tries to get prices right; the second tries to get incentives right.
- The first calls for open and transparent markets; the second calls for open and transparent governments.
- The first calls for property rights; the second calls for inclusion and empowerment of stakeholders and decentralization.
- The first calls for economic competition; the second for administrative and political competition. In this regard, the second generation focuses on public sector management—its efficiency and output. The citizens are clients.

Since institutions are part of the social and cultural identity, one needs to be concerned not only with “best practice,” but also with “best fit.” This goes beyond the realm of economics and into political economy.

Maihold posited key values:

- efficiency and effectiveness, where the value is CHOICE and the focus is on the client/citizen.
- legitimization and inclusion of CSOs. Alternative modernization holds that the citizen is the client; the value is VOICE and regaining the connection between the Executive and citizens.

The governance focus of the Bretton Woods Institutions relates to the enforcement of law and order by accountable and transparent agencies. In contrast, FES calls for a broader governance focus which encompasses the interaction between public/private spheres.

A World Bank representative, Cheryl Gray, discussed the changes in public sector management practices.

Many institutions, including the Bank and organizations such as Transparency International, have catalyzed a process of learning about government since the end of the Cold War.

Corrupt governments were a factor in the Asian crisis. Corruption is the entry point to dealing with dysfunctional governments. The Bank is currently developing a new strategy paper that will be considered by the Board next summer. It presents four levels of accountability:

1) minimizing fraud and corruption in Bank operations by, among other things, procurement system reform by means of country procurement assessments.
2) helping governments minimize fraud and corruption. In the many countries requesting assistance in this area, the Bank is involved in:
   - economic reform to address distortions and overregulation;
   - institutional strengthening and competition, including monitoring governments activities;
   - CSO work (e.g. CSO surveys of service delivery systems, for instance, in Albania); and
   - data collection.
3) mainstreaming corruption work in Bank operations. The CAS should diagnose problems which lending, in turn, should address.
4) dealing with the international dimension. The OECD has an anti-bribery convention, which addresses corrupt practices among multinational corporations.

The IMF representative, Sheetal Chand, discussed the evolving role of the IMF relative to governance issues.
He noted that the IMF is recovering from the Congressional battle over its future in which it was accused of being the arsonist, not the firefighter in the Asian financial crisis.

He said that the IMF defines good governance as "the proper management of public resources." Obstacles to good governance, such as crony capitalism, are problems in the North (e.g. hedge funds) as well as the South. The IMF’s role is to help establish and maintain stable regulatory frameworks for private activities and apply “efficiency criteria” in this process.

Chand observed that, with globalization and the new international environment, it is no longer feasible to operate the organs of state behind closed doors. At one time, the IMF knew that for every $2 that Mobutu took from the Fund, he repaid $1. Now, however, there is a different standard. The IMF stopped Kenya’s EASAF program in mid-97 because of corruption.

Representatives of the IDB described the institution’s growing portfolio of projects dealing with the administration of justice - over 16 projects in nearly every country of the region. They stated that:

- The consolidation of the rule of law is the key feature or condition for functioning of the market economy since it lowers transaction costs by curbing corruption and criminality and encourages investment.

- In Latin America, there are beautiful laws and horrible administration and enforcement. The region needs formal and informal norms and institutions. The market alone doesn’t provide the conditions for competition and equity.

- The executive branches of regional governments have impeded the development of judiciaries. There needs to be horizontal balance among Executives, Legislatures, and Judiciaries.

- Strengthening civil society is one “side of the coin” while strengthening the public sector is the other side. This sets a democratic foundation for an effective state and reinforces the relationship between political and economic rights.

- To have the institutional capacity for democracy, countries need electoral systems, political parties and a legislature. This entails major political, not cosmetic, surgery.

An NGO representative, Jo Marie Griesgraber, from the Center of Concern, presented perspectives on governance, including:

- The importance of subsidiarity. Ideally, decision-making would be as locally-based as possible while conforming with standards of transparency, accountability and participation. The principle of subsidiarity calls for making decisions at the “lowest” possible level - that is, closest to the population that will live with those decisions.

- How NGOs struggle with unaccountable governments. The actual situation is that governments are often not accountable to citizens. Thus, we have phenomena such as NGOs working against or around governments. Sometimes Southern NGOs enlist Northern NGOs to help represent their interests. This is the “boomerang” effect when Northerners are enlisted to help shape circumstances for Southern counterparts.

There are different standards of accountability and transparency for states and for civil society actors since states are elected to rule and NGOs are not.

- The role of parliaments (congresses). A key link between the state and civil society is the parliament (or Congress) which, when properly functioning can help ensure good governance. The actions of the Bretton Woods Institutions should not undermine or overrule citizens and parliaments.

- Questions about the IMF’s mission and transparency. In terms of transparency, the IMF should provide a better model to governments. In terms of its mission, the U.S. is calling upon the IMF to help ensure that borrowers comply with GATT and WTO agreements. While the IMF may not actively
enforce other environmental, labor, or human rights agreements, it should develop procedures to ensure that it does not undermine them.

- The IDB and equity. As the IDB encourages the rule of law, it needs to improve the quality and content of its programs to ensure that they are helping countries move toward greater equity.

- The Role of the UN. The lending institutions should more actively collaborate with the UN on social concerns and where economic and political concerns intersect.

During the discussion, **FES representatives** raised a number of points:

- Low salaries lead to corruption. According to Transparency International, Vietnam is the 11th most corrupt nation. There is a new law, which imposes the death penalty for corruption. At the same time, salaries are low; a professor makes $20 per month. If people cannot earn a sustainable livelihood, they may succumb to corruption.

- Countries need independent institutions for tax management, such as Peru is establishing, which set up a proper system of incentives. One cannot critique government practices without an investigation of the whole system.

- Strong collaboration between the UN and the Breton Woods Institutions can help establish and promote standards, e.g. civil society frameworks.

- Government transparency for market actors versus civil society actors. The IMF and World Bank put greater emphasis on government transparency for international market actors than for domestic civil society actors. Thus, governments become oriented to external forces, in ways which can undermine democracy. Furthermore, civil society organizations are often seen as instruments of the market, e.g. social service providers, rather than citizens.

Bank and Fund representatives responded to presentations and discussion points:

- The Bank’s forthcoming strategy paper will demonstrate that the institution is putting more emphasis on the process of decision-making and the transparency of the process relative to the product. Increasingly, subsidiarity and local decision-making are key values. Public Expenditure Reviews (PERs) used to designate appropriate allocations of expenditures, but now they look at how budgeting processes work. Instead of stipulating that the government should fire a certain number of workers, the PER tries to improve the incentive system.

- The Bank has published information about model legal frameworks which can govern NGO functioning.

- Although SAPs often cut salaries across-the-board to the detriment of civil service, this shouldn’t legitimize corruption. There is too much pressure to use the civil service as a welfare system.

- There are questions about whether the IMF is becoming too interventionist. When the IMF was perceived as a financial institution, it could step back from governance issues. Now it is unclear where one should draw the line relative to interventions. One can even distinguish among types of corruption and their impact on economic functioning. For instance, the ex post bribery in Thailand is worse than the ex ante bribery in India.

- At the IDB’s Cartagena Annual Meeting, case studies of 25 projects were presented, which showed how the political participation of CSOs promotes efficiency, equity and human rights. In Latin America, the lack of an effective regulatory framework for CSOs is an obstacle.

The **NGO representative** expressed concern that the operative definition of “governance” has effectively been reduced to the issue of corruption. This narrow definition impedes the effectiveness of the institutions’ governance work.
She also articulated the central question relating to accountability - that is, there are inter-governmental actors - the Bretton Woods Institutions - which are national actors without national accountability. How can inter-governmental organizations become accountable?

G. THE WORLD DEVELOPMENT REPORT ON POVERTY: A SESSION WITH MICHAEL WALTON OF THE WORLD BANK

Dr. Walton described the World Development Report (WDR) 1990 formulation, which considered how to expand the capability of poor people while improving the economic environment and safety nets.

The WDR will build upon the 1993 East Asian "miracle" study, which stresses the importance of growth in expanding opportunity and providing resources for investment. Specifically, the document will consider possible trade-offs between growth and inequality. The experience of East Asia showed that processes of deep economic integration and social inclusion could be complementary. In the 1993 study, the Bank emphasized social services and growth, not safety nets. It downplayed politics and institutional functioning and had a technocratic view of how to expand the capability of the poor.

The social summit emphasized social services, too, in its so-called "20/20" proposition (i.e. that governments should devote 20% of fiscal budgets to social services; donors should devote 20% of assistance to the social sectors).

WDR 2000 will address old and new issues, including:

1) Growth and the pattern of growth. It is still relevant to explore how to foster inclusive growth (e.g. labor demand, peasant-based systems, changing productive processes). In Thailand, China and Hong Kong, you see rising inequality in the context of economic growth. International integration must be win/win: good for the rich and the poor.

2) The 20/20 emphasis. This emphasis needs to be questioned. The World Bank has not found hard evidence to support a positive correlation between higher spending and positive social outcomes. This is especially true in the health sector.

3) Inequality. The Bank has begun to consider issues of inequality against the backdrop of institutional and political structures. In Korea and Indonesia, there is a relative degree of equality, but conflict among social and economic groups. Dealing with such conflicts is key to the future.

4) Protection of vulnerable groups. Social safety nets are the key. Participatory poverty assessment data show insecurity is central in two ways:

   a) as a dimension of what it means to be poor (economic and physical violence), and

   b) as nonlinear shocks create irreversible setbacks.

   Coping strategies are costly. The poor cannot buy insurance, so social networks become relevant. The big question is how public action can complement social networks.

5) Social structures.

   a) Social capital: The values, norms and networks of different societies have intrinsic values and indirect effects on recovery and progress out of poverty.

   b) Social exclusion, which is driven by political exclusion.

6) Institutions. The recent developments have strongly underpinned the importance of effectively functioning institutions for growth-promoting as well as redistributive policies.

The discussion probed a number of questions and issues, including:

- Which strategies have contributed to growth and redistribution of productive assets?

Dr. Walton pointed to what has worked and what hasn’t worked in Indonesia. Between 1970-90, Indonesia’s record was excellent insofar as we saw the dispersed provision of
infrastructure, peasant-based growth, rural non-farm development - all serving a huge external market. However, Indonesia was unsuccessful in many respects, such as reaching people with services the way that India did.

• "Where is the beef" relative to the WDR? Will the document have a new message?

Many of the concepts presented are not new: integrated rural development, the green revolution, dualism, modernization, and agrarian reform. Time is less a "wave" than a "circle" back to ideas tried and tested earlier. Dr. Walton said that the WDR will not contain a "blindingly new message," but it will offer a new richness to the Bank’s approach to poverty by describing a "middle way" with heavy reliance on markets, but public actions as well. There will be an emphasis on the need to overcome structural inequality and the need for core structures in government to manage social risks (e.g. a more adaptable and efficient welfare state).

• Information about the poor is essential. Many governments do not even know who is poor or why.

Dr. Walton responded by noting the considerable progress that has been made in generating information over the last ten years. Participatory assessments have a new epistemological structure because they look at what matters to the poor. Now the Bank is doing rapid surveys in 10-20 countries looking at major problems, how the poor, themselves, see those problems, and how formal and informal institutions address the problems.

• Evaluation.

The Bank needs to improve its evaluation capacity, however. The institution spends billions on projects but very little (4% of budget) on evaluation of their consequences.

• Social concerns should not be add-ons to macroeconomic loan conditionalities.

Dr. Walton agreed with this point. He added that, in Latin America, social conditionalities are often forgotten. Wolfensohn is calling for them to be at the center. At a minimum, they need to be incorporated into public expenditure restructuring in ways that can help expand labor opportunities and incomes for vulnerable groups and support social goals, such as subsidies to keep children in school.

• Will the WDR revamp the Washington Consensus, as Stiglitz has suggested?

Dr. Walton noted that the Bank has learned that fiscal contractions after economic shocks are not wise and that some capital controls are appropriate. Such issues are dealt with in the Bank’s new volume on Global Economic Prospects.
Part III: Attachments
THE REGIONAL DEVELOPMENT BANKS*

The Inter-American Development Bank (IDB)

The oldest and largest of the regional development banks, the Inter-American Development Bank was established in 1959 as an organ of the Organization of American States. Its original membership included 19 Latin American & Caribbean countries and the United States, and subsequently Canada. Its actual membership includes non-regional countries as varied and as geographically distant as Israel and Japan. Today, membership in the IDB totals 46 countries, 26 of which are borrowers, and its subscribed capital totals $98.4 billion. ¹ With headquarters in Washington, DC, the IDB has Country offices in each of its borrowing members and in Paris and Tokyo.

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THE IDB AT A GLANCE

Number of Members: 46

Major Shareholders: United States, Argentina, Brazil, Mexico, Venezuela

Major Borrowers (FY97): Brazil, Argentina, Uruguay, Panama, Mexico

Major Borrowers (FY61-97): Brazil, Mexico, Argentina, Colombia, Peru

Average Annual Lending Volume (FY61-97): $2.3 billion

Lending Volume in FY97: $6.0 billion

COUNTRY/REGIONAL PORTFOLIO COMPOSITION BY LENDING VOLUME IN PERCENT (FY61-97):

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>13.7</td>
</tr>
<tr>
<td>Central America</td>
<td>12.6</td>
</tr>
<tr>
<td>Caribbean</td>
<td>5.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>18.1</td>
</tr>
<tr>
<td>Argentina</td>
<td>13.1</td>
</tr>
<tr>
<td>Colombia</td>
<td>7.8</td>
</tr>
<tr>
<td>Peru</td>
<td>5.0</td>
</tr>
<tr>
<td>Rest of South America</td>
<td>21.0</td>
</tr>
<tr>
<td>Regional</td>
<td>3.3</td>
</tr>
</tbody>
</table>

SECTORAL PORTFOLIO COMPOSITION BY LENDING VOLUME IN PERCENT (FY61-97):

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive Sectors</td>
<td>25.0</td>
</tr>
<tr>
<td>Physical Infrastructure</td>
<td>31.3</td>
</tr>
<tr>
<td>Social Sectors</td>
<td>27.5</td>
</tr>
<tr>
<td>Other</td>
<td>16.4</td>
</tr>
</tbody>
</table>

PRIVATE SECTOR LENDING

- IDB: Up to 5% of annual lending program, $320 million in FY97
- Inter-American Investment Corporation (FY97): $150 million in 25 projects
- Multilateral Investment Fund (FY97): $61.6 million in 47 projects

Source: Inter-American Development Bank Annual Report, 1997

¹ As of December 31, 1997.

* This section was prepared by Mauricio Claudio of the Center of Concern.
The IDB provides the region with development financing volumes comparable to, or greater than, that of the World Bank’s. In FY97, for example, the IDB’s $6.017 million in loans surpassed the Bank’s total of $4.563 million. The IDB Group also includes the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). Founded in 1989, the IIC provides loans and equity to small- and medium-sized private investment projects in the region. Thirty-four of the IIC’s member countries are members of the IIC, of which 24 are regional borrowing countries and 10 are non-borrowing countries. The MIF provides grants for technical assistance and invests in intermediary institutions that support small enterprises.

Following an agreement to increase the IDB’s resources, member countries set a goal of dedicating 40% of the total volume of lending and 50% of loans to projects that promote social poverty reduction and seek to alleviate social equity. Spurred by the region’s ongoing democratic transitions, modernization and reform of the State has been another source of intensified IDB financing. Its principal areas are judicial reform, public sector management and social sector projects involving civil society. In FY97, the IDB approved 20 modernization of the state operations, totaling $575 million. The IDB’s environmental work puts emphasis on strengthening the legal and regulatory framework and promoting the sustainable management of agricultural and natural resources. In FY 97, it approved 13 environmental and natural resource loans for a total of $832 million.

The Asian Development Bank (ADB)

Created in 1966, the Asian Development Bank has 57 members, of which 16 are outside the region. The two largest shareholders are currently the United States and Japan, both of which account for 16 percent of the total shares. Forty-one regional members account for 63 percent of total shareholdings, while 16 non-regional members hold the remaining shares. With headquarters in Manila, Philippines, the ADB has 10 resident missions in Bangladesh, Cambodia, India, Indonesia, Nepal, Pakistan, Sri Lanka and Vietnam, Kazakhstan and Uzbekistan, as well as a regional mission in the South Pacific. In addition, the ADB has representative offices in Frankfurt, Japan and Washington.

The Asian Development Fund (ADF) is the primary task to provide concessional loans to low per capita GNP and limited debt-repayment capacity member countries. ADF loans are interest-free, carry a yearly service charge of 1% and are repayable over a period of 35 or 40 years. A joint venture between the ADB and 25 mostly private-owned financial institutions based in nine countries and three continents, the Asian Finance and Investment Corporation Ltd. (AFIC) primary purpose is to contribute to the development of private enterprises in the region. The ADB is AFIC’s largest shareholder, with about 30% of its capital of about $300 million. The AFIC complements local funding sources for private investment by providing equity funds and loans, and has a policy mandate to target low- and middle-income countries. The AFIC complements the ADB’s private sector lending which focused mainly on financial intermediation, capital market development and infrastructure provision.

The ADB’s Medium Term Strategic Framework (MTSF) identifies:

- economic growth
- reducing poverty
- supporting human development
- improving the status of women; and
- protecting the environment.

In line with the MTSF, the ADB has for the last three years maintained a 50:50 balance in its portfolio of between projects with social and environmental objectives and 50 percent for economic growth. For 1997, the ADB proudly claims that 61 percent of its projects had social or environmental concern primary or secondary objectives.

An area vigorous activity by the ADB is the creation of legal and regulatory frameworks. In 1997, the ADB approved eight law-related regional technical assistance projects and three technical legal assistance loan projects. Currently the ADB has the most law related projects of any MDB (See Table 1). Unlike other MDB that sponsor law and development projects, the ADB has sought to collect and dissemina
its experiences around these initiatives. Toward that end, it launched a Law and Development Bulletin in 1995 and the Law-Dev Internet Forum in 1996 to aid in the coordination of all law-related projects.

Table 1. Law and Development Projects (number of projects)

<table>
<thead>
<tr>
<th>MDB</th>
<th>Legal Reform for Private Sector Development</th>
<th>Legal Framework for Strengthening Social Dimensions</th>
<th>Public Sector Reform &amp; Strengthening Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>40</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>WB</td>
<td>9</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>


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**THE ADB AT A GLANCE**

Number of Members: 56

Major Shareholders: Japan, United States, China, India, Australia

Average Annual Lending Volume (FY66-97): $3.4 billion

Lending Volume in FY 97: $9.4 billion to 75 projects

**COUNTRY PORTFOLIO COMPOSITION BY LENDING VOLUME IN PERCENT (FY97):**

- South Korea: 42.7%
- Indonesia: 11.8%
- China: 7.0%
- India: 6.0%
- Bangladesh: 4.9%
- Pakistan: 5.3%
- Thailand: 5.8%
- Vietnam: 3.8%
- Philippines: 3.6%
- Others: 9.1%

**SECTORAL PORTFOLIO COMPOSITION BY LENDING VOLUME IN PERCENT (FY97):**

- Financial: 50.0%
- Social Infrastructure: 18.9%
- Agriculture and Natural Resources: 11.0%
- Transport and Communications: 9.9%
- Energy: 7.1%
- Others: 3.9%

**PRIVATE SECTOR LENDING (FY97): $119 MILLION**

The European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development was founded in 1991 "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics." Its membership includes 58 countries from Europe, Asia, Africa, Latin America and North America, and two institutions, the European Union and the European Investment Bank. EBRD operations are restricted to a group of 26 countries in Eastern Europe and the former Soviet Union. Its main areas of action are the promotion of the private sector, restructuring financial institutions and the strengthening of the legal and economic infrastructure. EBRD's headquarters are located in London, England, and it has 25 local and three regional offices. Its total subscribed capital is ECU 20 billion.

### The EBRD At A Glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Members</td>
<td>58 countries and 2 institutions</td>
</tr>
<tr>
<td>Number of countries of operation</td>
<td>26</td>
</tr>
<tr>
<td>Major Shareholders</td>
<td>United States, Japan, United Kingdom, Germany, France</td>
</tr>
<tr>
<td>Average Annual Lending Volume (FY93-97)</td>
<td>ECU 2.9 billion</td>
</tr>
<tr>
<td>Lending Volume in FY97</td>
<td>ECU 4.0 billion</td>
</tr>
<tr>
<td>Lending Volume (Cumulative to 31 Dec. '97)</td>
<td>ECU 10.3 billion</td>
</tr>
</tbody>
</table>

### Country Portfolio Composition in Percent (Cumulative to 31 Dec. '97)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>25</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4</td>
</tr>
<tr>
<td>Romania</td>
<td>10</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>4</td>
</tr>
<tr>
<td>Hungary</td>
<td>10</td>
</tr>
<tr>
<td>Slovakia</td>
<td>4</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>28</td>
</tr>
<tr>
<td>Ukraine</td>
<td>5</td>
</tr>
</tbody>
</table>

### Sectoral Portfolio Composition in Percent (Cumulative to 31 Dec. '97)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance, Business</td>
<td>28</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>9</td>
</tr>
<tr>
<td>Transport</td>
<td>20</td>
</tr>
<tr>
<td>Extractive Industries</td>
<td>5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16</td>
</tr>
<tr>
<td>Commerce, tourism</td>
<td>3</td>
</tr>
<tr>
<td>Energy/power generation</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td>5</td>
</tr>
</tbody>
</table>

### Portfolio Composition by Lending Facility in Percent (Cumulative to 31 Dec. '97)

<table>
<thead>
<tr>
<th>Lending Facility</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Loans</td>
<td>50</td>
</tr>
<tr>
<td>Equity</td>
<td>16</td>
</tr>
<tr>
<td>State Loans</td>
<td>32</td>
</tr>
<tr>
<td>Guarantees, etc.</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: European Bank for Reconstruction and Development Annual Report 1997*

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1. European Bank for Reconstruction and Development Articles of Agreement
The EBRD differs from its other regional counterparts (IDB, ADB) in that its focus is more heavily directed toward private sector lending and in its priority to support private and entrepreneurial activities. In its Articles of Agreement, the EBRD is tasked to assist the newly independent and created countries of the region in fostering market-oriented economies, and implement structural and economic reforms. The ADB is to go about achieving these goals by "...promot[ing], through private and other interested investors, the establishment, improvement and expansion of productive, competitive and private sector activity, in particular small and medium-sized enterprises;" and "to mobilize domestic and foreign capital and experienced management to the end described [above]." This is an institution that was clearly designed from the outset to respond to the particular needs of the newly-independent countries of Eastern Europe and the former Soviet Union. In 1997 private sector commitments were 76 percent by volume and 86 percent by number of operations, thereby increasing the private sector share of its portfolio to 67 percent. It should be noted that the EBRD has a statutory requirement to dedicate at least 60 percent of its portfolio to the private sector. The main forms of EBRD financing are loans, equity investments and guarantees, and as stated before, it places a great emphasis on encouraging the involvement of other sources of financing in its operations. The EBRD currently has 115 commercial bank partners available for co-financing. In 1997, commercial bank co-financing amounted to almost one forth of EBRD financing. It is this kind of catalytic role in bringing in additional private financing to the region that characterizes the EBRD work.

The EBRD is directed by its Articles of Agreement to "promote in the full range of its activities environmentally sound and sustainable development" (Article 2.1 vii). This provision, the EBRD claims, makes it the first international financial institution with such an explicit and proactive environmental mandate. In short, the EBRD appears to be a "greener" and more private-sector focused institution than the other regional development banks.

The African Development Bank (AfDB)

Established in 1964, the African Development Bank has 77 members; 53 are African countries and 24 are non-regional countries from the Americas, Europe and Asia. The AfDB Group includes the African Development Bank, the African Development Fund and the Nigeria Trust Fund. The AfDB’s capital is subscribed such that regional countries hold two-thirds of total shares and non-regional countries hold one-third of the remaining shares. The AfDB’s authorized capital totaled $23.3 billion in 1997.

The African Development Fund provides development finance on concessional terms to low-income members that are unable to borrow on non-concessional terms. The Fund’s total subscriptions, at the end of 1996, amounted to US$12.6 billion. It finances projects and technical assistance as well as studies. It charges no interest rate, with a yearly service charge of 0.75 percent, a commitment fee of 0.50 per cent and a 50-year repayment period, including a 10-year grace period. Given the fact that 39 member countries do not qualify for standard AfDB loans, the Fund plays a significant role in AfDB lending. In fact, Fund lending accounts for 35 percent of the AfDB cumulative lending.

The Nigeria Trust Fund (NTF) was established in 1976 by the government of Nigeria to assist the AfDB poorer member countries. The Nigeria Trust Fund is managed by the AfDB, and provides loans at an interest rate of 4%, with 25-year repayment and 5-year grace periods. As of 31 December 1996, it had a total resource base of $432 million.
**The AFDB At A Glance**

Number of Members: 77

Lending Volume in FY97: $1.8 billion

<table>
<thead>
<tr>
<th>Country</th>
<th>Lending Volume in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>10.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>8.5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7.8</td>
</tr>
<tr>
<td>Egypt</td>
<td>5.8</td>
</tr>
<tr>
<td>Algeria</td>
<td>5.5</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>3.8</td>
</tr>
<tr>
<td>46 Others</td>
<td>54.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sectoral Portfolio Composition by Lending Volume in Percent (67-97):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; Rural Dev.</td>
</tr>
<tr>
<td>Industry Mining &amp; Quarrying</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
</tr>
<tr>
<td>Water Supply &amp; Sanitation</td>
</tr>
<tr>
<td>Financial Intermediaries</td>
</tr>
<tr>
<td>Social</td>
</tr>
<tr>
<td>Multi-Broad-Sector</td>
</tr>
</tbody>
</table>

**Portfolio Composition by Lending Instrument by Lending Volume in Percent (67-97):**

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Lending Volume in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Investment</td>
<td>66.0</td>
</tr>
<tr>
<td>Line of Credit</td>
<td>12.0</td>
</tr>
<tr>
<td>Sectoral Investment &amp;</td>
<td></td>
</tr>
<tr>
<td>Emergency Rehabilitation</td>
<td>3.8</td>
</tr>
<tr>
<td>Sectoral Adjustment</td>
<td>6.8</td>
</tr>
<tr>
<td>Structural Adjustment</td>
<td>9.0</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: African Development Bank Website; <http://www.afdb.org/>
World Bank Policy Toward Central & Eastern Europe*

The World Bank's agenda toward the Central and Eastern Europe (CEE) countries focuses on the privatization, liberalization and streamlining of region's economies, in an effort to attract private capital flows. A related objective is to support preparation for EU membership. The Bank's Country Economic Memoranda for several CEE countries focuses on defining policies helpful both to facilitating EU membership and to increasing overall economic efficiency. To help these countries achieve the mandated entry requirement and to prepare them to compete in a single currency market, the Bank is assisting in efforts to accelerate privatization, reduce excessive tax burdens and promote social security reform.

In fiscal year 1998, Poland, Kazakhstan, and Ukraine were the largest borrowers. Levels for fiscal years 1990-1997 are below:

Table 1. World Bank Activity in Eastern Europe (in US$ millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Operations Approved during FY 1997 Principal Amount</th>
<th>World Bank/IDA Commitments to Borrowers, FY 90-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>—</td>
<td>273.0</td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>197.60</td>
<td>197.60</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>94.30</td>
<td>933.30</td>
</tr>
<tr>
<td>Croatia</td>
<td>241.00</td>
<td>519.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>—</td>
<td>80.80</td>
</tr>
<tr>
<td>Hungary</td>
<td>292.75</td>
<td>1988.7</td>
</tr>
<tr>
<td>Macedonia</td>
<td>60.00</td>
<td>300.0</td>
</tr>
<tr>
<td>Poland</td>
<td>67.00</td>
<td>4120.0</td>
</tr>
<tr>
<td>Romania</td>
<td>625.00</td>
<td>2541.0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>—</td>
<td>135.00</td>
</tr>
<tr>
<td>Slovenia</td>
<td>49.30</td>
<td>153.30</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>—</td>
<td>696.0</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>—</td>
<td>992.0</td>
</tr>
</tbody>
</table>

1 Taken from The World Bank Annual Report 1997, pp. 70-71, table 3-12

2 Taken from "World Bank Regional Brief; Europe and Central Asia"; <http://www.worldbank.org/html/extaroffrep/eca/ecab.htm>

A recent key event for the Region was the decision by the EU to invite Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia to initiate the application process for EU membership. In a joint effort with the European Commission, the European Bank of Reconstruction and Development (EBRD) and the European Investment Bank (EIB), the Bank has sought to coordinate assistance to candidate countries. A Memorandum of Understanding describing the modus operandi among the concerned institutions was signed in March 1998. In line with its commitment to the EU membership, the Bank opened a resident mission in Zagreb, Croatia, and posted a Country Director to the field-based Country Unit in Budapest.

* This section was prepared by Mauricio Claudio of the Center of Concern

1 For the purpose of this paper, Eastern Europe includes Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Slovenia and Slovakia
A guiding principle of Bank involvement in the Region has been to effect public sector reform and construct financial sector institutions in order to attract private financial flows and foreign direct investment. The Bank’s strategy to make “seed interventions” that, over time, will attract private flows that can complement and, ultimately, replace Bank financing. In early 1998, addressing the Amsterdam Conference on “Bridging Gaps in Financing Infrastructure”, the Bank’s Vice President for the Europe and Central Asia Region, Johannes F. Linn, identified four key areas of future work for the Bank when it comes to helping the CEE attract private financing. In summary, they are:

- The need to mitigate risks for private investors though sound macro-economic policies and political and social stability, among others;
- Investments in infrastructure should be prioritized;
- Expanded private sector participation; and
- National- international and public-private partnerships to reinforce the reform momentum.

In the Bank’s view, “developing a strong market-based financial system is vital to continued and sustainable growth”, the second stage of which is “focusing on the privatization of remaining state banks, implementing pension reform, and enhancing legal and regulatory frameworks...” Pension reform is now one of the central issues regarding public sector reform priorities for the Bank. The objectives of the Bank’s Private Sector lending “are to support locally owned companies, finance joint ventures and create models to attract foreign investment.” The IFC gives high priority to developing capital markets, and therefore strongly supports new joint-venture banks, second-tier banks and bank privatization.

In countries where the Bank considers the reform process to be more advanced (Poland, Hungary, Czech Republic, Slovenia) and where private financial flows are already significant, the emphasis has been on analyzing systemic problems in the economy while allowing the private sector to provide the bulk of the investment financing. In these countries, the relatively advanced stage of reform “increases the ‘demand’ for Bank Group policy advice...” and “reduces the ‘demand’ for Bank Group financing...and tilts its composition toward catalytic instruments such as guarantees.” In these circumstances, Bank lending to the advanced reformers has been decreasing while there has been an increase in non-lending services focused around EU accession. Similarly in the financial sector, the Bank’s assistance has been moving away from broad-based adjustment support and towards focused policy advice and technical assistance. In line with these countries advanced reform stages and with the criteria for EU accession, the Bank is working, for example, in Hungary and Slovenia on banking supervision, and in Poland, towards the restructuring of the specialized banking system. In the Bank’s view, one of its key roles in the Region is as broker of knowledge when it comes to public sector reform. It has, therefore, worked to connect the CEE countries to other countries, such as Argentina, Australia, Chile and Switzerland, with an expertise on the same issues.

In the less advanced CEE economies (Albania, Romania, Bulgaria, Croatia), the Bank’s main focus is the consolidation of what it calls Phase I reform namely macro-economic stabilization and privatization of state enterprises. Since private capital flows are relatively meager for slow reformers, Bank activity is strongly focused in creating conditions attract private financial flows.

Reconstruction after conflict remains a major Ban activity. In the wake of the war in the Balkans, rehabilitation of infrastructure, repair of houses: hospitals, job creation, creation of government in tutions and the integration of demobilized are a major objectives of Bank support to Bosnia and Herzegovina, and post-crisis recovery program in Albania.

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2 Johannes F. Linn, Bridging Gaps in Financing Infrastructure: The View from the World Bank, World Bank.
4 Region Brief: Europe and Central Asia
5 The Transition in Central and Eastern Europe: Recent Progress and Next Steps, Address by Caio Koch Weser, Managing Director, World Bank; Warsaw, October 21, 1996
OXFAM INTERNATIONAL BRIEFING
THE HIPC REVIEW PAPER: A WASTED OPPORTUNITY
September 3, 1998

Two years on, HIPC is failing to fulfill its potential to significantly reduce the debt of the poorest countries. Only six out of forty-one HIPC countries have qualified for the initiative, with no new countries qualifying in the past year. No more than a handful of countries will benefit (actually get multilateral debt relief) from HIPC by the millennium. For those that do, the relief provided will not be sufficient to help reduce poverty and stimulate growth. The new World Bank/IMF paper, "The Highly Indebted Poor Country Initiative: Review and Outlook", is a missed opportunity to reenergize the initiative.

On Tuesday, September 8 and Thursday, September 10 the Boards of the WB and IMF respectively will discuss the above-mentioned Bank/Fund paper. This HIPC review paper covers what HIPC has done so far, extension of the time frame for entry to HIPC, a costing review, estimated timing of decision and completion points and the objectives and achievements of the initiative. Some Board members have remarked that the paper does not constitute a real review of the initiative, as it does not address flaws in the initiative and its implementation.

From Oxfam's perspective, the review should have started from a critical appraisal of the experiences of the first few countries that entered HIPC. Each country that has gone through HIPC illustrates different weaknesses of the initiative. These weaknesses include protracted delays in considering countries, a lack of will of the Paris Club and multilateral development banks to contribute to HIPC, debt sustainability targets that exclude several poor countries with severe external debt burdens and an arbitrary case-by-case approach. The best case, Uganda, had over a decade of reform with good performance yet has had to wait one year for debt relief, highlighting the unnecessary delays that hamper HIPC's implementation. Bolivia did not receive its relief at the levels deemed necessary by the Bank and IMF Boards because the Inter-American Development Bank (IDB) was not willing to contribute the resources needed. Discussions around Mozambique's debt were protracted because of the inability of the Paris Club to deliver a decision on how it would reduce its share of the debt. In the end the Paris Club took the same road as the IDB and did not meet its full obligation. Also in Mozambique's case there are real questions about whether the debt relief provided will be deep enough and whether, in the short term, extra resources will be released for poverty reduction. Other countries that are in line, such as Tanzania and Nicaragua may not be eligible at all or will have to wait extraordinary long periods of time before they benefit because of interrupted track records with overly strict IMF ESAF programs.

Another major problem hampering HIPC concerns financing. In addition to the problems of the Paris Club paying their share and the IMF limiting their contributions, there has also been a poor response to the HIPC Trust Fund by some of the most powerful G-7 countries. Only three G-7 countries -- Japan ($10 million), Canada ($5 million) and the UK ($10 million) -- have contributed to the HIPC Trust Fund but their contributions have been less than Norway ($26 million), Sweden ($12 million), Switzerland ($28 million), Denmark ($22 million), Spain ($15 million) and the Netherlands ($38 million). Italy has said it would contribute as have the French, but the US and Germany have not made any moves to support the Trust Fund. This inertia on the part of the world's two most powerful economies exemplifies the lack of political will to make HIPC succeed.

Despite these problems and despite the fact that no new countries have entered the initiative since last year, the paper appears to conclude that HIPC is proceeding as it should. The Bank and Fund have failed to seize this opportunity to revitalize HIPC and improve its connection with human development. The review paper is a whitewash, and if it is not radically changed, could seriously damage the credibility of creditor governments, the World Bank and IMF. Moreover, the Bank and Fund continue to prepare these papers without any consultation or discussion with the HIPC governments themselves, let alone civil society groups working on debt relief.
The recommendations in the HIPC review paper include:

**Sunset Clause**

To enter HIPC a country has to have an agreed ESAF program by October 1998. The paper proposes extending the sunset clause from October 1998 for another two years until the year 2000, allowing a number of other countries to enter HIPC. Countries that could benefit include Liberia, DRC, Sierra Leone and Burundi. This may ad $2.4 billion to the cost of HIPC. This is likely to be approved by both Boards.

**Post Conflict countries**

The paper recommends limited flexibility in allowing post-conflict countries to qualify for HIPC, by allowing non-ESAF programs to count towards the initial three-year track record. But this still results in huge delays in receiving debt relief. Even under these more “generous” terms, with the best case scenario, Rwanda would not be able to enter the HIPC initiative until April 2000. It would then have to wait another three years to receive multilateral debt relief. Countries such as DRC which have massive arrears would still need to clear them before obtaining post conflict assistance.

**Interim assistance from the IMF**

The paper asks Executive Directors of the Fund to decide whether and how the Fund should provide interim relief (in the three-year period between the decision and the completion points). The World Bank and Paris Club provide interim relief already but in the paper staff seems to be reluctant for the Fund to do the same. Unlike the Bank, Fund support under HIPC is provided as the debt comes due so it could take as long as 10 years for the Fund to provide its portion of debt relief. Thus there is a good justification for the Fund to provide interim relief. The US is one government that is strongly pushing this but there seems to be resistance from the Fund.

**Linking debt relief to social development**

The paper mentions linking the two but doesn’t detail what this would look like. The Boards are asked to comment on how to strengthen the linkage between debt relief and social development. Despite months of work and many suggestions from NGOs, the paper came up with no new ideas.

**Debt Sustainability threshold**

In response to criticisms that the debt sustainability thresholds in HIPC are too high, the paper refers to a 1997 article by Stijns Claessen and Ravi Kanbur as the analytical source of HIPC’s debt sustainability thresholds. This is rather bizarre as the thresholds for HIPC were formulated in early 1996 and this is the first time any such source has been cited. In the past, Fund and Bank staff have said that the debt to export ratios that help determine eligibility for HIPC (200% to 250%) were derived from the Latin American debt crisis of the 1980s. HIPC countries, mostly in sub-Saharan Africa, have far less diversified economies with fragile infrastructure, a poor human resources base and vulnerability to external shock. The paper seems to make a very weak justification for current sustainability levels.

**Oxfam’s recommendations**

When the HIPC initiative was approved two years ago, Oxfam International welcomed it as a breakthrough. We believed HIPC marked an important advance from previous debt relief strategies, providing for the first time a comprehensive framework to reduce all categories of debt. We also welcomed the link HIPC made in channeling resources towards poverty reduction initiatives.

We believe HIPC should be reoriented so that debt relief can create the potential for human welfare gains. As a group, HIPC countries display the worst social indicators in the developing world. Debt relief is not a solution on its own, but if channeled in the right direction with the active involvement of civil society it can help achieve progress in reaching human development targets.
There are five main areas in which HIPC is falling short:

1. the debt sustainability ratios are too high;
2. the time frame for debt reduction is unnecessarily long;
3. there is a lack of flexibility for post-conflict countries;
4. eligibility for debt reduction is too rigidly linked to an IMF ESAF track record; and
5. there is an inadequate connection between debt relief and poverty reduction.

Human Development Window: A means of revitalizing HIPC

Oxfam International’s proposal to increase HIPC’s impact is to establish a “human development window”. This window would be a way to offer quicker and deeper debt relief to HIPC countries that establish concrete and transparent linkages between debt reduction and a development strategy that focuses on reducing poverty. We believe this approach would offer an opportunity to transform HIPC into an effective strategy for supporting poverty reduction.

Uganda: The Threat of a Good Example?

If the HIPC Review had seriously examined the experience so far, it would have looked more closely at what the Ugandan government did to forge a stronger connection between debt relief and poverty reduction. With its long track record of good performance, Uganda should have been able to attain a simultaneous decision and completion points. However, several G-7 governments wanted Uganda to wait up to two years between its entry into HIPC and the completion point. Despite this the Ugandan Government took the lead in pledging a transparent and accountable means of connecting HIPC to primary education. This example could well serve other countries, thereby offering a positive incentive for governments to adopt good policies that invest in the basic social services that most HIPCs desperately need to improve.

Uganda offers a hopeful example of how HIPC can channel resources to benefit the poor and promote dialogue between the government and civil society. The Government of Uganda has established a Poverty Action Fund connected with debt relief to mobilize resources for primary education, primary health, water, road infrastructure and agriculture. The fund will include both donor and Government of Uganda resources. The Ugandan government will make available to the social sectors the full amount of resources it expects to be released from debt service as a result of the HIPC initiative. The Government has invited local and international NGOs to attend donor meetings on quality of social services. All releases of Poverty Action Fund resources will be published and discussed at quarterly donor meetings. We see this effort in Uganda as an example of what HIPC can achieve and it is the basis for our idea of a human development window within HIPC.

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Oxfam International is an international aid agency working with grassroots organizations in 120 countries to combat poverty and injustice. For more information please contact Veena Siddharth at 202 393 5333.
Executive summary

Three years after its inception, the Heavily Indebted Poor Country (HIPC) initiative has failed to resolve the debt crisis in the world’s poorest countries. Early promise has given way to disappointment. Without a concerted international effort to provide earlier and deeper debt relief, and to integrate debt reduction into wider poverty reduction initiatives, the HIPC initiative will join the long line of failed debt relief strategies; and debt will continue to destroy the potential for human development into the next millennium.

This is an important year. The G7, the World Bank, and the IMF may make major decisions to alter the existing debt relief framework, and make it relevant to the needs of the world’s poorest countries. World Bank and IMF staff are carrying out a review of the HIPC framework, to be completed in time for the G7 in June. While there is growing international recognition that HIPC is flawed, this has now been coupled with important shifts in the political climate amongst the G7 countries. Germany, the host of the last G7 summit before the end of this millennium, has reversed the position of the previous German Government, and has put forward important proposals in favour of earlier and deeper debt relief. The British Government has taken these proposals even further to actually define increases to the amount of debt relief provided, and to ensure that it is linked to poverty reduction. The French Government has also announced a debt relief proposal to forgive debt service charges for thirty years for eligible countries. The US Government has also announced a debt relief initiative that would provide additional debt relief for ‘exceptionally performing’ countries. Most recently, as this report was going to press, the Canadian Government announced an initiative that could potentially go further than the others announced. The Canadians propose adding to the list of forty one HIPCs and forgiving most bilateral debt. Most significantly, the Canadians call for more generous and deeper debt relief for countries committed to human development. The challenge now will be for supportive governments to work together for agreement on a debt relief proposal to take HI further. Global support for debt relief, as evidence by the Jubilee 2000 movement, has moved indiffent governments, and a momentum for change is being created.

HIPC has been failing

The HIPC framework fails on three accounts:

Debt relief too late
Firstly, debt relief is provided too late. This is exaerbated by compliance demands through linking provision of HIPC relief, to performance under the IMF Enhanced Structural Adjustment Facility (ESAF). Inflexible interpretation has meant that even Uganda, one of the best performing HIPCs, after over a decade of strong reforms, received de relief a year later than necessary, reducing benefit by $190 million and impacting adversely on Uganda’s development. Only two out of forty-one countries have actually received debt relief so far, and only three are due this year.

Inadequate sustainability thresholds
Secondly, the thresholds that are used to define suainability are not appropriate to the needs of the low-income economies. This can be seen in the case of Uganda, the first country to pass through the initiative, which has now reverted to an unsustain able debt situation. At the same time these thresholds do little to address the burden of debt servicing on national budgets in poor countries, where on average, debt servicing absorbs up to 40% of national revenue.

Insufficient resources
The third problem is that HIPC has been designed to serve the needs of creditors, rather than the needs of the poor. While the HIPC criteria fail on their own account to achieve debt sustainability for poor countries, they also fail to provide sufficient resources to address poverty reduction and human development. This failure further blocks progress on achieving internationally agreed development targets.

A proposal for reform: a Human Development Window

Oxfam International has proposed a simple mechanism to improve this framework: a human develop-
ment window within HIPC. The overarching aim of the human development window is to incorporate the HIPIC initiative into a global strategy for poverty reduction, geared towards the realisation of the targets set by UN Summits, and adopted by the OECD group of industrialised countries. To achieve these ambitious targets, a range of measures will be required, of which debt relief is one.

This window would operate in a simple fashion. It would provide incentives of earlier and deeper debt relief to countries committed to allocating these resources into a poverty reduction framework. Incentives would include:

- Debt relief within 1-2 years
- Debt relief going beyond modified sustainability thresholds to
- a debt service ratio of 10-15 per cent
- a debt-to-export ratio of 100-150 per cent
- a debt-to-fiscal revenue ceiling of 10-15 per cent

The majority of HIPC countries have, or are developing, national frameworks for poverty reduction, including sectoral investment plans. Resources from debt relief would be channelled into a fund which would allocate finance into a range of sectoral plans, depending on national priorities. Government, donors, UN agencies, and civil society organisations would oversee the fund. This approach would ensure that poor and indebted countries move quickly to achieve debt sustainability; it would ensure that sufficient resources are delivered to enable countries to begin to achieve nationally agreed development targets, and it will ensure that debt relief resources are released in a transparent and accountable framework. This approach would set these countries on the path of achieving the internationally agreed goal of halving world poverty by 2015.

While it is true that the proposals outlined in this paper imply financial costs, earlier and deeper debt relief would cost considerably less than the industrialised countries spend subsidising their agriculture. The benefits would be reflected in increased prosperity and a reduced risk of social collapse. In the longer-term, the costs of continuing with the current HIPIC framework will be considerably higher than the cost of removing what is now one of the main barriers to global poverty reduction efforts and increasing the efficiency of aid expenditures.

The real challenge is one of political will. In response to the East Asia crisis, the G7 created a $100 billion loan rescue package within a few months. If the will is there, action is possible to deliver the resources needed. At the same time, debtor governments must also demonstrate the required political resolve to allocate finance from debt relief into poverty reduction efforts, and to create transparent mechanisms for ensuring that this finance has an impact. If creditors and debtors work together in this way, with resolve and will, 1999 could become the beginning of the end of the debt crisis.

Introduction

Three years after its inception, the Heavily Indebted Poor Countries (HIPC) initiative has failed to resolve the debt crisis in the world’s poorest countries. Early promise has given way to disappointment. Without a concerted international effort to provide earlier and deeper debt relief, and to integrate debt reduction into wider poverty reduction initiatives, the HIPC initiative will join the long line of failed debt relief strategies. If HIPC fails, debt will continue to destroy the potential for human development into the next millennium.

There is, however, cause for hope. The Jubilee 2000 coalition has mobilised unprecedented levels of public support for debt relief. Churches, trade unions, the entertainment industry, development agencies and others have united behind a common demand that poor countries be freed from the yoke of debt. After two decades of studied indifference, the world’s governments have been moved by the groundswell of public concern to give debt relief the prominence it demands on the international agenda. Most of the Group of Seven countries now openly acknowledge the failure of the HIPC framework. And in contrast to its predecessor, the new German Government supports the case for urgent international action. It is vital that the IMF-World Bank review of HIPIC builds on these developments. If the review develops new and innovative strategies to
revitalise international efforts, it may yet prove possible to pronounce 1999 as the year which witnessed the beginning of the end of the debt crisis.

There is, however, a danger that this window of opportunity will close. Bold pronouncements of intent by the world’s industrialised countries have yet to be matched by substantive plans of action. The issue of resource mobilisation has been, to a large extent, ducked. So, too, has the critical question of linking debt relief to poverty reduction. Moreover, several key players, including the IMF and Japan, remain resistant to the development of a more ambitious debt relief framework. The United States is proceeding cautiously.

This Briefing reviews progress under the HIPC framework to date. It explains why it has delivered so little, in terms of countries actually receiving debt relief. In addition, it suggests that even the handful of beneficiaries have not been left in a sustainable debt position. In short, HIPC has failed in its central purpose of providing an ‘exit’ from the debt crisis. The fact that Uganda, the first country to pass through the initiative, has now reverted to an unsustainable debt situation, speaks volumes about the lack of realism at the heart of the HIPC process. Stated bluntly, the framework appears to have been guided less by the needs of debtors, than by considerations of affordability on the part of creditors.

Resolution of the debt crisis will require deeper and earlier debt relief. But the conversion of debt liabilities into human development investments also requires that creditors create an appropriate system of incentives. The Human Development Window proposed by Oxfam and outlined in this paper, would provide debtor countries willing to transfer savings from debt relief into poverty reduction initiatives, with incentives in the form of earlier and deeper debt relief. Such an approach would enable financing from debt reduction to be integrated into broader financing strategies for achieving the internationally agreed human development goal of halving world poverty by 2015.

The case for debt reduction is rooted above all in moral considerations. It is fundamentally unacceptable for the world to tolerate a situation in which the some of the world’s poorest and most vulnerable citizens are left paying for the past mistakes of creditors and debtors. Unfortunately, it is often gotten that unsustainable debt is about more than foreign exchange losses. It is about the transfer of wealth from countries of resources which should be used for the development of poor countries. The human face of debt is represented by children denied an opportunity for education, primary health clinics without drugs, and about destroying livelihoods.

Debt relief is also a matter of common sense. It is true that the proposals outlined in this paper imply financial costs, earlier and deeper debt relief would cost considerably less than the industrial countries spend subsidising their agriculture. An the benefits would be reflected in increased prosperity and a reduced risk of social collapse. In the longer-term, the costs of continuing with the current HIPC framework will be considerably higher than the cost of removing what is now one of the main barriers to global poverty reduction efforts.

HIPC, one of a long line of failures?

When HIPC was developed in 1996, Oxfam and many other organisations welcomed the initiative.

- It provided a comprehensive and integrated framework. For the first time, debt relief was to be provided in a systematic operation by all creditors, bringing to an end the process of negotiation through different creditor clubs.
- It extended to multilateral creditors. For the first time the growing problem of multilateral debt was addressed. The Bretton Woods agencies had previously refused to agree to multilateral debt reduction claiming that this would affect their ‘preferred creditor’ status. In fact, multilateral debt reduction has not affected their status at all.
- It established the principle that debt relief should be linked to ability to pay, rather than creditor demands. The stated intention of HIPC is provide a ‘robust exit’ from unsustainable debt. Criteria were developed to provide appropriate debt relief to bring debt stock or debt servicing to agreed levels, which are described as ‘sustainable’. At the same time, in order to avert problems of
revitalise international efforts, it may yet prove possible to pronounce 1999 as the year which witnessed the beginning of the end of the debt crisis.

There is, however, a danger that this window of opportunity will close. Bold pronouncements of intent by the world’s industrialised countries have yet to be matched by substantive plans of action. The issue of resource mobilisation has been, to a large extent, ducked. So, too, has the critical question of linking debt relief to poverty reduction. Moreover, several key players, including the IMF and Japan, remain resistant to the development of a more ambitious debt relief framework. The United States is proceeding cautiously.

This Briefing reviews progress under the HIPC framework to date. It explains why it has delivered so little, in terms of countries actually receiving debt relief. In addition, it suggests that even the handful of beneficiaries have not been left in a sustainable debt position. In short, HIPC has failed in its central purpose of providing an ‘exit’ from the debt crisis. The fact that Uganda, the first country to pass through the initiative, has now reverted to an unsustainable debt situation, speaks volumes about the lack of realism at the heart of the HIPC process. Stated bluntly, the framework appears to have been guided less by the needs of debtors, than by considerations of affordability on the part of creditors.

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'moral hazard', the time frame for compliance with IMF adjustment programmes, was doubled from that required to receive Paris Club debt relief, to six years in total. Some flexibility was agreed for countries demonstrating strong reforms.

While HIPC had some merits, it has failed the poor, and it is this that drives Oxfam’s concern over the HIPC initiative. It is no coincidence that some of the world’s poorest countries are also some of the most indebted. Of the 41 HIPC countries, over 80% are in the low human development category, according to the 1998 UNDP Human Development report.

People live 25 years less in HIPC countries, than in industrial countries.

Women are thirty times more likely to die during pregnancy and childbirth, than in industrial countries.

Children are 10 times more likely to reach the age of five in industrial countries, than in HIPC countries.

For many HIPC, debt servicing exceeds spending on health and education:

In Nicaragua, debt servicing is two and a half times recurrent expenditure on health and education combined.

Tanzania spends on debt the equivalent of total spending on health and education; this is four times as much as spending on primary education.

In Rwanda debt servicing absorbs more than spending on health and education combined, more than ten times the health budget.

HIPC, progress so far
Since its approval in 1996, HIPC’s progress has been abysmal. The debt relief provided has been too limited, and implementation too slow:

Only two out of forty-one countries have started to receive debt relief through HIPC, Uganda and Bolivia. Only three countries, Guyana, Mozambique and Mali, will receive debt relief in 1999.

Completion Point - date when debt relief starts
1998 Uganda, Bolivia
1999 Guyana, Mozambique, Mali
2000 Burkina Faso
2001 Côte d’Ivoire, Ethiopia, Mauritania
2002 Guinea-Bissau - delays due to conflict
Niger, Tanzania, Togo, Zambia
2003 Madagascar, Rwanda, Burundi, Congo
Democratic Republic
2004 Myanmar, Sao Tome and Princeipe

Even after HIPC, many countries will still remain with unsustainable debt, underlining the inadequacy of the debt relief provided.

Uganda: Following HIPC, debt servicing in 1998/9 fell by $37m, from $165m to $128m, but still accounting for 18% of government revenue, absorbing finance that could be used for implementation of the national poverty eradication plan. Meanwhile over 50% of the population live below the poverty line. Recent falls in coffee prices have meant that even these small HIPC benefits have been lost, and Uganda’s debt remains unsustainable.

Bolivia: Debt servicing in 1999 will be reduced by $67m to $228m, however, the government is struggling to increase education sector expenditures, and will probably be forced to undertake further lending from the Inter-America Development Bank (IDB) to assist in this effort. This is in a country where UNICEF estimates 700,000 children are absent from school to support family income.

Senegal is a country judged to have sustainable debt, where in 1999, debt service is expected to be 13% of exports. However this still absorbs 25% of government revenue. This is in a country with numerous development challenges where, for instance, adult literacy at 33%, is half the developing country average.
Too little, too late: why is HIPC failing to meet the needs of poor and indebted countries?

HIPCs are failing because of three main problems with the design of the framework. First, the eligibility requirements, and linkage to performance under IMF adjustment programmes have caused long delays. The second problem is that the criteria used to determine whether debt stock and debt servicing are sustainable provide limited debt relief, while at the same time excluding many countries. The IMF and World Bank estimate that only half of the forty-one countries are theoretically eligible to receive debt relief through HIPC. The third problem is that HIPCs links to poverty reduction are too weak.

1. Time frame and track record

Countries entering HIPC must complete two successive IMF Enhanced Structural Adjustment Facility (ESAF) programmes—up to six years—although this can be reduced for exceptional performers. This eligibility requirement, coupled with inflexible interpretation, leads to serious delays in providing debt relief through HIPC.

The stated intention is to avert ‘moral hazard’ by ensuring full compliance with economic reforms prior to debt relief. In effect, this is a brutal application of ‘carrot and stick’ to very poor countries. Before HIPC, countries had to comply with three years of IMF reforms before receiving Paris Club debt relief. HIPC added another three years to this. However, there is now growing consensus amongst some creditor countries that three years, rather than six, should also be sufficient for HIPC.

Creditors are recognising that forcing countries to wait for up to six years for debt relief is counter-productive and inequitable. It is counter-productive because debt sustainability is needed to support economic reform; to remove the debt overhang, and to promote economic self-reliance. At the same time, sustained improvements in policy and financing of priority areas, are best achieved when governments can provide resources from their own budgets to achieve these ends. A lengthy time period is inequitable because it subordinates the needs of poor people to the budgetary claims of creditors.

The second aspect of the time frame is the problem of further delays related to compliance with IMF programmes. Oxfam International has argued that compliance with IMF ESAF programmes for HIPC countries is not appropriate, not least because these programmes have failed to generate growth, and have impacted negatively on the poor.

At the same time, compliance requirements can lead to delays in HIPC implementation. A recent external review of ESAF found that only a quarter of thirty-six ESAF programmes reviewed, were completed without significant delays. This has grave implications for the progress of the majority of countries going through HIPC. Unlike Uganda or Bolivia, most HIPC countries are not seen as model reformers by the IMF and World Bank. Many are ‘off-track’ with their IMF programmes and could suffer lengthy delays in receiving debt relief.

Even with flexible interpretation of its track-record, after over a decade of strong reforms Uganda was required to go through another year of compliance. This resulted in a Decision Point in April 1997 to a Completion Point in April 1998. The cost of this delay was estimated as $190 million. In effect, Uganda was punished for being the first country to be considered under HIPC. Certain powerful creditors, such as the U.S., did not want too favorable a precedent to be set by Uganda.

The implications of this precedent for other, less well-performing HIPC countries, is that they have almost no chance of progressing rapidly through HIPC. For instance, Nicaragua has been undertaking substantial and deep economic reforms since the early 1990s, covering areas such as inflation, taxation, privatisation, public sector restructuring and retrenchment, and demobilisation. Targets have largely been achieved with relative success, in a difficult political environment. The devastating impact of Hurricane Mitch has meant that creditors have had to take short-term action on Nicaragua and Honduras, and a debt moratorium is now in place. However, while the decision point for Nicaragua is proposed for 1999, at the moment it is unlikely that the IMF will agree to further flexibility in the time-frame, even after the devastation of Hurricane Mitch, and Nicaragua will still have to wait until 2002 to receive limited HIPC debt relief.
By the end of 2000, four years after the agreement of the initiative, only six countries will have received debt relief through HIPC.

Countries with dire human needs, such as Tanzania, Zambia, and Nicaragua will have to wait until 2002 and far beyond for debt relief.

2. Sustainability thresholds are not appropriate for poor and indebted countries

The debt sustainability thresholds in HIPC are inappropriate for poor and indebted countries, firstly because the export criteria do not provide for debt sustainability, and secondly because the fiscal criteria do not address the impact of debt servicing on the national budget, while at the same time excluding the majority of these countries. Rather than addressing the debtor's problem of "ability to pay" these criteria are more focused on the creditors' "willingness to afford". With these criteria, half of HIPC countries will not benefit from the framework at all.

Export criteria

The existing export criteria in HIPC were developed on the basis of experience in the 1980s with middle-income Latin American countries saddled with mostly commercial debt. These criteria are:

- debt stock to exports in the order of 200-250%
- debt service to exports around 20-25%

There are serious questions whether these thresholds are appropriate for HIPC countries. By comparison with middle income countries in Latin America, HIPC countries have poor infrastructure, acute levels of poverty, and appalling social indicators. They also have a far weaker export base, and are especially vulnerable to external shocks, such as falling commodity prices. In this decade, for instance, commodity prices have fallen around 50% from 1990s highs, for commodities such as coffee, cotton, maize, sugar and copper. The impact of the financial crisis in East Asia, Russia, Brazil, and beyond, means that a global recession is driving commodity prices down, where non-energy prices dropped by 13% from end-1997 to end-1998. For a large number of HICPs, a few commodities make up the majority of exports. For instance Uganda, which relies on coffee for over 50% of its exports, has seen benefits from HIPC wiped out by the fall in coffee prices.

In Oxfam International's view, these indicators must be adjusted to take into account the true position of HIPC countries, and should be lowered to at least 150% for net present value debt to exports, and 15% debt service to exports. More appropriate ratios such as these would allow higher numbers of countries to benefit from the framework, while at the same time, ensuring a complete exit from unsustainable debt.

Fiscal criteria

Because debt distress is measured under HIPC primarily on the basis of export criteria, the fiscal burden placed on government budgets from debt servicing is not sufficiently addressed. The fiscal criteria developed for HIPC also fail in this respect, and not least because they exclude an overwhelming majority of HIPC countries.

The existing fiscal criteria apply if net present value debt stock to revenue is greater than 280%. However there are two eligibility conditions. First, countries must meet revenue collection levels of over 20% of GDP. The second condition is that exports must be greater than 40% of GDP. The fiscal criteria were a later addition to the HIPC framework. The French Government was especially keen to add this particular set of fiscal criteria to ensure that Côte d'Ivoire, which would not have qualified for HIPC on debt to export criteria alone, could enter the initiative.

Only four HICPs meet the fiscal criteria: Côte d'Ivoire, Guyana, and, possibly Congo Democratic Republic and Mauritania. Although the majority of HICPs have debt stock to revenue above 280%, most have revenue collection under 20% of GDP, and few have exports over 40% of GDP.

While there are concerns that countries make best efforts to raise revenues, the revenue collection criteria under HIPC are unrealistic. The majority of HICPs start from a very low revenue base, since incomes are so low. In Uganda, for instance, which has over a decade of successful reforms under IMF and World Bank programmes and is seen as one of the best performers in Africa, revenue as a percentage of GDP was just over 11% in 1997/1998.
However, even with modification, these fiscal criteria may not be the most appropriate approach, since they do not fully reflect the burden that is placed on the budget by debt servicing. In HIPC countries, average debt service to government revenue stood at 40% in 1996. This can be seen in a range of HIPC countries:

- Nicaragua’s debt servicing absorbed two thirds of the budget in 1997;
- In 1997, Niger and Ethiopia used almost half of the government budget on debt servicing;
- In 1996, debt servicing absorbed 44% of the Zambia budget, and 35% in Malawi.

Even when countries pass through HIPC, they remain with a heavy burden of debt on the national budget:

- Mozambique will receive HIPC benefits in the middle of 1999, of a reduction in nominal debt stock of $2.9 billion, yet the immediate effect is only an 11% reduction in debt servicing, from $108 million to $96 million. In one of the poorest countries in the world, recovering from decades of conflict, debt servicing will remain more than government health and education spending combined.
- Mali will receive HIPC debt relief in 2000, with a proposed reduction in debt service from $99m to $87m, some $12m. This is a reduction equal to 10% of the education budget, where after HIPC, debt service will remain more than the basic education budget in a country where almost 70% of adults are illiterate.

An alternative fiscal indicator would recognise the burden that debt servicing places on this national budget, and thus on human development. Oxfam International has proposed that a 10-15% ceiling be placed on the portion of government revenue that is allocated to debt servicing. This approach would ensure that debt servicing was constrained to reasonable limits. However, a more radical approach to debt relief is required, one that is driven by human development concerns, rather than by the needs of creditors.

3. HIPC does not take into account human development concerns

The major problem with HIPC as it stands, is that it has little impact on poverty reduction. While the debt overhang is partly reduced, with consequent benefits in future investment growth, governments see little immediate impact on reducing domestic resources allocated to debt servicing. Oxfam International, along with some governments, and many other agencies, have argued that debt relief should be linked more closely to poverty reduction.

The IMF and World Bank have attempted to do this to some extent within HIPC. At the moment, increases in social sector spending form part of the wide range of conditionalities that debtor governments must comply with before receiving debt relief through HIPC. Conditionalities have included, for instance, targets for increases in education and health spending, where countries have to meet these targets before being allowed to go through HIPC. This is a flawed approach.

Firstly, HIPC countries are among the poorest in the world. If attempts are made to address poverty through HIPC, it requires a more integrated approach than simply tacking-on conditionality near the end of a process. The process of bolting-on social sector provision to flawed macro-economic approaches has already been discredited by the World Bank itself. Poverty reduction should be built into the debt relief process from the start, in the same way as it should be built into macro-economic policies. Thus poverty reduction concerns should properly influence the development of appropriate debt sustainability thresholds.

Secondly, as long as governmental budgets are heavily constrained by debt servicing, they are in a weak position to make major commitments to increased social sector spending. Reallocations can take place between military and social sector expenditure; reduction of parastatal subsidies, or within sectors, for example, from tertiary to basic education. However, when HIPC countries on average use 40% of their national budgets on debt servicing this seems to be a somewhat backward approach.

We strongly contend that external debt servicing diverts finance away from social sector spending but
the IMF’s standard response is that this is a misleading argument, partly because HIPC countries are net recipients of external finance. They receive more in grants and loans than they allocate in external debt servicing. While net external flows may be positive, the IMF appears to ignore the fact that the majority of these countries have extremely high levels of poverty and human suffering. They will not meet, according to current trends, internationally agreed human development targets into the next millennium. Aid alone, while of vital importance, has not, and will not, provide enough resources for sustainable improvements in development in HIPC countries. Debt relief will also be required.

If the IMF and World Bank are committed to seeing the world’s poorest and indebted countries make progress in reducing poverty, they need to ensure that debt relief is provided earlier on, and deep enough, so that investments in poverty reduction, in health and in education, in rural roads and in the productive capacity of the poor, can be made. That is why Oxfam International proposes that an incentive approach be developed through creating a human development window in HIPC.


The overarching aim of the human development window is to incorporate the HIPC initiative into a global strategy for poverty reduction geared towards the realisation of the targets set by UN Summits, and adopted by the OECD group of industrialised countries. To achieve these ambitious targets, a range of measures will be required, of which debt relief is one. High levels of pro-poor growth will be necessary. For sub-Saharan Africa it is estimated that levels would need to be around 3% higher than that during the 90s. Such growth will require stable and appropriate policy environments, particularly for equitable growth to be achieved. At the same time, improved international terms of trade will be important. Both aid and debt relief will be required to support improvements in national policies, and ultimately in budget allocations aimed at poverty reduction.

How would the Human Development Window convert HIPC into a mechanism to deliver on poverty reduction targets? Principally by offering governments incentives to convert debt liabilities into human development investments. Converting debt into development is nothing new. Debt-for-development swaps have helped to finance a large number of projects over the last decade. However, improving HIPC in this simple way would have far greater impact than any mere debt swap, since it addresses the entirety of debt stock in one operation, and would go beyond project based approaches. The incentives would take the form of earlier and deeper debt relief than that offered under the reformed HIPC framework outlined above, and would include:

- Debt relief within 1-2 years
- Debt relief going beyond modified sustainability thresholds to
  - a debt service ratio of 10-15 per cent
  - a debt-to-export ratio of 100-150 per cent
  - a debt-to-fiscal revenue ceiling of 10-15 per cent
- Eligibility for the Human Development Window would be based on three conditions:

**Debtor government commitments**

Firstly, debtor governments would commit themselves in advance of the HIPC debt relief process to allocating 70-100 per cent of budgetary savings on debt over a five year period to poverty reduction initiatives.

**Poverty Action Framework**

Secondly, debtors would be required to develop a Poverty Action Framework (PAF) summarising existing poverty reduction and social sector investment strategies and plans. These could include a range of initiatives to reduce poverty, for instance: sectoral investments in basic education; in rural feeder roads to access remote and poor rural areas, or assistance to poor farmers to improve agricultural production. The PAF would also set out the major human development goals agreed with donors, multilateral institutions, UN agencies and civil society. This would include detailed financing requirements for accelerating the attainment of the human development targets. Critically, the PAF would set out in detail how resources released
through debt relief would be allocated between different sectors, along with broad overviews of allocations between recurrent and development budgets.

**National Poverty Fund**

Finally debtor governments would establish a national poverty fund, into which the savings from debt relief would be transferred. They would be required to make clear commitments to transparency and accountability, including the independent auditing of accounts and public reporting on expenditure. Provisions for regular consultation with civil society would be required in evaluating progress towards poverty reduction goals set under the PAF, monitoring allocations, the impact of investments, identifying problems, and re-defining new priorities.

Oxfam has previously shown that, for instance in Tanzania, application of this proposal would enable the Tanzanian government to set itself on the path of achieving universal primary education. If debt servicing were limited to a 10% ceiling on revenue, and if 60% of resources thus released were allocated to primary education, Tanzania could raise the gross enrollment rate from the 85 per cent envisaged for 2002 under the Basic Education Master Plan, to 95 per cent. This would create a platform for achieving high quality universal primary education by 2005.

Various objections have been raised to this proposal. Some debtors fear that it would create another layer of conditionality, thereby undermining their prospects for debt relief. In fact, the incentives would provide additional benefits for governments with a commitment to poverty reduction. It would not exclude governments lacking such a commitment, from access to HIPC on less preferential terms.

On the creditor side, various fears have been raised. One concern is that governments might renege on their commitments by failing to allocate debt service savings to the areas identified. Where this occurs as a consequence of policy failure (as distinct from unavoidable fiscal problems associated with drought, floods or a collapse in export prices, for example), strict conditionality would have to be applied. One approach would be to penalise any shortfall in actual spending on a dollar-for-dollar basis in the form of reduced aid commitments. At the moment the IMF and World Bank would rather see social conditionality imposed before providing debt relief, this new approach provides an incentive of early and substantial debt relief, but with penalties for default, after providing debt relief.

Other creditors—such as the IMF—claim that the arrangement would be too complex and cumbersome to administer. In fact, it would be considerably less complex and cumbersome than existing IMF conditionality, under which governments are expected to comply with several dozens of targets on a quarterly basis. While there is some heartening discussion around improving IMF programming through the inclusion of ‘social principles’ to promote a pro-poor policy environment, such changes may take many years to achieve. The human development window approach allows debt relief resources to be released immediately into a pro-poor framework, and is a mechanism which can be rapidly agreed, simply implemented, and properly monitored.

The human development window proposal also builds on growing evidence in the World Bank and elsewhere that increased government ownership increases the success and sustainability of national programming. Where this programming is developed with civil society participation, a broader ownership and political consensus can evolve, further enhancing progress. Recent World Bank approaches, such as ‘Comprehensive Development Framework’ proposal, recognise the need to balance macro-economic issues with human development concerns. This approach supports the notion of improving a cold financial debt relief framework, into a mechanism which can also address human development concerns.

**Uganda, implementing a human development approach to HIPC**

An example of what could be achieved through a compact between creditors and debtors has been provided by Uganda, the first country to receive HIPC debt relief. All of the budget savings from debt, amounting to just under $40 million a year, have been allocated to a Poverty Action Fund. This fund allocates resources to priority areas defined in the national Poverty Eradication Action Plan; a plan that was developed in a consultative fashion, and with broad national consensus, over a period of two years. The fund allocates finance to rural feed-
er roads, agricultural extension, water supply, primary health care and primary education.

Transfers to this fund are helping to finance implementation of the ambitious universal primary education programme, which has more than doubled primary school enrollment to 5.3 million children since its introduction in 1997. Apart from the direct benefits, the Poverty Action Fund is helping to improve government accountability and transparency. All financial flows are reported on a quarterly basis, an independent audit is to be published annually, and civil society is involved in the steering committee which oversees use of the Fund.

At a wider level, Uganda has also implemented laws which ensure that Parliament scrutinises new lending to ensure it is undertaken within a prudent lending strategy, and meets national development priorities. In fact, new lending must be on IDA terms or better, and there is a strict annual cap of $10 million on non-concessional lending in exceptional circumstances. Opening up debt management to civil society and parliament, coupled to a prudent strategy, builds the foundation for improved lending and use of lending into the future. Uganda shows what is possible, even in difficult circumstances, when there is sufficient political will.

Reforming HIPC, eradicating poverty: Political will
This initiative is a breakthrough. It deals with debt in a comprehensive way to give countries the possibility of exiting from unsustainable debt. It is very good news for the poor of the world.

James D. Wolfensohn, President, World Bank, 1996, on the HIPC agreement
Three years on, HIPC has not been good news for the poor of this world. It has failed because the framework has been implemented with a view to minimising the costs to creditors, rather to deal once and for all with the problems of debtors.

One of the requirements for more effective debt relief is additional finance. IMF gold stocks represent a potential source. These amount to around 100 million ounces, and at today's prices the total value is approximately $30 billion. There are a number of reasons as to why gold sales are an appropriate tool to support HIPC. Firstly, they are a poor investment. Gold prices have been falling, and may continue to do so. Secondly, a sale of reserves will not undermine the IMF's position or ability to provide resources to developing countries in the future. If half of the gold was sold, some $15 billion, and finance from sales were appropriately invested in financial securities, interest payments could provide substantial support to an improved HIPC.

The World Bank and IMF has made tentative estimates of various costs for reforming HIPC. The most expensive would cost around $45 billion in net present value terms.

Tentative costings for illustrative changes in the HIPC framework
Total Debt stock of HIPC countries (1996): $167 billion
Debt stock after receiving full Naples Terms: $100 billion
Cost of HIPC relief following Naples Terms: with 3 year eligibility, debt/exports 100%, debt/revenue 150%, no fiscal thresholds: $45 billion

Source: IMF, 1999; excludes Nigeria, Sudan, Somalia, Liberia; does not include the cost of additional countries which would enter the initiative due to reduced thresholds.
The Oxfam human development window proposal would seek to shorten the timeframe to 1-2 years for those countries willing to adopt this approach, and would also utilise a fiscal cap which would raise the costs of HIPC further. These approaches would also ensure that countries presently excluded from HIPC are included. Clearly, delivery of debt relief of this magnitude will be expensive, although the debt relief itself is provided over many years. Given the expense, it will be of utmost importance to ensure that such finance is well used, when resources are so scarce. The human development window proposed by Oxfam ensures that this can happen.

The real question is one of priority. If these figures are put in context, $45 billion is equivalent to what the European Union provides in subsidies to their farming community. It is less than 6% of global military spending. Nonetheless, it is possible to mobilise these levels of resources, after all, in response to the East Asia crisis, the G7 created a $100 billion loan rescue package within a few months.

The real problem is not resources, but political will. As we reach the end of this millennium, what is required is the political resolve to make debt relief work for the world’s poor. There is a major opportunity now, as G7 leaders and finance ministers are developing their positions in the run-up to the G7 summit in Cologne. Already there are proposals on the table to reduce the time frame by three years; to lower the sustainability thresholds; to increase Paris Club debt relief beyond Lyon terms; to eliminate ODA debt; to sell IMF gold; to establish a strong connection with human development and to deliver agreements on $50 billion of debt relief before the end of the year 2000. If world leaders worked together, and delivered the political effort and will that their public demand, then progress can be made. It is important that they work together. It benefits no one to see improvements to HIPC lost in competing proposals. What is necessary is a unified purpose in making HIPC work for the poor. Resolve will be required to address this broader goal, and resolve will be required to deliver the resources necessary to put an end to the debt crisis. Millions of people in Africa, in Latin America, in Europe and in North America will be demanding an achievement worthy of a millennium celebration.
Appendix:

HIPC Progress

<table>
<thead>
<tr>
<th>Countries going through HIPC</th>
<th>Completion point (date when debt relief starts)</th>
<th>Decision point (date when assessment of debt is made)</th>
<th>HIPC relief (NPV) $ million</th>
<th>HIPC relief (nominal terms) $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>April 1998</td>
<td>April 1997</td>
<td>347</td>
<td>650</td>
</tr>
<tr>
<td>Bolivia</td>
<td>September 1998</td>
<td>September 1997</td>
<td>448</td>
<td>760</td>
</tr>
<tr>
<td>Guyana</td>
<td>Spring 1999</td>
<td>December 1997</td>
<td>253</td>
<td>500</td>
</tr>
<tr>
<td>Mozambique</td>
<td>mid-1999</td>
<td>March 1998</td>
<td>1,442</td>
<td>2,900</td>
</tr>
<tr>
<td>Mali</td>
<td>December 1999</td>
<td>End 1998</td>
<td>128</td>
<td>250</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>April 2000</td>
<td>September 1997</td>
<td>115</td>
<td>200</td>
</tr>
<tr>
<td>Côte d’ivoire</td>
<td>March 2001</td>
<td>March 1998</td>
<td>345</td>
<td>800</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Spring 2002</td>
<td>Spring 99</td>
<td>636</td>
<td>1,300</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Spring 2002</td>
<td>Spring 1999</td>
<td>271</td>
<td>550</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>Delay -Conflict</td>
<td>Delay -Conflict</td>
<td>300</td>
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</tr>
</tbody>
</table>

Total debt relief agreed so far: 4,285 8,510

Nicaragua, Niger, Tanzania, Togo, Zambia
Madagascar, Rwanda
Burundi, Congo Democratic Republic, Myanmar, Sao Tome and Principe

21 countries

Countries unlikely to receive debt relief through HIPC

<table>
<thead>
<tr>
<th>Benin</th>
<th>Senegal</th>
<th>Chad, Guinea, Sierra Leone, Vietnam, Yemen</th>
<th>Cameroon, Republic of Congo, Angola, Central African Republic, Guinea, Honduras</th>
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</thead>
<tbody>
<tr>
<td>June 1997</td>
<td>March 1998</td>
<td>1999</td>
<td>2000</td>
</tr>
<tr>
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</tr>
</tbody>
</table>

13 countries

Not determined

Ghana, Kenya, Lao-PDR, Liberia, Malawi, Somalia, Sudan (Nigeria has recently been excluded)
Oxfam International is a network of eleven aid agencies that work in 120 countries throughout the developing world: Oxfam America, Oxfam in Belgium, Oxfam Canada, Community Aid Abroad (Australia), Oxfam Great Britain, Oxfam Hong Kong, Intermon (Spain), Oxfam Ireland, Netherlands Organization for International Development Cooperation (NOVIB), Oxfam New Zealand, and Oxfam Quebec. Please call or write to any of the agencies for further information.

**Oxfam International Advocacy Office**
733 15th Street NW, #340
Washington, DC 20005
1.202.783.3331 (ph)
1.202.783.5547 (fax)
advocacy@oxfaminternational.org

**Oxfam in Belgium**
39 rue du Conseil
1050 Bruxelles
Belgium
32.2.512.9990 (ph)
32.2.514.2813 (fax)
oxfamsol@nongenet.be

**Community Aid Abroad**
National & Victorian Offices
156 George St. (Corner Webb Street)
Fitzroy, Victoria
Australia 3065
61.3.9289.9444 (ph)
61.3.9419.5318 (fax)
enquire@caa.org.au

**Oxfam Great Britain**
274 Banbury Road
Oxford
England OX2 7DZ
44.1865.311.311 (ph)
44.1865.312.600 (fax)
oxfam@oxfam.org.uk

**Intermon**
Roger de Lluria 15
08010
Barcelona, Spain
34.3.482.0700 (ph)
34.3.482.0707 (fax)
intermon@intermon.org

**Oxfam America**
26 West St.
Boston, MA 02111-1206
1.617.482.1211 (ph)
1.617.728.2595 (fax)
info@oxfamamerica.org

**Oxfam Canada**
Suite 300-294 Albert St.
Ottawa, Ontario
Canada K1P 6E6
1.613.237.5236 (ph)
1.613.237.0524 (fax)
oxfam@web.net

**Oxfam Hong Kong**
9/F, Breakthrough Centre
191 Woosung Street
Jordan, Kowloon
Hong Kong
852.2520.2525 (ph)
852.2789.9545 (fax)
info@oxfam.org.hk

**Oxfam New Zealand**
P.O. Box 68-357
Newton
Auckland 1032, New Zealand
64.9.358.1480 (ph)
64.9.358.1481 (fax)
oxfam@oxfam.org.nz

**Oxfam in Ireland**
19 Clanwilliam Terrace
Dublin 2, Ireland
661-8544 (ph)
661-8568 (fax)
oxireland@oxfam.ie
Netherlands Organization for International Development Cooperation (NOVIB)
PO Box 30919
2500 GX
The Hague, The Netherlands
31.70.342.1621 (ph)
31.70.361.4461 (fax)
admin@novib.nl

Oxfam Quebec
2330 rue Notre-Dame Quest
Bureau 200
Montreal, Quebec
Canada H3J 2Y2
1.514.937.1614 (ph)
1.514.937.9452 (fax)
info@oxfam.qc.ca
WDR2000: Poverty and Development
An Overview of the Work Program

I. Basic Approach and Organization

I.1 Introduction

The World Bank’s Year 2000 World Development Report will be on Poverty and Development. This follows the practice established in the World Development Reports of 1980 and 1990, of preparing a major report every decade on poverty reduction—the institution’s overarching priority. The report will be produced in time for the Bank/Fund Annual meetings, in September 2000. The intensive synthesis and writing phase of the report will be in FY2000 (July 1, 1999 to June 30, 1999), but background work and preparation for the report, throughout the Bank and outside, will start in FY99. This note proposes, for discussion and comment, an approach to WDR 2000 in the context of current policy and analytical concerns. It encompasses the general approach and organization, a program of research and analysis, and a set of proposed consultation mechanisms.

I.2 An Approach to WDR2000: Five Propositions

The approach suggested here is best summarized by five propositions, which reflect current policy concerns and the current analytical literature. They may serve to frame a program of analysis and dialogue in the run up to WDR2000.

i. The standard of living is multidimensional. In discussing poverty and inequality, therefore, alongside the standard, and important, measures based on the levels of income and consumption have to be put other measures which reflect such dimensions as health and education, vulnerability and risk, crime and violence, integration into the mainstream of society, and other factors highlighted by the poor themselves as being important. Moreover, not only must the measurement of the standard of living go below the level of the household to investigate the conditions facing women and children, it must also go above the household level to take into account community level considerations.

ii. There has indeed been significant progress in poverty reduction in the last half century. But (i) this progress has been uneven, across countries and across the different dimensions, and (ii) whatever the progress, poverty in its many manifestations persists to an unacceptable degree.

iii. The evolution of technology, trade and political systems means that the world stands on the brink of extraordinary opportunity for development and poverty reduction over the next twenty years. Like never before, the potential clearly exists for meeting and even exceeding the various targets around which the international community is beginning to form a consensus.

iv. However, the extent of broad based sharing in the fruits of development is a complex matter, depending on economic, social, political, demographic, environmental, institutional and policy factors. The other side of the coin of extraordinary opportunity, and because of the very same processes, is the risk of increased inequality, increased vulnerability, social exclusion and marginalization of different groups, and social dissolution. These risks are present at the international, national, sub-national (regional and ethnic), community, household and individual levels.

v. The key issue for the early part of the next century is how to bridge this gap between opportunity and risk. The challenge for policy makers is the design and implementation of institutions, mechanisms and policies at various levels to harness the potential for poverty reduction, by setting a long term course which will access global and local opportunity but allow broad sharing of the gains from development, while managing the short term risks of inequality, vulnerability, marginalization and social dissolution. This is not an easy task, and crucially important will be learning from a detailed evaluation of experiences with actual interventions in the past. It is important to go beyond broad strategies, to draw lessons for
implementation, which take into account time horizons and social constraints which policy makers actually face.

It should be clear that these propositions are nothing more than headings for a program of analysis and dialogue. But they do have three very clear implications on the methodological stance of WDR2000. First, it will have to take a micro-level perspective in analysis, as opposed to a purely macro/national level perspective, bringing in poor peoples' own experiences of poverty and responses to it. This will be needed to illuminate the nature of risk and vulnerability, for example, as well as to investigate in detail the processes of sharing in development. Second, it will have to face up to the question of inequality, between persons and between broadly defined groups. This will be needed, for example, if we are to bring in social cohesion as a key determinant of development and poverty reduction. Third, it will have to go beyond standard economic analysis and reach out to the insights and contributions of other social sciences, if we are to better understand the design and implementation of successful institutions, mechanisms and policies for resolving the tension between opportunities for poverty reduction and the risks associated with these very same opportunities.

The heart of WDR2000 will be the analysis and dialogue around proposition 5, drawing implications for policymakers. The 1990 WDR, it will be recalled, also synthesized the then current literature and experiences, and proposed a two-part strategy: labor intensive growth and investing in the assets of the poor (especially their human capital). WDR2000 will assess the experience with this strategy, especially how it was implemented in detail, and how the short run consequences were managed. Whatever the outcome of this assessment, it should already be clear that the policy conclusions of WDR2000 will have to be nuanced, finely textured, attuned to the management of economy, society and polity in real time, and reflect the detail of implementation experience across a range of institutions, mechanisms and policies.

1.3 Organization

The Year 2000 World Development Report, and the processes leading up to it, will be under the general direction of Joseph Stiglitz, Senior Vice President and Chief Economist of the World Bank. More than ever, WDR2000 will be the result of collaboration and consultation inside and outside the Bank. A core team will prepare the report itself (Director: Ravi Kanbur, Cornell University). The process of preparation will be integrated into the World Bank's network structure (Michael Walton, Director, Poverty Reduction, will be the key contact) and into the research program (Manny Jimenez, Research Manager, Poverty, is the key contact for this). Any one of these will be able to represent and speak for WDR2000 at the working level.

It is expected that all of the Bank's networks will play a role in the preparation of the report, and many sector families (e.g. social development, rural development, social protection, gender, etc.) are already orienting significant parts of their work program to contribute to WDR2000. Some of the Operational Regions are planning their own region-specific analysis of poverty reduction strategies to coincide with the WDR2000 timetable. The Operations Evaluation Department is launching a major evaluation of the Bank's contribution to poverty reduction since WDR90, and the output from this will feed into WDR2000. The World Bank's Economic Development Institute will be centrally involved in the consultation and dissemination process. In fact, the WDR process will be highly consultative, establishing early and ongoing dialogue contact with the main constituencies outside the Bank, as discussed in the final section of this note.

The WDR2000 core team will come together physically and full time in FY2000. But the Director has already been announced, and the core team will be announced shortly. In FY99 the team will operate as a "virtual team", each individual continuing with their normal work. However, the early announcement of the Director and the team should facilitate closer integration of the preparatory processes-the program of analysis and consultation-with the writing of the report.
II. A Program of Analysis and Research

II.1 Introduction

The five propositions listed above serve to provide a framework for a program of research and analysis. But the detailed nature of this program depends on the terrain of existing work. In some cases, merely synthesis is required; in other cases, major work programs need to be launched. And the structure should be capable of evolving and adapting as the consultation process progresses, and in fact be integrated into the consultation process. In view of these interlinkages, the strategy proposed here is one of proceeding on three tracks.

i. The first component is essentially a “topics and subtopics checklist” to ensure that key issues are being covered, through commissioning a number of papers which undertake synthesis of the current and some new work.

ii. The second component of the strategy is a greater emphasis in the early preparatory phase of the report on original research in areas which clearly demand it, where we need to know more, given the current state of knowledge.

iii. And the third component is a program of workshops at which papers and research findings are presented and discussed, with wide groups of scholars and practitioners, with this program being integrated into the broader program of consultation which will underpin WDR2000, and which is discussed further in the next section.

II.2 A List of Topics and Subtopics

In light of the five propositions listed above, the following broad topics and sub-topics are suggested for consideration. As noted above, some of these will require more than one or two commissioned papers-rather, they may involve major research programs themselves, and this is discussed later. It should also be emphasized that there is no implication at this stage for the relative importance of the various topics. This will depend in part on the outcome of the research and the consultation process.

At this stage the topics and subtopics serve rather as a checklist to get the work program started. The list starts with concepts and measurement, goes on to the analysis of different dimensions of the standard of living and poverty which will also discuss policy issues as they come up, and ends with topics specifically on the design and implementation of institutions, mechanisms and policies. It might look a little like a list of chapter headings for the report-it may be useful to think of it in this way, but it is of course far too early to decide how exactly the material generated will be organized into a chapter sequence.

1. Concepts and Measurement

1.1 The poor’s own perception of the standard of living and poverty.

1.2 Social norms, values, conventions and the measurement of poverty.

1.3 Frontiers of income/consumption-based measurement of poverty, including poverty lines.

1.4 Non-income and non-standard measures of the standard of living and poverty, including risk and vulnerability, crime and violence, and social exclusion.

1.5 Conceptual and practical problems in handling multi-dimensionality.

1.6 Characteristics of the poor in different parts of the world.

1.7 Intra-household, gender and age dimensions of poverty and inequality.

1.8 Global evolution of standard and non-standard measures of poverty over the last fifty years.

2. Microdynamics of Sharing in the Fruits of Development

2.1 Microdynamics of income change in poor households-short and long run patterns and implications for poverty and inequality.

2.2 Asset and geographic inequalities and the microdynamics of income change.
2.3 Micro-level evidence on the evolution of health and education variables.

2.4 Credit markets and access to opportunity.

2.5 Intra-household and gender factors in household access to growth opportunities.

2.6 Child labor.

3. Vulnerability and Risk

3.1 Risk and vulnerability as key determinants of poverty.

3.2 Special risks and vulnerabilities faced by women and by children.

3.3 Responses and coping mechanisms at the individual, household and community levels.

3.4 The evolution of risk and vulnerability over the last twenty years.

4. Demography and Poverty

4.1 Fertility transitions and poverty reduction in different parts of the world.

4.2 Age composition evolution: growth and poverty effects.

4.3 Alternative patterns of household formation and poverty.

4.4 Aids and the poor;

4.5 Migration (national and international) and poverty.

5. Rural Development and Poverty

5.1 Characteristics of the rural poor.

5.2 Agricultural Productivity, share of agriculture in GDP, and poverty reduction.

5.3 Gender inequalities and productivity and distribution in agriculture.

5.4 Evolution of land tenure systems and the prospects for land reform.

5.5 Rural labor markets and the landless poor.

5.6 Biased technological change in agriculture and the poor.

5.7 Agricultural development as a way of tackling urban poverty.

6. Urban Poverty

6.1 Urbanization trends and poverty trends.

6.2 Characteristics of the urban poor, including housing and impact of physical insecurity.

6.3 Formal sector urban labor markets.

6.4 Urban crime and violence.

6.5 Productivity growth and distribution in the urban informal sector.

7. Environment, Ecology and the Poor

7.1 Common property resources and the micro-dynamics of poverty.

7.2 Women, environmental resources and poverty.

7.3 Global climate change, poor countries, and poor people.

7.4 Biodiversity and the long-term implications for poverty reduction.

8. Inequality, Social Cohesion and Poverty

8.1 Growth, inequality and poverty (Kuznets and post-Kuznets).

8.2 The concept of social cohesion.

8.3 Social exclusion and poverty.

8.4 Social capital, inequality and community.

8.5 Ethnic (and interregional) inequality and social stability.

8.6 Group level vulnerabilities and social stability.

8.7 Social stability and the prospects for development.

9. Global Trends and the Poor

9.1 Openness, inequality and poverty.

9.2 Foreign direct investment, inequality and poverty.

9.3 Globalization, risk and vulnerability at the national and sub-national levels.

9.4 Global technical change and inequality between and within countries.
10. Lessons from Interventions (Bank and non-Bank)-National Level

10.1 Overall assessment of the WDR1990 two-part strategy.

10.2 Getting specific on the labor-intensive part of the WDR1990 strategy.

10.3 Getting specific on the social investment part of the WDR1990 strategy.

10.4 Incidence of public taxation and expenditure, sectoral reallocations, and the effect on poverty.

10.5 Experiences with retargeting of food and fuel subsidies.

10.6 Macrostabilization, structural adjustment: gender and poverty effects.

10.7 Dealing with macroeconomic shocks-the East Asia case.

10.8 National level safety nets-experiences and cautionary tales.

10.9 Maintaining ethnic and regional balance.

10.10 Aid and poverty reduction.

11. Lessons from Interventions- Sectoral and Micro

11.1 Education, including reducing the gender gap.

11.2 Health, including the impact of cost recovery.

11.3 Agricultural extension, especially in relation to women's productivity.

11.4 Microcredit and support for microenterprises-monitoring and group incentives.

11.5 Public works schemes and self targeting mechanisms.

11.6 Assessment of Social Funds.

11.7 Famine and refugee relief.

11.8 Urban housing and infrastructure.

11.9 Transport-poverty and gender.

11.10 Public interventions and the evolution of common property resources.

11.11 Donor interventions at the sectoral and micro levels.

12. Political Economy, Institutional Functioning and Interventions

12.1 The political economy of macro policy making.

12.2 Public sector governance and incentives for efficient anti-poverty interventions.

12.3 Assessment of interventions by civil society.

12.4 Public-private-civil society partnerships for implementing interventions.

12.5 Interactions between community action, local institutions, and outside assistance.

12.6 Voice, participation and empowerment of the poor.

12.7 War, conflict and the poor.

13. Final Overview

13.1 What is poverty and what has happened to it over the last fifty years?

13.2 What are the technical prospects for achieving international targets for poverty reduction?

13.3 What combination of institutional and policy intervention will best reduce poverty while maintaining social cohesion?

13.4 What are the international prerequisites, and what are the implications for transnational governance structures?

13.5 What is the role of international institutions like the World Bank?

It should be emphasized once again that these topics and subtopics are nothing more than a checklist to ensure adequate coverage during the preparation phase of the report. The sub-topics are not necessarily equivalent in importance, nor will everything necessarily find its way into the report. But at this stage it pays to be inclusive. Thus, for example, the investigations under topics 1-10 will in no doubt lead to policy lessons-topics 10-12 are there to make doubly sure that policy and implementation issues are covered adequately. Much of what is listed here is already being worked on in the Bank and elsewhere,
and this list may provide a convenient peg on which to hang the different efforts. At the end of the day, WDR2000 will have to present a clear storyline, drawing on, but not being drowned by, the detail that it is essential to have available to formulate strategies for the situations actually faced by policymakers. But if each of the subtopics listed above has one or two background papers prepared on it during the preparatory phase (by a range of contributors inside and outside the Bank), the synthesis phase will have a baseline of materials to draw on.

II.3 Some possible areas of early emphasis

The above list is intended to convey the sense that "a paper or two" will certainly be needed as a minimum in each subtopic. But the overall storyline, and the detailed list of topics, suggest some areas for concerted early effort, in the form of self-standing research projects, to capitalize on the lead-time for this WDR. These areas may or may not cut across several topics, but they are certainly areas in which a major effort is likely to be needed—a simple synthesis of existing literature may not be enough. There are already some areas in which substantial work is underway or planned in the Bank, and these will be tapped for inputs to WDR2000. These include major research programs on microdynamics of income distribution, panel studies on dynamics of individuals, groups and communities, geography and poverty, cross-country surveys on social capital, and social exclusion. What follows are suggestions for some other areas—they can be thought of simply as giving greater weight in the initial preparatory phases to certain of the sub-topics listed above because the analysis and dialogue would benefit from such early emphasis on basic research in that topic.

i) Poor people's perceptions of poverty and their assessment of interventions intended to help them. This is a fundamental consideration for WDR2000, and a two-part approach is proposed. The first is an engagement with in-depth participatory poverty work underway or planned in the Bank. The second is the implementation of a comparable cross-country survey of the poor—say in 30 or so countries—which collects information, through structured interview techniques, on the reality of poor people's lives, and the interventions which they themselves consider to be the best to improve their own standard of living. The collation and presentation of this data will be central to the choice of issues to be tackled by WDR2000. Added to this might be a complementary survey on elite perceptions of the same issues.

ii) The compilation of an internationally comparable and consistent database on different dimensions of the standard of living, including standard household surveys but also data on health and education and non-standard measures of the standard of living, like vulnerability, physical violence, etc., and disaggregated by gender to the extent possible.

iii) A systematic study of social capital across countries and how this influences outcomes for the poor. There is increasing evidence that social capital—the norms and values of societies and communities, and informal social networks—can play an important influence on outcomes for the poor (and non-poor) and the effectiveness of interventions. However, there has been little systematic comparative analysis across a significant number or countries. It is proposed to complement ongoing in-depth micro studies with a series of country-level surveys that both assess social capital for different groups in these societies, and relates this to measures of the standard of living.

iv) A series of country studies to see how the WDR1990 two-part strategy has played out, and how it needs to be modified. This program of work can be done jointly with country teams in the context of poverty assessments, and in a complementary fashion to the ongoing OED evaluation.

v) Lessons to be learnt from the microcredit experience. Clearly, an in-depth study of the global experience with microcredit, using quantitative and qualitative techniques, will be very important for WDR2000. The study would focus on the capacity of these schemes to reach poor people, especially women, to increase productivity and reduce risks, and the institutional reasons for success or failure.
vi) The design of responses to the East Asia crisis with a view to minimizing short and long term impact on the poor and on ethnic and regional tensions.

vii) An assessment of the feasibility of achieving recently agreed international poverty reduction targets.

viii) Global changes in trade and technology and the impact on poverty and social cohesion. There is some work on trade, technical change and inequality, but there is very little on the impact on the incomes and vulnerability faced by the very poor on the one hand, and by competing ethnic and social groups on the other.

ix) Evaluations of non-Bank ground level anti-poverty interventions, by NGOs, bilaterals, etc. This will complement a major OED study evaluating Bank interventions in light of the WDR90 two-part strategy.

x) Assessments of national level safety nets as devices for managing short-term risks and vulnerabilities. The focus would be on the lessons learned from the failures of the 1960s and 1970s in OECD and developing countries, including political economy and implementation problems, and drawing on success stories to propose design principles for the future.

II.4 A Program of Research Workshops

The output of the work program outlined above will be in the form of papers, which can be used as inputs to WDR2000. It is important, however, to have a process of interaction between those working on these topics and subtopics, with each other, with the WDR2000 team, with the research community (in developed and developing countries) and with those outside the world of research and analysis-practitioners and policy makers. The next section discusses in detail a program of consultation, which will underpin the WDR2000 process. This consultation will be done through many instruments and media, including conferences and workshops. The output of the work program for WDR2000 will be an important input into this consultation process. But it would be useful to have a series of workshops, integrated into the consultation process but primarily focusing on the research program.

It is proposed that six such workshops be held over the two fiscal years FY99 and FY2000, roughly one workshop every four months or so. These will serve as useful staging posts on the road to the final report, as well as devices for authors to present papers and get feedback from other researchers and from practitioners. Broadly speaking, these workshops would last two to three days, with presentations of fifteen to twenty papers. There could be as many as 30 to 40 participants, including authors and discussants. Most of the workshops would be held outside of Washington, half of them in developing countries, organized by local research institutes, and designed to link into the broader consultation process discussed in the next section. The process would also be closely linked to, and contribute to, capacity building efforts for research in developing countries currently underway.

The content of the workshops would be dictated somewhat by the timing and rhythm of the various research efforts that will get underway. But the earlier workshops would focus more on concepts and measurements, partly to set the stage and agree on common standards, and partly because much has already been done in this area. The later workshops would focus more on the results of policy evaluations, and in formulating a strategy of poverty reduction for the first decades of the next century.

III. Consultation and Dialogue

III.1 Introduction

It is a given that WDR2000 process will be highly consultative—the nature of the topic and the evolving nature of development dialogue demand it. The question is how to design a process, which will be comprehensive and responsive, yet efficient and feasible given the constraints on time and budget. This section will first of all list the key constituencies and stakeholders to be consulted, and then discuss some possible instruments for consultation and dialogue.
III.2 Audiences and Constituencies

i) The Poor Themselves. The fundamental constituency for WDR 2000 is the poor themselves. The process will need to listen to their concerns, through their representatives but also directly, in their own words. The instruments for doing this are discussed in the next sub-section.

ii) Civil Society and Private Sector. This is a very broad range of groups, which may eventually have to be subdivided into its constituent categories. It includes (in developed and developing countries), community organizations and NGOs, religious groups, the private sector, trade unions, journalists and academics. A range of tailored instruments and modalities will be needed to engage the different parts of this disparate group.

iii) Developing Country governments. This includes the executive branch, but going beyond the usual contacts with the Ministry of Finance to the sector ministries which are key to implementation of poverty reduction strategies. It also includes the legislative branch, especially in newly democratizing countries.

iv) Official Agencies. These include agencies of the UN system, other multilaterals, and bilateral aid agencies. The year 2000 will occasion many strategic evaluations by these agencies, and WDR2000 will have to maintain a dialogue with the different efforts that will be underway.

v) Within the World Bank. Finally, WDR2000 will have to keep an ongoing dialogue with different constituencies within the Bank itself—the Regions, the Networks, and the Executive Board.

III.3 Instruments and Modalities

There are a number of instruments and modalities to ensure that the WDR2000 process has the benefit of consultation and dialogue with a broad range of constituencies and stakeholders. Some of these instruments are targeted at certain groups; others have a broader reach. The following are proposed for comment, focusing primarily on constituencies outside the Bank.

i) Direct and participative surveys of the poor, to discover their perceptions of poverty and their assessments of interventions to help them. This is discussed as an important part of the work program in the previous section.

ii) Use of alternative media-visual, theatrical, etc.-to reach the poor and to convey their experience to the broader world.

iii) The Director and core members of the WDR2000 team will spend some time during the preparation phase in poor areas, talking to poor people directly and through their representatives.

iv) A program of country specific interactions, run through the Bank Resident Missions, often in countries where the Country Director of based in the field. This would cover interactions with governments and parliaments, local academics and journalists, and other parts of civil society.

v) EDI-organized Internet based international dialogue, with civil society and others, perhaps through an interactive website, and using the existing dialogue networks on the Internet.

vi) EDI-organized regional fora, reaching regional academics and civil society and also the Bank's operational and network staff.

vii) EDI-organized senior policy seminars, to dialogue on early drafts of the report.

viii) A sequence of global level meetings with religious leaders, and with other civil society representatives.

ix) Consultation with academics will be targeted through the research program, the program of workshops discussed in the last section, and through the EDI instruments listed here.

x) A program of consultation with official agencies, individually and through common fora.
xi) A high level advisory committee of people outside the Bank, drawn from different walks of life, to provide guidance on the report.

xii) Frequent seminars and meetings within the Bank, operating through the network families and directly with the regions, and through the corporate secretariat, to keep the Bank on board during the process.

It should be clear that this program of consultation and dialogue is no easy task. But it is essential if the report is to draw on a wide range of experiences and expertise. Each of the above components will be developed in detail over the next few weeks, as a prelude to implementation during FY99 and FY2000.

IV. WDR2000: Products and Processes

The most visible product of the WDR2000 will most likely be the report itself, providing a synthesis of the relationship between development strategy, structural and social development, and poverty. But there will be other products, not least of which will be the intensive process of consultation set out above, especially the process of interaction with poor communities directly and through participatory research and projects. The research program will produce a combination of conferences and also research papers and volumes, with strong participation or researchers from developing countries. There will be a compilation of data sources on poverty, made available for general use. Inside the Bank, WDR2000 could be accompanied by a World Bank strategy statement with strong institutional ownership. Finally, the material generated during the preparation and consultation could also be converted into training modules for Bank staff and others by EDI.

V. Next Steps

There is not much time to be lost in getting the preparatory phase of the WDR2000 process. This short overview note is being circulated for comments and discussion. Based on the feedback, the different components, and the division of labor, will be spelled out in greater detail even as certain activities, which can wait no longer, are launched in preliminary fashion. It is hoped that by July 1, 1998 the work program and consultation process will be well and truly launched, with the first of the consultation workshops scheduled for the early Fall and the first of the research workshops to take place in the late Fall. The institutional home within the World Bank for the process during FY99 will be PRMPO (under Michael Walton, Director, Poverty Reduction). The WDR2000 core team will be announced as a virtual team on July 1, 1998 and come together physically for the writing of the report itself on July 1, 1999.
INCLUSION/EXCLUSION IN POVERTY WDR
PRELIMINARY THOUGHTS AND SOME QUESTIONS

1. The Problematic

Clearly, the Poverty WDR will have to address the issue of “inclusion” (or “exclusion”). But what is it? The word has entered deep into the discourse of social and economic policy in poor and rich countries alike. Mr. Wolfensohn’s speech to the last Annual Meetings, in Hong Kong, was entitled “The Challenge of Inclusion”. Jacques Chirac’s presidential campaign had “inclusion” as one of its main thrusts. Commentators on the East Asian crisis worry about its effects on “excluded groups”. Indeed some diagnoses of the crisis place the blame on a pattern of development, which was not “inclusive” enough. In the analytical arena, standard economic measures of poverty based on income and consumption are criticized because they leave out, among other things, “exclusion”. And so on.

Thus “inclusion” or “exclusion” seems to mean many things to many people, and there does not seem to be a consensus on its operational content and policy implications. The object of this short note is to invite a debate on the concept, focusing on its operational identification, and policy implications, based on a discussion that is already ongoing inside and outside the Bank (references are not provided at this informal stage).

2. Aspects of Exclusion/Inclusion

A useful start in getting at definitions is to look in greater detail at how the concept was used in Mr. Wolfensohn’s speech, which represented, presumably, a synthesis of how his staff uses the concept. Here are some examples:

“...And as I walked around (a favela, with the vice governor of Rio), more and more of the women came up to me displaying pieces of paper showing charges and receipt for a few reals a month. I watched and listened to this until the vice-governor said, ‘What they’re showing you, Jim, is that this is the first time in their lives that their names and addresses have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time they have been included in society. With that receipt they can get credit to purchase goods, with that receipt they have recognition and hope’...As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about-inclusion. Bringing people into society who have never been part of it before...”

“...In many ways, this is the best of times for developing countries...but there is also much to lament. Yes, the glass is half full, it is also half empty. Too many people are not enjoying the fruits of success...And the deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the worst of times, as huge disparities persist across and within countries...In too many countries, the poorest 10 percent of the population have less than 1 percent of the income, while the richest 20 percent enjoys over half. In too many countries, girls are only half as likely as boys to go to school. In too many countries, children are impaired from birth because of malnutrition, inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities...What we are seeing in the world today is the tragedy of exclusion...”

“...Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, to promote equitable access to the benefits of development regardless of nationality, race, or gender. This--The Challenge of Inclusion--is the key development challenge of our time...”

These quotes reveal that, as in other Bank and non-Bank writings, different dimensions of the issue are being highlighted:

i) Poor outcomes, whether in education, health, nutrition, income, etc., are often referred to as exclusion-those with poor outcomes are the ones excluded.

ii) Poor prospects of improving poor outcomes, and vulnerability to reversal,
even in a setting where there is generalized increase in well being, is characterized as the exclusion of some from sharing in the fruits of development.

iii) **Weak connectedness** into the cultural, social and/or economic system, is viewed as an aspect of exclusion—this may well lead to poor outcomes or poor prospects for improving outcomes, but sometimes isolation from the mainstream can protect against shocks to the mainstream.

iv) **Influence over and participation in decision making** is another aspect, which often falls under the rubric of exclusion. This is linked to weak connectedness, but those connected quite strongly to the economic system, e.g. casual laborers, may nevertheless not have a say in the design of policies which affect their well being. And decision making can be at the community, local or national level.

v) **Effects of socio-demographic group membership**, independently of other factors, on all of the above seem to be a central feature in discussions of exclusion. Membership of a nation through the accident of birth, and its effects on one’s prospects, is the most general example of this. Within a country, social or economic discrimination based on ethnicity or gender is put forward as an example of exclusion. This may lead to poor outcomes, through weak connectedness for example, but not necessarily—some ethnic minorities, and certainly individual members of these minorities, may do well economically but may be excluded from the political and cultural life of the society.

3. Is everything exclusion, and is exclusion everything?

If exclusion is used to cover all of 1-5 listed above, it seems that very little will fall outside its purview, and the concept will thus have very little in the way of analytical cutting power, although it may still perform a useful, even powerful, symbolic role in capturing the totality of a syndrome. But let us look again at 1-5 above, to see where, if anywhere, greater analytical purchase can be had by developing the exclusion discussion.

There is, of course, a huge debate on how outcomes are to be measured, which are the most important, whether to aggregate them, how to aggregate them, etc. The difference between income/consumption on the one hand, and other dimensions such as health and education, has occupied much of the debate. Despite continued skirmishing, the work of Amartya Sen and others has in fact demonstrated convincingly that non-income dimensions are at least as important analytically as the income dimension. For example, life expectancy may or may not be correlated with income, but (i) it has value independent of income and (ii) focusing analysis on life expectancy may well illuminate processes and factors which would be missed by looking just at income—even some factors which determine income! But it is not clear what “exclusion” adds to the specific debate on poor outcomes and their measurement except, as seems to be the case sometimes, the word is introduced as a catch-all for things not captured by income-far better to talk about these outcome dimensions directly.

The issue of dynamics of outcomes-evolution and fluctuation of health, education, income, etc., over time is an important one, and standard income measures of poverty are criticized not only for ignoring non-income dimensions but also for neglecting dynamic considerations. Surely, such dynamic processes need to be investigated, in particular their interactions, e.g. between health risks and income vulnerability. But to use the term exclusion to highlight the importance of these dynamics may not be the most useful way to go about it—although this is how it is used at times. Of course, there is the question of why some people benefit over time and others do not, and this is where the concept of exclusion may be far more relevant.

Coming, then, to weak connectedness into the cultural, social and economic system, it should be clear intuitively that here we are moving closer to a possible sharpening of the concept of exclusion or inclusion as a category separate from simply poor outcomes or poor prospects. It is in principle possible to define and measure such connectedness in different spheres. In the economic sphere, share of
income generated from market activities is an example of a measure of inclusion that could in principle be linked to outcomes and prospects for outcomes. Similarly, access to labor markets, geographical access to commodity markets, access to credit and to land might be other measures which might, in turn, and in the context of the socio-cultural setting, be linked to outcomes and prospects. In the socio-cultural sphere, similar measures of connectedness can be developed, and have been developed, in discussions on social capital. Again, the link between social connectedness and outcomes and prospects is an empirical question—there should be no presumption that connectedness is good. It depends very much on context—for example on the link to ethnicity, which we will take up presently.

Linked to, but separate from, the issue of connectedness is the issue of participation in, and influence over, decision making. Unless connectedness is tautologically defined to be the same as influence and the counterexamples of labor in a production system or women in a household should suffice to give pause for thought—we need to develop separate measures of influence over decision making at household, community, local and national levels, and then link these to outcomes and prospects. This is particularly important at the national level, for example in discussing the design of measures to respond to macroeconomic crises and volatility. As Dani Rodrik and others have argued, economies which are more inclusive in their decision making, this inclusiveness being defined and measured independently, are more successful in designing, implementing and sustaining responses to crises which would otherwise lead to social conflict. The same issues arise at every level—for example in the management of common property resources.

If, holding everything else constant, the outcomes (or prospects) for an individual are poorer solely because of his or her membership of a socio-demographic group, then we have clearly got an outcome which is morally reprehensible and important to understand from the policy point of view. This can reveal lack of connectedness, or exclusion from decision making, and both of these are all the more sharper because they coincide with a socio-demographic grouping of deep social and cultural significance such as ethnicity or gender. Ethnicity also highlights the care with which connectedness measures must be treated—high connectedness within each of two ethnic groups can be quite consistent with isolation of the two from each other, or even discrimination against one by the other, or worse.

Finally, there is the issue of whether connectedness, participation and non-discrimination are valued for themselves, or because of their impact on human outcomes. Sen, for one, would argue that in principle, and depending on the context, they are valued for both reasons, and this must be right. The first task, however, is to identify the links between these different dimensions in an operational way.

4. Some specific questions

The view taken above is that the discussion of exclusion needs to develop its analytical tools and empirical observations in the areas of: (i) connectedness to the cultural, social and economic system, (ii) influence on decision making at different levels, and (iii) the effects of socio-demographic group membership. The interlinkages between these three need to be explored, as do the causal links between these and outcomes (static and dynamic) on health, nutrition, education, income, etc. We end with some specific questions suggesting the sort of work that might illuminate the phenomenon of exclusion.

- Is exclusion the same as poor outcomes in health, education, nutrition and income? What are the circumstances in which exclusion might not be associated with poor outcomes?
- What are the relevant aspects of inclusion, and how is one to measure them? For example:
  - participation in cultural life
  - influence on local decision making process
  - influence on district/regional/national/national political processes
  - participation in local associational life
- What is the empirical evidence on the association between measures of inclusion and measures of well being at the lower end of
the outcome scale, along any chosen dimension e.g. water and sewer lines, poorly policed neighborhoods, poor access to existing health clinics, etc.

- What is the link between exclusion and vulnerability? For example, does exclusion from credit markets, or from local credit institutions, increase vulnerability for the poor?

- In what ways does ethnicity interact, empirically, with exclusion, meaning by the latter weak connectedness and lack of influence on decision making? Is ethnic exclusion associated with worse outcomes for the excluded group?

- What is the systematic evidence on the exclusion of women from decision making structures at the local and national levels? When such exclusion is less, are the outcomes for women better?

- What are the links between connectedness across groups and connectedness within groups e.g. ethnic groups, or formal sector groups who exclude the poor? Does lack of inclusion across groups intensify within-group links? Is this good from the point of view of outcomes? And what is the evidence for all this?

- What are the regional differences? In what sense, if any, can one argue that there is “more” exclusion in one region than in another?

- How does the concept and analysis of exclusion modify the famous WDR1990 strategy (labor-intensive growth, access to basic services, social safety nets)?

- What is the evidence on projects/programs which have succeeded in “including” the poor in a systemic, not one-off, fashion?

5. Next Steps

It should be clear that the concept of exclusion/inclusion could do with refinement, sharpening, empirical implementation and policy analysis. There does not seem to be a cut and dried way to do this, and this note is intended to start the discussion and, hopefully, for work programs in the Bank and elsewhere to take on this question, especially its empirical and operational aspects. I would hope that contributions would focus on the specific questions of the type posed above (or on other questions of even greater specificity), on how they can be further sharpened, and then answered in empirically credible ways.

Ravi Kanbur
7/2/98

(I am grateful to Chico Ferreira and Chris Grootaert for their inputs)
Part IV: Appendix
SUNDAY, OCTOBER 25

7:00 p.m.  Welcome Dinner

Germany’s Role in The Bretton-Woods-Institutions
Guests:  Helmut Schaffer
         Executive Director for Germany
         The World Bank
         Bernd Esdar
         Executive Director for Germany
         International Monetary Fund

Location:  H.H. Leonard Mansion
           2020 O Street, N.W.
           Washington, DC

MONDAY, OCTOBER 26

9:00 a.m.  Introductory Session

Defining The Turfs:
The Different Roles of The World Bank and The IMF
Chair:  To Be Announced

Guests:  Amar Bhattacharya
         Advisor, Poverty Reduction & Economic Management Network
         World Bank
         Bruno J. Mauprivez
         Acting Chief,
         External Relations Department
         IMF
         Nancy Alexander
         Director
         Globalization Challenge Initiative
         Lisa Jordan
         Executive Director
         Bank Information Center

Location:  International Monetary Fund
           Conference Room 2-530
           700 19th Street, N.W.
           Washington, DC 20431

1:00 p.m.  Lunch Session

The Role Of NGOs In Influencing The Bretton-Woods-Institutions
Guests:  Gemma Adaba
         Director, Washington, DC Office
         ICFTU/ITS
         Nancy Alexander
         Director
         Globalization Challenge Initiative
         John Cavanagh
         Director
         Institute for Policy Studies
         JoMarie Griesgraber
         Director, Bretton Woods Project
         Center of Concern
         Lisa Jordan
         Executive Director
         Bank Information Center
         Veena Siddharth
         Economic & Social Advocacy Officer
         Oxfam International

Location:  Restaurant in the Hotel Lombardy

3:30 p.m.  Afternoon Session

Discussing The Experiences Of IMF and World Bank Policies: The Asian Crisis
Chair:  TBA

Statement:  Pia Bungarten
           Director, Thailand Office
           FES

Guests:  Roland Peters
         Lead Economist
         Poverty Reduction and Economic Management
         World Bank
         Anthony Elson
         Senior Advisor, Asia and Pacific Department
         IMF
         John Cavanagh
         Director
         Institute for Policy Studies

Location:  International Monetary Fund
           Conference Room 2-530

6:00 p.m.  Evening Presentation

Perspectives Of U.S. Foreign Policy
Speaker:  Dieter Dettke
           Executive Director
           FES

Location:  FES - Washington Office
           1155 15th Street, N.W. - Suite 1100
           Washington, DC 20005
TUESDAY, OCTOBER 27

10:00 a.m.  Morning Session

From The Washington- To The Post-Washington Consensus: New Instruments And Goals Of The BWI

Chair: TBA
Statement: Werner Puschra  
Director, Egypt Office  
FES

Guests: Aziz Ali Mohammed  
Director, G24 Liaison Office  
IMF

Homi Kharas  
Director, Economic Policy  
Poverty Reduction & Economic Management Network  
World Bank

Veena Siddharth  
Economic & Social Advocacy Officer  
Oxfam International

Location: World Bank  
Conference Room MC 6-414

1:00 p.m.  Lunch Session

World Bank Policy in Eastern Europe

Guest: Marcelo Selowsky  
Chief Economist, Europe & Central Asia Regional Office  
World Bank

Location: World Bank  
Dining Room to be announced

3:30 p.m.  Afternoon Session

The Social Dimension Of Adjustment

Chair: TBA
Statement: Peter Mayer  
Director, Korea Office  
FES

Guests: Gloria Davis  
Director, Social Development Department  
World Bank

Ashraf Ghani  
Principal Social Scientist  
Social Development Family  
World Bank

Sanjeev Gupta  
Division Chief, Fiscal Affairs Department  
IMF

Gemma Adaba  
Director, Washington, DC Office  
ICFTU/ITS

Barbara Shailor  
Director, Department for International Affairs  
AFL-CIO

Location: World Bank  
Conference Room MC 6-414

WEDNESDAY, OCTOBER 28

8:00 a.m.  Breakfast Session

Global Public Policy: Governing Without Government?

Guest: Wolfgang Reinicke  
Senior Economist  
Corporate Strategy Group  
World Bank

Location: Restaurant in the Hotel Lombardy

9:30 a.m.  Morning Session (FES-Participants Grouped By Continents)

Regional Integration And The Globalization Process

Africa:

Guests: Gene Tidrick  
Lead Specialist  
Economic Management and Social Policy Unit  
World Bank

Naheed Kirmani  
Assistant Director, African Department  
IMF

Asia:

Guests: Katherine Marshall  
Regional Manager, Operations & Knowledge Management  
East Asia & Pacific Regional Office (EAP)
World Bank
Roberto Zagha
Acting Manager, Poverty Reduction & Economic Management
South Asia Regional Office (SAR)
World Bank
Prakash Loungani
Senior Economist, Asia and Pacific Department
IMF

Location: International Monetary Fund Conference Room 12-120B (Africa) Conference Room 5-425 (Asia) 700 19th Street, N.W. Washington, DC 20431

Latin America:
Guest: Robert Devlin
Head of Division
Integration, Trade and Hemispheric Issues
IDB

Location: Inter-American Development Bank Conference Room NW-569 1300 New York Avenue, NW Washington, DC

1:00 p.m. Lunch Session

Objectives of U.S. Development Policy
Speaker: Ken Wollack
President
National Democratic Institute for International Affairs (NDI)

Location: National Democratic Institute 1717 Massachusetts Ave., N.W. Washington, DC 20036

3:00 p.m. Individual Consultations With Country Desks
Location: World Bank, IMF or IDB

THURSDAY, OCTOBER 29
8:00 a.m. Breakfast Session
Regional Responsibilities and Global Challenges: The Inter-American Development Bank
Guest: Enrique Iglesias
President

IDB
Location: IDB
Executive Dining Room
7th Floor
1300 New York Avenue, NW
Washington, DC

10:00 a.m. Morning Session
The Role of the State in a Changing World: The Issue of Governance
Chair: TBA
Statements: Alexander Kallweit
Senior Officer, Department for Eastern Europe FES
Gunther Maihold
Incoming Head, Department of Development Policy FES

Guests: Cheryl Gray
Director, Public Sector Management Poverty Reduction & Economic Management Network (PRM) World Bank
Sheetal K. Chand
Advisor, Fiscal Affairs Department IMF
Edmundo Jarquin
Division Chief, State and Civil Society Division IDB
JoMarie Griesgraber
Director, Bretton Woods Project Center of Concern

Location: IDB-Annex Conference Room B-300 (Third Floor) 1350 New York Avenue, N.W. Washington, DC

1:00 p.m. Lunch Session

Future Trends of World Bank Policy
Guest: Caio Koch-Weser
Managing Director
World Bank

Location: World Bank Dining Room to be announced
1818 H Street, N.W.
Washington, DC 20433

3:30 p.m. Strategy Discussion

Development Policies For The Next Millenium

Chair: TBA

Guests: Michael Walton
Director, Poverty Reduction
Poverty Reduction and Economic
Management (PRM)
World Bank

and

Team Members of the World Bank’s
World Development Report 2000 on
Poverty Alleviation

Location: World Bank
Conference Room MC 5-414
1818 H Street, N.W.
Washington, DC 20433

6:00 p.m. Reception

Location: Tabard Inn
1739 N Street, NW
Washington, DC 20036
Tel. 202 833 2668

FRIDAY, OCTOBER 30

9:00 a.m. Breakfast Session

Internal Evaluation of the Conference

Chair: TBA

Location: Restaurant in the Hotel Lombardy

11:00 a.m. Closure Of The Conference
List of Participants

Beate Bartoldus
Ph.D. in Social Science
Resident Representative in Vietnam
Previously ResRep in Indonesia, Sri Lanka
Experience: Trade Union Promotion and Adult Education
Current Focus: Social Security, Women Promotion, Regional Integration

Pia Bungarten
M.A. in Social Science
Resident Representative in Thailand
Experience: Human Rights, International Cooperation
Current Focus: Trade Union Promotion, Political and Social Reforms

Ulrich Golasinski
Ph.D. in Agricultural Economics
Resident Representative in Mozambique
Previously ResRep in Vietnam, Namibia
Experience: Governance, Promotion of Small- and Medium-Sized Enterprises
Current Focus: Parliamentary System, Decentralization, Trade Union Promotion

Peter Hengstenberg
M.A. in Economics
Head, Department for Latin America and the Caribbean, FES Bonn
Previously ResRep in Argentina, Portugal, Peru
Experience: Governance, Economic and Social Development, Regional Integration
Current Focus: Political, Economic and Social Development in Latin America

Alexander Kallweit
Ph.D. in Economics
Senior Officer, Department for Eastern Europe, FES Bonn
Previously ResRep in Ecuador, Czech Republic, Portugal
Experience: International Economic Cooperation, Regional Development
Current Focus: Economic Development in Russia and CIS

Hansjörg Lanz
M.A. in Social Science
Resident Representative in Uganda
Previously ResRep in Kenya
Experience: Promotion of Small- and Medium-Sized Enterprises
Current Focus: Governance, Human Rights, Regional Integration, Media

Günther Maihold
Ph.D. in Social Science
Senior Officer, Department for Latin America and the Caribbean, FES Bonn
Previously ResRep in Mexico, Nicaragua, Costa Rica
Experience: Governance, Regional Integration, Public Policy
Current Focus: Globalization, Governance

Peter Mayer
Ph.D. in Economics
Resident Representative in South Korea
Previously ResRep in Ghana
Experience: Social and Economic Policies, Small- and Medium-Sized Enterprises
Current Focus: Industrial Relations, Trade Union Promotion, Unification of Korea

Peter Oesterdieckhoff
Ph.D. in Economics
Resident Representative in Botswana
Previously ResRep in Namibia
Experience: Macro Economic Policies, Promotion of Small Business
Current Focus: Economic Policy Dialogue, Decentralization, Regional Integration

Jürgen Peters
M.A. in Business Administration
Senior Officer, Africa Department, FES Bonn
Previously ResRep in Sudan, Philippines, Argentina
Experience: Promotion of Small- and Medium-Sized Enterprises, Local Government
Current Focus: Governance, Decentralization, Social Policy
Alfred Pfaller
Ph.D. in Social Science
Managing Editor of International Politics and Society
Senior Officer, Department of Strategic Planning, FES Bonn
Previously ResRep in Chile, Ecuador
Experience: Development Economics, Problems of the Welfare State
Current Focus: International Economics, Employment Issues

Werner Puschra
Ph.D. in Economics
Resident Representative in Egypt
Previously in South Korea, Peru
Experience: Trade Union Promotion, Social and Economic Development
Current Focus: Labor Market Policy, Social Policy, Environmental Management

Hilmar Ruminski
M.A. in Social Science
Resident Representative in Indonesia
Previously ResRep in Bolivia
Experience: Governance
Current Focus: Trade Union Promotion

Heinrich Sassenfeld
Ph.D. in Economics
Resident Representative in Argentina
Previously ResRep in Chile
Experience: Trade Union Promotion, Social and Economic Development
Current Focus: Governance, Decentralization, Regional Integration

Hans Schumacher
M.A. in Social Science
Resident Representative in South Africa
Previously ResRep in Russia, China
Experience: Social Security Systems, Governance
Current Focus: Social Policy, Trade Union Promotion, Gender Policy, Regional Integration

Rüdiger Sielaff
M.A. in Political Science
Head, Department for Asia and the Pacific, FES Bonn
Previously ResRep in Malaysia
Experience: Trade Union Promotion, Governance, Regional Integration
Current Focus: Political, Economic and Social Development in Asia

Volker Vinnai
Ph.D. in Economics
Head, Africa Department, FES Bonn
Previously ResRep in Argentina, Peru, Kenya
Experience: Governance, Conflict Prevention, Regional Integration
Current Focus: Political, Economic and Social Development in Africa

Achim Wachendorfer
Ph.D. in Social Science
Senior Officer, Department for Latin America, FES Bonn
Previously ResRep in Brazil, Argentina, Dominican Republic
Experience: Trade Union Promotion, Decentralization
Current Focus: Coordinating Cooperation with Trade Unions

FES New York Office Staff:

Manfred Bardeleben,
Ph.D. in Economics
Director, New York Office

Rainer Braun,
M.A. in Political Science
Program Officer
List of Speakers

Gemma Adaba
Director, Washington, DC Office
International Confederation of Free Trade Unions/International Trade Secretariats

Nancy Alexander
Director
Globalization Challenge Initiative

Amar Bhattacharya
Advisor, Poverty Reduction & Economic Management Network
The World Bank

John Cavanagh
Director
Institute for Policy Studies

Sheetal K. Chand
Advisor, Fiscal Affairs Department
International Monetary Fund

Gloria Davis
Director, Social Development Department
The World Bank

Robert Devin
Head of Division
Integration, Trade and Hemispheric Issues
Inter-American Development Bank

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The World Bank

JoMarie Griesgraber
Director, Rethinking Bretton Woods Project
Center of Concern

Sanjeev Gupta
Division Chief, Fiscal Affairs Department
International Monetary Fund

Enrique Iglesias
President
Inter-American Development Bank

Edmundo Jarquin
Division Chief, State and Civil Society Division
Inter-American Development Bank

Lisa Jordan
Executive Director
Bank Information Center

Homi Kharas
Director, Economic Policy
Poverty Reduction & Economic Management Network
The World Bank

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Assistant Director, African Department
International Monetary Fund

Caio Koch-Weser
Managing Director
The World Bank

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International Monetary Fund

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Regional Manager, Operations & Knowledge Management
East Asia & Pacific Regional Office (EAP)
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International Monetary Fund

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International Monetary Fund

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Corporate Strategy Group
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Marcelo Selowsky
Chief Economist, Europe & Central Asia
Regional Office
The World Bank

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American Federation of Labor and Congress of Industrial Organizations

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Director, Poverty Reduction
Poverty Reduction and Economic Management (PRM)
The World Bank

Roberto Zagha
Acting Manager, Poverty Reduction & Economic Management
South Asia Regional Office (SAR)
The World Bank
AFL-CIO: American Federation of Labor and Congress of Industrial Organizations
BWI: Bretton Woods Institutions
CAL: Capital Account Liberalization
CAS: Country Assistance Strategy - the medium-term planning framework of the World Bank
CSO: Civil Society Organization
DCG: Developing Country Governments
DGF: Development Grants Facility
ESAF: Enhanced Structural Adjustment Facility - the concessional arm of the IMF
EIA: Environmental Impact Assessments
FDI: Foreign Direct Investment
FES: Friedrich Ebert Stiftung
GEF: Global Environmental Facility – financing mechanism for the Biodiversity Convention
G-7: The governments of the U.S., U.K., Japan, Germany, France, Canada, Italy
G-22: Group of 22, a coalition comprised primarily of G-7 countries and selected emerging market countries.
HIPC: Highly Indebted Poor Countries
IBRD: International Bank for Reconstruction and Development, the “hard” loan window of the World Bank
IDA: International Development Association, the “soft” or concessional window of the World Bank
IEC: Information, Exchange and Communications
IFC: International Finance Corporation, the private sector affiliate of the World Bank
IFCTU: International Confederation of Free Trade Unions
IMF: International Monetary Fund
LOI: Letter of Intent, submitted to the IMF by a borrowing government
MIGA: Multilateral Investment Guarantee Agency
MOU: Memorandum of Understanding
NFA: New Financial Architecture
OED: Operations Evaluation Department
PER: Public Expenditure Reviews
PPF: Policy Framework Paper - the medium-term planning framework of the IMF for poor countries
PREM: Poverty Reduction and Economic Management
SAP: Structural Adjustment Program
SAPRI: Structural Adjustment Participatory Review Initiative
SECAL: Sectoral Adjustment Loans
SECIL: Sectoral Investment Loans
SIF: Social Investment Fund
UNDP: United Nations Development Program
USAID: United States Agency for International Development
WDR: World Development Report - annual publication by the World Bank addressing different aspects of economic and social development