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Global Future

Third Quarter, 2004

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Revamp or retire?

World Bank and IMF at 60

Hetty Kovach
Eurodad

Collins Magalasi
Malawi Economic Justice Network

David Goldsbrough
International Monetary Fund

Lucy Keough
World Bank

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Weighed and found wanting

As the Bretton Woods Institutions celebrate their 60th anniversary this year, it's time for a stocktake. Global Future examines some of the mounting questions about the roles, structures and future directions of the World Bank and International Monetary Fund.

Most of our contributors agree that the Fund should continue as adviser on macro-economic policy and buffer against global economic crisis. But it should cease being gate-keeper for development funding, argues Kovach. It must deal with dilemmas of globalised membership (Boughton, Ear-Dupuy) and its risky exposure to debtor default (Meltzer).

Outraged at the serious impacts of structural adjustment on poor communities, some ask whether "new" approaches are simply euphemisms for adjustment. Ambrose and Hellinger see the new World Bank rhetoric as hollow; despite talk of reducing poverty, it still seems to be keeping the rich rich. If the IFIs' goal has been a world free of poverty, what have they been doing the last 60 years? ask Ambrose and Magalasi.

In poverty reduction policy, governments need more flexibility (Museveni, Magalasi). The Bank needs to accept that its role in governance is inherently political (Currah). Can respect for human rights be a pre-condition for loans and grants (Ebadi)? And will the Bank address serious corruption (Tan, Meltzer) and the "big picture" of fair international trade?

Our Bank and Fund contributors are candid about some of their institutions' shortcomings, but say they are serious about more policy space, greater transparency and engaging civil society. Despite positive signs, some will need convincing. Whatever shape the Bank and Fund take in this still-new century, they must put the poor first.

– Heather Elliott

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IMF in developing countries – time for a re-think

Hetty Kovach

BY ITS OWN ADMISSION, the International Monetary Fund is struggling to define its role in developing countries. The new IMF Head, Mr Rodrigo Rato, is "seeking greater clarity",[1] and a formal review on the subject is due out this December.

Two key changes are needed to ensure that the Fund moves in the right direction. First, the Fund needs to realise its limitations in the field of development and cease being the sole signaller for donor development lending and debt relief in low-income countries. Second, and most critically important, the Fund needs to put its clients, not economic theory, at the heart of its business – tailoring its service to meet developing-country needs.

In countries such as Bolivia, IMF policy conditions have had drastic implications for the poorest people.

Development gate-keeper?

The Fund's mandate is to ensure global economic stability. It tries to do this by monitoring member states' economies (developed and developing alike), alerting them to potential risks and providing liquidity to those facing balance-of-payments difficulties.

The IMF's Poverty Reduction Growth Facility (PRGF) provides funds to developing countries facing such difficulties, conditional on a country implementing a set of policies that the IMF believes will achieve macro-economic stability. Development donors (World Bank and bilateral) then use a country's status with the IMF's PRGF as a signal to release their own funds.

The Fund lacks the mandate and expertise to gate-keep development funding

The Fund neither has a monopoly on development economics nor is the biggest player in terms of funding; this is the World Bank's territory. Yet the Fund has ended up with a highly influential role in development – effectively being the gate-keeper for all donor development funding. This is a role for which it lacks not only the mandate, but the expertise. There is no doubt that the IMF has impressive technical expertise in macro-economic matters, but this forms a very limited basis on which to assess the complex problems facing developing countries.

The IMF's gate-keeper role was amplified in 1999, with the Highly Indebted Poor Countries (HIPC II) initiative demanding that countries have to be on-track with the IMF in order to obtain much needed debt relief as well.

Intrusive policies

If a country goes "off-track" with the IMF, like Bolivia did in 2002 when it did not implement a specific tax code that the IMF had made a condition for its lending, then it forfeits not only IMF money but also all other donor funds. In Bolivia's case this amounted to US$170 million. A memo from eight European official donor agencies complained about the IMF's treatment of Bolivia, noting that there is "a need to act very responsibly to avoid a negative domino effect"; the memo went on to highlight that "cutting of funds to an already distressed economy may exacerbate the economic situation, leading to more serious macro-economic and financial instability". Indeed, the "domino effect" in Bolivia included widespread protests against the taxes that led to 60 deaths and the overthrow of a national president.

The IMF's highly intrusive policies outline a restrictive vision of macro-economic stability that dismally fails to take into account countries' specific circumstances. No-one is denying that a degree of macro-economic stability is important, but IMF demands for trade liberalisation and drastic cuts in government spending can often be far

too stringent for developing countries struggling to deal with massive levels of poverty. In the case of Zambia, for example, authors of a recent report note that IMF reforms have resulted in tens of thousands losing their jobs, destruction of key industries, social unrest and increased poverty.[2]

It is most ironic that the IMF's often anti-development policy prescriptions end up being the preconditions stipulated by other donors for development-centred lending.

The Fund needs get out of this role immediately. If a seal of approval is considered necessary by donors before they lend to developing countries, then it should be given in a multi-stakeholder forum, and based on a broad set of criteria that put countries' development needs at the centre and factor in their ability to reach the internationally agreed Millennium Development Goals. To be fair, this also requires donors to change their attitudes and stop looking to the Fund to make the judgements on when to turn aid taps on and off.

Putting clients first

In 1999 the IMF and the World Bank stated, with much fanfare, their intention to abandon the highly controversial structural adjustment policies and introduce a more participatory, flexible and country-driven approach. Five years on and a host of new acronyms later, progress has been painfully slow.

The Fund's official evaluation notes that achievements with the PRS approach "fall considerably short of potential".[3] The report highlights that progress in ensuring broad-based discussions around alternative macro-economic policy frameworks has been limited, and that PRGF programmes often do not respond to the priorities set out in countries' nationally-owned poverty reduction strategies. The report calls for a more country-specific, flexible approach to policy-making by the Fund.

Yet in order for this to happen, there needs to be a radical shift in the Fund's organisational culture and structure: a move away from what former World Bank Chief Economist Joseph Stiglitz has termed a "colonial attitude" to developing countries, typified in a we-know-best approach.[4] Most importantly, the Fund needs to let go of its dogmatic insistence that there is only one model of macro-economic stability, and allow a far greater degree of latitude, particularly around fiscal deficit figures.

Developing countries need choice, not a one-size-fits-all prescription

Advice, surveillance and lending conditions need to be tailored around individual client needs. Rather than making a one-size-fits-all prescription, the Fund needs to move into scenario-building. This would entail taking account of specific country conditions and highlighting the inevitable trade-offs of differing policy paths. In this way the Fund would empower its developing-country clients to choose the path of development they wish.

A recent study of the IMF's PRGF in seven African countries by Afrodad – a leading African civil society network – highlights that the IMF in all but one country failed to provide different scenarios regarding inflation, deficit targets and public spending.[5]

Signs of change

But signs of change are visible. The Fund recently set up its own unit on Poverty and Social Impact Analysis (PSIA), a participatory device for exploring the impact of proposed policy options on the poor and providing alternatives for public debate.

Last year the Fund doubled the number of poverty specialists on its staff – from one to two – but they face the huge challenge of ensuring that the institution's senior figures genuinely listen and are prepared to adapt their approaches. One obstacle to change may be that the Fund is too politically and physically close to the US Treasury.

Structurally, the Fund is in dire need of decentralisation. It should break with its tradition of formulating policies miles away from the political reality of low-income countries, and provide greater in-country representation. As a first step, it should give its resident representatives greater voice in decision-making. Recruiting more staff from social science and political economy backgrounds would broaden the organisation's institutional perspective. Finally, there is a need for better developing-country representation at the Board level of the IMF – despite political opposition to widening the governing base by the G8 members who currently dominate.

There is no doubt that there is a real need for an organisation that can monitor, give advice and distil information on macro-economic stability in developing countries. However, it is crucial that this organisation recognises the specific economic needs of developing countries and gives its clients an array of options, letting them decide how to move forward. Command and control from Washington has not worked to date and is very unlikely to in future. ■

Hetty Kovach is Policy and Advocacy Officer at the European Network on Debt and Development (Eurodad). This article is based on a joint NGO letter from Eurodad Network members to the IMF (of which World Vision was a signatory). To view this letter or to join the Eurodad PRS Watch listserve, see www.eurodad.org

[1] Mr Rodrigo Rato's opening speech at "Dollars, debt and deficit: sixty years after Bretton Woods", Conference, Madrid, 14 June 2004

[2] *Zambia condemned to debt: How the IMF and World Bank undermine development*, World Development Movement, London, April 2004, www.wdm.org.uk/cambriefs/debt/zambia/parliamentary briefing.pdf

[3] *Evaluation of the PRSPs and the PRGF*, IMF Independent Evaluation Office, July 2004

[4] J Stiglitz, *Globalisation and its discontents*, Penguin Books, London, 2002

[5] Afrodad, "Understanding the PRGF and its implications for development" (draft version), July 2004

Financing human rights abuse

Shirin Ebadi

THE WORLD BANK IS ONE OF the strongest arms of international economics and a major influencer on globalisation in its correct form, as well as on correct distribution of wealth among nations, advancing development and spreading democracy.

Since its main goal is helping undeveloped countries, the Bank cannot be indifferent to the deep gulf between a few rich countries and a lot of poor countries. It cannot ignore that the income of more than one-sixth of the world's people is below one dollar, and that 80% of the earth's wealth belongs to 1% of its population. The United Nations Development Programme (UNDP) reports that in the past three decades, 50 countries have become poorer.

It cannot be denied that if poverty continues to spread like this, the rich Northern countries will also suffer. It is in their own interest to help lower-income countries to improve economically: after all, if the latter pay their loans, employ the latest technology, and establish an appropriately prosperous life for their people, they could afford to buy the products of industrial countries.

Global partnership

And this will not be possible unless and until the rich countries, who are the major owners and shareholders of the World Bank, help the needy countries. The eight Millennium Development Goals recognise this: Goal 8, "a global partnership for development", is the last goal because all the other goals depend on it.

Extreme poverty and hunger could not be eradicated (Goal 1) without this partnership. According to UNDP, life expectancy is 81.3 years in Japan and 34.5 years in Sierra Leone. Of every 1000 children born in Angola, 154 die before the age of two, while in the USA and European countries, between 1 and 10 per 1000 die. How could this profound gap be bridged without global partnership?

Providing loans and credits for projects is the simplest way that we have to assist a country to develop. But there is danger in this path. In countries that are not run by democratic governments or where all the political, administrative and economic authority belongs to one person or group, loans and credits would work against oppressed people. Financing undemocratic governments would strengthen them in over-ruling the rights of their people.

Respect for human rights must be a pre-requisite for loans

We must bear in mind that one day, the palace of violence will be destroyed; dictators will fall. When that happens, the formerly oppressed people will look upon the loan-providing countries and organisations with enmity and consider them complicit in their misfortune. Anger is the enemy of wisdom. Angry people might endanger global security and lead to an endless cycle of anger. To avoid this, respect and honour for human rights should be a pre-requisite for loans and credits.

Development needs rights

Without honouring human rights how could economic development be achieved?

- Having a leader- or president-for-life with vast authority, and not letting people participate in healthy elections, deprives people of their right to control their government.

- Where people cannot oversee their government, loans could be spent on governmental luxuries and the remainder invested in government members' accounts outside the country. And the people would have to repay these loans through direct and indirect taxes, as well as the costs incurred by financial mismanagement. More than one-eighth of the world's people are born in debt without one cent of those loans being spent on the betterment of their lives.

- Freedom of speech and independence of the press are major ingredients of a healthy society. How can economic development be achieved without them? Independent newspapers are major obstacles to a government abusing people.

- A government that does not value women's participation not only denies the women's rights, but also ignores half of the potential energy of the community. A healthy government uses the entire community's power to bring development.

Human rights should become the national culture and be reflected in the constitutional law of countries. Human rights cannot be "poured over" a nation with warplanes. They cannot be imported. The only way to achieve them is through democracy.

A global partnership for development can only be achieved if the international community refuses to provide undemocratic countries with assistance, collaboration, loans, credits and arms – in this manner, compelling them to change their ways. ■

Ms Shirin Ebadi is an Iranian lawyer and former magistrate, and human rights activist including on refugee, women's and children's rights. She was awarded the 2003 Nobel Peace Prize.

Have we seen 60 years of failure?

Soren Ambrose

A VERDICT ON THE 60 YEARS of the International Monetary Fund (IMF) and World Bank follows the old adage: what you see depends on where you sit.

Seen by people living in the over 100 countries that have signed on to these institutions' economic policies, or by people who share the World Bank's professed dream ("a world free of poverty"), the 60-year track record is bound to be seen as a failure. Seen by wealthy country governments that created and control the institutions, a verdict of success is far more likely.

Changing roles

The leading international financial institutions (IFIs), the IMF and the World Bank, were founded in 1944 to guard against the return of world-wide economic depression such as that of the 1930s. The IMF was originally assigned to monitor currency values and help avert balance-of-trade crises, while the Bank was to make loans to re-develop war-torn countries.

Over the years, those roles have changed and expanded. The World Bank has concentrated on lending to developing countries for infra-structure projects; its influence and amounts lent greatly increasing after the early 1970s. The IMF's role, on the other hand, was severely diminished in the early 1970s, with the ending of the Bretton Woods currency valuations arrangements (the "dollar-gold standard") that had undergirded the global economy since World War 2.

The IMF's new role emerged with the onset of international debt crises around 1980 (spurred by years of extravagant lending by private and multilateral banks), the OPEC cartel's oil price hikes in 1973 and 1979, and a dramatic increase in US interest rates. First in Latin America, then to Africa, Asia and the Caribbean, the IMF provided "bail-out" loans to help governments pay off creditors (and effectively convert the debts into obligations to the IFIs). Those loans came with conditions: the adoption of economic policies designed, ostensibly at least, to restore countries to economic health. Soon the World Bank began offering follow-up loan programmes that reinforced IMF conditions, and by the mid-1990s such programmes made up as much as 50% of the Bank's lending.

The substance of these programmes owed much to a revolution in economic ideology led by the then UK prime minister, Margaret Thatcher, and US president, Ronald Reagan. Taking up the neo-liberal "free market" doctrines promoted by Milton Friedman, the US and UK opened the doors of the IMF and World Bank to a radical agenda: rapid deregulation of the global economy and a favouring of the holders of capital – viewed as creators of jobs and wealth – in order to revive economies.

The policies demanded by the IMF and World Bank, called structural adjustment programmes (SAPs), differed very little from country to country, and were by 1990 imposed on the great majority of governments in the Global South.

If IFIs took ending poverty seriously, they'd prioritise debt cancellation

SAPs have spectacularly failed to achieve their stated aims. Debt levels have tripled or quadrupled for many of the borrowing countries; the gap between rich and poor has grown dramatically; eco-systems have been devastated; and in many countries, especially in sub-Saharan Africa, living standards and life expectancy have dropped. Consequently, these countries must take out more loans, with more conditions, from the IFIs.

The IMF and World Bank – now significant creditors to most Southern countries – are also assigned the task of creating programmes to grant them debt relief. If the institutions took their dedication to ending poverty seriously, they would prioritise the cancellation of the debts they claim. Instead they devise programmes that cancel some debts but ensure that the countries remain in thrall to the IFIs and their economic demands.

With their voting system weighted according to members' contributions, the IMF and World Bank are controlled by their wealthiest contributors: the Group of Seven (G7) industrialised countries. Their power to determine economic policy in the Global South is magnified significantly by the IMF's role of "gate-keeper" – any indebted developing country must have an IMF-approved economic programme in order to access credit, grants, debt relief, or loans from virtually any multilateral, bilateral or private institution.

Corporate globalisation

Over the last 25 years, IFI-imposed policies – privatisation, trade and investment liberalisation, budget cuts (especially in social services), labour flexibility (making lay-offs easier), export-oriented production, interest rate hikes and subsidy elimination – have opened up economies around the world to multinational corp-orations and banks based in the G7 countries. The rules imposed by the IFIs have made it much easier for these corporations to profit from buying high-interest bonds, exploiting low-wage workers, extracting natural resources, selling in local markets and vanquishing local competitors,

maintaining a flow of low-cost commodities to the North, and buying up publicly-owned companies and financial institutions.

These consequences of structural adjustment constitute the core of corporate globalisation, a model the IFIs designed, introduced and continue to enforce around the world. Only a small percentage of the population in Southern countries benefits from these developments, while most are thrown into higher-stress lives and often deeper poverty.

Long-term failure involving so much money, and so many people, is suspect

As this model has become entrenched, the IMF and World Bank have claimed that their mission is to reduce poverty, make debt more manageable, and provide more opportunities and services for people in borrowing countries. Many of their individual staff are committed to this vision. But the institutions' structures and the implicit imperative of benefiting (or at least not harming) powerful Northern interests undermines those noble stated aims and, as time passes and evidence accumulates, the credibility of those who invoke them.

Such long-term failure affecting so many people and involving so much money – money controlled by the world's richest countries – should make us suspicious. Is it possible that the institutions are not failing at all, that they are doing precisely what they are meant to do?

The seeming failures of their policies are predictable; after all, how could reducing a country's productive capacity, slashing services, and turning national assets over to foreign ownership be considered positive development strategies? But it turns out that these are essential to the highly exploitative form of capitalism in which the powerful actors, multinational corporations and investors, seek growth and profits everywhere, unhindered by national borders.

This form of capitalism may, in fact, rely on its logic being unspoken or obscured. Its logic dictates that cheap materials, commodities and labour be always available to corporate interests – and this more easily leads to exploitation than to sustainability and equity. That logic can only be overturned by a concerted trans-formation of the principles of the global economy. Until that happens, the global economic structure will ensure that the IMF and World Bank continue making Northern corporations profitable while failing utterly to live up to their own grand agendas.

Can the IFIs be reformed?

It will be very difficult, if not impossible, to reform the IFIs into engines of equitable and sustainable development. The IMF is explicitly dedicated to a definition of economic stability that is divorced from human or ecological welfare. Indeed, the IMF itself has acknowledged that its interventions have exacerbated crises in East Asia and Argentina. Another mechanism for dealing with financial crises would be needed in its place, but several United Nations agencies are well-positioned to serve that function.

Progressive reform of the World Bank would also be hard, given its undemocratic structure and devotion to neo-liberal economic ideology. But the world needs multilateral co-operation to foster development in the impoverished Global South. The mechanism to lead this, whether or not it is called the World Bank, needs to exhibit both democratic governance, with ways for affected peoples to be heard effectively, and sharply limited powers to impose conditions on its loans or grants. Money should not be transferred to aid corruption or repression, but creditors who have a material interest in a country's policies are unlikely to impartially design programmes that prioritise the general interest.

The principles of human rights, human dignity, and economic sovereignty must take precedence over dubious economic statistics, illegitimate debts, and ideological blinders. ■

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PHOTO - RAPHAEL PALMA / WORLD VISION

IFI adjustment policies have opened up developing-country economies, which has benefited powerful foreign corporations more than the poor.

Do the IFIs help developing countries tackle poverty?

Yoweri Museveni

PHOTO - GOVERNMENT OF UGANDA

President Yoweri Museveni of Uganda

INTERNATIONAL FINANCIAL Institutions like the International Monetary Fund and the World Bank, to some extent do help developing countries to fight poverty. That help comes through the policy advisory role these institutions play in those economies and their mobilisation of resources for the development of basic infrastructure including roads, railways, power plants, hospitals, schools, water and sanitation facilities and others.

Attracting investment

Developing countries need huge investments to create jobs. However, they need a stable macro-economic framework and an investment climate conducive to attracting local and foreign private sector investment.

Through Structural Adjustment Programmes, the IMF has been instrumental in guiding several developing countries to create a conducive investment climate and to promote production. The World Bank has provided Bank resources and has also helped to mobilise resources for budgetary support from the donor community. The HIPC initiative has also released funds to finance pro-poor programmes in a few qualifying highly indebted poor countries. Other international financial institutions, like the European Investment Bank, have also endeavoured to promote private sector investment in several sub-Saharan African countries.

Developing countries need more than policy guidance and resources

However, the requirements of developing countries to eradicate poverty are so huge that policy guidance and resources mobilised by the international financial institutions are not enough. Uganda's experience has shown that while macro-economic stability is necessary, it is not sufficient to attract foreign direct investment. Other policy initiatives, including selective government intervention in strategic areas, are required in some economies like Uganda to kick-start pro-poor programmes aimed at creating jobs for the poor, production of high-value crops and adding value to exports.

The international financial institutions should be sufficiently flexible to allow such initiatives, even if in some cases these appear to be policy reversal. They should also allow developing countries to own their development programmes and to have flexibility within budgetary limits.

Trade, not just aid

It is a fact that aid alone cannot eradicate poverty in developing countries. Trade is the strategy that will help those countries to transform backward economies into modern ones. The developed countries with huge markets should open up those markets for the developing countries. The *African Growth and Opportunity Act* (AGOA) of the United States of America and *Everything But Arms* (EBA) of the European Union are good initiatives, but much more is required – including the removal of agricultural subsidies by the developed countries.

To tackle poverty, therefore, the IMF and the World Bank should – in addition to policy guidance and resource mobilisation – take on another role: that of urging the developed countries to open up their markets for exports from the least developed poor countries. ■

His Excellency Yoweri K Museveni is President of Uganda.

Whose blueprint? politics, institution-building and the World Bank

Kel Currah [1]

IN RECENT YEARS, ONE OF the most notable changes in the operations of the World Bank has been its movement towards "institution-building".

The Bank's approach to institutional reform embraces the rules that govern economic actors and the bodies that mediate these rules. This means that the Bank's purview has stretched into the realm of the rule of law and of judicial and legislative reform. The programmatic result of this trend has been the rise of large-scale dollar commitments to projects that confirm the Bank as a major player in the field of governance.[2]

The Bank's intention is that the new focus on institutional reform will, in most developing states, create a significantly improved climate for external investment. Institutional reform of the public sector also offers the prospect of reduced corruption, improved service delivery and greater accountability. Upon the recent launch of the "Development Policy Lending" replacement to adjustment loans, Bank Vice-President Jim Adams was quoted as saying that "the key ingredients to successful economic growth include giving greater space to the private sector, and promoting the rule of law and a functioning judiciary".[3]

The Bank's purview has stretched to the rule of law

Skirting the causes

For those who believe governance issues are fundamental to the development challenge, at one level these changes are laudable. As usual, the devil is in the detail. The Bank's approach to accountability and governance issues involves considerable investment – but within a narrow range of areas that often skirt the more causal, underlying problems involved. In particular, it raises two questions:

1. What ethos underpins the reform?

Whether or not the Bank's critics favour it working on governance issues (with its concomitant widening of conditionality), the reality is that the Bank is already heavily engaged in this field. A pragmatic question must therefore be asked as to how that involvement can be rooted in a beneficial and normative conceptual understanding of state-society relations.

After all, if long-standing problems such as patrimonialism[4] and clientelism are to be overcome then it is the organisational culture of the state that is at issue. The ethos underpinning and promoted by the Bank's governance agenda will thus have significant implications for citizens.

Yet predictably, the Bank's thinking seems to be one-dimensionally fixated on the market. It seeks, for example, to tackle deep-seated cultures of corruption with insipid cultures of consumer rights: the citizen as client with the limited dignity of the market as a rationale for respect.

2. Can institutions be built in a silo?

The second major question hanging over Bank efforts in governance and social accountability is whether it is trying to build a house by renovating a single room. The Bank has a tendency to

PHOTO - PAOLA RAMIREZ / WORLD VISION

A functioning public institution is one thing, but equitable access for all citizens is another.

address governance through stand-alone programming that focuses on particular aspects of institution-building without reference to the wider web of related problems. These "silos" are usually prioritised on the basis of solving a single, narrow problem rather than tackling the causal issues at stake.

For example, a programme to reform the judicial system, with a view to a more stable legal environment for investment, may omit assistance in areas such as legislative drafting, law enforcement or the state's capacity to regulate on environmental, labour and other investment-related issues. The Bank's own project

reviews sometimes indicate that the silo approach owes more to ease of management than to logical frameworks for addressing the issues.[5]

Pro-poor governance

One answer to the "silo" problem is to prioritise institution-building on the basis of tackling those causal problems underlying the symptoms of poverty most visible at the departmental level. In a paper written for the Bank, Merrilee Grindle calls for the Bank to take just such an approach by pursuing "good enough" governance: changes in areas most likely to produce pro-poor results.[6]

Grindle's approach means asking some uncomfortable questions. For example, she suggests that in tackling clientelism, it might be more productive to examine the political legitimacy of the state *vis-à-vis* its citizens, than simply to reform government structures and services. Equally, reform might make civil service ministries more efficient, but does this matter if the poor are not politically empowered to ensure that public officials treat them fairly?

Such views point to the heart of the Bank's dilemma: building institutions means blurring the boundaries in an organisation already seen as creeping into increasingly political areas of work.

The Bank should pursue "good enough governance"

The Bank may be spurning the most obvious way out of its dilemma. Its entry into the fields of governance and institution-building inevitably entails addressing the way that governments interact with citizens, with all the messy implications for sovereignty and politics. Parliaments' complaints that they were marginalised in early PRSPs shows that well-meaning ideas can be politically misconstrued.

A clear way forward

The answer is for the Bank to provide a clear normative basis to its involvement in this inherently political field. Ultimately, this will come back to that question of the Bank's ethos. The Bank's approach needs to be rooted in the national policy agenda, a response to the stated policy aspirations of the state as it pertains to the relationship between government and citizens. Such policy agendas are found most clearly in the form of national-level commitments to human rights – the mechanism through which governments articulate the dignity, entititlements and respect to be accorded their people.

By adopting these commitments as the root of its institution-building work, the Bank would have some hope of a believable rationale for the political work on which it is already embarking. ■

Mr Kel Currah is Head of Poverty Reduction Policy for World Vision International. See: www.global-poverty.org

[1] The author would like to thank Alan Whaites for his contribution to this article.
[2] The "Rule of Law" category of the *Projects and Programs* page of the Bank's website now lists some 425 projects. See: www.worldbank.org
[3] See: World Bank media release, 10 August 2004, http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20237378~menuPK:34457~pagePK:64003015~piPK:64003012~theSitePK:4607,00.html
[4] Traditional social structure where access to resources, rights or power hinges on one's personal loyalty to a dominant authoritarian leader
[5] See: World Bank report no. 25504, appraisal on a proposed loan for a judicial reform project, at: www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2003/07/31/000012009_20030731101244/Rendered/PDF/255040PH0PAD.pdf
[6] M S Grindle, *Good enough governance: poverty reduction and reform in developing countries,* Kennedy School of Government, Harvard University, November 2002

Physician, heal thyself

Haidy Ear-Dupuy

AS THE WORLD BANK AND the International Monetary Fund celebrate their 60th anniversary this year, it's time for them to recognise that actions speak louder than words – that good leaders lead by example.

Before advising countries to reform, the Bank and Fund must demonstrate their own willingness to accept changes and reforms. Three areas of Bank and Fund policy that warrant close scrutiny are governance, development and trade.

Governance

Revamping the Bank and Fund's style of working with poor countries would entail both institutions rethinking their governance structures and reallocating their decision-making. The current 24 executive directors at the Bank and the Fund still reflect the representation of the political and economic power of the post– World War 2 era, when only some 40 countries were members. The archaic governance structure of both institutions, where leadership at the Fund is always allocated to a European while the Bank President is always nominated by the United States, should be addressed if the institutions are seriously committed to good governance.

Bank and Fund governance structures still reflect the 1940s

Initiatives to grade countries on their performance, such as the CPIA (Country Policy and Institutional Assessments) to evaluate poor countries' governance and other development criteria, would have more credibility if the Bank and Fund would first grade themselves on how they govern and the fairness of their own structures.

Development

Originally designed as an institution for mobilising finance to rebuild Europe after World War 2, the World Bank was not set up to foster development of poor countries. It is after all, a **bank**, and generally the more loans a bank makes, the better for business. As it exists now, the Bank (governed by some of the most powerful countries from the past century) is a confused combination of business and development agency that sits somewhere between helping the poor to improve their economic conditions and helping the rich countries and their companies to make money in the global economy.

It's time to resolve the tension between the need to mobilise capital and provide sound advice to poor countries and to come to terms with the value of the Bank as an aid agency, not a money-making institution. A clear development mandate for the Bank would help set sound directions for its future work.

The IMF, in contrast, was created to manage and co-ordinate the world's exchange rates and commercial policy. Unlike the Bank, the Fund only lends money to countries on a short-term basis in order to help them meet balance-of-payment (BoP) deficits. As lender of last resort to poor countries who need capital to "jump-start" their economies as well as to meet the BoP deficits, the Fund started off by utilising a flawed analysis.

Assuming that countries face the BoP problem due to endogenous factors, the Fund – mostly dominated by the donor countries (European and American) – sought to reform borrowing countries' economic and trade policies by imposing conditions that would foster open trade. This especially meant opening poor countries' doors to the world's market. It failed to address the exogenous factors such as the **developed** countries' policies, adverse movements in the terms of trade, or increases in world interest rates.

Trade

Through their conditionalities over the last two decades, the Bank and Fund have contributed to a weakening of poor countries' governance and trade policies, while the commercial world remains just as hostile and unaccommodating to these countries' traded goods.

The Bank and Fund's lopsided trade and development policy advice promised that as poor countries reformed, they would be able to attract more foreign direct investment. Meanwhile, however, the **developed** countries were also working hard to attract capital to their economies. And when it comes to competition, almost always the richest and the most politically powerful wins.

Rich and poor countries compete to attract foreign investment

Thus, while the Bank talks about creating the right climates for foreign investments, the same donor countries that "support" development for the poor are also competing for investments for themselves, to grow their own economies. Hence, poor countries need to look for ways to increase their own domestic savings, and more importantly, stop capital flight by seeking more stringent controls on capital.

"Do as we say, not as we do"

Both the World Bank and the IMF are guilty of preaching what they themselves do not practise – whether in governance, where both the Bank and Fund could benefit from a dose of their own advice, or trade policy reform, where donor countries might apply to themselves the advice that they so willingly impose on the borrowing countries via conditionalities.

The Bank and Fund are both guilty of blaming poor countries' structures or governments for BoP and development deficiencies, without first analysing the unjust global commercial structures that have evolved from rich countries' early policies towards the poor countries. ■

PHOTO - WORLD BANK GROUP ARCHIVES

World Bank headquarters after World War 2. The World Bank is still governed by the countries that were most powerful then.

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IMF and World Bank reform – a review of progress

Allan H Meltzer[1]

WHAT HAS BEEN ACHIEVED to date in reforming IMF and World Bank programmes? What more needs to change so that these institutions can make the world economy less risky and less prone to crises, and improve living standards in the poorest countries?

The current charters of the IMF and the World Bank contain out-of-date objectives. The mandate of the IMF should be to reduce global risk to an attainable minimum. The mandate of the World Bank should be to facilitate social and economic development as a means of reducing poverty.

IMF as risk-reducer

The IMF has two principal functions that can improve the market's operations in ordinary times and in crises. One is to increase the quantity and improve the quality of information available to private lenders. The other is to reduce the risk of financial crises in a given country and the spread of crises to other countries, as in Latin America in the 1980s and Asia in the 1990s.

Under pressure from its critics, the IMF has made available more information about its activities, recommendations and assessments that can be used by private lenders to better assess risks in given countries, especially in the ordinary course of lending. Many problems in developing economies arise or are exacerbated by the volume of short-term renewable loans used to finance risky, longer-term assets; timely information about a country's debt structure and performance can reduce this type of lending.

The IMF's most important function, however, is to reduce the risk of severe crises that spread internationally. Prodded by its critics and its new management over the last three years, the IMF has made several improvements. It now restricts the conditions attached to its loans to a small number of macro-economic and financial measures or objectives; it appears less willing to make massive loans than in the 1990s; and it pays more attention to avoiding crises and to debt sustainability factors in developing countries.

Incentive, not command

But the single most important change remains undone. The IMF should move from its "command and control" approach to one that relies on incentives.

Historically, countries have agreed to loan conditions to get the loan, but it may be politically unpopular at home to enforce conditions such as expenditure reduction or tax increases. Or, growth may be less than anticipated, requiring additional painful adjustment. The IMF's Independent Evaluation Office found that countries, on average, achieved about half of the proposed change in fiscal balance; about 60% of the programmes underperformed.[2] Then the IMF is blamed for imposing harsh measures under adverse circumstances. The fact that the country's government agrees to these does not absolve the IMF of responsibility in the minds of the country's electorate, protesters at international meetings, and much of the public.

Reform cannot be imposed successfully by external technocrats without local support. Local governments can, and do, frustrate reforms or ignore IMF (or World Bank) conditions. The reason certain countries have repeated crises is that they do not reform enough to avoid them. They promise, but they do not reform. Command and control fails, as we expect it would.

The main reform needed at the IMF is an incentive system to replace command and control. Briefly, the IMF should establish a short list of policies or observable standards that countries should adopt to be assured of assistance in a crisis. It should use its surveillance to ensure that countries meet the standards and publish a list of countries that do – and do not – get the guarantee of assistance. To prevent crises from spreading, the IMF would assist countries that are victims of crises in their neighbours or trading partners.

Countries that adopt the standard would be subject to less risk; hence, they could borrow more capital at a lower interest rate. Others would get less capital and pay a higher interest rate. This would give governments and their publics considerable incentive to adopt stabilising policies. The capital markets, not the IMF, would impose discipline.

The IMF, and its funding countries, are at risk of debtor default

The IMF itself is at risk – principally from default by a major debtor. Four countries – Argentina, Brazil, Indonesia and Turkey – owe about 70% of the IMF's outstanding debt. The IMF avoids default by lending more money or, as in the case of Argentina, by extending the maturity of the debt. In either case, the IMF will eventually turn to its major funding members for a quota increase.

Reform of this system should be a priority. The US Administration has made considerable progress in getting collective action clauses into private debt contracts. Reform of debt repayment to international financial institutions and to lenders should be next on the agenda.

World Bank as development facilitator

In the past few years, the US Administration and Congress have insisted on some of the reforms advocated by the majority report of the International Financial Institution Advisory Commission. Monitored grants replaced some lending to the poorest countries. Some explicit, monitorable conditions, and incentives for countries to meet them, have been introduced. In its most recent budget, Congress required an independent performance audit of some International Development Association (IDA) programmes and insisted on greater transparency at the World Bank.

Monitoring needed

These steps are good, but only a start. The central issue is that the Bank spends or lends about US$20 billion a year but neither we, nor they, know which programmes are effective and warrant expansion or retention, and which are ineffective and inefficient and should be abandoned. The monitoring should be extended from the IDA to the entire Bank and its affiliates.

The Bank spends or lends billions, but doesn't know which of its programmes are effective

One way to gain the needed information is an independent performance audit by an outside agency. Another is development of an independent, internal group similar to the Government Accountability Office (GAO) or the IMF's Independent Evaluation Office. The current arrangement does not meet this standard.

For example, we have considerable evidence that poverty, measured by the number of people living on $1 per day or less, has declined dramatically. The decline is most striking in Asia, especially in China and India. Market opening, private investment, protection of property rights and the like contributed much to the improvement.

PHOTO - TERRY MADISON / WORLD VISION

Poverty has declined in Asia, notably in China and India, but has increased in sub-Saharan Africa.

Where these spurs to growth and development are largely absent, as in sub-Saharan Africa, poverty has increased. Did World Bank programmes contribute to the reduction of poverty in Asia? Did these programmes ameliorate worsening prospects in Africa? Answers to these questions are needed.

Further, the Bank should concentrate on the hard cases, the impoverished countries. The Bank should have an explicit graduation programme. Countries that can borrow in capital markets with investment grade ratings should not receive subsidised loans; those loans can be better used to provide potable water, sanitary sewers and disease control in the poorest countries and to encourage institutional reforms that are likely to spur development. These include the rule of law, open trading arrangements, and protection of property rights and individual rights.

Eliminate overlap

Finally, the IMF and the Bank should eliminate overlapping responsibilities. The World Bank should become a more effective development bank. The Bank has estimated that $1 trillion a year is paid in bribes in all countries; a large part is in the developing countries. Ridding the system of corruption is a major challenge.

The IMF's responsibility should remain that of maintaining global financial stability. As a result of experience in the Asian crisis, many Asian countries have accumulated substantial reserves to protect them against crises and to avoid being put under IMF supervision. They have also established a regional lending system outside the IMF. This, too, opens questions about the future role of the IMF.

New leadership at the IMF and the end of James Wolfensohn's term at the Bank in 2005 provide an opportunity for new approaches, and much-needed reform. ■

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[1]This article is adapted from a testimony that the author gave to the US Senate Banking Committee on the reform of the World Bank and IMF in May 2004.
[2]*Fiscal Adjustment in IMF-Supported Programs*, Independent Evaluation Office, IMF, September 2003, pp 7-8

The IMF in low-income countries – lessons from an evaluation

David Goldsbrough

IN 1999, THE IMF AND THE World Bank adopted a new approach to supporting low-income countries. Both institutions were to base their lending and debt relief on Poverty Reduction Strategy Papers (PRSPs) that were to be country-driven and informed by broad-based consultations. This "PRS approach" was to be supported by the transformation of the IMF's existing concessional lending window into the Poverty Reduction and Growth Facility (PRGF).

The Independent Evaluation Office (IEO) of the IMF recently completed an evaluation of the IMF's role in the PRSP/PRGF.[1] We found that while there was much to be welcomed, the new approach had fallen short of its significant potential, particularly in the areas of greatest relevance to the IMF.

Positive findings

On the positive side, the IMF's internal procedures are adapting, albeit slowly, to allow more "policy space" to accommodate country-driven policy alternatives. The greater openness has been mainly in countries where macro-economic stabilisation is no longer a pressing issue. There has been less change in more "difficult" cases, where the IMF has generally not seen the PRS approach as a means of exploring alternative policy options to resolve problems with complex political-economy roots.

Nevertheless, the evaluation does suggest that a number of common external criticisms of IMF-supported programmes in low-income countries lack evidence. For example, the design of PRGF-supported programmes does allow for more "fiscal flexibility" than previous approaches, in the sense that they have generally targeted smaller deficit reductions and adapted to accommodate higher aid flows. Poverty-reducing expenditures in countries with PRGF-supported programmes have increased significantly (though questions remain as to how genuinely "pro-poor" some of this spending is).

Finally, we found no evidence that the IMF continues to push for reductions in inflation once inflation is already low.

PHOTO - CATHERINE BAUKNIGHT / WORLD VISION

Mozambique is starting to embed PRS principles into domestic policy. Country realities should carry far more weight than bureaucratic procedures.

Improvements needed

The evaluation concludes that greater changes are needed to the IMF's "way of doing business" if the Fund is to meet the ambitious objectives it set for itself under the PRS approach.

There has been little change, so far, in the way that macro-economic and related structural policies are formulated. Most PRSPs do not yet provide an operational guide for policy-making in these areas, though those cases where PRS principles are beginning to be embedded in domestic institutions (e.g. Tanzania and Mozambique) suggest promise. The IMF will need to play a more active and transparent role to inform, but not dictate, a broader debate on macro-economic policies. This should include strengthening domestic capacity and investigating more systematically country-specific macro–micro linkages that affect the ways that policies impact on poverty reduction. In this respect, poverty and social impact analysis (PSIA) has still not been mainstreamed, despite progress in a few cases.

Some of this shortfall in performance reflects weaknesses in the design of the PRS approach itself. In particular, while the ultimate objectives of

poverty reduction and faster growth are clear, intermediate objectives are left vague, especially with regard to how the PRS principles are to be accommodated into individual countries' policy-making processes. As a result, there has been too much emphasis on IMF- and World Bank-driven procedures, and on the PRSP as a document, rather than on countries setting their own paths to improving their policy processes.

Change is needed if the IMF is to meet its ambitious PRS goals

Ambition *vs* realism

A number of issues need to be resolved as the IMF (and World Bank) implement the new approach. Key among them is how country strategies for growth and poverty reduction should reconcile the tension between ambition and realism.

On the one hand, achievement of the Millennium Development Goals (MDGs) requires an ambitious effort on the part of countries and donors; on the other, a country strategy that is not based on realistic assessments of economic performance and available resources will be of limited value in promoting sound policies and country ownership of key policy trade-offs.

Of course, there are administrative resource constraints on the IMF itself, which may have over-promised what it can deliver under the new approach. But our evaluation clearly shows that, whether the IMF has a smaller or larger role in the PRSP process, it should not be a "business as usual" role.

Whatever size the IMF's role, it should not be "business as usual"

In this spirit, the evaluation makes two sets of recommendations. The first set concerns the design and implementation of the PRS approach; it seeks to encourage a better adaptation of the PRS approach to country circumstances and to shift the focus away from producing documents and toward promoting improvements in domestic policy-making processes. It also calls for a more transparent approach to handling the inevitable tensions between domestic ownership and IMF–World Bank assessments of countries' strategies.

The second set is directed at clarifying expectations, and improving the effectiveness, of the IMF's own role in the PRS approach. This will require bigger changes in the way the IMF organises its work in these countries than have occurred so far. Also, the IMF's own inputs – with respect to economic analysis, PSIA, technical assistance, and capacity-building in general – need to be more clearly driven by the priorities reflected in a country's PRSP. One area where a clearer institutional framework is needed concerns the setting of the medium-term external resource envelope underlying the PRSP. The IMF can make important analytical inputs in this area (e.g. with regard to debt sustainability), but is probably unsuited to play the lead role.

The bigger picture

To a large extent, these recomm-endations can only be addressed by answering bigger questions about the nature of the IMF's role in low-income countries. While it was beyond the scope of the evaluation to address this broader issue, our analysis did identify key issues that will need to be addressed.

For example, when, and to what extent, should the IMF's involvement in low-income countries be based on programme lending? Current criteria are vague and provide little guidance on when the IMF should "exit" from its role as a provider of concessional finance. Related to this is the role of IMF conditionality and its relationship to a longer-term, partnership oriented framework for economic policy-making: one that recognises that donors are in it for "the long haul" and that excessive on/off signals for financing can be counter-productive.

However the institution and its shareholders decide to respond to these questions, our work suggests a few principles to guide the debate:

- First, the IMF's role in low-income countries must be more clearly couched within the framework of the PRS approach, and build on the specific comparative advantage of the IMF, focusing on the macro-economic and related structural policy issues that are preconditions for sustained pro-poor growth.

- This role must be viewed as part of a broader, partnership-based framework requiring greater co-ordination with development partners. "Stand-alone" solutions that seek to keep the IMF's activities separate from this broader framework will not work.

- Finally, whatever role the IMF carves for itself within the PRS approach, it must be backed with sufficient staff resources organised in such a way as to deliver on its commitments. Setting clear priorities on who is to do what, and by when, in each country case will help match expectations with resources.

There can be no doubt that the IMF does have a longer-term role to play in low-income countries, particularly because macro-economic stability is widely accepted as a precondition for sustained pro-poor growth. But further work is needed to ensure that the IMF's contribution is fully consistent with the principles of the PRS approach. ■

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[1] *Evaluation of the Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF).* The IEO provides objective and independent evaluation of issues related to the work of the IMF. It operates independently of IMF management and at arm's length from the IMF's Executive Board. The Operations Evaluation Department of the World Bank conducted a parallel evaluation of the Bank's role in the PRSP which is available at www.worldbank.org/oed/prsp/.

Can the problem of Third World debt be solved?

Collins Magalasi

OF THE MANY PROBLEMS that developing countries face, debt burden is one of the biggest. Yet solutions to the problem are known. International financial institutions (IFIs) and developed countries have a very big role in the fight against the debt problem.

More countries are poorer now than they were decades ago. HIV/AIDS is on the rise and poses a serious threat to human livelihood in developing countries. Poor countries want to attain Millennium Development Goals (MDGs), but they lack the resources.

Debt servicing consumes a lot of resources that could have been used to take these countries out of poverty. Malawi, for example, spends 21% of its annual budget in debt servicing – an amount that is equivalent to expenditures in agriculture, education, health and community services combined. More and more countries have become indebted to the IFIs, while IFI shares and wealth have grown.

What have they been doing?

All this has been happening while the IFIs have been operating, which begs some questions. What was the mandate of the Bretton Woods institutions? And what have the IFIs been doing in 60 years?

The future credibility of the IFIs hinges on the ability of international financial architecture to develop poor countries. The International Monetary Fund (IMF) and the World Bank are the "oldest" institutions associated with development of the poor countries. As they mark 60 years of existence, it is not yet time to celebrate, nor to party, but time to reflect on what role they have played amidst the increasing poverty in developing countries.

PHOTO - JON WARREN / WORLD VISION

Malawi spends as much on its debts as it does on education, health, agriculture and community services combined

From problems to trouble

Analysing the experience of poor countries brings us to the conclusion that they adopted IFIs' prescriptions with the hope of getting out of problems of poverty. Most had either no, or very little, external debt when the World Bank or IMF came in to "help" them. Structural reforms were introduced as conditions for this "support" and to ensure an end to the economic problems. "You must have systems that will ensure that country development is sustained," it was argued.

Today, the same poor countries are in deeper trouble, ranging from debt burden to irreversibility of economic structures after structural adjustment programmes. Sixty years later, the poor countries need more external support, which the IMF and the World Bank offer.

But if the IFIs are to help at all, they will need to drop their forceful implementation of strategies that are not home-grown. It is not that the IFIs do not know about this scenario. Developing countries have opposed the practice, and this has been registered. World Bank staff David Dollar and Shantayanan Devaraj revealed in their study *Aid and reform in Africa: lessons from 10 case studies* that international aid has long been used as bait to push reforms in developing countries. Their report shows that "aid cannot buy reform in poor countries that are flatly opposed to it". Thus the problem is known, solutions are talked about, but very little is done.

Numerous factors have contributed to the declining conditions of the poor countries. They range from implementation of poor policies, lack of a productivity base, and corruption, and are evident in the food insecurity, re-industrialisation, fewer social services, and worsening of debt conditions.

Once you are in the debt trap, you are in – it is cyclical

If the world is to move forward, if the IFIs are to play their rightful claimed role of facilitating global development, then they need to be listening institutions. Celebrated economists such as Jeffrey Sachs and Joseph Stiglitz have given volumes of suggestions on better use of poor countries' resources, notably: switch the resources from debt servicing to fighting HIV/AIDS. Otherwise there will be deeper debt crisis in a few years to come.

The debt trap is cyclical. Once you are in, you continue to be in. Poor countries have very small production bases and so they do not earn enough "dollars" to repay their loans. They end up borrowing more to repay maturing debt.

Cancelling the old debt would be a stepping-stone towards retiring the debt burden of the poor countries. The publicised HIPC initiative has not solved the problem. It is too shallow – and the assumptions made in the formula for calculating debt sustainability do not hold anymore. The initiative also was applied selectively, leaving out some deserving countries. The need for deeper debt relief cannot be over-emphasised.

Taking control

Most debts that poor countries are struggling with are odious – acquired by dictators or illegitimate governments. Many countries are on record that their leadership just cannot afford to resist money offered to them; believing that repayment is in the future, they are shortsighted in their vision.

Lessons have been learned. In order to arrest the debt burden, national assemblies must take control of loan contracting processes – to ensure that the leadership does not just borrow for the sake of borrowing, but that conditions of the loan are favourable to the improvement of the people's livelihood.

Oftentimes when we talk of debt burden, what comes to mind is external debt. As important as this is, it must be remembered that some developing countries, in their struggle to repay external debts, have also developed huge domestic debts. Most of them have had their domestic revenue base shrink due to a collapsing private sector, or their donor support withdrawn, often on the basis of poor governance. Instead of scaling down activities in the face of fewer resources, however, they ended up borrowing from the domestic market, plunging their own economy into more trouble. The fight against debt burden then becomes more complicated and difficult.

Creditor–debtor arbitration

Can the debt of the poor countries be solved? Yes. We only need the will to do it. The debt crisis demands a fundamentally different approach from the Heavily Indebted Poor Countries (HIPC) initiative. And both the "creditor" and "debtor" countries have major roles to play.

IFIs could justify their existence by fighting the debt problem

There is a need to set up an international arbitration system between creditor and debtor countries. It is evident that the creditors have vested interests in the whole process. In the words of United Nations Secretary-General Kofi Annan, "an independent panel of experts not unduly influenced by creditor interests" must reassess the debt burden of developing countries and the international measures taken to date to deal with them.[1] Dr Annan noted that the HIPC initiative had proven inadequate even for the countries it included, and that there were many debt-burdened countries not included.

The report also called for "an immediate suspension" of debt-service payments by all HIPCs and by other countries to be identified by the panel.[2]

As the Bretton Woods institutions commemorate their 60 years of existence, this would support their quest to justify their prolonged existence. IFIs and developed countries have a very big role in the fight against the debt problem.

It is not time to talk about the debt problem. It is time to **retire** the debt debate. Cancel the debt of poor countries. Change the financial architecture. National assemblies and parliaments must take charge of the loan contraction processes of their countries. ■

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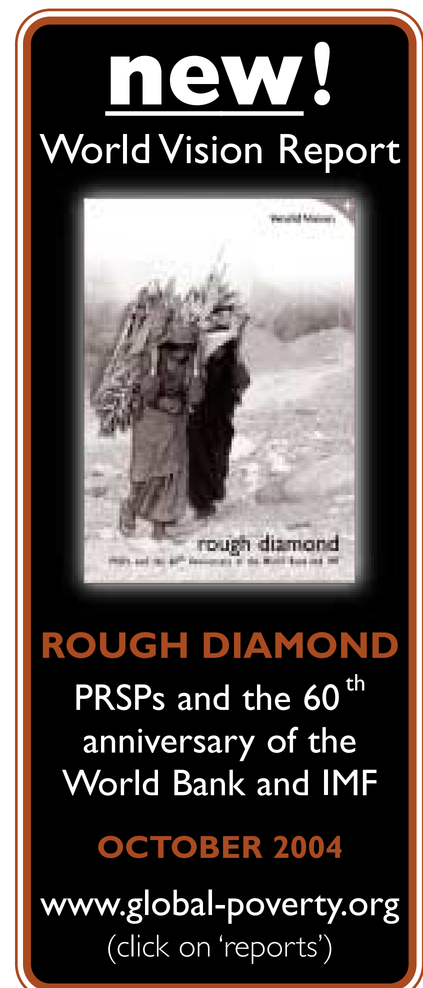
[1] Kofi Annan, UN, September 2004

[2] *Towards a new start on debt cancellation*, Action Africa, September 2002



Common dreams – the World Bank and faith communities

Lucy Keough

THE WORDS INSCRIBED IN marble at the entrance to the World Bank headquarters in Washington DC read: "Our dream is a world free of poverty."

Stated so simply, this vision belies the myriad complexities of development and poverty alleviation, but links – in purpose and commitment – a wide array of development actors across a broad spectrum of constituencies. In a world where global resources are disproportionately distributed, the alleviation of poverty, the betterment of people's lives, and reversal of the spread of HIV/AIDS figure among the greatest moral and ethical challenges the world has known.

At its 60th Anniversary, the World Bank is working to meet these challenges while, at the same time, multiple voices challenge the Bank's relevance and its dedication to the world's poor. This article refutes this criticism, arguing that there is a shared responsibility – both for institutions and individuals – to address the travesties that stand in the way of a more just and equitable world. The daunting challenges of poverty alleviation and economic development demand alliances among as many actors as possible, with especially forceful and creative outreach to engage non-traditional partners. The ability of the World Bank to foster such alliances, building on its strong convening power, underscores its continuing relevance as a major force for combating global poverty.

Evolving understanding

It is by now well recognised that sustainable development is much more complex than we had ever imagined. What at one time seemed a process of linear, predictable and manageable events is now rightly seen as a far more complex kaleidoscope of social, cultural, economic and financial factors. Economic growth is critical, but it is only one piece, albeit a central piece, of a great puzzle of human and social development. Access to health, education and housing are imperative, and far from simple to deliver effectively. Equally important, but perhaps less well understood, are a host of non-material aspects that underlie and define a person's – and a community's – sense of well-being; these include dignity, empowerment, social justice, inclusion and access to choices.

A spiritual approach can seem inimical to hard-nosed technical practices

Through the early 1990s, multilateral development banks interacted with governments as a matter of course, but had limited connection with civil society organisations. While this situation is gradually reversing, faith communities often remain distant from the corridors and conference rooms of traditional development organisations, for several reasons. The approach and vocabulary of spirituality often seem inimical to the hard-nosed technical, economic and financial underpinnings of development practices. Where faith institutions focus on spiritual well-being over a long time horizon, development institutions gravitate towards material progress in the "here and now". Moreover, most domains of public policy are grounded in a distinct separation of the state from religion.

The result has been that the worlds of faith and development are distinct and separate, with both communities too often sceptical of one another. The events of 11 September 2001, however, tragically highlighted the strong and pervasive links between poverty, global security and religions. In today's troubled world there is a need to bridge this divide, to better understand how and why faith leaders and development leaders see poverty as they do. Faith-based organisations are pivotal players in many spheres of development, with broad and deep roots in providing social services to poor communities. They have a reach and an understanding without parallel. They hold an unequalled, trusted place in the social infrastructure of many communities. They are vital partners in development who have earned "a seat at the table".

Since 1998, the World Bank has increasingly invested in developing partnerships with faith communities. Early meetings with faith groups revealed marked differences in the perception of poverty between faith groups and government and international development agencies. The faith leaders saw a more complex, less growth-oriented vision of development, highlighting opportunity and choice. They repeatedly emphasised the vulnerability of the poor; migration as a process that weakens social cohesion; the importance of freedom; and a satisfying life as key to development.[1] A recent publication of the World Bank explores a number of case studies which offer a range of provocative and diverse examples of co-operation.[2] There is clearly much to learn and much to share between these two worlds.

Shared challenge – the MDGs

While a world free of poverty is still distant, there are closer benchmarks that demand our immediate attention and commitment. The challenges of development and poverty eradication have been crystallised into the eight Millennium Development Goals

PHOTO - WORLD BANK GROUP ARCHIVE

World Bank headquarters in Washington DC. Faith communities often remain distant from the corridors of traditional development organisations.

(MDGs). These clearly stated goals, which some have characterised as a covenant, set out in concrete terms how to assess progress towards economic and social development – through indicators of poverty eradication, health, education, HIV/AIDS, and gender equality.

Most regions of the developing world are not on track to achieve the MDGs. The implication of this sombre picture is clear: a range of actions is needed to improve the policies in developing countries and the quality and effectiveness of social service delivery. Social services must reach the poor and the kind of services provided must be what is really needed. Although these goals enjoy wide support within the "official" development world, they are less well known and understood within the spheres of non-governmental organisations and faith institutions. Yet meeting these goals will depend on the active engagement and participation of all actors.

The further, and unavoidable, implication takes us back to the critical importance of partnerships, rendering as vital enhanced communication and collaboration between faith and development constituencies. The challenge is too great and too complex for any one institution. All actors and constituencies, including faith communities, need a seat and a voice at the table. The partnerships we need require debate and willingness to listen, to be transformed; partnership implies looking critically at assumptions and past activities and charting paths towards new and more creative solutions.

Economic and financial literacy can shrink common ground

As individuals we need more humility (something the World Bank is, sadly, often cited as lacking), more patience, and greater understanding. Crucially, we must address the fact that economic and financial literacy shrinks the common ground for dialogue.

Many faith-based organisations have the general view that they can offer comparatively deeper perspectives in the service sectors where they are active, given their acute understandings of the communities they serve. However, many fear that legal, historical factors reduce the impact of their contributions regardless of their merits. Often, faith groups are sceptical about the willingness of donors and governments to consider alternative approaches to development problems. And, indeed, it is true that governments are generally more open to listening to the views of faith-based organisations on health and education, and much less so on economic issues. These issues need to be openly discussed and resolved so that the faith and development communities can learn to trust one another.

Partner power

One of the World Bank's pre-eminent features is its convening power – its ability to bring together diverse groups of people and institutions with widely varying experiences, ideas and resources. In this way, the Bank can bring the voices of the poor, the faith communities that serve them, and the poor themselves to conversations of direct importance to their lives.

Tapping into this, mining it to its fullest potential and harnessing the power of wide-ranging partnerships is a challenge for the Bank, and, in many respects, the answer to its critics who suggest that the Bank has lost its relevance. It is only together – with faith organisations, other members of civil society, and individual governments – that we will be able to address global poverty, global security and the scourge of HIV/AIDS, and achieve, in time, our larger dream of a world free of poverty. ■

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[1] Katherine Marshall and Richard Marsh (eds), *Millennium challenges for development and faith institutions*, The World Bank, 2003

[2] Katherine Marshall and Lucy Keough, *Mind, heart and soul in the fight against poverty*, The World Bank, 2004

50 years were enough

Doug Hellinger

EVEN THE MOST CYNICAL among us did not foresee how hollow the rhetoric, and performance, of the "new" World Bank would be. As troubling as the Bank's record was during its first half-century, its sixth decade – once the rhetorical dust had cleared – added up to a significant and dangerous step backwards.

So-called "poverty reduction" initiatives, designed to side-step the central economic issues important to the Bank's most powerful Board members, have further entrenched poverty-generating structural adjustment policies. Protections for those negatively affected by Bank-supported projects and policies have been weakened. And engagements with civil society without meaningful follow-up have bred greater cynicism.

Limited by vested interests

The *50 Years Is Enough* campaign, which grew out of the merger of economic-justice groups with the global environmental movement, was a thorn in Bank's side during its leadership changeover in 1995. The campaign, and the media coverage it generated about the damaging economic adjustment polices being forced on countries, had ruined the 50th birthday party of the Bank and International Monetary Fund in 1994. Yet the "new" Bank remained unwilling to tackle the fundamental problem: that these adjustment programmes have been central to the deepening and broadening of poverty around the globe.

While the Bank's new president, James Wolfensohn, did accept a civil-society challenge to join in an assessment of adjustment programmes in the field, it became clear that this initiative, known as SAPRI,[1] would go only as far as the Bank's Board and bureaucracy allowed. Ultimately, Bank leadership continued to protect powerful economic and financial interests.

An early initiative that Wolfensohn took was the Comprehensive Development Framework. The CDF attempted to fit the "square peg" of fairly progressive 1970s development thinking, that promoted local-level objectives, into the "round hole" of the 1990s' one-size-fits-all adjustment paradigm that accommodated foreign corporate interests. Supported by Bank-imposed unilateral trade liberalisation, privatisation of essential services, and deregulation of financial and labour markets, those interests have, in fact, usually been in direct conflict with local priorities and the well-being of local farms, businesses, workers and other citizens.

Little is heard of the CDF nowadays, but "public–private partnerships", "labour-market reforms" and other neo-liberal initiatives are still very visible on the Bank's agenda. A new incarnation of the CDF subsequently appeared: the Poverty Reduction Strategy Paper (PRSP), required of any poor country that sought multilateral debt reduction under the HIPC debt-relief scheme. It was clear that the US Treasury was using HIPC/PRSP both as a way to make the IMF's problematic enhanced adjustment programme self-sustaining, and as leverage – just as debt had been used to ensure government adherence to adjustment programmes.

Stuck in adjustment mode

In 1999, we warned that the international financial institutions (IFIs) would ensure that countries' goals and plans for poverty reduction and social development in PRSPs were consistent with macro-economic adjustment policies, and that the IMF and World Bank would end up with an even deeper and broader involvement in the management of national economies.[2]

Five years later, with multilateral debt reduction for vulnerable nations deftly stretched out by the IFIs and the G7,[3] and with civil-society participation in PRSPs limited to non-macro-economic issues, poor countries remain entrenched in structural adjustment mode. According to the Bank's own statistics, only in countries, such as China, that are large and important enough to resist the imposition of key aspects of IFI adjustment programmes, is poverty being significantly reduced.

In fact, Bank senior management has a history of backing down in the face of pressure from powerful Board members. Despite recognising the backlash it would create, it succumbed to such influence as long ago as 1980 to join the IMF in imposing restrictive, foreign investment-friendly economic adjustment policies.

The Bank has a history of bowing to powerful interests

Two decades later, with the so-called "Washington Consensus" around adjustment programmes beginning to weaken, the Bank's consultant and former chief Africa economist, Ravi Kanbur, dared to question adjustment policies and suggest alternative routes for addressing poverty. Soon afterwards, he left his post as principal author of the Bank's *World Development Report* – a move widely attributed to pressure from the US Treasury. Similar pressure on Bank management has been linked to the departure of chief economist Joe Stiglitz, after he ventured suggestions that IFI policies had contributed to the East Asian economic crisis and subsequent depression.

Backsliding to new rhetoric

In the context of growing street demonstrations against corporate-led globalisation, and growing recognition of the extensive damage inflicted by IFI-prescribed adjustment programmes, the Bank has

actually pushed yet more adjustment. Only it has dared not call it that.

The Bank declared that the adjustment process around the world was complete, despite an onslaught of more privatisation and liberalisation measures, and it and the Fund have used PRSPs as a cover for this new generation of neo-liberal policies. New Operational Policy guidelines for staff now refer to "development policy lending", falsely indicating that adjustment-conditioned lending is a thing of the past. Indeed, the recently-approved OP8.6 preserves the right of the Bank and Fund to determine what is "acceptable" national policy – without delineating what those policies might be. Meanwhile, the IFIs refuse to state that countries can choose their own economic course.

All this sends a clear message to governments, and to IFI staff, about how limited policy choice still is. The Orwellian contradiction of national "ownership" of IFI-imposed policies remains the name of the game: policy-shaping technical assistance, threatened cuts in overall loan portfolios and conditionality all compel governments to submit.

PHOTO - ORIN LANGELLE / GLOBAL JUSTICE ECOLOGY PROJECT

Over 3000 people protested at the World Bank and IMF in Washington DC in April 2004. For decades, civil-society groups have protested against damaging adjustment and neo-liberal policies being forced on poor countries.

Abusing good faith

While the World Bank's "poverty" rhetoric may provide cover for Northern governments that support the institution and its neo-liberal agenda, its performance and double-speak over the past decade have bred acute cynicism in civil society. The Bank's abuse of good-faith efforts to constructively engage it has included:

- refusing to allow civil-society challenges to adjustment policies within PRSP processes;

- bailing out of effective follow-up after thousands of grassroots and national organisations mobilised in SAPRI[1]–to address economic policies that were destroying livelihoods, families and communities;

- effectively ignoring the major recommendations of both the World Commission on Dams and the Extractive Industries Review, and then resuming funding of large-scale dams without stronger protections for affected populations and environments;

- not according public consultations on drafting of the adjustment OP any significant impact on the final guidelines – not even a requirement of social and environmental assessments before and after loan approval and policy implementation;

- ignoring a commitment to Forest sector review participants that OP8.6 would address key adjustment-related issues; and

- setting aside key operational safeguards, established through long negotiations with environmental and other concerned organisations, in favour of less accountable national systems.

New image, same old reality

The amount of backsliding at the World Bank, and its effect on real people's lives, is alarming. The current Bank administration has presided over by far the longest period of imposing devastating structural adjustment programmes around the world. Yet the Bank has continued its public-relations offensive, cobbling together a Joint Facilitation Committee with NGOs willing to participate in endeavours that serve the Bank's interest in escaping accountability for its long list of transgressions.

With relatively few allies in official institutions or in Northern governments, it is up to civil society to focus the debate on local realities and economic justice. To effect change, civil-society groups will need to build alliances with parliamentarians, increasingly assertive Southern governments and social movements, as they challenge the IFIs and those whose interests they represent. ■

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[1] For more on the Structural Adjustment Participatory Review Initiative (SAPRI), see *Structural Adjustment – The SAPRI Report: The Policy Roots of Economic Crisis, Poverty and Inequality*, Zed Books, London & New York, 2004; and www.saprin.org/
[2] Doug Hellinger, "IMF Ventures into the Poverty-Alleviation Business", *NACLA Report on the Americas*, November/December 1999
[3] Canada, France, Germany, Italy, Japan, the UK and the USA

Reforming the IMF – is it time for a tune-up?

James Boughton [1]

THE WORLD ECONOMY HAS undergone a sea change in the 60 years since the IMF was founded at an international conference in Bretton Woods, New Hampshire, USA. The IMF has evolved in response, but like any large organisation its ability to change has been limited by its own rules and mandate and has been held back by inertia. That inevitably leads to some mis-matches between the reality and the ideal, and this year's anniversary offers an opportunity to reflect on how those gaps might be closed in the coming years.

The IMF was founded at the end of World War 2, at a time when international mobility of private financial capital was limited and the United States held a predominant position in trade and even more in finance. The goal of the founders at Bretton Woods was to re-establish multilateral finance gradually and in a way that would support, and not destabilise, international trade as the world economy regained its bearings.

Dispersed economic power

The first major change to affect the IMF was the growth in economic and financial strength of countries outside of North America – first in Western Europe, then in Asia and the Middle East, and later in Latin America and Africa. The extent of US power and influence in the Fund was bound to decline as other countries regained their footing, but other shares have been relatively static owing mainly to political resistance from governments whose voting shares would be reduced. While the US share has declined by half in the past 60 years, that of Europe has changed little, and Asia's has grown by less than most formulas would have suggested.

Another consequence of the narrow geographic range of economic influence in the 1940s was an informal understanding that the US would nominate the President of the World Bank and would leave the nomination of the IMF Managing Director to the other members. Since the rest were dominated by Europeans, a tradition developed that this group would pick one of its own to be the Managing Director, subject to acceptance by the full membership.

As in any large organisation, change has been limited by inertia

Again owing to inertia and the force of tradition, this situation has not evolved despite the rise in economic strength and influence of other regions. Non-European candidates have been considered or proposed on at least three occasions, but European governments have always coalesced in time to see the Managing Director elected from among their own ranks.

Low-income members

When the IMF was founded, most of Africa was under European colonial rule; only Egypt, Ethiopia and South Africa were among the 40 original members. Most other African countries gained independence and joined the IMF between the late 1950s and the early 1970s, and all of the rest joined by 1990. Because so many of these countries were and are mired in poverty and play a limited role in international trade, this development has added markedly to the disparities in influence within the institution.

The rise in African membership generated a large group of potential borrowers with very low incomes that could ill afford to borrow from the IMF on standard terms. To accommodate their needs, the IMF established special accounts – currently, the Poverty Reduction and Growth Facility (PRGF) – so that it could offer longer-term concessional loans to low-income countries. This response immersed the Fund more deeply in issues of structural reform. The primary need of most African countries was sustained financing for development, which in turn required that these countries demonstrate a sufficient commitment to economic reform, stable policy implementation and openness, to be able to attract donor support.

The IMF had neither the resources nor the mandate to provide sustained financing, but it could and did try to adapt its financing and its policy advice to support the necessary strengthening and reforming of economic policies. However, without a clear model of the relationship between structural reform and either stabilisation or growth, this "growth-oriented adjustment" effort has proved to be difficult.

Globalisation of finance

Perhaps the biggest effect on the IMF has come from the growth and globalisation of private financial markets. The founders of the IMF believed that speculative international capital flows served primarily to destabilise exchange rates, and they inserted provisions into the *Articles of Agreement* that encouraged member countries to impose capital controls to stem speculative flows. By limiting private capital flows, governments could focus on opening up their trade and current accounts without fearing financial instability.

But those provisions have been overtaken by events and are now essentially moot. The current and capital accounts are closely linked, and any country that seeks the benefits of

PHOTO - FRED SIMPOSYA / WORLD VISION

Villager in Chikuse, in eastern Zambia. The IMF's members now include many countries with serious poverty problems.

open international trade must also accept the risks of possibly unstable capital flows. The challenge for many developing countries and for the Fund is to get the timing and the sequencing right: to strengthen macro-economic policies and institutions first, and then to open the economy to foreign capital gradually so as to get the benefits without excessive risk.

Some IMF members are permanent creditors, others quasi-permanent borrowers

The increase in the breadth and depth of international private capital markets has also altered relationships between the IMF and its member countries, by creating a class of members with advanced economies that have no likely prospect of ever again drawing on Fund resources. Consequently, the membership today is divided into permanent creditors and quasi-permanent borrowers. Some 40 countries provide virtually all of the Fund's usable resources; around 80 countries are eligible for concessional financing but are unlikely to qualify for large-scale loans; and a less well-defined middle group has some access to private international capital but might occasionally face a financial crisis that could result in quite large borrowing from the Fund.

The years ahead

Just as the world has evolved in the 60 years since Bretton Woods, the next few decades will doubtless bring new changes and new challenges. To remain effective, the IMF will also have to continue to adapt.

The institution will have to find new ways to make its surveillance over members' economic and financial policies effective; to ensure that its decisions on whether to approve and support countries' policy programmes are clear and credible; to focus its policy advice and financial support for low-income countries in support of the Millennium Development Goals; and to convince the international community that good governance requires that the voices of all regions be appropriately represented. ■

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[1]This article is adapted from a more extended treatment in "IMF at 60" in *Finance and Development*, International Monetary Fund, Washington DC, September 2004, which may be viewed at www.imf.org.

Missing the forest for the trees

Lee Tan

"Now, when I see my bush, I cry. In the past we had sago, pigs, cassowary, big trees everywhere…"[1]

– Aiambak villager, Western Province, Papua New Guinea

THE WORLD BANK'S involvement in Papua New Guinea dates back to the time of the Australian colonial administration prior to independence in 1975. The Bank has established itself as "the leading external adviser on structural reforms" through loan agreements with the Government of PNG and the conditions of structural adjustment loans.[2] It has played a particularly prominent role in forestry sector reform.

The forest of PNG is Asia–Pacific's largest, and the third largest, intact tropical rainforest in the world. About 70% of PNG is covered with primary forest. Of the estimated total forests of 27 million hectares (the size of New Zealand), about 40% has already been allocated as concessions for logging.[3] Over the last two decades, foreign logging companies have encroached upon large tracts of rainforest. Logs from these old-growth forests are exported with an appallingly low return to local communities, whilst leaving behind horrendous social and environmental problems.

In 1987 Australia funded a Commission of Inquiry into the logging industry in PNG. The inquiry concluded that foreign loggers are "roaming the countryside with the self-assurance of robber barons, bribing politicians and leaders, creating social disharmony and ignoring laws in order to gain access to, rip out, and export valuable timber". In response, the Bank provided loans to several reform programmes aiming to "improve the policy and institutional environment" in the forestry sector throughout the 1990s.[4]

In theory, such loan schemes helped to establish a system and structure to facilitate more sustainable logging and improve PNG's revenue stream. But its effectiveness is questionable. In 1998, the government reduced log export duties and the Forest Authority set up through the reform programme was progressively marginalised. Large extensions to existing concessions were considered, and procedures for granting new concessions circumvented. Financial support to the forest service was withheld, its staff re-shuffled, and preparations were made to weaken the *Forestry Act*.[5]

The Bank's "private sector growth" dogma ignored a viable alternative

Large-scale industrial rainforest logging has long proven to be devastating – both socially and environmentally. For years, civil-society groups have advocated for locally-controlled and run small- to medium-scale logging and downstream processing operations. The estimated revenue from this proposal is a hefty US$400 million per annum[6] for PNG. Yet the World Bank remained fixed in its support for industrial forestry because of its dogma that "private sector growth" is the most effective way to reduce poverty.[7]

In 1999, a new government was elected and Sir Merkere Morauta, who promised good governance, became Prime Minister. The Bank again embarked on another reform programme through the $90 million Governance Promotion Adjustment Loan (GPAL). Under this loan, the government was obliged to implement a wide range of measures including several conditions related to the forestry sector. These conditions were backed by a moratorium on new logging permits until a review of existing logging concessions was completed, and the government had an action plan in place to act on the recommendations.

Loan conditions not met

The government struggled to meet many of the loan conditions. In particular, conditions related to the forestry sector were watered down, and for the duration of the GPAL corruption and illegal logging activities continued unabated.

One of the scandals involved a foreign-owned logging operation which had for years exported more than $36 million of stolen logs from communally-owned forest in the remote Western Province.[8] In 1995, the project was declared illegal by the forest authorities. Despite complaints from the Independent Forestry Review, the Chair of the National Forest Board, the Forest Industries Association and even the then Prime Minister Morauta, no effective action was taken by the authorities to stop this operation in the duration of GPAL. Indeed, the project has been allowed to expand through a series of illegal permit extensions and to avoid tax liabilities through unlawful tax exemptions. In December 2001 the company was given a new and even larger illegal timber permit, allowing it to log along an 830-kilometre corridor with a total area of 2.7 million hectares.[9]

This case was merely the tip of the iceberg. Companies co-erce, bribe and sometimes force individuals in a

PHOTO - WENCESLAU MAGUN / CELCOR/ACF

Villager in traditional hunting gear in some of the remaining forest, near a site of major logging operations

community to consent to logging – the majority of the community being unaware of such deals until logging commences. In some cases, communities have consented to the logging but without fully understanding the consequences.

None of the reform programmes dealt with the core issue of corruption in the forestry sector. None attempted to reduce the pace of logging or to stop illegal logging – thus rendering any other conditions on its loans essentially useless. Despite strong opposition by civil society groups and the premature lifting of the moratorium by the PNG Government, the Bank released the final loan payment in December 2001. Before the GPAL was concluded, a new $17 million forestry reform loan known as the Forest and Conservation Project (FCP) was approved. Three years of FCP has yielded little and the Bank remains as docile as ever in dealing with loan condition breaches.

None of the reforms dealt with the issue of corruption

Meanwhile the loggers have grown increasingly aggressive in their quest for high-value timber. According to a civil rights lawyer, traditional landowners in remote areas "were forced to sign papers with the barrel of a gun at their back. In the presence of police and company officials, without proper legal advice, with guns pointed to them...".[10] Union officials have taken dozens of statements from women and girls working in the remote logging camps, far from home, who say they are routinely threatened with guns or gunshots to scare them into having sex with company officials or the police who work for them.[11]

Neglected duty of care

By providing loans for forestry sector reform when past programmes have failed, the Bank has grossly neglected its duty of care as a financial institution. This negligence is particularly serious because the Bank has not heeded recommendations made by its own Operations Evaluation Department in 2000: that the Bank help PNG manage existing resources rather than providing additional financial resources. The OED stated that:

> Given unfavourable past experiences, the Bank should not undertake significant investment lending in the absence of clear progress in improving the policy and institutional environment for public investment. Adjustment lending is also unlikely to have a sustainable positive impact…[12]

Papua New Guinea's foreign debt was $2.5 billion at the end of 2002, representing a staggering 90.4% of its GDP.[13] All of the loans to PNG in the 1990s attract commercial rates of interest because PNG was considered "rich" enough not to be eligible for low-interest loans available for poor nations.[14] The PNG currency has plummeted by a staggering 360% against the US dollar from 1975 to 2003, and this has a tremendous multiplying effect on its debt burden since repayments have to be made in US dollars.

PNG's people bear the brunt of this spiralling financial problem and depleting forest resources. Inflation rates have been double-digit since 1995[15] and the consumer index for food rose to 17% in 2002. Ordinary people are scrambling to earn more money to pay for higher school fees, which were introduced during the period of economic restructure. As economic hardship continues, crime rates as well as law and order problems continue to escalate in urban centres where the cost of living is high.

Apart from taking advice from its own OED, the Bank should heed lessons learnt in Argentina, where irresponsible lending practices have turned a country once hailed as a model of free-market reform to one of the most devastating financial crises in history.[16] If the World Bank is serious about finding appropriate solutions, the PNG Constitution offers an excellent framework that is both socially sound and ecologically sustainable.

Institution strengthening that pours money into a corrupt system only serves to prolong the problem, and the Bank will continue to miss the forest for the trees. ■

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www.acfonline.org.au/asp/pages/intro.asp?idTopic=2

Opinions expressed in Global Future are those of the authors, not those of World Vision.

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Multilateral institutions and Latin American (under-)development

Klaus Heynig

LATIN AMERICA HAS CLEARLY made major advances over the last two decades in a variety of areas. But most of the countries are currently grappling with serious economic difficulties and a significant degree of "adjustment fatigue" among citizens.

According to the most recent estimates on poverty and indigence levels in the Latin American countries prepared by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), between 1999 and 2003 the number of poor people increased by 15.2 million, rising to 226.6 million (44.4% of the total population), including 102 million people (20%) classified as indigent. Unemployment reached 10.7%, and the region's *per capita* GDP was still 1.2% lower than in 1997.

Particularly alarming about these figures is that half of the poor are children and adolescents, and that two decades have already been lost with regard to achieving by 2015 the Millennium Goal of eradicating extreme poverty and hunger in Latin America.

Perennial inequality

Many experts concur that extreme poverty and hunger derive in great part from the high levels of inequality in the distribution of income and consumption that is a feature of most Latin American and Caribbean countries. The region maintains the sad distinction of having the worst income distribution in the world, in spite of a relative economic recovery in the 1990s and an increase in social expenditures.

It is no surprise that uncertainty is felt in many countries about the viability of current development models. Voices from the national sphere as well as from the multilateral agencies are calling attention to the need to "give development a human face" and to "listen to the poor".

"Technical" solutions have brought more poverty and inequality than growth

Multilateral agencies play a crucial role in the region's social landscape, not just because of the sheer volume of resources they channel to social programmes and projects, but also – and chiefly – because of their direct involvement in the formulation of countries' social policies. The policies that emerged from the so-called "Washington Consensus" are a prime example of the impact exerted by financial institutions such as the World Bank and the International Monetary Fund.

In the final analysis, the "technical" solutions underpinning these policies have been unable to stimulate growth in the countries of Latin America and the Caribbean. Rather, they have resulted in increased poverty and inequality levels in many countries.

The social cost of adjustment policies needs to be viewed, however, in the parallel light of another cost: that of not adjusting. Without a doubt, the people of Latin America and the Caribbean suffered a high cost from the debt crisis that plagued virtually all the countries of the region in the 1980s, with the accompanying macro-economic disequilibria, hyper-inflation, institutional weaknesses and political crises.

Equity, not technocracy

Since the outlook is hardly promising, it is not surprising that poverty reduction has now moved to the top of the development agenda. World Bank president James Wolfensohn himself asserted that the overarching objective of the Bank's work is to achieve better distribution of wealth.

And yet, even with the headway made in the approaches and policies put forward by international financial institutions, the trend continues to be highly technocratic. The common wisdom in Washington (and not only in Washington) is that development is equivalent to *per capita* growth, and that action should focus on maximising the increase in average productivity.

Very few sectors of society have benefited from this type of "distorted" development. Internal gaps have widened, and vast swaths of the population have been left out.

If we are to make true progress, then the matters of distributive justice and social policy must be made an integral part of the debate on development – not simply an afterthought or footnote to be considered only when economic policies have failed. Equity should be viewed as the basic yardstick for measuring the quality of development. ■

Mr Klaus Heynig recently concluded almost 30 years' service as Economic and Social Affairs Officer at the Economic Commission for Latin America and the Caribbean (ECLAC). ECLAC was established by the UN Economic and Social Council in 1948 as one of the five regional commissions of the UN. See: www.eclac.cl/

God's "pro-poor" yardstick

Tim Costello

JESUS TAUGHT THAT HOW WE TREAT THE poorest and most marginalised is the yardstick by which we will be judged (Matthew 25: 31–46). He revealed that God is far less concerned about fiscal rectitude and pleasing financial markets than about valuing every last human being.

Two studies have confirmed what many of us have been saying for years: that IMF and World Bank programmes still do not take enough account of their effects on the poor. Advancing economic liberalisation still takes precedence.

William Easterly's study of IMF and World Bank lending from 1980 to 1998 found that economic expansions in countries with structural adjustment programmes tend to benefit the poor **less** than in countries without such programmes. It is significant that the Bank's own research found this.

The other study, by Gopal Garuda at Harvard, found that IMF programmes can adversely affect income distribution. Specifically, in countries with major balance-of-payments problems, they have tended to make the poor worse off.

Part of the problem is that the economic models used by the Bank and Fund often are not disaggregated finely enough by income group, gender, age and region. So an IMF programme that delivers macro-economic stability may also have devastating effects on the poor, and on women and children in particular.

PHOTO - KIT SHANGPLIANG / WORLD VISION

***Every last human being:* this poor family in Meghalaya State, eastern India, had to walk several kilometres daily for water until a reservoir was built in their small village.**

The World Bank and IMF must ensure that their economic models, policies and programmes are truly pro-poor. This must be a deliberate policy – it will not just happen. And what does "pro-poor" mean?

The yardstick given by Jesus is a call for us to accept the dignity, rights and leadership of the poor. To put the poor **first** – not last in a "trickle down" line. It is a model that the Bank and Fund would do well to heed. ■

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[1] Easterly, W, *The Effect of International Monetary Fund and World Bank Programs on Poverty*, Working Paper no 2517, World Bank, Washington DC, January 2001

[2] Garuda, G, "The Distributional Effects of IMF Programs: A Cross-Country Analysis", *World Development*, vol 28, no 6, June 2000, pp 1031-51

WORLD VISION

is a Christian relief and development partnership that serves more than 85 million people in nearly 100 countries. World Vision seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation.
Children are often most vulnerable to the effects of poverty. World Vision works with each partner community to ensure that children are able to enjoy improved nutrition, health and education. Where children live in especially difficult circumstances, surviving on the streets, suffering in exploitative labour, or exposed to the abuse and trauma of conflict, World Vision works to restore hope and to bring justice. World Vision recognises that poverty is not inevitable. Our Mission Statement calls us to challenge those unjust structures that constrain the poor in a world of false priorities, gross inequalities and distorted values. World Vision desires that all people be able to reach their God-given potential, and thus works for a world that no longer tolerates poverty. ■

BACK COVER : HIV-positive Ugandan widow with her four children, in front of their new home; their original dirt-floor shack in the foreground. Photo by Ross W. Muir / World Vision

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