IMF Gains as Debt Talks Falter

Multilateral debt relief was the issue on the table at the Spring meetings of the World Bank and International Monetary Fund, but the bickering among the Bank, the Fund and donor countries yielded little for the world's poorest countries.

At the same time, the level of opportunism on the part of the international financial institutions (IFIs) surprised even some of the more seasoned cynics. By meetings' end it had become clearer than ever that those actors, particularly the IMF, were on the way to actually increasing the leverage and resources they needed to control national economies. Any illusions that debt relief, IFI-style, was designed to free countries to pursue their own development paths had disappeared.

Hopes Dashed

Last August, in an internal World Bank paper leaked to the press, the Bank acknowledged that a number of low-income countries had a serious, unsustainable debt problem. The paper called for a concerted and comprehensive approach to deal with the debts of the poorest countries. NGOs were generally supportive of the Bank's proposal, though a number of groups raised concerns about the continued insistence that any debt relief be conditioned on the implementation of structural adjustment programs.

That concern took a back seat last fall, however, as some NGOs around the world focused on salvaging the key elements of the proposed plan that the Bank itself was rapidly disowning and the Fund was dismissing outright. International campaigns were mounted calling on supporters to write letters to Bank President James Wolfensohn and IMF Managing Director Michel Camdessus.

By February, a joint committee of the Bank and Fund produced a framework paper outlining a common proposal for dealing with multilateral debt. "The position of the IMF confirmed our worst fears," recalled Ted van Hees, coordinator of Amsterdam-based EURODAD, which has been lobbying for years on this issue. "We believed the proposal needed to be improved in a number of areas, including the time frame, which was too long, the eligibility criteria, and the continuation of the harsh and ineffective adjustment conditionalities attached to it."

Only eight to 20 countries were considered to have a serious debt problem, well below NGO estimates of well over 30. Furthermore, the paper did not call for multilateral debt relief to kick in for at least six years.

There were also a couple of "poison pills" inserted into the framework paper that ensured its ultimate deferral. The paper insisted that, before any multilateral debt was written off, bilateral debt relief (the so-called Naples terms) had to be extended to eligible countries and the amounts increased. Worse, it called on bilateral donors to be the primary financiers of a US$8-11 billion dollar multilateral debt fund. "This would effectively let the IMF off the hook, escaping responsibility for taking any new action and for making new funds available," argued Jessica Woodroffe, campaign coordinator for London-based Christian Aid.

ESAF over Debt Relief

It therefore came as no surprise that the proposal was not accepted at the April meetings. Of particular note was the predictable reaction of the United States. U.S. Treasury Secretary Robert Rubin came out against the plan because its "viability ... depends on sizable bilateral contributions."

A key problem was the refusal of the IMF to commit to contributions...
Taking Aim at the Bank’s Anti-Poverty Targeting

Over the past few years, while the World Bank has emphasized the development of the private sector in developing countries, it has also increased “social sector” and “targeted anti-poverty” lending. Of what significance is this latter trend?

During the 1980s, lending to the human-resource sector, primarily for health and education, averaged only about five percent of Bank operations. This percentage tripled to over 15 percent during the three-year period, 1993-1995. Fiscal 1995 social-sector lending reached US$3.9 billion, with $2.1 billion invested in education, $1.2 billion in population, health and nutrition, and $648 million in other areas.

This trend promises to continue, with social-sector lending increasing in both absolute and real terms. At the World Summit on Social Development last March, the Bank announced that it would increase social spending by 50 percent over the next three years. “At a time when foreign aid flows are contracting, the Bank will provide $15 billion for basic social needs and $5 billion for drinking water and sanitation,” the Bank said in its report, Advancing Social Development.

The trend is important for a variety of reasons. First, in contrast to the Bank’s private-sector operations, which, like the recent increase in the flows of private capital, remain concentrated in a small group of “emerging markets”, shifts in human-resource investment are particularly significant in lending to the poorest borrowing countries.

Second, while some NGOs welcome this trend and others remain agnostic, few are devoting resources to the independent monitoring and evaluation of the results on the ground. The Bank is promoting its social-sector lending as clear evidence of commitment to its stated mission of poverty reduction, but how effective are these investments in practice?

Third, as the Bank’s lending in any particular sector increases, so too does the Bank’s influence in setting the policy agenda in that sector. Consider health and education. The Bank is the largest single external funder of health programs in developing countries, and it provides one quarter of all external support to the education sector. The publication of its 1993 World Development Report, Investing in Health, represented, according to the British medical journal, The Lancet, “a shift in leadership on world health from the World Health Organization to the World Bank.”

Investing in Poverty Reduction
The World Bank’s 1990 World Development Report described a three-prong strategy to attain the goal of poverty reduction: export-oriented labor-intensive growth, investing in the poor via the development of human capital (mainly health and education), and the promotion of safety nets and targeted social programs.

The Bank also emphasizes the importance of examining the actual composition of public spending and recommends that social spending be more directed towards the poor. Bank analysts now ask governments, for example, whether health spending is targeted at providing primary, as opposed to, tertiary care, and if education monies are used for primary schools in poor regions or to cover college educations for the urban middle classes.

Market-led growth remains central to the Bank’s strategy for reducing poverty, however. At the same time, Bank analysts point out that the actual pattern of growth matters to poverty reduction and that specific targeting is necessary to influence this pattern.

Beyond charting the actual shift in its portfolio towards investing in human capital, the Bank has developed another indicator to distinguish its anti-poverty lending activities. It is called, rather clumsily, the Program of Targeted Interventions, or PTI for short.

As an indicator, just what the PTI represents is worth considering. A project loan qualifies as a PTI project if the project either: (i) has a specific mechanism for identifying and reaching the poor; or (ii) the participation of the poor significantly exceeds the proportion of the poor in the population as a whole.

PTI projects constitute a greater percentage of the portfolio of the International Development Association (IDA) than of IBRD lending, with only the poorest countries eligible for IDA’s low-interest loans. According to Bank External Affairs staff, the PTI was part of the effort to persuade skeptical donor governments that money directed to IDA was helping to reduce poverty directly.

The Bank says that PTI projects accounted for more than 54 percent of IDA investment lending (and 43 percent of the entire IDA portfolio) in fiscal 1995, but there are a number of weaknesses in the indicator.

There is a risk that it can fairly easily overestimate the institution’s anti-poverty lending operations, because the definition focuses on the percentage of the beneficiaries who are poor, rather than the percentage of the loan benefits actually received by the poor.

For example, take a $100 million loan in a country where 50 percent of the population is impoverished. If 80 percent of the project beneficiaries are poor, and they receive 10 percent of the benefits, the entire loan is counted as a PTI project.

The PTI is not limited to project loans, but can also be applied to structural adjustment operations. An adjustment loan qualifies if it meets one of the following criteria: (i) the reform of social expenditures to better reach the poor; (ii) the removal of distortions of particular harm to the poor; (iii) the inclusion of safety nets or other targeted programs; (iv) the introduction of poverty monitoring; or (v) the development of a poverty policy. Using these criteria, 17 of 23 adjustment operations in fiscal 1994 were poverty focused compared to a third in fiscal 1993 and just over half in fiscal 1992.

Quantifying the poverty fo-
Agricultural Sector Review

Some critics argue that human-resource lending deals only with the symptoms, paralleling national economic policies that are generating poverty. NGO critics have noted, for example, that social-service investments don’t address key determinants of poverty, such as access to jobs, credit and productive resources. Recent internal Bank policy assessments are beginning, however, to address some of these issues, at least at the conceptual level. Two such assessments are the agricultural sector review and a new social-development policy initiative still in the works.

The Agricultural Action Plan presented to World Bank President James Wolfensohn in late February 1996 reflects reassessment in several areas, including a new emphasis on smallholders, participation and land reform. Land reform is actually strongly emphasized in the cases of Latin America and Eastern Europe. "The Bank’s objectives of poverty reduction, sustainable natural resources management and food security cannot be met unless rural well-being in general, and a prosperous smallholder strategy in particular, are nurtured and improved," it notes.

The report stops short, however, of considering the possible effects of national economic-policy reforms, such as trade liberalization, on the economic sustainability of family farming. No cracks have yet appeared in the official free-trade consensus.

The report recognizes that "lack of participation" is a "key weakness of the past," and the Action Plan even calls for the Bank to "assist the poor to organize, understand policy options, and articulate their demands." But the report does not consider the role of government in either encouraging or discouraging the freedom to participate. Participatory projects, particularly in rural areas, are unlikely to get very far where freedom of association is denied and state and local governments are dominated by authoritarian elites.

On the heels of the agriculture policy reassessment, Wolfensohn asked the Bank’s social scientists to develop a strategy to respond to the question: "How can social concerns be effectively absorbed into the development paradigm and used for policymaking purposes?" The premise of the exercise is that failure to take into account how implementing institutions actually work, and how communities will participate, is a common cause of failure of Bank-supported projects. The Bank’s report, Social Development and Results on the Ground, was still in progress as of early May, and NGOs had seen only the terms of reference.

Promoting Stakeholder Participation

Some policymakers are giving greater attention to public participation as a key condition for successful social-sector or anti-poverty projects, though most remain to be convinced.

In March, the Bank released its Participation Sourcebook, a manual that encourages its staff to interact more directly with civil society “stakeholders”. The Sourcebook is the result of a five-year process of the Bank’s Participation Learning Group and includes cases and examples of how to incorporate participation into project and policy lending. A notable contribution by the Bank’s Legal Department is a section on the importance of freedom of association.

The Sourcebook was backed by the new Bank President. During a high-tech televideo hook-up with an African NGO/Bank staff meeting in Ghana set to coincide with the launch of The Sourcebook, Wolfensohn strenuously insisted that the book’s contents were “common sense”. He concluded, “If that [participation] can’t be internalized in the Bank - and in many places it is - but if it can’t, we have no future as a Bank.”

Outstanding Issues

Despite the lack of clear indicators, there is an upward trend in what the Bank describes as anti-poverty lending. There is also greater support within the Bank for more open and direct engagement with civil society, in this sector of the portfolio.

But key questions remain. What are the results of the growing Bank influence in determining policy in the social sectors in which its portfolio continues to expand? What fraction of the Bank’s operations truly involves poverty reduction and participation? What are the necessary conditions for effective participation and are they present in Bank operations? Many NGOs and social organizations would also differ with the World Bank over “what counts” as poverty-targeted investment and “stakeholder participation”.

Until public-interest groups develop clear alternative indicators and more systematic bottom-up monitoring of these trends, Bank-NGO dialogue and debate about these issues will remain at a very general level.

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