

SELECTED ISSUES on INTERNATIONAL FINANCIAL INSTITUTIONS

➤ *G8 Debt Proposal gains support at World Bank/IMF Annual Meetings*

The World Bank and International Monetary Fund (IMF) have advanced a plan for cancelling debts owed by 18 low-income countries, at their September 23-25, 2005 annual meetings. The plan, first proposed by the Group of 7 (G7) Finance Ministers last June and then ratified by G8 (G7 plus Russia) heads of government at their July Summit in Gleneagles, Scotland, applies only to those countries that have graduated from the Heavily Indebted Poor Countries (HIPC) Initiative (*See Issue Updates 7 and 8, July and August 2005, respectively, for more*). It would cover 100 % of their debts owed to the World Bank's International Development Association (IDA), the IMF and the African Development Bank's African Development Fund (AfDF).

Resistance from some non-G8 European countries was overcome after the G8 Ministers, including Canadian Finance Minister Ralph Goodale, signed a letter on September 23 pledging to cover their share of the costs of reimbursing IDA and the AfDF "dollar for dollar for the foregone principal and interest payments of the cancelled debt for the duration of the cancelled loans."

While this commitment was enough to persuade the other members of the World Bank and IMF to ratify the plan, many details remain to be worked out, including whether countries will need to jump through even more conditionality hoops before qualifying. Furthermore, the Executive Directors at the World Bank and the IMF still must meet to ratify the deal.

Additional Information

KAIROS and HI analysis of the G8 Debt Proposal:

http://www.halifaxinitiative.org/updir/Analysis_of_June_11_Formatted.pdf

➤ *Reform of the World Bank and IMF on G 20 Agenda for October*

Reform of the IMF and the World Bank will be on the agenda when finance ministers and central bank chiefs from the Group of 20 (G20) meet in Hebei province, China on October 15-16.

G20 members, who are the major shareholders of the two organizations, will be discussing a roadmap for the future reform of the IMF and the World Bank, as well as the state of the global economy, mechanisms for financing development, and overseas development assistance. It is expected that the World Bank and IMF will continue to play an important role in "safeguarding and promoting global economic stability and development".

Founded in 1990, the G20 brings together the Group of Seven (G-7), the European Union (through the EU Council President and European Central Bank President) with Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey. The managing director of the IMF and the president of the World Bank, plus the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in the talks as ex-officio members.

Australia will host the G-20 in 2006.

Additional Information

The G-20 web page: <http://www.g20.org/index.htm>

➤ *The IMF in Low Income Countries*

The IMF is proposing two new mechanisms for engagement with low-income countries. The Policy Support Instrument (PSI) will be available to members that do not need, or want, IMF financial assistance in the form of the Poverty Reduction and Growth Facility (PRGF) loan, but who need an IMF endorsement and continued assessment of their policies as a signal to donors for aid or Paris Club debt

relief, for example. Nigeria is poised to be the first country to access the PSI. A new window will also be available to provide timely concessional support to low-income members without a regular PRGF loan and who are facing exogenous shocks. Although details remain to be disclosed about the two new instruments, civil society groups are concerned about the level and kinds of conditionality required to participate in the two new programmes.

Additional Information:

IMF Moves Nigeria Closer to Debt Relief <http://allafrica.com/stories/200509220427.html>

IMF Annual Report, Chapters 3 and 4 <http://www.imf.org/external/pubs/ft/ar/2005/eng/pdf/file4.pdf>

➤ **New Appointments: Vice President of the IFC, Chief Financial Officer of the World Bank**

Vincenzo La Via has been appointed Chief Financial Officer (CFO) of the World Bank and Lars H. Thunell Executive Vice President of the International Finance Corporation (IFC). La Via, an Italian national, comes from Banca Intesa, Italy's largest bank, where he served as CFO. Lars H. Thunell, a Swedish national, comes from SEB, Sweden's leading international corporate bank, where he served as Chief Executive Officer. Thunell will replace Acting Vice President, Assad Jabre, and La Via will replace John Wilton. La Via starts his new position in November 2005, and Thunell in January 2006.

* * *

New discussion papers (HI, Members or Associate members, government) on IFIs and issues:

- *The Canadian Development Report: Towards 2015 – Meeting our Millennium Development Commitments*, North-South Institute. Includes chapters on aid, trade, and debt relief (for a list of the MDGs, see Issue Update 7, July 2005). <http://www.nsi-ins.ca/english/publications/cdr/2005/default.asp>
- *Five Years On – A Review of the OECD Guidelines and National Contact Points*, OECD-Watch. This Review concludes that the OECD Guidelines are failing to deliver corporate accountability, and the Guidelines are an inadequate instrument for curbing corporate misconduct. On-line at http://www.oecdwatch.org/docs/OECD_Watch_5_years_on.pdf
- *The Divisive Demonstration Impact of the Marlin Mine*, Halifax Initiative Coalition, – A case study on Glamis Gold's Marlin Mine in Guatemala and the World Bank's involvement in supporting the project. On-line at http://www.halifaxinitiative.org/updir/Glamis_Final.pdf
- *Halifax Initiative comments on Export Development Canada's new environmental and disclosure policies*. On-line at <http://www.halifaxinitiative.org/index.php/Home/638>

Upcoming IFI-related conferences or meetings

- Jubilee South conference, Resistance and Alternatives to Debt Domination, September 28–30, Havana, Cuba.
- G-20 meeting, October 15 and 16, Hebei Province, China.
- Day of Action on Poverty in Canada, Make Poverty History, October 17.

JUST THE FACTS – Heavily Indebted Poor Countries Initiative (HIPC)

HIPC was the World Bank and IMF's response to the G7's calls for debt relief at their 1995 Summit in Halifax. Introduced in 1996, it promised a small number of countries debt reduction to a level of economic sustainability. The HIPC Initiative uses economic rather than poverty indicators to measure debt sustainability. It aimed to assist countries to achieve a specific debt to export or debt to revenue ratio. HIPC countries must establish a track record of reform and sound policies through IMF and World Bank supported programs. By 1999, however, it was clear that the HIPC Initiative was failing to deliver in its stated goal of providing a 'lasting exit' to unsustainable debt burdens for the world's poorest countries. In response to massive popular campaigning by the international Jubilee 2000 coalition, creditor countries in 1999 agreed to 'enhance' the HIPC initiative to provide for greater levels of debt relief. It slightly reduced the number of years of structural adjustment and lowered the debt sustainability targets. However, by 2005 only 18 of the 42 HIPC countries had made it through to "completion point" the term used under the HIPC Initiative to describe when a country has a proven track record of good performance according to the Bank and the Fund. The 2005 G8 Plan will see these 18 countries immediately receiving the full load of their debt to the Bank, Fund and African Development Bank written off – assuming the G8 Plan goes through without further conditionality or delay. Although the current G8 plan, like the original HIPC Initiative, still applies to few too countries and is still too late, it is at last not too little.