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World Bank, IMF's credit circus starving poor countries — Oxfam

BD 21/2/96. (156)

Michael Holman

LONDON — Multilateral donors and African governments both came under fire yesterday when Oxfam International, the UK-based aid agency, warned of the growing social costs for the world's poorest countries struggling to service multilateral external debt.

Repayments to these creditors — dominated by the International Monetary Fund and the World Bank — have increased steeply, from 20% ($1bn) of total debt service payments in 1980, to 50% ($3,3bn) in 1994.

In an 18-page report Oxfam accused the World Bank and IMF of having created "an increasingly bizarre financial circus" in which more and more aid was being "recycled" in the form of debt repayment, while the debt stock was increasing.

And in its most outspoken attack on African governments since Oxfam put the continent's external debt crisis on its agenda, the agency condemned what it called the "lamentable lack of leadership and initiative" from administrations "whose citizens stand to benefit most from multilateral debt reduction".

By the end of the decade, says Oxfam, more than half of sub-Saharan Africa's 600-million people will be living in poverty As it is, says Oxfam, "perhaps as many as 50% of Africans lack access to even the most basic health care, or to clean water and sanitation".

Only one in two children complete primary school, and one in five children die before their fifth birthday "For less than is being spent on debt, it would be possible to make investments which would by the year 2000 save the lives of about 21-million children, and provide more than 90-million girls and women with access to basic education which they would otherwise be denied"

The release of the report is timed to coincide with Bank and IMF meetings in Washington this week to review the "for every $3 spent under the International Development Association (IDA), $2 came back to the World Bank in the form of debt payments" findings of their joint research into the extent of the problems posed by multilateral debt.

The results could provide a new framework for debt reduction. "In 1993/94," says the report, "$2,9bn was provided through the IDA — the concessional lending arm of the World Bank — to the most indebted poor countries, out of which $1,9bn was spent repaying past World Bank loans. For every $3 spent under IDA, $2 came straight back to the World Bank in the form of debt payments"

Some of the report's toughest comments, however, are reserved for the IMF, which Oxfam sees as leading the opposition to rescheduling and other measures to resolve the problem of multilateral debt.

"Part of the remaining $1, was used to finance repayments to the IMF, which has been a drain on the financial resources of the world's severely indebted low income countries."

Since 1987, the report says, "the Fund has received some $4bn more in debt repayments from these countries than it has provided in new loans."

In the case of Zambia, the government made a net transfer of $335m between 1991 and 1993 in an effort to pay past debts — "a sum equivalent to total government spending on heath and education", the report calculates.

Oxfam is equally trenchant in its comments on African governments "While individual governments — notably Uganda — have strived to engage the Bretton Woods agencies in a meaningful dialogue, the vast majority have been content to react to developments.

"Regional co-operation to develop shared approaches to common multilateral debt problems has been non-existent"

African governments "could do far more to reduce the toll of human suffering and lost potential", and Oxfam says it is not uncommon for more than half of national health budgets "to be spent on a couple of teaching hospitals at the expense of the primary health sector"

Defence budgets and subsidies to "inefficient and often corrupt state-owned corporations" also drain resources which could be used to meet human needs "Talk of ... without debt relief this must change."

But Oxfam also urges creditors to make greater efforts to reduce the burden of multilateral debt on the world's poorest countries It renews its qualified support for the creation of a $11bn multilateral debt facility, canvassed by the World Bank last year. This would repay debt service as it fell due over a 15-year period, and would be available to the 24 countries identified by the Bank as facing serious repayment difficulties.

But Oxfam argues that this would not lead to early and substantial reduction of debt stock, and calls for the provision of new and additional funds worth $12bn, financed in part by drawing on World Bank reserves, and through the sale of gold stocks.

"Effective multilateral debt relief would offer new hope for human development in many of the world's poorest countries, releasing the resources to eradicate poverty and establishing the foundations for economic recovery" — Financial Times.

UK aid agency Oxfam has warned of increasing poverty in Africa due to the servicing of external debt. Picture AP

CAST IN THE SAME ROLE

(156) FM 23/2/96

Are the tasks assigned to the IMF, by the 1944 Bretton Woods agreement, still valid? IMF researchers Paul Masson and Michael Mussa raise this question, in the light of the "vastly expanded role of international capital markets and the move to generalised floating of exchange rates"

The organisation provides temporary assistance to countries introducing strong adjustment programmes The IMF Survey says this support "helps forestall otherwise harsher and more disruptive measures that might negatively affect not only the adjusting economy but also its trade and finance partners"

The IMF creators assumed a central role for its financing But, in recent years, this role has been reduced as major changes took place in the global economy The researchers identify them as

- Greater exchange rate flexibility,
- Massive changes in the size and agility of private capital flows,
- Increased economic integration, and
- Expanded IMF membership

In recent years, countries with secure access to international capital markets — most of the industrial countries and a few of the developing ones — have relied exclusively on private financing

However, Mussa and Masson argue "Market imperfections and otherwise inadequate availability of international public goods justify a continuing role

"Timely and conditional financing allows these countries to address balance of payments imbalances while limiting the spillover of these problems to other countries"

A spinoff is that it "encourages countries to pursue appropriate policies and enhances the ability of other organisations to do their work — such as the World Trade Organisation whose job is to facilitate reduction of trade barriers"

Moreover, the speed and scope of modern economic crises demonstrate how unexpectedly a pressing need for financing may arise — and hence the need for IMF resources ■

IMF, World Bank talks to focus on the debt burden

(156) BD 5/3/96

LONDON — The G-7 governments must spend the next few weeks deciding whether to help the world's most indebted poor countries help themselves. The Mexican financial crisis put the thrills and spills of emerging markets at the top of the agenda at last year's spring and autumn meetings of the IMF and World Bank. But ministers and officials attending the meetings this year have a more old-fashioned problem to address: how to stop the world's poorest economies from slipping further.

Any World Bank economist will tell you the first step in helping these countries is to reverse the bad policies that have blocked development. Overcoming resistance to sweeping policy reform is hard enough But, for many, there is a further obstacle to growth: the burden of paying off large amounts of debt, big chunks to the same multilateral institutions that have been urging reform.

According to the World Bank, 41 of the world's poorest countries have unsustainably high external debt Between them, these heavily indebted poor countries owed more than $200bn to outside donors at the end of 1994.

Most observers accept some of these poor countries will need special help in reducing their debt burden. The disagreement is on the details.

The Bretton Woods institutions, particularly the IMF, have argued that the debt burden, as opposed to poor economic policy-making, is a serious obstacle to growth in only a few countries.

This argument has taken a battering from pressure groups such as Oxfam who have pointed out that having a large stock of debt could have long-term costs over and above the direct financial burden of servicing it Foreign investors shun a poor country because of fear of future debt crises and domestic investment is held back because companies believe the proceeds will be taxed to pay back foreign creditors.

Donor governments have made some modest efforts to lessen their part of the debt overhang, in a series of agreements reached under the auspices of the Paris Club. However, donors have resented the fact that the World Bank and the IMF, as preferred creditors, often seem to be the true beneficiaries of bilateral debt forgiveness

New facility

The World Bank has made something of a strategic retreat, although it has had a difficult time persuading the IMF to go along with it. Last year an internal bank memo admitted that up to 23 of the 41 countries could face difficulties reducing their debt to manageable levels, even given optimistic forecasts for growth.

The authors suggested using a mixture of bilateral and multilateral funds to create a new multilateral debt facility which would help these countries pay off the unsustainable portion of their multilateral debt This idea did not go down well with member governments, or with the IMF.

The latter said privately four countries, at most, faced a serious problem, and even these would be better helped by more traditional methods of re-financing.

However, a leaked copy of a joint IMF/World Bank staff paper suggests the two organisations have gone some way towards resolving some, if not all, of their differences over the extent of the problem. Officials are now pondering proposed solutions for debate next month in Washington.

The new paper states that around eight of the 41 countries cannot be expected to achieve sustainable debt burdens in less than 10 years. About 12 more are defined as possibly stressed, and not expected to reach sustainable debt levels in less than five years.

For the moment, at least, a solution not is going to be offered to any country In principle, the IMF has agreed to the idea of selling a chunk of its gold reserves for a permanent facility which could help countries refinance their IMF debts. For its part the World Bank has no similar pot of gold, but insiders admit that its reserve requirements and provisions for bad loans are excessive So it, too, could probably come up with money for specific debt-alleviating.

The problem is that this extra money could be used to help other desperate countries.

Why, argue several of the largest shareholders of the bank and IMF, should they reward countries that have so mismanaged their affairs they cannot repay the softest of loans?

One possibility would involve granting debt forgiveness-cum-refinancing for good behaviour. This would echo the IMF's approach in such countries as Zambia and Peru, which have been able to build up eligibility for official debt re-scheduling in exchange for having complied with specific IMF policy demands — Financial Times

IMF takes bullish view on world growth

(156) ARG 16/4/96

WASHINGTON - The International Monetary Fund is optimistic on prospect for world economic growth as the United States is unlikely to go into recession and as Europe and Japan begin to show signs of stronger activity, a monetary official said here.

Global growth will be further supported by continued expansion in developing countries, particularly in Asia and Latin America, he said.

Even in Africa, the forecast is for a marked pickup in the annual added percentage just ahead of an IMF report to be issued this week on the world economic outlook.

Among industrialized countries, Japan should experience a recovery while in the United States growth should come to between two and 2,5 percent in 1996 and 1997.

In Europe, according to the official, the IMF expects a recovering in the growth of between countries such as Italy, Britain and Sweden, where currencies have been devalued, and France and Germany, which have opted for monetary rigor.

The Fund is also confident that currency stability has been restored and that the long-term evolution of interest rates will not trigger economic slowdowns.

The official said the IMF has determined that policies aimed at reducing budget deficits through spending cuts are more effective over time than those based on tax cuts.

IMF analysts also believe that in the EU the goal of reducing budget deficits to less than three percent of GDP in order to implement monetary union is not guaranteed but is within reach.

The official said the Fund predicts that in 1997 France and Germany will post deficits nearly 0,5 percentage above the limit if they do not alter current policies. - Sapa-AFP

IMF expects global economic expansion

CT(BR) 24/4/96 (151)

By Myra MacDonald

Washington — The outlook for economic growth in developing and industrialised countries looked fairly promising, top economic officials said on Monday

Greater currency stability, diminishing inflation, low interest rates and the absence of big economic crises meant the world could be poised for expansion.

High unemployment, particularly in Europe, where growth has slowed down from levels needed to create enough new jobs, marred this picture

Policymakers at a meeting of the International Monetary Fund said they were encouraged by recent developments in the world economy

The IMF's policy making committee said inflation had been brought down or kept low in most countries and the broad movements in the exchange rates of the major currencies since April last year had improved the prospects for sustainable non-inflationary growth

"In many countries there is more confidence that the period ahead will feature sustained growth," said Robert Rubin, the United States treasury secretary

However, the finance ministers and central bankers in the IMF committee called for strengthened supervision of financial markets, further efforts to curb budget deficits and a removal of labour market rigidities that had led to "unacceptably high unemployment"

They said they saw a healthy expansion in the US and noted recovery had begun in Japan.

In western Europe the economies were expected to pick up during the course of this year, aided by low inflation and an easier cost of credit

In eastern Europe, the switch to free-market economies by former communist nations was improving growth, officials said

Russia could count on better times provided Moscow stuck with its tough economic reforms, said officials from the Group of Seven leading industrial nations

To help Russia, rich nations in the Paris Club of official creditors appeared poised to reduce its $45 billion debt burden

The Paris Club of creditor nations was due to discuss the question this week and officials have voiced optimism that the talks would produce a long-term rescheduling of Russian debt

Officials said the economic outlook for Asia was good, with recovery taking off in Japan

However, Rubin cautioned against too early a rise in Japanese interest rates, cut to rock bottom to revive growth

The mood of optimism also extended to developing nations

Macroeconomic adjustment and structural reform had led to improved living standards for a large share of the world's population, said Philippe Maystadt, the Belgian finance minister

Problems remained for the very poor countries, many of them in Africa, which were saddled with big debts they were unable to repay

The IMF and World Bank have proposed that Paris Club creditors write off up to 90 percent of the debt owed by very poor nations, instead of the 66 percent relief they give now. The Paris Club nations appeared ready to do more. — Reuter

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IMF, World Bank have difficulty adapting

(56) CT(BR) 25/4/96

BY RICH MILLER

Washington — For two organisations that have made it their business to preach the gospel of economic modernisation, the IMF and World Bank are having a tough time following their own advice

When the lending agencies wound up their semi-annual meeting on Tuesday, they had made little progress on a crop of contentious issues confronting them, from aid to the world's poorest nations to more emergency funds for the IMF

"We have to make the international institutions as modern as the markets in which they operate," Robert Rubin, the United States treasury secretary, said

That means dealing with the growing might and reach of the markets It also means coping with other realities of the new economic terrain, from the pinch on foreign aid budgets to the shift in economic power from Europe to Asia

The agencies recognise that change is needed But critics say they have been hampered in their efforts by outmoded thinking

The effort to aid debt-ridden nations is a case in point These countries have amassed billions of dollars of debt in a mostly futile effort to shake off poverty

After much prodding by non-governmental pressure groups, the IMF and World Bank have agreed to write off some of their loans to poor countries so that they too can enjoy the fruits of global growth

But the agencies have set tight limits on their efforts, arguing that their enshrined status as "preferred creditors" should come before virtually all other considerations

That means they will not forgive the debts of any one nation until rich creditor countries write off 90 percent of their loans

The rich nations, which already provide debt relief of up to 67 percent to certain countries, have not taken kindly to the idea and have called on the agencies to do more

Michel Camdessus, the managing director of the IMF, has reluctantly agreed to sell a portion of the fund's $40 billion in gold reserves to help to finance its contribution

But some of the IMF's major shareholders have opposed any sale of the gold, which the IMF was given at its founding in 1946 when the global financial system was based on the metal

The shift in the world economy in the last 20 years has thrown up other problems for the IMF in its role as guardian of the international financial system

Now that investors can shift billions of dollars at the flick of a computer key, the IMF is being forced to find new ways to insulate the world economy from sudden shocks

To help it in that task, the rich nations have proposed increasing the resources that the IMF can draw on in a crisis and have turned to smaller countries for contributions

The US and its allies in the Group of Ten (G-10) already provide the IMF with about $25 billion in emergency credit lines

The effort to double that amount has bogged down because of European industrial nations' reluctance to share their long-held power at the IMF with economic upstarts from Asia, some officials said

The rich nations have also been reluctant to change the terms governing the credit lines

In practice, the IMF can only draw on the money if there is a crisis in a G-10 country, and then only after endless negotiations

But global crises can begin anywhere — witness Mexico's currency debacle last year — and do not wait for diplomatic dickering — Reuter

World Bank and IMF fail to act on Africa

(156) (~~200~~) ARG 25/4/96

WASHINGTON – This year's spring meetings of the World Bank and its sister International Monetary Fund (IMF) have ended here, leaving in their trail more questions about Africa's financial future than they have answered

The three key African issues – debt, new money, and structural adjustment policies – were either not discussed or remained unresolved at the end of the April 20 to 23 sessions

The adjustment policies, which an increasing number of economic experts and non-governmental organisations (NGOs) have questioned in the absence of any sustained success, were not discussed, interim committee chairman Philippe Maystadt said

But the failure of the meetings was clearest on the issue of reducing the multilateral debt of poor countries, most of which are in Africa The United States, Canada, Britain and other rich countries had claimed that there would be a concrete initiative this April And poor countries had come to expect a solution

But the meetings concluded with only hopes and requests by rich and poor members that there would be a concrete plan by October, when the World Bank and the IMF hold their annual meetings

The interim committee and the development committee – the policy-making bodies of the IMF and the bank respectively – issued face-saving communiques, describing the joint debt proposal as an "appropriate framework" But both rich and poor countries said they found the proposal lacking

The final communique said ministers had "requested that the bank and fund – in close consultation with concerned bilateral creditors, donors and debtors, the Paris Club, and other multilateral institutions – move swiftly to produce a programme of action."

The ministers, however, endorsed what the communique described as "six principles to guide further action"

For one, "the objective should target overall debt sustainability on a case-by-case basis" Action was "envisaged only when the debtor has shown ability to put to good use whatever support is provided" – Sapa-IPS

IMF calls for global public spending cut

M+G (BM) 26/4-2/5/96 (158)

Sarah Ryle in Washington

THE International Monetary Fund (IMF) last week prescribed fiscal discipline, which it insisted must be swallowed by leading economies unless they wanted to see growth slip back from already modest levels.

Fears about the weakness of the dollar, which were paramount at last year's round of IMF/World Bank meetings, appear to have eased, pushing the drive to get budgets under control to the top of the agenda set by the World Economic Outlook.

The IMF's experts ruled out a widespread and severe slowdown across the globe this year, insisting that global growth was set to pick up pace.

But they admitted that their forecasts for growth last year had been much too optimistic, especially in Western Europe and North America. This was reflected in predictions for industrial countries this year and next year — 2% and 2,6% respectively. The outlook for the Group of Seven industrialised nations was even less positive, with growth put at a mere 1,9% this year.

The slowdown was not uniform, however, and IMF staff said that in cases such as the United States it was welcomed because of the potential build-up of inflationary pressures.

It was less marked in some parts of Europe, notably Britain and Italy, whose currencies had depreciated since 1992 and which had experienced more growth and falling unemployment — unlike countries with currencies linked to the German mark.

For Germany itself growth is projected at just 1% this year before recovering to 2,9% in 1997; in France this year's 1,3% should improve to 2,8%.

Despite the caution over industrial countries, the IMF said global growth would be buoyed up by the performance of emerging markets, bringing the forecast for this year's world gross domestic product growth to 4%.

It warned that even the modest predictions for the industrialised countries were under threat from insufficiently tight fiscal control — the IMF's way of saying that public spending needs to be cut. It went on to say: "The ballooning of public debt in industrial countries over the past two decades of relative world peace and prosperity is unprecedented."

It called on industrial countries to work harder to balance their budgets, which it said have had the effect of pushing up interest rates, damaging private investment.

It suggested that tax increases would not be the main solution for budgets in the red. The pain would have to come from cuts in public services, although the IMF recognised that this would be politically sensitive.

There also would have to be sizeable reforms to public spending schemes, according to a special report on the effect of ageing populations.

World bank gives very few answers

156 Sowetan 29/4/96

Experts and NGOs have questioned the lack of sustained success

THIS YEAR'S SPRING meetings of the World Bank and its sister International Monetary Fund (IMF) have ended, leaving a trail of unanswered questions about Africa's financial future

The three key African issues – debt, new money, and structural adjustment policies – were either not discussed or remain unresolved at the end of the April 20-23 sessions

The adjustment policies, which an increasing number of economic experts and non-governmental organisations (NGOs) have questioned in the absence of any sustained success, were not discussed, IMF interim committee chairman, Philippe Maystadt of Belgium, admitted

But the failure of the meetings was clearest on the issue of reducing the multilateral debt of poor countries most of which are in Africa

Concrete initiative

The United States, Canada, Britain and other rich countries had claimed that there would be a concrete initiative this April And poor countries had come to expect a solution

But the meetings concluded with only hopes and requests by rich and poor members that there would be a concrete plan by October, when the World Bank and the IMF hold their annual meetings

The interim committee and the development committee – the policy-making bodies of the IMF and the Bank, respectively – issued face-saving communiques, describing the joint debt proposal as an "appropriate framework"

But both rich and poor countries said they found the proposal lacking

The final communique, issued during the course of last week by the development committee, said ministers had "requested that the bank and fund – in close consultation with concerned bilateral creditors, donors, debtors and the Paris Club – to move swiftly to produce a programme of action"

The ministers, however, endorsed what the communique described as "six principles to guide further action"

> **"The lack of concrete initiative was a defeat for World Bank president James Wolfensohn"**

For one, "the objective should target overall debt sustainability on a case-by-case basis," the communique said

Action is "envisaged only when the debtor has shown through a track record ability to put to good use whatever exceptional support is provided" And "new measures will build, as much as possible, on existing mechanisms"

The lack of a concrete debt initiative was a defeat for World Bank President James Wolfensohn, who last weekend told journalists that he was confident the meetings would produce a firm deadline for adoption

Triumph for IMF

It was a triumph for the IMF, at whose insistence - say NGOs and some Bank officials – the most damaging stud was inserted in the proposal This was insistence that modalities for multilateral debt relief be preceded by three actions by the rich countries

These include the requirement that the Paris Club – the club of rich countries – raises its ceiling on bilateral debt reduction from 67 percent to 90 percent

Another call was on rich countries to contribute between R34 billion and R44 billion to finance the reduction of multilateral debt

The third requirement – exclusive to the Fund – is that rich countries must approve and partly finance a plan to maintain its enhanced structural adjustment facility (ESAF) between 1999 and 2004 when it claims the facility would become self-sustaining

Rich countries have rejected virtually all three conditions

"We expect the IMF and World Bank, in cooperation with the regional banks to offer more specific proposals which the G-7 believes should involve the fullest use of their own resources to finance debt reduction," the most industrialised countries' (G-7) ministers say in their communique issued last week Sunday.

Of the four points in the IMF's ESAF plan aimed at raising some R30 billion for bridging finance, none seemed near agreement among its dominant shareholders as the meeting ended

Opposed to proposal

Germany, in particular, is opposed to Camdessus proposal to sell five percent of the Fund's gold reserves to raise some R6,4 billion Canada and Britain support this The United States only said it would "consider carefully" the proposal.

Even more contentious are the three other points in the proposal direct borrowing from such members as Japan, France, Italy, and the United States, direct bilateral donations of about R6,4 billion, and a position that creditors to ESAF funds do not take back their loans when due

"At a time of serious budget constraints in many countries, including my own, this responsibility will inevitably have to fall primarily to the IMF in particular through more efficient use of resources available to the IMF," said Rubin of the ESAF plan He cautioned "against a plan the viability of which depends on sizable bilateral contributions"

Rejecting responsibility

Beyond rejecting the financial responsibility the debt proposal thrust on them, the rich countries also shared the concerns expressed by developing countries under the Group of 24 (G-24) about the technical soundness of the proposal

Britain, Canada and the United States, in particular, faulted the estimated time frame for debt reduction, a period the G-24 placed at nine to 10 years.

"We would urge the institutions to assure that the time frame for multilateral action is both reasonable and flexible, and that mechanisms are developed for co-ordination among the multilateral institutions and with the Paris Club," said Rubin.

"While a track record of commitment to reform must be established, I firmly believe that multilateral assistance needs to be provided as early as possible, if we are to break these countries out of their unsustainable debt trajectories" agreed his Canadian counterpart Paul Martin *Sapa-IPS*

Third World Network officials Hormeku Tetteh, left, Martin Khor Kok Peng and Chakravarthi Raghavan, right, at a news conference at the UN Conference on Trade and Development in Midrand yesterday. Picture Garth Lumley

World Bank slated for 'punitive stand'

John Dludlu (156) BD 30/4/96

THE World Bank and the IMF yesterday came under attack from the Third World Network for pushing for a return "to the golden era of capitalism" and for strategies aimed at "punishing poor countries".

Addressing a news briefing at the UN Conference on Trade and Development, Malaysian-based Martin Khor Kok Peng, an official of the network, lashed out at the liberalisation agenda — one of the conference's main themes — saying that it would punish the weak and strengthen the stronger countries

Free trade, as pursued by the World Trade Organisation, was like asking US runner Carl Lewis "to compete with an African boy who had not eaten for days".

Peng called for policies that would "positively affirm" poor nations, and said the network — a non-governmental lobby of African, Latin American and Asian nations — was uneasy about the mooted global investment treaty Initially the treaty would give investment concessions, but would be eroded over time

He said the WTO, successor to GATT, was an agency of the rich nations to "discipline" the Third World Another official of the network, Chakravarthi Raghavan, who is based in India, criticised the bank and the IMF — which enjoyed diplomatic immunity — for trying to ensure that others (poor nations) paid the price for wrong advice they gave

He accused western governments of preaching free market when they did not practise any in their own countries Only the Third World countries were being asked to free up their markets

Earlier in the day, Trade and Industry Minister Alec Erwin told a seminar that trade efficiency could play a significant role for small business development through lowering costs of entry to world trade and the simplification of procedures

IMF meeting looks at SA today

CT(BR) 29/5/96 (15b)

By Dale Lautenbach

Johannesburg — When the executive directors of the International Monetary Fund meet in Washington today to discuss the report on South Africa — the culmination of the so-called annual Article four consultations — they will not hear anything South Africa does not know

The report will concentrate on job creation and deliver a message to labour to show more flexibility.

"At the heart of the report is growth of output and of employment and what it takes to do that," said Evangelos Calamatsis, the director of the fund's African department.

Calamatsis was in Johannesburg early this week after the economic summit in Cape Town

South Africa's relationship with the fund is at the level of what Calamatsis calls, not without a chuckle of acknowledgement, surveillance.

In other words South Africa is not a case for emergency fund intervention and it has not asked the institution for technical assistance

The country does get the benefit of the fund's wisdom after a yearly consultative process and study, which culminates in the meeting in Washington today.

The fund tells the world what it thinks of South Africa not by public broadcasts but its own network of executive directors

Speaking after President Nelson Mandela's message on privatisation, Calamatsis said he believed South Africa was aware of the issues and was willing to address them

He acknowledged that an economist's package of advice on job creation would have to run the gauntlet of political reality

A package containing the ideal combination of trade liberalisation, some liberalisation of labour-market conditions, training and a flexibility in the exchange rate was not an easy political message

"All the major indicators (for South Africa) point to some progress during the last two years," he said

"Then comes the challenge, which is a growth rate of 3,5 or 4 percent It is difficult to see how to deal with huge unemployment — a third of the labour force and I gather about 40 percent of the black labour force"

The depreciation of the rand "brought about some correction needed at the end of 1995," Calamatsis said

The fund and others were concerned in general about the depreciation of the rand, but Calamatsis said the value of giving the South African economy a push should be appreciated, "particularly in the areas of export and import substitution"

He would not be pushed to name what the fund thought was a realistic level for the rand

"South Africa needs to consider some liberalisation of the labour market and you will need some flexibility on that side," he said.

"But whatever solutions are found have to be in the context of a social consensus"

Unemployment was linked to a host of social ills about which the average South African needed little reminding

"How do you develop the necessary consensus?" Calamatsis asked "That is a political issue beyond us, but I have a sense that the authorities are aware of its importance"

On the question of South Africa's broader context, the African continent, Calamatsis was encouraged by what the figures were indicating

For sub-Saharan Africa excluding South Africa and Nigeria, growth of 1,7 percent in 1994 had risen to 4,8 percent so far this year with a 5,4 percent projection for the whole year

He cautioned against ignoring inflation trends

"We don't talk enough about inflation," he said

There were major problems in Malawi, Mozambique and to a lesser extent Zambia and Zimbabwe

In Africa, there had been some improvement in growth but more was needed and above all, it had to be sustainable, said Calamatsis

Lender of last resort

M+G (24-30/5/96)

If the reserves crisis remains unresolved, South Africa may have to turn to the International Monetary Fund for financial assistance, writes **Simon Segal**

WILL South Africa have to go to the International Monetary Fund (IMF) led by Michel Camdessus, for financial assistance? If the recent outflows of capital are not quickly reversed, many analysts believe the country will have little option but to apply for an IMF facility

At about R10-billion South Africa's reserves are uncomfortably close to five weeks' worth of imports

With official statistics for the first quarter not yet available, the best barometer of capital flows is foreign investment in South Africa s equity and bond markets

From a net inflow of R4,5-billion in January and February, there was a net outflow of R1,9-billion in April This recovered to a net R750-million inflow in the first half of May

Clearly, total capital inflows would have slowed since the rand crisis started in February From the second half of 1994 to end 1995, there was a net capital inflow of R30 8-billion (there was a net R51,7-billion outflow from 1985 to mid 1994 accounting for a loss of at least 2% in gross domestic product in each of these years)

At about R10-billion, South Africa's reserves are close to five weeks' worth of imports

Capital flows are significant Reserve Bank Governor Chris Stals talks about a net capital inflow of around $1-billion to achieve a growth rate of 5%

The problem is that a large part of South Africa's capital inflows are portfolio investments which are volatile and unpredictable

South Africa, it is true survived a far more serious reserves and capital account crunch in the run-up to the April 1994 elections But thereafter the new government enjoyed a honeymoon period, as foreign investors gave it the benefit of many doubts

These doubts are now coming home to roost as reflected in the rand s plunge and slowdown in net capital inflows

South Africa s quota at the IMF, based on its annual subscription, which in turn is related to the country's size, is 1 365-billion (R7,5-billion) in special drawing rights (SDR) IMF credit is available in tranches of 25% of a country s quota

For drawings under the first tranche, members have to show efforts to overcome their balance of payment problem First tranche drawings are not phased or subject to performance criteria

Upper credit tranche drawings are made in instalments associated with stand-by or extended arrangements These typically seek to overcome balance of payment problems through structural policy reforms and are conditional on meeting performance criteria

A country can borrow up to 100% of its quota over a year and 300% over five years IMF money is cheaper than commercial credit.

Politically IMF money is a hot potato as it comes with conditions that Cosatu and many in government, consider unpalatable

But for others including some in the Reserve Bank and Finance Ministry, it is a blessing in disguise because it forces fiscal restraint and potentially restores investor confidence in South Africa.

Typically IMF money would be conditional on cutting the Budget deficit from about 5 to 6% of GDP to nearer 3% The IMF would also want to see progress on privatisation and higher savings

Potential aid for 1996 The last time South Africa borrowed from the IMF, led by Michel Camdessus, was in 1993

With the normalisation of international financial relations the government is able to raise new funds on the international capital markets It is budgeting for R2,5 billion in foreign loans this year (R1 8 billion in 1995/1996) out of a total gross borrowing requirement for 1996/1997 of R45,1-billion

During its first two years in power the Government of National Unity has raised three foreign loans

- A Y30-billion Japanese samurai bond at 5% in June
- In December 1994 $750-million was raised at 9 6% then 193 basis points above the equivalent United States Treasury rate It now trades at a premium of 152 points The premium has fluctuated between 135 (this year) and 350 points (in early 1995 just after the Mexican debt crisis)
- In January this year a 10-year Eurosterling bond was raised at 9,38%, 190 points above the equivalent British benchmark bond This was the government's first 10-year loan

While increasing, South Africa is still under-borrowed in terms of its $20,7 billion foreign debt ($18 6-billion), some 23,5% (22,9%) of GDP

US credit rating agencies Standard & Poor s (S&P s) and Moody's pronounced South Africa s rand bonds two notches better than investment grade S&P s raised its rating of South Africa s foreign currency debt one notch to BB+ still short of investment grade Moody's and Japan s Nippon Investor Services have rated South Africa's foreign currency borrowing as investment grade

Foreign borrowing becomes expensive when the rand depreciates The £100-million bond for instance, now costs some R660 million to redeem, against R560-million when it was issued earlier this year

The last time South Africa went to the IMF was in 1993 when it sought SDR615-million under the IMF's Compensatory Finance Facility (repayment starts in the fourth quarter of this year) But this was effectively drought relief

The last time South Africa used a stand-by facility was in the early

a Stand by facility was in early 1980s.

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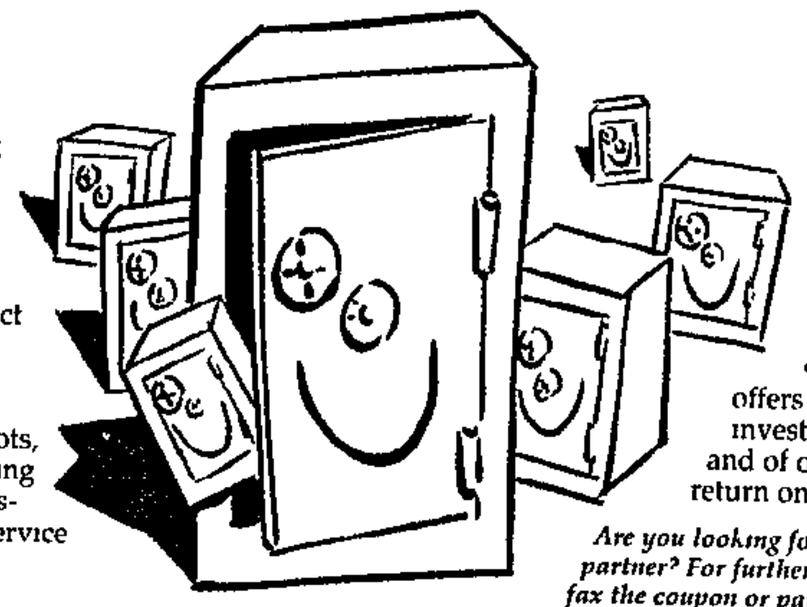

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World Bank and IMF 'stifle growth'

CT(BR) 14/6/96 (156)

By Peter Fabricius

Washington — African nations should implement a simple three-step plan of dramatically lowering trade tariffs, government spending and taxes to achieve the high growth rates and jobs they need, Jeffrey Sachs, a leading Harvard economist, said this week

The nations did not need elaborate World Bank structural adjustment programmes or strict International Monetary Fund (IMF) restrictions on inflation that stifled growth, he told an Overseas Development Council conference in Washington

Sachs, an adviser to the Russian president Boris Yeltsin and other leaders of transitional economies, said the world development community was often dismayed by Africa's economic prospects because it set such high targets

He said the fund only knew about controlling inflation It had set Kenya a target of 3 to 5 percent inflation, but no studies said that was ideal for Kenya The focus should be on "how to make the economy grow rapidly", rather than on meeting policy goals

"And if the IMF knows only one thing too well, the World Bank knows everything," Sachs said, citing its structural adjustment plan for Kenya He described the plan, which required 112 separate policy reforms, as "conditionality gone mad" It obscured the two or three steps most needed for growth

Between 1970 and 1989 Africa's economies grew by only 0,82 percent, compared with the average 3,4 percent of the developing world's eight fastest-growing economies

African countries should set targets of government spending no higher than 20 percent of the gross domestic product, import tariffs no higher than 10 percent, flat-rate corporate taxes of no more than 30 percent and no income taxes, he said

Other delegates disagreed with the priorities Sachs outlined

IMF gold sale to help the poor

By GEORGE JONES Lyons

THE world's seven richest nations have agreed to let the International Monetary Fund sell some of its gold reserves to help the poorest countries — particularly those with massive debts in sub-Saharan Africa

The deal — announced at G7 economic summit which ended in Lyons yesterday — should pave the way for the IMF to sell five million ounces of its stock of 103 million ounces of gold, raising $2-billion (R8,6-billion)

The money would be invested in bonds and the income used to provide debt relief for the poorest countries

The move was resisted by Germany, which claimed that the planned sale would weaken the IMF when money was needed to support reforms in Russia

But President Jacques Chirac of France was anxious that the summit should indicate that it was prepared to help some of the world's poor

The IMF supported the plan Italy and Japan, which had previously opposed gold sales, also swung round in favour An economic communiqué issued during the summit did not make any specific reference to gold But it committed the G7 leaders to examine the options for financing the necessary debt subsidies, primarily using resources held by the IMF.

It added that "if needed, the IMF should consider optimising its reserves management" to finance the programme for helping the most destitute countries

Britain's Chancellor of the Exchequer, Kenneth Clarke, said there was no way the IMF could provide the assistance without selling a small amount of its gold reserves

The communiqué committed the G7 countries to policies directed at sustaining non-inflationary growth, saying this was a vital prerequisite to bringing down unemployment

It also contained a commitment to reforms aimed at achieving high levels of employment, including tax and social security system changes, to ensure that "work pays", particularly for the least well off This would include lowering social security charges which placed a burden on low-skilled jobs in countries with high indirect labour costs

After denouncing world terrorism on the opening day, the summit hailed lowered trade barriers and other economic reforms for creating opportunities

"Economic growth and progress in today's interdependent world is bound up with the progress of globalisation," said the statement

ST 30/6/96 (156)

The positive aspects of "globalisation" included an expansion of investment and the chance for more developing countries to improve their standards of living

The communiqué also contained a strong commitment to combat corruption in international business, including co-ordinated action to criminalise bribery

Meanwhile, a counter-summit was held by activists at a Lyons coffee shop Under the slogan, "sado-monetarism G7 hurts", they accused the "elite heads" of the richest states of "playing football with the entire globe", and of protecting corporate interests, not people's well-being. —

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IMF chief tells African leaders to 'rule well for economic growth'

(156) BD 11/7/96

YAOUNDE — The head of the IMF told African leaders on Tuesday that their continent had made significant strides in recent years and encouraged them to continue with restructuring and ensure better management of Africa's resources

Michel Camdessus, the IMF director-general, told reporters that he had advised the 31 heads of state and government attending the Organisation of African Unity (OAU) meeting in Yaounde, to realise the potential of growth that lay on the continent.

Camdessus stressed that good governance coupled with better management of resources, restructuring of public finance systems to remove unproductive expenditure as well as the continuation of structural adjustment programmes, was certain to ensure positive growth

"I am totally confident of the performance of a new democratic continent," said the IMF chief after holding talks with the leaders gathered for the 32nd annual OAU meeting

Asked about the response of the African leaders to his talk, Camdessus said "I had the impression that they were listening not only with courtesy but with attention, and they were generous with their applause"

Camdessus was upbeat that Africa was poised for positive economic growth in coming years

"I am confident there is a possibility of success because we are observing that things are moving, things are changing," he said

However, he stressed that these changes would not apply to states at war or in some form of political struggle

He said 40 African countries presently posted positive per capita growth compared to only 20 five years ago

Economic growth

He predicted an average continental economic growth of about 5% or more this year compared to just 1% five years ago

For the success of the programmes, Camdessus urged cooperation from the rich nations

Camdessus called on the industrialised countries to make a significant effort and to "have a special responsibility to promote world economic growth and stability by adjusting their own structures and co-operating among themselves to minimise potential sources of instability"

The world had to open its markets to products from Africa, he said, while creditors had to show their commitment to the reform programme by reversing the declining trend in official development assistance

"The lamentable experiences of the past two years during which official development assistance has fallen at a time when there have been 'peace dividends' must be offset," he said

Thirty one of Africa's 53 countries are undergoing economic reforms, on the continent where 33 of the world's least developed countries are located.

He called on the bilateral creditors to ensure that necessary resources were rapidly provided so long as they were within the framework of comprehensive programmes of macroeconomic stabilisation and structural reform

On debt — Africa's perennial burden, which is expected to reach $320bn by the end of this year — he said he was opposed to its cancellation, but rather preferred reduction to bearable levels

Camdessus urged bilateral creditors and multilateral finance institutions to support the UN special initiative for the development of Africa

The UN last month promised a new partnership for development with the continent — Sapa-AFP

SA to subscribe to new IMF standard

BD 31/7/96 (156)

Lukanyo Mnyanda

SA WOULD subscribe to the IMF's new quality standard for economic statistics within two-years, the Central Statistical Service said yesterday.

A Reserve Bank economics department spokesman said the department had recommended to governor Chris Stals that the Bank also adopt the standard, due to be launched next month

At least 20 other industrialised and developing countries have indicated their willingness to subscribe to the standard which has its origins in the Mexican crisis of about two years ago.

Subscribers will be required to display the economic data, such as inflation and reserve figures, on a special Internet site to enable authorities and international finance agencies to detect and avert financial crises before they occur

CSS economic statistics director Roelf van Tonder said member countries had until 1998 to upgrade their statistical services and he was confident that SA would easily meet the standard requirements within that period

It was not possible to say exactly when SA would subscribe to the standard as the details still had to be worked out between the CSS, the Reserve Bank and the finance ministry.

The Bank spokesman said the subscription to the standard would be an important tool for informing prospective investors about the state of the country's economy and might lead to an improvement in SA's credit rating

The IMF has drawn up standards for 17 categories which should be met by countries with access to international financial markets

Countries who still fall short on the standard will still be allowed to join, provided they give the IMF information on how they plan to meet the requirements during the transitional period which is scheduled to end in 1998

"These (standards) will represent a challenge to bring our data on par with international norms," the Bank spokesman said.

Economists welcomed moves to subscribe to the standards, saying anything that allowed SA's statistics to meet international standards would ultimately be good for the country's economy

Econometrix economist Tony Twine said the move would bring SA data on line with international standards and give foreigners a better understanding of the country's economy

Nedcor chief economist Dennis Dykes said subscription to the standard would also bolster the credibility of SA economic statistics "Anything that brings us in line with international standards is good," he said

IMF warning on market volatility

(156) BD 19/8/96

Simon Barber

SAN DIEGO — IMF economists are more certain of what did not trigger the attack on the rand that began last February than what did

One thing the authors of the latest annual IMF staff report on the SA economy are sure of: SA in early 1996 bore little resemblance to Mexico in December 1994.

SA authorities, says the report, handled the surge of capital inflows that started after the 1994 elections, and amounted to R21bn last year, remarkably responsibly.

SA "performed well" on the "key test" of absorbing the increased flows "efficiently" to finance additional private fixed investment, which grew by a full percentage point of GDP last year, to 16,9%

Spurred by rapid growth in private domestic investment, the external current account deficit rose to a substantial, but financeable, 2,6% on GDP last year, small compared with Mexico's 8% when the Tequila Crisis struck.

SA's external debt was "rather modest by world standards", and while "a significant proportion" of the inflows were short term, there had been "a determined effort" by the Reserve Bank and others to reduce short-term exposure.

"All other macroeconomic variables were moving in the right direction." Throughout last year "the authorities remained broadly on track in their efforts to reduce the fiscal deficit, allowed a limited appreciation of the rand, implemented a sterilised intervention in the spot market and reduced the net oversold forward position of the SA Reserve Bank.

Rand appreciation

"As a result, the rand appreciated 7,7% in real terms from May last year through January this year, net reserves increased from about zero in mid-1994 to $3,5bn by end-1995, and the net forward position declined rapidly . At the same time, authorities removed capital controls on non-residents and relaxed controls on residents.

"In sum, the direction of policies was appropriate and their achievement significant "

So what, other than rumours of President Nelson Mandela's ill-health and the imminent removal of remaining capital controls, launched the assault on the rand?

Aside from "uncertainty about the course of future policy" — exacerbated by the unexpected departure of finance minister Chris Liebenberg — factors cited in the report include the 7,7% real appreciation of the currency during the preceding months; suspicions raised by the Union Bank of Switzerland that the Reserve Bank was actively intervening to keep the exchange rate within a predetermined band, thus making it a tempting target for speculators; and the sharp increase in international long-term rates in February.

The report finds the last-mentioned theory the least compelling, given the marginal effect of rising rates on other emerging markets.

Unable to pinpoint any precise cause, the authors of the IMF's report fall back on a warning that market sentiment can be volatile and that SA had better be careful now that the sentiment can directly affect the country's macroeconomic balances, particularly through the capital account

Shifts in sentiment, the report suggests, are likely to be felt disproportionately by SA since its foreign exchange market is "by international standards, relatively small".

IMF staff impart three pieces of advice: implement financial and structural policies that strengthen market confidence; take care that government's commitment to such policies is not called into question; ensure that markets are confident that policies will be adjusted appropriately in the face of unexpected developments.

"If uncertainties in these areas are not addressed," the report concludes, "the benefits for growth of an easing of the external financing constraint . would be lost as a result of the associated increase in the country risk premium, and thus higher domestic interest rates."

Belt tightening required for 6% growth

Simon Barber

SAN DIEGO — The success of government's macroeconomic strategy to achieve sustained 6% growth by 2000 will need considerable fiscal belt tightening, according to the IMF's latest annual staff report on SA.

The report, newly released but completed in May before the unveiling of the macroeconomic plan, lists a number of fiscal measures that could be taken to help raise fixed investment from the 18% of GDP projected for this year, to the 26% targeted for the 2000/2001 fiscal year.

The measures, outlined in a chapter entitled Accelerating Growth and Fiscal Policy, include major cuts in business and farming subsidies: for example, the elimination next year of export promotion, regional industrial development programmes and subsidies for Armscor which, between them, accounted for nearly 1% of GDP in 1995/96.

Subsidies for nuclear energy (but not safety) and water works, worth 0,25% of GDP, are listed as candidates for the axe in 1998/99

Other steps are recommended for making existing government expenditure more efficient Among these are redirecting funding away from universities to primary and secondary education, and away from the military towards police and judicial services. Teachers wages could also be "targeted" more productively, with savings going to improved infrastructure.

The report accepts the macroeconomic plan's goal of increasing foreign investment to just under 4% of GDP by 2000, but says this figure is the highest that can reasonably be expected, even though it falls far short of the 5,5% averaged before the mid-1980s.

How close SA comes to the 4% goal depends in large measure on government maintaining a credibly sustainable fiscal stance, the report stresses.

The report rejects arguments, based on the fact that the yield-to-maturity of government debt exceeds the growth rate of nominal GDP, that SA may be falling into a public debt trap

The report contends that at current growth rates SA can avoid a public debt trap — defined as an increasing ratio of government debt to GDP — so long as revenues are outpacing non-interest outlays to generate a primary surplus of 1,5% of GDP

"The current medium-term fiscal framework would lead to a primary surplus exceeding 1,5% of GDP by 1997/8, and assuming that the overall deficit continues to be reduced by 0,5% of GDP a year thereafter, the primary balance would show surpluses . of 3% of GDP by the turn of the century "

Meanwhile, the projected 4% of GDP upper limit on likely foreign investment means domestic savings, now running at 15,5% of GDP, will have to rise to 22,1% to meet the 26% target for 2000

The report advises against government, now a net dissaver of 2,7% of GDP, seeking to make a major contribution to the required total savings by raising taxes

"In SA, any effort to raise public sector saving leads to a decline in private saving However ... the offset is likely to be lower when expenditure cuts rather than tax hikes produce the increase in public saving."

Government could make a larger contribution to boosting net savings — of up to 1,2% of GDP in 2000 — and thereby put less of the onus on the private sector, if it was serious about implementing structural reforms, including privatisation

Such reforms would be likely to spur private investment "by imparting greater confidence in the economy's long-term prospects" and, all else being equal, "would eventually raise the availability of foreign savings that could be channelled into the domestic economy beyond 4% of GDP".

However, even under the best of circumstances, fiscal "adjustment" will have to be a "central element of the structural reform effort to stimulate private saving, growth and employment"

IMF turns guns on SA capitalists and mining bosses

(166) Star 22/8/96

IN WASHINGTON

Report slates protective tariffs, special tax regimes, writes Peter Fabricius

Many leftwingers, including not a few in the South African Government, regard the International Monetary Fund in Washington as an unsympathetic, pro-capitalist organisation.

But the latest IMF staff country report on the South African economy takes more pot shots at capital than labour

The report addresses what the IMF correctly sees to be SA's most pressing problem – unemployment of 32%, perhaps more.

Corporate SA generally blames high unemployment on the intransigence of unions in setting wages at levels too high to allow SA export manufacturers to compete internationally and therefore to grow and create new jobs. The IMF instead turns the spotlight back on the corporations themselves, blaming the still-high tariff walls which protect them from international competition.

These high tariffs allow SA manufacturers to charge excessive prices for their products in SA, which pull up wages of skilled labour to levels that would make these goods uncompetitive internationally That stifles exports which are the main engine of the growth needed to create new jobs.

The IMF notes that although SA agreed to reduce import tariffs substantially under Gatt in 1994, its commitment to these reforms is questionable

Average tariffs actually rose between 1994 and 1995 in many categories of imports One solution, the IMF proposes, is to accept the offer by the European Union of a Free Trade Area (FTA) with SA, in which trade barriers would be lowered on both sides SA wants instead the same, one-way duty-free access to the EU market enjoyed by the developing countries of the Lome Convention

By exposing SA manufacturers to international competition on their home turf, the FTA would force them to lower prices, and so lower skilled wages That would make them more competitive internationally, boosting growth and therefore employment

The IMF report also fires a shot across the bows of another powerful group of capitalists, the mining houses

It recommends the scrapping of the special tax regime for mines, which allows huge depreciation benefits for capital expenditure and a highly-progressive gold tax that encourages the exploitation of very marginal mines. The IMF proposes instead that mines be subject to standard corporate tax and depreciation allowances, and, in addition, should pay a royalty on the minerals they extract because these belong to the people

It says the special depreciation allowances encourage mining houses to invest in capital equipment rather than labour.

The IMF's real target in the report is not capital or labour, of course, but the whole inward-looking instead of outward-looking orientation of the SA economy, which benefits both capital and labour, and perhaps even the Government

The report demonstrates very clearly the value of having an independent and detached observer viewing the SA economy from afar.

Seen from within the country, the system of government, capital and labour pondering the great economic issues of the day among themselves in indabas like Nedlac seems like a model of fairness and mutually-checking, balanced power

But from an outside perspective like the IMF's, a different picture emerges of a cosy arrangement among three very powerful groups who may often be advancing their own interests at the expense of the unemployed, consumers, who, of course, pay more when tariffs are high, and ordinary citizens who suffer the effects, such as crime, of huge unemployment

To help it along, perhaps the country needs a powerful "fourth force" outside government, labour and business, a pressure group representing the interests of consumers, ordinary citizens and the unemployed, and championing reforms like those articulated in this report

Task team demands adequate compensation for villagers affected by Lesotho water project

World Bank loans could run dry

CT(BR)2/9/96 (156)

By James Lamont & Jonathan Rosenthal

Johannesburg — The World Bank will not loan money for the next phase of the South African-funded Lesotho Highlands Water Project unless villagers affected by the building of the Katse Dam are adequately compensated for upheaval caused by the project

John Roome, the World Bank's task-team leader, said last week that the bank would only agree to fund the Mohale Dam stage of the project if social and environmental targets were satisfactorily met by the middle of next year He was speaking at a Johannesburg conference organised by the Group for Environmental Monitoring

The $4 billion water-transfer project, that will bring water to Gauteng in 1998, has been criticised by international non-governmental organisations and villagers for neglecting its social and environmental responsibilities

Roome said the Lesotho Highlands Development Authority, the agency that implements the scheme, had to meet housing commitments, compensation, income restoration and the deployment of field-teams

SOCIAL RESPONSIBILITY *John Roome and Lori Pottinger of International Rivers Network International non-governmental bodies have criticised South Africa for neglecting its commitments* PHOTO JOHN WOODROOF

"For us to proceed with the next phase, environmental and social elements of Phase 1A (the Katse Dam and transfer tunnel to the Vaal River system) have to be satisfactorily met," he said

About 2 600 households are affected by the loss of arable land Of those, 10 percent stand to lose all their land to the reservoir

Makase Marumo, the chief executive of the authority, said that the bank's conditions would be met.

"There will be some problems with the next phase, but the magnitude will be less because we have learnt our lessons," he said

The World Bank lent $8 million in concessionary loans to help finance the project design and $110 million for phase 1A It also attracted other financiers and set up a mechanism whereby South Africa could pay back its debt, giving it more influence over the project than its financial commitments would suggest However, the bank has yet to decide how much it will loan South Africa for the next stage of the project which will cost $1,5 billion

Willie Croucamp, the managing engineer for international projects at the South African department of water affairs, said that the bank was the last-resort lender for the first phase of the project during the apartheid era, but the Mohale phase could be financed with or without the bank's loans

World Bank memorandums have criticised the slow delivery of the rural development programme since April 1994 In the past two years, the bank has threatened to curtail funding because of the delayed settlement of 800 compensation claims from villagers However, the bank has extended the deadline six times

Villagers have complained that they are being impoverished by the water project Mathato Khitsane from Lesotho's Highland Action Group said that damaged houses had not been repaired, communication had broken down between villagers and the development authority and that compensation was insufficient

The authorities governing the project have acknowledged the delay in development delivery, but they have argued that a new approach would mitigate these difficulties in the forthcoming phase

"There has been a definite change in approach of the Joint Permanent Technical Commission (the bilateral body which oversees the project) in the past two years to 18 months," said Croucamp "We have requested the (authority) to place greater priority on social and environmental matters."

Kader Asmal, the minister of water affairs and forestry, denied that the social and environmental effects of the project were disastrous He said South Africa did not want to disadvantage others for the benefit of five of its provinces

IMF agrees to debt reduction

(156)

MG 6-12/96

Alex Brummer in London

THE International Monetary Fund (IMF) has indicated that it is willing to provide grants to reduce the debts of the world's poorest countries, as part of the plan approved by G7 leaders at the Lyons summit in June.

Until now the IMF has been unwilling to concede the principle of debt reduction

The offer by the IMF to make grants available to qualifying countries is contained in a series of confidential papers prepared for a discussion by executive directors of the World Bank and IMF in the next few days. However, the documents suggest the IMF is no closer to reaching agreement with dissident shareholders over the sale of IMF gold to support the joint bank/fund initiative. Opposition to gold sales is led by Germany, with some support from Switzerland and Italy.

The papers make clear that the IMF will reduce the burdens of its claims on a country by means of a grant or loan, which would be used to cover outstanding debt service obligations. They show that the World Bank has committed about $500-million from its own resources to the process. The plan envisages that between $5,6-billion and $7,7-billion will be found over the next six years to ease the difficulties of the most indebted countries.

Aside from the dispute over gold sales, there have been delays in winning the approval of the Paris Club of official creditors for parallel reduction of up to 90% of bilateral debt. The Paris Club is not due to discuss the issue until September 26.

The papers do, however, spell out how the debt initiative will work, how the World Bank Trust Fund will operate, as well as specifying financial contributions. Following strong representations from non-governmental organisations, the bank and fund have shortened the proposed six-year qualification period for debt relief.

The new approach would allow a country like Uganda, which has begun implementing economic reforms, to cross the first hurdle for debt relief as early as mid-1997. If it continues to implement the reforms required by multilateral lenders, Uganda could be free of the larger part of its debt service payments by 2000.

Under the debt relief plan, the IMF would be required to reduce its debt claims on Uganda by $27-million by the end of 1999; the World Bank by $155-million and other multilateral agencies by $18-billion. The Paris Club arrangements could relieve Uganda of a further $150-million of its burden.

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IMF backs stepped-up relief to poor countries

(156) BD 20/9/96

WASHINGTON — The International Monetary Fund (IMF) endorsed stepped-up aid for the world's poorest nations on Wednesday, but stopped short of spelling out how it planned to pay for it.

The decision, announced by IMF MD Michel Camdessus, effectively left open the question of whether the fund would sell some of its gold to help the world's poor.

"The IMF is fully ready to assist its low-income members well into the next millennium," Camdessus said. IMF management, backed by the US, Britain and most other member nations, had proposed selling 5-million of the fund's 104-million ounces of gold if needed to help finance stepped-up assistance to poor countries.

But a few nations — Germany, Italy and Switzerland — opposed the proposal, arguing in part that the IMF should not sell gold except in cases of extreme financial emergency

Wednesday's decision by the IMF board puts the proposal on the back burner for now

Although the IMF's interim committee may take up the issue again at a meeting on September 29, an agreement at that time seems unlikely Camdessus said the IMF board had reached "understandings" to ensure the stepped-up IMF assistance

The board, which first met on the issue last Friday then took it up again today, discussed two interrelated initiatives to help poor countries — beefing up its enhanced structural adjustment facility and participating in a multilateral debt relief plan.

The facility, which lends money at virtually no interest charge to poor countries, would be the vehicle through which the IMF would take part in the latter initiative

"I am pleased to announce that the executive board has reached understandings to ensure permanent continuation of the enhanced structural adjustment facility ... and allow the IMF to participate in the ... initiative for the highly indebted poor countries," Camdessus said.

He said that he warmly welcomed the "co-operative spirit" in the board that made the understandings possible An IMF spokesman declined to elaborate further — Reuter

The large hole in IMF's coffers

M+G 20-26/9/96 (156)

Alex Brummer in London

THE International Monetary Fund (IMF) is to ask shareholders for an increase in its capital base after a sharp deterioration in the Fund's cash position

Michel Camdessus, the managing director, has indicated that he would like to see the fund's quotas — the equivalent of its capital base — doubled from the current $210-billion.

The IMF's annual report, released last week, shows that the fund's liquidity has tumbled to the lowest levels since 1987 because of the pressure put on its resources by the 1995 Mexican crisis and lending to support the Yeltsin administration in Russia.

Moscow was the biggest borrower from the fund in the last financial year, using up $5,5-billion of fund quotas Russia is currently drawing down the biggest credit ($10,8-billion) ever advanced by the fund

The report also shows that Mexico continues to draw heavily on resources, along with Argentina and Zambia. Much of the IMF's usable resources are being eaten up in lending programmes to the countries of the former Soviet bloc, with Ukraine among those which are prospective big borrowers.

Senior fund officials conceded that achieving a doubling of resources during what is known as the 11th Quota Review will almost certainly be politically impossible, given the difficulty in getting the United States Congress to agree to any funding for international organisations.

The World Bank is already being forced to redraw plans for the International Development Association, which makes loans to the poorest countries, because appropriations are still trapped in congressional committees.

Officials believe that although the need for greater resources can be shown, given the sharp rise in IMF members since the last quota increase, a doubling of resources is unlikely to win support of the richest industrial countries IMF officials are still hoping for an increase of between 50 and 75%, although a formal request is unlikely to be made until the US elections are out of the way

Much of the IMF's usable resources are being eaten up in lending programmes to the countries of the former Soviet bloc

The annual report shows that the fund's cash declined last year and will continue to fall in the current year, given the demand on its resources and the commitments already made. It is particularly concerned, however, that the capital increase should cope with the needs of more than three dozen new members — many of them ex-communist countries — which have joined up since the last quota increase.

The quota increase will also provide the opportunity for the IMF to adjust national holdings of quotas to take account of shifts in global economic power.

Several large countries, notably China, Russia and India, have joined the upper ranks as their national output has grown — as have some of the East Asian tigers. As part of the quota increase they are expected to strengthen their shareholdings, but not enough to dislodge the IMF big five· the US, Japan, Germany, Britain and France

A similar broadening in the power base of the world economy is expected to be approved at the annual meetings of the IMF/World Bank later this month when the General Arrangements to Borrow, a credit facility for use by the IMF in emergencies, is expanded to $50-billion, bringing in a series of new countries

● Uganda is expected to be the first country to benefit from the World Bank/IMF debt reduction scheme if it is approved by finance ministers.

There is still some uncertainty, because of the opposition of countries including Germany, Italy and the Nordic states to gold sales designed to help finance the IMF contribution to the plan. IMF officials have raised the possibility privately that some of the organisation's reserves might be used to close the funding gap.

Under current figures the IMF would cut its claims on Uganda by $75-million by the end of 1999; the World Bank would have to provide a further $155-million of debt forgiveness, and other lenders, including the European Investment Bank, would come in with $18-million worth of reductions.

A meditation brought from India

MAIL & GUARDIAN
September 20 to 26 1996

Both the IMF and the World Bank are facing financial struggles, report **Sarah Ryle** and **Alex Brummer**

World Bank turns to private capital

(156) MTG 20-26/9/96

Sarah Ryle in London assesses the World Bank's efforts to maintain funding to the Third World

THE World Bank has admitted that it is fighting a losing battle with Western governments over aid to the world s poorest countries and is secretly looking for ways to use private capital to replace the lost funds

A top-level ad hoc panel which was set up earlier this year by James Wolfensohn, the president of the bank to discuss how to offset the anticipated decline in government aid, has suggested private-sector investment is the only viable alternative

"The panel believes that government aid has gone out of fashion and will never reach traditional levels again," a senior source said "So far, the only concrete alternative is investment from the markets That would mean forming new guidelines to make sure that investment was properly used by the governments who received it

"The World Bank could not be a police force, but it could influence the way money is lent or invested ' There are long-standing fears that aid is misused, particularly for military purposes, by Third World dictatorships

The admission of defeat alarmed some leading charities Justin Forsyth Oxfam International's chief officer in Washington, said any further decline in official aid would leave many of the world's poorest nations in desperate straits

Abandoned Aid agencies say Mozambique would be in dire straits if driven to rely on private investors to fund hospitals and schools

PHOTOGRAPH SEAN SMITH

'Some countries, like Mozambique, do not have a choice They will not attract private investment because of their internal troubles If official aid declines, they will have no way of funding basic needs like education and hospitals "

Andrew Simms, Christian Aid representative in London, said "This is what we have feared all along

Official development finance has fallen in recent years from $70-billion to $65-billion, while private capital flows have risen rapidly, to more than $105-billion between 1991 and 1994 according to the latest Organisation for Economic Co-operation and Development figures

Forsyth called on the World Bank not to give up the fight to persuade industrial countries to maintain contributions, but said it was not surprising that the World Bank was concerned about the future of aid

He said 'The World Bank has lost credibility with governments because the public does not believe the money is really helping the poorest people The non-governmental organisations think that the World Bank is more concerned with lending large amounts of money than with it reaching the people it is supposed to.

"The private sector is not convinced that there even needs to be a World Bank They think there should be more guarantees for their loans rather than more World Bank funding "

Simms said further reliance on the markets would be the final blow for countries in sub-Saharan Africa "They have suffered because Western countries have realigned funding since the cold war ended More money is being channelled into eastern and central Europe If the decline in aid were being matched by productive private capital inflows we wouldn't be so worried, but it isn't "

The ideological shift to the right, which was initiated by Margaret Thatcher and Ronald Reagan, has put more emphasis on leaving development in the Third World to the free market.

The World Bank's fears for official international aid have been fuelled by resistance among key donor nations to recent funding programmes While the Republican-dominated United States Congress has thrown the aid programme into chaos by holding back on hundreds of millions of dollars which it had pledged in previous years, the Germans have put the brakes on a British-driven plan to sell International Monetary Fund gold reserves to increase debt relief

In each case, politicians are acutely aware of the public response to approving bigger donations Germany has refused to sell its gold reserves to fund programmes in the eastern part of the country, and politicians are understood to be reluctant to approve an international sale in case they are forced to do the same at home

British official aid to the developing world is set to decline by 16% by 1999, according to Christian Aid

3

IMF has plan to put poor countries back on their feet

(156) ARG 30/9/96

Washington – Top finance officials from rich industrial nations have warned that inflation is down but not out, and pledged not to let down their guard in the fight to keep price pressures in check.

The officials, here for the annual meeting of the World Bank and International Monetary Fund, welcomed signs of faster global growth but said that more needed to be done to aid poor nations and shelter the world economy from future shocks

They promised to press ahead with a plan to put debt-ridden poor countries back on their feet and called for rapid action to beef up the emergency resources available to the IMF for handling financial catastrophes.

International Monetary Fund managing director Michel Camdessus said industrial countries have had success in fighting inflation and called that a "major achievement"

"But we must not be complacent about inflation now that it seems to be under control," he told the IMF's policy-making Interim Committee

"Monetary authorities must remain alert to the possible need to take preemptive action where there is a threat of increasing inflationary pressures," he added.

US Treasury Secretary Robert Rubin reassured fellow committee members from other nations that the America was not relaxing its vigilance against inflation

Questions about US commitment to the fight against inflation have arisen following last week's decision by the Federal Reserve to keep interest rates unchanged. The IMF in its World Economic Outlook advocated higher interest rates in the US, arguing that the US economy was growing too fast for its own good, raising the risk of inflation – Reuter

World Bank and IMF lay down 'good govt' rules

(156) (~~156~~) BD 1/10/96

Greta Steyn

WASHINGTON — The World Bank and the IMF have gone beyond just formulating economic policy prescriptions for borrowers, and are increasingly laying down rules on good governance, the rule of law and even human rights.

This week the IMF's policy-making interim committee noted the need for "promoting good governance by ensuring the rule of law, improving the efficiency and accountability of the public sector and tackling corruption"

But developing countries had signalled before the interim committee meeting that they would be unhappy if the issue was included in the interim committee's final communique.

The Group of 24 developing countries had called on the bank and the fund to "proceed with extreme caution" on political issues

The daily Emerging Markets newspaper reported many developing countries were alarmed at what they saw as a personal crusade by IMF MD Michel Camdessus to raise awareness of issues of good governance

They feared that political policies could become a part of IMF conditionality

The bank has also joined the fray, with president James Wolfensohn expected to focus strongly on governance in his speech to be delivered at today's opening ceremonies.

Emerging Markets reported Wolfensohn had called for action on corruption, accountability and nepotism in a three-hour closed-door meeting with African governors of the bank at the weekend.

Wolfensohn has called for a five-point agenda for reform in Africa, which includes the devolution of power to lower levels of government, restructuring of the public services into smaller, better paid entities; and strategies to boost education and training. The latter is regarded as the key to capacity building in Africa, one of Wolfensohn's catchphrases.

He also agreed to take action on the Bank's African lending Of its existing African portfolio of $20bn, about $11bn had not been disbursed. Of the projects evaluated last year, about 51% were unsatisfactory, compared with the worldwide average of 32%

Wolfensohn suggested that special task forces should be set up in the worst countries to restructure projects, cancel part of them, or close them completely

AT THE IMF

At home with a macroplan

(156) CT(BR) 3/10/96

CHRISTO VOLSCHENK
WASHINGTON

CALLING FOR CO-OPERATION *James Wolfensohn , the World Bank president, addresses the annual IMF-World Bank meeting* PHOTO AP

Two days ago the International Monetary Fund (IMF) published what its economists call "the basic principles for economic success" The similarities with South Africa's macroeconomic policy are uncanny In fact, every principle propounded by the IMF can be found in the macropolicy framework, giving a boost to South African officials in Washington

This is undoubtedly a feather in the government's cap But it may also be the kiss of death.

The interim committee of the IMF, of which Michel Camdessus is the managing director, released its so-called basic rules for economic success here last Sunday Officially these are known as the "Declaration on cooperation to strengthen global expansion" Unofficially they quickly became known as Camdessus' 11 commandments.

Given the similarity between the IMF's and South Africa's economic vision, it is no mean achievement for the ANC to have moved from being a proponent of semi-socialistic policies to mainstream economic thinking within 24 months

The interim committee says the commandments are an "update" of the declaration which was adopted in Madrid two years ago It also says it "broadens the declaration to meet the new challenge of a changing global environment"

Maria Ramos, the director-general of finance and the co-writer of the macroplan, was pleased to hear about the commandments, though she resisted saying the IMF has caught up with South Africa "It is encouraging to note that we are now totally in line with the prerequisites for sustainable growth propounded by the IMF"

The labour movement has not yet declared its acceptance of the macroplan, as it has done with the state's programme for state asset restructuring

The ingrained mistrust by the labour movement of everything which emanates from the IMF and World Bank (and certain circles in parliament) may become an obstacle in the way of general acceptance of the macroplan

But many of the IMF principles should be acceptable to labour, and it would be unwise for the unions to stand in the way of a plan which has become the model for others in the world, just because labour dislikes aspects of it

Camdessus' very first command ment is one of the more difficult ones for the labour movement to swallow

It stresses the need for sound monetary, fiscal and structural policies The IMF says these policies are complementary and mutually reinforcing

Cosatu is uncomfortable with the plans to bring down the deficit before borrowing, even before the community's aspirations have been satisfied

The "second commandment" rules that large imbalances should be avoided to promote financial and exchange rate stability and prevent significant misalignments among currencies

The third commandment says governments should create favourable environments for private savings The fourth says governments should consolidate their successes in the fight against inflation, the fifth says they should "resist protectionist pressures", the sixth that they should "make careful progress toward increased freedom of capital movements"

The seventh suggests governments should work with multiyear budgets and reminds them that "excessive state debt puts upward pressure on global interest rates which threatens durable growth"

Cosatu seems to think that South Africa's debt is still manageable and that it is premature to worry about falling into a debt trap

The eighth commandment states that unproductive state spending should be cut and more money spent on the development of the workforce

The ninth urges government to "tackle structural reforms more boldly" and the 10th says governments must "promote good governance in all respects "

The last commandment states that strong prudential regulation is neces sary for sound banking systems

All of these principles are in the macroplan And only some of them will be difficult for Cosatu to swallow And as in Cosatu's public acceptance of the restructuring plans, the acceptance does not have to be unconditional

A conditional endorsement will certainly be enough to reassure local and foreign investors

COMMENT & ANALYSIS

Mood is upbeat in wards of doctor debt

The World Bank and the IMF are playing doctor to the world economy. **Greta Steyn** in Washington looks at the economic medicine and the people doling it out

(156) BD 3/10/96

Economists and bankers are not normally a merry bunch, but at this year's joint annual meeting staff of the World Bank and the International Monetary Fund (IMF) seem quite cheerful

Monetary officials from all over the world are patting each other on the back in between munching sushi and sipping cocktails

The mood is upbeat because the world economy has been pronounced reasonably healthy Not even the usual ifs and buts can spoil the mood

Global economic expansion is expected to continue in the medium term, with world economic output growing at about 4%. Developing countries are growing at a faster rate, and even Africa is beginning to notch up reasonable growth. Countries in transition from communism are seeing the benefits of reform The inflation dragon has been slain in the industrialised countries and emerging markets have bounced back after being hit by the Mexican peso crisis last year

The IMF and the bank say the world is reaping the benefits of their policy prescriptions. But those policies, and the two organisations' modus operandi, have often been at the centre of controversy because of their effect on the poor and on the environment

To their credit, the two organisations appear to have responded to the criticism. Nowhere is that more obvious than in the initiative to provide debt relief to poor countries — a move that would have been unthinkable a few years ago.

The organisations' role in the world economy is focused almost entirely on giving financial and technical assistance to developing economies and those in transition from central planning

The IMF, originally conceived with a view to providing balance of payments assistance to countries having difficulty in financing current account deficits, has broadened its scope in the developing world as its financing role in the industrialised countries ended.

They became the good cop (bank) and bad cop (fund) of Third World debtor countries. As the debt police, the bank and fund incited angry reactions from citizens hard hit by the debt collectors' strong arm tactics.

Annual general meetings were characterised by demonstrators pouring "blood" onto the floors of meeting halls to bring home the message

Bank president James Wolfensohn, who has steered the debt relief initiative, is going about reforming the bank in a way that could alter the debt police image for good The British non-government organisation Oxfam, traditionally a vociferous critic of the bank, was impressed by the decision to provide relief, describing it as a "real breakthrough".

Though worried that things were taking too long to happen, Oxfam nevertheless rated Wolfensohn a B-minus in a "report card" on his first year at the helm of the bank. Wolfensohn said he was not unhappy with his grade, which he pledged to improve.

SA has been vehement in its support for debt relief, despite the fact that the IMF will probably be forced to sell gold to help finance the plan. One cannot help wondering whether SA officials are not privately relieved that such powerful countries as Germany and Switzerland are opposing the move. The German argument is compelling — selling off even 5% of the IMF's gold reserves is the thin edge of the wedge and there will be pressure for more later.

Even if the decision is postponed for two years, as has been speculated, it seems inevitable For SA, which has just joined the African constituency at the IMF after years in isolation, there will be a price to pay for good relations with its neighbours. But if Uganda, Angola and Mozambique benefit over the next couple of years from debt reduction, SA will also stand to gain because of increased demand for its goods and services

The debate about gold sales, kept backstage at the meeting, highlighted the fact that aid for poor countries is drying up. The reason why the US is such an enthusiastic supporter of gold sales is simple. the alternative would be for rich countries to put up the money US Treasury Secretary Robert Rubin insisted on gold sales being used, as budgetary constraints would prevent rich countries from making large enough contributions.

If poor countries are ever to improve their lot, they will have to attract private capital flows The world economy can only really be pronounced healthy once private lenders and investors seek out those countries that they are shunning at present.

Of the $170bn in private money that flowed to developing countries last year, 75% went to just 12 countries. About 50 countries, most of them very poor, received virtually no private flows.

Wolfensohn argued that the situation could be improved if poor countries tackled corruption. He has joined fund MD Michel Camdessus in making an issue of good governance

The fund has become increasingly critical of what it sees as "unproductive" government spending, for instance big military outlays. This new emphasis on politics has wrongfooted many developing countries that are used to seeing the bank and fund on the defensive over their prescriptions.

"Structural adjustment" is still enough of a bogeyman for SA to be proud of avoiding the bank and fund's programmes.

Finance director-general Maria Ramos point out that the IMF's "11 commandments" are very close to our government's own macroeconomic strategy. But she notes proudly that the strategy is home grown and that SA is "setting the agenda" in negotiations for a small bank loan.

The bank and fund have not quite shaken off the debt police image, despite Wolfensohn's boasting about his chats with the poor on his many travels in the developing world.

SA is quite happy to take the economic medicine favoured by the bank and fund — but not on prescription and only if SA alone decides on the dose. Finance Minister Trevor Manuel is hoping the strategy will earn brownie points with international investors while retaining the country's sovereignty over policy.

The real test for SA, as for other developing countries, will be whether it attracts stable foreign capital inflows.

The IMF's World Economic Outlook suggests that emerging economies with big budget deficits are at greater risk from sudden swings in foreign capital flows.

"Countries with large fiscal deficits tend to be characterised by low national saving. In these cases, inflows may be attracted primarily because of high interest rates In such circumstances there will also be a greater risk of sudden reversals," the IMF says.

It mentions SA alongside Brazil, Colombia, Peru and Turkey in a list of countries with low national savings and a vulnerability to sudden swings in foreign capital flows Hence Manuel's emphasis on cutting the deficit — a necessary, though not sufficient, measure for economic health.

There is much to be pleased about in the world economy today, but only once private capital flows benefit more developing countries on a sustained basis can there be cause for celebration.

MAIL & GUARDIAN
October 4 to 10 1996

Kenneth Clarke: Plan to give the IMF more power and more money

Wider powers for the IMF

4-10/10/96 (156) M+G (BM)

Alex Brummer in Washington

WHOLESALE reform of the International Monetary Fund (IMF) moved a step closer this week as plans were unveiled to give the world financial agency more cash and more power. A British initiative to broaden the IMF mandate, allowing it to police capital flows, won support from financial leaders.

Under the new plan proposed by British Chancellor Kenneth Clarke, the IMF would be given authority to encourage the liberalisation and stability of capital markets.

The plan was unveiled by Clarke in his speech to the IMF's policy-making Interim Committee at which he also endorsed a "modest allocation" of IMF cash to members who have joined since the end of the cold war This issue caused bitter divisions at the IMF meeting in Madrid two years ago.

The chancellor's plan for a formal IMF role in capital liberalisation — which won the immediate support of IMF managing director Michel Camdessus — would require a major amendment to the IMF's articles of association

The UK believes this could be done in tandem with the capital increase required to improve the IMF's liquidity. The IMF would like to see its resources doubled to nearly $400-billion, although a somewhat lower figure is likely to be arrived at.

The IMF's existing articles focus on meeting difficulties arising from the current account of the balance of payments. With the increasing openness of capital markets, Clarke argues that the IMF should be given an explicit mission to encourage further liberalisation. Under the present articles, some nations are positively encouraged to impose capital controls.

But the leading industrial countries believe there is a need to balance new freedoms in the global financial markets with strengthened bank supervision and financial regulation.

United States treasury secretary Robert Rubin argued that "co-operation among financial regulators and supervisors and internal controls and market transparency" were needed — as well as better ways of monitoring the financial systems in emerging markets and electronic money.

In respect of the process of broadening the IMF's authority over capital markets, Clarke emphasised the need for countries to manage their economies differently. He told the IMF policy-makers that national markets need to be well supervised and regulated so that they can cope with large capital inflows.

Moreover, these inflows should not be allowed to "fuel excessive domestic demand" or be allowed to substitute for domestic savings. The G10 group of industrial countries, with an 11th, Switzerland, as an honorary member — agreed to a doubling of the IMF's borrowing resources to $50-billion.

This will be done by raising funds for use in emergencies, the New Arrangements to Borrow, from a larger number of countries.

IMF & WORLD BANK

CHOOSING PROSPERITY OR NATIONAL SOVEREIGNTY

(156) FM 4/10/96

Debt relief for corruption curbs

There is more than meets the eye in the decision of the rich nations to grant relief — through the agencies of and with the support of the International Monetary Fund and the World Bank — to those small nations so hopelessly in debt that repayment has not for years been a feasible expectation

For with it goes a subtle change of attitude, one that is akin to the desire of some in the industrialised world who want to see the power of politicians to do economic harm circumscribed by independent-minded central banks having substantial control over monetary policy.

The reason that these 40 or so nations are hopelessly in debt is because the ineptitude or corruption of their politicians prevented even that modicum of peace, moderation of taxation and tolerable administration of justice needed to foster rising prosperity

Neither the two international agencies, who have agreed to finance the recovery of those about to be rescued from their own folly, nor the creditor nations — collectively known as the Paris Club — are easily going to allow the politicians concerned to subside into renewed delinquency

And if they do not conform to prevailing economic orthodoxies, the outcome is going to be a substantial circumscription of national sovereignty that could amount to a new form of imperialism

Most of the countries concerned are in Africa, and some of them are so given over to brigandage that they are hardly capable of independent governance

The intimations of economic imperialism discernible now may eventually save millions of these indigent peoples from the most abject misery

The Paris Club of creditor nations has agreed to boost relief on official debt from 67% of net present value (NPV) to 80% Net present value is a measure that takes into account the degree to which the debt terms are prevailing market rates — that is, the concessionality

When the interest rate on a loan is lower than the market rate, the resulting NPV is smaller than the face value of the debt concerned — the difference reflects the concession. At the end of 1994, the NPV of the debt at issue was US$190bn — against a face or nominal value of $241bn

Apart from the creditors writing off most of this debt, the IMF has agreed to provide additional resources to finance recovery on a more concessional basis than under the enhanced structural adjustment facility (ESAF)

If after three years any of the countries concerned is able to sustain debt servicing, it will move out of the rescheduling If the debt remains unserviceable, the ESAF and World Bank support will continue — but at a political cost

The debtor countries are expected to develop institutions of effective economic policy-making and address infrastructure deficiencies, as well as beef up their standards of governance. They will in effect be run by the IMF for "a significant number of years "

It is possible, too, that the involvement of the IMF will be more thorough and deeper than in the past

British Chancellor of the Exchequer Kenneth Clarke is suggesting that the fund's articles of agreement be revised to include the need actively to encourage the liberalisation not only of current account transactions but also capital ones

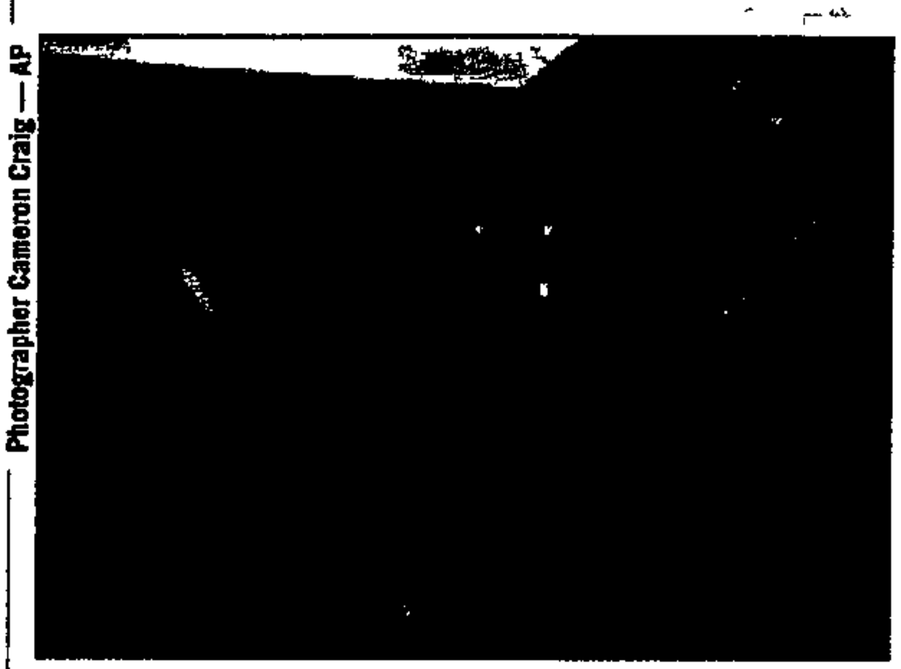
He told the IMF policy-making interim committee that the present articles permit — and in some cases even encourage — countries to impose controls on capital account transactions

"In today's world that must be wrong, and it's far removed from the reality of the fund's work We also need to look closely at other articles, to see what other changes are needed to bring them into line with the fund's new mission of capital liberalisation "

Another condition that will accompany the debt relief is a substantial reduction in corruption There have been several references in Washington this week to the harmful effects of incipient corruption Indeed, World Bank chief Jim Wolfensohn was candid during a marathon meeting with African governors

The IMF and the World Bank are very clear in what they mean by corruption It is that every dollar intended for social welfare spending is actually spent for that purpose

In order to ensure that this happens, discussions are in progress to decide on



Photographer Cameron Craig — AP

World Bank chief Jim Wolfensohn (left) greets Czech premier Vaclav Klaus

QUOTE

"If large and relatively prosperous European nations are prepared to forgo some national sovereignty for economic gain, they are not going to be particularly sensitive to the misgivings of indigent African nations"

adequate standards of government performance and means of making sure that they are applied

For several years, there have been indications of growing co-operation between the IMF and the World Bank on the one hand and the World Trade Organisation (WTO)

This year at the annual meetings in Washington, there were several pointed references to the importance of the WTO and the current round of reductions in trade barriers as world trade increases its momentum

The tacit support within the two financial agencies for a reduction in barriers to trade may soon be given explicit emphasis where conditionality is concerned

Among the larger industrial nations, the question of sovereignty and the size of the IMF are sensitive issues For instance, the US is uncomfortable with the IMF's resources being increased, despite its support to member countries being at an unprecedently high level, including a $10bn three-year facility to Russia.

The extension of the ESAF to the indigent 40 also creates a funding gap that will have to be plugged This was to have been met from proposed gold sales — but that idea has been discreetly dropped for the time being

QUOTE

"Another condition that will accompany debt relief is a substantial reduction in corruption"

The US would prefer to see the IMF as a facilitator in times of crisis and as a surveillance agency to avoid crises And indeed, in that latter respect, its endeavours have been substantially increased But surveillance, important as it is, does also intrude of necessity into areas of national sovereignty

The discreet dropping of the gold sales proposed by the IMF to finance the ESAF gap has about it, too, an element of sensitivity that sovereign advantage might be prejudiced

Ironically, this flows from the moves in Europe to create a single currency and central bank All those participating are, in effect, surrendering a substantial amount of their national sovereignty for, in their view, the greater financial advantage of lower European trade transactions costs All but one of the aspirant members are having difficulty meeting the requirements of the Maastricht Treaty and their doing so will in some cases require harsh adjustments that inevitably will increase unemployment, especially in France and Spain

QUOTE

"The US would prefer to see the IMF as a facilitator in times of crisis and as a surveillance agency to avoid crises"

However, the required debt ratios could be more easily met with relatively less political inconvenience if national gold holdings are liquidated IMF gold sales now could certainly prejudice the proceeds to which some Europeans might aspire in the years immediately ahead

The point is that, if large and relatively prosperous European nations are prepared to forgo some national sovereignty for what they believe will be economic gain, they are not going to be particularly sensitive to the misgivings of indigent African debtor nations when they realise their predicament

Nor is there much concern over reduced sovereignty among Latin American and eastern European countries and in Russia

Indeed, conditionality is more often than not welcomed and, because that is seen to be so, these countries are believed by investors to have conviction in their reforms

Much of Africa may in consequence be facing — albeit with a reluctance that finds few to sympathise — the prospect of sound and honest governance for the first time in 30 years

What has facilitated the debt relief is an absence of other pressing problems and an economic outlook about which the industrial nations can afford to be sanguine

World real GDP growth is currently just under 4% and is expected to rise slightly towards the end of the century. Prospects for world trade are good, inflation is expected to continue at present low levels and long-term interest rates remain stable

The problems ahead, while worrying, are not acute Fiscal deficits need to be curbed so that high real interest rates reduce These are aggravated by an increasing problem of unfunded pension liabilities

The question of unemployment in some European economies is becoming acute, and could worsen as they attempt to meet the Maastricht entry ratios Labour market reforms are likely, therefore, to become central to European political endeavours *Nigel Bruce, writing from Washington*

Photographer Denis Paquin — AP

G7 members at the IMP and World Bank conference in Washington *. Carlo Ciampi (Italy), Kenneth Clarke (Britain), Jean Arthuis (France), Robert Rubin (United States), Theo Niagel (Germany) Wataru Kubo (Japan), and Paul Martin (Canada)*

IMF president Michel Camdessus with Finance Minister Trevor Manuel at the Johannesburg International Airport yesterday.
PIC CLEMENT LEKANYANE

Controversy mars IMF chief's visit

(15L) Sowetan 18/10/96

Camdessus grilled about the IMF's 'failed policies' as Manuel jets in

By Shadrack Mashalaba

THE INTERNATIONAL MONETARY Fund's managing director Michel Camdessus arrived here yesterday in the midst of controversy about his presence in South Africa

Some non-governmental organisations have made it known that they do not accept his presence in the country

Addressing an impromptu Press conference at the Johannesburg International Airport, Camdessus said he was in South Africa at the invitation of Minister of Finance Mr Trevor Manuel to assess the country's economic situation

"We are not in South Africa to prescribe but our presence here is to learn, exchange views and identify opportunities for the people in the country," said Camdessus

Asked about his views on the "failed policies" of the IMF in other parts of Africa by a representative from Coalition Against Neo-liberalism, Hassen Lorgat, Camdessus said the opposite was true "Our policies are a hope for sustainable growth"

Manuel interjects

Manuel had to interject during the briefing and said the IMF chief was not in South Africa for a debate

"The IMF's 'eleven commandments' reflect the organisation's vision of its plans on the world stage Development of human resources is at the centre of our strategies," Camdessus said

Camdessus, who is on his first visit to South Africa, will meet President Nelson Mandela, labour and business leaders He was invited to South Africa by Manuel during the annual IMF meeting in Washington earlier last month

Lorgat said they would like to have a public debate with the MD of IMF, adding that the IMF's "terrible commandments" are a brainchild of the Group of Seven countries – the seven richest countries of the world – who are bent on destroying Africa,

He said the proposed meeting between Camdessus and Bishop Desmond Tutu should be turned into a truth commission, where Camdessus should be probed about IMF's policies and foreign countries should be called to submit evidence

Cosatu refuses to meet visiting IMF director

Plan for picket protest

ARG 18/10/96

The Congress of SA Trade Unions has refused to meet International Monetary Fund managing-director Michel Camdessus today and plans instead to picket outside parliament to protest against the IMF visit.

Mr Camdessus arrived in Johannesburg yesterday on his first official visit to South Africa.

He met Finance Minister Trevor Manuel, Deputy-President Thabo Mbeki and Reserve Bank governor Chris Stals in Pretoria

Today he met President Mandela in Johannesburg before flying to Cape Town to meet members of the National Economic Development and Labour Council (Nedlac) and members of parliament

Mr Mandela said after the meeting that he had asked the IMF for financial assistance and for help in increasing South Africa's foreign reserves, a move which would aim to stop the depreciation of the rand due to speculation in the exchange market

Mr Mandela said the IMF chief had made some proposals on how South Africa could tighten its monetary policy and improve its economic growth in a sustainable way.

The president said nothing would stop the government from going ahead with its decision to privatise certain state assets. He said the trade union movement, which initially opposed the move, was now being brought on board.

Ebrahim Patel, Nedlac's labour convener, confirmed Cosatu's pullout from today's meeting with Mr Camdessus

Cosatu apparently also boycotted a "one-on-one" meeting with Mr Camdessus yesterday

Mr Patel declined to give reasons for the boycott but said Cosatu would issue a statement later today

It is understood Cosatu opposes the IMF's policy of pressuring poorer countries to adopt structural adjustment economic programmes which cut social welfare spending.

Trade unions have been drawn into a loose coalition co-ordinated by the Campaign Against Neo-liberalism in South Africa (Cansa) which this week organised the protest action over Mr Camdessus's visit. Cansa has said that if Mr Camdessus wanted to meet critics of the IMF he should make himself available for a publicly televised debate. – Labour Reporter and Political Staff

Cosatu calls off meeting with IMF head over time allocation

BD 18/10/96 (166)

Reneé Grawitzky

COSATU called off a meeting yesterday with International Monetary Fund (IMF) MD Michel Camdessus, saying that 30 minutes was insufficient time to discuss a range of issues.

Cosatu media officer Nowetu Mpati said yesterday Cosatu had been unable to be part of a National Economic, Development and Labour Council delegation which is to meet Camdessus in Cape Town today

An alternative meeting had been arranged for yesterday, but Cosatu had declined to attend after hearing that they had been allocated only 30 minutes

Finance ministry spokesman Jennifer Wilson said the ministry had been informed that Cosatu had been unable to attend the meeting in Cape Town and had specifically requested an alternative slot She said Camdessus' programme had been juggled around and a appointment set for Cosatu during his time in Pretoria

However, yesterday morning Cosatu phoned to cancel without any explanation

Mpati said Cosatu reiterated its dislike of both the IMF and World Bank because of their record in developing countries and the conditions imposed on impoverished countries in terms of their policies which they said undermined such countries' sovereignty

Meanwhile, a group of protestors representing the National Progressive Primary Healthcare Network stormed the VIP lounge at the airport yesterday They were protesting against Camdessus' visit to SA because of the IMF's influence on government policy

IMF MD Michel Camdessus, far right, is met by Finance Minister Trevor Manuel on his arrival in SA yesterday Manuel's media liaison Jennifer Wilson attempts to persuade Judy Fortuin, far left, and a small group of protesters from the National Progressive Primary Healthcare Network to leave the VIP lounge which they had attempted to invade

Pictures ROBERT BOTHA

(156)

ANC critical of IMF restrictions

Star 19/10/96

Cape Town – International Monetary Fund managing director Michel Camdessus defended the IMF's structural adjustment programmes yesterday following a barrage of criticism from ANC MPs who claimed that the too-stringent conditions contributed to unemployment

Every country was sovereign and had to decide which policies were best for it, but those countries which had stuck to IMF programmes had shown significant economic growth, Camdessus said during a presentation at Parliament

The organisation's bad image was partly as a result of its adamant refusal to spend its reserves

It had also become the scapegoat of governments which had half implemented IMF programmes drawn up for them.

Camdessus denied that the programmes caused capital flight, saying the opposite was the case – Sapa

SA tackling its problems with courage – IMF

ARG 19/10/96 (156)

Stand-by credit is on hand

ALIDE DASNOIS and ESTELLE RANDALL
STAFF REPORTERS

South Africa has not asked for credit from the International Monetary Fund (IMF) – but if it were to do so, the IMF would consider the request favourably.

This was the message from Minister of Finance Trevor Manuel and the IMF's managing director Michel Camdessus yesterday.

At a media briefing in Cape Town on the second day of Mr Camdessus' first visit to South Africa, Mr Manuel said the question of a loan had not been discussed

Financial markets were awash with rumours yesterday that the IMF would grant South Africa credit to boost the country's gold and foreign exchange reserves ahead of a scrapping of exchange controls.

Mr Camdessus, who described himself and his colleagues as "the fire brigade" of the financial world, said South Africa "was not in a crisis situation"

But should the government decide that stand-by credit to shore up the reserves was necessary, "I believe the IMF would not have major difficulties with this," he said.

Mr Camdessus was full of praise for the Government's Growth, Employment and Redistribution strategy (Gear) announced in June

He also said it was clear to the IMF that South Africa was committed to keeping its budget deficit under control and to continuing its privatisation programme. He said the challenge facing the Government – a 50 percent unemployment rate – was "immense".

'You are addressing your long term problems with courage and confidence'

"But you are addressing your long term problems with courage and confidence."

Mr Camdessus, who met President Mandela and addressed parliamentarians earlier in the day, hoped to meet representatives of the labour movement today

At the last minute, labour and community organisations represented in the National Economic Development and Labour Council (Nedlac) decided to stay away from a meeting with him yesterday

In a joint statement explaining their refusal, the Congress of SA Trade Unions and the SA National Civics Organisation said this was not a return to the "old boycott tactics"

They said Mr Camdessus had allocated "no more than an hour and half" to them, which was not long enough to discuss "issues of substance and fundamental differences"

"We are opposed to the IMF and their policies. But, if the South African Government wants to enter into a relationship with the IMF, labour wants to be consulted on what approach should be adopted to avoid falling into the same trap as other countries".

The IMF visit, they said, could only complicate the delicate negotiations about national economic policies.

MPs grill IMF head on policy

By RAY HARTLEY
Political Correspondent

MICHEL CAMDESSUS, the International Monetary Fund's managing director, was subjected to a grilling from ANC MPs on Friday over the effects of his institution's policy of structural adjustment in Africa.

At a meeting of Parliament's economic committees, Camdessus said he was impressed with Finance Minister Trevor Manuel's macro-economic policy package, which was announced on June 14.

But the MPs were not impressed with Camdessus' claim that the IMF intended to "use its human and financial resources to support you"

Opening the assault on Camdessus was Finance Committee member Rob Davies, who questioned the "unrealistic targets" set by the IMF Camdessus replied it was true the IMF was seen as "a tough doctor"

"When countries play ball and do what they can to apply their own commitments, the social effects are immensely positive," he said

Davies retorted that "some doctors give the wrong medicine"

● See Page 1 of Business Times

(156)

ST 20/10/96

IMF 'enemy of the people'

(156) CT 20/10/96

Resistance to Mandela's bid for IMF aid

PRESIDENT Nelson Mandela on Friday underlined the South African government's desire for assistance from the International Monetary Fund and once more placed himself on a possible collision course with the trade unions.

MIXED RECEPTION . IMF managing director, Michael Camdessus (right), seen here with NM Ramakgopa, has been warmly welcomed by Mandela – but not by the trade unions or the SACP ■ Pic MIKE MZILENI

Addressing journalists in the grounds of his Houghton residence following a meeting with IMF managing director Michel Camdessus, Mandela said help was needed to bolster South African foreign exchange reserves and protect the rand from speculators.

Mandela's warm reception of Camdessus contrasts sharply with the attitude of the country's biggest trade union federation, Cosatu The federation's secretary-general, Sam Shilowa, described the IMF and the World Bank as the "enemy of the people" which had consorted with the previous apartheid government.

The South African Communist Party also reacted with concern to the visit by Camdessus, and has called for dealings with the IMF to be conducted transparently and with the greatest circumspection.

In a statement, the SACP said the IMF and the World Bank had exacerbated the debt crisis in Third World Countries

"The IMF has been used as an instrument to bludgeon and roll back the development gains in many poor countries," the statement said

Camdessus gave full support to the government's macro-economic plan, and said the IMF was at the disposal of the South African government to help implement it

Camdessus said the greatest challenge facing South Africa was the unacceptable level of unemployment

Mandela endorsed IMF guidelines and requirements for government monetary policy.

"If we want assistance they must be convinced that our monitary policy complies with the guidelines which they have set. I am convinced personally that the guidelines they have set are very good," Mandela said.

"We are not experts, they are, and it is neccessary for us to accept their advice as to how we should restructure our monetary policy," he added.

Referring to trade union resistance to privatisation, Mandela said he was determined to go ahead with it, but wanted to take his allies (including the trade unions) on board.

The SACP said conditions attached to loans from the IMF undermined the sovereignty of nation states.

"The track record of the IMF in South Africa is also deeply problematic In the 1980s it broke the international campaign to isolate the apartheid regime, providing the old regime with its biggest loan (R4,5 billion)," the statement said.

- Sapa

IMF boss says SA plan for growth is spot on

ST (BT) 20/10/96 (15b)

INTERNATIONAL Monetary Fund head Michel Camdessus on Friday pledged support for South Africa's macro-economic plan, saying it was the right strategy for the country

"We in the IMF consider that the strategies for growth, employment and redistribution which the government announced on June 14 are exactly right," Camdessus said after a meeting with President Nelson Mandela

But unions allied to Cosatu attacked Camdessus' visit, saying the IMF's policies courted disaster

"The IMF is not a friend of the working people or the majority of the SA people," Zwelinzima Vavi, deputy general secretary of the Congress of South African Trade Unions, told a news conference

"Their recommendations and policies have caused disasters in many developing countries"

Camdessus backed the government's five-year economic plan which targets a lower budget deficit, economic growth increasing each year to reach 6% by 2000, and a massive increase in job creation

Camdessus said "I have told the president that on the basis of such a strategy the IMF stands ready to take whatever step the government would want us to take."

Asked whether the IMF would make a loan to South Africa, Mandela said "These are matters that are under discussion We have experts that are going into the detail of this What is important is that we want assistance from the IMF"

Picture: STEVE HILTON-BARBER

UNLIKELY FELLOWS ... Trevor Manuel and Michel Camdessus

Camdessus said he and President Mandela had discussed principles of co-operation

He said although South Africa faced several challenges, most importantly an "unacceptably" high level of unemployment, it would overcome them

He said it was clear to the IMF that South Africa was committed to keeping its budget deficit under control and to continuing its privatisation programme The economic programme needed to be given time to be implemented "It was only launched in June, so give it time," Camdessus said

Finance Minister Trevor Manuel said exchange control was not on the agenda for discussions between the two parties — *Reuter*

City Press NATION

IMF 'enemy of the people'

(156) cl 20/10/96

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MIXED RECEPTION.. IMF managing director, Michael Camdessus (right), seen here with NM Ramakgopa, has been warmly welcomed by Mandela – but not by the trade unions or the SACP. ■ Pic: MIKE MZILENI

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- Sapa

'Thieving' cops

Cosatu refuses to meet IMF chief

(158) CT (BR) 21/10/96

JONATHAN ROSENTHAL

Johannesburg — Cosatu last week snubbed Michel Camdessus, the managing director of the IMF, by turning down what it called "a protocol meeting of ceremonial handshakes before the press"

Zwelizima Vavi, the labour federation's assistant general secretary, said on Friday that the federation wanted to engage with the IMF and was not returning to "the old boycott tactics"

However, he said that Cosatu rejected the IMF's policy prescriptions, which he said would result in increased unemployment and social hardship He said the labour movement wished to raise its concerns with the IMF

At the same time, though, he was doubtful how large an effect negotiations with the IMF could have

"I don't think that in a two-hour meeting you can hope to have them shifting and conceding," he said

Michel Camdessus

PHOTO JOHN WOODROOF

Charles Ngakula, the general secretary of the South African Communist Party, which shared a platform with Vavi at a Johannesburg press conference on Friday, said his party did not want to engage with the IMF

"Quite clearly, our policies are at variance with each other and we are in fact in perpetual struggle," he said

Camdessus was on his first official visit to South Africa He met President Nelson Mandela, Trevor Manuel, the finance minister, Thabo Mbeki, the deputy president, and Chris Stals, the Reserve Bank governor

Reuter reports that Camdessus pledged his support for the government's macroeconomic plan, saying it was the right strategy for the country

Mandela said a possible IMF loan to South Africa was under discussion

IMF 'must recognise SA trade unions'

Sowetan 22/10/96

By Abdul Milazi

THE Relationship between the South African Government and the International Monetary Fund will spell doom for the country if organised labour is not involved in all discussions between the two parties.

This warning was sounded by assistant general secretary of the Congress of South African Trade Unions, Zwelinzima Vavi, yesterday

Cosatu and the South African National Civic Organisation (Sanco) rejected two invitations to meet IMF managing director Michael Camdessus when he visited the country last Thursday

Opposed to IMF

"While we are opposed to the IMF and their policies, we would want to be consulted on any planned relationship between the Government and IMF, so as to avoid falling into the same trap as other countries which are run by the Fund," said Vavi

Vavi said the IMF was not a workers' friend because it sided with the former apartheid government in the 1980s against the liberation forces.

"They gave the regime one of the biggest deficit loans (R4 billion) as a lifeline.

"It is common knowledge that the IMF has been widely criticised for pressurising countries to adopt structural adjustment programmes regardless of relevance of such programmes to those countries," Vavi argued

Vavi said. "There has.been a recent agreement that the IMF will provide additional resources to finance loan recovery through the offering of greater concessions like lower interest rates than the market rate."

Rendered bankrupt

The problem with the scheme, he said, was that after three years of concession, countries found themselves unable to continue servicing their debt.

Vavi charged that the IMF has rendered many African countries bankrupt through its "policy prescriptions".

"We don't have to look further than our neighbour, Zimbabwe, to see the problems that can be caused by the tight fiscal policies

"The IMF's new Enhanced Structural Adjustment Programme aims at reducing Zimbabwe's budget deficit of 13 percent to six percent within the next three years."

Vavi said the programme led to increased unemployment and high health and education costs

"We agree with the approach of the international trade union movement that stakeholders should not be excluded from meaningful engagement with this leading institution," adds Vavi

He said they rejected the invitations to meet Camdessus due to short notice

SA may need loan from IMF, says Stals

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

CT(BR) 24/10/96

Johannesburg — Chris Stals, the governor of the Reserve Bank, will advise the government to apply for a loan from the International Monetary Fund (IMF) if there are no signs over the next few months of South Africa's balance of payments improving

"We don't think we really have a crisis on our hands," Stals said on Tuesday "We think the process is already in progress to reduce the deficit on the current account.

"Should we not get evidence (of this) in the next few months, I will certainly feel the time has come for the government to approach the IMF If there is a need to approach the IMF, I will have no problem approaching the government to do so," Stals said.

The balance of payments shows whether money is flowing in or out of the country, either from trade or investment, and by how much. The trade side is often called the current account on the balance of payments, and it was R4,6 billion in deficit in the second quarter of this year.

The kind of loan Stals would urge the government to pursue, if necessary, would be an IMF "standby" facility, which did not carry such strict conditions for economic policy decisions taken by the government as other kinds of IMF loans.

"Normally (standby loan conditions) only make sure the correction in the balance of payments will take place," Stals said.

These comments came before yesterday's release of annual consumer inflation data for last month, which showed that the CPI rose 8,4 percent, above the high range of expectations of 8,1 percent, and up from 7,5 percent for August.

"We believe the adjustment process is already working," Stals said ahead of the data.

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Govt should get IMF loan – Sacob

(156) Sowetan 6/11/96

South Africa stands a better chance to get stand-by facility now

By Mzimkulu Malunga

IT IS "absolutely necessary" for the Government to go to the International Monetary Fund for a stand-by facility to support the rand, says the South African Chamber of Business (Sacob)

Speaking at the organisation's monthly Business Confidence Index (BCI) yesterday, Sacob director general Raymond Parsons said it was better for South Africa go to the IMF now when it was stil in a relatively strong position rather than go when the country is already in a crisis

Parson's comments were echoed by Sacob director of economic policy the Dr Ben van Rensburg, who said a stand-by facility would come with stringent conditions as it could only be used if there was a crisis

Parsons and Van Rensburg said it was up to the Government to do the obvious or listen to objections from the anti-IMF lobby

The Government is currently weighing the pros and cons of such a facility A decision is expected soon

"You have to decide what is in the country's economic interests," said Parsons

He said in order to win back some of the lost confidence in the South African economy, the Reserve Bank needed to come up with a clear timetable for the lifting of exchange controls – which limit the amount of money South Africans can take abroad

However, Van Rensburg admitted that lifting exchange controls under the current economic circumstances would be difficult

Sacob economist Keith Lockwood warned against expectations that South Africa's export volumes would increase dramatically as a result of the weakening of the rand

Most of the manufacturers were already running at close to full capacity "Unless there is investment in new capacity, there will not be a dramatic increase in exports," he said

Meanwhile Sacob's BCI declined by another 1,6 percentage points to 114,3 percent in October This follows a 1,1 percentage points fall in September

The weak rand, today's petrol price hike and fears of an increase in interest rates are among the negative factors that contributed to the decline

IMF loan possible 'to support rand'

Tim Cohen

CAPE TOWN — A presidential report on the half-way mark of the government's first term in office contemplates the possibility of SA accepting a loan from the IMF, saying a loan may be necessary to support the rand

President Nelson Mandela noted in a generally up-beat report to the ANC national executive committee (NEC) meeting at the weekend that government had been working with the IMF and experts to assess the state of the economy and measures to improve it

All parties agreed that SA's economic fundamentals on growth and the improvement of living standards were "spot on"

SA was not yet considering a loan from the IMF, but government could not rule out the possibility "If the need arises we may have to do it to support the currency," the report said.

On the issue of SA's declining currency, the report said the rand was overvalued and there were sound economic reasons for its decline over the past 10 months, "but there was an overshoot"

It was in the character of financial markets that signs of weakness would inspire attempts to "make a killing"

"The question is how do we change the perceptions, to the extent that it is possible?" the report asks

On exchange controls, Mandela expressed confidence that Finance Minister Trevor Manuel and Reserve Bank governor Chris Stals were handling the matter "with great expertise and sensitivity"

Discussions on how to lift exchange controls further would be informed by developments in the economy, for example, the size of SA's foreign reserves

"But our commitment remains"

The report suggested a tight schedule for privatisation plans, saying that the sale of regional radio stations kicked off the process while Telkom and transport were next in line

Mandela noted that the ANC had "turned the economy decisively around", saying there were about 20 projects each costing more than R500m or more opening or under construction

"No one can challenge the fact that on all the major questions that SA has to address, this government has the best possible policies and strategies

"But the challenge is not just good policies the challenge of the moment is implementation"

Meanwhile, following the NEC meeting, the ANC said yesterday it had been agreed that an NEC conference would be held in mid-January. The meeting would assess the ANC's performance with a view to developing a programme of action for the next two years.

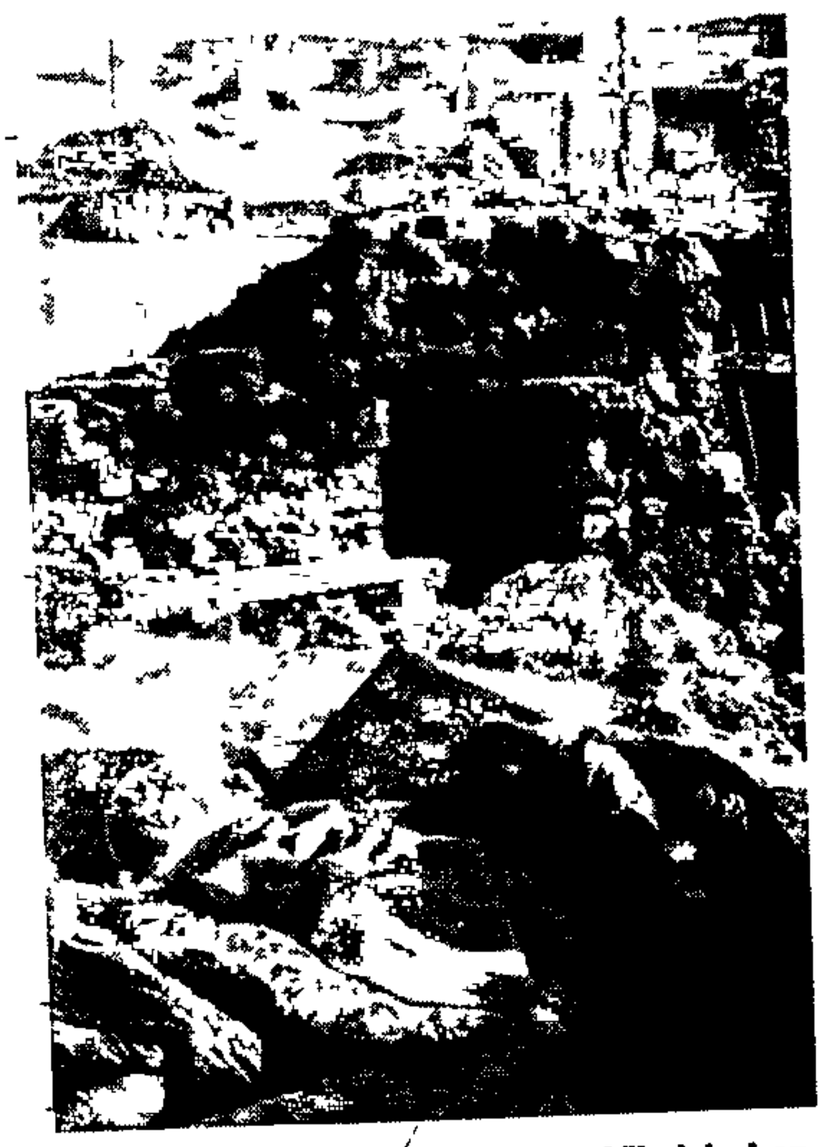
The committee endorsed recommendations on a major anti-crime campaign and on the revitalisation of the Masakhane campaign to encourage township services payments. The recommendations are understood to be in line with proposals made at recent conferences.

The new Masakhane campaign will involve the holding of popular summits about budgeting in an effort to educate ordinary people about the possibilities and limits of government's budget.

Mandela paid tribute to outgoing secretary-general Cyril Ramaphosa, who will remain an NEC member.

Continued on Page 2

Continued from Page 1



g outside the remains of a home at Viladala, Iran. were injured in the earthquake, rescue and aid

Picture: AP

tims to be interred

Hospital director Dr Heinz-Eberhard Gabriel is against the city council plan. He argues that by burying the brains the Nazi crimes would attract attention for a short time "It would be better to keep the organs in the memorial as a permanent reminder of the Nazi euthanasia programme."

The council is also searching for relatives of the victims — but there is virtually no hope that anybody will come forward. "An attempt in the 1980s was unsuccessful, despite the fact that we know the identity of each victim," says Gabriel —Sapa-DPA.

IMF delays loan to Kenya

NAIROBI — A second International Monetary Fund disbursement of $37m to Kenya under a soft loans programme has been delayed for three months because of what the fund sees as slow progress on privatisation, financial sources said yesterday

Senior officials involved in Kenya's privatisation said a fund review mission in December was not completed because a privatisation timetable for Kenya Posts & Telecommunications was not presented.

The fund said the mainly structural outstanding issues concerned privatisation because donors, did not want the Kenyan government to continue baling out parastatals.

Last year, Kenya agreed to a $220m aid plan under the fund's soft loans enhanced structural adjustment facility. The first tranche of $37m was issued early last year and the second was due in November this year.

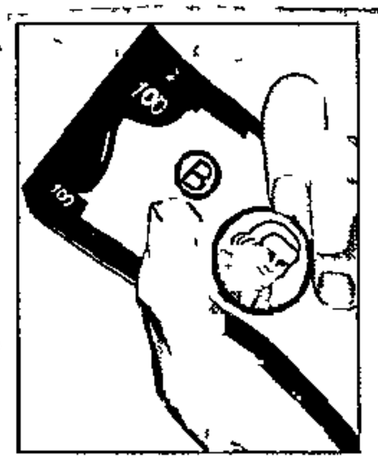
A privatisation official said the government was keen to see the fund review completed and when the team returned, the posts and telecommunications case would be presented —Reuter.

New IMF loan rules will be a setback to fraudsters

Decisions to part with millions will no longer be based purely on economic criteria, writes

Star 12/8/97 (10b)

Paul Blustein



The International Monetary Fund, stepping up efforts to combat corruption in the developing world, has adopted a new policy of denying financial assistance to countries where graft threatens to undermine their economic recovery programmes.

And showing that it means business, the IMF – which in the past has based most of its lending decisions strictly on economic criteria – is cutting off a $220-million (about R1,02-billion) loan to Kenya because of the refusal of Kenyan authorities to clean up pervasive bribery and self-enrichment. Kenya's currency has plunged as much as 20% last week as a result.

The moves are among the most significant in a series of recent measures taken against corruption by aid agencies, Western governments and international organisations. They come in the wake of criticism aimed at the IMF and other aid donors over the blind eye that they allegedly turned toward rampant bribe-taking in Zaire during much of Mobutu Sese Seko's 32-year reign.

The IMF's new policy, enshrined in guidelines approved last Monday by its board, does not mean that IMF money will be withheld from any country where payoffs are common. Rather, it amounts to a warning that the IMF may pull the plug on a country when it believes corruption to be so corrosive as to endanger the attainment of goals specified in a Fund-backed recovery plan.

"Financial assistance from the IMF ... could be suspended or delayed on account of poor governance," the guidelines state, "if there is reason to believe it could have significant macroeconomic implications that threaten the successful implementation of the programme, or if it puts in doubt the purpose of the use of IMF resources."

"The guidelines are very important," said Frank Vogl, vice-chairman of Transparency International, an anti-corruption advocacy group "It's long overdue that multilateral organisations involved in financing developing countries place on a par with macro policies the basic soundness of the government institutions with which they're dealing."

The cutoff of the loan to Kenya, he added, "sends a signal, especially because the guidelines are being issued at around the same time"

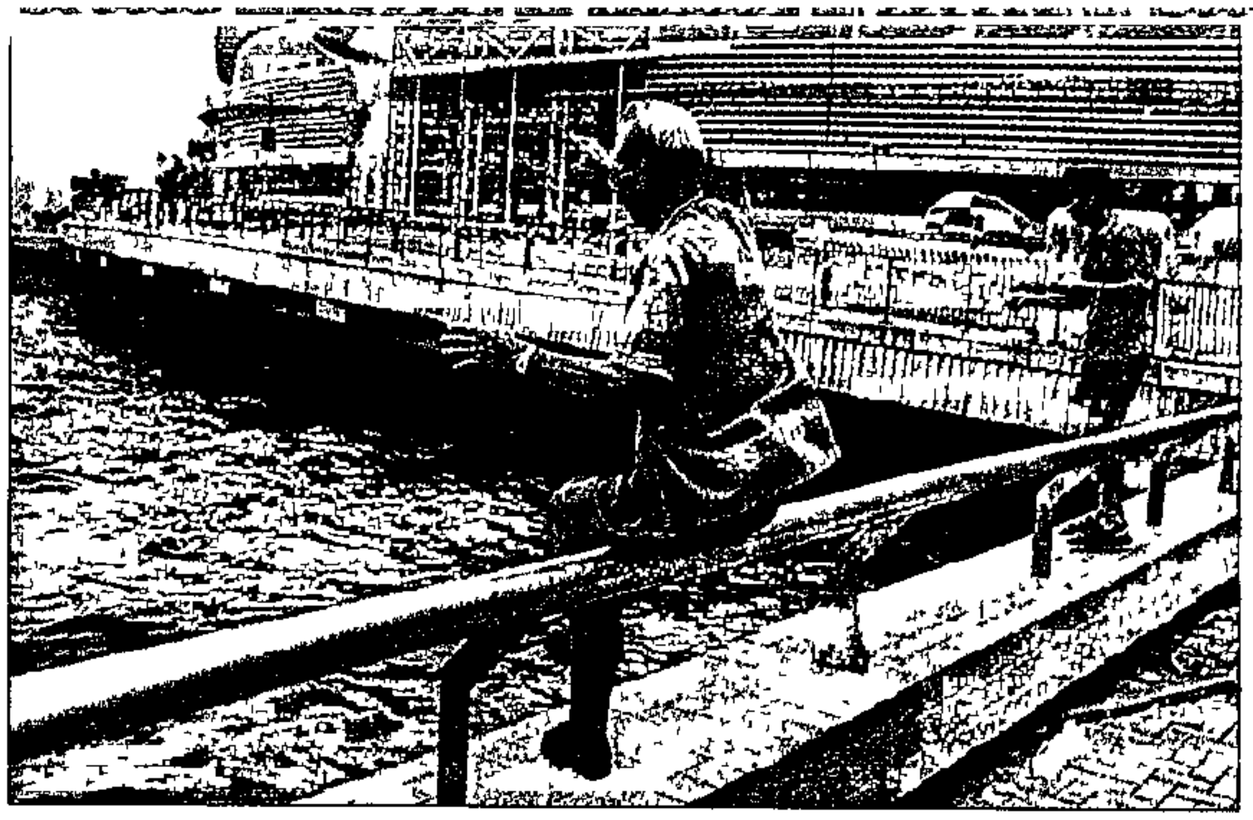
Kenyan President Daniel arap Moi blasted the IMF's decision as "purely political", according to press reports from Nairobi, but the developments reflect a rising determination in Western capitals, especially Washington, to crack down on corruption

IMF managing director Michel Camdessus and World Bank president James Wolfensohn have vowed in major policy addresses to take action based on research showing that bribe-taking by public officials tends to impede development, because scarce government funds are funnelled into unproductive investments to earn payoffs

The IMF guidelines state that the fund should not "interfere in domestic or foreign politics" of a borrowing country, but they call for its employees to point out the economic consequences of corrupt practices that they may perceive during the periodic consultations they hold with government officials from the fund's 131 member countries

The Kenya loan was suspended because anti-corruption measures the government was taking "fall short of meeting the clearly expressed concerns of IMF members". A fund official said the move was "probably the first time that we have said openly that governance issues were at stake" in such a decision.

The suspension follows the Kenyan government's dismissal of its top customs official, Samuel Chebii, who is widely regarded as a crusader for cleaning up corruption in the notoriously graft-ridden ports. – Washington Post



HARBOURING CHANGE *An elderly man fishes yesterday outside the Hong Kong Convention Centre, where the IMF and World Bank will be holding their annual meeting tomorrow — presumably to discuss the evolving nature of their respective roles* PHOTO AP

New world, new tactics for IMF and World Bank

CT(HK) 16/9/97 (156)

JANET GUTTSMAN

Washington, DC — Curbing corruption and coping with crises have moved up the agenda at the World Bank and International Monetary Fund (IMF) as the two institutions try to come to terms with a changing world

The IMF, viewed by the former Soviet Union as a tool of exploitative capitalism, now has 181 member states including virtually all the former communist ones The World Bank has 180 members, up from 151 10 years ago The two institutions start their annual meetings tomorrow in Hong Kong, now part of communist China

The fall of communism in Europe brought new tasks for the fund and the bank as countries in central and eastern Europe and then in the former Soviet Union sought cash and advice to transform their centrally planned economies

But a handful of these countries are now ready to do without IMF loans, and currency turmoil in the so called tiger economies of southeast Asia has created new challenges The focus of operations is changing again

"I think that over the years, particularly in central Europe, our relations will evolve more towards the direction of that with Western countries," Stanley Fischer, IMF first deputy managing director, said recently "We will still be available for emergencies, the programme will still be available if they get into trouble, but the rest of it will be an advisory or surveillance role"

That surveillance role worked only poorly in Thailand, where monetary sources complain the authorities ignored increasingly blunt recommendations that they ease currency restrictions and curb a rising deficit on the current account.

Thailand sought IMF help reluctantly after the baht currency crashed in July A $17,2 billion loan package was then hastily put together, drawing on funds from the IMF, the World Bank and a cluster of countries in the region

It was the second biggest loan package since the international community, responding to the peso crisis in Mexico, made almost $50 billion available in a deal masterminded by the US and the IMF

> *'The long-term goal is to help countries move from systemic corruption to development'*

Some economists complained the IMF had not made its warnings on Thailand public, but Fischer said that would have given the IMF an unwanted role as an outside rating agency, making governments less likely to trust it

"We are certainly encouraging the release of more information by central banks and governments," he said

He added "Not all potential crises develop into actual crises I do not think the fund can, in the end, issue public announcements about the fear that a crisis is imminent because that will change the nature of our role in a country"

Another change for the two institutions has been a new emphasis on the need to crack down on corruption, adding guidelines on graft to the list of things the two already measure when they decide on loans

The IMF stopped lending to Kenya this year because it was worried about corruption

"There is now general agreement that corruption is a major barrier to economic development in most economies," said World Bank guidelines on governance approved earlier this month

"The realistic long-term goal of the World Bank is to help countries move from systemic corruption to an environment where governments perform their duties successfully and can maximise their pursuit of development"

The World Bank, condemned in its early years for funding multibillion-dollar development projects without consulting the people affected, has also changed its policy to involve firms and the community as well as the governments who pay its bills

"Our strategic objective is to reach a point where we have three legs instead of the present one, which rests solely on the governments," said Mark Brown, World Bank vice-president for external affairs

But he admitted the other two pillars — the community groups and the private sector — could have different and contradictory aims

"Governments are pretty uncomfortable about this," he said "But a few years from now it would be inconceivable that the bank would embark on some major development initiative without having all three groups involved"

The community groups, long the World Bank's fiercest critics, are also wary of getting involved with the bank They have not forgotten the "Fifty years is enough" campaign which marked the institution's 50-year anniversary in 1994 — "the World Bank's low point," said one official.

He added "The bank has to decide in the next years what not to do We need to get out of things that we are not particularly good at and get out of things which we think the private sector can do better" — Reuter

Experts cannot agree yet on what constitutes debt crisis

Does the IMF and the developed world have the will to deal with the debt crisis in developing countries? asks **Tim Cohen** in London

(156)

BD 18/9/97

INTERNATIONAL Monetary Fund (IMF) MD Michel Camdessus has gone a long way towards convincing sceptical first-world nations that there is sense in third-world debt relief. What remains to be answered is how much, by whom and according to what standards?

The debate began again before the Commonwealth conference in Mauritius this week after fears were expressed by World Bank and IMF officials that British Chancellor of the Exchequer Gordon Brown would suggest broadening the parameters beyond what the world was willing to pay.

In fact, Brown did speak forcibly on the issue, suggesting that 2000 be set as a date by which "firm decisions" should be in place about the terms of debt relief for at least three quarters of eligible poor countries.

However, he was not carrying an especially large wallet.

By comparison, the existing IMF proposal is to extend significantly its debt relief programme to 19 highly indebted countries at a cost of about $7,4bn. According to the plans, debt relief agreements worth $900m will be ratified at next week's IMF meeting in Hong Kong for Uganda, Bolivia and Burkina Faso, while a further $2bn debt relief for Mozambique and Guyana is under discussion.

This would result in these "highly indebted poor countries" (HIPC) having a ratio of debt to exports of between 200% and 250%, which the World Bank considers sustainable

The $7,4bn debt relief would be shared by the World Bank ($1,6bn), the IMF ($800m), other multilateral organisations including the Commonwealth ($1,8bn), the Paris Club ($2,3bn) and other contributions.

Is this enough? The answer is clearly no. Just as far as African countries are concerned, 25 of sub-Saharan Africa's 32 countries are rated as severely indebted.

On average, sub-Saharan African countries' debt service ratio — debt as a percentage of exports — is 236% or 76% of gross domestic product (GDP).

While the overall picture is severe, the situation varies markedly country by country Public sector external debt service as a percentage of revenue is a tricky problem but not unbearable in some countries: Senegal, Mali and Congo have ratios below 20% — similar to that of SA — yet all three hope to take part in the HIPC programme

But for some countries, even the word "debt trap" is too lightweight a description external debt service as a percentage of revenue in Tanzania is 79%, while in Guinea-Bissau and Madagascar it is 146% and 151%.

The HIPC programme is theoretically based on the principle that it should be guided by the participant countries' ability to pay Hence, sustainability thresholds are defined by two core criteria: a ratio of debt service to exports in the range of 20%-25% and a ratio of present value debt to exports in the range of 200%-250%

While these may be important guidelines, Oxfam International says the comparison is not valid. While a rich country or business can sustain debt at this level for a short period, countries facing structural balance-of-payments deficit weakness cannot sustain a debt service ratio of even 20%

For example, Mozambique's debt servicing requirement is 41% of GDP, which is huge but might be sustainable. But the country is so poor that mass education cannot be funded by government and potential pupils have to cast lots to decide who will go to school

Another argument surrounds the procedural requirement that debt forgiveness can begin only after two successful three-year terms of compliance with an IMF programme Oxfam International points out that two thirds of IMF programmes in low-income countries break down before their completion — although it needs to be asked whose fault this is But the fact remains that in 1993 only five out of 26 programmes had been completed on schedule

The IMF has given every indication that it intends speeding up the programme, but is short of cash Camdessus has already warned that money to pay for the debt initiative may run out next year, which may reopen the controversial issue of the sale of the fund's gold holdings

The current IMF meeting will demonstrate whether the political will to proceed with the debt relief programme exists, or whether the conference will be diverted by the crisis in southeast Asia

criteria

Two cheers for Pretoria, says IMF

CT(BR) 23/9/97 (156)

RICH MKHONDO

Washington, DC — South Africa had made steady economic progress, but investor confidence would be bolstered by the announcement of a medium-term structural reform package that would address high unemployment and low growth, the International Monetary Fund (IMF) said in its annual report

"South Africa has made steady progress, successfully weathering the economic squalls that accompanied its political transition," the report said

"Among its successes were a reduction in the 12-month rate of consumer price inflation (to 5,5 percent in April 1996 from 11 percent in April 1995), a 1,5 percentage point of GDP increase in real net investment," the report said.

IMF directors commended South African authorities for pursuing prudent policies which included reducing the fiscal deficit in 1995-1996, tightening monetary policy in response to the emergence of inflationary pressures in late 1994, liberalising trade and capital controls and enacting new legislation on labour relations.

'SA has weathered the squalls that accompanied its political transition'

The directors "noted that these actions had been crucial in improving market confidence, but the directors underscored that a further tightening of monetary policy was key to restoring financial stability and to contain inflation.

"At the same time the directors recognised that the authorities faced competing demands to respond to the population's urgent social needs. In this regard, they welcomed the priority that the authorities attached to boosting growth and employment."

The IMF said the recent depreciation of the rand was appropriate, but further action was needed to contain the inflationary impulse that had already resulted from the depreciation and to restore confidence in the foreign exchange markets — Washington bureau

Two cheers for Pretoria, says IMF

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Sowetan 23/9/97

IMF reassures (156) rising markets

EMERGING markets have little to fear from liberalisation of capital movements, as long as they have a sound financial structure, the International Monetary Fund (IMF) said yesterday

Presenting an IMF report on global capital flows, assistant research director David Folkerts-Landau said moves to open up capital markets show the "positive influence of capital flows"

"And while some may ask whether financial crises are also the result of liberalisation, they are not directly related," Folkerts-Landau said

"If the country goes the extra mile" in putting its financial structures in order, it should be able to manage crises"

He acknowledged that "certain kinds of capital controls can be useful" in some circumstances if a country has particular problems – *Sapa*

Bank meeting marred by xenophobia

Globalisation is presenting countries and international financial institutions with new challenges. Jim Jones reports from Hong Kong

(156) BD 25/9/97

HONG Kong this past week became the setting for one of the more bizarre joint annual meetings of the International Monetary Fund (IMF) and the World Bank.

The bank is grappling with the problem of defining a role in a world where private finance is now significantly more important than official capital flows in funding development projects

The IMF, in its turn, is having to devise means of handling the volatility that stems from the globalisation of capital markets and a growing reluctance among world governments to swallow the sometimes bitter nostrums prescribed by the world's monetary policeman

Tensions were manifested before the meeting's proceedings even started

Malaysia's Prime Minister Mahathir Mohamad launched a stinging, if ill-informed, attack on financier George Soros, accusing him of malevolently undermining Malaysia's currency and those of other southeast Asian countries

Soros robustly retorted that Mahathir was an economic menace, and representative of those who are only too happy to tap international financial markets for investment funds, but who are unwilling to adopt concomitant governance responsibilities

Mahathir's scarcely disguised xenophobia has, however, struck a chord in the Asian region Now there is talk of an exclusively Asian fund — presumably largely financed by an already troubled Japan — to help countries that would otherwise need to turn to the international fund for restructuring assistance

Interpreting this as a regional response by countries that have somehow created a new and miraculous brand of economics would be foolish.

Essentially, it is the brainchild of the very politicians whose policy failures have given rise to currency turmoil They are the very politicians who are reluctant to face the wrath of voters who will suffer while necessary adjustment policies work their medicine

This political apprehension was Mahathir's motivation in attacking Soros He felt politically insecure in a country where open debate is neither encouraged nor welcomed. He needed a scapegoat for his own failures And he sought the weak politician's easy way out by calling for more controls and a retreat from the open capital and financial markets that have played such a large part in Asia's development. And a regional fund with less stringent criteria than applied by the IMF could be a short-sighted politician's dream.

In the face of this, sound governance, transparency and a vital need to root out corruption became, perhaps inevitably, the common threads in the addresses of both World Bank president James Wolfensohn and IMF MD Michel Camdessus at the official opening of their organisations' joint general meeting in Hong Kong on Tuesday

While the two carefully avoided criticising specific countries, their comments came at a time of currency turmoil in southeast Asia, IMF restructuring assistance to Thailand and the vigorous war of words between Mahathir and the international investors he accuses of destabilising the region's economies And, perhaps understandably as Hong Kong is host to the meeting, the focus was largely on the Asian region

Wolfensohn again called for a new approach by the World Bank. Despite east Asia's economic miracle, he pointed out, inequalities between urban and rural areas and between the skilled and unskilled were widespread

And he sketched a similar pattern in other parts of the world, a pattern he described as "the tragedy of exclusion"

Wolfensohn's speech underscored the World Bank's own soul searching In the post cold war world, the World Bank had to circumvent its own charter restrictions on dealing with anyone but sovereign governments

It realised that strict adherence to these strictures could lead to bank programmes foundering and failing to benefit the poor they were intended to help Helping countries overcome the social problems of exclusion, Wolfensohn said, demanded more than simple economic development.

Financial markets, he said, were demanding more information disclosure and the world had seen how they made swift decisions on the quality and sustainability of government policies based on that information. And this was increasingly important in a world where private capital flows were significantly more important motors for development than official flows

The link between good economic performance and open governance had to t be recognised, Wolfensohn said

Irrespective of an individual country's political system, public decisions needed to be open to public scrutiny, not simply to please markets, but to build social consensus without which, Wolfensohn believed, even the best-conceived economic strategies would ultimately fail.

Wolfensohn dealt with widespread criticism of the World Bank and the manner it manages the projects it helps finance by saying they must be considered as national projects, not as World Bank projects or donor projects

But he made clear the World Bank's view that more people would be lifted from poverty if the bank concentrated its assistance on countries with fitting policies of governance and openness And while a goal of the bank was to support the fit, another was to make the unfit fit.

Wolfensohn's comments on corruption were harsh "If a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the bank group *must* curtail its level of support to that country

"Corruption, by definition, is exclusive it promotes the interests of the few over the many We must fight it wherever we find it "

Camdessus echoed Wolfensohn, saying "In all too many countries, poor governance and inefficient use of public resources perpetuate poverty and impede human development "

He continued this theme when discussing the need for exercising good global citizenship when tapping global markets

The IMF, Camdessus said, would help members increase the transparency of their economic policies as a means of making them less vulnerable to the brutal judgment of markets when economic problems were revealed.

The objective, Camdessus believed, was to foster the smooth operation of international markets and to encourage countries to remove controls to support drives towards sustainable macroeconomic policies, strong monetary and financial sectors, and lasting liberalisation And he believed this would be facilitated if neighbours complemented IMF surveillance by mutual surveillance on a regional basis

That emphasis on surveillance and compliance is in sharp contrast to the regional fund being proposed for Asia. And the differing emphases are central to the debate Can politicians who have presided over the freedoms that rapid economic growth has helped create now relinquish the political controls that seem to stand in the way of further advance?

The thesis of globalisation is that the nation state's powers are waning and governments have to accept the disciplines of the markets Mahathir represents one extreme, Soros another In the middle, international agencies are engaged in an egg dance as they seek to define their own, new roles.

What should not be overlooked in all this is the fact that unbalanced economic growth in any country will almost certainly call for eventual adjustment.

Thailand is the latest to prove the point. Admittedly its economic growth has been spectacular, but this growth has been founded on rising investment in machines rather than on people and skills The next phase has to be founded on working smarter, and that implies the need for major investment in development of the skills, services and institutions that underpin any successful economy

And this is where the emphasis placed on governance by the World Bank and IMF will be crucial if the tragedy of exclusion is to be avoided

Delegates attend the opening of the joint annual meetings of the International Monetary Fund and the World Bank in Hong Kong. Picture AP

Old issues rise at World Bank, IMF meeting

Sowetan 25/9/97

156

TWO perennial themes resurfaced at the International Monetary Fund and World Bank meeting in Hong Kong this week.

They were the issue of whether the two institutions infringe on national sovereignty when they link aid with good governance, and how much power governments can or should have to control their markets when the trend is for free global flows of goods and money

Chinese premier Mr Li Peng launched a forceful attack on the two institutions which are known, especially in the developing world, for linking economic aid to political conditions

Peng insisted nations must be free to choose development paths suited to their own conditions. "Such practices as bullying the weaker or less fortunate by dint of one's power or wealth should not go unchecked," he said

Leaders of the World Bank and IMF, however, reiterated their determination to push for social and economic reforms in the countries that turn to them for money

IMF managing director Mr Michel Camdessus told finance ministers and central bank governors from some 180 countries that his fund will "increasingly focus on a broader reform agenda"

Speaking out forcefully

Camdessus said the fund is now speaking out more forcefully about income distribution, "unproductive" military spending by countries with pressing social needs, accountability and corruption

World Bank president Mr James Wolfensohn said its work of funding global development is being changed The bank is more willing to listen to what poor people say they need, he said

However, the developing world remains unhappy with the workings of the IMF and World Bank

Ethiopian central bank governor Mr Ato Dubale told the Hong Kong gathering that if conditions embodied in a World Bank-IMF debt relief scheme were too rigidly applied, the purpose of the plan would be defeated

Dubale was speaking as a representative of African members of the World Bank and the IMF.

He spoke at length about Africa's debt burden, which is perhaps the chief target of the Heavily Indebted Poor Countries (HIPC) initiative undertaken by the two institutions

Africa's debt burden has worsened, even though several African countries have benefited from various debt-relief schemes The timely solution of the debt crisis will make it easier for African countries to use their limited resources to accelerate development.

But it is not only the approach to debt relief that the Bank and IMF will have to review

Change voting power

Indian central bank governor Mr Chakravarthy Rangarajan said the IMF needs to change the way it calculates the voting power of its members because developing countries were missing out

An agreement by IMF members at the weekend to increase the fund's capital base, while welcome, has meant that "regrettably the voting share of developing countries has declined in the process," Rangarajan said.

IMF members contribute a portion of the capital determined by the weighting of their economies in the world league table, which also determines their voting power within the organisation

Whenever quota increases take place, the division of capital is adjusted to reflect the latest world economic picture

– "There is a clear need to review the formulae so that the fast-growing developing economies get their due share"

Rangarajan may well have a valid point But the bank is not about to make life easy for the developing world unless corruption and mismanagement are addressed

Wolfensohn urged governments to be more open and attack corruption "My bottom line on corruption is simple," he said, declaring the bank would curtail support for any government that allows corruption to undermine development "We must fight it wherever we find it" – *Sapa*

Asian crisis and the EU take the limelight

Africa 'left out' at IMF meetings

CT (OR) 26/9/97

(156)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Hong Kong — The annual general meetings of the International Monetary Fund (IMF) and the World Bank ended yesterday amid recriminations from non-Asian delegates that Asian issues had dominated proceedings.

Delegates from African countries, including South Africa, expressed frustration over the perceived exclusion of issues affecting their countries. Instead, issues like the collapse of the Malaysian ringgit and the coming European monetary union captured the limelight.

Michel Camdessus, the managing director of the IMF, attempted to pacify critics at the closing session: "I would not want the African (central bank) governors to leave Hong Kong feeling that their concerns had been left on the back burners."

In defence of Camdessus, several items of importance to Africa and South Africa were discussed and changes were implemented

The issue of debt forgiveness was debated and African countries took the opportunity to lobby for greater "flexibility of the criteria for inclusion in the debt relief plan".

Of specific importance to South Africa were the debate around the disclosure of information on the economy and transparency of economic policy decisions to allow business to make timely and accurate decisions The IMF is now considering a code of good conduct for governments that are members of the body

SA's 'tug-of-war' over IMF venue

CHRISTO VOLSCHENK

Hong Kong — South Africa was unsuccessful in its attempt to win the IMF and World Bank meeting in 2000 away from the Czech Republic, the country the Emerging Market Forum reported today.

However South African officials denied this was the case. The official South African bid considering applying to host the summit in 2000 but a decision had yet to approve.

The IMF and World Bank decided last year to hold the 2000 meeting in Prague which beat rival bids from South Africa and the United Arab Emirates. A dispute between the Czech government and the Prague authorities cast doubt on the bid, and a new vote was held this week on the two cities.

The issue of transparency is relevant to South Africa where Cosatu, the labour federation, is pushing for reform of the way in which the Reserve Bank decides about interest rate movements.

At the meeting Chris Stals, the Reserve Bank governor, said he was opposed to opening decisions on interest rates to a committee because of the risk of these decisions being leaked. Previously Stals had said he was open to some form of change in the way South Africa's interest rates were managed.

□ Business Watch, Page 14

World Bank gives R60m to Cape park

(156)

RICH MKHONDO

Washington, DC — The World Bank said this week it would spend R60 million over the next six years to help finance the new Cape Peninsula National Park

David Daitz, the manager of the park and a National Park Parks Board official, and Francois Falloux, a World Bank environmentalist, said the money would come from the bank's global environmental facility

"It is a grant It is not a loan," Falloux said Another R5 million to finance the park will come from France's Caisse Francaise de Developpement

Daitz said the park would cost about $300 million over six years to get it up and running "The remainder will be generated within South Africa and from tourism revenue," Daitz said

Daitz and Falloux said the park would be self-sustainable within a few years

The national park will bring jobs to the disadvantaged in the Peninsula area through contracting, tourism, franchises and many other partnerships

Some work on the park has already begun, but it will start in earnest after the final ratification of the grant by the World Bank's board in January

The national park will comprise the Cape Peninsula protected natural environment's 29 000 hectare area stretching from Signal Hill in the north to Cape Point in the south — Independent Foreign Service

CT (BR) 21/11/97

INTERNATIONAL MONETARY FUND

1998 - 1999

The IMF's herbs are so harsh and bitter they lose their medicinal value

(156) Cf 15/3/96

THE INTERNATIONAL Monetary Fund (IMF) came into being on December 27, 1945 after the Bretton Woods conference, attended by representatives of 45 countries

Its charter, known as the Articles of Agreement, makes it the general overseer of its members' monetary and exchange rate policies, and a guardian of a code of conduct committed wholly to the stable and orderly growth of a free market economy

As a co-operative monetary institution, it is primarily neither a lending institution nor a multilateral development institution

In fact, in the present international economic order, its sister institution, the World Bank, performs this vital role

Yet, having been authorised to exercise firm surveillance over the exchange rate policies of its members, the Fund has assumed a major role in co-ordinating the worldwide debt strategy and the establishment of the Structural Adjustment Facilities designed to address the needs of its poorer members.

The Fund determines who qualifies for a World Bank loan and the (usually harsh) conditions that are set.

Thus, members, especially developing counties, seek an IMF passmark with corrosive anxiety, aware of the adverse effects which the disapproval of this "international mother and father" portends for their economy and, to a great extent, political stability

It is against this background that this attempt at evaluating the socio-economic impact of IMF policies on developing countries, particularly Africa, is justified.

Economically and socially, the IMF has largely failed in Africa. GUINNESS OHAZURUIKE (right) looks at the reasons.

By way of digression, the Fund is widely expected to perform in Africa what the miraculous Marshall Plan did in Europe after World War II.

Unfortunately, after centuries of political oppression and economic exploitation at the hands of predatory colonial masters, not to mention the dicatorship and squandermania of some of their local substitutes, the Fund over the years has not been able to make a positive impact of significant measure on the continent.

For instance, the magnitude of financial assistance the Fund committed recently in Asia is unknown in the history of its operation in Africa It has made available substantial bail-out packages to three "Asian tigers" in a bid to salvage their crumbling economies.

These packages· $43 billion to Indonesia, $17,2 billion to Thailand; and $24 billion to South Korea, are capable of lifting them from near economic collapse to the robust position prevailing in some European countries – that is, if the attendant policy measures do not undermine these commitments

Back home, the unavailability of such major bail-out packages leaves the impression that the IMF is yet to realise the economic potential of this continent

Many think the main reason for the Fund's low profile in Africa is its amazing record of policy failure.

Although this is not enough space to present detailed evidence against the Structural Adjustment Programme (SAP) in Africa, it is common knowledge that the IMF-imposed adjustment has failed to bring about the desperately needed economic reprieve to peasants in the continent

Rather it has damaged the development prospects of poor people irrevocably

For this reason the poor and the middle class are usually more riotous than jubilant about the Fund's policies. And such riots have become routine in many African cities

The origin of the adjustment programme in Africa dates to the early eighties, when the impact of foreign debts became critical for the smooth operation of these economies

The response then focused on economic adjustments programmes financed by the IMF, which aimed to bring the debtor countries' unhealthy balance of payments back into balance by devaluing the exchange rate (to encourage exports and discourage imports) and deflating the economy

To get the economies into better shape for the longer term so that they could grow out of debt, the principal instruments became privatisation to reduce the role of government and deregulation to open up the domestic market.

These objects are not bad per se, to the extent that all countries, debtors or creditors, strive to achieve a healthy balance of payment if the economy is to remain viable.

Yet this is not to suggest that the SAP, as designed and implemented under the strict guidance of the IMF, is the only or best way to transform African economies from under-development to developing, from decline to growth, from poverty to prosperity.

The adjustment programmes almost always boil down to straightforward prescriptions that ignore the basic features peculiar to African society, with very bitter and harsh side-effects. As a result, the recipient of the loan, choked by harsh conditionality, is reduced to a mere trading nation instead of trying to develop an industrial base to diversify and strengthen the economy

In sub-Saharan Africa at least, there is general agreement among critics that the economic and social results of these programmes have been very disappointing

Even the World Bank has been forced to accept that the social consequences of adjustment were higher than predicted

The Fund has responded by sometimes tolerating measures aimed at giving adjustments a humane face.

However, such gestures have proved insufficient in Africa, where the Fund gives too little and asks for too much sacrifice

Even the "success stories" that confront progressive minds each time they peruse World Bank reports are mere claims, not substantiated with observable facts

Ghana in the early nineties is one such example

On the social side, adjustment programmes usually result in a higher cost of living, a massive loss of employment and the brutal reduction of budgetary allocation for social services.

In short, the herbs that IMF prescribes for loan recipients are in most cases so harsh and bitter that they lose their medicinal value.

The earlier the Fund modifies its theoretical mind-set, the better.

☐ **The writer is a research assistant at HURISA in Sandton.**

Experts urge IMF to soften its image

(176) BD 17/3/98

WASHINGTON — A panel of independent experts has urged the Independent Monetary Fund (IMF) to "humanise" its image, pay attention to the needs of the vulnerable and show greater flexibility in negotiating with governments

The report, commissioned by the IMF and released on Sunday, was drafted by four university professors who visited eight countries

Their mission was to assess the IMF's enhanced structural adjustment facility, the mechanism by which the fund makes low interest loans to impoverished countries that agree to implement reforms.

IMF executive directors said they endorsed "the fundamental view" of the evaluators that while the facility was a valuable means of helping low-income countries with balance of payments difficulties, its operation "could be improved" The experts found that IMF assistance had "a highly diverse" social impact, with certain sectors suffering income declines while others improved their lot.

They found that in general those who suffered from IMF reforms, which often entailed budget cuts, reductions in social spending and subsidies and market-oriented employment policies, were not necessarily among the poor

In Côte d' Ivoire, for example, IMF programmes sharply lowered the real wages of public service employees.

However, the team did identify three instances in which the poor saw a deterioration in their living standards as a result of IMF-induced income redistribution — maize growers in Zambia, estate workers in Malawi and urban day labourers in Côte 'd Ivoire.

The evaluators urged the IMF to work with the World Bank to identify sectors likely to lose from the proposed reforms and to make sure that sufficient social services remained in place to assist them.

The IMF was also urged to continue providing financial aid to countries even after they had managed to stabilise their economies, as such sustained support would encourage outside investment.

At present investment rates in countries that have faithfully carried out reforms and showed solid growth remained low as they continued to be perceived as "highly risky"

The team warned that the "conjunction of high growth and low investment is not sustainable· either investment must rise or growth will decelerate".

To combat widespread concerns that the IMF was inflexible when it negotiated with recipient governments, the evaluators said the IMF could "formulate alternative programme paths" to reach IMF objectives

The idea would be to "leave it to the country to decide, with the advice of the (IMF) staff, what best suits its particular circumstances"

The team urged that "ways be found to both humanise and demystify the IMF's image, so as to assuage the political hazard that countries perceive to be associated with dealing with the fund".

In a gentle swipe at the World Bank the evaluators said they did not have in mind a bank initiative "to send staff members on missions to villages (presumably with knapsacks containing bottled water and frozen food on their backs)" Instead, they said, the IMF should explore "simpler ways" through which it can sound out the priorities of "a broad cross-section of stakeholders"

The experts, who began their investigation in April last year, are Kwesi Botchwey of Harvard University, Paul Collier of Oxford University, Jan Willem Grunning of The Free University of Amsterdam and Koichi Hamada of Yale University — Sapa-AFP

IMF urged to pay attention to the poor

(156)

Sowetan 17/3/98

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Sustained support

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The deep hunger for debt relief

(156) CT 14/4/98

JANET BUSH

IMF help for poor nations ignores the human factor

THIRD World debt relief has been dutifully pencilled on to the agenda for this week's spring meetings of the International Monetary Fund and the World Bank in Washington, but the initiative is once again destined to wither away on the fringe of a discussion that will be dominated by the crisis in Asia

A chasm has opened between the self-congratulation of the IMF, which last week finally signed a R14,5-billion debt-relief deal for Mozambique, and despairing non-governmental organisations, such as Oxfam and Cafod, the Catholic aid agency, which suspect that the campaign is falling apart

The Highly Indebted Poor Country Initiative (HIPC) was launched in 1996 to great fanfare and high hopes Uganda last week became the first country to get its hands on some actual money

Mozambique has now gone through the tortuous qualification process, but will still not see any cash until the end of another year-long review For all the colourful photo-opportunities afforded by President Clinton's recent grand tour of Africa, a desperately poor country such as Burkina Faso will not get any debt relief until at least 2000, and Cote d'Ivoire not until 2001 Ethiopia must also wait until 2001, or beyond, despite the fact that 10 000 children die annually from easily preventable diseases Ethiopia pays four times as much in debt service as it does on health care

Tanzania, where Hillary and Chelsea Clinton went on safari, may never be eligible for debt relief even though one in six children there die before the age of five Tanzania is a particularly perverse example of the IMF's strict eligibility criteria which mean that countries must wait for years before seeing any debt relief

Under HIPC, countries have to take part in IMF economic reforms for six years before being eligible for relief Tanzania has been in IMF programmes since the mid-1980s but still will not qualify until at least 2002 This is because it temporarily fell out with the donor community in 1994 over targets for revenue collection

The IMF dates the start of its HIPC track record from November, 1996, when it inaugurated a fresh adjustment programme, giving Tanzania no credit for past participation in IMF schemes

The case of Mozambique underlines the deep flaws of HIPC, not just in its implementation but in its design Jubilee 200, the umbrella organisation for NGOs campaigning for debt relief, calculated last week that Mozambique will end up paying more in debt service with HIPC than without it because of the IMF's use of debt service to exports ratios to determine available relief The IMF projects that Mozambican exports will reach R2,5-billion in 1999 and the World Bank says the debt service to exports ratio after the HIPC deal will be up to 20%

This means Mozambique will next year pay up to R500-million, an increase of 16% on the previous year Tomaz Salomao, Mozambique's finance minister, didn't even try to disguise his disappointment at the results of his country's long efforts to qualify: "Considering Mozambique is one of the poorest countries in the world and one devastated by war, it would have been our desire to receive total debt forgiveness "

The World Bank was sufficiently sympathetic to include Salomao's damning comment in its official press release, a small but significant protest that is bound to annoy its IMF colleagues

A Cafod report notes that the HIPC thresholds that determine who is eligible are "rule of thumb measures" — as the World Bank has conceded — developed in the Latin American debt cancellation exercise of the 1980s The report notes that assessments based on the "middle-income" economies of Latin America are entirely inappropriate for the poorest countries of the world, many of them in sub-Saharan Africa

Giving full public vent to their suspicion that HIPC is about maximising the debt that these countries repay rather than providing a platform for growth, several of the interested NGOs are now campaigning for a radical recasting of HIPC

They want the pure macro-economic IMF measurement of debt sustainability replaced by a definition that takes human development into account

Tanzania, which spends nine times as much on debt servicing as on basic health-care and four times as much as on primary education, has already indicated it would work with donors to identify priority social areas for investing the resources released by debt reduction

Uganda has done much the same This approach, which NGOs would like to be the new standard, would allay fears among creditors that debt relief money would be frittered away by bureaucrats

To a home audience, Clinton would argue passionately for the links between social and economic progress. The blueprint for sub-Saharan Africa should be no different — The Times, London

Concern at officials' indecision on IMF report

Simon Barber

WASHINGTON — Government is taking what one official called an "embarrassingly" long time authorising release of a public notice summarising the results of its latest annual consultation with the board of the International Monetary Fund (IMF)

The fund's executive directors reviewed SA's economic policies on July 17 as part of their routine Article IV consultations with member states. In keeping with the fund's new emphasis on transparency, official summaries are generally made public within a few weeks — and sometimes only days — of discussions

A draft statement was sent to Pretoria for approval in the last week of July, and although Finance Minister Trevor Manuel is understood to have accepted the wording verbally, as of yesterday the fund had not received any formal notification that it could release the document

There is some concern the delay will be read as a sign SA authorities are nervous about having the board's assessment made known However, an official closely involved with the process insisted the hold-up was strictly administrative, and partly had to do with "inexperienced" bureaucrats in SA using the regular mail rather than fax

Whenever it is finally released, the statement is expected to contain a positive assessment of government's fiscal policies, while quoting board members as emphasising the need for more aggressive structural reforms, especially in trade and labour

The handling of monetary policy in early May, when the repo rate was allowed to fluctuate widely, is believed to have drawn criticism. The statement should also reflect the board's view that the Reserve Bank needs to reduce its open forward position substantially and then stay out of the forward market.

According to the fund's own boilerplate, "public information notices", as the statements are known officially, "are issued, at the request of a member country seeking to make known the views of the IMF to the public This action is intended to strengthen IMF surveillance over the economic policies of these countries by increasing the transparency of the IMF's assessment of these policies"

(156) (~~256~~) BD 11/9/98

IMF falls out of favour as it fails to heal economic ills

(156) BD 3/9/98

The IMF is increasingly caught between a rock and a hard place, writes London correspondent Tim Cohen

PITY the poor International Monetary Fund (IMF) Once the scourge of maladministered African states, the IMF is no longer held in awe and trepidation, but is jeered and booed in the first world and the third

To make things worse, the organisation that routinely criticised the policies of developing countries and forced them to adopt stringent austerity measures is all but broke

This week is the anniversary of the start of the Asian crisis, which has forced the IMF to disperse about $120bn in international funds All the countries it attempted to help are now in worse positions than when their IMF programmes were implemented

Thailand was the first of the "Asian tiger" economies to accept a $17,2bn IMF-sponsored multilateral bale-out package last August, followed by a $41bn package for Indonesia, and then South Korea These countries ought to be out of intensive care by now, but instead South Korea's gross domestic product (GDP) is expected by some to fall by as much as 8% this year, Thailand's by 6% and Indonesia's by 15%.

"An IMF bale-out is a leading indicator of financial collapse," says one economist, only partly tongue in cheek, citing events as disparate as the Mexican crisis earlier this decade and the recent collapse of the rouble

Of course, this criticism is mischievous Countries call in the IMF only once an economic crisis has hit The IMF's prescriptions are harsh because they entail implementing measures that are unpopular, because governments would hardly have not already implemented the popular measures

To make matters worse, the attacks come at a time when it is seeking US congressional approval for increased funding. At current estimates, the IMF has less than $10bn for future rescues In order to cobble together Russia's $11,2bn bale-out last month, the IMF had to tap a credit line called General Arrangement to Borrow (GAB) for about $24bn — a credit line that had not been used since 1978

Instead of haughty declarations about the parlous finances of its beneficiaries, IMF MD Michel Camdessus recently suffered the indignity of being forced to deflect rude questions about the financial viability of his own organisation.

There is plenty of cheap criticism about the IMF, but serious criticism surrounding the events of the past year comes from three quarters those who believe that the IMF intensified the Asian crisis by doing the wrong thing; those who believe the IMF did the right thing but in insufficient quantity; and those who believe it should have done nothing at all.

All smiles . . IMF MD Michel Camdessus, right, shakes hands with Ukrainian President Leonic Kuchma during a meeting to discuss the delay of a loan to the Ukraine. Picture: AP

The "wrong thing" argument has been most trenchantly argued by Joseph Stiglitz, chief economist of the IMF's sister organisation, the World Bank, who has accused the fund of exacting austerity measures that are scaring away investors and causing panic instead of encouraging them to hold firm in Asia.

The IMF cure has turned out worse than the original disease by over-exaggerating the crisis in countries with formerly low inflation, balanced budgets and high savings rates, Stiglitz has written.

By forcing high interest rates, sharp cuts in public spending and bank closings in return for bale-outs, Stiglitz argues that "imperfect information" has frightened investors away from recipient countries, causing capital flight from both stable and troubled companies alike

The argument that the IMF should have confined its role to that of adviser and not have provided bale-out funds comes from the unusual alliance between free marketers and nongovernmental activist organisations.

This group argues that the bale-out funds typically assist the rich, first world creditor banks and currency speculators while doing little for the poor who bear the brunt of the economic turmoil.

The free marketers argue the IMF is undermining the "moral hazard" principle of how markets should operate, creating a safety net that encourages risky behaviour among investors and acts as a disincentive for nations to root out corruption and unstable banking institutions

The third group's argument is that in a perfect world, the IMF would perform a function for the world economic system comparable to the function a government performs within the confines of its own borders It does so by providing liquidity to the economic system in times of credit shortage and reducing liquidity in times of oversupply But it differs from a government in that it does not have the ability to print money, so it relies instead on its ability to induce structural reforms.

But the problem is this the huge recent advances in the global economic system have simply outpaced the IMF's ability to play this role meaningfully It just does not have the cash.

At the same time, its inability to be an effective global central bank is undermining its ability to impose structural reform. The IMF is allowing many Asian governments involved in crisis to run fiscal deficits much in excess of what it would normally regard as prudent Between these poles, the IMF must find the middle ground, rebuild its authority, press for structural changes and dispense its limited funds judiciously.

In all the criticism of the IMF, something is being missed, and that is the ability of economic systems to expose the weaknesses of corrupt and ineffective governments. For better or for worse, Indonesia and South Korea, and to an extent Russia, all have new governments while the governments of other countries have changed radically

Like the legend of King Canute, the tides of change have swept aside even those who have resisted their advent most fervently, for no longer do governments control economies, their economies control them.

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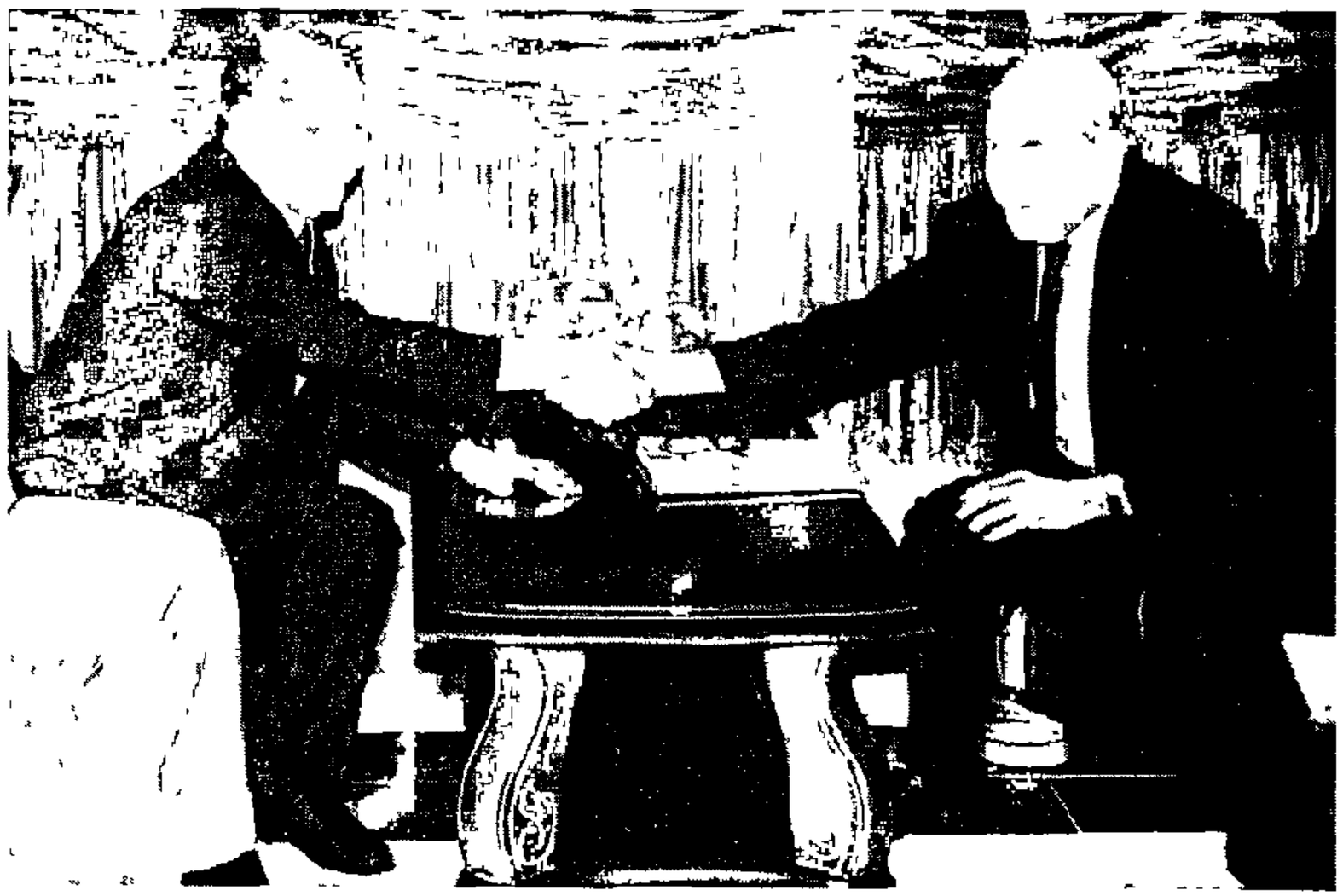

All smiles IMF MD Michel Camdessus, right, shakes hands with Ukrainian President Leonic Kuchma during a meeting to discuss the delay of a loan to the Ukraine Picture AP

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IMF report on Bank gets mixed reception

MATT GETZ (156)
CT(BR) 4/9/98

Johannesburg — Local economists agreed yesterday with the International Monetary Fund's (IMF) criticisms of South Africa, but they questioned the timing of the release Some said the IMF should look at the beam in its own eye before criticising the splinter in its neighbours'

The IMF said the Reserve Bank's intervention in the spot and forward exchange market during the currency crisis from May to July, along with some uneven monetary policy, had exacerbated the pressures, and "may have risked converting a contagion problem into one that was more specific to South Africa"

The report was written on July 17 Since then the Bank has changed tack and virtually exited the foreign exchange market.

It was only released on Wednesday, owing to what were described as normal administrative delays at the fund It was released, said the IMF, "at the request of (the South African) government"

"As far as (Reserve Bank Governor Chris) Stals goes," said Azar Jammine, an economist at Econometrix, an economic consultancy, "he shouldn't have intervened, everybody knows He recognises it, too

"The IMF must look at itself, and see if its prescriptions on Russia and southeast Asia worked "

The fund welcomed the Bank's release of its forward position on a monthly basis, a practice Peter Worthington, the economist at JP Morgan in South Africa, said placed it with Thailand, Sweden and Britain as "one of the few countries with fair transparency about its forward market operations" But the fund said "more frequent dissemination would be helpful"

Worthington said that would probably be a bad move because the short-term fluctuations revealed could unnerve the market

IMF resources at a new low

Washington – Crises in Asia and Russia had prompted record lending from the International Monetary Fund last year, and the fund needed a new cash injection to cope, the IMF said in its annual report yesterday

Because of emergency lending, IMF resources have been brought to a new low, the report said.

During the fiscal year 1997-98 ended in April, the IMF lent $25,6-billion (about R162,6-billion) – four times the amount the previous year Since April the IMF has lent out another $11-billion (R70-billion)

"The situation in the global economy is becoming extremely difficult and the funds are limited," IMF director Stanley Fischer said.

Asia's financial crisis broke out in Thailand in July 1997, and has spread to the rest of Asia and other emerging markets The largest beneficiaries of IMF resources during 1997-98 were South Korea, Indonesia, Thailand and Argentina – with Russia's aid arriving later in the year – AFP

Star 14/9/98 (156)

IMF's Camdessus banks on his critics

BD 23/9/98 (156)

Criticism to Michel Camdessus is like water off a duck's back, write **Richard Lambert** and **Stephen Fidler**

MICHEL Camdessus is in fighting form. "I love your question!" he cries "It is so good to have your criticisms, so that I can refute them."

He is certainly not short of critics The International Monetary Fund (IMF) was meant to lead the world away from financial turmoil Instead, instability has worsened and is developing into what US President Bill Clinton said last week was the most serious challenge faced by the world economy in 50 years

Some attack Camdessus for not doing enough to deal with the international financial crisis, others accuse him of trying to do too much

He has been accused of being too rigid in imposing constraints on the economies of troubled countries, and of trying to impose yesterday's solutions on today's problems.

However, on one thing most people are agreed The contagion that started in east Asia last summer is still spreading and the IMF effort to fight it has failed.

Camdessus rejects the charge. As bouncy and confident as ever, the French banker insists that the fund's programmes are working in South Korea and Thailand, which have rebuilt their reserves, cracked inflation and restored their exchange rates to something close to normality.

There is a question mark over Indonesia, but that is to do with politics: the IMF programme itself is working well, he argues

As for Russia, well, the programme was fine· what went wrong was the implementation. Despite this failure, Russia has made an irreversible move towards a market economy, at a modest cost to the West

Is this a crisis for global capitalism? Absolutely not. "There is a financial crisis going on in certain parts of the world, but there is also a very powerful unanimity of support behind the basic tenets of capitalism," he says

There is always a chance some people will seek to close up their economies and slam on controls "But what is striking is that such a very small number of countries are seeking to go that way."

Indeed, he is confident enough in the underlying health of the world's biggest economies that he rejects proposals for European countries to pump up demand through public spending; rather, he suggests they should keep a tighter rein on their budget deficits

So why do things look so much worse than they did earlier in the year?

Camdessus points his finger firmly at the political leaders of Russia and Japan He visited Boris Yeltsin earlier this year to warn him that Russia could not rely on monetary policy alone to fight off the Asian contagion He told him the country had to deal urgently with its big fiscal imbalances — mainly its failure to collect revenues It also had to tackle the dramatic weakness of its banking system, and it had to attack cronyism and corruption.

CAMDESSUS

Russia failed to respond adequately, and in the heat of the subsequent crisis it made the dreadful mistake of attempting a confiscatory debt reconstruction — a move that has sent shivers around the financial world

Then there is Tokyo "Here also the panorama has changed dramatically," says Camdessus Far from helping the east Asian countries to recover, the collapsing Japanese economy has dragged back its neighbours

This combination has had a spectacular effect on the global economy The IMF is still finalising its figures, but Camdessus acknowledges that the world's economy is likely to grow at only about 2% this year, roughly half the level the IMF predicted a year ago

"Give me more criticisms! Go ahead!" Well, how about the charge that the IMF should have restricted itself to its traditional mission — balance of payments, monetary control and so on — rather than the micromanagement of national economies?

"Let's imagine we had followed this approach Today, I would be singing victory," he exclaims

"In the east Asian countries, we have balance of payment surpluses, inflation below target, and exchange rates more or less where they should be, at least in Korea and Thailand

"But what is clear today is that such measures are not nearly enough to restore sustainable growth You need to strengthen the banking sector (and) to fight corruption and monopolies" As for the idea that the IMF has been too rigid, the managing director concedes that in some cases it might have been a few weeks too slow to react to market changes

And yet these economies hardly have the ring of a success story Is he saying that the IMF did not make any mistakes, or that the organisation could not have made any difference?

"No, no I do not pretend to be infallible"

The IMF is analysing the experience to draw some permanent lessons However, Camdessus does not know how things could have turned out better in Asia, in view of the instruments that were in place and the degree of international co-operation that was available to help these countries

Some of the lessons are already obvious, Camdessus thinks, for the IMF and the international community generally They include the need for better data on short-term capital flows and central bank reserves, improved standards for auditing and bankruptcy procedures and quicker ways of involving the private sector in crisis prevention and resolution, something that Camdessus says took too long to happen in South Korea's case

There are few tools, he argues, to encourage speedy settlement of the large debt overhangs that have been a feature of every financial crisis since the one in Mexico in late 1994

While there is no "grandiose new scheme" to deal with the issue, a number of ideas are under consideration

One would authorise the IMF to call a short-term debt freeze to allow debtors and creditors time to negotiate debt reorganisations — a sort of Super Chapter 11 for countries, he says Another would allow majority voting in bond contracts to make it easier to get agreement for rescheduling among bondholders, any one of which has effective veto power over settlements

The IMF remains committed to capital account liberalisation, albeit in a cautious kind of way, and Camdessus has words of warning for Malaysian Prime Minister Mahathir Mohamad, who has imposed capital controls as part of his bid to shore up the economy

"I believe he takes risks Of course he can have short-term, positive results in terms of exchange appreciation, and of some apparent stability But measures of this kind discourage foreign investors Finally, they lead to isolation"

Camdessus agrees it would be a bad day if the rest of the world were to fail emerging markets "But I believe this is not the central scenario I believe that more and more the markets will differentiate among countries."

Brazil, for instance, is fighting to ward off the crisis It has made a big cut in discretionary spending and raised interest rates significantly

For its part, he says the IMF is not having to ration its money among troubled countries and it has enough resources in hand to do its job, provided "the Congress of the US does its job as invited by the president" and approves the IMF's funding "We continue doing our job, knowing pretty well that if the need arises our membership will help us in order to continue"

Meanwhile, Clinton and the leaders of the other industrialised countries are on the case, and talk of co-ordinated policy measures to ease the crisis is in the air

Camdessus does not expect interest rates to be cut in a uniform way That will never happen when the US and Europe are at such different stages in their economic cycles

The next few weeks will be a testing time. The financial waves are still battering Latin America, and the IMF's annual meeting is scheduled for the end of the month There is also the special meeting of the Group of 22 leading industrialised and emerging countries

— Financial Times.

(156)

THE IMF

Economists argue over the new shape of salvation

ET (IDR) 1/10/98

MICHAEL WEINSTEIN

The world looks to the International Monetary Fund (IMF) to stop financial crises. Yet the fund's best efforts are failing.

Even apart from the spectacular collapses in Asia last year and in Russia this year, there has been an explosion in the number of countries whose economies have been devastated by simultaneous runs on their currencies and banks

What is worse, some hard-hit countries, like Indonesia and Russia, were operating under a bailout programme approved by the fund. The IMF, critics say, appears short of ideas to staunch these crises and short of the money that would allow it to try

But most experts, even as they disagree over how to restructure the fund, argue that the institution should not simply be abandoned.

"The mission is to save the fund, not bury it," said Fred Bergsten, the director of the Institute for International Economics.

Before 1973, the IMF had a clear role The world's currencies were tethered to gold and the fund bailed out countries running out of dollars.

But since US President Richard Nixon eliminated the gold standard, countries have had the option of letting their currencies float in value, helping to eliminate persistent balance-of-payments deficits without outside support. The fund had to scrounge for a new mission

By the early 1980s, it had settled into lending to countries hit by massive capital flight.

But Allan Meltzer of Carnegie Mellon University charges that the fund "is unqualified to assume its new tasks . and ill serves today's needs"

Even if the IMF has the will, it no longer has the way to impose its views. Almost everyone agrees that it cannot perform its current mission with the sums — now well under $100 billion — left in its coffers

Paul Krugman, of the Massachusetts Institute of Technology, estimates that "the fund may need another $200 billion just to bail out Brazil without imposing a severe recession".

So the IMF needs to change. But how?

Some economists call for expanding the IMF's powers to aid crippled economies, perhaps by turning it into a true "lender of last resort"

Others would expand its mission by having it insure foreign loans

Yet another group would take the opposite tack, trimming the role of the institution They would offer bailouts to fewer countries or focus the fund's efforts on convening negotiations between debtor countries and their creditors.

Much of the disagreement flows from one deep-seated dispute. whether countries as small as Hong Kong or as large as Brazil should fix their currencies in terms of dollars, or let them float according to the vagaries of the market.

If the IMF members could settle the issue of exchange rates, many of the other policy issues would fall quietly into line.

Countries adopt a fixed exchange rate — a pledge to convert currencies into dollars at a preset rate — in part to reassure investors that their money is safe. But fixed rates get countries into financial trouble when, for whatever reason, investors get spooked and all rush for the exits at the same time.

With trillions of dollars sloshing around world capital markets, the dollar reserves of nearly every country can be decimated in days, if not seconds. Russia, like some other countries, brought disaster on itself by printing too many roubles.

The more ominous lesson of the past few years is that fickle investors can also rock countries that conduct prudent policies, such as Hong Kong. Krugman worries that it takes "a minority of skittish investors to set off a self-justifying run on the country's reserves".

The upshot is that countries that pledge to preserve fixed rates at any cost are sometimes forced to do exactly that: Sweden in 1993, Brazil today and scores of other countries whose currencies have come under attack have been forced to jack up domestic interest rates as high as 100 percent or more to convince investors to stay

Indeed, the IMF is criticised for strangling the economies of South Korea, Indonesia and Thailand last year by needlessly insisting they impose sky-high interest rates as part of their fund-approved packages.

Jeffrey Sachs, the director of the Harvard Institute for International Development, argues that fixed rates do not work well with unlimited capital flows His answer is to let currencies float.

By proposing that countries move to freely floating rates, Sachs hopes to minimise the possibility of sudden currency collapses.

He would urge the fund to help countries whose currencies are under attack, but only after the currency is set free. The money would be used to mitigate the impact of devaluation on the poor and to reassure investors that the country's finances are sound.

Sachs also urges the fund to focus less on bailing out debtor countries than on helping them negotiate relief from their creditors Indeed, Korea solved its immediate debt problem by pressuring its creditors to stretch out loan repayments in negotiations

Had the fund steered South Korea towards debt negotiations from the beginning, Sachs argues, there might have been no need to crack down so hard on its economy

Meltzer starts from the same presumption as Sachs — that fixed rates do not work well in a world of vast capital flows — but comes to a different conclusion. He wants to minimise the role of the IMF, whose bailouts, he argues, have done a lot of harm.

His solution is to turn the fund into a limited lender of last resort, lending money to debtor countries for a fee.

But debtors would have to post ample collateral That leaves Meltzer vulnerable to the charge that his plan would bail out only countries that do not need the fund's help

And in a sense, he agrees Classic economic thinking suggests bailing out only those borrowers who are merely illiquid, not those who lack enough assets to cover their debts.

But many economists — and these include key policymakers like Stanley Fischer, the fund's number two official — regard floating rates as unacceptably risky for developing countries

Fickle investors, controlling trillions of dollars, can drive currency values up and down in huge swings for seemingly no valid economic reason.

Sudden currency swings play havoc with people's lives In Asia, steep currency declines sent the price of imports skyrocketing, impoverishing millions last year

"It is no accident that countries turn to fixed rates to bring order to their economies," Fischer said. — New York Times News Service

Pay up, leaders tell Washington

(156)

WASHINGTON — World leaders are waiting for Washington to pay its bills to the International Monetary Fund before they can find new ways of ending the global financial crisis, a European official said yesterday.

"It's absolutely necessary that we give back confidence," Austrian Finance Ministry State Secretary Wolfgang Ruttenstorfer said.

Austria holds the rotating presidency of the European Union and, as such, often speaks on behalf of its members.

Next step

BD 6/10/98

Referring to a stalled administration request to the US Congress to approve $18bn in new funding for the IMF, he said: "The next step is certainly the quota increase."

Ruttenstorfer was not a lone voice among European officials attending the annual meetings of the World Bank and IMF.

"The US must not default on its responsibility," French Finance Minister Dominique Strauss-Kahn said on Sunday

"All other countries are ready to make their contributions," British Chancellor of the Exchequer Gordon Brown said.

Republicans in the US Congress have balked at approving the full funding request for the IMF — $3,5bn to create a new emergency facility and $14,5bn to fund the US share of a quota increase, boosting the pool of cash available to lend to countries facing financial difficulties.

IMF rules are such that the funding increase cannot go ahead until the US, the IMF's largest shareholder, agrees to hand over its share of the money.

Ruttenstorfer said once Congress agreed to pay its $14,5bn share of the IMF quota increase, world leaders can hammer out a concrete course of action to battle the financial contagion sweeping emerging markets.

"That's the next important signal we hopefully will see and, from that onward, I think we can then realistically go to such things like emergency capacity," Ruttenstorfer said, referring to proposals by the US and other nations to beef up the IMF's defence system

Congress could go into recess before the November mid-term elections as early as this week.

Time is running out to find a compromise between legislators and the administration on the IMF funding. — Reuter.

US Federal Reserve chairman Alan Greenspan, left, and US Treasury Secretary Robert Rubin prepare for the start of the Group of 10 meeting in Washington at the weekend. Finance ministers from the top 10 industrialised nations of the world called for tighter supervision of capital flows to avert future financial disruptions Picture AFP

GLOBAL ECONOMY *US treasury secretary talks in Washington*

Rubin calls for broad policy reforms in IMF

(1996) CT (AMR) 6/10/98

FROM DOW JONES

Washington, DC — Robert Rubin, the US treasury secretary, this week urged the policymaking panel of the International Monetary Fund (IMF) to adopt broad reforms of its global economic supervisory system

Rubin said the agency needed a new approach to tackle an "unprecedented" economic crisis

He said the IMF must speed up a study on how to improve monitoring of short-term capital flows around the world. The fund must also require countries that borrow from it to disclose results of annual IMF economic health inspections.

"The global economy cannot continue to thrive with the kinds of vast and systemic disruptions that have occurred over the past year," Rubin said.

"Our ability to prevent such disruptions is critical to our ability to maintain and expand the free market system

"Events of the past year highlight the importance of measures to more effectively encourage providers of portfolio capital and banks to analyse and weigh risks and rewards in a more disciplined fashion in good times and bad

"Market discipline, which is central to a market-based economy, through the encouragement of sound policy and the efficient allocation of capital, only works if market participants act with discipline"

Rubin said although it would "take time" to build a robust global financial system in the aftermath of an economic crisis that has tipped a third of the world economy into recession, the IMF could make several types of improvements

He said approval for new funding for the IMF was of "utmost urgency"

The economic contagion that erupted in Thailand in 1997 has widely been attributed to the growing volume of short-term capital flows in and out of emerging market nations and the existence of shoddy financial systems in those countries

Rubin said the IMF should revise its practices to deal with both problems

The IMF conducts annual economic inspections of its 182 member countries, but the results of these inspections are often confidential

Analysts said the confidentiality allowed many countries in crisis to conceal the depth of their economic problems until it was too late.

Rubin said the IMF should consider ways to improve its disclosure requirements by the end of the year He said it should encourage more countries to disclose its inspections, and disclosure should be required of any country that borrowed from the agency

"All countries obtaining IMF loans should also be required to release their letters of intent and, if applicable, policy framework papers They should also agree to issue (public information notices) on the executive board's consideration of their programmes"

The IMF also should revise its methods for dealing with crises once they erupt

Rubin said he welcomed an IMF proposal to lend to countries that defaulted on commercial debt owed to foreign lenders The IMF usually stops loans to such countries, deepening their misery

"Looking forward, the IMF must continue to play the central role in resolving crises by supporting members' adjustment efforts, including through the provision of exceptional financing on a large scale in situations involving systemic risk," Rubin said

"For this purpose, we welcome the IMF's intention to expand its lending-into-arrears policy as a means of providing continued financial support to a country's adjustment efforts"

IMF urged to sell gold to overcome its funding crisis

(176) BD 8/10/98

Samantha Enslin and Tim Cohen

WASHINGTON — The funding crisis facing the International Monetary Fund has intensified calls, including from the African constituency, for the IMF to sell part of its substantial gold holdings.

Speaking on behalf of Africa in the plenary session of the IMF/World Bank annual meetings, Ethiopian Finance Minister Sufian Ahmed, who is chairman of the African caucus, urged the international community and the IMF to consider all options, including the sale of a portion of the fund's gold, to secure finance for the emergency structural adjustment fund and the heavily indebted poor countries initiative

While calls for the fund to sell gold are not new, the IMF is believed to be close to a decision on gold sales now. Sources said IMF deputy MD Stanley Fischer indicated in a closed session of the African Board of Governors on Sunday that the IMF would soon make a decision to sell gold.

Bullion analysts also said it was likely the IMF would sell part of its holdings.

The IMF holds 3,2-million kilograms (103,4-million ounces) valued at current market prices at $30bn

The IMF's resources available for lending have dropped substantially, with its liquidity ratio — the ratio between its uncommitted usable resources and its liquid liabilities — at 37%, the lowest level since 1980.

Facing a funding squeeze, the IMF was now waiting for the ratification of the 45% increase in quotas — the capital subscriptions paid by member countries — agreed in Hong Kong last year IMF sources said this hinged in part on the US Congress approving the release of the US's $14,5bn quota and $3,5bn in additional funding

The debate on whether the IMF should sell some of its gold has heated up recently, partly because of a change in government in Germany, whose previous government was among the most ardent opponents of such a move.

Rumours that the IMF would begin selling its gold stockpile were fuelled by statements at the weekend by British Chancellor Gordon Brown, who suggested gold might be sold to pay for the poor-countries initiative. However, Brown has subsequently said he has no plans to put a specific proposal to the IMF meeting.

Finance Minister Trevor Manuel said that what was important for Africa, including SA, was that the initiative must be paid for "SA obviously favours a cautious approach to gold sales" Haphazard gold sales would would introduce new risks for SA and threaten jobs

In a background document outlining the IMF's policy on gold, the organisation said it had a systemic responsibility to avoid causing disruptions to the gold market. Furthermore, it said, "the fund should continue to hold a relatively large amount of gold".

Gold closed at $298,15 in London yesterday from $295,65 previously

IMF/WORLD BANK

(151) ET (BR) 13/10/98

New world order stumbles blindly towards the future

MATT GETZ

Finance ministers and central bank governors of 182 nations have been returning home the past few days, preparing to explain to their constituencies what was decided at the International Monetary Fund (IMF) and World Bank annual meetings.

The more pessimistic will say nothing really happened.

The optimists can point to the reaching of a relative consensus and the establishment of a framework for a new financial architecture. Some of the poorer countries can also say there is a greater commitment, theoretically at least, to tackle poverty.

But the consensus will have to lead to action to help the meetings become more than "a therapy session, where everybody talks about what's gone wrong and feels much better", in the words of Maria Ramos, the South African director-general of finance.

Michel Camdessus, the IMF's managing director, said the meetings had achieved their primary objective, to gain agreement on the principles of sound financial systems, orderly capital account liberalisation, transparency, market modernisation and private sector involvement — the pillars of the new financial architecture.

But his counterpart at the World Bank, James Wolfensohn, delivered a number of speeches that, though hopeful, reinforced the sinking feeling.

Wolfensohn, like some others, concentrated on the social aspects of the world crisis, which are getting worse every day. The unemployment rate in Hong Kong is up 50 percent on last year; in Indonesia it has tripled. More than 40 percent of Russians are under the poverty line.

As long as no money goes into the developing world — private sector lending to the Third World has fallen from $100 billion to virtually nothing in the past year and a half — this will probably get worse.

"The crisis has reversed so many substantial gains in East Asia and Latin America," said Ramos. "We had started in Africa to remove the scourge of poverty. We were improving the socio-economic indicators. That's all coming under severe pressure."

There has been much focus on how countries got themselves into trouble. East Asia's example, in particular, supposedly shows how corrupt societies are vulnerable to danger.

But there is a growing realisation that internal reform to conform to IMF norms is not enough.

"There is something wrong," said one delegate, "with a system where even well-run countries can be subject to contagion."

The IMF itself has said as much in reports, though Camdessus, who still talks of the "wonderful market revolution", will not utter such thoughts in public.

This really difficult question — what do you do when massive private capital flows ignore fundamentals and act for technical reasons? — has not found anything reaching a consensus.

There is still a lack of proper information and workable theory. "The brute fact," said Yashwant Sinha, India's minister of finance, "is that after five days of intense discussion and debate, we are still at a loss why contagion has continued to spread.

"Nor do we seem to have achieved clear, agreed and effective measures to contain the crisis. I wonder if our apparent ineffectiveness in coping with this new global crisis could be due to limitations of the Bretton Woods institutions in handling crises spawned by massive reversals of private capital flows," said Sinha.

If any consensus was reached, it was on that point: the fund and bank have to change substantially. This is much easier said than done.

Most delegates think the bank has been making a good go at changing its policies, focusing on sustainable programmes of poverty reduction and development. But the fund remains stuck in the past.

The need for reform is made all the more urgent by the attitude of the countries of the world, most of whom want the institutions to act differently.

The most obvious and important of these is the US. The House of Representatives has come up with a new cockamamie proposal. fund loans should be a few points above market rates (they are currently a few points below) and should not exceed one year in maturity (they usually last from one to three years).

That idea blithely ignores the fact that the reason the fund gives loans is because countries are having cash flow crises. But some compromise will have to be reached, because the fund and the bank rely inordinately heavily on the US's money.

It should not be imagined, though, that nothing came out of the conference besides lots of bumf, vague steps on regulations and talk about consensus.

US President Bill Clinton's ideas of precautionary credit lines was received favourably and may be put into practice, though funding is a problem. The World Bank will probably provide more guarantees.

Clinton also suggested turning Asian debt into equity — a sensible idea which would also buy in the private sector, an aim of the new architecture.

Subgroups have put forward the occasional good suggestions. The best have come from the Latin Americans who, after all, have been through this sort of thing twice in the past 20 years.

Ricardo Hausman, the chief economist at the Inter American Development Bank, says development banks should get more involved in lending, overcoming the willingness-to-pay problem that sends interest rates higher.

"In Argentina," he says, "we fund 20 projects at under market rates. If Argentina doesn't repay the interest on one, we cut off funding for all 20. We've never had one default from them."

Pedro Pou, the governor of Argentina's central bank, says the only solution can be to create a lender of last resort, a world central bank. His idea ties in with many of the difficult, nearly impossible but seemingly essential suggestions advanced: world bankruptcy laws, transnational regulation and sharing of data.

The countries of Europe have been trying to do such things for 40 years and have had uneven success. Involving the entire world creates a new, vastly greater level of difficulty.

But more and more people are realising that while the movement of capital is free and global, the laws and regulations governing it are not.

If seeds planted now can one day help rectify this imbalance, then this conference will have been meaningful.

☐ *Matt Getz is a Business Report journalist attending the annual meeting of the World Bank and IMF in Washington, DC*

IMF/WORLD BANK

(15L) (BR) ET (BR) 13/10/98

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LIBERALISATION *Moves should be 'regulated but not stopped'*

IMF changes view on cash flows

CT(MR) 15/10/98 (196)

MATT GETZ

Washington, DC — The global economic crisis has forced the global financial community and the International Monetary Fund (IMF) to change their stance on capital flows.

When the fund met in Hong Kong last year, it recommended global capital account liberalisation. It also advised that capital account transactions be brought within its ambit.

But 12 months of massive outflows have forced it to reconsider that position — though it still wants some kind of control.

Michael Mussa, the fund's economic counsellor and the co-leader of a team which produced a document on liberalisation, said: "Capital account liberalisation is like fire. It is very useful and we will not give it up, but it can do a lot of damage."

In the middle of last year, total capital flows to emerging markets were worth $400 billion. That figure has fallen to zero.

"No country, no matter how sound and solid it is, can maintain an open attitude in the face of that disturbance," said Mussa. "There must be a mechanism to slow down inward flows as well as outward flows."

Barry Eichengreen, the team's co-leader, said the IMF believed capital flows should not be unregulated, nor should they be prohibited or strictly controlled.

Rather, he said countries might use a number of administrative or tax-like measures, such as those used by Chile and Israel, without much distortion.

Such measures would take the riskier positions of foreign capital into account, especially where it is in the form of loans.

Eichengreen said banks could be required to take out forward foreign currency contracts to match their open positions, but that simply turned currency risk into credit risk.

Alternatively, banks which borrowed abroad could be forced to maintain higher capital adequacy ratios, or lending banks could be encouraged to be more prudent.

The biggest problem with these approaches is that they do not affect non-bank borrowing. Therefore, the IMF supports taxes on foreign capital inflows, or tax-like measures.

In Chile, "all non-equity foreign investment (must) be accompanied by a one-year non-interest-bearing deposit (whose tax equivalent therefore declines with the duration of the investment)", said the report.

Eichengreen said: "We see no contradiction between the use of tax to manage flows and capital account liberalisation. There are no quantitative restrictions that prevent a transaction at any price."

But many economists feel the IMF is still too much in favour of capital account liberalisation without regarding the nature of different countries.

"There is a whole problem with the lingo," said Ricardo Hausmann, the chief economist at the Inter-American Development Bank.

"Talking about capital account liberalisation makes it sound like everybody is moving to a promised land where there are no controls."

He said many economies were simply too illiquid for full liberalisation. Not only did there have to be requirements for domestic deposits and foreign borrowing, but international financial institutions must provide lines of credit if things go sour.

Last year, Japan proposed lending $100 billion to Indonesia when capital started haemorrhaging. But the US objected because there were no conditions to reform Indonesia's economy.

"If the Indonesian crisis was caused largely by panic it was a mistake for the US to object," said J Bhagwati, a Columbia professor and free trade expert.

"There is no conditionality needed (if you are suppiying liquidity to overcome panic)."

The Group of 24 emerging market nations largely agreed with the IMF on using tax measures, but said "while pursuing the liberalisation of their capital accounts, members will have to keep open the possibility of applying appropriate measures to oversee the cross-border exposures of private-sector entities and to curb excessive speculative activity in their foreign exchange and equity markets".

However, no-one endorsed Malaysia's recent heavy-handed moves at capital controls. "It is crazy to reinforce a lack of confidence," said Bhagwati.

He found universal agreement when he said a country could not go back once it was on the road to liberalisation.

IMF (156) FM 16/10/98

STRUGGLING TO KEEP THE FAITH

Open markets challenged

Behind the facade of well-heeled business as usual, there was a thinly disguised air of fear at last week's gathering of the world's Finance Ministers, central bank governors and commercial bankers at the annual meeting of the International Monetary Fund (IMF) and World Bank

"In my working lifetime, and certainly since World War 2, it's the most serious challenge to world stability," said World Bank president James Wolfensohn

"There's a sense that things out there have simply moved beyond anyone's ability to control," was the verdict of a central bank official from one emerging country

But the most striking aspect of the Washington angst was that it went much further than the immediate fear of escalating crisis

And, for the first time in many years, there was a palpable sense of disarray among policymakers about the very nature of the global economy and modern financial markets

There was widespread recognition that the events of the last year have challenged the orthodoxy of US-led and IMF-implemented free market economics as a cure-all for the world economy The tone of international financial meetings for most of the past decade has been a familiar one The US and, to a lesser extent western Europeans, egged on by their financial institutions, have lectured the rest of the world on the virtues of open markets

But this year things were different US officials were noticeably less self-assured in their calls for continued liberalisation And participants flocked to hear the views of those who have been critical of the structure of the global financial system — long-standing heretics like Jeffrey Sachs, a development economist at Harvard University, or Joseph Stiglitz, now chief

economist at the World Bank

"The events of the past year have damaged everyone's faith in the idea that the way ahead lay in ever more liberalisation," said one official

It was not always easy to separate criticism of the IMF from criticism of global capitalism itself

There was little doubt this was one of the most uncomfortable meetings for the IMF's leadership in its 50-year history There was a widespread view that the fund had failed at the most basic level to stop the spread of the global crisis Indeed, many of the representatives of emerging markets argued fund policies had made matters worse

One Asian official said the fund's effect had been like delivering a dose of diarrhoea to a patient already suffering severe gastrointestinal problems By flushing out the system, the doctor had nearly killed the patient

Specific IMF decisions in Thailand, South Korea and Indonesia to close banks, squeeze fiscal policy and raise interest rates had devastated the domestic economies Output in those countries is expected to decline by a weighted average of 10% this year, without a noticeable improvement in investors' confidence

Even Wolfensohn expressed his growing disquiet at the insufficient weight given in IMF programmes to the social costs of its policies But there was a much broader criticism that the IMF had shattered international confidence in itself and Asia by its conceptual approach to problems

The IMF, it will be remembered, had repeatedly hailed the achievements of Asian countries over the past 30 years, with scarcely a harsh word to say about the region

But when countries began to topple, the IMF's prescription was startling what was needed, it said, was not just the usual combination of emergency financial measures, but a radical overhaul of the economic systems on which these countries had operated for 20 years or more Having been praised for their performance for so long, Korea, Thailand and Indonesia were told they had to scrap everything — banking systems, government's role in the economy, the structure of corporate governance, supervisory and regulatory regimes

This, as one economist put it, did not exactly inspire confidence

If correct, it seemed to suggest the success of the previous two decades had been built on sand Since few investors seriously believed those countries capable of the system transformation required by the IMF, faith in any chance of an early recovery evaporated.

Unconvinced that IMF policies are right, many countries have simply opted out

This summer, Malaysia imposed strict controls on the movement of money in and out of the country In Washington, Malaysia's Second Finance Minister, Mustapa Mohamed, said the IMF's standard plan of tight fiscal and monetary policies had aggravated the crisis in Asia

"We are victims of the onslaught of speculative capital flows seeking high returns," Mustapa told the meetings "The traditional prescription backfired"

What was surprising at the IMF meeting was the widespread view that one of the main causes of the current predicament was the open capital market itself

Even IMF officials admitted that unfettered capital markets could have drawbacks, and there was much sympathy for countries that found themselves at the mercy of sudden swings in investor sentiment, through no fault of their own

James Wolfensohn *even good countries are being starved of credit*

"There are many countries that are good but are now being starved for credit," said Wolfensohn

Kim Yong-duck, the South Korean Finance Ministry's deputy director general for international finance, suggested that many emerging market countries had decided managing financial markets was the best option "I think this is a good opportunity for all nations to pay more attention to the future of the international financial community and the orderly management of international financial problems," he said

Of course, none of this amounts to a repudiation of the capitalist system's core values, and there is still considerable opposition in the big industrialised countries even to limited financial market controls Subdued US officials gently argued that the benefits of free and open financial markets over the past 20 years far outweighed the costs and pain of the past year

But that case is getting harder to push Not only are emerging countries unable to see many benefits at the moment but, now that the US itself has been hit harder by the global crisis, Washington's case has been weakened One name that came up again and again in the side-meetings was that of John Meriwether's Long-Term Capital Management, the near-bankrupt hedge firm bailed out in a rescue orchestrated by the Federal Reserve last month

Though few banking supervisors argued that the rescue wasn't necessary to prevent a meltdown in financial markets, there was undisguised irritation at what were seen as US double standards While the US Treasury has been lecturing the world on the benefits of free markets, urging Asian governments not to rescue collapsed banks and trumpeting the virtues of transparency among financial institutions, the Fed has been trying to save a hedge fund with well-connected management and a history of near total secrecy in its operations

"Where the US leads, the rest of us will follow," said one Asian financial official, reverently

Gerard Baker, Washington

IMF quota increased by R3,4bn

Linda Ensor

CAPE TOWN — SA's quota with the International Monetary Fund (IMF) would be increased this week from R9,3bn to R12,7bn, Reserve Bank governor Chris Stals said

Stals told a finance committee briefing last week that the amount excluded the R1,2bn increase in SA's special drawing rights (SDR). He said the increase in quotas was due to the IMF's decision last year to raise all quotas by about 45% to 212-billion SDRs An SDR equals about R0,147.

The IMF reviews quotas every five years on the basis of the growth in the world economy and in member countries' economies The increases took effect when 85% of the member countries consented to their specific quota allocation

Stals said SA would be able to borrow the total quota of R12,7bn to help ease balance of payments problems, but he did not foresee a need for this in the near future even though the country's foreign reserves were low

"This facility is our second or third line of defence if SA has a balance of payments problem," Stals said

The last instalment on a 700-million SDR loan taken out in 1993 when a severe drought caused balance of payments problems was paid back in December and SA has no outstanding debt to the fund

Concrete steps needed to enhance funding standards

(156) BD 1/3/99

The private sector could play an important role in helping the IMF to set up a new international financial system, writes Barry Eichengreen in the Financial Times

THAILAND's crisis in 1997 left Bangkok's skyline studded by unfinished skyscrapers and architects' dreams

One fears the same fate will now befall another set of architects, those seeking to rebuild the international financial system That process now resembles nothing so much as an open competition for a lavish commission Anyone with a pencil has put in a plan

Architectural competition judges winnow submissions by rejecting those that fail to fit in with the site or exceed engineering capabilities of the builders A first step towards a consensus on financial reform is to reject grandiose schemes for which there is no political support

However compelling the argument that global financial markets need a global financial regulator, a global bankruptcy court, global money and a global central bank, realism requires acknowledging that national governments are not prepared to turn over significant additional powers to a super International Monetary Fund (IMF)

Europe has created a single currency and a European central bank only after half a century of hard slog It is fantastic to think that this process could be replicated on a global scale in a few years

What remains is a limited but important agenda The first element is the need for international financial standards It is impossible to fix the international financial system without first fixing the domestic financial systems of countries active on international markets. Neither the IMF nor any other multilateral agency has the resources to micromanage this in 182 countries

The only practical way is to develop and adopt international standards of acceptable practice, not just for bank regulation but also for auditing, accounting, corporate governance and bankruptcy law National practices can differ in detail, but all must satisfy common standards

In doing this, the lead must be taken by the private sector the International Accounting Standards Committee, the International Bar Association and others The IMF can help enforce standards by blunt assessments of national practice and offering concessionary interest rates on loans to countries that comply

A second critical area is that of banks and capital flows Everyone agrees on the need to strengthen banking risk management and supervisory oversight and regulation

The sad truth is that banks in too many countries have a limited capacity to manage risk and regulators have limited capacity to supervise their actions In such countries, moreover, capital requirements in theory and capital requirements in practice are two different things

Revising the Basle capital standards to make capital requirements sensitive to sources of bank funding and risks of investments is unlikely to prove effective. The basic problem is that free access to foreign finance, short-term finance in particular, is incompatible with financial stability Foreign funding gives an extra way to lever up bets to banks gambling for redemption and seeking to take on excessive risk.

Government guarantees for banks regarded as too big to fail encourage foreign investors to provide those funds When confidence is disturbed, the short maturity of their loans gives these investors the opportunity to flee. Their rush for the exits can bring down the banking system, currency and economy

This creates an argument for limiting short-term bank borrowing in countries where bank risk-management practices and regulatory supervision do not suffice. Where banks can circumvent existing rules, by having companies borrow and pass on the proceeds to them, broader measures may be required

Financial stability may have to be buttressed by a Chilean type of tax to limit short-term foreign borrowing by all domestic entities The international community should unambiguously advocate these measures

There is reasonable consensus on changing the provisions of loan contracts. Majority voting and sharing clauses should be added to loan contracts to prevent isolated creditors from resorting to lawsuits and other means to block settlements This is the only practical way to create an environment more conducive to restructuring negotiations

Unfortunately, no borrower wants to be first The IMF will have to make it clear that it will lend at more attractive interest rates to countries that issue debt securities with these provisions. US and UK regulators should require the relevant provisions of international bonds admitted to trading on their markets.

It is important for aspiring architects to draw the right lessons from the Brazilian debacle One indisputable lesson is the need for the vast majority of emerging markets to move to more flexible exchange rates Brazil illustrates again that, in a world of high capital mobility, democracies cannot credibly attach priority to maintaining pegged exchange rates above all other goals

Brazil is also a blunt reminder of how few countries have the unquestionably strong policies that might permit the IMF to extend unconditional credits in advance and how small the fund's resources remain relative to those of the market.

The new contingent facility for the IMF, as suggested by the Clinton administration and the Group of Seven, is not a feasible response.

Last month's meeting in Davos was yet another occasion for the pundits to tout pet plans Most of their ideas are not practical guides for policymakers. The time for this is over The task now is to move from abstract schemes to concrete action This means discarding unrealistic proposals and building a consensus around those that remain

☐ *Eichengreen is professor of economics and political science at the University of California, Berkeley*

IMF and World Bank are 'to be monitored'

By Ido Lekota

A GROUP, including trade unions and socialist parties from Europe, the Americas and Africa, has launched a campaign aimed at exposing how policies, foreign aid agencies – such as the International Monetary Fund and the World Bank – have negatively impacted on the economic development of Africa

Called the International Tribunal on Africa, the campaign will involve collecting evidence from countries where structural adjustment programmes of both the World Bank and the IMF have allegedly led to economic misery Such institutions would then be given an opportunity to account for their policies

A preparatory conference hosted by the Socialist Party of Azania (Sopa) was held last weekend in Johannesburg, where it was decided that the actual tribunal should be held at the beginning of the year 2000

Yesterday Mr Strini Moodley of Sopa said the delegates (who came from at least 12 countries in Africa including Algeria and Ghana, as well as Switzerland, America and Brazil) had agreed that "the hands of African states were tied They were forced to spend most of their revenue servicing foreign and national debt instead of funding social services such as health

Every year 30 billion dollars which could meet the urgent needs of African people, are siphoned off from the continent to service the debt, which in most cases, was granted to corrupt and anti-democratic governments

It was established that a small fraction of the amount spent on debt servicing could provide cures for diseases and prevent the deaths of more than four million African children annually", said Moodley

As a member of the campaign's coordinating commitee, US-based Mr Ralph Schoenman of the International Liaison Committee admitted that the tribunal would not have powers to subpoena the World Bank and IMF

However, he said, the exercise would collate evidence about the hardships Africans have endured due to the institutions' policies

Private sector involvement could boost IMF

BD 4/3/99 (156)

Rather than trying to be lender of last resort, the IMF should settle for a less ambitious approach, writes **Onno Wijnholds**

IN the debate about "reforming the international financial architecture" (really a matter of renewing the wiring and plumbing, but changing the architecture sounds more important), there have been calls for the International Monetary Fund to become a lender of last resort These suggestions pose serious problems

Rather than have the IMF play a role that it is not well equipped to take on, and one that carries a considerable risk of moral hazard, the fund should settle for a less ambitious approach in its lending policies, while seeking to increase the involvement of the private sector in dealing with financial crises

Using this approach, the IMF could continue to play an indispensable role in dealing with countries facing serious external imbalances In fact, there is a need to strengthen the role of the fund as the "indispensable lender", not by providing ever larger credits but by making sure that other creditors take their fair share in the resolution of international financial upheavals

The notion of a lender of last resort is best known in a domestic context, where central banks stand ready to provide liquidity to illiquid but solvent banks, usually against collateral and at a penalty rate

Applying this concept to the IMF is inaccurate on two counts the fund is not a world central bank with unlimited money-creating powers, and it lends to countries, not to banks These two facts mean the IMF can assume a lender-of-last-resort role only to a limited extent

Its resources come from national governments which are clearly unwilling to provide it with the amount of money that such a role would entail Also, the fund cannot make a distinction between solvent and insolvent countries Indeed, the concept of insolvency is not well suited to sovereign nations

Attempts at playing such a role could also be harmful, especially when announced in advance The moral hazard this would create could be unacceptably high and efforts to achieve equitable burden-sharing in times of financial crises would be seriously undermined

Granted, moral problems would probably not be serious with respect to the borrowing countries, as long as adequate conditionality was maintained But they apply with full force on the creditor side Banks and other financial institutions have the IMF in mind as a source of comfort when making decisions about whether to lend to risky countries, where higher yields can be obtained

While suggestions have been made to reduce such moral hazard, they are not very convincing The only way to reduce moral hazard drastically is for the IMF to refrain from attempts to become a lender of last resort

In this light, the proposal to create a contingent credit line within the IMF is not helpful The danger is that the existence of such a credit line on top of the existing facilities of the IMF would provide even more comfort to private sector lenders

Moreover, it could well engender moral hazard on the borrower side, too This is because a contingent credit line in effect constitutes a guarantee that the IMF will bail out a country that in the past has conducted adequate policies Under such a system, it would be hard to maintain the sort of conditionality required under existing IMF facilities, with their prior requirements and performance criteria

Economic resolution

Those who are sceptical about this argument should think about what would have happened if such a contingent credit line had been available to Indonesia or South Korea in 1997 or to Brazil in 1998

A prior question lurks behind the debates on lender of last resort and the contingent credit line is it essential for the IMF to provide the bulk of countries' financing needs to play a central role in the resolution of their financial and economic problems?

Experience suggests the answer is no The IMF provides on average no more than 10% of the financing requirements of the countries that turn to it for support Yet it is generally considered to be the pivot of the process

This is the role of the IMF as the indispensable lender The fund is indispensable because its conditionality constitutes the best possible guarantee of timely repayment (most countries cannot provide adequate collateral) It also provides the best hope of lasting improvement in the borrowing country's economic policies

Other official lenders tend to link their money to an IMF programme the World Bank, the European Union and individual states Also, private sector participants, particularly commercial banks, are more willing to lend to a country if an IMF programme is in place

This process — often referred to as the catalytic role of the fund — is only one element of its "indispensable lender" role The IMF also coordinates the contributions of other official creditors during a crisis

Indeed, the IMF might well do more here, especially in involving the private sector The missing link in dealing with international financial crises has often been the lack of mechanisms for involving companies In playing a more active role here, the IMF would strengthen its role as indispensable lender without resorting to the provision of even larger credits of its own

All the same, the fund needs to tread cautiously in this area While it and creditor governments should take into account the concerns of the private sector in dealing with financial crises, it should be kept in mind that the IMF's articles call for it to provide credits "to give confidence to members" — and not necessarily to members' creditors

In sum, the IMF should not be pushed into the role of lender of last resort, a role that it cannot wholly fulfil and is fraught with moral hazard The fund can and should continue to play a central role in addressing financial upheavals without providing the bulk of the financing needs of countries in crisis

By linking its credits to sound economic programmes and by involving other parties, including the private sector, the IMF will be the indispensable lender

☐ *Wijnholds is an executive director of the IMF This article first appeared in the Financial Times*

MAIL & GUARDIAN
April 23 to 29 1999

Fund admits debt plans will fail poor

(156) (~~355~~)

Larry Elliott and Charlotte Denny

M+G 23-29/4/99

The International Monetary Fund (IMF) and the World Bank are secretly admitting that their plan to ease the debt burden of impoverished nations will actually increase amounts some pay to Western creditors

In a private paper to be put to the bank's and the IMF's directors, the institutions concede there is a case for a reprise of the Heavily Indebted Poor Countries (HIPC) initiative

Under HIPC, countries have their debt burden cut to levels the IMF and World Bank consider sustainable But most fail to pay all the interest on loans at the moment, and even though HIPC will cut their payments on paper, in many cases the amount they pay once debt relief is granted will be little different

In a document seen by the *Mail & Guardian*, IMF and World Bank officials say that "HIPC may not be significantly reducing debt service from the current levels paid" In some cases interest payments will be higher

Oxfam International said the paper revealed that HIPC had "offered too little relief to too few countries with too much delay" Since its launch in 1996, only Uganda, Bolivia and Mozambique have qualified to have their debt burdens reduced

The paper outlines ways in which debt relief could be made faster, deeper and linked directly to poverty reduction through HIPC reform This is the first time the fund has admitted that the initiative is not helping the 41 designated nations escape their debt burden

The IMF has always maintained countries must wait six years before they qualify for HIPC and have a straight record of compliance with reform policies The paper acknowledges criticism of the fund's role as gatekeeper to debt relief, the way it has forced reform implementation and the conditions laid down for qualifying

Under HIPC, countries have debts cut so that interest payments absorb between a quarter and a fifth of foreign exchange earnings But campaigners say the bank's and the IMF's definition of "sustainable" ignores the pressure on budgets of paying back loans

Oxfam International says Mozambique, which receives debt rescheduling this month, will be little better off "Even after HIPC, debt service will absorb more budget resources than health and primary education combined "

At least 20 HIPCs transfer more than one-fifth of revenues to Western creditors, yet many may not properly qualify for debt relief

IMF unveils transparency draft code

BD 29/4/99 (156)

Compliance a key factor in weighing applications for new credit contingency lines, says Camdessus

Dow Jones, Sapa-AFP and John Dludlu

WASHINGTON — As donor countries disagreed yesterday on whether more funds should be made available for debt relief for the world's poorest nations, the International Monetary Fund unveiled a draft code to ensure financial sector transparency in its member governments, which it said could affect a country's eligibility for a new credit line

The fund defines transparency as "an environment" in which central banks and regulatory authorities make public their policy objectives, key data and terms of accountability "on an understandable, accessible and timely basis"

The IMF argues that a country's monetary and financial policies can be strengthened if they are known to the public, and transparency also helped market participants make sound investment decisions An absence of information on economic fundamentals had prevented investors and international agencies from catching key danger signs in southeast Asia and elsewhere

Stefan Ingves, director of the IMF's monetary and exchange affairs department, said rejection of the code could carry consequences

IMF MD Michel Camdessus has said the fund's executive board would take into account a country's compliance with the transparency principles when weighing its application for the fund's new "contingency credit lines" The facility, announced on Sunday, would make emergency credits available to governments following sound policies but which were threatened by financial turmoil elsewhere in the world

Japan, meanwhile, said it was ready to cancel the debt of the world's poorest nations as long as those countries implemented reforms and other industrialised countries shared the burden

As the biggest provider of official development aid loans, Japan has been reluctant to join other rich countries in announcing plans to waive its loans to the 41 most indebted third world countries

However, it had decided these countries would be eligible for complete debt relief if they demonstrated an ability to manage their economies responsibly, said a foreign ministry official

Japan wanted other industrialised countries to help cover the cost of Japan cancelling its ¥930bn in official development aid loans The debts would be cancelled by expanding grants to the impoverished countries

Selling part of the IMF's gold reserves would bolster third world debt relief measures, the official said

The proposals drew a mixed response from SA economists yesterday

Econometrix economist Michiel Bester backed the concept of the disposal of IMF gold reserves, but underscored Finance Minister Trevor Manuel's, insistence on a cautious approach In a world of currency blocs, there was "less need for the IMF to maintain a lot of gold in reserve" However, FBC Fidelity economist Mike Schüssler urged the international community to explore other measures — including a Marshall plan-type programme — for debt-ridden countries IMF gold sales could turn out to be a sword hanging over gold-producing poor countries for which the relief was intended, he said, referring to the possible effect of large-scale sales on the gold price

Gold fixed $1,95/oz firmer at $283,00 in London yesterday afternoon

IMF bullion sale would be 'a drop in the ocean'

MG 7-13/5/99

(156)

Ann Eveleth

The sale of up to 10-million ounces of International Monetary Fund (IMF) gold reserves will do little to break the 30-year cycle of debt that has trapped Africa in poverty for decades. The R9-billion to R18-billion such a sale could generate is a mere drop in the ocean of developing-world debt.

Sub-Saharan Africa alone owed the world's rich nations, the IMF and the World Bank R1 362 billion in 1996, and that year paid back R90-billion in partial debt interest payments — without beginning to reduce its debt burden.

The spring meeting of the World Bank and the IMF focused the debt debate on the proposed IMF gold sale as a means of financing part of the R75-billion needed for the highly indebted poor countries (HIPC) debt relief initiative. The two bodies also approved a review of HIPC

But the meeting appears to have sidestepped the main issues, according to South African anti-debt campaigners. "There is progress, but we are a long way from victory on debt relief," said Jubilee 2000 South Africa representative George Dor

When HIPC was introduced in 1996, the world's 41 poorest countries — with a combined debt of R900-billion to R1 200-billion — had to negotiate a six-year economic obstacle course before they could qualify for relief that would reduce their debt burden to only twice their export earnings. So far, only two countries, Uganda and Bolivia, have reached HIPC's "completion point" which allows them to access debt relief. Five other countries — Burkina Faso, Guyana, Côte d'Ivoire, Mozambique and Mali — are expected to reach this point by 2001

Experiences so far suggest debt relief packages will have little impact on the amount each country actually pays in debt service each year. University of the Witswatersrand political economist Patrick Bond points out Mozambique's relief package will reduce the country's annual debt repayments only from R110-million to R100-million.

World Bank president James Wolfensohn said the review would look at reducing the waiting period and eligibility criteria for HIPC, but added the "sound policy and reform" basis of HIPC would not be compromised.

The world financial crisis all but shattered the credibility of the "sound policy" framework punted by leaders of the so-called Washington Consensus, forcing world market gurus to call for a revision of the rules. This "post-Washington Consensus" suggested measures to protect countries from the vagaries of financial speculation The IMF's answer came on April 25 when it approved US President Bill Clinton's R540-billion anti-contagion proposal allowing vulnerable countries to purchase more debt in advance when the next crisis looms.

At least part of the motivation for the IMF gold sale proposal lies in the fact that it spent more than R90-billion bailing out Russia, Brazil and South-East Asia in the wake of last year's financial crisis This has depleted the IMF's cash reserves, forcing it to choose between selling off reserve stock or raising the funds for debt relief from shareholder countries — including South Africa, which is a 1% shareholder and may have to contribute to the anti-contagion fund

Anti-debt campaigners are calling for HIPC to be scrapped in favour of full debt cancellation The IMF and the World Bank admit that 80% of this debt cannot be repaid. Sub-Saharan Africa could only pay 57% of its debt interest in 1995 Yet developing countries are still required to meet stringent criteria before they can access debt relief

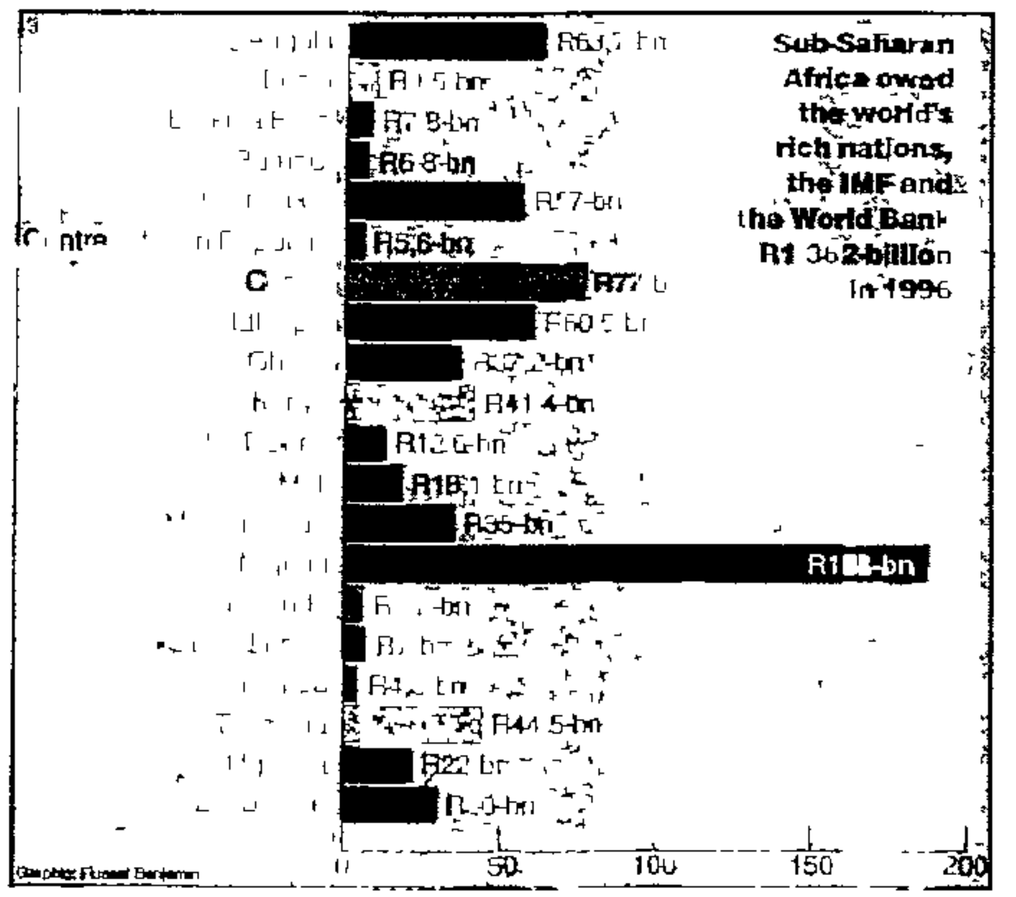
Dor says these conditionalities form the heart of HIPC's problems "Debt has always been a mechanism to control the economies of the Third World to pave the way for [rich countries'] own economic interests and the interests of transnational corporations," argues Dor

Creditor countries argue conditionalities are necessary to ensure money is not handed over to dictators who will waste it. Dor says Jubilee 2000 recognises the need to ensure that dictators are not allowed to fritter away the proceeds of debt relief. But "the issue is how to ensure that the money does go through to development. Some countries could be influenced to do this already In other countries, the key to this is to grow civil society."

Bond also points out that "Mozambique didn't waste its money but it was in a state of war"

Both the HIPC review and the IMF gold sale sidestep the question of creditor liability for loans given to corrupt governments Dor cites the example of the world's failure to address the question of "Southern Africa's apartheid debt" — estimated at R280-billion

Precedents for full cancellation can be found many European countries have still to repay money loaned to them by the US during World War I The UK's debt stands at more than R87-million — roughly what developing countries now owe the UK



Between a rock and the gold face

(156) M+G 7-13/5/99

South Africa's gold producers are pooh-poohing the effects of the IMF's proposed gold sale, but such a sale would set a dangerous precedent. **Donna Block** *reports*

The proposed sale of 10% of the International Monetary Fund's (IMF) gold reserves to fund debt relief for poor developing countries is by no means a foregone conclusion In fact, it might never happen

According to John Lutley, president of the Washington-based Gold Institute, the United States government has made no commitment to sell its share of IMF gold and can only do so with congressional approval. Without US consent the plan is dead. So far the Clinton administration has said it supports the proposal but if Lutley and his army of gold lobbyists have their way, the sale will never take place.

When the idea was first floated a few years ago South Africa's gold barons nearly had a fit. In a weakening gold market with production levels dropping, the sale of large amounts of gold was the last thing they wanted These days, however, rather than fight the proposal which would make them look greedy and insensitive to the plight of the world's poorest countries they have opted to dismiss the sale as being irrelevant.

Analysts say the reason for the gold industry's nonchalant attitude is that they are more afraid of the effect on their company's share price than they are on the spot price of gold Unlike their counterparts in the US who are furiously lobbying Congress to halt the sale, South Africa's gold mining industry is playing down the proposal made by IMF donor nations.

Most gold executives and some analysts say they are unconcerned about the latest gold-for-debt scheme but that the perception of a large sale has had a psychological effect on the metals market Jonathan Best, finance director at Anglogold was dismissive and said the IMF sale would be a non-event.

"The market's been aware of the IMF sale for years and will be able to absorb the gold that comes into the market. It's a relatively small amount," he said, and added that it would not hurt South Africa.

Overseas investors see this as a blatant attempt by South African producers to keep their share prices stable, especially ahead of Anglo American's listing in London

"If they came across as worried about the proposed gold sale, their share price would drop" said one New York broker "We are very concerned about our mining operations in the US and the impact this will have on employment in the mining industry and the impact on our trade balance. We wish South Africa would become more vocal," said Lutley.

Anglogold's marketing director, Kelvin Williams, said on radio he thought the sale was "wrong in principle", but it was more likely that market sentiment and speculation would have an effect on the bullion market. At a recent meeting held by the gold producer to announce their quarterly results, he said the market could easily absorb 150 tonnes from the IMF sale over a prescribed period and it wouldn't be noticed. But he said the view attached to the sale of gold by central banks and the investment sector would surely be blown out of proportion and have a negative effect on the market

Williams also pointed out that last year the shortfall between demand from jewellery producers and global output amounted to more than 1 000 tonnes — almost seven times the amount the IMF is thinking about selling

Lutley and the Gold Institute are concerned that the sale of five to 10-million ounces of the IMF's gold will not only impact negatively on the price of gold — which is already at a 20-year low — but harm rather than help the 41 highly indebted poor countries (HIPC) Many of them are dependent on gold mining for export earnings, and others will be prevented from properly developing an industry that could bring them many benefits.

George Milling-Stanley, gold market analysis manager for the World Gold Council, is also opposed to the IMF sale. He pointed out that the sale of IMF gold would have an adverse effect on the lives of individuals who hold gold all around the world — many as a primary form of savings. And the effect on HIPC and the mining industry as a whole could have far reaching negative implications The mere perception of the IMF selling off a portion of its reserves will take some of the shine off the precious metal

South Africa's position, on the other hand, is stuck between a rock and the gold face. The government can't be seen to support a move that may not only put jobs at risk, but could also have an impact on the whole economy, especially in an election year And yet it has an obligation to support its highly indebted Southern African Development Community partners in reducing their astronomical debt burdens. However, Minister of Finance Trevor Manuel has said that if gold sales are the only way to provide debt relief to Africa's most impoverished nations, they are acceptable — as long as they are done prudently and over a period of time.

But as South African producers are pooh-poohing the sale, a number of economists are not happy about the precedent such a sale is setting They are concerned that a depressed gold price and continuous selling of gold into the market will set a bad example.

"Any time a country needs money they'll sell some of their gold reserves," remarked Mike Schussler, economist at FBC Fidelity Bank. "Any recovery in the gold price will be unsustainable. As soon as gold starts to climb, selling will come into the market," he added.

Gold has also traditionally been an inflation hedge and a safe haven from turbulent stock markets But with little inflation and the US Treasury bond the new safe haven, it is no longer a hedge. Gold's no longer precious — it's now just another metal.

IMF backs better market access for poor nations

(156) BD 9/6/99

John Dludlu

THE International Monetary Fund (IMF) came out in strong support yesterday of proposals to provide better market access for exports from heavily indebted poor countries as part of a plan to enhance the debt relief measures

Speaking to SA journalists and decision-makers via a satellite linkup from Washington, a top IMF executive said it was important for the debt relief measures to promote sustainable economic development with particular attention paid to poverty alleviation in beneficiary nations

The debate is taking place amid growing consensus within the international community that the debt relief programme should be enhanced to provide "wider, quicker and deeper relief" to the world's poorest nations

To achieve goals of sustainable development, the official said the programme would also have to be linked to measures designed to remove tariff barriers to products from poor countries in the world's rich countries

The call to link debt relief to IMF trade liberalisation reflects a growing body of public opinion backing such a proposal

Since becoming director-general of the World Trade Organisation, Renato Ruggiero, who stepped down from the WTO a month ago, has challenged the WTO's developed members to remove tariffs to all exports from the organisation's poor members The call has yielded mixed results.

Also, debt relief — a programme sponsored by the IMF, the World Bank, and the African Development Bank — should also be accompanied by increased aid flows into beneficiary nations, the official said Yet such flows should be linked to a better showing in economic reform Relief measures should be followed by better spending on social sectors like education and health

The Group of Eight, the world's richest nations as well as Russia, is to meet in Cologne, Germany, this month to consider proposals to boost the debt relief programme

IMF move to ease debt 'will deal blow to poorest nations'

Michael Holman (156)

Financial Times

LONDON — The world's poorest countries stand to lose more than they will gain if the International Monetary Fund (IMF) goes ahead with its plan to sell part of its gold reserves to help fund debt relief, the World Gold Council claimed at the weekend

"The recent fall in the gold price as a direct consequence of the plans of the IMF, Switzerland and the UK to sell gold has already lost heavily indebted poor countries more than $150m in annual export earnings," said a report by an independent consultancy commissioned by the council, a London-based association of gold mining companies

The IMF is contemplating selling up to 10% — 10-million ounces — of its gold reserves in support of a debt relief initiative which leaders from the Group of Seven industrialised countries were expected to approve at the Cologne summit this weekend

The proceeds, estimated in the report at about $2,3bn, will be invested, and a proportion of the yield will help fund the initiative If invested in US government bonds, interest could be 5% a year — about $110m, the report stated

More than 30 heavily indebted poor countries are gold producers, with total output expected to be at least 200 tons in 2000 "At $280/oz, projected earnings for these countries from gold would total $1,66bn by the end of (next year)," said Gary Mead, head of research at the council

"The future growth of these nations is being undermined by precisely those who wish to proffer a helping hand — the IMF and governments of some well developed countries," Mead said

In nine of the heavily indebted poor countries, gold accounts for at least 5% of export revenues and in Ghana, Guyana and Mali, it brings in more than a fifth of export revenue

In sub-Saharan Africa, gold accounts for 7,8% of exports, or 2,5% if SA is left out of the reckoning

The damaging effect of the fall of the gold price goes beyond export revenues, the council said, because it also led to job cuts and a reduction of government revenue

The council has called for alternative ways of financing the IMF's contribution to debt relief, suggesting that the fund should call on members to make direct contributions, or borrow on the world's private markets

Report advises IMF to sharpen surveillance

(156) BD 3/8/99

Hard-hitting report ruffles a few feathers among the fund's staff

Robert Chote

Financial Times

LONDON — The International Monetary Fund (IMF) needs to sharpen and reorganise its surveillance of global economic developments, says a hard-hitting report prepared for the fund's executive board

The report recommends IMF surveillance should focus more on regions of the world economy and less on nations It proposes the creation of regional subcommittees of IMF executive directors

This is expected to prove controversial when the report is discussed by the IMF board this week European directors have traditionally been hostile to regional surveillance by the IMF, arguing their part of the world should be left to the European Union

Drafts of the findings have prompted a number of comments and objections from IMF staff and management The report was prepared by a team of outside experts, led by former Canadian central bank governor John Crow

Among proposals, the report suggests many industrial countries should no longer face annual article four consultations — economic health checks prepared by IMF staff and discussed by the board

Annual consultations could be confined to the largest economies, it says, with others going through the process only every other year Less detailed economic snapshots could be taken more regularly, but officials with long memories are wary When it was decided to drop annual consultations with Sweden some years ago, the country suffered a banking crisis

There is also concern the IMF sometimes dodges politically contentious issues in its consultations with individual country authorities The latest article four consultation for the UK did not discuss the merits of joining the euro

The desire for greater use of multilateral surveillance in part reflects the belief it might help avoid crises like those with have swept emerging market economies in recent years

The board has already taken steps to make its surveillance role more effective One method was piloted in last Friday s US article four discussion, in which a number of directors were designated to speak on particular topics

IMF staff said the Federal Reserve should be ready to raise US interest rates, warning delay could make the eventual slowdown in the economy unnecessarily painful Yet they played down the significance of last week's employment data, which spooked Wall Street

Several directors of industrial countries also felt that a tightening of US interest rates would be appropriate, although developing and emerging country directors were more wary

Karin Lissakers, the US executive director, argued that strong public and private sector balance sheets should help insulate the economy from the impact of a possible sharp fall in share prices

Sick patients and warring doctors

The International Monetary Fund is under attack, not least from its sister organisation, the World Bank, for prescribing the wrong medicine to bring economic health to poor and ex-communist countries

ST(BT)19/9/99 (1&6)

THE patients span the globe from Vietnam to Venezuela. The doctors face each other across 19th Street in Washington and dispense their medicine together

Their remedies, dubbed the Washington consensus, include tight fiscal and monetary policies, freer trade and capital flows, and privatisation. For much of the 1990s, these were accepted as the best ways to make the transition from poverty to prosperity and from communism to capitalism.

The consensus's sponsors the International Monetary Fund (IMF) and the World Bank, stood unchallenged as the world's top economic doctors

No longer After a series of financial crises from South Korea to Brazil, and an economic meltdown in Russia, the consensus has broken down Many traditional prescriptions have been discredited and the doctors are at loggerheads with each other Joseph Stiglitz chief economist of the World Bank, who was vocal in his criticisms of IMF economic advice in Asia last year, is now equally vocally lambasting the Fund's record in transition economies Although he is not officially speaking for the World Bank, it is widely believed the Bank's boss, James Wolfensohn, shares his views

Partly, the fracas is the inevitable result of apparent failure But it also has a more subtle cause. In recent years the IMF and the Bank have been hijacked by their major shareholders for overtly political ends Whether in Mexico in 1994, Asia in 1997 or Russia throughout the 1990s, the institutions have become a more explicit tool of western and particularly US, foreign policy

Only this week the two bodies were using their economic muscle to press the Indonesian government into accepting an international peacekeeping force in East Timor Such politicisation, many feel, threatens their credibility in handing out disinterested policy advice.

The focus of a lot of criticism is the IMF's record in Russia. Almost a decade after reforms began, the place is a mess Around 60-million people, almost half the population, live below the poverty line. Income inequality has risen, life expectancy has plummeted. Corruption is massive and endemic

Stiglitz says much of this dismal performance stems from the intellectual inadequacies of the previous approach There was, he argues, too much emphasis on macroeconomic stabilisation at the expense of institution-building. Privatisation was pushed too far too fast, and, without the right regulatory framework, was bound to fail Western advisers wrongly thought that privatisation would create a demand for protection of property rights Instead, new owners stripped the assets and transferred the money abroad The result was a country riddled with cronyism and corruption

It would have been better, argues Stiglitz, to have proceeded more slowly — building a regulatory framework before privatisation, and concentrating on strengthening the rule of law He likens the misguided zeal with which Russian reformers and their western advisers set about changing a society overnight to that of the Jacobins and, yes, the Bolsheviks It is as if many western advisers thought the Bolsheviks had the wrong textbooks but not the wrong approach, he writes.

These comments have caused a furore. Anders Aslund, of the Carnegie Endowment for International Peace, an early adviser to the Russian government says "Stiglitz is a striking embarrassment to himself and the World Bank. Without knowing anything, he mouths any stupidity that comes to his head" Officials at the IMF and the Treasury are more circumspect in public, but there is little doubt that they too are furious

Stiglitz is plain wrong, these critics claim, to argue that nobody emphasised the importance of building institutions The World Bank itself sent dozens of teams to help with legal reform, training judges and so forth But the process is complicated and slow Reformers did not have the luxury of waiting until it was complete.

Most reform veterans also reject Stiglitz's policy prescriptions Few accept that

'It is as if many western advisers thought the Bolsheviks had the wrong textbooks but not the wrong approach'

collapsing post-communist governments could have prevented the looting of assets In a recent paper John Nellis a privatisation expert at the Bank, argues that, globally, privatisation has been a success Governments that botched it were equally likely to botch the management of state-owned firms He points to Ukraine, which is in even worse straits than Russia, as evidence that the Stiglitz strategy of going more slowly would not have worked The evidence from Eastern Europe is that the speed of "shock therapy" has delivered better results than gradual reform.

Third, nobody denies that reform in Russia and elsewhere has had to contend with political constraints There were unsavoury aspects to Russia's reforms, particularly the 1995 policy of handing over shares in lucrative state jewels to the financial oligarchs in return for short-term loans But the political environment — the chance of a return to communism, a collapse into fascism or even the disintegration of a nuclear power — justified some risk-taking. The record of the Bretton Woods institutions should be considered against this background

These arguments are not wholly convincing, however, not least because the IMF did offer mistaken advice to some transition economies Among the most successful countries have been those which, although strongly reformist, ignored the IMF on important questions Estonia, for instance, successfully reintroduced its pre-war currency, the kroon, in place of the rouble in 1992 when the IMF was still calling for a single currency from Tallinn to Tashkent.

And regardless of political constraints the IMF an overbearing organisation with a well-thumbed book of macroeconomic-policy nostrums, may have been unsuited as an institution to handle the murky economies of Eastern Europe. "Would you have wanted the IMF running the Marshall Plan in Europe after the war?" asked Yegor Gaidar, Russia s first radical reforming prime minister at a recent conference in Stockholm

Still the political and strategic arguments help to explain why economic considerations often became secondary That was why the Fund tolerated the loans-for-shares scheme, why it relaxed lending criteria before the Russian election in 1996 and why the Fund blew nearly $5-billion trying to prop up the rouble in July 1998

Political and strategic considerations have also played a role in the IMF's recent reactions to financial crises elsewhere Starting with the bailout for Mexico in 1994 via the enormous support packages for Thailand, South Korea and Indonesia and ending with its failed attempt to prop up Brazil's currency, the real, last year, the IMF's programmes have reflected its strategic as well as economic priorities — and those of its major shareholders

There have been economic miscalculations too Most people now agree, for instance, that defending fixed exchange rates for too long is a mistake. It is broadly accepted that private creditors should share the burden of unwinding economic crises; and that big public bailouts may create moral hazard This week, a task-force sponsored by the Council on Foreign Relations published a report that urged countries to avoid fixed exchange rates and to discourage short-term capital inflows, and called on the IMF to return to its old policy of smaller bailouts

But if the political role the two institutions are being asked to play is part of the problem, that needs to be addressed too Another recent study argues that, just as independent central banks have proved better at fighting inflation, so a more independent IMF might be more effective at promoting international financial stability

Such reforms the authors say, would insulate the IMF from short-term political pressures making its advice more credible and more effective Pretending to be economic handmaidens while in fact being political social workers is a recipe for failure On the other hand, the converse might also be awkward officials would no longer be able to blame political constraints when their economic medicine doesn't work. — © *The Economist Newspaper Ltd, London 1999*

Picture: AP

HERETICAL PREACHER Joseph Stiglitz, chief economist of the World Bank lambasted the IMF

IMF needs to tap the best global talent

Vacancy for a new managing director must be filled by adherence to an open and democratic process, says **Jeffrey Sachs**

Michel Camdessus has wisely recognised that the International Monetary Fund (IMF) needs a renewal of vision and leadership

The cognoscenti of the world financial system expect his successor as MD to emerge from the back room poker game of European politics, as has always happened in the past. Will it be a German this time instead of Frenchmen they wonder breathlessly

In the meantime, the developing world — which accounts for 85% of the world's population and nearly 100% of the receiving end of IMF policies — is expected to stand by and wait for the result.

This is no way for a global institution that preaches transparency, good governance and democracy to function.

The position of IMF MD is one of the most important in the world The IMF wrongly I would assert, now has programmes in more than 50 countries, and is negotiating with at least a dozen more. Hundreds of millions of people depend on the quality of IMF leadership In truth they often depend more on IMF leadership than on their own political leaders so intrusive has the IMF become in the weak and vulnerable nations of the world

Yet the IMF's legitimacy is dangerously low It is already the object of riots and unrest throughout the developing world, as well as scorn in the US Congress and even in much of the financial world There is little chance of regaining global legitimacy if the developing countries have no role in the selection of a new MD — including the possibility of a successful candidate from a developing country

At a time when the gulf between the world's richest and poorest is the widest in history, one might expect some more serious attention to ways to improve the prospects of the poorest countries — including the appropriate roles of international institutions And yet with the horse-trading on to fill the IMF vacancy not a word is heard in Washington or the European capitals about the developing world's role in this process

According to the IMF's articles of agreement, the MD is to be chosen by the executive board of the IMF The board is of course not a fully democratic institution for two reasons First it is by design much closer to the rule of one-dollar, one-vote than one-person, one-vote Voting power within the fund is allocated according to IMF country quotas, which in turn are allocated roughly according to economic size. India, with 16% of the world s population, has just 2% of the votes within the IMF

Departing IMF CE Michel Camdessus

The second more discouraging and less tractable problem, is that many countries within the fund are themselves so undemocratic that their votes can hardly be considered representative of the aspirations of their own people

Despite these serious shortcomings an open campaign for the vacant position followed by an open vote of the executive board is still vastly to be preferred to a backroom deal in Europe. An open process would force candidates to state their visions of the role of the fund and, even more importantly would force the executive board and the world community at large to focus on what the fund has been doing and what it should be doing.

The developing and post-communist economies have about 40% of the IMF votes, enough to force the candidates to confront issues of interest to the poorer countries

There are at least three distinct visions of the IMF The US government sees it as proconsul to the developing world the institution that dictates the terms so that laggard societies are prepared for the global economy of the 21st century

The UK position set out by Gordon Brown the chancellor has been to see the IMF as the repository of globally agreed standards in monetary, fiscal and financial policies This is a much more collegial vision, though it raises crucial questions as to the appropriate borderline between global harmonisation and the freedom of countries to choose their own institutional forms

A third position espoused by a remarkably wide range of ideologies and a view that I share, is that the IMF should stop being a nanny to the world and should focus on monitoring the world's monetary system including exchange-rate arrangements and international capital markets Advocates of this position see comprehensive debt cancellation as an effective way to end the need for perennial IMF programmes in the poorest countries

The cause of good governance would therefore be served by a process of the following sort The IMF executive board could invite candidacies from all parts of the world during the next 60 days The board could also select an outside body of experts to review the candidates, in order to advise on professional and ethical qualifications a standard procedure for important nominations to the US judiciary and other key positions in many parts of the world

The outside experts would designate candidates as qualified or unqualified only in terms of professional knowledge and international leadership experience, but would not rank the nominees.

Early next year, the candidates would make public their broad positions on the IMF's role and their views on issues such as debt relief exchange-rate arrangements, global governance and management of capital flows

One would expect them to meet groups of international civil society during the period as well Such groups would also submit their opinions to the executive board

By February or March, the executive board could take a public vote on the candidates, with board members explaining the reasons for the vote. The people of the world, not just the finance ministers, should hear the basis of this decision The world is filled with promising candidates Western Europe boasts outstanding figures, but so do other parts of the world

How about Leszek Balcerowicz Poland's finance minister, the most successful economic reform leader in the post-communist world?

Or Manmohan Singh, India's former finance minister who brought macroeconomic stability, market reforms and renewed economic growth to India's population of some 1-billion? For a crucial global institution, it is time to tap our best global talents, and to do so openly and democratically

□ *The author is director of the Centre for International Development at Harvard University This article first appeared in the Financial Times*

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A new mandate for the IMF

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World's biggest failure to date has been inability to ensure swift restructuring of unpayable debts, writes Martin Wolf of the Financial Times

THE departure of International Monetary Fund (IMF) MD Michel Camdessus is an opportunity to refocus the institution he led for an unprecedented period of 13 years.

The ending of the financial turmoil of 1997 and last year can only facilitate achievement of this task.

The IMF's power and status demonstrate that there can be life after death. Almost three decades ago, its raison d'être — the Bretton Woods system of fixed exchange rates — disappeared. By the end of the 1970s, the IMF had also ceased to have a role in lending to crisis-hit advanced economies. It had to reinvent itself. It did. Over the past two decades, the IMF's chief functions, apart from surveillance, have been the management of financial crises in developing countries and long-term structural reform in the poorest. To these it added, in the 1990s, the economic transformation of central and eastern Europe and the former Soviet Union.

As an exemplar of bureaucratic entrepreneurship, the IMF is a triumph. It has successfully added new product lines and expanded its activities. No ill wind fails to blow it some good. Yet what is good for the institution is not necessarily ideal for the world.

A change in management is the ideal time to refocus the institution on its core tasks. These are, according to US Treasury Secretary Larry Summers, "promoting financial stability within countries, a stable flow of capital between them, and rapid recoveries following any financial disruptions".

The tasks are huge.

The epoch-making change — the implications of which the IMF, along with everybody else, recognised far too slowly — has been capital market opening. In the 1990s nearly $1 300bn in private capital has flowed to the emerging market economies, compared with $170bn in the previous decade.

This is a brave new world with big new dangers. The biggest mistake of the past decade has been the failure to warn adequately against ill-executed capital market liberalisation. What now needs to be done is to rectify that error. The new standards and codes of conduct and efforts to upgrade the quality of information are important. Above all, as Summers rightly argues, great attention needs to be paid to the interaction of the national balance sheet with the exchange-rate regime.

IMF surveillance is an important tool for reducing vulnerability, as is its role in helping to set standards. But it also has to deal with crises. Summers suggests that its lending be normally restricted to short-term credit lines. Such lending is also to be modest in scale, except during global panics of the kind seen in 1997 and last year.

The world's biggest failure hitherto has, however, been the inability to ensure swift refinance or restructuring of unpayable debts. Contrary to what Summers says, lending to countries in arrears to private creditors should not be exceptional.

The IMF is the closest thing the world has to an international bankruptcy procedure, with lending into arrears a way to ensure that creditors have an incentive to come to terms with the debtors. It should be considered whenever a borrower is making a serious effort to reform its economy.

Preventing and helping countries deal with financial crises are now the core functions of the IMF.

As Summers argues, all else is secondary. The IMF should withdraw from long-term lending to countries able to attract private funding. It should also restrict its long-term involvement with countries that are dependent on concessional assistance.

This is not the direction in which Camdessus has sought to go. In his speech to this year's annual meetings of the World Bank and the IMF in Washington, he hailed the rebranding of the extended structural adjustment facility (ESAF) as a "poverty reduction and growth facility".

That is not the job of the IMF. It is also not particularly good at it. Even orthodox economists, such as Paul Collier of the World Bank and Jan Gunning of Oxford University, argue that the IMF has too often been wrong on the sequencing of policy reform in Africa. They argue, more fundamentally, that conditionality does not work, except in crisis conditions.

Moreover, with 35 countries in receipt of ESAF credits last year, it is difficult for private markets to identify which countries are making progress. Finally, they argue, the IMF's focus on fiscal stabilisation in the post-crisis environment leads to the inappropriate exclusion of aid from resources available to cover budget deficits.

Generous debt relief for countries with a good performance should eliminate continuous IMF involvement. Meanwhile, the World Bank should assume responsibility by focusing its support on countries with good policies and a record of performance. If the world's leading countries do not like how the World Bank does its job, they should transform it.

These reforms would separate the functions of the IMF and the World Bank. The former would be concerned with the entry of more advanced emerging markets into the global capital market. The latter would focus on securing economic growth and poverty reduction in the world's poorest countries.

These changes in the functions of the IMF need to be accompanied by reforms to how it works. It is more transparent than it was, but needs to be made far more so. Explicit outside assessment of its programmes should become the norm. As important, the emerging market economies need to feel that the IMF is not just a way for the most powerful countries to exercise, indirectly, the direct control they relinquished decades ago.

There could be no better step towards this aim than the appointment of an MD who comes from an emerging market economy. There are many such officials who have an excellent grasp of economics and, more important, have opinions on what the IMF recommends.

If, for example, someone such as Leszek Balcerowicz, Poland's finance minister, were to recommend rectitude to the ministers of an emerging market economy, his auditors would know that he had lived what he preached. Nothing could better establish the legitimacy of the IMF's operations.

The task of readying emerging market economies for an open global capital market has proved far more complex than first imagined. That should now be the overriding goal of the IMF. The shareholders should choose someone who will focus the IMF upon it.