WHAT PROGRESS ON INTERNATIONAL FINANCIAL REFORM?
WHY SO LIMITED?

Stephany Griffith-Jones and José Antonio Ocampo *

* This document has been prepared for the Expert Group on Development Issues (EGDI). We thank the Swedish Ministry of Foreign Affairs for financial support.

Table of Contents:

I. WHAT PROGRESS ON INTERNATIONAL FINANCIAL ARCHITECTURE?

1. *Aims of reform of the International Financial Architecture (IFA): their links to development and growth*

The wave of currency and banking crises that began in 1997 in East Asia, then spread to many other emerging markets --and even threatened to spill over to the US-- generated a broad consensus that fundamental reforms were required in the international financial system. Particularly during 1997 and 1998, the view became dominant that existing institutions and mechanisms, based on a design made in the mid 1940s, were inadequate for preventing and managing crises, in the dramatically changed world of the 21^{st} Century, and that a significant reform --as well as strengthening-- of global financial governance was urgent.

Besides the objective of achieving international financial stability, an equally important objective, to which insufficient attention has been given, is the provision of adequate capital flows, both private and public, to different categories of developing economies. These flows can complement domestic savings, as well as technology transfer, to accelerate growth of middle and low-income countries.

The two challenges for a new international financial architecture from a developmental perspective are thus twofold: a) to prevent currency and banking crises and better manage them when they occur, and b) to support the adequate provision of net private and public flows to developing countries, including in particular low-income ones.

It should be stressed that such a development oriented international financial architecture would not only benefit developing countries and the poor. Stable growth in developing countries provides growing markets for developed country exporters and profitable opportunities for developed country investors. More generally, avoidance of crises in developing countries reduces the risk of such crises spilling over to the developed countries and to the global economy. Although small, this risk is significant, as the Latin American debt crises, and the combined effect of the Asian and Russian crises have indicated.

Though changes have taken place, the fact that deep crises have continued to happen, most recently in Turkey and Argentina, indicate that the international financial system in place clearly needs further changes. Indeed, it can be argued that the depth of the Argentinean crisis was to a fairly significant extent a result of problems and gaps in international reform (though obviously not exclusively, given the inconsistencies in Argentinean economic policies). Indeed, the Argentinean crisis was partly triggered (though not caused) in December 2001 by the suspension of IMF lending to the country.

On top of these issues, new issues have emerged in importance. Particularly, the availability of sufficient external finance has emerged as particularly urgent in recent years, given that net private capital flows both to emerging economies and to low-income countries have fallen very sharply since 1997. To the extent that private capital flows do not recover sufficiently (either spontaneously or encouraged by government policies), a greater role would need to be played by official liquidity and development finance. Indeed, net private flows to emerging markets were practically zero in 2000 and 2001, and net private flows to low-income countries had fallen dramatically in all categories, including foreign direct investment. A particular source of concern is that an important part of this decline may be due to structural reasons, and not just to cyclical ones (see Griffith-Jones, 2001, and IMF, 2001a). This would imply that net private flows to developing countries could remain very low for a fairly significant period of time, and would thus not contribute much foreign exchange or external savings, essential for their growth and development.

1. *Broad overview of progress so far*

Almost five years after the Asian crisis and with new crises still unfolding it is time to evaluate progress achieved on reforming the international financial system. Some progress has been made, but it is clearly insufficient. The mechanisms that existed previously and the adaptations made after the crises clearly do not fully meet the new requirements.

The extensive debates that have been going on in recent years indicates that the international financial architecture must provide five different services: a) guarantee the consistency of national macroeconomic policies (now regional in the case of European monetary and exchange rate policy) with stability of growth at the global level as a central objective; b) appropriate transparency and regulation of international financial loan and capital markets, and adequate regulation of domestic financial systems and cross-border capital account flows; c) provision of sufficient international official liquidity in crises conditions, d) accepted mechanisms for standstill and orderly debt workouts at the international level, and e) appropriate mechanisms for development finance.

The first two mechanisms are essential for preventing crises, which have proven to be developmentally, socially and financially very costly. The third and fourth mechanisms would help manage crises better to make them less costly, but can also have preventive effects, as a system better suited to manage crises is less prone to destabilising capital flows. This has indeed been the experience of national financial systems in relation to the lending of last resort by central banks. Finally, development finance is essential to channel flows to countries, especially low-income ones, that do not have sufficient access to private flows. It is also essential to guarantee an adequate supply of funds to middle-income countries during periods of insufficient private capital flows and, as we will see below, serve also other essential developmental functions. It should be emphasised that these five services can be provided by different mixes of world, regional and national institutions. Thus, the international financial architecture should be seen as a *network* of institutions that provides such services rather than as a set of world institutions specialised in each of them.

Progress so far has suffered four serious problems.

Firstly, there has been no agreed international reform agenda. Furthermore, the process has responded to priorities set by a few industrialised countries that have not been always explicit and have varied through time. In this regard, the “Monterrey Consensus” of the

International Conference on Financing for Development of the United Nations, held in March 2002 (see United Nations, 2002), provided, for the first time, an agreed comprehensive and balanced international agenda, that should be used to guide and evaluate reform efforts. The sections of the Consensus on increasing international financial and technical cooperation for development (Par. 39-46), external debt (Par. 47-51) and systemic issues (especially Par. 52-63), are particularly relevant to reforming the IFA.

Secondly, progress made has been uneven and asymmetrical in several key aspects. The focus of reforms has been largely on strengthening macroeconomic policies and financial regulation in developing countries --i.e., on the national component of the architecture--, while far less progress has been made on the international and, particularly, the regional components. Indeed, there has actually been general disregard and, in some cases, open opposition to the regional dimension. These are major weaknesses, as crises were not just caused by country problems but also by imperfections in international capital markets, such as herding, that lead to rapid surges and reversals of massive private flows, and multiple equilibria, that may lead countries in difficulties into self-fulfilling or deeper crises. To deal with the problems in the international financial markets, it is essential that international measures both for crisis prevention and management are also taken.

Another set of asymmetries relates to the excessive focus of the reform effort on crisis prevention and management, mainly for middle-income countries. Important as this is, it may have led to neglect the equally --if not more important-- issues of appropriate liquidity and development finance for low-income countries. Moreover, the problem of availability of development finance has clearly moved to centre stage for all developing economies. Thus, although some of the reforms adopted will be crucial in the future to help prevent a new wave of crises, at present, and --most likely-- for several years, the problem is the opposite, of insufficient private flows. Therefore, an important task is also to design measures, which will both encourage higher levels of private flows (especially long-term ones) and will provide counter-cyclical official flows (both for liquidity and for development finance purposes), during the periods when private flows are insufficient. These important tasks have been relatively neglected, in recent years, certainly in the policy field and even --to an important extent-- in the academic debate. They now require urgent attention.

Within the realm of crisis prevention and management, progress has also been uneven. In the area of crisis prevention, much work has been done in relation to strengthening domestic financial systems in developing countries and in drafting international codes and standards for macroeconomic and financial regulation. An incomplete (and controversial) review of the Basle accord on international financial regulation concentrated much effort. On the contrary, aside from enhanced macroeconomic surveillance of developing country policies and a few *ad hoc* episodes of macroeconomic coordination among industrialised countries, few steps have been taken to guarantee a more coherent macroeconomic policy approach at the global level. Also, the drafting of new IMF financing facilities has received much more attention than international debt standstills and workout procedures, which has only become a major concern of the IMF recently. In the area of IMF financial facilities, frustration has been the characteristic of the design of the new facility to manage contagion, the CCL. Some advance was made in redefining IMF conditionality. The IMF quota increase and the extension of the arrangements to borrow, which became effective in 1999, was also an advance, but several proposals made on the more active use of Special Drawing Rights (SDRs) as a mechanism of IMF financing have not led to any action.

Thirdly, some of these advances in the international financial architecture run the risk of reversal. Recently, there has been growing reluctance by developed countries to support large IMF lending (or to contribute bilateral short-term lending) to manage crises better. The main arguments given have been that these large packages lead to excessive moral hazard, which implies that both borrowers and lenders behave more irresponsibly, knowing that they will be "bailed out", and that taxpayer money from industrialised countries should not, in any case, be risked in these operations. These arguments have been vastly overstated, as we will see below, but have been quite influential in recent international action.

Fourthly, as we will see in detail below, the reform process has been characterised by an insufficient participation of developing countries in the key institutions and fora. As regards the international financial institutions (especially the IMF, World Bank and BIS) more balanced representation needs to be discussed in parallel with a redefinition of their functions. It is also urgent that developing countries are fully represented in the Financial Stability Forum itself, and in standard-setting bodies, like the Basle Banking Committee, particularly as they will then be asked to implement the standards there defined.

In what follows, we will evaluate progress at a more disaggregated level, distinguishing in the different areas the three domains of action, the national, the regional and the international. The discussion would differentiate according to the level of progress in reforms. Thus, in section II, we will focus on areas where there has been progress. Section III will deal with those where progress has been very partial, whereas section IV will deal with those where no important progress has been made, although there are several proposals on the table. The division is somewhat arbitrary, as some areas included in the first group have major weaknesses, whereas there has been some advance in some of the areas that are included in the second group and even the third group. The first, where there has been progress, include: a) the development of codes and standards for crisis prevention in capital recipient countries, by far the area that has been the focus of most attention; b) the design of new IMF financial facilities; and c) the Highly Indebted Poor Countries (HIPC) Initiative aimed at bringing external debts of low-income countries to sustainable levels.

The group where partial progress has been made includes: a) macroeconomic surveillance and mechanisms to guarantee the coherence of macroeconomic policies; b) improvements in world-wide regulatory standards; and c) the redefinition of conditionality. Finally, the third group, where no important progress has been made, includes: a) the use of SDRs as an instrument of IMF financing; b) the design of international standstills and workout procedures; c) development finance; and d) regional schemes in all areas of the financial architecture. The lack of adequate participation of developing countries in global financial governance should be added to the latter group, and has played an important role in influencing the slowness and unevenness of progress on international financial reform.

3. *Representation of developing countries in international financing institutions and fora*

A very important reason for this slow progress in reforming the international financial architecture and the inherent asymmetry in the measures taken is the limited participation of developing countries in the fora where reform has been discussed, and --more generally-- in the institutions of global financial governance. As a consequence, enhancing the participation of developing countries in these institutions would have one particularly important advantage not normally recognised by either policy-makers or analysts. It would imply significantly greater impulse for necessary changes in the global financial architecture. These changes, and the resulting positive impact on global financial stability and efficiency that could help ensure more rapid global growth, would not just benefit developing countries; it would also have significant direct and indirect benefits for the developed world.

There are, naturally, other very important benefits from greater developing country participation in global financial governance. First, developing countries would benefit by having a stronger voice. Second, international institutions would benefit from enhanced legitimacy; after all, developing countries represent 85 per cent of the world's population and a significant proportion of global GDP, especially when measured using Purchasing Power Parity (PPP) methodologies. Last, but certainly not least, greater participation by developing countries in global financial governance would ensure greater commitment by these countries to open markets, an aim shared by all developed countries.

Since the Asian crisis, participation of developing countries has emerged as an important issue. However, actual progress on it has been very limited.

Two new fora have been created to support the process of international financial reform. One is the Financial Stability Forum (FSF) --a very valuable institution. Unfortunately, the composition of the FSF is very problematic as developing countries are <u>totally excluded</u> (except major financial centres --Hong Kong and Singapore), even though developing countries have some ad-hoc participation (by invitation only) in the Working Parties. The FSF has also recently started to organise outreach regional activities, such as meetings in Asia and Latin America. However, full participation by some developing countries has not been granted, even though when FSF was established by the G-7, they stated that “while initially the FSF would be limited to G-7 countries, it is envisaged that other national authorities, including from emerging economies, will join the process at some stage.”

In contrast, the G-20 was created to facilitate dialogue between a broader group of countries on international financial reform, operating as an informal grouping, somewhat similar to the G-7. The creation of the G-20 partly responded to criticism of the G-7 as an exclusive grouping; it may have been created, in part, to complement the highly restricted FSF.

The composition of the G-20 was carefully designed to include those developing and transition countries whose size or strategic significance gives them a particularly crucial role in the global economy. They include ten developing countries, nine industrial ones (including the G-7) plus Russia.

The creation of an informal forum for dialogue between major developed and developing countries at the highest level --with some meetings between Finance Ministers and Central Bank Governors and others with their Deputies-- is very positive, and is seen as such by developing countries, especially those participating. Useful exchanges, and even some concrete progress, has taken place at the G-20 on specific modifications to the architecture of interest to developing countries, such as changes to IMF and World Bank lending facilities. Furthermore, the existence of a forum where developed and major developing countries' most senior financial authorities can informally exchange views and explore policy responses is clearly a valuable one. However, there are major limitations in the way the G-20 has operated until now. The main one is the fairly narrow orientation of its formal agenda. It would thus be highly desirable for the G-20 to have a broader agenda. This would ideally include the key subjects on reform of the international financial system, including systemic issues, such as enhanced liquidity and development finance and issues arising in the G-7 countries, such as better co-ordinated macroeconomic management especially by G-7 countries. A far more ambitious agenda could transform the G-20 from a body useful at a fairly basic level, to one with the potential to make a truly valuable contribution to meaningful reform of the international financial system. Another important limitation is that small and low-income countries are not represented at all.

More broadly, for enhanced participation by developing countries it is firstly important to increase developing country influence in the institutions to which they belong, but where they are under-represented due to existing governance structures, such as the IMF and the World Bank Group. Second, it is essential to expand significantly the participation of developing countries in the Bank for International Settlements where important, but still insufficient progress has started in the second half of the 1990s. Third, and perhaps most importantly, developing countries should be included on a rotational basis in crucial fora from which they are currently excluded, including the Financial Stability Forum and the G-10 Basle Committees.

As pointed out, to enhance developing countries' position in the current global governance arrangements, it would firstly be important to increase developing country participation in the institutions where they already are represented, but insufficiently so. The main examples are the IMF and the World Bank Group, where developing countries have important, but insufficient, participation. The governance problem at the heart of the IMF, namely the out-dated and complex quota system, has yet to be properly addressed. The Cooper Report on Fund quotas [1]/ proposes a new quota calculation system that though having positive aspects, would increase the voting power of some of the already powerful countries and decrease that of many of the poorer countries. The basis of an alternative proposal could be based on elements such as the restoration of the importance of basic votes (allocated to each country), and the use of PPP-based GDP estimates, as the combination of both elements would help correct the under-representation of developing countries on the Executive Board, and therefore also at the IMFC.

The voting power of an IMF member has two components. As a symbolic recognition of the principle of the legal equality of states, and to help ensure participation of smaller and poorer countries, each member country has 250 basic votes. Each member also has one additional vote for every 100,000 SDRs of its quota. Because the number of basic votes has not increased as

[1]/ "Report to the IMF Executive Board of the Quota Formula Review Group", submitted in April 2000.

quotas grew, the ratio of basic votes fell from around 11% of the voting power of the 45 founding members in 1944 to less than 3% in the 1990's, even though the number of countries tripled. Restoring the share of basic votes to the original 11% would require a more than fivefold increase in the basic vote of every country. Restoring the proportion of basic votes per member to its 1945 level would raise the total basic votes to 46% of the total voting power. An intermediate solution to partially restore the role of basic votes would be to assign to basic votes say 25% of total voting rights. Furthermore, the use of PPP based GDP estimates in the quota formulas, in order to avoid the current underestimation of the economic size and ability to contribute to quotas by developing economies would also enhance the role of developing countries in the IMF Board. [2]/

An additional measure that would improve Fund governance would be to reform the constituency representation on the Executive Board. For example, the number of Chairs allocated to the Sub-Saharan African countries, which are only two in total, could be increased to three. A similar analysis can be applied to the World Bank Board, where also basic votes could be increased and PPP GDP could play a larger role in calculating shares. It should be emphasised that in the case of the World Bank, it would be easier to change shares and representation, as there is no formal quota system. Also there is the relevant precedent of regional development banks like the IADB, where developing country borrowers have slightly over 50% of the vote.

Also of grave concern is the clearly insufficient participation of developing countries in the Bank for International Settlements, an institution that is increasingly important, due both to its technical excellence and the growing significance of its main mandate, the pursuit of financial stability. There has been some increase, since the mid-1990s, of involvement of developing countries. However, it seems important and urgent to: a) ensure participation of developing countries in the Board of the BIS; b) ensure greater --and more formalised-- participation of developing countries in crucial meetings, for example in monthly meetings of Central Bank Governors; c) increase the number of developing country staff in the BIS (including some LDC participation); and d) expand the number and types of developing countries included in the BIS, also including representation from low-income and small countries.

Equally, or more importantly, developing countries should be represented in the crucial fora where they currently have no voice, and where important decisions that affect them are being taken. As mentioned, this would certainly include the Financial Stability Forum and the G-10 Banking Basle Committee. Although efforts to increase ad-hoc consultation with developing and transition economies, which these bodies have increasingly carried out in recent years, is clearly welcome, it is no substitute for appropriate and formal representation. Developing countries could be included in these fora on a rotational basis, without significantly increasing the size of these groups and therefore not jeopardising their effective working methods. For example, there could be one or even two representatives per developing country region (Latin America, Asia and Africa), who would be nominated for two years and then rotated.

Specifically on the Basel Committee and its recent work on the New Basel Accord, it would appear that the lack of systematic representation from developing countries has impacted

[2]/ We thank Ariel Buira for these points. See also Buira (1999).

negatively on the nature of their analysis and their recommendations. The January 2002 proposals in the New Accord --particularly those related to the switch to the use of bank's internal risk management systems-- would seem to be driven largely by major G-10 international banks. However, this is not necessarily good for the stability of the international financial system in general, nor the developing world in particular. Many specifically negative impacts on developing countries of recent proposals have not been properly considered, due to lack of developing countries participation.

II. AREAS OF PROGRESS

1. *Codes and standards for macroeconomic policy and financial sector regulation in capital recipient countries*

One of the aspects which the international community has stressed most for crisis prevention is the development of codes and standards for macroeconomic policy and financial sector regulation in capital recipient countries. As we will discuss in more detail below, there has been far less (and insufficient) emphasis on improvements in global regulations, especially regulations in source countries.

As regards implementing codes and standards (C and S) in developing and transition countries, the main targets are strengthening domestic financial systems and promoting international financial stability by "facilitating better-informed lending and investment decisions, improving market integrity, and reducing the risk of financial distress and contagion" (Financial Stability Forum, 2000). The content of the standards largely reflects concerns arising out of recent crises, though they often also build on past initiatives involving mainly developed countries. As Cornford (2001) has argued, the development of standards could be viewed as part of a process of "groping towards a set of globally accepted rules for policy which could provide one of the pre-requisites for provision of international financial support for countries experiencing currency crises". They would thus become an international analogue of national rules for financial sectors, compliance with which facilitates availability of lender of last resort financing. However, at present, there is no international lender of last resort, nor even automatic limited international liquidity in times of crisis. Indeed, the case for developing countries to comply more fully and enthusiastically with C and S would be significantly increased if more significant steps were taken, towards providing abundant and unconditional official liquidity, during crises caused by contagion (see below).

As regards C and S, the Financial Stability Forum (FSF) has compiled 65 of them, of these, the FSF has identified priority C and S in 12 subject areas. These are detailed in Table 1.

Table 1

Subject Area	Key Standard	Issue by
Macroeconomic Policy and Data Transparency		
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal policy transparency	Code of Good Practices in Fiscal Transparency	IMF
Data dissemination	Special Data Dissemination Standard/ General Data Dissemination Standard	IMF
Institutional and Market Infrastructure		
Insolvency	Principles and Guidelines on Effective Insolvency Systems	WB
Corporate governance	Principles of Corporate Governance	OECD
Accounting	International Accounting Standards (IAS)	IASC
Auditing	International Standards on Auditing (ISA)	IFAC
Payment and settlement	Core Principles for Systemically Important Payment Systems	CPSS
Market integrity	The Forty Recommendations of the Financial Action Task Force	FATF
Financial Regulation and Supervision		
Banking supervision	Core Principles of Effective Banking Supervision	BCBS
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance supervision	Insurance Supervisory Principles	IAIS

Source: FSF website http://www.fsforum.org/Standards/KeyStds.html

In order to assess progress in the implementation of C&S the IMF has been charged with preparing, with relevant authorities of countries, Reports on Observance of Standards and Codes (ROSCs). This process is a modular one with observance of the separate codes or standards assessed independently. As of December 4, 2000, 83 ROSC modules had been produced for 32 countries, with 67 being published. (see Table 2) It is envisaged that more than 100 ROSC modules would be generated in 2001. As can be seen from Table 2, the greatest progress in the observance of codes and standards has been in four areas: data dissemination; fiscal transparency; monetary and fiscal policy transparency and banking supervision. In some instances these reports represent free-standing processes; in others they have emerged as by-products of the Fund's regular surveillance activities under Article IV or derived from the Financial Sector Assessment Programs (FSAPs) carried out by the Fund and the Bank. The FSAP is a vast and costly exercise (both financially and in terms of human resources), even on the current scale, which is providing only partial coverage (24 countries by 2001). If more countries and areas were included, the exercise would become far larger and costlier.

Table 2. ROSC modules completed and published by December 4, 2000

Data Dissemination	Fiscal Transparency	Monetary and Financial Policy Transparency	Banking Supervision	Insurance Regulation	Securities Market Regulation	Payments Systems	Corporate Governance
Argentina Albania Australia Bangladesh Bulgaria Czech R. Hong Kong Russia Tunisia Uganda U.K.	Argentina Australia Azerbaijan Bulgaria Cameroon Czech. R. France Greece Hong Kong Pakistan Papua New Guinea Russia Sweden Tunisia Turkey Uganda Ukraine U.K.	Argentina Australia Bulgaria Cameroon Canada Colombia Czech R. Estonia France Hong Kong Iran Ireland Lebanon Russia South Africa Tunisia Uganda U.K.	Algeria Argentina Australia Bahrain Bulgaria Cameroon Canada Colombia Czech R. Estonia Hong Kong Iran Ireland Lebanon South Africa Tunisia Uganda U.K.	Cameroon Canada Estonia Ireland South Africa	Canada Czech R. Estonia Ireland South Africa	Cameroon Canada Estonia Ireland South Africa	Malaysia Poland Zimbabwe
Total completed 11	**18**	**18**	**18**	**5**	**5**	**5**	**3**
Total Published 9	**17**	**13**	**13**	**4**	**4**	**4**	**3**

Source: World Bank (2001)

Developing and transition governments are broadly supportive of the activities concerning C and S, which they see as valuable in the long term. [3]/ There are important differences in the degree of enthusiasm about implementing C and S. Paradoxically, the former Argentinean authorities were clearly by far the most enthusiastic supporters of C and S. Argentina was the most active country in Latin America in implementing C and S. Clearly they were not successful for that purpose or for supporting financial stability; obviously, major macroeconomic problems determined this result.

This confirms the serious concern expressed by many developing countries about the extent to which implementing C and S actually help meaningfully in avoiding crises. A related concern accepted in recent IMF and World Bank documents is that C and S had on the whole too much of a “one size fits all” element, and that not enough account was taken of countries’ specific features, institutions and history. Another complex issue is that whilst countries --and increasingly IFIs-- want a more nuanced and sensitive assessment of C and S, the private markets have preference for simple (or simplistic) quantified assessments, that can be directly integrated into risk assessments systems and that can allow for cross-country comparisons and rankings.

It is the view of the smaller and poorer countries, that while C and S are important, their rhythm of implementation required is very high, and that this poses especially large institutional,

[3]/ See, on this issue, Acharya (2001).

legislative and --above all-- human resource constraints to implement so many standards. This implies that technical assistance to them may be very helpful, though it will not by itself be able to overcome the problem.

Perhaps two of the main concerns of developing countries are that C and S should remain voluntary and that C and S are defined mainly in G-7 or G-10 fora, with insufficient participation and input of developing countries. However, more recently there has been some effort by these standard setting bodies, and especially by the Fund and the World Bank, to consult more with developing countries on definition of standards, and on problems with their implementation. However, the issue of fuller participation of developing countries in actual standard-setting remains very important.

2. *The design of new IMF financing facilities*

During the 1990's, capital account liberalisation and the large scale of private capital flows greatly increased the need for official liquidity to deal with sudden and large reversals of flows. As a result of the East Asian and other large crises, IMF resources were significantly enhanced; this facilitated the provision of fairly large financial packages facilitated management and containment of crises (though the conditionality applied was often problematic).

Two new facilities were designed as a result of the East Asian crises. One of these was the Supplementary Reserve Facility (the SRF). This facilitated the provision of fairly large, more expensive, relatively short-term loans to countries hit by crises. Indeed, the SRF provides financial assistance for exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves. The SRF was useful in providing large loans to countries like South Korea and Brazil, once they were hit by major crises. Reportedly, several of the G-7 countries wish to establish limits on the scale of lending through the SRF; potential borrowers rightly do not wish such limits to be set up. Indeed, such limits would diminish the effectiveness of the SRF in restoring market confidence and could thus imply deeper crises in individual countries, as well as more risk of contagion in other countries; both could have very negative effects on growth, employment and poverty reduction in the affected countries.

The second facility created after the East Asian crisis was a preventive one, the Contingent Credit Line (CCL). As the IMF defined it, the CCL was created as "a precautionary line of defence readily available against future balance of payments problems that might arise from international financial contagion." For a country to qualify to draw on it, the increased pressure on the recipient country's capital account and international reserves must thus result from a sudden loss of confidence among investors triggered by external factors (for a detailed description of the CCL and initial criticisms see Griffith-Jones, Ocampo with Cailloux, 1999).

The CCL thus was a <u>potentially</u> very important and positive step because it could hopefully significantly reduce the chances of a country entering into a crisis, by providing contingency lending agreed in advance. However the problem is that --at the time of writing, almost 3 years since its creation-- no country has applied to use it. This is the case, even though terms and conditions have been somewhat modified to make the CCL more attractive to borrowers. These include less demanding requisites for the country to meet, when negotiating a CCL, expeditions review of the country's policies when it seeks to activate the CCL (but a post activation review, where future policies will be agreed), and a reduction in the commitment fee for a CCL and of the surcharge for a drawing on the CCL (for more details, see Kenen, 2001). Clearly, these modifications have not been sufficient, as there has been no application even after these modifications.

The key problem is that countries with "good" policies, and who are perceived as such by the markets, fear that there could be a stigma attached --especially by the markets-- if they applied for a CCL. In particular, countries fear to be the first to apply on their own for a CCL, as they are concerned that the application could be counter-productive, and reduce --rather than strengthen, as is the intention-- confidence of the markets in that country.

To make this facility more attractive, and diminish or eliminate any potential stigma attached to it, the following modification could be introduced. All countries that have been very favourably evaluated by the IMF in their annual Article IV consultations, could automatically qualify for the CCL. Therefore, a country would have a right to draw on the CCL, should the need arise. This would imply that quite a large number of countries --including the developed ones-- would qualify for the CCL (even though few would use it), thus eliminating the current stigma on its use. This proposal is quite similar to one currently being suggested by the UK Treasury, whereby after a positive evaluation in Article IV consultations, a country would automatically become eligible for the CCL; in this latter variant, the country would still have to apply for the CCL, but it would make this step far easier, because it would already know it was eligible. The fact that countries would be named as eligible for the CCL by the IMF, would make it a sign of strength (indicator of good policies), rather than --as currently feared-- a request for a CCL being seen as a sign of possible future weakness. An important virtue of this type of approach is that both developed and developing countries could either be granted access to the CCL or be eligible to CCL loans, if the need arose in future. [4]/

Other complementary steps could be taken to encourage use of the CCL. One would be to persuade several developing and/or transition economies to apply simultaneously to eliminate the first applicant fear. Another possible step, also being evaluated by the UK Treasury, is that a target could be given (e.g. certain number of countries joining CCL before end 2003) to the IMF. This would follow a similar targeted approach used for progress on HIPC programmes, which worked very well in that case. This seems also a constructive and interesting idea, and though in the CCL case, it may be more difficult for the IMF to implement, as countries are more reluctant to apply, whilst HIPC countries were keen to progress (though creditors were less so).

As regards the role of the IMF in crisis management, there is also a recent institutional innovation, which may reportedly lead to tougher and more systematic conditions being demanded from countries in crises. In early 2002, the IMF has created a new special operations unit, reporting directly to the First Deputy Managing Director. According to the IMF, the creation of the unit --which will be a permanent addition--, with staff seconded from across the

[4]/ Reportedly an actual commitment to a CCL loan to developed countries is problematic in the sense that significant IMF resources would have to be reserved against possible use of such a CCL.

organisation, represented a desire to concentrate the expertise on crisis management within the Fund. The first country to have to deal with this unit in its negotiations is Argentina, which reportedly led to tougher conditions being demanded from Argentina by the IMF. If this is the case, this could be highly problematic, as tougher conditions and delays in granting an IMF loan may well lead to a worse outcome, than more rapid IMF lending, with more focussed conditionality; this is due to the likely existence of multiple equilibria in a situation like that of Argentina, where restoration of confidence (both domestic and international), can play a large and positive role.

3. *The Highly Indebted Poor Countries (HIPC) Initiative*

The launching of the Highly Indebted Poor Countries (HIPC) Initiative in 1996 and the approval of the enhanced HIPC Initiative in September 1999, following the Cologne G-7 Summit, have been major steps in the solution of the major debt overhang of poor countries. Advance in this area serves also as a contrast to the significant lag in the design of multilateral mechanisms to face debt overhangs of middle income countries (see section IV below).

As of January 2002, 24 out of the 42 highly indebted poor countries had reached the "decision point" of the Initiative, at which interim relief begins and eligible countries commit to adopt a Poverty Reduction Strategy through a participatory process, the basic condition to advance to the "completion point". As of then, only four countries (Bolivia, Mozambique, Tanzania and Uganda) had reached that stage, at which debt relief is irrevocably committed. For the 24 countries, debt relief in net present value terms represents $22 billion, nearly half of their total debt. Together with more traditional debt relief mechanisms, it is expected that these countries will experience a 62% reduction of external indebtedness in net present value terms. With respect to debt service effectively paid, debt relief is less substantial: $2.0 billion a year in 2001-2003 vs. $2.9 billion in 1998-1999 (World Bank, 2002).

The Poverty Reduction Strategic Framework for HIPC and other low income countries, and the papers (PRSPs) that materialise countries' strategies, represents also an important advance, as a framework for co-ordinating donors, under the leadership of recipient countries, and as a way to promote national dialogue in countries. In this regard, they follow principles that are now widely accepted as a framework for the relations between donor and recipient countries (see the analysis of development finance in section IV). On the other hand, PRSPs have been also viewed as an additional layer of conditionality associated to a complex process (indeed, a case in which not only content but national processes are subject to conditionality), and a mechanism by which structural conditionality is simply "repackaged" (an argument made by some NGOs and representatives of poor countries at the recent Monterrey Conference on Financing for Development). This mechanism also runs the additional risk of micro management by multilateral institutions and bilateral donors. It is thus essential to closely review progress in this area to guarantee ownership, diversity and effective recipient country control.

Aside from these potential risks, several criticisms have also been levied on the Initiative, which relate to the characteristics of the debt relief mechanisms, its inadequate financing, and its long term effects on access to financial markets. [5]/ With respect to the first of these problems, it has been claimed that the three year period between decision and completion points is too long. More importantly, it has been argued that scenarios for debt sustainability (average GDP growth of 5.5% and average export growth of 8.6% over the next decade) are too optimistic and do not take into account external shocks and uncertainties that low-income countries face. Also, there are no binding arrangements for non-Paris Club (particularly commercial) creditors to ensure adherence to the HIPC Initiative terms, and the cutting point for liabilities eligible for reduction (the first Paris Club re-negotiation) excludes a significant amount of debts in some countries. For all these reasons, even the enhanced HIPC Initiative may not provide sufficient debt relief to enable countries to permanently eliminate their debt overhang and to achieve the development goals agreed in the United Nations Millennium Declaration (particularly, cutting extreme poverty by half by 2015). Additionally, it has been argued that eligibility criteria are too stringent and have resulted in exclusion of countries whose economic and social conditions are very similar to HIPC countries.

Inadequate financing has led to many developing, including many poor nations, having borne a large share of the costs of the Initiative, either directly (when they are creditors to HIPC countries) or indirectly (through higher spreads of World Bank loans, or reduction of technical assistance from multilateral development banks). Also, many regional and sub-regional bank have heavy costs which have been inadequately funded from the HIPC trust account, seriously affecting their financing and technical assistance activities.

Finally, the Initiative is paradoxical in terms of the history of debt rescheduling mechanisms. Indeed, a traditional assumption of debt rescheduling is that it should facilitate renewed access to financial markets, by bringing debt service to manageable levels. Although this assumption is not always fulfilled, the HIPC Initiative explicitly forbids countries from accessing private markets for a long time period (up to two decades). This may be seen as the counterpart of which is, effectively, an inadequate debt relief. Its major effect is that HIPC countries will be subject to an equally long period of conditionality. This stresses the importance of how the PRSP process is managed, guaranteeing an effective respect for ownership and diversity of development strategies.

III. AREAS OF PARTIAL PROGRESS

1. Macroeconomic surveillance and mechanisms to guarantee the coherence of macroeconomic policies

The emphasis on the need to strengthen the regulatory environment in which financial markets operate has not been matched by a similar focus of attention on the coherence of macroeconomic policies world-wide. The major issue in this regard is guaranteeing that the externalities that macroeconomic policies generate on other parts of the world economy are adequately internalised by policy makers in the industrialised world. Expressing it in the terms of the Group of 24 (2000b), there is an "imperative need for better coordination, coherence, and

[5]/ See, for example, "Summary of Conclusions of the Interregional Meeting on Financing for Development organized by the Regional Commissions of the United Nations", January 2002 (www.eclac.cl); and Botchwey (2000).

mutual reinforcement of macroeconomic and structural policies among the three major economies in order to reduce the risks and uncertainties in the global economy". From the point of view of developing countries, the risks associated with the movement in the exchange rates of major currencies are a major problem and reflect a paradoxical feature of current arrangements: the fact that the value of international monies is determined by national policies. [6]/

In this area, actions have been limited to the regular meetings of finance ministers and central bank governors of the Group of Seven. The meetings of the IMF International Monetary and Financial Committee and of central bank governors in the BIS also provide opportunities to jointly review events in the world economy. Consultations have led to some positive co-ordinated policies, such as the interest rate reductions in 1998 following the Russian crisis, and similar moves following the September 11, 2001, terrorist attack on the United States. Nonetheless, major exchange rate misalignments among the dollar and the euro have been the feature of the international economy in recent years and lags in interest rate reductions by the European Central Bank have been viewed by the IMF and many other institutions as an ingredient in the worldwide recession of 2001.

In any case, the absence of macroeconomic coordination among the major economies in the regular reports by the IMF on reforms of the international financial architecture indicates that this issue is not viewed as an ingredient of the required reforms. Nonetheless, the IMF provides regular reports on the major economies based on Article IV consultations with the major economies, as well as regular publications of the *World Economic Outlook*, where events in the major economies are a major focus of attention. The most important advance in this area has been the more regular analyses of financial markets and new mechanisms of consultation with private financial actors. The excellent quarterly review of emerging financial markets, which started to be published in the second semester of 2000, is a case in point.

The surveillance of developing country policies is, of course, a regular practice of the IMF, both as part of the Article IV consultations as well as the review of financing arrangements with specific countries. Probably the most important advance in this area has been the more preventive focus that has been placed on Article IV consultations. Countries have also pressured to release the reports of these consultations, and many have followed this guideline. The design of the CCL includes a more direct link between Article IV consultations and access to this facility. This may serve, once the CCL becomes an active facility, to correct the asymmetric features of IMF macroeconomic surveillance during booms and busts, particularly the limited effective relevance of surveillance during booms.

As part of the design of codes and standards, some have been adopted in the areas of fiscal and monetary policies (see above), as well as guidelines on management of international reserves and foreign debt policies. An interesting element in this process has been the widespread use of new indicators of vulnerability, particularly the ratio of short-term external debt to foreign exchange reserves. This is the result of work on vulnerability indices and early warning systems, on which progress has also been made.

---

[6]/ See also Group of 24 (2000a), and a different point of view on this issue in Council on Foreign Relations (1999).

2. Strengthening world regulatory standards

As pointed out above, one of the key functions to be met so that a globalized financial system works effectively, to sustain both stability and growth, is that of appropriate transparency and regulation of international financial loan and capital markets.

Capital and credit markets have become increasingly integrated between countries, in what is becoming an increasingly internationalised market; these markets have also become increasingly integrated amongst each other, as big financial conglomerates combine activities in banking, securities, insurance and other financial fields.

For regulation to be efficient, it is essential that the domain of the regulator is the same as the domain of the market that is regulated. Ideally, this would imply the need to create a global regulatory authority, as Kaufmann (1998), and Eatwell and Taylor (2000) have suggested. However, this seems at present unlikely, both because of the complexity of the task, and because of the unwillingness of national governments and regulators to give up sufficient sovereignty on this issue.

A second best to creating a global regulatory authority is to significantly improve exchange of information and coordination amongst regulators, both across countries and across financial sectors. In the last two decades, there had been initial steps in this field, mainly via the three Basle Committees, of which the main one is the Basle Banking Committee, which started to generate, via soft law, common regulatory standards that are initially applied by the regulatory authorities of the countries participating in the Basle Committees, and then --either by peer encouragement, by pressure from the IMF and/or the World Bank and/or by pressure from the markets--are implemented by developing and transition regulatory authorities.

As a result of the East Asian Crisis, a potentially very important institutional innovation has occurred: the creation in of the Financial Stability Forum to identify vulnerabilities and sources of systemic risk, to fill gaps in regulations and to develop consistent financial regulations across all types of financial institutions. Through its Working Parties, the Financial Stability Forum has produced high quality reports, such as the one on capital flows, and the one on highly leveraged institutions (HLIs). The former had numerous important recommendations, for measures to be applied by developing countries, many of which have begun to be implemented. The latter had important recommendations, to be implemented by source countries, though in an initial stage, it did not suggest applying a system of formal direct regulation of currently unregulated institutions. However, the FSF Working Party did recommend important improvements on far greater transparency of hedge funds and other HLIs. However, even these rather modest, but important steps, have not been implemented, because in the US --the major country where HLIs operate-- the Congress rejected two bills for improved transparency (White, 2000).

This outcome illustrated two linked significant weaknesses in the operation of the FSF. One is its limited ability to influence decisions to be taken by national regulators, especially in source countries. The second is the total lack of participation of developing and transition economies in the main body of the FSF. This democratic deficit poses not just problems of legitimacy, but also of efficiency; it accentuates the types of asymmetries in the international financial systems discussed above. It is particularly disappointing that even through key figures in the FSF have supported developing country membership in the FSF, this has not been implemented; a far less satisfactory, though obviously positive step has been to increase outreach activities of the FSF, including regional meetings.

The potentially most important regulatory development since the East Asian crisis is the proposed modification of the 1988 Basle Capital Accord which could have profound impact both on international bank lending (its level, cost and cyclicality) to developing countries and on bank lending (its cyclicality and distribution), within developing countries.

Whilst the effects on developing countries are not central to the new Basle Capital Accord (both because its aim is to try to align banks' regulatory capital requirements with actual risk, and because developing countries have absolutely no representation in the Basle Banking Committee) very significant effects of the new accord would be felt on developing countries. Serious concerns exist that the January 2001 proposal could have large net negative effects on developing countries, and that the forthcoming modifications (unknown at the time of writing) may not sufficiently reduce those net negative effects.

Since the Asian crisis, bank lending to developing countries became negative (BIS, 2001). It is in this context that the implications of the proposed new Basle Capital Accord need to be assessed, given the great concern that it could further discourage lending.

The key proposed change relates to the measurement of credit risk. In the proposed Accord, there would be two basic approaches, the standardised and the internal rating based ones. [7]/ The new system in the standardised approach addresses several previous concerns raised by developing countries, for example by reducing the incentive towards short term lending. However, the IRB approach, which would become increasingly dominant --if implemented in its current form-- could have important negative implications for developing countries.

The first problematic aspect is that the proposed IRB approach would most probably further reduce international bank lending and significantly increase costs of such lending to most developing countries, particularly those (the large majority) that do not have investment grades.[8]/ Low-income countries would be specially badly hit. Both effects would be particularly negative for developing countries especially given recent trends in bank lending to developing countries. The new Basle Accord could further discourage new lending, as well as institutionalise increased perceived risk.

Secondly, and equally serious, the proposed IRB approach would exacerbate pro-cyclical tendencies within the banking systems. The drive for risk-weights to more accurately reflect probability of default (PD) is inherently pro-cyclical; during an upturn, average PD falls, and the IRB approach, based on banks' internal risk model, would reflect lower capital requirements; during a downturn or recession, average PD will increase, as deteriorating economic conditions cause existing loans to "migrate" to higher risk categories, therefore raising overall capital

[7]/ For a more detailed discussion of these issues see Griffith-Jones and Spratt (2001).
[8]/ For different estimates of potential cost increases, see Reisen (2001), and Powell (2001).

requirements. As it is difficult to raise capital in a recession, this may lead to a credit crunch, which would further deepen the down turn. The concern with increased pro-cyclicality of the proposed new Capital Accord are widespread (Goodhart, 2002).

Increasing inherent pro-cyclicality in regulation as the current Basle proposal would goes against what is increasingly accepted as best practice in regulation, which is to introduce a neutral or counter-cyclical elements into regulation, so as to counter-act the natural tendency of pro-cyclicality in banking and capital markets (BIS, 2001; Ocampo, 2002; Borio, Furfine and Lowe, 2001). For developing countries, increased pro-cyclicality of bank lending is particularly damaging, given that this contributes to increase further the likelihood of crisis, as well as their development and financial cost.

The Basle Committee seems to have accepted this criticism, and is reportedly planning to include measures to combat pro-cyclicality in the next consultative proposal. However, will these measures be meaningful enough to offset the inherent pro-cyclicality?

A new Basle Capital Accord proposal, that would overcome some of the problems listed above should include some of the following elements: a) possible postponement of the IRB approach, for further research and improvement of internal bank models, b) if the IRB approach is to be implemented, capital requirements should be lowered for low rated borrowers which include most developing country borrowers to at most levels suggested by banks' own models; this would imply significant flattening of the IRB curve; c) a special curve for small and medium-sized enterprises (SMEs) is being considered by the Basle Committee; if that is implemented, the possibility of a separate curve for developing countries should be seriously studied, to avoid excess discouragement of bank lending, and to more accurately reflect risk of lending to them (which seems presently to be over-estimated by current bank models); and d) serious attention given to counter cyclical elements, to mitigate inherent pro-cyclicality of the IRB approach.

Possible negative effects of the proposed Basle Capital Accord could also take place within developing countries --unless sufficient modifications are introduced-- as domestic bank lending could become more pro-cyclical, and as access to bank including by SMEs could become even more difficult (for the letter, see Lowe and Segoviano, 2002).

Two final important points need to be made. Firstly, it is disappointing that perhaps the major international regulatory change being discussed since the Asian Crisis --the proposed new bank Capital Accord-- would seem to a) on balance, increase the risk of crises, given the bias toward greater pro-cyclicality (even though, the reduced incentive for short-term lending would have a positive effect) and b) further discourage international bank lending to developing countries, which has been negative for the last four years. Therefore, unless significantly modified (for example along lines suggested above), the new Basle Capital Accord could actually imply a serious step back, for the creation of an international financial system that supports and does not undermine development.

3. *The redefinition of conditionality*

One of the most important conclusions reached in recent debates on international financial issues is that conditionality is ineffective or at least an inefficient means to attain objectives that the international community wishes to attach to financial support. So long as there is no true “ownership” of the policies involved --i.e, so long as they are not backed by strong domestic support--, they are unlikely to be sustained. This is strongly associated with the fact that “ownership” is essential to institution-building, which is generally recognized today as the clue to successful development policies.

In the case of the IMF, conditionality has long been a central area of contention. However, in recent years --and even decades-- the issue has become increasingly troublesome for three different reasons. Firstly, the scope of conditionality has been gradually expanded to include domestic economic and social development strategies and institutions which, as the United Nations Task Force has indicated, “by their very nature should be decided by legitimate national authorities, based on broad social consensus”. [9]/ The broadening of conditionality to social policy, governance issues and private sector involvement in crisis resolution has been criticised by developing countries in the Group of 24. [10]/ The need to restrict conditionality to macroeconomic policy and financial sector issues is shared by a broad group of analysts with quite different persuasions as to the future role of the IMF. [11]/ A similar view was expressed in the external evaluation of surveillance activities of the Fund. [12]/

It must be emphasized that similar issues have been raised in relation to development finance. With respect to this issue, a 1998 World Bank report that analyses the success of structural lending, according to its own evaluation, comes to the conclusion that conditionality does not influence the success or failure of such programs. [13]/ Nonetheless, according to the same report, aid effectiveness is not independent of the economic policies that countries follow. In particular, the effects of aid on growth are higher for countries that adopt “good” policies, which, according to their definition, include stable macroeconomic environments, open trade regimes, adequate protection of property rights and efficient public bureaucracies that can deliver good-quality social services. Curiously, the study draws the conclusion that conditionality “still has a role --to allow government to commit to reform and to signal the seriousness of reform--but to be effective in this it must focus on a small number of truly important measures”. [14]/ This statement is certainly paradoxical if the conclusions of the report are taken at face value.

These arguments and controversies have been instrumental to the acceptance of "ownership" as a central feature of ODA (OECD/DAC, 1996) and, more recently, of IMF and World Bank programs (Köhler and Wolfensohn, 2000). They also led to the agreement that IMF

[9]/ United Nations Executive Committee on Economic and Social Affairs (1999), Section 5.
[10]/ Group of 24 (1999).
[11]/ Council on Foreign Relations (1999), Meltzer et al. (2000), Collier and Gunning (1999), Feldstein (1998), Helleiner (2000) and Rodrik (1999).
[12]/ Crow, Arriazu and Thygeseb (1999).
[13]/ See World Bank (1999), Chapter 2 and Appendix 2. See also Gilbert, Powell and Vines (1999) and Stiglitz (1999).
[14]/ World Bank (1999), p. 19.

conditionality should be streamlined, [15]/ a subject which was discussed in the IMF Board in 2001, based on an internal evaluation of experience with conditionality (IMF, 2001b). Such evaluation recognised that structural conditionality was indeed excessively extended, particularly in relation to the reform processes of transition economies and during the Asian crisis. Moreover, it accepted that ownership of adjustment programs is essential for IMF emergency financing to function properly and, therefore, that conditionality should "not intend to infringe on national sovereignty"(Par. 2). However, it also clearly stated an essential element of IMF policies should be to safeguard the Fund's resources, for which conditionality was required (Par. 9).

A major weakness of both reports are a lack a clear analysis of the way conditionality effectively works to reduce, eliminate or distort "ownership". The mechanism is not --or, at least, not always, or not mainly-- imposition by the IMF or World Bank staff or the Boards of these institutions. Rather, four additional channels are crucial: a) the conditions on which financing is available severely constrain the choices countries face; b) under crises conditions, likely World Bank or IMF support affect internal discussions within governments, increasing the negotiating power of groups that are inclined to the points of view of those institutions; c) the technical support that the institutions provide to countries also biases internal discussions; and d) involvement by the staff of these institutions in internal discussions has a similar effect.

A major issue in this regard is the considerable confusion on the term "structural reforms". Indeed, there are at least two meanings of the term that are relevant to the debate on conditionality. The first one refers to institutional factors that directly affect balance of payments equilibria (e.g., inconsistent exchange rate regimes, or a capital account that has been liberalized without adequate prudential provisions) or public or private sector deficits (e.g., problems in the design of decentralisation, a poorly regulated domestic financial system, etc.). The other are institutional factors that may be important but have a more indirect effect: in the terminology of the IMF paper on conditionality, factors that determine the "efficiency and resilience of the economy". World Bank and IMF structural reforms have a particular understanding of what is desirable in this regard: liberalised economies are more "efficient" and "resilient".

The discussion thus critically hinges on this distinction. Structural macroeconomic balances can be produced, and in fact have been produced in the past in economies with high degrees of public sector intervention. Also, considerable academic debate still remains on whether more liberalised economies are superior in terms of their resilience, their efficiency and their ability to grow. We know that vulnerability may, in fact, increase with liberalisation, particularly vulnerability to capital account shocks; without adequate correction for market failures, efficiency is not guaranteed; and liberalised economies do not necessarily grow faster. A well-known recent paper by Rodríguez and Rodrik (2001) makes this point clear: macroeconomic stability is essential for growth but more liberalised economies (particularly in trade, in their analysis) do not necessarily grow faster. Furthermore, this paper shows that traditional measures of opening that have been extensively used in IMF analysis are simply inadequate.

[15]/ See IMF International Monetary and Financial Committee (2000) and Köhler (2000). The difficulties are associated to the fact that, although the IMF is expected to focus on macroeconomic and financial issues, it should also look at “their associated institutional and structural aspects”. Such a broad definition led to the increasing scope of conditionality over the past two decades.

This implies that "ownership" requires meeting several additional conditions: effective alternatives reform packages should be available to countries; such alternatives should be provided by the Bretton Woods institutions with the same technical rigor as traditional reform programs; these institutions should be ready to provide such support when asked to do so; for that purpose, the composition of IMF and World Bank staff should be representative of the heterogeneous views that exist on structural and macroeconomic adjustment, and these institutions should be ready to call organisations or economists who think differently to support the design of alternative programs. This clearly means that IMF conditionality should be restricted to macroeconomic policies, and that a negative strong presumption should be established against any form of structural conditionality that goes beyond factors that directly hinge on macroeconomic balances. It also means that "ownership" can only be promoted by an effective plural discussion on the virtues of alternative types of "structural reforms" (i.e., alternative to the traditional liberalisation packages), explicitly promoted by both institutions.

The clear inclusion of social criteria in IMF and World Bank programs, particularly the focus on poverty reduction, also represents a significant improvement in the programs of both institutions. However, in this regard there is also the risk that conditionality will end up spreading one particular set of views of how to organise social programs in the developing world, and not necessarily the most adequate one. In particular, the question of how to take social issues seriously into account in adjustment programs is not only a question of having adequate safety nets. It is, even more importantly, a question of mainstreaming the social implications of programs in the design of macroeconomic policy. Indeed, this compensatory view of the role of social programs has been seriously questioned. [16]/

IV. AREAS OF INADEQUATE PROGRESS

1. *The active use of SDRs*

The creation of Special Drawing Rights (SDRs) in 1969 were a major result of international financial debates in the 1960s, both those associated to the North-South negotiations as well as controversies among industrialised countries about the international role of the US dollar. Two series of allocations were made since 1970, the last of which was finalised in 1981. A proposal for a one-time allocation of 21.4 billion SDRs was made in September, 1997. The United States has veto power over such allocations.

The creation of SDRs was a major advance in the design of the international financial system. Particularly, it created a truly world money, to be used exclusively as a reserve asset, thus generating a more balanced distribution of seignorage powers. In a world characterised by the use of the national currencies of major industrialised countries as international monies, the accumulation of international reserves generates, in fact, a redistribution of income from developing countries to the major industrialised countries. Despite the move towards floating, the accumulation of international reserves by developing countries has experienced a large scale growth in recent years, largely associated to the demands created by increasing international

[16]/ See United Nations, Executive Committee on Economic and Social Affairs (2001).

financial volatility. Paradoxically, SDRs allocations were suspended when the demand for reserves by developing countries grew and this distributive factor thus became more important.

Also, over the last two decades, the increasing need for IMF funds to finance its services has been satisfied with increases in quotas and arrangements to borrow. As these funds have been clearly insufficient, major rescue packages have involved additional bilateral contributions from major industrialised countries. This has two major weaknesses. First, it makes such rescue operations dependent on decisions by a specific set of countries, a fact that reduces its multilateral character and introduces discretionary elements in an area which should certainly be rules based. Secondly, it reduces the stabilising effect of rescue packages if the market deems that the intervening authorities (the IMF plus the additional bilateral support) are unable or unwilling to supply funds in the quantities required.

Proposals to renew SDRs allocations have been increasing in recent years. They follow two different models. The first is the temporary issue of SDRs during episodes of world financial stress, which could be destroyed once financial conditions normalise (see, United Nations Executive Committee on Economic and Social Affairs, 1999; Council on Foreign Relations, 1999; and Camdessus, 2000). [17]/ This procedure would develop an anti-cyclical element in world liquidity management but would avoid creating additional long-term liquidity at the world level. Thus, it would solve the financing requirement issues associated to IMF services but not the distributive issues associated to the uneven distribution of seignorage powers.

The second variant is focused on the latter issue, and thus regards SDRs allocations as related to the increasing demand for international reserve assets. Allocations would thus be permanent. It is interesting that of the most interesting proposals of this type see also such allocations as the means to finance other international objectives, particularly the provision of global public goods and international development cooperation. This is, indeed, the nature of the proposals made to the United Nations Conference on Financing for Development by the Zedillo Panel of Experts (Zedillo et al., 2001), as well as by George Soros and Joseph Stiglitz. Similar associations between SDRs allocations and international cooperation were made in the 1960s and 1970s and were rejected at the time. It must be emphasised that the argument for permanent allocation is independent from proposals on the specific use of funds.

No formal negotiations have begun on the possible implementation of either of these two groups of proposals.

2. *International debt standstills and workout procedures*

Although no actions have taken place, the extensive discussions on the need for international rules on debt standstills and orderly workout procedures seems to be leading to an increasing acceptance on the need to design a mechanism of this sort. As is well known, such mechanism is required to avoid the coordination problems implicit in chaotic capital flight, to guarantee an appropriate sharing of adjustments between lenders and borrowers, and to avoid "moral hazard" issues associated with emergency financing. In international discussions,

[17]/ See, also, for similar proposals, Ezekiel (1998), Ahluwalia (1999), Ocampo (1999, 2002) and Meltzer et al. (2000).

UNCTAD (1998, 2001) has presented the most consistent and strongest defence of a mechanism of this sort. In turn, recent proposals by the IMF (Krueger, 2001 and 2002) have speeded up the international debate on this issue. It has also figured prominently, as an explicit alternative to large rescue packages, in some proposals by developed countries. There is, however, opposition by developing countries, who consider that this mechanism would increase the costs or reduce access to private international capital markets, as well as private sector opposition in industrialised countries to non-voluntary arrangements.

Furthermore, due to the practical difficulties involved in designing a mechanism of this sort, there are, considerable disagreement on its desirable features. [18]/ As summarised by the International Monetary and Financial Committee (2002), these difficulties are associated to the need to strike a balance between broad principles, needed to guide market expectations, and the operational flexibility, which requires elements of a "case by case" approach (Köhler, 2000). The relative role of voluntary negotiations by the parties vs. the interventions required to solve the collective action problems involved is also subject to heated debates. In any case, a purely contractual approach is insufficient, some statutory basis (universal treaty obligations) seem to be required to facilitate uniformity of interpretation, and to facilitate the creation of an international judicial entity that would verify creditors' claims, the resolution of disputes, and the supervision of voting (Krueger, 2002).

Among the delicate issues involved, the first relates to the introduction of collective action clauses in debt contracts to facilitate eventual renegotiations. The most delicate issue in this regard is the possible discrimination against countries or group of countries that adopt them. For this reason, it can be argued that such clauses should be universal. Thus, the G-7 countries must actually lead the process, as they suggested in October 1998, shortly following the Asian crisis. [19]/ Some countries (such as the UK and Canada) have taken such action, but important countries (especially the US) unfortunately have not. Exit consent clauses can also play an important role.

There is broad agreement that declaration of a standstill by the debtor country should be voluntary, but there should be some international mechanism that gives it legitimacy and avoids disruptive legal processes. Although, due to the effect on their credit rating, debtor countries are unlikely to abuse the mechanism, its use should be, in any case, subject to control to avoid moral hazard on the side of borrowers. The IMF seems to be best placed to play this role, particularly if provisions of Article VI of the Articles of Agreement are interpreted as providing the basis for such mechanism to be put in place.

It is also agreed that negotiations should be voluntary, and should include in an integral manner public and private sector debts. Negotiations could be facilitated by an international mediator or, eventually, arbitrator. However, in this regard, the IMF is not the adequate international agent as, due to its status as a lender, it fails to meet the "neutral mediator" requirement. So, a different institution would have to play that role, probably within the United Nations system, according to UNCTAD's proposals. An alternative would be for the IMF to

[18]/ See a review of some of the controversies involved in IMF (1999, 2000a, 2000b), Boorman and Allen (2000) and Fischer (1999).
[19]/ Group of Seven (1998).

have the power to convene independent international panels to play such roles, on the principle that it would accept their recommendations. In any case, as an international judicial entity would be required to play certain functions (see above), it might be easier to give the same institution the role of mediator/arbitrator, including the possibility of convening such panels.

Seniority should be granted to lenders who facilitate funds during crises, and indeed such "bailing in" operations could be a requirement to benefit from restructuring, as typical in national bankruptcy procedures. Agreements that include automatic rescheduling provisions for likely events (e.g., a price collapse in a commodity-dependent country) could also be encouraged. A very controversial issue relates to whether IMF and multilateral bank lending should be included in renegotiations. In any case, lending by IFIs should be given automatic seniority, as these institutions are clearly involved in "bailing in" counter-cyclical operations.

There is also broad agreement that capital controls must be in place in debtor countries throughout the process and during the post-crisis period. Also, capital controls on inflows in developing countries facing a rapid build up of debt should be encouraged early on by the IMF as a result of its preventive surveillance activities.

The most controversial issue relates to the relation between this mechanism and rescue packages. Indeed, as already noted, this mechanism has been presented as an alternative to rescue packages. There is a clear case for this view when countries face solvency problems, but it is more debatable when liquidity issues are involved. [20]/ Indeed, due to the multiple equilibria considerations that characterise liquidity crises, emergency financing is essential for supporting "good equilibria" results. The most clear case is that in which liquidity constrains, by reducing investor confidence and forcing countries (or firms, in a national context) to pay excessively high interest rates, effectively lead to a solvency crisis. Alternatively, in order to avoid borrowing at high interest rates under a liquidity crisis, countries could adopt very restrictive macroeconomic policies that may lead equally to a loss of confidence by investors, as they perceive that dwindling domestic resources would be insufficient to service debt payments, or that political support would be lacking for full payment of the external debt. Although some domestic policy issues are certainly involved, the recent Argentinean crisis has some elements of these multiple equilibria issues.

It should be emphasised that there are alternatives to debt standstills for countries facing liquidity constraints. In particular, during both the Korean and the Brazilian crises, regulatory authorities in the industrialised countries strongly encouraged commercial banks to renew short term credit lines these emerging economies.

These considerations imply that, although an international orderly debt workout procedure would certainly help, adequate regulation of capital flows in the source countries and macroeconomic surveillance will continue to play the most important role in avoiding moral hazard by both lenders and borrowers. The basic complementary role that adequate regulation, lending of last resort and debt workouts play in preventing and managing crises has been

[20]/ This view is implicit in recent proposals by the IMF, which refer to "timely restructuring of unsustainable… debts" (Krueger, 2002; emphasis added). However, these proposals avoid analysing what is the adequate balance between debt workouts and emergency financing, including who judges what are unsustainable debt burdens.

accepted for decades in domestic policies. It is hard to understand why they still tend to be seen as substitutes in international financing.

Indeed, an alternative system would significantly increase market instability and/or "solve" moral hazard issues by increasing spreads or severely rationing financing to developing countries. The recent experience shows, indeed, that the large rescue packages of the 1990s have been serviced normally. This indicates that the problems faced by the emerging economies that led to large-scale emergency financing had a significant element of illiquidity rather than insolvency, a fact that argues for more rather than less emergency financing. The case against emergency financing also underestimates the threat that developing country crises can pose for global financial stability, and greatly overestimate the risks involved in providing funds for such operations, as indeed no single cent has been lost by taxpayers of industrialised countries.

It must be finally argued that multilateral credit support mechanisms, particularly by multilateral development banks (MDBs), would be required during the period following debt renegotiation. As an essential role of such support should be to catalise the reinsertion of countries into private capital markets, a possible mechanism could be a guarantee fund managed by MDBs. This mechanism could guarantee private sector lending to private or public sector borrowers in the affected countries with adequate provisions (partial guarantees, higher in the initial years; and an appropriate cost). This issue has not been given attention in the current discussions.

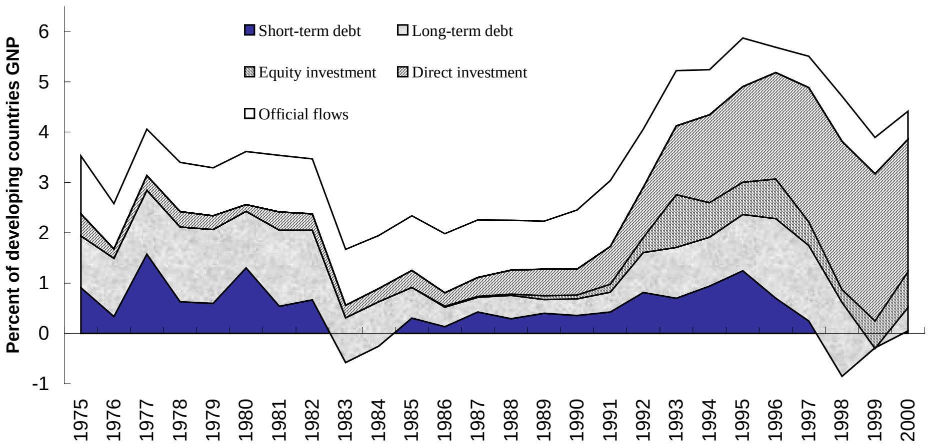
3. *Development finance*

The issues of volatility and contagion of private capital flows have been at the centre of most discussion on the international financial architecture in recent years. However, they only capture one of the most problematic features of international finance. The other, the marginalisation of the poorest countries from private capital flows is an equally problematic feature. These countries thus depend on official development assistance, whose largest component, bilateral aid, has lagged behind in the 1990s. Moreover, as stated in the first part of this paper, volatility has given way to a reduction in private capital flows in recent years that is proving more permanent than initially expected.

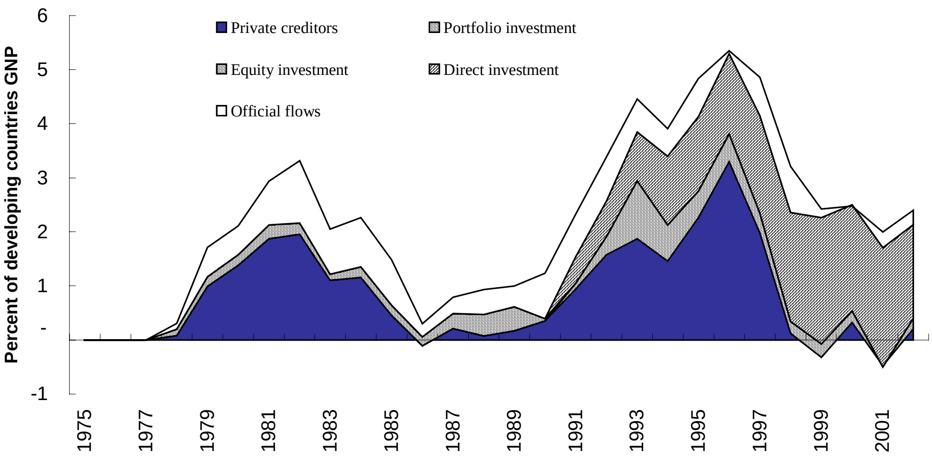
Figure 1 shows both the significant lag in official capital flows during the 1990s and the strong volatility of most private capital flows, in particular short-term debt but also long-term debt and equity flows. Overall, these private flows experienced a strong decline during the Asian crisis and never recovered. Moreover, this has been accompanied by a deterioration in the conditions --spreads, maturities and options-- under which such financing is provided. Although the initial reduction of capital flows during the Asian crisis was viewed as a sign of volatility, it then led to more permanent a regime change in terms of the availability of private financing. Alternatively, the evolution of private financial flows may be viewed as characterised by two different forms of instability: a short-term cycle, associated to volatility, and a medium-term cycle, in which phases of "risk appetite" are followed by periods of strong risk aversion. The only steady source of private external financing has thus been foreign direct investment. Even in this case, however, the strong upward trend characteristic of the 1990s was interrupted at the end of the decade and has been followed by a moderate decline, particularly during the recent world recession.

Figure 1
Net Flows to Developing Countries

A. World Bank estimates: 1970-2000



B. Institute of International Finance estimates: 1978-2002



Source: ECLAC, based on World Bank and Institute of International Finance data.

The major component of official development assistance, bilateral aid, has fallen in real terms, leading to a reduction as a proportion of GDP of industrialised countries, from 0.35% in the mid-1980s to 0.22%, on average, in 1998-2000, i.e., one-third of the internationally agreed target of 0.7% of GDP of industrialised countries. Trends are not uniform, however, among industrialised countries. A few --Denmark, France, Netherlands, Norway and Sweden-- indeed met the international target in 1999. Moreover, a few increased ODA in the 1990s. The UK has had a significant increase in the late nineties. The overall trend and the low current level of ODA are thus largely determined by the evolution of aid flows from a few large countries.

The strong concentration of private capital flows in middle-income countries is shown in Table 3. The share of low-income nations in private financing has been lower than their share in the total population of developing countries, but it is also lower than their share in developing countries' GDP. This fact is particularly striking in bond financing, commercial bank lending and portfolio flows, if India is excluded in the latter case. In all these cases, private financing to poor countries is minimal. The share of low-income countries in FDI is also smaller than their contribution to developing countries' GDP. A striking feature of FDI is its high concentration in China, which captures, on the contrary, a smaller proportion of financial flows. The high concentration of the most volatile flows in middle-income countries, excluding China, has implied, in turn, that issues of financial volatility and contagion are particularly relevant to them.

Table 3
NET FLOW OF RESOURCES, 1990-1999
(Annual averages, billions and percentages)

	Direct foreign investment		Porfolio equity flows		Grants		Bilateral Financing		Multilateral Financing (excluding IMF)		Bonds	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Developing countries	**103.7**	**100.0**	**27.7**	**100.0**	**29.8**	**100.0**	**4.1**	**100.0**	**15.8**	**100.0**	**30.6**	**100.0**
Excluding China	75.4	72.7	24.8	89.4	29.5	99.0	2.6	62.4	13.9	88.0	29.4	96.0
Low income countries	*10.2*	9.8	*3.9*	14.0	*15.2*	51.0	*2.5*	59.9	*6.7*	42.4	*1.7*	5.6
India	1.5	1.4	1.7	6.0	0.5	1.8	0.0	0.3	1.1	7.2	0.7	2.2
Other countries	8.7	8.4	2.2	8.0	14.7	49.2	2.5	59.6	5.6	35.2	1.0	3.4
China a/	*28.3*	27.3	*2.9*	10.6	*0.3*	1.0	*1.6*	37.6	*1.9*	12.0	*1.2*	4.0
Middle income countries	*65.2*	62.8	*20.7*	74.6	*14.3*	48.0	*0.1*	2.5	*7.2*	45.6	*27.7*	90.4
Argentina	6.6	6.4	1.1	4.1	0.0	0.1	-0.2	-5.6	1.1	6.9	4.9	15.9
Brazil	10.9	10.5	2.8	10.1	0.1	0.2	-0.8	-20.4	0.6	4.0	2.6	8.5
Mexico	8.2	7.9	3.8	13.5	0.0	0.1	-0.4	-9.7	0.5	3.3	4.2	13.7
Indonesia	2.1	2.0	1.6	5.9	0.3	0.9	1.3	32.1	0.6	3.8	0.9	2.8
Korea Republic b/	2.6	2.5	3.7	13.5	0.0	0.0	0.4	9.2	0.8	5.1	4.9	15.9
Russian Federation	1.8	1.7	0.8	2.7	0.8	2.7	1.1	27.0	0.7	4.3	1.6	5.4
Other countries	33.1	31.9	6.9	24.8	13.1	44.0	-1.2	-30.1	2.9	18.1	8.6	28.2

	Commercial bank loans		Other loans		*Net long- term resource flows*		*Short term debt net flows*		**Total net resource flows**		**Memo:** GDP	Population
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Developing countries	**17.1**	**100.0**	**4.0**	**100.0**	**232.8**	**100.0**	**22.5**	**100.0**	**255.4**	**100.0**	**100.0**	**100.0**
Excluding China	16.6	97.1	1.1	26.6	193.2	83.0	21.7	96.2	214.9	84.2	88.2	74.8
Low income countries	*0.8*	4.5	*0.4*	9.1	*41.3*	17.7	0.7	2.9	42.0	16.4	*17.0*	*46.7*
India	0.5	2.9	0.1	2.0	6.1	2.6	-0.4	-1.7	5.7	2.2	6.3	19.4
Other countries	0.3	1.6	0.3	7.1	35.2	15.1	15.1	67.1	50.3	19.7	10.8	27.3
China a/	*0.5*	2.9	*2.9*	73.4	*39.6*	17.0	0.9	3.8	40.5	15.8	*11.8*	*25.2*
Middle income countries	*15.9*	92.5	*0.7*	17.6	*151.7*	65.1	21.0	93.3	172.7	67.6	*71.1*	*28.1*
Argentina	0.6	3.7	-0.1	-1.3	14.1	6.0	3.4	15.1	17.5	6.8	*4.5*	*0.7*
Brazil	5.2	30.2	-0.4	-9.3	20.9	9.0	1.0	4.5	21.9	8.6	*11.0*	*3.3*
Mexico	2.6	15.0	-0.3	-6.5	18.6	8.0	0.3	1.2	18.9	7.4	*6.7*	*1.9*
Indonesia	0.2	1.0	-0.1	-1.3	6.9	3.0	0.9	4.0	7.8	3.0	*2.9*	*4.1*
Korea Republic b/	-0.9	-5.5	-0.1	-3.6	11.3	4.9	5.9	26.4	17.2	6.8	*7.0*	*0.9*
Russian Federation	0.2	1.1	2.0	51.1	9.0	3.9	-0.8	-3.4	8.2	3.2	*7.6*	*3.1*
Other countries	8.1	47.1	-0.5	-11.6	70.9	30.5	10.2	45.4	81.1	31.8	31.4	14.0

Source: World Bank, Global Development Finance 2001, CD-ROM version and World Development Indicators 2001, CD-ROM version, (for GDP and population data).
a/ The World Bank considered China as a low income country until 1998. Since 1999 it is included as middle income country. In this Table it is considered as a different category.
b/ The World Bank considers it as a high income country, but it is included as a middle income country in Global Development Finance 2001.

Low-income countries have thus been marginalised from private flows and have continued to depend on declining official resource flows. They have, indeed, been strongly dependent on official development assistance, particularly grants, coming mostly in the form of bilateral aid. If we again exclude India, these are the only component of the net resource flows to developing countries that is highly progressive, in the sense that the share of low-income countries exceeds not only their share in developing countries' GDP but also in population. This is also marginally true of multilateral financing, excluding the IMF.

Due to the importance of ODA in financing of low-income countries, this issue has received a significant attention in recent debates. Commitments made at the United Nations Conference on Financing for Development will lead to a reversal of the adverse trend experienced in recent decades. Nonetheless, those commitments represent only a fourth of the $50 billion aid requirements estimated by the Secretary General of the United Nations (and similar estimations by the World Bank) and would remain equally far below the target of 0.7% of GDP, which was reiterated at the Conference. The third United Nations Conference on Least Developed Countries, held in 2001, also reconfirmed the specific target of 0.15-0.20% of GDP of industrialised countries to be provided as ODA to LDCs. This target was equally reiterated at Monterrey.

The principles on which aid should be given has also been subject to a significant attention. Indeed, in this regard, the OECD 1996 guidelines on ODA were a significant step forward that has been reaffirmed in later discussions. The Monterrey Consensus contains, in this regard, a set of principles that summarise recent international debates (United Nations, 2002). If fully applied, they will certainly change the aid relationship in a significant manner. These principles are based on the broad principle of effective partnership among donors and recipients, national leadership and ownership of development plans, and a central focus of efforts on poverty reduction (Par. 40). Following this approach, the Consensus includes commitments on: harmonisation of operational procedures to reduce transaction costs and make disbursements and delivery more flexible; untying aid; enhancing budget, procurement and other support mechanisms to enhance the absorptive capacity of recipient countries and the effectiveness of aid; increasing the use of local technical assistance resources; using ODA to leverage additional financing for development; and strengthening South-South cooperation (Par. 43). It must be noted, however, that some of these objectives have been part of the international agenda for a long time --e.g., untying aid and South-South cooperation--, with only modest progress having been made. Thus, the follow-up to these commitments within the annual review of commitments of the Conference will be essential to guarantee a significant advance in this area.

Contrary to the attention to ODA, and the central focus of the debates on international financial architecture on the issues of volatility, the role of multilateral development banks (MDBs) has been subject to less attention. In this regard, the most controversial proposal was that made by the 2000 Meltzer Commission of the United States Congress to phase-out multilateral lending to developing countries with access to private capital markets and move to grants, thus transforming the World Bank into a World Development Agency focused on low-income countries (Meltzer et al, 2000). It furthermore suggested that finance should be directly to suppliers rather than governments. The reaction to this report included a strong support to

MDBs by the United States Department of the Treasury (2000), which defended the role of multilateral banks in middle-income countries, including investment-grade countries, due to the fragile access they have to private capital markets, as well as the role of large scale lending by those institutions during crises, to support fiscal expenditure in financial sector restructuring programs and critical social services. The United States Treasury defended, in any case, the need to focus the attention of the MDBs on areas of high development priority, more selective lending to emerging economies to facilitate graduation, and larger contributions to soft windows, among other reforms.

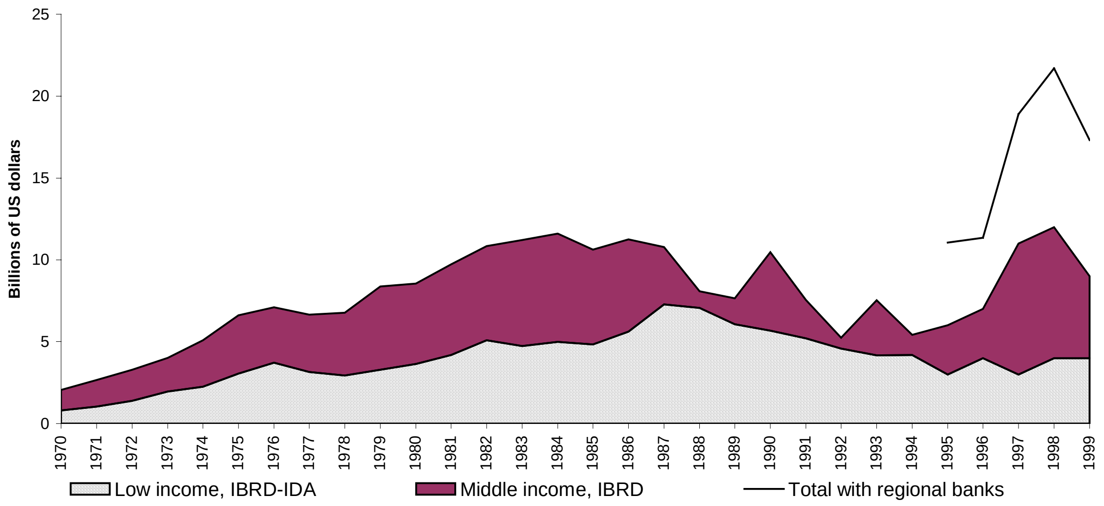
The Bush Administration in the United States has insisted on a larger component of grants in financing by MDBs and graduation of middle-income countries, and has pushed for the principle of raising productivity as the central priority of those institutions, an important change in relation to the enhanced poverty-reduction focus that was the central feature of debates on MBDs in recent years (O'Neill, 2001). President Bush proposed that the World Bank moves to 50% grant financing to poorest countries (Bush, 2001). It must be emphasised, however, that this would require a strong commitment by the donor countries to transfer to the Bank at least a similar amount of resources in order to avoid de-capitalisation. The focus on increasing productivity is certainly complementary to that on poverty-reduction, but the international community has correctly placed the latter at the centre in recent years.

Two recent independent reports on MDBs have underscored the essential role that these institutions will continue to play in the international financial system. The report by the Institute of Development Studies of the University of Sussex (2000) emphasised three essential roles of MDBs: financial resource mobilisation; capacity building, institutional development and knowledge brokering; and provision of global and regional public goods. [21]/ It also emphasised the need for a more systemic approach, in which the World Bank and the regional and sub-regional development banks are viewed as a network providing common services to developing country shareholders. The report correctly underscored the need for MDBs to embrace intellectual diversity in their role as knowledge brokers. This was also emphasised by Stiglitz (1999), who defended the need for an open debate in order to avoid the hegemony of a single view of economic development. In relation to the provision of public goods, it should be pointed out that the role of MDBs would be essentially subsidiary to the leading role that specialised United Nations and regional organisations play in this regard.

The report of the Commission led by Gurría and Volker (2001) focused on the financial role vis-à-vis emerging market economies. It noticed, along similar lines to the United States Treasury response to the Meltzer report, that volatility of global financial markets implies that access of emerging markets to private capital markets can be "unreliable, limited and costly". As crises hurt the poor, the counter-cyclical character of MDB financing is consistent with its poverty-reduction role. It suggested, nonetheless, that pricing of loans by MDBs should be established in a way to encourage graduation. It also emphasised an additional issue: the need to strengthen the relationship between MDBs and the private sector, particularly to encourage international private infrastructure financing in developing countries. This catalytic role would be played by further developing guarantee schemes, by which MDBs help to cover the government and regulatory risks that private investors are likely to face in the future.

[21]/ Similar views have been put forwards by Gilbert, Powell and Vines (1999).

Figure 2
The Anti-cyclical Character of Multilateral Development Banks Lending



Source: ECLAC, on the basis of World Bank, Global Development Finance 2001.

A close look at the evolution of multilateral development bank lending in recent years (Figure 2) supports the view expressed in 2000 by the United States Treasury, and by the Gurría and Volker report on the financing role of MDB financing vis-à-vis middle-income countries. Indeed, it shows that, whereas financing to low-income countries is steadier, financing to middle-income countries is strongly counter-cyclical.

It should be emphasised, in any case, that if multilateral development financing is not significantly expanded, its role as a counter-cyclical device vis-à-vis emerging economies will necessarily be limited. This is underscored by the data from Table 3, which indicate that multilateral financing in 1990-1990 represented only 15.5% of that provided by the private sector, excluding FDI, and only 8.4% in the case of middle-income countries. Thus, a useful counter-cyclical function would certainly require a significant increase in resources available to MDBs or a more active use of co-financing and credit guarantees by these institutions. Interestingly, to the extent that MDB financing falls when there is an adequate supply of private capital to middle-income countries, the controversy on graduation is largely irrelevant. Indeed, such pattern indicates that graduation will be automatic once countries have steady access to private capital flows.

MDBs will thus continue to play an essential role in four basic areas: financing low-income countries; acting as a (partial) counter-cyclical balance to fluctuations in private capital market financing to middle-income countries; supporting capacity building and institutional development; and acting as catalysts for new forms of private investment. The specific commitments that this implies from the international community have not received, however, adequate attention.

4. Regional schemes

The role of regional institutions in the international financial system is one of the most prominent items missing from the mainstream discussion and agenda on international financial reform. It is absent from the main Northern reports [22]/ and from the views on financial reform which come from the Bretton Woods institutions.

This is an important deficiency. There are, indeed, several sets of arguments for a strong role for regional institutions in this area. [23]/ The first relate to the growth of macroeconomic linkages at the regional level, as an effect of the growth of intra-regional trade and capital flows. As a result, certain functions can be better carried out at a regional level. They can include surveillance and consultation of macroeconomic policies, as well as peer review of national prudential regulation and supervision of financial systems. One advantage of regional surveillance is that asymmetries of information are smaller at the regional level.

The second are the classical risk-pooling arguments. Regional and sub-regional development banks, even those made up entirely of developing countries, are likely to face lower risks than individual members. This creates the potential for profitable financial intermediation. Also, contagion of crises often starts within regions; therefore, regional mechanisms for liquidity provision can provide a first line of defence in deterring contagion. This preventive line of defence is facilitated by the fact that, despite contagion, critical demands for funds do not coincide exactly in time, a fact that generates the possibility of a useful role for regional reserve funds or swap arrangements. Moreover, the sense of “ownership” of these institutions by developing countries creates a special relationship between them and member countries that helps to reduce the risks that regional and sub-regional development banks and reserve funds face, further encouraging the virtues of risk pooling.

The third set of arguments relates to the virtues of an international order that combines world and regional institutions. Given the heterogeneity of the international community, world and regional institutions can play useful complementary roles. These organisations can play, in particular, a useful role in macroeconomic policy coordination, in setting norms, in the adaptation of international norms to regional conditions (i.e., to their specific regulatory traditions), and in reducing learning costs and sharing experience with institutional development. At the same time, for smaller countries, the access to a broader alternative set of institutions for crisis management and development finance, including regional ones, may be particularly valuable as they have relatively less influence and bargaining power vis-à-vis global institutions. More generally, the creation and strengthening of regional developing country mechanisms and institutions will also help increase developing countries' ability to negotiate for a fuller global financial architecture.

The history of regional financial cooperation has been particularly rich in post-war Western Europe, from the development of European Payments Union and the European Investment Bank, to a series of arrangements for macroeconomic coordination and cooperation,

[22]/ See, for example, Council on Foreign Relations (1999), and Meltzer et al. (2000).
[23]/ For a broader discussion of these issues, see ECLAC (2002a, ch. 2), Agosin (2001), Ocampo (1999, 2002) and Park and Wang (2000).

that eventually led to the current monetary union of most members of the European Union. To a lesser extent, financial cooperation has been present in the developing world over several decades. Two remarkable examples are the set of institutions designed in the context of Arab and Andean cooperation. The first includes the Arab Monetary Fund, which plays an essential role in financing intra-regional trade and structural adjustment; the Arab Fund for Social and Economic Development, which support infrastructure projects, with a priority for regional projects; and the Arab Investment Guarantee Fund, which supports intra-regional investment. The second includes two successful institutions: the Andean Development Corporation, which provides development finance to both public and private sectors, and has experienced a rapid expansion in the 1990s, extending services to new Latin American countries; and the Latin American (formerly Andean) Reserve Fund, which includes Andean countries and Costa Rica, and has provided emergency liquidity financing to all Andean countries over the past decades. There are other institutions in the developing world, including several sub-regional development banks in the Latin American and Caribbean region.

The major advances in this area in recent years have taken place in the Asian region. They include, first, the May 2000 Chiang Mai Agreement between ASEAN countries, China, the Republic of Korea and Japan, to create a swap arrangement among central banks to face crises.[24]/ This initiative followed the Japanese suggestion to create an Asian Monetary Fund, which generated major opposition by the International Monetary Fund during the Hong Kong annual meetings in 1997. The second was the creation of the ASEAN Surveillance Process, for exchanging macroeconomic and financial information, and providing early warning signals and peer review among ASEAN countries; this process is supported by ASEAN and the Asian Development Bank. In Latin America and the Caribbean, there have been some steps towards developing mechanisms for macroeconomic coordination in the context of the four sub-regional integration schemes [25]/ and some initiatives to strengthen the Latin American Reserve Fund. [26]/

All these experiences indicate that regional bodies can be very effective in providing liquidity, facilitating development finance and sustaining trade links. They can also contribute to macroeconomic policy peer review and coordination. Nonetheless, these institutions remain limited in their scope so far, and are not recognised as central to the international financial architecture. This would require formal links between the International Monetary Fund, and regional reserve funds and swap arrangements, eventually transforming the former into a network or regional reserve funds. [27]/ It would also require an explicit policy by the World Bank and the regional development banks to support their development, as part of a process by which developing countries become leading actors in the international financial system.

An institutional framework such as that suggested would have two positive features. First of all, it may help to bring more stability to the world economy by providing essential services that can hardly be provided by a few international institutions, particularly in the face of a dynamic process of open regionalism. Secondly, from the point of view of the equilibrium of world relations, it would be more balanced than a system based on a few world organisations.

[24]/ Park and Wang (2000).
[25]/ See ECLAC (2002b, ch. V).
[26]/ Agosin (2001) and ECLAC (2002a, ch. 2).
[27]/ United Nations Executive Committee on Economic and Social Affairs (1999), Section 9; Ocampo (1999, 2002).

This would increase the commitment of less powerful players to abide by rules that contribute to world and regional stability.

V. POLITICAL ECONOMY

As we have seen in this paper, progress on international financial reform has been uneven and asymmetrical; most progress has been achieved in areas implemented nationally by developing countries (e.g. Codes and Standards), and least progress achieved in the equally important and complementary international measures (e.g. provision of sufficient official liquidity and development finance).

What are the main reasons for this uneven progress? Who are the key actors in this process reform? Most importantly, what strategy and bargaining tactics could be most productive for achieving greater and more symmetrical process? In this section, we provide some elements to answer such crucial questions.

Clearly, the asymmetries in the international financial reform process reflect certain political and political economy characteristics of the world. The most powerful governments, the G-7 --and especially their financial authorities-- have not thrown their weight consistently behind a deep international reform process, even though they were enthusiastic about it in the wake of the September 1998 events, including the very brief credit crunch in the US. To a certain extent developed governments (especially European ones, and particularly the UK), have become more willing to advocate larger international changes in the wake of the September 11 terrorist attacks.

An important reason for lack of consistent developed country support for the reform process may be because some of the most powerful actors in those countries (e.g. financial markets) do not see it in their interest to support or promote major changes in the international financial architecture. It is also a problem that those who would benefit most from such changes in developed countries (e.g. shareholders and workers of companies trading and investing long-term in developing economies, or who support development in poor countries) are not represented properly in the key financial decision-making levels of developed economies.

As a result, the main impulse for international financial reform could potentially come from developing countries; such reform would not just benefit developing countries, but would also benefit the global economy. However, developing countries have their own restrictions, which weaken their voice. Firstly, and most important, they have relatively limited power, as reflected in their exclusion or limited participation in key bodies. Therefore, the issue of participation raised above is so important. Secondly, developing countries have seen their ability to generate strong coalitions amongst themselves leading to concerted action somewhat weakened; this may be linked to the perceived need for “policy competition” amongst developing countries to attract foreign capital, and the resulting unwillingness to make or support proposals that could be seen to modify the existing order. Finally, developing countries --especially but not only the poorer ones-- may have insufficient technical capacity and resources to generate complex blueprints for international financial reform, and follow complicated negotiation processes. For this, the proposals for aid in this field suggested below could be so productive in helping progress in the crucial area of designing a detailed blueprint for a new international financial system, that would support development.

If conscious and deliberate efforts are not made to overcome the basic asymmetries in power relations, and the technical as well as other difficulties to generate international coalitions to compensate for the imbalances in global power relations, the international financial agenda would continue to be biased towards the views of a limited set of actors in the largest countries, and the problematic impact of this agenda and policies on the rest of the work --including in particular developing countries-- will not be fully internalised.

A second reason restricting progress in international financial reform is the reluctance of most countries --especially industrialised, but also developing-- to give up economic sovereignty to international organisations. In this sense, regional organisations and regional mechanisms may be very valuable, both in themselves and as stepping stones towards global organisations and mechanisms, and for improving the bargaining position of developing countries for a better financial architecture. A problem here is that countries (except in the case of the European Union), have been reluctant to give up sovereignty even to regional organisations.

There are however, two very positive elements that may be helpful in the process of genuine international financial reform. One is that all key actors involved share a common objective, which is that they are in favour of --and benefit from-- sustained growth in developing countries. As seen in Table 4, for some actors this is more important than others, but the crucial point is that they all share the same objective which in theory implies they should be willing to support measures with positive sum elements that help sustain such growth.

Table 4

Objectives of key actors

	Dominant objectives	**Other objectives**
Developed country governments	Growth in their own economies Profits for their financial sectors. Global financial stability. No large bail-outs.	Growth in developing countries No crises
Developing country governments	Growth in their own economies. Global financial stability. Stable and adequate flows	Growth in developed countries
Banking and Financial Markets	Maximise profits	Global financial stability. Growth in developed and developing economies

A second potentially very positive element is that there is a set of actors in developed countries, who are --and could become even more-- important allies of developing countries in building a better international financial system. These include the non-financial part of governments (e.g. Development Cooperation Ministries), NGOs, political parties and parliamentarians, as well as non-financial corporations. In different ways, and for different reasons, these actors are supportive of more rapid development and growth in developing countries, and therefore are or could become very supportive of an international financial reform that helps make growth possible. For this purpose, developing countries' governments need to have an active dialogue on international financial reform, not just with financial authorities in developed countries, with market actors and IFIs (who clearly are the main actors in the reform process) but with other actors in the developed world.

Developing countries could attempt to design and offer a grand bargain on international and national financial reform that would be attractive to a whole range of actors in developed countries, both in the public and the private sector, as well as supportive of their own growth and development.

Such a grand bargain would have two sets of elements. Developing countries could say they would become far more keen to implement initiatives that are of interest particularly to developed economies, such as Codes and Standards of best practice (e.g. on financial regulation) and opening to a fuller liberalisation of their capital accounts, if, and only if, developed countries start reforming the global financial system, in ways that would facilitate more and more stable capital flows to developing countries, and that would make costly crises in these countries less likely. Whilst such a reformed international financial system would not exist, they would clearly be less able and less willing to open their capital accounts fully, as the potential risks of doing so could outweigh the benefits. Similarly, developing countries could argue that implementing Codes and Standards of financial regulation by developing countries (which have been determined mainly by developed country bodies) should be explicitly linked to some regulation of developed countries' financial markets to help avoid excessive surges of potentially reversible capital flows to developing countries, to mechanisms that encourage long-term flows, and especially to development of international liquidity mechanisms --with low or no ex-post conditionality-- that would significantly protect individual developing countries from crises, and stop them spreading to other countries, mixed with fair multilateral debt workout mechanisms that would be used to manage solvency crises (debt overhangs).

Thus, developing countries that followed good macro-economic policies and were significantly improving their financial regulation policies (as certified for example in their annual Article IV IMF consultations) could have virtually automatic access to sufficient IMF lending, if hit by a crises whose origin was not of its own making, but was due to unexpected changes in perceptions of international lenders on investors or due to large terms of trade shocks. Low income countries that followed good macro-economic policies, improved financial regulation, and took other measures, would have sufficient access not just to international liquidity, but also to development finance. Debt workout mechanisms would not be used when crises faced by developing countries are due to insufficient liquidity, and appropriate mechanisms would be designed to guarantee financing in the post-debt crisis environment to facilitate reinsertion into private capital markets.

Such a bargain would provide incentives for developed countries to make necessary international changes, as they would know that these would ensure the changes they desired to take place in developing countries, and vice versa. Collective action problems could be overcome, if genuine progress was made simultaneously by developed and developing countries.

Most importantly, the result would be of great value, not just to developing countries, but also to developed ones.

Developing countries could draw here interesting lessons from both the bargaining tactics used and the vision presented by Keynes in negotiations that lead at Bretton Woods, to the creation of the post-war international financial order (see Skidelsky, 2001). As regards bargaining tactics, Keynes presented two clear alternatives: an "ideal" scheme, with key international elements --such as a large IMF-- and a "second best" case, wherein the UK would reluctantly follow a far more closed approach --in trade and the capital account-- if the international financial system was not properly developed; there was, he argued, no middle way (though in practice he made some important concessions later).

Suitably adapted to the features of the early 21st Century world economy, developing countries can argue that the same two clear options remain:

a) An appropriate international financial system, that would support development and make crises far less likely and less costly, not just for them but particularly for the global economy. Developing countries could contribute to this new IFA by implementing standards, good macro-policies and by liberalising their capital accord fully.

or

b) An incomplete and lopsided international financial system that could not guarantee supporting developing country aims, and where they would not be able to open fully their capital accounts and adapt their financial systems to the requirements of developing countries, as they would regretfully have to protect their interests by having, as a “second best solution”, more rather than less national policy autonomy. Similarly, they may be forced to rely on regional institutions and mechanisms even to perform functions that could be best performed globally, given vacuums in the existing global financial architecture.

Developing countries could draw lessons from Keynes’ preparation of a clear vision of the key elements, which would need to be included in a "first-best" international financial system, and by showing how such a superior system would benefit all involved; this system would be superior both because it would support more stable growth in developing countries --of benefit to many actors in the developed world-- but perhaps more importantly, because it would increase financial stability globally. There is here a clear parallel with Keynes' position at Bretton Woods, who in defending the interests of the relative weaker, debtor countries like the UK, was at the same time defending global prosperity. Furthermore, just as Keynes appealed to then United States internationalism and liberalism to help overcome opposition to his proposals, developing countries should appeal to current United States ideals of supporting and deepening the market economy globally; for this, they should stress how a "first-best" international financial system, that would facilitate growth and prosperity for them, would clearly increase their own commitment to the global market economy, and their ownership of policies to integrate further into this globalised market economy.

VI. IMPLICATIONS FOR AID

As we have seen above, one of the best ways to support progress on an international financial reform that is more supportive of growth, development and poverty reduction is to strengthen the voice of developing countries in that discussion. To do that, it is important not just to increase participation of developing countries in the key fora (along the lines discussed above), but also to enhance their technical knowledge of increasingly complex issues in relation to the reform of the international financial system, as well as strengthen their bargaining position.

Two crucial tasks need to be tackled in this field. Firstly, developing countries should develop and attempt to agree jointly clear and precise positions on the main areas outlined above, such as provision of sufficient official liquidity and development finance, appropriate international regulation of capital flows, appropriate financial regulation of capital flows, standstills and orderly debt work-outs, and participation of developing countries in key institutions. Then they could agree a strategy on how to best try to achieve such change; this would include preparing and taking specific initiatives to relevant bodies, e.g. IMF and World Bank Board, G-20, etc.

Secondly, much of the current transformation in the international financial architecture is de facto taking place through a fairly large number of small incremental changes. It is what Kenen (2001) has aptly named "galloping incrementalism". Because a major overhaul of the international financial system (à la Bretton Woods) seems unfortunately highly unlikely in the short-term, changes in the international financial system are likely to continue to take place in an incremental way. Therefore, riding on this trend seems the best alternative.

In this context, it would be very valuable if a fund or resource centre could be created soon that would help provide systematic, timely and independent support to representatives of developing countries (in particular, but not only, the developing country Executive Directors in the IMF and World Bank Board). Such a resource centre would be particularly, but again not only, valuable to the two Sub-Saharan African Executive Directors who have very large constituencies, representing more than 20 countries each, which implies they have a very heavy load of country work on the countries they represent. In discussions with Executive Directors and their Alternates (both from Africa and Latin America), it has become clear that they would value such an initiative, which they have themselves suggested given that they --and their governments-- do not have sufficient time and resources to undertake detailed and timely analytical work, indispensable for their ability to influence policy debates on the Fund and World Bank Boards. This limits both their ability to analyse and respond to specific documents and initiatives being taken to the IMF and World Bank Boards, and even more, their ability to generate their own policy initiatives.

Such a fund or resource centre could have a small core technical secretariat (closely interacting with the G-24) and could draw on a virtual network of think-tank, academics and other experts (in developed and, particularly, developing countries) for its work. A large part of the work would imply preparing or helping prepare very brief, focussed papers or memos with reactions to documents on important issues going to the IMF and World Bank Board, where new or alternative proposals could be elaborated. This would have to be a quick response facility, as there is normally a very short period between distribution of policy papers and their discussion, e.g. in the Fund and World Bank Board.

Because time would be so much of the essence in a large part of this work, the quick response work would require much and creative use of teleconferencing, emailing, etc. Small workshops or meetings (either in person or cybernetic) could play a very helpful role. The centre would be funded by donors, but it is essential that its work be independent of donors, and that ownership and accountability of the work would belong clearly to developing countries. The independence of the resource centre would clearly benefit developing countries, but it could also be valuable to developed countries, keen to improve the quality of developing countries' position and dialogue.

Ideally, several donors would fund such a centre. One major donor is already evaluating the creation of such a centre. Further support from other donors (and in particular Sweden) would be extremely valuable to enlarge the scope of such an initiative. Given that the Monterrey Consensus specifically encourages the IMF and World Bank "to continue to enhance the role of developing countries in their decision-making and deliberative bodies", this initiative could be launched as part of the initiatives to implement that Consensus.

Bibliography

Acharya, S. (2001), “New Standards for Financial Stability: Desirable Regulatory Reform or a Runaway Juggernaut?”, in S. Griffith-Jones and A. Bhattacharya (eds.), *Developing Countries and the Global Financial System. Commonwealth Secretariat.*

Agosin, M. (2001), “Strengthening Regional Financial Cooperation”, *CEPAL Review* 73, Santiago, April.

Ahluwalia, M. S. (1999), “The IMF and the World Bank in the New Financial Architecture”, in UNCTAD, *International Monetary and Financial Issues for the 1990*s, Vol. XI. United Nations publication, sales No. E.99.II.D.25, New York and Geneva.

BIS (Bank for International Settlements) (2001), *Annual Report*.

Boorman, J. and M. Allen (2000), “A New Framework for Private Sector Involvement in Crisis Prevention and Crisis Management”, paper prepared for FONDAD Conference on *Crisis Prevention and Response: “Where do we stand with the debate on reform of the international financial architecture?”*, The Hague, Ministry of Foreign Affairs, June.

Borio, C., C. Furfine and P. Lowe (2001), "Procyclicality of the Financial System and Financial Stability: Issues and Policy Options", *BIS Paper* No 1, March.

Botchwey, K. (2000), “Financing for Development: Current Trends and Issues for the Future”, (TD(X)/RT.1/11), *UNCTAD High-level Round Table on Trade and Development: Direction for the 21 Century*, Bangkok, February 12.

Buira, A. (1999), “The Reform of Global Financial Governance Arrangements”, in S. Griffith-Jones and J. Kimmis (eds.), *East Asia: What Happened to the Development Miracle?***,** IDS Bulletins - Vol 30, No 1, www.ids.ac.uk/global/finance/intfin2.html

Bush, George W. (2001), *Remarks by the President to the World Bank*, The White House, July 17.

Camdessus, M. (2000), "An Agenda for the IMF at the Start of the 21st Century", *Remarks at the Council on Foreign Relations*, New York, February.

Collier, P. and J. W. Gunning (1999), “The IMF’s Role in Structural Adjustment”, *Economic Journal* 109, November.

Cornford, A. (2001), "Standards and Regulation", in *Trade and Development Report 2001*, UNCTAD.

Council on Foreign Relations Task Force (1999), *Safeguarding Prosperity in a Global Financial System. The Future International Financial Architecture,* Institute for International Economics, Washington, D.C.

Crow, J. W., R. H. Arriazu and N. Thygesen (1999), *External Evaluation of Surveillance Report*, IMF, Washington, D. C., June.

Eatwell, J. and L. Taylor (2000), *Global Finance at Risk. The Case for International Regulation*, The New Press, New York.

ECLAC (Economic Commission for Latin America and the Caribbean) (2002a), *Growth with Stability: Financing for Development in the New International Context*, Libros de la CEPAL, No. 67, March.

_____ (2002b), *Latin America and the Caribbean in the World Economy,* Santiago.

Ezekiel, H. (1998), "The Role of Special Drawing Rights in the International Monetary System", in *International Monetary and Financial Issues for the 1990's,* vol. IX. Sales No. E. 98-II-D.3, UNCTAD, Geneva and New York.

Feldstein, M. (1998), "Refocusing the IMF", *Foreign Affairs*, vol. 77, Nº 2, March/April.

Financial Stability Forum (2000), *Report of the Task Force on Implementation of Standards,* 15 March.

Fischer, S. (1999), "Reforming the International Financial System, *Economic Journal* 109, November.

Gilbert, C., A. Powell and D. Vines (1999), "Positioning the World Bank", *Economic Journal* 109, November.

Goodhart, Ch. (2002), "The Inter-Temporal Nature of Risk", Financial Markets Group, London School of Economics.

Griffith-Jones, S. (2001), "New Financial Architecture as a Global Public Good". Paper prepared for UNDP.

_____ and S. Spratt (2001), "The Pro-Cyclical Effects of the New Basel Accord", in J.J. Teunissen (ed.), *New Challenges of Crisis Prevention: Addressing Economic Imbalances in the North and Boom-Bust Cycles in the South*, FONDAD, The Hague, December.

_____ and J. A. Ocampo with J. Cailloux (1999), *The Poorest Countries and the Emerging International Financial Architecture*, Expert Group on Development Issues (EGDI), Stockholm.

Group of Seven (1998), *Declaration of G-7 Finance Ministers and Central Bank Governor*s, 30 October.

Group of Twenty-Four (2000a), *Communiqué*, Washington, DC, 15 April.

_____ (2000b), *Communiqué*, Washington, DC, 23 September.

_____ (1999), *Communiqué*, Washington, DC, 25 September.

Gurría, José Angel and Paul Volker, cochairmen (2001), *The Role of the Multilateral Development Banks in Emerging Market Economies*, Carnegie Endowment for International Peace, EMP Financial Advisors LLC, and The Inter-American Dialogue, Washington, DC.

Helleiner, G. (2000), "External conditionality, local ownership and development", *Transforming Development*, Jim Freedman (ed.), Toronto, University of Toronto Press.

IMF (International Monetary Fund) (2001a), *World Economic Outlook*.

_____ (2001b), "Conditionality in Fund-Supported Programs – Policy Issues", prepared by the Policy Development and Review Department, February 16.

_____ (2000a), *Report of the Acting Managing Director to the International Monetary and Financial Committee on Progress in Reforming the IMF and Strengthening the Architecture of the International Financial System*, Washington, DC, April.

_____ (2000b), *Report of the Managing Director to the International Monetary and Financial Committee on Progress in Strengthening the Architecture of the International Financial System and Reform of the IMF*, Washington, DC, September.

_____ (1999), *Report of the Managing Director to the Interim Committee on Progress in Strengthening the Architecture of the International Financial System*, Washington, DC, September.

International Monetary and Financial Committee (2000), *Communiqué*, Washington DC, 24 September.

Institute of Development Studies, University of Sussex (2000), *A Foresight and Policy Study of the Multilateral Development Banks*, Sussex.

Kaufman, H. (1998), "The New Financial World: Policy Shortcomings and Remedies", in J. C. Fuhrer and S. Schuh (eds.), *Beyond Shocks: What Causes Business Cycles?*, Conference Series No. 42, Boston: Federal Reserve Bank of Boston.

Kenen, P.B. (2001), *The International Financial Architecture: What's New? What's Missing?*, Institute for International Economics, Washington, D.C., November.

Köhler, H. (2000), *Address to the Board of Governors of the IMF*, Prague, IMF, 26 September.

_____ and J. D. Wolfensohn (2000), "The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction", Washington, D.C., September.

Krueger, A. (2002), "New Approach to Sovereign Debt Restructuring: An Update on Our Thinking", *Conference on Sovereign Debt Workouts: Hopes and Hazards*, Institute for International Economics, Washington, D.C., April 1-2.

_____ (2001), "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring", *Address given at the National Economists' Club Annual Members' Dinner, American Enterprise Institute*, Washington, November 26.

Lowe, P. and M. Segoviano (2002), "Internal Ratings, The Business Cycle and Capital Requirements: Evidence from an Emerging Market Economy", *Mimeo*, BIS.

Meltzer, A. H. (chair) et al. (2000), *Report to the US Congress of the International Financial Advisory Commission*, Washington, DC, March.

Ocampo, J.A. (2002), "Recasting the International Financial Agenda", in J. Eatwell and L. Taylor (eds.), *International Capital Markets: Systems in Transition*, Oxford University Press, New York.

_____ (1999), *La Reforma de un Sistema Financiero Internacional: un Debate en Marcha*, Fondo de Cultura Económica/ECLAC.

OECD/DAC (1996), *Shaping the 21st Century: The Contribution of Development Cooperation*, Paris, May.

O'Neill, Paul H. (2001), "Excellence and the International Financial Institutions", *Addresss to the Economic Club of Detroit*, June 27.

Park, Y. Ch. and Y. Wang (2000), "Reforming the International Financial System and Prospects for Regional Financial Cooperation in East Asia", in J. J. Teunissen (ed.), *Reforming the International Financial System*, FONDAD, The Hague, December.

Powell, A. (2001), *A New Capital Accord for Emerging Economies?*, Universidad Torcuato di Tella.

Reisen, H. (2001), "Will Basel II Contribute to Convergence in International Capital Flows?, *Mimeo*, OECD Development Centre, Paris.

Rodríguez, F. and D. Rodrik (2001), "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence", in *NBER Macroeconomics Annual 2000*, Cambridge, Mass., MIT Press.

Rodrik, D. (1999), "Governing the Global Economy: Does One Architectural Style Fit All?", paper prepared for the Brookings Institution Trade Policy Forum Conference on Governing in a Global Economy, 15-16 April.

Skidelsky, R. (2001), *John Maynard Keynes. Vol.3, Fighting for Britain 1937-1946*, London, Macmillan.

Stiglitz, J. A. (1999), "The World Bank at the Millennium", *Economic Journal*, 109, November.

UNCTAD (United Nations Conference on Trade and Development) (2001), *Trade and Development Report, 2001* (UNCTAD/TDR/2001), Geneva.

_____ (1998), *Trade and Development Report, 1998*. United Nations publication, sales No. E.98.II.D.6, Geneva.

United Nations (2002), *Monterrey Consensus*, International Conference on Financing for Development, March www.un.org

United Nations Executive Committee on Economic and Social Affairs (2001), "Social Dimensions of Macroeconomic Policy", *Informes y Estudios Especiales Series*, No. 1, ECLAC, December.

_____ (1999), *Towards a New International Financial Architecture*, Santiago, ECLAC, March.

United States Department of the Treasury (2000), *Response to the Report of the International Financial Institutions Advisory Commission*, June 8.

White, W. R. (2000), "Recent Initiatives to Improve the Regulation and Supervision of Private Capital Flows", in J. J. Teunissen (ed.), *Reforming the International Financial System*, FONDAD, The Hague, December.

World Bank (2002), "Financial Impact of the HIPC Initiative: First 24 Country Cases", January (http://www.worldbank.org/hipc).

_____ (2001), *Reports on the Observance of Standards and Codes*, Mimeo.

_____ (1998), *Assessing Aid*, *World Bank Policy Research Report*, New York, Oxford University Press, November.

Zedillo, E. (chair) et al. (2001), *Report of the High-level Panel on Financing for Development*, United Nations, New York. http://www.un.org/reports/financing/