Overriding Jurisdictions in Global Financial Governance,
And Long Term Financing for the Poorest Countries

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1. Introduction: Governance of Global Finance

The world community established several international financial institutions (IFIs) between 1945 and the early 1970s, including the World Bank and the International Monetary Fund (the Bretton Woods institutions), the European Investment Bank, and three Regional Development Banks (in Latin America, Africa, and Asia)[2]. The only such institution established before the Second World War and still extant is the Bank for International Settlements, which commenced operations in 1930. More recently, the European Bank for Reconstruction and Development was created in 1990, just at the end of the Cold War.

Broadly speaking, the IFIs were created for two fundamental reasons. First, to facilitate trade and official (rather than private) capital flows among the industrial countries on the basis of mutually agreed rules (e.g. on exchange rates), thereby underpinning their internal efforts to secure economic growth and maintain full employment. Second, to integrate the developing countries into the international market system by providing financing for investment, thereby underpinning those countries' efforts to alleviate poverty and elevate living standards. By the late 1960s, however, the first objective was overtaken by the breakdown of the exchange-rate regime and the need to manage a succession of financial crises, to which the second objective has typically taken a back seat.

The purpose of this paper is to examine why the balance has been tilted against the long-term development objectives, and to explore how that balance may be rectified. Part of the reason consists in the governance structures of the IFIs and the dominance of a small group of developed countries within them, particularly the G-7. A related reason has been the conviction of the dominant group that the liberalization of global markets will help achieve both sets of objectives.

By the 1990s, however, it was becoming increasingly apparent that the G-7 could not continue to exercise the suasion over the IFIs and the international community that it had enjoyed hitherto. Accordingly, in 1999, some emerging market countries were invited to join the G-7 in a new group, the G-20 (see Culpeper 2000 for a discussion of the rise and impact of the various "Gs").

At the same time, the efficacy of capital market liberalization, particularly with respect to the long-term needs of developing countries, was sorely put to the test in the financial crises that have erupted in developing countries since 1982. Finally, frustration over inadequate results from several decades of development co-operation led to a growing consensus by the end of the 1990s that efforts need to be radically redesigned and refocused, if poverty levels are to be reduced appreciably and key social indicators improved in the coming two decades.

The paper is organized as follows. The next section puts the creation and evolution of the governance of the IFIs into historical perspective, examining the causes of a pattern of governance in which small groups such as the G-7 have exercised decisive control over the policy framework and the IFIs. The subsequent section examines the consequences of this pattern of governance for smaller and poorer countries, particularly with regard to the issues of long-term development financing and debt. In a concluding section, the scope for increased attention to the problems of the poorest countries in general, and to long-term development financing in particular, is explored in the context of the emerging governance framework.

2. Origins and Evolution

A historical perspective is crucial in order to understand why the IFIs were created and how they have subsequently performed[3]. Until the advent of the Inter-American Development Bank (IDB) in 1959[4], the key rationale for creating these IFIs was to assist the developed countries of Europe and North America to normalize their economic relationships with each other in the wake of devastating war and depression. The Bank for International Settlements (BIS), for example, was created by the Allies to facilitate war reparations from Germany arising from the First World War. The International Monetary Fund (IMF) was created to re-establish a stable exchange-rate system and thereby restore commercial relationships among the industrial countries shattered by the competitive devaluations of the 1930s. And the World Bank, in contrast to the retributional origins of the BIS, was created to facilitate reconstruction of war-ravaged countries on both sides of the conflict after the Second World War.

As is well known, the World Bank was quickly superseded in its reconstruction mandate by the much more generously funded U.S. Marshall Plan, and turned its attention instead during the 1950s to financing investment in the developing countries. It soon discovered that its primary instrument, market-based lending, was beyond the capacity of most low-income countries such as India and Pakistan, whose creditworthiness was highly constrained. Accordingly in 1960, soon after the establishment of the Inter-American Development Bank, the World Bank's soft-loan affiliate, the International Development Association, was born.

It was not until the end of the 1960s, with the advent of the McNamara presidency at the World Bank, the establishment or rapid growth of bilateral aid agencies, and the Pearson commission, which established the ODA:GNP target ratio of 0.7 percent, that concessional development assistance really took off. But the decade of the 1970s was

hardly a "Golden Age" of long-term development financing. A series of financial crises, beginning with the breakdown of the Bretton Woods exchange-rate system and two steep oil-price increases, both diverted attention from the need for stable long-term development financing, and (because of rising inflation and interest rates in the OECD countries) served to undermine the real volume of flows.

A similar shift at the IMF did not take place until the developing-country debt crisis of the 1980s, almost a decade after the fixed exchange-rate system had gasped its last breath. Since then, virtually all the IMF's resources have been allocated to its developing-country members. However, the IMF's involvement in the developing countries (soon complemented with World Bank adjustment lending) effectively gave pre-eminence in both organizations to short-term balance of payments financing over long-term development financing, a bias that was partially reversed in the 1990s.

Despite these fundamental shifts in the core business of the Bretton Woods institutions, away from focusing on co-operation among the industrial countries to providing support primarily to the developing countries, their governance remained dominated by the developed countries. The shareholding structure has guaranteed that the industrial countries have a voting majority, and the United States has retained an effective veto over any changes of the IMF's articles of agreement. Moreover, the convention of nominating a U.S. citizen as World Bank president and a European as managing director of the IMF has helped ensure that industrial-country policies and perspectives continue to prevail.

Nonetheless, despite this assurance, the leading industrial countries began deliberations in the early 1960s on international financial issues in informal groupings *outside* the multilateral structures of the IMF and World Bank. As the Bretton Woods regime of fixed exchange rates increasingly came under strain, the leading industrial countries came together in the Group of 10 to discuss ways and means of defending existing parities or to make parity adjustments. Then, after the breakdown of the Bretton Woods system in 1973, such informal groupings were instrumental in giving shape to a new exchange-rate regime.

It was both easier and more to the liking of the industrial countries to undertake such discussions among themselves (variously as G-10, G-5, and G-7) rather than through the more universal Committee of Twenty, which failed in 1976 to reach agreement on reforming the world's monetary system after three years of deliberations. These deliberative bodies, among which the G-7 has been pre-eminent since 1978, reinforced the dominance of the richest countries in the IFIs by sending clear signals to other members – and particularly to IFI managements – as to the policy directions desired by the group. A breakthrough of sorts occurred in 1999 with the establishment of the G-20, a body consisting of both developed and developing countries.

The Bank for International Settlements (BIS) has played a key role in this evolutionary process after World War II. Regular meetings of the Central Bank Governors from ten industrial countries at BIS headquarters in Basel, Switzerland, helped in 1962 to forge the General Arrangements to Borrow, and coincidentally, the G-10. Since the 1970s the G-10

has played a subordinate role to the G-7 in matters of economic policy coordination among the industrial countries. But the BIS, and implicitly the G-10, has been key to coordinating policies and mobilizing resources among the industrial countries during periods of international financial crisis, through special committees such as the Basel Committee for Banking Supervision, for which the BIS serves as secretariat. Currently, the members of the Board of Directors of the BIS are in fact the G-10 Central Bank Governors[5], even though some 45 countries from throughout the world now belong to the Bank.

Finally, the European Bank for Reconstruction and Development (EBRD) was created in 1990 very much in the image of the World Bank. The "victors" in the Cold War were anxious to facilitate the transition from planned to market economies of the countries in the former Soviet bloc, and to integrate that region into the orbit of the liberal and democratic Organization for Economic Co-operation and Development. While the EBRD is also active in the former Soviet republics of the Caucasus and central Asia, which are low-income developing countries more than "countries in transition," the Bank's primary mission, along with the bulk of its resources, is in the more developed countries of central and eastern Europe.

This brief account of the IFIs is not complete without reference to the Inter-American, African (AfDB) and Asian Development Banks (AsDB). The regional development banks, or at least the first two, broke the mould of shareholder dominance by the industrial countries. The IDB and AfDB were deliberately crafted to assure a voting majority for their borrowing member countries. Indeed, the capital of the AfDB was not even open for non-African membership until 1982, and even then African members retained a solid voting majority.

The AsDB represented a compromise in which, like the Inter-American and African Banks, *regional* members (including Japan, Australia and New Zealand, all non-borrowers) retained a voting majority. However, unlike the IDB and AfDB, but like the World Bank, the *borrowing* members only had a minority of the overall voting power.

However, the limitations of borrower-majorities in the constitutions of the IDB and AfDB quickly became evident when it came to mobilizing resources. Prior to 1982, without any developed-country shareholders to help guarantee bond offerings, the AfDB, headquartered in Abidjan, Côte d'Ivoire, found it almost impossible to raise any money in the world's capital markets. When capital was "opened" to non-African members, they were severely limited to only one-third of the voting power. Eventually, however, during the 1990s, in negotiations for a general capital increase, non-regional members, led by the United States, demanded (and received) an increase in their share to 40 percent. In addition, new rules increased "qualified voting majorities" to 66 percent, giving the non-regional members an effective veto.

Resource mobilization was less of a problem for the IDB, in which the United States had a commanding 35 percent voting share from the outset. (The US share was equivalent to the combined share of the four largest borrowing members – Brazil, Argentina,

Venezuela and Mexico.) Moreover, the IDB's headquarters were in Washington, DC. However, these factors also ensured that the United States has had a pervasive influence in the policies and operations of the IDB. Indeed, US pressure in the late1980s and 1990s to involve the IDB in the "Washington Consensus" along with the IMF and World Bank, led to considerable debate in the IDB and eventually to a shift in shareholding toward the non-borrowing members, which only narrowly preserved the borrowers' majority.

The power and influence of the developed member countries in the multilateral development banks has been even more evident when it comes to mobilizing concessional resources. Unlike non-concessional funding, obtained from bondholders in the major capital markets against the collateral of the share capital of the entire MDB membership, concessional funds were transfers of real resources from donor members (i.e. the industrial country shareholders) to recipients (the borrowing members). Donors have generally exploited their ability to give or withhold concessional resources by demanding particular conditions of the recipients (to be enforced by the MDB as intermediary), in effect driving an additional wedge into the MDB governance structure. Typically, committees of donor officials (e.g. the "IDA Deputies") have utilized periodic concessional fund replenishment negotiations to extract policy commitments from recipients, which the MDB Executive Boards (as the formal policy-making authorities) have had little choice but to accept.

This brief historical survey suggests that the dominance of a small group of industrial countries (latterly, the G-7) in the governance of global financial policies and institutions has arisen for three interrelated reasons: the shareholding structure which accords these countries a decisive voice and vote in most IFIs; the leverage afforded to the donors by virtue of their crucial role in mobilizing (particularly concessional) resources; and the rise of small deliberative groups able to influence policy decisions, especially the G-7.

Other factors have also played an important part. To begin with, the complexity of the issues and contending interests among member countries has often made discussion in the formal policy-making bodies (in particular, the Executive Boards, or the Ministerial-level Interim and Development Committees) difficult. For example, the initiative on the heavily indebted poor countries (HIPCs) had to deal with the competing interests of and among various groups of creditors – the bilateral creditors of the Paris Club, bilateral creditors not belonging to the Paris Club, and multilateral creditors comprising the IFIs. It is not surprising that the largest creditors happen to be members of the G-7, which also happen to be among the largest shareholders of the IFIs, and finally that the G-7 had a determining influence on the shape of the HIPC debt relief initiative.

Another example is the extensive efforts launched in the wake of the global financial crises of 1997-99 to assess the stability of the financial sectors and to harmonize financial standards and codes between industrial countries and emerging markets. Since the advanced capitalist countries have the most developed systems of financial supervision, it was inevitable that those countries would define the standards at which harmonization should take place.

In summary, the leading industrial countries have carved out a dominant role in the governance of the global financial system, a role already embedded in the shareholding structure of the IFIs, but reinforced through their leverage as donors, through the complexity of the issues and contending interests, and through informal deliberative groups such as the G-10 and G-7. A major consequence has been that the poorest countries have been under-represented and their particular concerns and demands given considerably less attention than they warrant, issues to which we turn next.

3. The Neglect of the Poorest

In the wake of the series of financial crises sweeping the globe between 1997 and 1999, the G-7 countries recognized that significant changes to global financial governance were in order. If the developing countries most affected by these crises were to be "part of the solution" rather than primarily being the principal sites of international financial instability, they would have to be invited to the tables at which solutions were discussed and agreed. Accordingly, new deliberative groupings emerged – the G-22, a group convened by the United States in 1997-98, which was then superseded by the Financial Stability Forum and the Group of 20. These latter two bodies have become the prime vehicles to discuss and implement reforms to the "global financial architecture" (see Culpeper 2000 for a critique of the FSF and G-20).

The developing countries invited to come to these tables, however, have been the "emerging markets" – middle-income countries such as Korea, Mexico, Brazil and Argentina, crisis-afflicted countries such as Thailand and Indonesia, the two low-income giants China and India, and the city-states of Hong Kong and Singapore. The financial crises have also led increasingly to greater participation by such countries in initiatives by the G-7 to prevent and manage financial instability, for example through the New Arrangements to Borrow, and membership in the Bank for International Settlements. By the turn of the century, a dozen emerging market countries were participating in deliberations that, for the previous quarter-century, had been the preserve of a handful of industrial countries.

In contrast, there is little indication that the G-7 has been willing to consider inviting representatives of the poorest countries to participate in its deliberations. Conspicuously absent from the G-20 are the poorest and smaller developing countries, which have traditionally been accorded low relative voting power and paucity of representation in the IFIs' Executive Boards.

The under-representation of the poorest both reflects and reinforces the subordinate priority accorded to the objective of poverty eradication by the IFIs and the G-7, relative to the objective of maintaining international financial stability. Soon after the celebrated poverty initiative launched at Nairobi in 1973 by World Bank President Robert McNamara, the crises of the 1970s and 1980s served to thwart a sustained and consistent focus on poverty, and it was not until the publication of the 1990 *World Development Report*, that the Bank once again got serious about poverty.

Similarly, although in 1978 the IDB established a "low-income goal" under which at least 50 percent of that institution's lending would be oriented to the poorest people of the region, the objective was never really met during the 1980s (Tussie 1995). Thus, even in the IFIs in which borrowers enjoyed a voting majority, poverty issues were not given the pre-eminence one would expect from development agencies. Indeed, all three of the established regional development banks did not even articulate poverty reduction as a fundamental objective against which to measure their success until the 1990s, concurrent with the World Bank's "rediscovery" of the poverty objective (Culpeper 1997:83-99). By then, the IMF was also integrating poverty reduction into its strategic objectives, with the Enhanced Structural Adjustment Facility which metamorphosed, in 1999, into the Poverty Reduction and Growth Facility (PRGF). The IMF was also to participate with the World Bank in the oversight of Poverty Reduction Strategy Papers (on which more below). However, the IMF's involvement was controversial, since poverty analysis and policy has not traditionally been among the institution's strengths; the PRGF was viewed by some critics as a pool of concessional resources that should be administered by the World Bank (Overseas Development Council 2000).

Despite a rekindling of the poverty issue in the 1990s, there has been considerable "dissonance" between official policy and action taken. This dissonance has been manifested in at least three areas – real resource flows to the poorest countries; policy on debt relief; and policy conditionality.

Resource Flows. There has been a dramatic decline in real resource flows to the poorest countries in the 1990s. The trend has been obscured by the virtually exponential growth in private capital flows to the emerging markets during the decade, flows that have generally spurned the poorest and most severely indebted low-income countries (SILICs). Moreover, ODA, on which the poorest countries are particularly dependent, has stagnated, while the aggregate aid-giving efforts of donors have declined sharply (Table 1)[6].

Table 1
Aggregate Net Resource Flows to Developing Countries
(US$ billion, except where stated)

	1990	1997	1998
Net resource flows:			
All developing countries	98.5	318.3	290.7
SILICs	20.0	27.0	13.6
Foreign direct investment:			
All developing countries	24.1	170.9	192.0
SILICs	1.8	9.8	4.2
Official Development Assistance	53.0	48.3	51.9
Percent of combined DAC GNP	0.33	0.22	0.24

Source: World Bank 2000: 58, 238, 254.

The evidence of the 1990s clearly indicates that private capital flows were strongly skewed toward the middle-income countries and China, and against the low-income countries. This is not surprising in view of the fact that these large markets with rapidly-growing purchasing power are much more attractive to foreign investors than the poorer countries. Relative to their share of developing-country population (21.7 percent) and even relative to their share of developing-country GNP (5.8 percent), the shares of low-income countries[7] in foreign direct investment (5.2 percent), portfolio equity (2.6 percent), bond financing (0.4 percent) and bank lending (0.6 percent) is truly miniscule (Griffith-Jones et al 1999: 9-10).

In any event, access to the world's private capital markets is particularly problematic for the poorest countries seeking long-term development financing. Private flows tend to be volatile and potentially destabilizing (as the emerging markets have discovered) and not necessarily dependable for long-term development financing. While FDI is probably the most desirable form of private foreign capital for the poorest countries, it is not without its own problems and the figures above suggest that these countries are not the destinations most sought after by transnational corporations.

Furthermore, liberalized capital markets also open a two-way street on which capital can and does flow out as easily as it flows in. Indeed, after taking capital *outflows* into account, net external finance available for developing countries is modest compared to gross inflows. In 1999, for example, long-term resource inflows of $291 billion were offset by net short-term outflows of $11 billion and capital outflows of some $256 billion; net external finance was thus only $24 billion. The corresponding figures for 1998 were $318 billion in long-term inflows, $47 billion in short-term outflows, $200 billion in capital outflows, resulting in $71 billion in net external finance (World Bank 2000: Table 2.3, p.43). These net volumes of external finance seem quite modest compared to current (admittedly stagnating) flows of ODA[8]. In other words, for the poorest countries, greater access to the world's private capital markets will not necessarily secure long-term net external financing for development, and certainly not on terms as favourable as ODA.

Debt relief. The evident lack of progress (and in some cases, an evident decline) among the poorest countries during the last two decades led to increasing scrutiny in the 1980s of their chronic indebtedness. In the 1990s, non-governmental organizations around the world were mobilizing in a campaign to cancel the debt of the poorest. At the G-7 Halifax (1995) Summit, the Heavily Indebted Poor Countries (HIPC) initiative was launched.

There is a growing asymmetry between the treatment of the debt problem of the poorest and that of the more advanced developing countries. First, the debt problem of the latter group has received much earlier attention and resolution: the crisis in the 1980s, for example, generated the "Baker Plan" in 1985 and the "Brady Plan" in 1989. The latter initiative did much to restore the solvency of the middle-income debtor countries. Similarly, the Mexican crisis of 1994-95 and the global financial crises of 1997-99

spawned immediate bailout packages by the IFIs and the G-7 countries. Moreover, the resources mobilized for the emerging market crises were substantial.

In contrast, the debt problem of the poorest countries had triggered a series of initiatives by the G-7 countries as early as 1988, many of them aimed at providing relief on bilateral debt through the Paris Club, via "Toronto Terms," "Naples Terms," and so on. It was not until 1996, with the HIPC initiative, that multilateral debt reduction was even considered, despite the fact that the most onerous debts were owed to the IFIs (Mistry 1996). Even then, the resources committed and the extent of debt relief afforded were wanting. By 1998 the inadequacy of the HIPC initiative in providing relief was clearly evident. At the same time, international non-governmental organizations stepped up their efforts with a "Jubilee" campaign. The upshot was the "Enhanced HIPC" initiative launched at the Cologne G-7 Summit in 1999. By mid-2000, however, this latest variant was also coming under criticism for being inadequately funded and for rendering relief that is too slow, too shallow, and too narrow.

In any case, it is questionable whether debt relief from the HIPC or Enhanced HIPC initiatives results in additional resources of any significance for the beneficiaries. Much of the debt was not in any case being serviced. Forgiving unserviced debt provides no relief to the debtor and imposes a low or zero opportunity cost on the creditor. More to the point, it provides no resource additionality for the purposes of financing long-term development. According to one estimate, relief provided by the 1996 HIPC initiative amounted to 54 percent of net present value, while on average 60 percent of scheduled HIPC debt was not being serviced, implying little or no resource additionality for a "development dividend" (Serieux 1999).

Even under the more generous Enhanced HIPC initiative, debt relief will result in modest additionality to budgetary resources (2.1 percent in Bolivia, 11.2 percent in Nicaragua, 7.6 percent in Uganda). Given fairly ambitious poverty-reduction strategies, it is clear that debt relief alone will be inadequate, and that a significant financing gap will remain (Serieux 2000). Even if the HIPC initiative does result in additionality *ex ante,* there is also a real question as to whether it will *ex post* as well. In other words, if the resources provided for debt relief are drawn from a fixed envelope of ODA, so that ODA resources are reduced commensurately, additional resource flows will be zero[9].

There may be an argument that, even if the HIPC initiative did not lead to resource additionality, simply "regularizing" the debt situation of eligible countries would represent an improvement in that they would again be able to access new loans. However, this appears both unlikely and undesirable, since HIPC countries will probably remain uncreditworthy for some time, and thus any further indebtedness in the foreseeable future should be avoided. What the HIPC countries need is not more loans but grant assistance – in other words, substantial increases in ODA.

Conditionality and process issues. Finally, the conditionality attached to official financing has become more stringent for both emerging markets and the poorest countries. In the case of the emerging markets, most of the policy conditionality has been

directed to financial sector reform. Crisis-afflicted countries have been subjected to far-ranging policy prescriptions aimed at bringing financial standards and codes into line with those prevailing in the U.S.A. and the U.K. Some 62 standards were originally put on the table for discussion at the Financial Stability Forum, but after acknowledging the enormous institutional challenges posed by implementing such an agenda, the Forum narrowed down the "essential" standards to a list of twelve[10].

Arguably, however, the conditionality attached to financing and debt relief for the poorest countries is now even more stringent. The procedure established by the HIPC initiative is long and involves complex eligibility criteria (to determine whether a country's debt burden is "unsustainable"), a protracted implementation process lasting up to six years (although this was accelerated under the Enhanced HIPC program), and undertakings by the beneficiary that are more intrusive than any IMF or World Bank programs heretofore. Specifically, the requirement of eligible debtors to prepare "Poverty Reduction Strategy Papers" (PRSPs) places demands on beneficiaries on an unprecedented scale.

The PRSP process is perhaps very well-intended. Its purpose is to ensure that the benefits of debt relief (assuming it generates additional resources) flow to the poor, that its implementation is underpinned by a viable economic policy framework, and that the overall poverty reduction strategy is drawn up through a participatory and transparent process in which the poor, civil society participants, and "other stakeholders" are represented. The objective for each debtor country is to craft an economically viable poverty strategy with maximum "ownership" by the population and the government. But the details expected in each PRSP are nothing less than forbidding, including (IMF and IDA 1999):-

- a diagnosis of obstacles to poverty reduction;
- definition of quantified medium- and long-term outcome-oriented targets for the country's poverty reduction strategy;
- priorities for policy action, to be incorporated into an overall macroeconomic framework;
- a description of tradeoffs, including reallocation of spending and increased efficiency of spending;
- and how to handle possible short-term measures with adverse impacts on vulnerable groups.

It is not surprising that, within the first few months of the proposed PRSP process, the onerous nature of preparing fully-fledged PRSPs was recognized, and the lead implementing agencies (the IMF and World Bank) were forced to concede that such comprehensive strategies "take time to develop, especially given the need for broad participation in each country." Accordingly, HIPC countries were encouraged to prepare "Interim PRSPs" to guide their policies during the preparation phase[11].

There are two "dissonant" elements worth noting about the PRSP process. First, insistence on participatory and inclusive dialogue in formulating the PRSP is intended to generate a poverty reduction strategy that is presumably "owned" by both the government

and the populace, including the country's poor. Yet it is highly uncertain that programs with heterodox economic policies would meet with the approval (and financial support) of the Bretton Woods institutions or their G-7 shareholders. Thus, "ownership" would be token: the key elements of economic policy would still be determined in Washington and among G-7 shareholders (see Helleiner 2000 on the rhetoric and reality of "ownership").

Second, managing the distributional impact of economic policy constitutes one of the most sensitive political challenges facing any government as it prepares its annual budgets or longer-term programs. Democratic governments, including those of the G-7, generally subject their budgets and longer-term economic policies to parliamentary oversight, and to greater or lesser degrees of dialogue with members of the populace. But the degree of participation and inclusiveness envisaged in the PRSP process for highly indebted poor countries goes far beyond that typically found in the Northern democracies.

Indeed, it seems doubtful that any G-7 government would willingly subject itself to the political risks and rigours of a PRSP. Nor indeed does it seem likely that a typical G-7 government would even aim, through dialogue with its civil society and its poorest citizens, at crafting an economic policy or annual budget that is "owned" by a broad majority, although such an objective may be worth striving for. At the same time the possibility of achieving popular ownership of economic policies seems greater in the industrial countries, with their democratic traditions and institutions, and more developed civil society, than in the poorest debtor countries, among which democracy is often fragile, nascent, or nonexistent. It should not therefore be surprising that available evidence from countries presently undergoing PRSPs indicates that there is little actual participation by the poor, and that the entire process lacks credibility (Serieux 2000).

To sum up, under-representation of the poorest countries and of the poverty issue has been reflected in declining ODA and other resource flows; a debt initiative that is overly complex and promises little additionality; and conditionality which is unprecedented in its breadth and untested even in the countries where it is most likely to succeed. Is there any possibility for any of this to change in the emerging framework of global financial governance? This is the subject of the final section.

4. Global Financial Governance and Poverty

Since 1995 the leading industrial countries have significantly modified the world's financial governance, principally because of their vulnerability to unpredictable, and potentially unmanageable, international financial instability. To become "part of the solution" representatives of the emerging markets have been invited by the G-7 to participate in new deliberative bodies such as the Financial Stability Forum and the G-20, and to join institutions such as the Bank for International Settlements formerly the preserve of the developed countries.

On the surface, it seems doubtful that global poverty, or the problems of the poorest countries more generally, could pose similar threats to the self-interest of the industrial

countries. Rather, it seems more likely that the industrial countries will regard these as issues of secondary importance, and continue either to provide or withhold ODA (or debt relief) as they see fit, while the poorest countries may, at best, only ask for more. If this is the case, unlike the emerging market countries, the poorest should expect continuing under-representation in the formal decision-making bodies of the IFIs, and exclusion from the newer informal bodies such as the G-20. And the issue of poverty will continue to be shouldered aside from time to time by major global crises focusing the attention of Northern governments and publics.

Yet such a prognosis is excessively pessimistic. There are important reasons to believe that the problems of global poverty, and greater inclusion of the poorest countries, will receive higher priority in the agenda on global financial governance in the coming decades.

First, despite all its shortcomings, the HIPC initiative has thrust the finance ministers of the G-7 and other industrial countries to the vanguard of the international struggle against poverty. Previously, poverty issues were relegated principally to aid ministers, with less political clout and presiding over dwindling aid budgets (thanks to their finance minister colleagues!). Having arrived there, it will not be easy for G-7 finance ministers to turn their backs on the issue, and even more so to the extent that the HIPC initiative will have little impact by itself on the poor or on the development prospects of the poorest countries. There is likely to be a need for a cogent anti-poverty strategy that goes far beyond providing debt relief, to considering other means and also the fundamental ends of such a strategy.

Second, on the latter point, after almost half a century of disappointment over development co-operation efforts and increasing criticism of aid programs, there has been a growing convergence around a set of international development goals to be reached over the next twenty years. These emerged through UN conferences during the 1990s, were endorsed by the OECD Development Assistance Committee in 1996, and reaffirmed at the Millennium Summit in September 2000[12]. Although the targets initially met with resistance from some developing countries and the IFIs themselves, they have moved to the forefront of the development agenda for the next two decades. Indeed, the most recent meeting of G-7 Finance Ministers in Okinawa, Japan (July 2000) produced a report to Heads of State and Government reaffirming the international development goals (G-7, 2000).

The shift to international development targets from the prior emphasis on resource transfers is of profound significance. Greater focus on development outcomes or results, rather than on the inputs or means, is a welcome corrective to a system in which the basic purpose, and efficacy, of international aid was often lost in the clamour for additional resources. Moreover, an emphasis on outcomes is far more likely to underline the importance of partnership in the development enterprise between and among countries providing resources and those needing them.

Of course, there is need for a balance between emphasizing the means and ends of development co-operation. And there is a need for pragmatism and flexibility in the use of the targets and the assessment of each country's efforts to reduce poverty, particularly if developing countries are to "own" their development strategies. What should be rewarded is real progress toward better poverty and socio-economic outcomes, not adherence to preconceived policy conditions. But shifting the current balance toward a greater focus on outcomes may be more effective in appealing for additional resource transfers from developed countries than appeals based on moral arguments that too willingly overlooked the failure or poor results of development co-operation.

Indeed, and third, recent research (World Bank 1998) suggests that properly-targeted aid is indeed effective at reducing poverty. However, the research (Collier and Dollar 1999) also indicates that current aid allocations help lift some 30 million people out of poverty, while a more "poverty-efficient" allocation of the same volume of aid would raise this figure to 80 million. Even the latter would only represent 6 percent of the world's poor (on a $1 a day headcount basis). Thus, a greater volume of such flows would be necessary to make swifter progress against the international development poverty target (to reduce the incidence of poverty by one-half by 2015).

None of the above reasons guarantee that global poverty issues will suddenly erupt onto the stage reserved for international financial crises, nor indeed do they ensure that representatives of the poorest countries will be invited to participate, like the emerging market countries before them, in special fora convened to help resolve their problems. However, the UN high-level consultation on Financing for Development scheduled for late in 2001 may provide a significant stimulus in the right directions. The consultation could complement increasing convergence on the international development targets with pledges of resources and associated policies (e.g. greater trade access to industrial-country markets), thereby helping to balance agreed ends of development co-operation with agreed means.

If that is to happen, finance ministers need to put the UN high-level meeting on their agendas and work closely with their colleagues in aid agencies, as well as foreign and trade ministries. To ensure that the outcome of the meeting is an action agenda that will bring most of the international development targets to fruition and not just another UN declaration full of hopes that cannot be fulfilled, the engagement of finance ministers from both North and South is critical.

The newly-created G-20 could help forge such an engagement. As a committee of finance ministers from North and South, the G-20 can help ensure that commitments of resources are achievable within their budgets. At the same time, it will increasingly become apparent if resource commitments are inadequate, given insufficient progress toward the targets.

The poorest countries must be represented in this process. One possibility would be to create subcommittees consisting of some members of the G-20 along with representatives (at the finance minister level) of the poorest countries. For example, the 40-odd HIPCs

could be represented through five subcommittees, eight in each, along with four members of the G-20. Each subcommittee would focus on and champion the longer-term development strategies (HIPC and post-HIPC) and the achievement of the international development targets of its poorest members. The advantage of this approach is that it would provide a series of fora in which the poorest countries are well-represented, in fact constituting majorities in each subcommittee, unlike other fora (the Paris Club, Consultative Aid Groups) in which they typically stand alone against an array of donor countries and international organizations.

Another possibility would be to create a Global Poverty Reduction Forum, similar to the Financial Stability Forum, in which the major donor countries are represented and to which representatives of the poorest countries are invited on a selective basis. However, while the participation of aid agencies and the IFIs in such a forum could play a useful role, it is important to stress that representation of the finance ministries is crucial, for the reasons mentioned. The advantage of this approach is that it would allow more in-depth focus on the problems of individual poor countries, although it might lend itself to the "ganging-up" syndrome associated with the Paris Club.

There are, no doubt, other ways of ensuring that, as the new millennium enters its second year, the issue of global poverty is finally given the priority that it demands, and that the poorest countries are represented in the deliberations, not just objects of the discussion. Whatever the organizational mechanism, the purpose should be to ensure that developing country "ownership" is *bona fide*; that policy conditionality is both reasonable and realistic; and also that the contribution and performance of members of the donor community, individually and collectively, toward the development goals is monitored and subjected to critical review. Donor co-ordination between and among the IFIs and the bilateral agencies, must be high on a list of issues to be kept under review. Such mechanisms should also be used to review the working of the comprehensive development framework, which can only be assessed (from the viewpoint of both donors and recipients) at the country level.

To conclude, it is hard to conceive of a world in which the richest countries would not use whatever leverage they can to maximize their influence and impact on the financial governance of the world community. To that end, they may be expected to continue to exercise their authority both through the formal structures of the IFIs and through informal deliberative bodies such as the G-7. The fundamental challenge consists in convincing these countries that a concerted effort to eradicate poverty in the 21st century is in their interest.

Such a challenge may in fact be met. There is reason to believe that the international development targets are achievable, sooner in some countries, no doubt, than in others. But they must be achieved on a case-by-case basis, with each country facing its unique set of development opportunities and constraints. Moreover, their achievement will take time – two decades may not be enough in some cases. There needs to be greater recognition that the time span required will be at least of this order, and less emphasis on "quick fixes" or rapid results. It is also imperative that "ownership" of development

strategies be genuine, not simply another way of insisting on policies that have the prior blessing of the major donors. This will require more flexibility and accommodation in the current PRSP process, both with respect to policies not strictly adhering "Washington orthodoxy" as well as the practical limits to inclusiveness in the policy-making process.

Most of all, progress cannot be achieved without the sustained commitment of finance ministers and their officials, from both industrial and developing countries. And it will require increase commitments of ODA in particular, since ODA has languished for the last decade. The century has certainly begun with some promising signs that this key group is prepared to contemplate the challenge. It remains to be seen whether they are prepared to follow up the debt relief initiatives of the late 1990s with a willingness to provide real, additional and concessional resources to the poorest countries in their struggle to reduce poverty.

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Endnotes

[1] I am grateful to the following individuals for their comments on a previous version of the paper: Gerry Helleiner, Rohinton Medhora, Ann Weston. I would also like to thank Irfan ul Haque for his comments, along with those of other participants at the Vienna workshop.
[2] Omitted from this list and not included in the purview of this paper are a host of “sub-regional” institutions such as the Caribbean Development Bank and the OPEC Fund. Also omitted from the list, but relevant to the discussion in this paper, is the World Trade Organization (and its predecessor, the GATT) which as its name implies is oriented to trade rather than finance.
[3] The historical literature is long and rich. It includes Kapur et al (1997), Culpeper (1997) and the Multilateral Development Bank series published by Lynne Rienner for The North-South Institute.
[4] The political economy of the establishment and evolution of the regional development banks is examined in Culpeper (1997).
[5] From Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States – eleven members in all.
[6] Although it is important to note that there are some donors whose aid has not declined.
[7] Other than India and China.
[8] Much of the outflow from the developing countries in the last few years has gone to the United States as its current account deficit has continued to widen. If we are to be more enlightened about the source and destination of flows in global capital markets, there is a need for more research and better statistics on international financial flows, since “errors and omissions” tend to be large relative to the quantified flows,
[9] For example, if IDA credits are simply written off, the reflows from the previously outstanding credits to IDA would be lost. In this case, other (non-HIPC) IDA-eligible recipients would pay the price in the form of lower future IDA credits, unless, of course, donors to IDA were to increase commensurately with the HIPC write-offs.
[10] See http://www.fsforum.org/Reports/RepIOS01.pdf in which the 12 key standards are recommended.
[11] “IMF and World Bank Review Progress in HIPC/PRSSP Implementation,” News Brief No. 00/79, http://www.imf.org/external/np/sec/nb/2000/nb0079.htm
[12] "We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty," the Declaration states in its longest section, on development. Leaders set out a specific timetable for reducing poverty (halving the number of people in extreme poverty by the year 2015), ensuring universal primary education for boys and girls (by 2015), reducing maternal mortality (by three quarters by 2015), halting the spread of HIV/AIDS (by 2015) and improving the lives of at least 100 million slum dwellers (by 2020). Other measures to achieve poverty eradication concern promoting gender equality, working with the private sector, and providing access to information technology. In addition, the Declaration commits Member States to "an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system."