

Eurodad Report Back: Bank/Fund and UN FfD meetings, Spring 2008

Gail Hurley and Lucy Hayes, 22 April 2008

This note brings you details of recent advocacy and intelligence gathering at the World Bank/IMF Spring Meetings in Washington and the Spring ECOSOC and FfD hearings in New York on some of Eurodad's priority areas, specifically on:

- Odious debts and responsible finance;
- IMF conditionality;
- Aid effectiveness.

This is for your information, to circulate to colleagues/your constituency, and for action, e.g. on the scandalous conditionality that is blocking Burundi's debt cancellation.

This year's World Bank and IMF Spring Meetings were dominated by the issues of global climate change (in particular the Bank's proposed Clean Technology and Strategic Climate Change Funds), IMF governance reform and concerns over the effects that rising food prices are having on impoverished people. **Bretton Woods Project** has produced a detailed summary of official discussions on the issues of climate change and IMF governance reform. See:

www.brettonwoodsproject.org/art-561264.

At this year's Bank/Fund Spring Meetings, Eurodad staff and members worked hard to raise the issues of illegitimate debt, responsible finance, economic policy conditionality and aid effectiveness in various fora. In its meeting with European Executive Directors (EDs) to the World Bank, Eurodad raised the issue of the World Bank's September 2007 discussion paper on odious debt and urged European Executive Directors to table the issue at Board level. Among Bank EDs, there was definitely a greater awareness of the issue of illegitimate debt but little political will to take any action. Although more open to discuss the topic than in previous years, there is broad satisfaction with international debt relief measures to date and a clear official tendency to look to the future for mechanisms to avoid future rounds of unsustainable and irresponsible debt.

In private discussions several European Development ministers pledged to raise the issue of the Bank's failure to address economic policy conditionalities at the Development Committee. Yet it was announced by the World Bank in parallel that Burundi would not be granted completion point status under the HIPC Initiative because of its failure to privatise its coffee industry. Coffee represents the main source of export revenues to the country. This means that much-needed debt cancellation will be delayed until Burundi complies with this conditionality requirement. Eurodad urges members to write to their World Bank and IMF Executive Directors – using a template letter we have prepared – to insist that this decision is overturned.

Finally, the World Bank announced that it is initiating a consultation process on consultation processes and would publish further information on how civil society organisations can become involved. The Bank's stated aim is to assess how to improve its engagement with CSOs in the future to ensure they are able to input meaningfully – and at the right times – into policy formulation.

Below is a more detailed update of the main discussions and developments on some of these issues.

Commonwealth ministers call for careful consideration of Eurodad Charter on responsible lending

Commonwealth Finance Ministers from Cameroon, Ghana, Guyana, Malawi, Mozambique, Sierra Leone, United Republic of Tanzania and Zambia urged the international community to carefully

consider the proposals set out in Eurodad's Charter on Responsible Lending in international discussions leading up to the Accra High Level Forum on aid effectiveness and the UN Financing for Development Summit in Doha. Eurodad's proposals for more restrictions on the sale of credits on secondary markets to help prevent vulture fund litigation received particular attention and welcome.

The Ministerial communiqué reads:

“Ministers recognised that prudent borrowing and lending practices required concerted action on the part of borrowers, lenders and the international community at large. They emphasised the need for lenders to act responsibly taking into account the future debt repayment capacities of borrowers and also to adhere to lending ethics. In this regard, Ministers welcomed the statement by Eurodad on their proposed Charter on Responsible Lending, whose aim is to ensure that the terms and conditions are fair, that the loan contracting process is participatory and transparent, that human rights and the environment of recipient nations are respected and that repayment difficulties and disputes are resolved fairly and efficiently. The Charter also urges both lenders and borrowers to recognise that they share responsibility for ensuring long term future debt sustainability. Ministers urged careful debate and consideration of the proposals at the forthcoming High Level Forum on Aid Effectiveness in Accra, Ghana and in the run up to the UN Financing for Development Summit in Doha.”

Eurodad argued that the current discourse on debt sustainability was too limited because it focused simply on the responsibilities of lenders and borrowers to ensure that borrowers were not extended loans they may be unable to repay in the future. However being a responsible lender and borrower encompassed much more than this, Eurodad argued. It included not just an assessment of the economic situation of the borrower but fair terms and conditions, respect for human rights and the environment, greater transparency, parliamentary and citizen participation in the loan contracting process and mechanisms for the independent, predictable and fair resolution of repayments difficulties and disputes. One minister agreed that borrowers should look carefully at the terms and conditions of loans no matter who the lender and pinpoint areas of concern for discussion. Enough of lender conditionalities, the time had come for “borrower conditionalities” it was said. It was agreed that there should be no compromise on the good use of funds. It was suggested that borrower governments and the Commonwealth Secretariat should use Eurodad's proposed Charter to advocate at the international level for an approach similar to the one outlined by Eurodad in its Charter.

Read more: www.eurodad.org/whatsnew/articles.aspx?id=2222

Odious debt and responsible lending: World Bank hosts round table debate

After significant pressure from a coalition of civil society organisations around the world, the World Bank agreed to host a one day round-table discussion on the issues of illegitimate debt and responsible lending. The round table on 14 April 2008 was attended by World Bank staff, African Development Bank staff, IMF staff, government representatives, academics and civil society representatives. The discussion aimed to respond to civil society groups' demands that the Bank initiate a more meaningful consultation process on the content of its recent draft discussion paper, “Odious Debt: Some Considerations” published in September 2007. Many CSOs and academics believed that the Bank paper was one-sided and missed many important arguments in support of the doctrines of odious and illegitimate debt. In March, Eurodad published its formal response to the paper:

www.eurodad.org/debt/report.aspx?id=114&item=02172

The round table represented an important step forwards in CSO efforts to engage institutions such as the World Bank in open debates on this issue. The strength of participation at the round table – including by representatives of many creditor governments – demonstrated that this issue is indeed important and of interest to a wide range of stakeholders. The Bank expressed a

general commitment to continue dialogue on this issue – which is welcome – but shied away from concrete commitments to further the debate at a technical and political level. These included CSO proposals for the Bank and a Southern CSO to jointly appoint an independent auditor to look in detail at a particular World Bank credit in order to assess its legitimacy according to a series of jointly agreed indicators. CSOs also asked the Bank to make sure its discussion paper and the round-table outcome report were passed to Bank management and Board for formal discussion, however no commitment was secured. Nevertheless, the Bank will host a conference on the issue of low-income country debt in October 2008. CSOs will be invited to attend the event and the Bank expressed a willingness to continue these discussions at that forum. Eurodad will post details of the event as soon as they become available.

The round table tackled technical legal issues, but also covered wider moral and political debates. The specific experiences of Nigeria, Norway, Philippines and Haiti were discussed. How to ensure responsible lending and borrowing in the future was also debated. Although there was general agreement that there are clear cases in the past of where loans have gone fundamentally wrong, there was less consensus on how to tackle the problem.

Some of the proposals presented by CSOs to address the problem of past mistakes included comprehensive debt audits to assess the (il)legitimacy of individual credits, fair and transparent arbitration procedures and a set of fair and equitable rules for future loans. Many officials argued that the focus should instead centre on ensuring responsible lending and borrowing behaviour in the future given the complexities of the problem. Moreover, there were already a number of international initiatives to deal with the problem of unsustainable debts such as the Paris Club forum and the HIPC and MDRI Initiatives. These had cleared substantial amounts of unsustainable – and in some cases questionable – debt from the books of the poorest countries. Looking forward, the Bank/Fund debt sustainability framework for low-income countries represented an important tool to prevent future debt difficulties, it was argued. While very few analysts would disagree with the imperative of preventing future rounds of illegitimate debt, many CSOs could not accept that this approach as sufficient and argued that it is currently the poorest countries who shoulder the burden of past mistakes alone.

A number of legal academics challenged the Bank's discussion paper on odious debt and argued that the Bank should have looked at the body of international law developed since the Second World War and assessed the legitimacy of loans according to whether they violated peremptory norms of general international law as agreed on by all 'civilised' nations (such as prohibition of genocide, torture etc.). Instead, the Bank paper assessed whether case law supported the doctrine of odious debt as proposed by Alexander Sack in 1927. Several academics mentioned that they would be submitting a formal response on the World Bank odious debt paper in the next couple of months. Eurodad will post details of this response as soon as it is available in order to further discussions on this critical topic.

In May, a more detailed official outcome report of the session will be issued by Eurodad and the World Bank. Eurodad would like to thank the organisers of the round table as well as all participants for their important contributions to this evolving debate. Eurodad members present included Jürgen Kaiser, Erlassjahr.de, Pol Vandervoort, 11.11.11, Jostein Kobbeldvedt, Norwegian Church Aid and Sarah Williams, Jubilee Debt Campaign UK. Eurodad hopes that this discussion represents the first of a series of open and frank debates on this issue between officials and CSOs.

In the meantime, for further information, see also:

<http://www.jubileedebtcampaign.org.uk/World%20Bank%20hosts%20illegitimate%20debt%20roundtable+4173.twl>

Seminar on structural conditionality at the IMF

Eurodad, together with the Bank Information Center (BIC) and Bretton Woods Project (BWP),

hosted a seminar on Structural conditionalities in the IMF in Washington last week. The seminar brought together representatives from the IEO, the IMF and civil society to discuss progress in the IMF in reforming its structural conditionality. Chaired by Bhumika Muchhala from BIC, presentations were made by Eurodad, the IEO, the IMF with a commentary from Peter Chowla of BWP. Lucy Hayes presented a new report by Eurodad which shows that there has been no change in IMF conditionality since the new conditionality guidelines were put in place in 2002. The average number of structural conditionalities has increased slightly from 12 to 13, and one third of these are in areas of sensitive economic policy. One quarter of the total are privatisation and liberalisation related conditions.

Ruben Lamdany, author of a new report by the IMF's Independent Evaluation Office, presented the findings from an in-depth report on the same issue published at the end of 2007. The report argues that the for conditionality to work there needs to be much broader ownership of reform than the narrow definition used by the Fund. Similar to Eurodad's report, the IEO finds little progress in streamlining conditions and that one third of conditions are still "in areas where the Fund has little or no expertise". The IEO has made a number of strong recommendations to the Fund for reforming its practice, few of which unfortunately have found much traction to date. These recommendations include streamlining conditions by putting a notional cap on the number of conditions to be attached to a given loan and only setting conditions in the area of its expertise. These were both rejected by the Fund Board. The one thing that the Fund has committed to doing is to publish its conditionality database (called MONA) on the Fund website, hopefully with retroactive data. This transparency will facilitate more independent analysis of the Fund's practice in this area, particularly if existing - rather than just new - data is published.

Juan Zalduendo from the PDR division of the IMF argued that 'conditionality is here to stay' although he conceded that some change in practice was needed. He argued that the problem is not conditionality, but rather that it needs to be applied more effectively. Given that the IEO found that conditionality is only really effective when there is already broad ownership in the country - begging the question why conditions need to be set in the first place - does the Fund really think it can apply ownership for its reforms?]

The lack of traction of the strong IEO recommendations in the Fund, highlight the need for greater campaigning by CSOs on this institution. At the same time, the seminar audience were clearly frustrated that so little has actually changed, despite the overwhelming evidence of the need for the Fund to reform the way it tries to push reforms in low income countries.

Critical conditions: The IMF maintains its grip on low-income governments
<http://www.eurodad.org/whatsnew/reports.aspx?id=2206>

US launch of Turning the Tables, new Eurodad report on Aid effectiveness

Experts from the Washington aid world convened at the German Marshall Fund in DC last week to discuss a new report drafted by Eurodad on aid effectiveness, Turning the Tables: aid and accountability under the Paris framework. This is a joint NGO report from Eurodad, Actionaid, CAFOD, CGG, FECONG, IBIS, RODADHHD, CNCD, Oxfam, Trocaire. This report finds that there has been piecemeal progress on implementing donor commitments to improve the quality of aid, particularly in terms of respecting principles of ownership and accountability. Presentations were given by Lucy Hayes from Eurodad and Viriato Tamele, from the Economic Justice Network in Mozambique, one of the case study countries of the Eurodad report. A response from the Deputy Vice Director of the Millennium Challenge Corporation, Sherri Kraham, gave some insights into how the US is addressing their commitments made in the Paris Declaration.

One of the positive aspects of the MCC is that none of the aid spent through this channel is tied, an unusual departure for the US. Whilst the money does not come with specific policy conditionalities, there is a heavy ex-ante selectivity process which favours countries with low

trade tariffs, as well as good governance criteria. And although country ownership is a stated priority of the MCC, Sherri Kraham recognised that this was one of their challenges. She said that whilst some people see it as a first priority, others see country ownership as subordinate to donor priorities.

A lively discussion focused on questions of conditionality, corruption, quality of technical assistance, donor support for CSOs and ownership, Unfortunately the USAID representatives did not intervene in the lively discussion to respond to some of the concerns raised by Eurodad and the Economic Justice Network.

The event was recorded by Voice of America and a short podcast interview was recorded with the which will be available on the GMF website shortly. www.gmfus.org

"Turning the Tables: aid and accountability under the Paris framework":
<http://www.eurodad.org/aid/report.aspx?id=124&item=02166>

Currency transaction taxes and responsible financing at the UN

The Special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development took place on Monday, 14 April 2008, at the United Nations Headquarters in New York. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus, including new challenges and emerging issues".

Civil society organisations were delighted to hear support for a currency transaction tax by the Secretary General in his opening statement to the council. He described the currency transaction tax as a "a minuscule tax that is not expected to materially affect market operations while having the potential to generate billions of dollars that can be allocated for development" and said that this type of tax could be best implemented in a cooperative manner by countries.

The need for a currency transaction tax was supported by Elena Gerebizza, from CRBM, who as one of the civil society representatives in the afternoon session raised this issue together with a call to address capital flight and tax havens. There was a lot of support for addressing capital flight from the Norwegian delegation, who are currently leading a taskforce on flight of illicit flows from developing countries.

The single round of applause for the day was reserved for Jo-Marie Griesgraber from New Rules for Global Finance, whose rounding intervention on the "pathetic" outcome of the IMF governance reform process. She eloquently rejected the claims from the Canadian Executive Director to the IMF that the minuscule shift of 2.7% of the vote to developing countries represented real change. The Canadian ED prefaced his remarks by stating that as a representative for a diverse group of countries, including Canada, Ireland and the Caribbean islands, his views could be seen as being objective!

Climate change and funding for climate adaptation was also on the agenda. It is estimated that between US\$28 and US\$65 billion extra will be needed to address problems caused by climate change. There were strong arguments from both panelists and representatives from the floor that these funds must be additional to existing ODA.

Eurodad presented its new Charter on Responsible Financing in the roundtable on Development Cooperation in Middle Income Countries. This diverse group of countries includes both creditors and debtor countries, and the issue of continuing debt burden being raised by a few of the latter.

The Secretary General has named two special envoys on Financing for Development for Doha.

These are Heidemarie Wieczorek-Zeul, German Development Minister and Trevor Emmanuel South African Minister of Finance

A number of statements made in both the plenary sessions and the roundtables are available on the UN website: <http://www.un.org/esa/ffd/ecosoc/springmeetings/2008/index.htm>

Aid and review of the Monterrey Consensus

As preparations for the Doha summit on Financing for Development gear up, UN member countries and representatives from civil society and the business sector came together in New York on Tuesday 15th and Wednesday 16th April for a review of the Chapter 4 of the Monterrey Consensus. This is one of several consultations that the UN has held in the last few months.

Tuesday's review session began with excellent panel presentations, which helped instigate a more interactive dialogue for the first part of the day. The discussion and subsequent statements focused on both aid quantity and quality issues. Considerable attention was paid to innovative sources of finance, in particular airline taxes. However there was a clear consensus that these innovative forms of finance have to be additional to ODA amounts. Concerns about the stagnating and even falling aid amounts from a number of donor countries were widespread.

Several representatives raised the concern of aid being still used to support foreign policy and economic interests of donor countries. These concerns were supported by an excellent panel presentation from Professor Sanjay Reddy in the morning.

Eurodad made a statement to the floor on the quality of aid, focusing on problems of conditionality, the reduction in the value of aid because of it being tied and spent on overpriced or poorly targeted technical assistance. Eurodad also raised the need for much more transparency, particularly from donors at the country level, and for a more accountable aid system.

A side event on "The role of aid in financing for development" took place the same day. Also on the panel were Ambassador Byron Blake, current chair of the G77, Mr. Ekhard Deutscher, chair of the OECD/DAC, a representative from the French Ministry of Foreign Affairs and Lucy Hayes from Eurodad. The debate was then kicked off with comments from Roberto Bissio, Socialwatch and Gigi Francisco, DAWN.

Presentations from the review session are available here:

<http://www.un.org/esa/ffd/doha/chapter4/index.htm>