THE WORLD BANK OPERATIONS EVALUATION DEPARTMENT

Innovation in the Sovereign Debt Regime: From the Paris Club to Enhanced HIPC and Beyond

Dr. Thomas M. Callaghy
Department of Political Science
Univertity of Pennsylvania
tcallagh@sas.upenn.edu
July 9, 2002

Director-General, Operations Evaluation: Gregory K. Ingram
Director: Ajay Chhibber
Manager: Victoria M. Elliott
Task Manager: Madhur Gautam, Senior Evaluation Officer

This paper is available upon request from OED.

2004
The World Bank
Washington, D.C.

ENHANCING DEVELOPMENT EFFECTIVENESS THROUGH EXCELLENCE AND INDEPENDENCE IN EVALUATION

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Contact:
Operations Evaluation Department
Partnerships & Knowledge Programs (OEDPK)
e-mail: eline@worldbank.org
Telephone: 202-458-4497
Facsimile: 202-522-3125
http:/www.worldbank.org/oed

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Executive Summary

This background paper provides a largely discursive examination of the evolution of the international sovereign debt regime in regard to heavily indebted poor countries, tracing changes from the normal operation of the Paris Club in the 1980s to the creation of the HIPC Debt Initiative in 1996, its revision in 1999, and finally to rising pressure to extend similar debt relief to other countries or significantly increase it. Along the way the paper draws issues, lessons, and implications from the evolution of this part of the international debt regime. Rather than summarize the evolution laid out in the paper, this executive summary will highlight some of the findings that have particular relevance to OED's process evaluation of HIPC.

At the core of this evolution is the broadening of the processes of international economic governance, especially the role of new actors and ideas and the institutional contexts that support them. The rise of HIPC, given previous practice, brought striking and important, but ultimately limited change, to the sovereign debt regime for a specifically designated group of countries for which more uniform rules were developed. The striking innovations included the systematic treatment of multilateral debt, developing the notion of debt sustainability, focusing debt relief on poverty reduction, and, in the process, quietly shifting the center of gravity of the debt regime from the Paris Club to the IMF and the World Bank, institutions that are more open and accountable than was the norm in past practice on sovereign debt.

These changes were brought about by a confluence of factors: (1) a slow and uneven learning by bilateral and multilateral creditors about the existence of group of states that were not benefiting much from structural adjustment, while greatly increasing their debt loads in the process; (2) the growing pressure, influence, and effectiveness of a new set of actors in international economic governance – networks of NGOs that believed the existing situation for these states was unjust and untenable and had new ideas and proposals of their own, plus a social movement to back them up; (3) the influence of a group of economists, both inside and outside creditor institutions, who provided knowledge, advice, and technical understanding on this issue; (4) the leadership of a group of small creditor states and eventually several members of the G-7; (5) new leadership at the World Bank that was more open to new ideas; (6) evolving views of the major creditor countries; and (7) eventually tough negotiation between all major creditor countries and institutions. The outcome was not inevitable, however: a change in one of two of these factors, such as different G-7 governments or leadership at the Bank, might have led to quite a different outcome.

This confluence of factors was wrapped around a central structural dilemma of our times -- the emergence of a group of weak states and economies that have not been able to benefit as easily or quickly from economic reform and democratization as elsewhere in the world. This dilemma poses important difficulties for the functioning and evolution of the international political economy and for international peace and conflict. The causes of this structural dilemma are many, complex, and very deeply rooted -- external trade patterns and other sources of shocks, heavy reliance on primary

commodities, weak formal economies and economic reform efforts, corrupt and oppressive governments with weak state capacities, civil conflict and war, environmental degradation, and disintegrating physical, health, and social infrastructure. All of this is reinforced by limited access to private international capital flows despite the implicit bargain with the Fund and the Bank that such access would sustain economic reform efforts.

The major path of the evolution of the treatment of sovereign debt was the move from debt collection, to debt rescheduling, to aid and structural adjustment, to debt "sustainability," to forgiveness and poverty reduction – what one official called the slippery slope of debt. The original aim of HIPC was to provide debt sustainability that would help to remove a major constraint on investment and growth and be a spur to further adjustment, in part by galvanizing increased private external investment. It is not at all clear that this is happening or would happen even if HIPC were broadened significantly. By the time enhanced HIPC had emerged, the focus had shifted quite exclusively to poverty reduction, which may not necessarily be the most effective way to attack the structural dilemma of these countries.

By enhanced HIPC there was a very clear sense that the process had acquired multiple objectives, but still had only one instrument. The objectives included debt sustainability, regularization of relations with creditors, poverty reduction, and, as a result of these objectives, growth. There was also an increasing perception that debt relief was but one part in a much larger picture, one that needed to be dealt with for real debt sustainability to be achieved. Real and significant tensions remain. There are two main ways to respond to the charge that HIPC is not dealing sufficiently with growth issues: [1] that the PRSPs are really about growth, and [2] that growth is being handled by the Fund, the Bank, and the "donors" in ongoing structural adjustment work, especially via PRGFs. Neither response is satisfactory.

On the positive side, if fully implemented, the PRSP process of enhanced HIPC might foster the rise of stronger civil societies in these countries and have a positive impact on democratization processes. This may not, however, facilitate economic reform efforts sufficiently strong to make a major dent in the structural dilemma, unless the process greatly increases the legitimacy of governments firmly committed to major economic reform ***and*** countries have sufficient resources to invest in growth-related activities and better trade access. As structured now, enhanced HIPC will not be of much help in this regard. It is more akin to an exercise in international triage.

Many of the ideas inherent in HIPC were proposed by Southern states during the New International Economic Order (NIEO) events of the late 1970s and early 1980s, but nothing came of this intense state-to-state bargaining. One of the striking things about the rise of HIPC was precisely the fact that the debtor states were not a major driving force behind the innovation. Rather it was made possible by the NGOs shifting the battle into the domestic political arenas of the OECD industrial democracies and by creditor learning. The weak power position of the debtor states and the concomitant strong influence of the NGOs helps to account for the fact that HIPC eventually became focused almost exclusively on poverty reduction and not on larger developmental concerns.

HIPC is not a magic bullet, and expectations have been raised to dangerous levels. Debt is not a cause of the structural dilemma, but rather one of its symptoms. Given this, ameliorating or solving HIPC debt problems will not by itself solve the structural dilemma. Only significant economic reform, reinforced by international changes such as increased trade access, will attack the structural dilemma in any major way. It will take a multi-front assault, both national and international. While HIPC will not solve the structural dilemma, it may be one important aspect of an attack on it, but only one. At the same time, focusing the thrust of HIPC too exclusively on poverty reduction rather than on fostering economic growth and transformation may well only prolong the structural dilemma. The NGOs have never adequately explained how they can square this circle. In this sense, PRGF programs will have to work much better if debt relief is ever to lead to sustainable and productive debt levels. This is something many NGOs still resist, however, as they focus on the poverty reduction aspects of HIPC while calling for higher levels of debt relief. Improving PRGF performance, and Bank support efforts, may well be where the real task lies.

The notion of debt sustainability has been a very contentious one, and there is a need to demystify the debt sustainability analysis process. Major battles have been fought over what it actually means and how it might be measured and applied. It turns out to be an analytically difficult, often ambiguous, and manipulable, hence political, notion. The HIPC process has not fully removed the ambiguity of debt sustainability even for this set of countries, especially given the pressure to alter existing uses of it that comes from multiple sources – the countries themselves, their creditor patrons, creditors who firmly believe in more generous debt relief, and from NGOs and their social movements. Debt sustainability is, and is likely to remain, a hotly contested issue.

Until the emergence of HIPC, the major creditors responded with relatively ad hoc tinkering. HIPC brought more uniform rules for this ring-fenced group of countries, but the rules were bent beginning with the very first case. A striking evolution of the rules has taken place. There has been considerable flexibility in implementing them due to the varying situations of the debtors, political considerations among the major creditors, and pressure from a variety of other sources, but particularly the NGOs, for greater relief. Given past practice in the debt regime, flexibility should not be surprising, and it may well be a good thing if pursued for right reasons.

The NGOs and their allies have reshaped international economic governance processes in regard to debt, and possibly set patterns for other issues as well. It remains to be seen, however, if they have shaped them in the most effective form. A key continuing challenge for the Bank and the Fund will be to balance these new forces of influence with their own hardheaded analysis about the best way to tackle a problem. The political task of the Bank and the Fund is to remain open to dialogue while convincing others that they have viable and efficient solutions to problems. This outcome will be better served by engagement rather than unilateralism. This is not to say that engagement will be easy or fun; it will certainly be messy and often highly political. But that comes with the turf.

The very fact that HIPC is proving not to be a magic bullet for the HIPCs and that new challenges are emerging in other parts of the world means that pressure to make HIPC more generous and to extend similar treatment to other countries will mount, especially in regard to multilateral debt. This constitutes the HIPC slippery slope. It will not be easy to draw clear lines; it will be analytically difficult and frequently political. Much of the politics will, of course, as it has since the creation of HIPC, revolve around funding and burden sharing issues. In addition, other issues that stalked HIPC from the beginning will continue to do so. These include moral hazard, structural adjustment conditionality, the very complexity of the process, the uses to which debt relief will be put, track record, and the ability of HIPC countries to use debt relief effectively. Also at issue is the problem of creating new debt with the lending that is an inherent part of the HIPC process and with borrowing that may take place to increase poverty reduction efforts because high expectations might lead to political problems or borrowing to engage in growth activities not allowed by the current HIPC focus on poverty reduction.

The ultimate dilemma of HIPC is a larger political one. Since it is but one part of a much larger development context, growth is central to the effort to achieve viable debt sustainability, and on the international side the key growth issue is trade access to the OECD countries. The NGOs have now clearly realized the importance of this issue and have begun to work on it. They succeeded with debt by bringing it into the domestic political arenas of the OECD, a process quite different from the one that led to the failure of the NIEO endeavor. The NGOs are likely, however, to find their task much more difficult with trade precisely because their efforts impinge directly on very sensitive and powerful domestic political interests in the “donor” countries in ways that did not happen with debt. Yet they are correct that trade is central, and the World Bank and IMF agree. What is needed is not just debt triage but increased trade access. Here the concerns of those who worry about the political underpinnings of globalization come into play: will the major industrial democracies be able to adjust their own domestic politics so that the larger and very important changes in the trade regime can be made? Given past track record and current events, serious doubt exists. If debt relief is to mean anything, the issues of growth and trade must be tackled. Necessities, however, often do not become realities. Getting HIPC has been hard enough, and it was a very political process. The politics of trade will be much more difficult. The worriers have a right to be concerned – the political underpinnings of international economic governance are central and may well not be up to that task.

I. Introduction

This paper examines the evolution over time of international economic governance in regard to the issue of poor country sovereign debt. It demonstrates how the existing procedures changed over time and how new ideas and new actors in the system, in interaction with established public actors and processes, have managed to alter the rules of the game with the intent of ameliorating unsustainable debt burdens and stark poverty. The sources of change are examined, as are obstacles to it. The paper attempts to demonstrate how the once unthinkable – comprehensive treatment of poor country debt, including multilateral debt --became reality, became imaginable and concrete, if far from adequate. Both the elasticity and limits to mechanisms of international economic governance are analyzed.[1]

The introduction of this background paper briefly discusses the debt crises of the 1980s and 1990s, new challenges that might effect the ongoing evolution of the sovereign debt regime, and the central importance of structural adjustment in managing all of these crises. The paper examines the principal changes in the sovereign debt regime using the notion of a triple helix of international economic governance consisting of three strands of actors and processes and the complex interactions between them. After discussing the structural dilemma of poor, weak states that is at the core of this evolving governance structure, each of the three strands of the triple helix is sketched: (1) the official agencies and processes of the international debt regime, (2) NGO transnational advocacy networks on debt, and (3) a more amorphous epistemic community of economists interested in debt and development. The paper then demonstrates the ongoing evolution of governance processes on debt by recounting four interrelated stories while drawing lessons from them. The first story is a prelude -- how Uganda led the way in creating an innovative Multilateral Debt Fund to cope with its severe debt problems. The second story is the creation of a major new international initiative on poor country debt -- the Heavily Indebted Poor Country Debt Initiative [HIPC] -- in the mid 1990s. The third story is the transformation of the HIPC debt mechanism into the enhanced HIPC Debt Initiative [EHIPC] with its heavy focus on poverty reduction. The paper concludes with a discussion of the tensions in the sovereign debt regime created by the emergence of HIPC and new challenges that have arisen since its revision in 1999, especially the pressure to

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[1] This background paper deals only with sovereign debt owed to country creditors and the primary international financial institutions. In addition to collected documentation, the paper is based heavily on confidential interviews with officials from the IMF, the World Bank, the US, British, French, and several African governments, and representatives of NGOs working on debt, conducted in Washington, New York, London, Dublin, Paris, Berkeley, and Brussels between September 1997 and March 2002. It also draws on Thomas M. Callaghy, "Networks and Governance in Africa: Innovation in the Debt Regime," Intervention and Transnationalism in Africa: Global-Local Networks of Power, Thomas M. Callaghy, Ronald Kassimir, and Robert Latham, eds. (Cambridge: Cambridge University Press, 2001), pp. 115-148, and an unpublished paper: Thomas M. Callaghy "The Paris Club and International Economic Governance: Double Crises and Debt," November 20, 2001.

expand HIPC-like processes to other debtors -- what might be called the HIPC slippery slope.

A. Sovereign Debt Crises in the 1980s and 1990s

Just before the outbreak of the Third World debt crisis in 1982, Charles Lipson, a leading American specialist in international political economy, published an influential article arguing that the international regime on sovereign debt was distinctive among international regimes because it lacked a major role for states.[2] Lipson argued that debt relief was largely a market driven process focused around the operations of the major international bank lending syndicates as they carried out debt restructuring operations via a mechanism that had come to be called the "London Club."[3]

But then Mexico exploded the Third World debt bomb in August 1982, leading to major fears about the stability of the international financial system. The immediate crisis was dealt with expeditiously as the underlying state-centric nature of the international financial system, precisely what Lipson had missed, kicked in. The International Monetary Fund [IMF], the World Bank, and the major states, via their finance ministries and central banks and with the help of the Bank for International Settlements, put together a rescue package that kept the international financial system from crashing. Another, much less well known informal international organization – the "Paris Club" – also played an important role. On June 23, 1983 it rescheduled Mexico's sovereign debt owed to major creditor countries. As the debt and structural adjustment regime developed rapidly, based on pre-existing roots from the late 1950s through the 1970s, the Paris Club continued to play a central role, as, in fact, it had since its origins in the 1950s. The Paris Club did not feature in Lipson's 1981 article, but should have -- an omission he corrected in a subsequent article.[4]

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[2] Charles Lipson "The International Organization of Third World Debt," International Organization, 35/4 (Autumn), pp. 603-31.

[3] The London Club is an informal ad hoc mechanism or forum through which private banks negotiate sovereign debt workouts with debtor countries; these negotiations are conducted by a set of lead banks representing the lending consortia, often consisting of 100-200 banks. For a brief comparison of the Paris and London Clubs, see Christine A. Kearney, "The Creditor Clubs: Paris and London," Dealing with Debt: International Financial Negotiations and Adjustment Bargaining, Thomas J. Biersteker, ed. (Boulder: Westview Press, 1993), pp. 61-76. It is interesting to note, given all the activity around official or public sovereign debt related to HIPC, that the issues of sovereign debt owed to private actors is now very much back on the table with the Private Sector Initiative [PSI] and the recent discussion of some form of international bankruptcy or restructuring procedure. See, for example: IMF, "Involving the Private Sector in the Resolution of Financial Crises --The Treatment of the Claims of the Private Sector and Paris Club Creditors -- Preliminary Considerations," June 27, 2001, and an address by Anne Krueger, "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring," November 26, 2001, Washington, D.C.

[4] Charles Lipson, "Banker's Dilemma: Private Cooperation in Rescheduling Sovereign Debts," World Politics, 38/1 (October 1985), pp. 200-25; it is ironic that the Paris Club should be put back into the equation in an article with this title.

The debt crisis that exploded in 1982 preoccupied major states, international organizations, and banks into the early 1990s when it was finally declared to be under control via structural adjustment and the Baker and Brady Plans. This assessment was accompanied by considerable self-satisfaction among Western officials. The explosion of the debt crisis in 1982 appeared to be an unexpected, era shaping event that shook the world. In his new official history of the IMF in the 1980s, James Boughton argues that 1982 was, in hindsight, a far more important watershed than the events of 1973 that lead to the breakdown of what I call Bretton Woods North.[5] In fact, I would argue that the Third World debt crisis actually began in Africa in the mid 1970s, specifically with Zaire's first Paris Club rescheduling in 1976. Once again called the Congo, it is now a conflict-ridden and much battered HIPC, one that is currently ineligible for HIPC debt relief. The African story simply went unnoticed. I would also argue that the processes, norms, and institutional and personal ties that developed in the late 1970s and early 1980s in regard to Africa, facilitated the speed and efficiency with which Mexico's crisis was handled in 1982. What I call Bretton Woods South had been developing quietly since the 1950s, consisting of the increasingly interlinked activities of the IMF, the World Bank, and the Paris Club. By 1977 when Britain became the last major industrial democracy to borrow from the IMF, Bretton Woods North had essentially ceased to function as a major system influencing the behavior of OECD countries among themselves. Instead, Bretton Woods increasingly became a system to "govern" the "developing" world or Bretton Woods South.

As it turned out over the 1990s, the demise of the debt crisis proved not to be true for many of the world's states, a fact that lead to the rise of the Heavily Indebted Poor Countries Debt Initiative in 1996 and its revision in 1999 as enhanced HIPC. The 1990s were, of course, the first decade of the post-Cold War world and saw the emergence of a new group of countries that needed to be integrated into the international political economy – the "transition" states of the former Second World. A number of these states now have HIPC-like characteristics, and, as we shall see, have sparked renewed debate about sovereign debt relief.

Yet the 1990s proved to be far more challenging than expected after the end of the Cold War. A major financial crisis hit Mexico again in late 1994 and spilled over into 1995. Despite early fears of contagion, the major damage was quickly and successfully confined to Mexico. At the annual meetings of the IMF and the World Bank in Hong Kong in 1996, the Fund's Managing Director, Michel Camdessus, announced with confidence that the world now had a financial governance structure that could prevent or cope with any future crises. How wrong he was. About a year later, the Asian economic crisis began in Thailand in July 1997 and spread with stunning speed and intensity, with spillover effects that aggravated Russia's economic meltdown in 1998 and threatened Brazil with major crisis. These crises were predominantly economic in nature, with some strategic implications. They were not, however, accompanied by major armed conflict anywhere in the world. By 2000, many believed that the world had survived this crisis as

[5] See James Boughton, Silent Revolution: The International Monetary Fund, 1979-89 (Washington, D.C.: IMF, 2001).

well, although the major international financial institutions had taken a major public beating. The first decade of the new millennium, however, may yet prove to be equally challenging, creating pressures that will likely further modify the sovereign debt regime.

B. New Challenges and Further Evolution

The year 2001 started off quietly, although worries were mounting rapidly about the economic health of OECD industrial democracies. In retrospect, March 2001 was the beginning date of a U.S. recession. Yet this was also accompanied by serious economic difficulties in Japan and increasing signs of possible recession in much of the industrial world. This posed potentially dangerous spillover effects for large parts of the world, particularly falling commodity prices that are so damaging to fragile, low-income country economies. Signs of weakness were appearing again in some of the Asian crisis countries that had recovered relatively well since 1997, while Indonesia continued in economic and political crisis. This general economic malaise by itself might well have posed major debt difficulties for an important number and range of countries.

Then came the events of September 11, 2001 [9/11] in the United States, which led to major armed conflict in Afghanistan with significant effects on Pakistan and parts of Central Asia, not to mention potential problems in India and the Middle East. President George Bush declared the U.S. to be in a virtual state of war, one to be fought on many fronts. The economic effects of September 11, both on the U.S. and other countries, increased the chances of a generalized OECD, and possibly, global recession. In addition, by early 2002, a major political and strategic crisis was brewing in the Middle East.

For the first time since 1982 the world may have systemic challenges on its hands, but this time ones that are simultaneously economic and geo-strategic in nature, and possibly self-reinforcing. A key question that emerges from this conjuncture of events and forces is: are the structures of international economic governance equal to the task? Can the major OECD countries manage the economic relations between themselves while maintaining the efficacy of the mechanisms of Bretton Woods South -- especially the IMF, the World Bank, the Paris Club, and now EHIPC -- in dealing with the quite varied countries of the "developing world"? Will new economic, political, and strategic crises lead to further evolution in the sovereign debt regime?

C. Structural Adjustment: A Response to Crisis

One of the most dramatic, systematic, and intrusive forms of external intervention in developing, especially very poor, countries over the last two decades has been what is usually referred to as "structural adjustment"-- the efforts of the International Monetary Fund, the World Bank, and the major OECD governments to get countries to reform their economies in significant ways. Structural adjustment has been tightly linked to the issue of debt and is seen by the powerful international actors as the way to reverse the decline and marginalization of these states as globalization of the world economy accelerates. Many of these developing countries, however, have seen structural adjustment, with its high and detailed levels of conditionality, as a major threat to their sovereignty and politically dangerous. They have often resisted it through the passive strategies of what I have called the ritual dances of reform.[6] The result has been increasingly weak, sometimes failing states. In addition, an important new force in international economic policymaking -- transnational advocacy networks of non-governmental organizations (NGOs) and the social movements they create – see structural adjustment and the increased debt linked to it as increasing poverty rather than reducing it.[7]

One of the primary results of structural adjustment has been rising levels of external debt. It is mostly "official" debt owed to major Western countries, the International Monetary Fund, and the World Bank. Since the late 1950s bilateral debt has been restructured by creditor countries organized into the mechanism that came to be known as the Paris Club, while multilateral debt could not be rescheduled. The Paris Club became the core of the international debt regime for official debt--that is, the actors, norms, processes, and mechanisms focused around countries unable to service their bilateral debt. As will be shown below, the practices of the international debt regime evolved in important ways over the 1980s as it became increasingly clear that many poor countries, for whom structural adjustment worked least well, were usually unable to cope with their mounting debt loads, slowing development and accelerating poverty in the process.

The rising debt burden of poor countries, most of which were African, thus became an increasing concern of key actors in the international arena--some creditor countries, agencies of the United Nations system (UNCTAD in particular), a wide-ranging group of NGOs, and, of course, debtor countries themselves. During the New International Economic Order [NIEO] negotiations of the late 1970s and early 1980s, debtor countries insistently demanded more generous relief of sovereign debt, a simplified debt restructuring process, including generalized norms, and special treatment for the poorest debtor countries. In short, they wanted a reform of international governance processes on sovereign debt, especially the case-by-case norm. None of this, however, came to pass as a result of the struggle for the NIEO. Yet by the late 1980s, the Paris Club countries began slowly and incrementally to offer more generous (the debtors would say less onerous) terms for its poorest debtors, and occasionally for some of its biggest and most strategically important debtors (Poland, Egypt, Russia, and Indonesia[8]). By the end of the 1990s, however, the debt regime for poor countries had changed dramatically, first with the advent of the Heavily Indebted Poor County Debt Initiative in

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[6] See Thomas Callaghy and John Ravenhill, <u>Hemmed In: Responses to Africa's Economic Decline</u> (New York: Columbia University Press, 1993).

[7] See Margaret E. Keck and Kathryn Sikkink, <u>Activists Beyond Borders: Advocacy Networks in International Politics</u> (Ithaca: Cornell University Press, 1998). See below for additional discussion of the views of NGOs about structural adjustment.

[8] On Indonesia see Thomas M. Callaghy, "The Vagaries of Debt: Indonesia and Korea," Gregory Noble and John Ravenhill, eds., <u>The Asian Financial Crisis and the Structure of Global Finance</u> (Cambridge: Cambridge University Press), pp. 213-34.

1996 and then a major revision of it in 1999, creating the enhanced HIPC Debt Initiative. How did this happen and why?

II. Change in the Debt Regime: The Triple Helix

The sources of change in the debt regime lay elsewhere than in the North-South state-to-state bargaining of the NIEO. They lay in the complex and uneven relations between some of the actors in the international debt regime (select creditor governments and the World Bank); in the activities of NGOs focused on debt, constituting what have been called principled-issue networks with their largely normative discourses and evolving capacities; and in fragments of an epistemic community of economists and other scholars who work on development issues, some of whom have played key roles as consultants and advisers to actors on both sides of the battles over debt. These three sets of actors have constituted a triple helix of relationships, of connections, which have led to important but still limited innovation in the way the sovereign debt regime functions.

The three strands of the triple helix--the official agencies and processes of the international debt regime, the NGO debt networks, and the epistemic community -- are wrapped around a central structural dilemma of the international political economy (see below) to which actors in the three strands have reacted in varying ways. The driving force for change in the governance of official debt has been the synergy between various forms of power of and over key institutions such as the World Bank, evolving knowledge and understanding about the nature and consequences of debt burdens, and discourses about the inherent appropriateness of debt and existing debt relief mechanisms – all as they interacted with the underlying structural dilemma. Each of the strands has used its power, knowledge, and discourses to alter or retain the overall pattern of governance of official debt. The actors of the international debt regime reacted haltingly and unevenly as they slowly came to the realization that something had to be done about the structural dilemma despite its apparent lack, until 9/11 at least, of major geostrategic importance. This realization was fostered, forced to the fore, by the networks of NGOs working on debt and development that deployed an increasingly coherent moral discourse about social purpose, especially in regard to equity and poverty reduction, which was meant to gain representation and accountability for the people of heavily-indebted poor countries.

This NGO discourse was backed by a growing social movement and by progressively more sophisticated knowledge about the technicalities and functioning of the international regime for official debt. The NGOs were assisted by sympathetic fragments of the epistemic community of economists, mostly but not exclusively by those outside the institutions of the international debt regime. Some of those inside the organizations of the international debt regime accepted or were influenced by the content of the moral discourse. These and "outsider" economists -- mostly academic -- used their technical knowledge of economic theory, debt, rescheduling, and the operations of the international financial institutions to propose alternative mechanisms, norms, and practices to tackle what they perceived to be the underlying problem of official debt, especially that owed to the IMF and the World Bank. In the process, both groups of economists contributed to and were influenced by the moral discourses on debt and development of the NGOs. Loose, mostly informal, networked connections were established between the three strands of the triple helix, which pushed the evolution of the governance structures as the synergy between various forms of power, knowledge, and discourse interacted with the underlying structural dilemma of countries making little progress on structural adjustment. The triple helix of governance on official sovereign debt helped both to reproduce existing national and international structures for dealing with debt and to alter them in important ways. The result was a complicated new debt relief mechanism – HIPC -- that built on existing structures and was the result of a series of political compromises.

A key implication of this argument is that governance on debt was shifted haltingly and unevenly beyond the largely state- and international financial institution (IFI)-centric strand of the international debt regime. Over time, despite the absence of major positions of structural power, the NGOs and the sympathetic fragments of the epistemic community have grown in strength and influence. The result has been a much more complex web of international economic governance--one rooted in the democratic nature of the world's highly industrialized democracies in which NGOs and their social movements can thrive, and one strikingly different from the pattern of the early Bretton Woods era. Given a relatively healthy global economy and the absence of major war, such helix-like structures across a variety of issues may slowly weave more coherent lattice-like structures of international economic governance. At the same time, given the power structures of the international state system and the growing power of global markets, distinct limits to elasticity and change continue to exist. A striking aspect of this story is the relatively small role played by the debtor states themselves in bringing about changes in the debt regime. While not completely passive, as we shall see below with Uganda, the debtor states were not a direct driving force behind the changes. In short, they did not constitute a fourth strand of the helix. They were weak during the NIEO debates about debt in the late 1970s and early 1980s, and they remained weak in the 1990s during the debates about HIPC. Their impact was largely indirect, coming via increased perception of the structural dilemma by major creditors, as accelerated by the NGOs. This weak power position of the debtor states helps to account for the fact that HIPC eventually became focused almost exclusively on poverty reduction and not on larger developmental concerns. It is to the structural dilemma that we now turn.

A. The Structural Dilemma

A central structural dilemma of our times is the emergence of a group of weak states and economies that have not been able to benefit as easily or quickly from economic reform and democratization as elsewhere in the world. This dilemma poses important difficulties for the functioning and evolution of the international political economy and for international peace and conflict.

By the early 1990s it had become increasingly clear that many of the poorest states that came before the international regime for official debt had insolvency rather than liquidity problems. This was a realization that was a long time in coming because it did not pose a major short-run threat to the stability of the world economy. It emerged first in Africa, signaled by Zaire's first rescheduling in 1976, but went largely unnoticed until the mid 1980s. By 1996 the IMF and the World Bank had designated 41 of their members as "heavily indebted poor countries" (HIPCs) whose debt was not likely ever to be repaid in full. Of the 41, 33 were from Sub-Saharan Africa.[9] The debt of these countries, mostly public or official rather than private, rose from $55 billion in 1980 to $183 billion only a decade later and to $215 billion by 1995 or more than twice their export earnings. Most of the HIPCs have high levels of poverty, limited domestic resources, and weak state capabilities. In effect, they come close to constituting a semi-permanent group of states on the margins of the globalizing world economy. All but six fall into the United Nations Development Program's lowest human development category. According to Oxfam, these countries are in a vicious circle of economic and social decline.[10]

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[9] The original 41 included Nigeria. It was later dropped, and the Gambia was added. There are now 42 HIPCs with the recent addition of the Comoros, making 34 African countries.

[10] See Oxfam International, "Poor Country Debt Relief: False Dawn or New Hope for Poverty Reduction?" Washington, D.C.: Oxfam, April 1997. For data provided in this section, see Anthony R. Boote and Kamau Thugge, "Debt Relief for Low-Income Countries and the HIPC Initiative," IMF Working Paper 97/24, Washington, D.C., International Monetary Fund, March 1997; World Bank, *Global Development Finance 1997, vol 1: Analysis and Summary Tables* (Washington, D.C.: World Bank, March 1997); and Oxfam, "Poor Country Debt Relief."

Figure 1

HIPC Countries

Africa (34 Countries):

Angola	The Gambia	Rwanda
Benin	Ghana	Sierra Leone
Burkina Faso	Guinea	São Tomé and Príncipe
Burundi	Guinea-Bissau	Senegal
Cameroon	Kenya	Somalia
Central African Republic	Liberia	Sudan
Chad	Madagascar	Tanzania
Comoros	Malawi	Togo
Congo	Mali	Uganda
Congo, Dem. Rep.	Mauritania	Zambia
Côte d'Ivoire	Mozambique	
Ethiopia	Niger	

Latin America (4 Countries):

Bolivia	Honduras
Guyana	Nicaragua

Asia (3 Countries):

Lao, Peoples Dem. Rep.	Vietnam
Myanmar (Burma)	

Middle East (1 Country):

Yemen, Rep. of

Source: World Bank

In sharp contrast to other developing countries, the HIPCs have weak economic growth and export performance. Average gross domestic product growth for 1985-90 was 2.2 percent and fell to only 1.0 percent for 1990-95. In 1993, 32 of them had gross national product per capita figures of $695 or less, debt to exports ratios higher than 220 percent and/or debt to gross national product ratios of more than 80 percent. More than half often had annual debt service due of more than 20 percent of government revenue. The debt payments of Zambia and Nicaragua, for example, used one of every two dollars received in aid, which diverted scarce resources from both economic reform and poverty reduction. Between 1980-96 all but four of the HIPCs had Paris Club reschedulings, with an average of four each and on concessional terms, including some debt forgiveness. Existing procedures clearly were not leading to sustainable and productive debt levels. Since 1982 most middle-income debtors had improved their situations significantly enough to reenter the international capital markets. By December 1996 only four middle- and lower-middle income countries had Paris Club rescheduling agreements. At the same time, many of the HIPCs were being marginalized at a rapid rate. This is not to imply, however, that HIPCs are necessarily consigned permanently to marginalization. As we will see with Uganda, a few of them have made remarkable progress. Examples, fragile as they are, include Bolivia, Ghana, Tanzania, and, more recently, war-ravaged Mozambique despite its debt payments being more than double its combined health and education budgets.

The causes of this structural dilemma are many and complex -- external trade and other shocks, heavy reliance on primary commodities, weak formal economies and economic reform efforts, corrupt and oppressive governments with weak state capacities, civil conflict and war, environmental degradation, and disintegrating physical and social infrastructure. All of this is reinforced by limited access to private international capital flows despite the implicit bargain with the IMF and the World Bank that such access would sustain economic reform efforts. A number of these countries are failed or failing states--Somalia, Liberia, Sierra Leone, Chad, Cameroon, Central African Republic, and both Congos.[11] Some have ongoing civil strife -- Liberia, Rwanda, Burundi, Sudan, Congo-Kinshasa, Uganda, and, until recently, Angola. Even some HIPCs with major resources are in serious trouble, Angola and Sudan, for example. By 1999 Nigeria was no longer a HIPC, although it desperately wanted back in, insisting that it should be part of its "democracy dividend."

It should not be forgotten that state capabilities vary enormously in the international system. The structural disadvantages of HIPC debtors have been seriously

[11] See William Reno, "International Actors and the Transformation of Decaying African States: 'Greater Liberia' and Zaïre," paper presented at the APSA meetings, New York, September 1994; Corruption and State Politics in Sierra Leone (Cambridge: Cambridge University Press, 1995); Warlords and African States (Boulder: LRP, 1998). Also see, Jeffrey Herbst, "Responding to State Failure in Africa," International Security, 21/3 (Winter 1996-97), pp. 120-44; and Christopher Clapham, Africa and the International System: The Politics of State Survival, (Cambridge: Cambridge University Press, 1996).

aggravated by their poor state capabilities, resulting in poor performance in attempted economic reform and at the Paris Club. As a result, some countries hired merchant banks and even international law and public relations firms to represent them, leading to uneven outcomes and very interesting politics. These weak state capabilities need to be taken very seriously, as levels of stateness will be one of the major determinants of reconfigured global hierarchies. HIPC has included efforts to increase the capabilities of these states to management their debt, as seen, for example in the new regional training centers being created by the IMF in Africa.

A key characteristic of the structural dilemma is that structural adjustment efforts have not, with only a few exceptions, been very successful, certainly not as a way to lessen debt sustainability problems and restructure economies. The history of structural adjustment in the HIPCs has been one of slow and uneven learning, but it is not at all clear that there is a coherent, viable alternative, much less resources to fund it.

Quite varying views about the impact of structural adjustment have been at the center of the debates about poor country debt burdens. Many NGOs argue emphatically that structural adjustment has made these countries poorer and has prevented successful economic reform efforts. Some NGOs go as far as to call for the abolition of structural adjustment altogether and even the IMF and the World Bank themselves. Many more NGOs, while rejecting structural adjustment, seek to alter the way it works, often in quite fundamental ways. Others have grudgingly accepted the continued existence of structural adjustment, while trying to modify it.[12]

The reasons why the impact of structural adjustment in the HIPCs has been modest -- certainly much more modest than the IMF, the World Bank, and the major creditor states expected -- are quite complex. They have to do with the very nature of these primary-product export economies and the level of poverty attached to them, with states that have very low administrative and technical capabilities, with governments that are not committed to major economic reform or that find it very difficult to do politically. Despite the views of many NGOs to the contrary, no major counterfactual to structural adjustment currently exist.[13] This is a major reason why the structural dilemma of the HIPC countries is so powerful and why even very significant debt relief is not likely to sufficiently increase the flow of private investment to the HIPCs – a failure of the implicit bargain noted above.[14] Debt is not a cause of the structural dilemma, but rather

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[12] For a recent example of such views, and the policy conclusions drawn from them, see Russell Mokhiber and Robert Weissman, "IMF and World Bank: Out of Control," from "stop-imf@lists.essential.org" stop-imf@venice.essential.org, May 15, 2002.

[13] This is not to say that nature and relationships of its various components cannot be modified while maintaining the coherence of the overall effort – the nature, degree, and time of trade liberalization, for example.

[14] This is precisely why we titled our 1993 book Hemmed In: Responses to Africa's Economic Decline. It has a much more extended discussion of these issues.

one of its symptoms. Given this, ameliorating or solving HIPC debt problems, will not solve the structural dilemma. Only significant economic reform, fostered by international changes such as increased trade access, will attack the structural dilemma in any major way. It will take a multi-front assault, both national and international. In short, HIPC will not solve the structural dilemma, although it may be one important aspect of an attack on it. At the same time, as discussed below, focusing the thrust of HIPC too exclusively on poverty reduction rather than on fostering economic growth and transformation may well only prolong the structural dilemma, not solve it. The NGOs have never adequately explained how they can square this circle. In this sense, PRGF programs will have to work much better if debt relief is ever to lead to sustainable and productive debt levels, something many of the NGOs still resist while they focus on the poverty reduction aspects of HIPC.

B. The International Sovereign Debt Regime

The international debt regime has largely been a state-centric network of governance, focused on creditor states and the IMF and World Bank, and constitutes a major phenomenon of our era, one that emerged quietly over four decades. Laws and regulations are still enforceable almost exclusively at the national level or through structures, international or otherwise, that are supported primarily by national mechanisms of agreement, constraint, and finance. These processes create flexible networks of coordination that constitute forms of cooperation and regulation based on the interaction of officials with similar concerns and often similar normative frameworks and background, and they lead to increasingly dense arrangements of largely voluntary cobinding.[15] The official networks are, however, not free from conflict or larger configurations of power; they are largely rooted in the imposing power structures and hierarchy of the liberal capitalist democracies of the OECD. Their reach is certainly global, if not always bindingly so. From such official networks emerge new ways of coping with complex problems, often without formally legislated outcomes at either the national or international levels.[16]

These ongoing international governance networks of cooperation and response can be considered even less accountable than national structures, although legislatures, national civil societies, and international NGOs are devising increasingly better forms of oversight, transparency, and accountability and are attempting to infuse them with more of a sense of global social purpose and responsibility. These official networks, with their multi-governmental core, are major arenas for the activities of both international and

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[15] On cobinding, see John Ikenberry and Daniel Deudney, "The Logic of the West," World Policy Journal (Winter 1993/94).

[16] On regimes, see Stephen J. Krasner, International Regimes (Ithaca: Cornell University Press, 1983). Also see, James Caporaso, "International Relations Theory and Multilateralism: The Search for Foundations," International Organization, 46/3 (Summer 1992), pp. 598-632; and Martha Finnemore, National Interests in International Society (Ithaca: Cornell University Press, 1996). Also see, John Gerard Ruggie, "What Makes the World Hang Together? Neo-Utilitarianism and the Social Constructivist Challenge," International Organization, 52/4 (Autumn 1998), pp. 855-85.

non-state actors, all of whom operate wherever they believe they will have the most success. They are, in effect, transgovernance networks, and they reflect the reach and the limits of supranational, national, and market structures.[17]

The official networks of international economic governance include hybrid "intersection institutions" or structures such as the Basle Committee on Banking Supervision, the Bank for International Settlements, and the Paris Club of creditor states; the latter is a prime example of the richness and ambiguities of international economic governance processes.

The Paris Club

Given the striking changes of the last six years, it is important to remember that considerable institutional fluidity in the treatment of sovereign debt has existed over time. Considerable flux existed well into the 1970s. HIPC did not alter patterns that had been fixed in stone for decades, one reason France fought so hard to protect the Paris Club in the battles over the emergence of HIPC. A number of important debt reschedulings were not conducted by the Paris Club; in fact, some early ones were done under IMF auspices. In 1965 there was a major battle over whether the IMF should organize and chair bilateral debt reschedulings. The Bank was suggested from time to time as well. To the dismay of the French, both institutions were open to such suggestions. In fact, the dominance of the Paris Club mechanism was not fully assured until about 1980, to be reinforced strongly by the Third World debt crisis that began in 1982. As late as 1978, debtor states put forward a major proposal that the IMF rather than the Paris Club should handle bilateral debt workouts. This did not happen, but some of the key ideas put forward by debtors states at the time did finally come to fruition with HIPC in 1996, weakening the dominance of the Paris Club in the process, as the center of gravity of the debt regime shifted even more to the Bank and the Fund for this group of countries. In the battle over multilateral debt, the French did manage to prevent the creation of a veritable "Washington Club" run by the Bretton Woods twins; they fiercely defended the Paris Club from all challenges.

The Paris Club is a complex and powerful hybrid international organization, one that reveals a lot about the evolution of the international political economy and the nature of its governance processes.[18] Until quite recently, it was not even recognized outside of

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[17] On transgovernmentalism, see Anne-Marie Slaughter, "The Real World Order," Foreign Affairs, 76/5 (September/October 1997), pp. 183-97.

[18] There is amazingly little written about the Paris Club, and some of what has been written is wrong. The following are some of the most reliable sources: Alexis Rieffel, "The Role of the Paris Club in Managing Debt Problems," Essays in International Finance No. 161, December 1985, Princeton University; and "The Paris Club, 1978-1983," Columbia Journal of Law, 23/1 (1984), pp. 83-110; David Sevigny, The Paris Club: An Insiders View (Ottawa: The North-South Institute, 1990) [I reviewed it in the Canadian Journal of African Studies, 27/2 (1993), pp. 318-20]; Charles F. Meissner, "The Workings of the Paris Club," unpublished essay written for the Institute of International Finance, August 1985; Peter Mounfield, "The Paris Club and African Debt," IDS Bulletin, 21/2 (1990), pp. 42-46; Age F.P. Bakker, "The Paris Club" in his International Financial Institutions (London: Longman, 1996), pp. 100-09; M. Camdessus,

official circles, much less well understood. The Paris Club has been one of the most powerful international organizations operating over the last several decades, directly affecting the lives of millions of people, although technically it does not exist. It is not a formal organization with a charter, legislated set of rules, fixed membership, large bureaucracy or fancy building; it is usually described as an ad hoc "forum" of creditor countries that reschedules the public and publicly-guaranteed debt of "developing" states. It is far more, however, and has evolved significantly since it began operations with Argentina in 1956. A small secretariat is housed in the French Treasury, and numerous officials are assigned to its operations in the creditor countries and the key international institutions linked to it. From its modest beginnings in the late 1950s, the number and variety of reschedulings accelerated dramatically over time--26 in 1956-76, 150 more in 1977-90, well over 200 by the early 1990s, and 308 by the end of 1997.

The discourse of the Paris Club revolved around the norm that debtor countries have a moral as well as legal and material obligation to repay all debt in a timely fashion. This has been tightly linked to discussions of moral hazard that surround rescheduling and resistance to considering rescheduling as a form of aid. Such a discourse is reflected in the political culture of the Paris Club. Until the late 1980s, most of its creditor officials viewed themselves as hardheaded debt collectors whose job was to make sure that debt was repaid. A culture of secrecy surrounded its operation until very recently.

As a linchpin of international debt management, the Paris Club influences the prospects for social peace and development in many of the world's states -- mostly middle- and low-income countries in Africa and Latin America and, more recently, in Eastern Europe and the former Soviet Union. The Russian Federation assumed the debts of many of its successor states, which were then rescheduled by the Paris Club. After three reschedulings in 1993-95, Russia received the largest Paris Club rescheduling ever in 1996 and another in 1999. Within a year it was in deeply in arrears again and negotiating for yet another Paris Club rescheduling. In October 1997, Russia was granted "membership" in the Paris Club, allowing it to collect rescheduled debt from its former clients' states.

Since the late 1970s, the Paris Club has become increasingly embedded in a complex web of interactions with other important actors in the international political economy--the International Monetary Fund, the World Bank, regional development banks, UNCTAD, OECD, the Bank for International Settlements, the "London Club" (private debt rescheduling fora of international banks), the Consultative Groups (country aid consortia), investment bank advisory groups who sometimes represent debtor

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"Governmental Creditors and the Role of the Paris Club" in Default and Rescheduling: Corporate and Sovereign Borrowers, ed. David Suratgar (London: Euromoney Publications, 1984), pp. 125-29; Christian Noyer, "Le Club de Paris et le Fonds Monétaire International" in Bretton Woods: Mélange pour un cinquantenaire, ed. Thierry Walrafen (Paris: Editions Le Monde, 1994), pp. 389-95; Benoit de la Chapelle, "Le club de Paris et la dette mondiale depuis 1956," Regards sur l'actualité (juin 1993), pp. 3-30; and various issues of the World Bank's World Debt Tables, and more recently, its annual Global Development Finance.

countries, and, of course, the governments of the debtor countries. Most of these actors take part in the operations of the Paris Club or act as observers and advisers.

Debt rescheduling is a key way to provide badly needed foreign exchange to countries in economic, social, and political trouble, but Paris Club relief is at the center of a complicated set of nested games. Rescheduling is possible only if the debtor country has economic reform programs in good standing with the IMF and the World Bank. In addition, London Club rescheduling is supposed to come only after Paris Club rescheduling, and on “comparable” terms, just as non-Paris Club countries are supposed to do. The Consultative Group aid coordination mechanism is also linked to Paris Club rescheduling.

While Paris Club debt relief is contingent on maintaining economic reforms programs with the IMF and the World Bank, the debt owed to these “multilateral” institutions was not eligible for rescheduling. This norm was meant to protect the “preferred creditor” status of these institutions. In short, the international debt regime did not cover multilateral debt. Given the high dependence of HIPC countries on loans from the IMF, the World Bank, and to a lesser degree the multilateral development banks, multilateral debt became an increasingly severe problem over the 1980s, and a seriously threatening one by the early 1990s.

Evolution of Paris Club Norms:
Ratchet Effects, Blends, Menus, and a Slippery Slope

The structural dilemma has been one important factor driving the evolution of the international debt regime. By the 1970s, while continuing to deal with middle-income countries, the Paris Club focused increasingly on weak states in Latin America and Africa.[19] Such states often got into debt service trouble quickly and did not come out of it easily because economic reform was not well implemented or did not work well. They came back to the Paris Club repeatedly, becoming serial reschedulers, and, as a result, slowly and haltingly forced the Paris Club to bend, stretch, manipulate, "redefine," and even eliminate some of its rescheduling rules.

Far from smooth, generalized or orderly, and with very interesting politics, this evolution of norms shows the complex interplay of the varied and often shifting interests of the major creditor countries as they interact with their respective legal structures, bureaucratic cultures, and, domestic politics--electoral, legislative, and special interest. It is fascinating to see why, how, and when some special deals became more generalized norms and others did not.

A long-standing characteristic of Paris Club operations has been what I call the “ratchet effect,” that is, changes in Club procedures and norms made selectively at first but which become part of a sort of “common law,” one that retains the Club’s precious

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[19] As will be shown below, however, the Paris Club, despite current perceptions, continues to play a major role with non-HIPC debtors.

case-by-case norm. The violation of a norm, usually in the direction of more generous terms, or the setting of a precedent in a given case, enlarges the Paris Club common law and moves the ratchet up a notch. The trigger for a ratchet effect change is often political in nature, as one or several major creditors want to offer special assistance to a country that is important for a wide variety of possible reasons. Whether the change becomes more generalized depends on the persistence of the political forces driving it and/or on the emergence of structural economic conditions that increase pressure for its use in other cases that are less politically driven. What also emerges from this process is what I would call "politico-economic blends." A ratio of political and economic concerns always exists; the question becomes what the mix is in any given case and what is to be done about it.

One classic example of the ratchet effect and the existence of politico-economic blends is the slow and uneven disappearance of the strong norm against rescheduling previously rescheduled debt (PRD). The norm was first violated in the case of Zaire, a decision driven heavily by Cold War concerns, and it became more generalized as the severe economic and social weakness of African countries became more starkly apparent. African countries -- such as Zaire (1976), Sierra Leone (1977), Gabon (1978), Sudan (1979), Togo (1979), Liberia (1980), and Madagascar, Senegal, and Uganda (all 1981) -- were the first indication that there might exist a group of countries that posed an important structural dilemma for the goverance of the international political economy -- a group of countries for which structural adjustment did not work well, even, with only a few exceptions, when it was implemented relatively seriously. African conditions, for example, simply make structural adjustment difficult to carry out in any systematic and consistent manner. This structural dilemma eventually led to the emergence of a series of "menus" or "terms" that allowed more flexible and generous Paris Club treatment of debt.

The first menu came in 1988 and was called the "Toronto terms,"[20] which allowed significant debt reduction for the first time, in this case up to 33 percent of the debt eligible for Paris Club action. This menu was meant primarily for the poorest, least developed debtors with the heaviest debt burdens. In 1990 this was followed by the "Houston terms," which did not allow for debt reduction but for more generous rescheduling terms for more developed debtors.[21] By 1991 it had become clear that the Toronto terms were insufficient to deal with the debt aspects of the structural dilemma of the poorest, least developed countries. This realization led that year to the "London terms," which allowed for up to 50 percent debt reduction. Yet by 1994 it was clear that these terms were also inadequate to tackle the structural dilemma, which was finally being more widely recognized. Many would argue that this realization was far too long

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[20] The emergence of these menus was tied to the annual G-7 meetings; hence the menu names come from the city in which the meeting was held in that year.

[21] British Prime Minister John Major proposed the "Trinidad terms," which would have allowed up to two-thirds reduction; they were never put into effect, and it was only with the Naples terms in 1994 that this level of possible debt reduction was reached.

in coming, and, in fact, did so only as a result of very slow learning on the part of the creditors countries, the IMF, and the World Bank *as well as* major outside pressure from NGO networks and the social movements they created.

The result was the "Naples terms," which allowed up to 67 percent debt reduction. There was, however, an important proviso that Naples was available exclusively to "IDA only" countries – low income states that can only borrow from the World Bank's International Development Association [IDA] subunit with its concessional terms. The inadequacy of Naples terms was one key element that led to the emergence of HIPC in 1996 and with it the debut of the "Lyon terms," which allowed reduction of up to 80 percent of eligible debt, meant only for HIPC countries. When HIPC was "enhanced" in 1999, the "Cologne terms" were created which allowed up to 90 percent debt reduction, again only for HIPC countries that successfully jumped the various hoops of the complicated HIPC process.

If you ask people involved in the Paris Club process how the Club's operations have changed since the early 1990s, they will say that the Paris Club has moved from debt collection to debt rescheduling, to aid for economic reform, to debt sustainability, to debt forgiveness and poverty reduction – what one G-7 official called "the slippery slope of debt." HIPC accelerated this process by making debt sustainability indicators explicit and applicable to all members of a specifically demarcated set of countries. But the process also holds for non-HIPC countries, what could be characterized as the increasing "Napelization" of the Paris Club, parallel to its "Hipicization" for the now 42 HIPC countries. HIPC eventually won support, sometimes grudgingly, from the Paris Club creditors because it was to be restricted to the "ring fenced" poorest, least developed countries designated by the IMF and the World Bank as having unsustainable debt burdens. The Paris Club has found it increasingly difficult to draw a line in the sand between debt collection and flow rescheduling on the one hand and debt stock reduction and forgiveness on the other. This is true because the ratchet effect continues to work as political and economic pressures dictate, now powerfully reinforced by the example of HIPC and the existence of new challenges in other parts of the world.

As we shall see below, a main front in this struggle is the one being fought over what "debt sustainability" actually means and how it might be measured and applied. It turns out to be a highly ambiguous and manipulable, hence political notion. The debt sustainability process needs to be demystified. Central to it is what one Western creditor official calls "gapology" -- determining what the financing gap is for a country at any given time, that is, the gap between the resources available to it and the amount of debt service it is supposed to pay out. For this official, "gapology is more an art than a science." In fact, this official takes it further by arguing that the IMF can rarely provide a really good analytic answer to what sustainability is in any case "*until it knows what the political context is.*" The HIPC process has not fully removed the ambiguity of debt sustainability even for this set of countries, given both the current rules and the pressure to alter them that comes from multiple sources – the countries themselves, their creditor patrons, creditors who firmly believe in more generous debt relief, and from NGOs and their social movements. Debt sustainability is and is likely to remain a contested issue.

In its communiqué at the recent IMF/World Bank Spring meetings in Washington, the Group of 10 "agreed that, going forward, improved assessment of debt sustainability was essential for developing a more rigorous analytic basis for making key judgments."[22]

C. NGO Networks on Debt

Over the last two decades several hundred largely religious, humanitarian, labor, and environmental NGOs have focused on the issue of Third World debt and its perceived negative impact on the welfare of millions of people.[23] Their activities have revolved largely around a moral discourse that portrays developing country debt as an immoral burden on the backs of the poor. This discourse employs powerful notions of justice, representation, accountability, transparency, and equity. It challenges the notion of who should have authority over such issues in the global community, calls for intervention to rectify injustices and end what is considered to be blatant exploitation, and aims to provide space for debtor representation and agency in the transgovernance processes involving debt. In the process, the NGOs determine to a large degree who is empowered and who is not, who is represented and who is not.[24]

In 1996, for example, a loose coalition of more than 50 NGOs in Britain created the Jubilee 2000 Coalition that called for "a one-off cancellation of poor country debt by the year 2000 of the backlog of unpayable debt owed by the world's poorest countries, under a fair and transparent process" that would involve the establishment of a new

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[22] "Ministers stress need for better resolution of debt crises," IMF Survey, 31/8, April 29, 2002, p. 129.

[23] On NGOs see, P.J. Simmons, "Learning to Live with NGOs, Foreign Policy, 12 (Fall 1998), pp. 82-96; Steve Charnovitz, "Two Centuries of Participation: NGOs and International Governance," Michigan Journal of International Law (Winter 1977); Thomas G. Weis and Leon Gordenker, eds., NGOs, the UN and Global Governance (Boulder: LRP, 1996); Robert O'Brien et. al., Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements (Cambridge: Cambridge University Press, 2000); Ann M. Florini, ed., The Third Force: The Rise of Transnational Civil Society (Washington: Carnegie Endowment for International Peace, 2000); Jo Marie Griesgraber, "Southern Governments and Northern NGOs: Antithetical Approaching?" paper presented at the annual meeting of the American Political Science Association, Washington, D.C., August 31, 1997; Paul J. Nelson, "The World Bank and Non-Governmental Organizations: The Limits of Apolitical Development," paper presented and the annual meeting of the International Studies Association, Chicago, Illinois, February 1995; John Clark, Democratizing Development (West Hartford: Kumarian Press, 1991); Thomas F. Carroll, Intermediary NGOs: The Supporting Link in Grassroots Development (West Hartford: Kumarian Press, 1992); and Michael Edwards and David Hulme, eds., Beyond the Magic Bullet: NGO Performance and Accountability in the Post-cold War World (West Hartford: Kumarian Press, 1996). For an idea of the wide range of NGOs that work on debt, see Who's Who on Debt and Structural Adjustment: A Directory of NGOs (Geneva: UNCTAD/NGLS, 1990), and David Kelleher, Grabbing the Tiger by the Tail: NGOs Learning for Organization Change (Canadian Council for International Cooperation, 1996).

[24] For examples of this discourse, see US Catholic Conference, Relieving Third World Debt: A Call for Co-Responsibility, Justice, and Solidarity (Washington: US Catholic Conference, 1989); Missionary Society of St. Columban, Campaign on Debt and Development Alternatives, Beyond Debt: Relieving the Debt Burden on the Poor and the Environment (Washington: Missionary Society of St. Columban, 1996); and Elizabeth Donnelly, "Catholic Church Activism on Issue of International Ethics: The Case of Third World Debt," paper for the 1995 APSA Annual Meeting, Chicago, August 31-September 3, 1995).

international bankruptcy procedure. Characterizing this as a debt-free start to the next millennium, this network of NGOs portrayed itself explicitly as "New Abolitionists" out to abolish the "slavery of debt":

> Billions of people in the world's poorest countries are enslaved by debt. Debts run up by governments on their behalf. Debts which started as easy credit pushed by rich lenders. Debts which the poor will never be able to repay. Debts which enrich lenders, but leave children malnourished, while families live in desperate poverty.
>
> The Coalition's success will be an irreversible achievement for humanity like that of the abolition of slavery -- and is particularly well suited to a Jubilee that will not occur for another 1000 years.[25]

The activities, capabilities and interests of the NGOs that work on debt vary significantly. These principled-issue networks[26] have some of the characteristics of transnational social movements. Most of the network members are Northern NGOs, but increasingly they are helping to create, link up with, and foster Southern NGOs interested in debt and other development issues. Several of the strongest Northern NGOs have a network of offices in poor countries through which they can gather information, work with local governments and social organizations, and interact with the local representatives of the IMF, the World Bank, and the major aid providing "donor" countries, who are, of course, also the major creditors. Many of the debt NGOs believe that IMF and World Bank structural adjustment programs are an evil that needs to be abolished.

Two of the most important NGOs on debt are Oxfam International and Eurodad (the European Network on Debt and Development), a coalition of NGOs from 15 European countries, funded in part by the European Community. These and other NGOs, such as the Debt Crisis Network in the United States and Britain, have worked assiduously to collect and analyze information on debt and the operation of the international debt regime; educated themselves and other NGOs; demanded that the Paris Club governments and their legislatures provide greater debt relief both in general and

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[25] Taken from the Jubilee 2000 website on the Internet [www.oneworld.org/jubilee2000/], October 31, 1997. On the emergence of Jubilee 2000, see Martin Dent and Bill Peters, <u>The Crisis of Poverty and Debt in the Third World</u> (Aldershot: Ashgate, 1999).

[26] On principled-issue networks, see Kathryn Sikkink, "Human Rights, Principled Issue-Networks, and Sovereignty in Latin America," <u>International Organization</u>, 47/3 (Summer 1993), pp. 411-41; Keck and Sikkink, <u>Activist Beyond Borders</u>; Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," <u>International Organization</u>, 52/4 (Autumn 1998), pp. 887-917; Martha Finnemore, "Norms, Culture, and World Politics: Insights from Sociology's Institutionalism, <u>International Organization</u>, 50/2 (Spring 1996), pp. 325-47; Audie Klotz, <u>Norms in International Relations: The Struggle Against Apartheid</u> (Ithaca: Cornell University Press, 1995). For one of the classic works on network analysis, see Jeremy Boissevain and J. Clyde Mitchell, eds., <u>Network Analysis</u> (The Hague: Mouton, 1973).

for specific countries; lobbied hard with the IMF and the World Bank and at each of the annual G-7 summits for broader debt relief and new mechanisms for it; attended and demonstrated at the joint annual meetings of the Fund and the Bank; organized public education and letter writing campaigns;[27] and worked closely with the media. Jubilee 2000 was specifically meant to become a social movement that enveloped the NGOs and extended their efforts.[28] It operated with considerable verve and kept the pressure on the IFIs and the G-7 for much more substantial debt relief. It was backed by major celebrities, from rock stars such as Bono of U2 to heavy-hitter academics such as Harvard's Jeffrey Sachs[29] and religious leaders such as the Pope, Archbishop Desmond Tutu, Billy Graham, and the Dalai Lama.

Coordination increased considerably over time, facilitated by growing fax, email, and Internet capabilities, as well as frequent travel and annual network conferences such as the ones organized by Eurodad. Information and documents collected by one organization have been shared quickly with others. Above all, as NGO capabilities and sophistication grew, personal ties based on respect, if not always agreement, developed between NGO representatives and officials in some creditor governments, the Fund, and the Bank; this significantly improved the exchange of views on growing debt problems, especially multilateral debt. In turn, this led to significantly more influential position and briefing papers and special issue alerts about the functioning of the international debt regime, ongoing discussions about what to do about debt, and the fate of individual Paris Club, and more recently, HIPC cases.[30]

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[27] When asking whom I was going to see next, a senior European financial official said, "Please ask them to tell the nuns to stop writing; we get the point." The nuns had been writing hundreds of letters advocating much greater debt relief, and the government had to hire people to respond to them. Prior to the 1998 Birmingham G-8 meeting, the British NGO Christian Aid, in a particularly creative ploy, had 15,000 postcards printed with the photograph of the signing of the 1953 London Agreement that considerably eased the repayment of Germany's pre-war debt. The idea was to embarrass the German government into greater flexibility on debt relief. The flood of cards became such an issue that Chancellor Helmut Kohl took it up with the Prime Minister Tony Blair; see "Postcards Hit a Nerve in Bonn," Financial Times, February 4, 1998, p. 2. At the Birmingham G-8 summit in May, Jubilee 2000 organized a human chain of thousands of people to encircle the meetings in support of large-scale debt writeoffs for poor countries. These two examples of debt NGO activity demonstrate the social movement aspect of the NGO networks.

[28] See www.jubilee2000uk.org and www.j2000usa.org.

[29] For example, see: Jeffrey Sachs, Kwesi Botchwey, Maciej Cuchra, and Sara Serban, "Implementing Debt Relief for the HIPCs," Center for International Development, Policy Paper No. 2, Harvard, August 1999.

[30] For example: On October 17, 1995 seventeen NGO representatives met with the U.S. executive directors of the IMF, the World Bank, and the regional development banks; and on March 17, 1997 NGOs representatives met with World Bank staff specifically about Uganda's HIPC debt initiative situation. Eurodad even managed to organize two meetings on January 16, 1996 and February 4, 1998 with the normally very secretive Paris Club staff, although the discussion remained strained and limited. Over time regular contact, both informal and formal, has increased in density and quality with the IMF and World Bank. Another example is that Eurodad, Oxfam, and Jubilee 2000 participated in a seminar on "Approaches to Debt Relief" with IMF, World Bank, and Paris Club officials at the October 1998 Joint IMF-World Bank annual meeting in Washington.

This coordination process both facilitated and fostered the growing professionalization of the more important NGOs working on debt, which was also promoted by increasingly close relations between fragments of a large and amorous epistemic community on development, one rooted to various degrees in neoclassical economics. It remains unclear, however, whether the activities of the debt NGO networks and those on other issues represent the rise of a new global civil society, as some claim, that will foster linkages between various levels of the international system in terms of more representative, effective, just, and accountable webs of governance processes.[31]

D. An Epistemic Community on Debt

Mainstream economics, in its academic, business, and official varieties, provides a relatively widely shared set of understandings, language, causal and policy ideas, and technical knowledge about both the functioning of the global economy and the complex issues of development, including debt.[32] Within this community and its various fragments, however, there exists considerable diversity of views about specific policy issues and creativity about how to tackle them. Members of this community dominate the institutions and processes of the international debt regime, primarily the Paris Club and its member governments, the IMF and the World Bank. In short, they are the "insiders" of the international debt regime. At the same time, the "outsiders," those not in major positions of structural power -- academic and think tank scholars, officials of "soft" international organizations such as the Commonwealth Secretariat, and private consultants -- have played an important role in the ongoing debates about debt by providing independent analyses of the existing state of the debt regime and about the status of individual country cases for NGOs, creditor and debtor governments, and some international organizations.[33] Some "insiders" have become "outsiders" and vice versa.

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[31] See Simmons, "Learning to Live with NGOs;" Ann Marie Clark et. al., "The Sovereign Limits of Global Civil Society," World Politics, 51/1 (October 1998), pp. 1-35; Jan Aart Scholte, "The IMF Meets Civil Society," Finance and Development (September 1988), pp. 42-45, World Bank NGO Group, Social Development Department, "Cooperation between the World Bank and NGOs: FY96 Progress Report," World Bank, August 1977; and Nancy C. Alexander (from Bread for the World Institute's Development Bank Watchers' Project), "The World Bank's New Strategic Alliances," manuscript, 1997.

[32] On epistemic communities, see Peter M. Haas, ed., "Knowledge, Power, and International Policy Coordination," special issue, International Organization, 46 (Winter 1992).

[33] Some examples: Percy Mistry (International Development Centre, Oxford University), "The Problem of 'Official' Debt Owed by Developing Countries," August 1989, written for the Forum on Debt and Development (FONDAD), a predecessor to Eurodad; Jan Joost Teunissen, "The Scope for European Initiatives on Debt," March 1989, written for FONDAD; Tony Killick (Overseas Development Institute London), "Solving the Multilateral Debt Problem: Reconciling Relief with Acceptability," November 1995, written for the Commonwealth Secretariat; Marinus Verhagen (Utrecht University), "Economic and Social Indicators of Debt Sustainability: An Empirical Study," January 1997, written for Eurodad; David Woodward, "The Multilateral Debt Facility Proposal: Comments" and "The HIPC Initiative: Latest Developments," April 1997, written for Christian Aid, Debt Crisis Network, and Jubilee 2000; Matthew Martin, "Official Bilateral Debt: New Directions for Action," April 1994, written for Eurodad;

The individuals and the networks created between them often become an important bridge between actors because they were perceived to share at least the basic tenets, technical knowledge, and analytic capabilities of the epistemic community, and their input became important as tensions in the debt regime mounted and policy uncertainty grew. Their influence has been facilitated by the fact that key actors in the international debt regime are far from homogeneous in their views and sympathies.

An important factor in the evolution of the international debt regime has been the role played by some epistemic community members inside the major units of powers who are sympathetic with parts of the NGO discourses on debt. When conjunctural conditions permit, they form important network connections with "outsiders" of the epistemic community and with the more sophisticated NGOs that have helped to move things along. In part they help to do this by legitimating new ideas, knowledge, and approaches in their own institutions and delegitimating existing ones.[34] As we will see below, such people played pivotal roles in the triple helix governance processes in regard to the Uganda, HIPC, and enhanced HIPC stories.[35] Uganda will also be used to illustrate the saga of the two HIPCs, but the first Uganda story will illustrate the functioning of the triple helix and underscore the degree to which the impetus, ideas, and mechanisms for change in the regime emerged from outside the confines of the IMF and the World Bank.

III. Prelude to Change: Uganda and the Debt Regime

In the early 1980s Uganda was one of the first African countries to be perceived as a failing state, but, under the remarkable leadership of Yoweri Museveni, Uganda became one of the major indications of hope for Africa.[36] The country engaged in a

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"Multilateral Debt: Key Issues," a report to G24 and Commonwealth Ministers, London, 20 July 1997; and last but certainly not least, the wonderful set of research papers organized and edited by G. K. Helleiner of the University of Toronto for the Group of 24 under UNCTAD auspices and published in annual volumes of "International Monetary and Financial Issues for the 1990s," United Nations, New York and Geneva, 1992-98; the 1997 volume, for example, included pieces by MIT and University of Maryland professors, a Brookings Fellow, senior officials of the Bank of Uganda and the Uganda Finance Ministry, two fellows of the Korea Institute of Finance, and officials of the State Bank of Pakistan and the Central Bank of Chile.

[34] See Nicholas Stern with Francisco Ferreira, "The World Bank as 'Intellectual Actor'" in The World Bank: Its First Half Century, vol. 2, eds. Devesh Kapur, John P. Lewis, and Richard Webb (Washington: Brookings, 1997), pp. 161-274.

[35] Such "insider/outsider connections," as Oxfam calls them, played an important role in the period that led up to the creation and operation of the World Bank's special working group on multilateral debt between 1994 and 1996.

[36] On Museveni's Uganda, see: Ronald Kassimir, "Reading Museveni: Structure, Agency and Pedagogy in Ugandan Politics," Canadian Journal of African Studies, 33/2-3 (1999), pp. 649-73; Nelson Kasfir, "'No-Party Democracy' in Uganda," Journal of Democracy, 9/2 (April 1998), pp. 49-63; David E. Apter, "Democracy for Uganda: A Case for Comparison," Daedalus, 124/3 (Summer 1995), pp. 155-90; Marina Ottaway, "Africa's 'New Leaders': African Solution or African Problem?" Current History, 97/ 619 (May 1998), pp. 209-13; J. Oloka-Onyango, "Uganda's 'Benevolent' Dictatorship," Current History, 96/610 (May 1997); Cherry Gertzel, "Uganda's Continuing Search for Peace," Current History, 89/574, pp. 205-

decade of vigorous economic reform efforts under the auspices of the IMF and the World Bank, with its GDP growing at an annual average of 6.4 percent. This impressive economic reform effort was achieved despite the fact that before coming to power Museveni was an avowed opponent of the IMF and structural adjustment. Nonetheless, despite this progress, Uganda was by the mid 1990s only beginning to approach its 1971 GDP per capita income level; in fact, it was only back to 78 percent of the 1971 figure. The task accomplished was striking, and the job ahead remained enormous, complicated eventually by Uganda's central involvement in Africa's first major inter-state war of the post-colonial period -- the battle for the Congo (former Zaire). Uganda received considerable outside support for its economic reform effort (about $500 million a year) and earned the image of a confident, proactive and increasingly capable player. It garnered the respect, if not total confidence, of the key players in the international debt regime.[37]

Between 1980 and 1995 Uganda had six Paris Club reschedulings of its bilateral debt. The last one in February 1995 was under Naples Terms, supposedly making it an "exit" rescheduling. Uganda was the first country to receive a Naples Terms rescheduling. As a result of a vigorous and creative debt reduction strategy that began in 1991, its debt service ratio fell from 54 percent in 1993-94 to 24 percent in 1996-97. Nonetheless, by mid 1997 its debt burden remained at $3.5 billion in nominal terms, equal to 62 percent of its GDP and 294 percent of its exports of goods and services. By 1996, multilateral debt had become an important resource problem for Uganda, one that affected its ability to rebuild the country and the capacities of the state. Given the high levels of resource flows from the international financial institutions to support its vigorous economic reform efforts, by 1996 multilateral debt was 76.3 percent of Uganda's debt or $1.29 billion out of $1.69 billion in NPV terms. Multilateral debt was projected to rise to 81.3 percent of the total by 1999. Prior to HIPC, this multilateral debt was not eligible for rescheduling under the norms of the international debt regime. In 1996 net private capital flows were negative, and official flows were about $210 million, much of it in new debt.[38]

This story is about the establishment of an innovative Ugandan Multilateral Debt Fund and the creative practices that grew out of it. The Multilateral Development Fund resulted from network connections that were created between a core group of small European social democratic countries active as both Paris Club members and aid providers whose norms on debt and structural development were more flexible and

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08, 231-32; Robert L. Sharer et. al., "Uganda: Adjustment with Growth: 1987-94," Occasional Paper 12, IMF, Washington, March 1995; "Financial Times Survey: Uganda," Financial Times, February 24, 1998; "Financial Times Survey: Uganda," Financial Times, April 25, 1996; and various issues of the Economist Intelligence Unit's, "Country Report: Uganda," London: EIU.

[37] This confidence has been tempered by the involvement of the Museveni government in the civil war in the Congo with the fear that it will endanger the striking economic progress made over the last fifteen years.

[38] See Uganda's IMF/IDA Decision Point Document, April 11, 1997.

sympathetic to reforming poor countries than those of most of the G-7 creditors. It was a loose knit and floating group of countries that worked together on various debt-related projects and included Sweden, Norway, Denmark, the Netherlands, Austria and Switzerland.[39]

Supportive of more generous debt relief, this group of countries quietly provided NGOs and epistemic community consultants with information about Paris Club operations and the handling of individual debtor cases, and discussions on the state of the debt regime by the IMF, the World Bank, and the G-7 creditors. In 1991 they hired a British consultant to do a study of Uganda's debt situation and to work with the Ugandan government as an adviser on developing a coherent and comprehensive debt strategy. They supported creative efforts to strengthen Uganda's debt management capabilities and lobbied the major creditors for more generous debt relief. Given that Uganda had increasingly heavy multilateral debt service burdens (including some arrears), a number of them contributed funds to service this multilateral debt. Out of these activities and interactions with the Ugandan government emerged the idea of creating a special Multilateral Debt Fund just for Uganda into which sympathetic countries could contribute funds to service multilateral debt.

One of the innovative aspects of the proposal was that Uganda would manage the Fund itself in consultation with the donor countries, the IMF, and the World Bank. The general idea was first broached at the Consultative Group meeting on Uganda in July 1994, and after further study and preparation, it was approved at the July 1995 Consultative Group meeting.

The Consultative Group is an especially interesting mechanism of the international debt regime. It is organized under the auspices of the World Bank and brings together the countries that provide assistance to a particular developing country in order to coordinate aid flows. The donor countries are essentially the same as those of the Paris Club, but they are usually represented by officials from their aid agencies, who often have different interests and agendas that give the meetings a different tone than the Paris Club ones, which are more focused on debt collection. It is thus clearly possible for creditor countries to play varying roles in the different fora of the debt regime, especially as not all of them have fully coordinated policies. More importantly, given that the Paris Club operates under a norm of consensus, which means less generous positions tend to become the norm, countries that would like to provide more bilateral debt relief in the Paris Club but are unable to do so can play a more generous role in the context of the Consultative Group.

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[39] In addition to confidential interviews, his section draws on: Government of Uganda, "A Strategy for Reducing the External Debt of Uganda," report prepared for the Consultative Group, Kampala, 15 July 1995; Matthew Martin, Susan Lukwago, and Nils Bhinda, "A Sustainable Proposal for Reducing the Burden of Uganda's Multilateral Debt," February 3, 1995; Martin, "Multilateral Debt: Key Issues;" and Debt Relief International, "HIPC Debt Strategy and Analysis Capacity-Building Programme," Programme Document, London, June 1997.

Not all members of the Consultative Group were supportive of the proposal for the Uganda Multilateral Debt Fund (UMDF), but it was approved nonetheless. Neither was there major support from the IMF or the Paris Club secretariat. It proved to be a major success, however, and eventually most actors came to support it. The idea subsequently spread to other debtor countries, including Bolivia, Guinea-Bissau, Mozambique, and Tanzania. It was a major success because it increased the ownership and management of Uganda's debt strategy by the Museveni government.

The bedrock of the success was that UMDF entailed quarterly meetings in Kampala between the Ugandans and the local representatives of the creditor/donor countries, the World Bank, and the IMF. Over time these discussions broadened to include most of the major economic reform issues. The meetings were often contentious, as the views of the parties did not always coincide, but in the process mutual respect grew and the capacities of the Ugandan government increased substantially. At the same time the Ugandan government maintained its ties with its consultant and key NGOs both at home and overseas, and their influence on the evolution of events is clear.

The consultant, as part of the epistemic community, played an important role in establishing and maintaining connections within and between networks. He had close ties to the Commonwealth Advisory Group on Multilateral Debt, OECD policymakers, staff of the IMF and the World Bank, and Ugandan officials at all levels. In addition, he maintained close relations with key NGOs, especially Oxfam (both in Uganda and overseas) and Eurodad, for whom he had written an influential report on what NGO debt strategy should be. Other scholars and consultants played similar if less significant roles.

Several other innovations emerged out of these ongoing connections between the various networks, especially with the creation of the HIPC debt initiative in 1996. From the operations of UMDF came the idea of creating a social fund to act as the operational arm for using the resources saved from the HIPC program. Most importantly, a major move was made to institutionalize the role played by the consultant and extend it to other countries. The governments of Austria, Denmark, Sweden, and Switzerland helped to create and fund an organization called Debt Relief International that helps prepare countries for the HIPC Debt Initiative, develop debt management strategies, and coordinate capacity building efforts. By early 1998, Debt Relief International had started projects in 18 countries, including non-African ones such as Bolivia and Guyana.[40] At the same time, significantly larger innovation, influenced by the Uganda story, was underway in the international debt regime that led to the emergence of the HIPC Debt Initiative.

[40] DRI also has its own publications series; see, for example: Matthew Martin and Alison Johnson, "Implementing the Enhanced HIPC Initiative: Key Issues for HIPC Governments," No. 2, DRI, London, 2001; Juan Carlos Vilanova and Matthew Martin, "The Paris Club," No. 3, DRI, London, 2001; and Matthew Martin and JC Aguilar Perales, "HIPC Capacity-Building Needs," No. 6, DRI, London, 2001.

IV. The Rise of the HIPC Debt Initiative

A. From Menus to Multilateral Debt

The innovation of the Paris Club debt menus in the late 1980s and early 1990s was a sign that major actors of the international debt regime were beginning to recognize the existence of the underlying structural dilemma but only in relation to bilateral debt. The emergence of the menus resulted from the quiet lobbying of small European countries on their G-7 colleagues; the important leadership of Britain (strongly influenced by its NGOs), Canada, and to a lesser but eventually important degree, the United States; the persistent work of the debt-oriented NGOs in encouraging both sets of countries; and suggestions that emerged from the epistemic community on debt, both from outsiders and quietly from those inside some Paris Club governments, the World Bank, and, to a much lesser degree, the IMF. With each new menu, however, it became clear relatively quickly that it was not adequate, and pressure would build for additional measures, but again only within the context of the Paris Club.[41]

After the onslaught of Mexico's debt crisis in 1982 many far reaching and innovative debt proposals were made by a variety of groups and individuals, all to no avail because they did not resonate with the major actors of the sovereign debt regime at the time. Despite rising recognition of a poor country debt problem in the early 1990s,[42] however, most of the Paris Club countries and the IMF and the World Bank continued to defend the preferred creditor status of the Bretton Woods institutions, in large part because they were worried about the cost of tackling the problem for a group of countries that was not, as a whole, perceived to have major strategic importance. At the same time, the realization was growing inside the NGO networks and some parts of the epistemic community that the problem of multilateral debt needed to be tackled head on, irrespective of cost or the absence of strategic importance, largely for normative and what they considered to be developmental reasons. After 9/11, some governments and NGOs began to see a geostrategic link as well.

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[41] This section draws on confidential interviews and the following: Anthony R. Boote and Kamau Thugge, "Debt Relief for Low-Income Countries and the HIPC Initiative," IMF Working Paper 97/24, Washington, D.C., International Monetary Fund, March 1997; World Bank, "Uganda: Preliminary Document on the Initiative for HIPCs," IDA/SecM97-41, February 14,1997, Washington, D.C.; World Bank, "Uganda: HIPC Debt Initiative: Final HIPC Document," IDA/R97-32, April 14, 1997, Washington, D.C.; World Bank, "Republic of Uganda: HIPC Debt Initiative: President's memorandum and Completion Point Document," IDA/R98-33, March 23, 1998, Washington, D.C.; Oxfam International Position Paper, "Multilateral Debt: An End to the Crisis?" October 1995; Oxfam International, "Poor Country Debt Relief: False Dawn or New Hope for Poverty Reduction?" Washington, D.C.: Oxfam, April 1997; Oxfam International, "Debt Relief and Poverty Reduction: New Hope for Uganda," September 1996; and Government of Uganda, "Uganda and the HIPC Debt Initiative," Kampala, November 1996.

[42] See, for example: World Bank, "Debt Strategy and Its Impact on Development Prospects for All Severely Indebted Countries," March 15, 1990, SecM90-328, and "Progress Report on Implementation of 'Debt Strategy and Its Impact on Development Prospects for All Severely Indebted Countries,'" October 14, 1991.

By 1992 the NGOs geared up their activities in regard to multilateral debt, especially with the G-7, while some of the like-minded smaller creditor countries also quietly lobbied the G-7. At the joint IMF and World Bank annual meetings in Madrid in 1994, which was also the 50th anniversary of the Bretton Woods twins, the United States and Britain proposed that the two institutions conduct a study of multilateral debt, with the British Chancellor calling for "a clear exit strategy with regard to multilateral debt." The issue reemerged at the 1995 Spring Meetings of the IMF's Interim Committee and the Bank's Development Committee, and then again at the G-7 summit in Halifax in June of that year. Oxfam International had opened its Washington office in January 1995. Two of its key officials began building relationships with people inside the Bank and the Fund, while at the same time courting journalists who could reach a wider audience.

While the influence of the NGOs was certainly important, larger factors had come into play, resulting in part from the nature of the structural dilemma and in part from the quiet restructuring of the major powers themselves. For Britain in particular, but also to a lesser degree for the United States and Canada as well, financial constraints were cutting into aid budgets as the multilateral debt problem grew in importance. This was the case because structural adjustment was having only a marginal effect in many of the low-income poor countries. As a result, both the Fund and the Bank were extending part of their loans to facilitate the repayment of earlier ones that were used to launch economic reform efforts. As already noted above for Uganda, some of the Paris Club countries helped as well by repaying multilateral debt. In fact, those advocating multilateral debt relief used Uganda as the primary case to illustrate the need for it.

In May 1994, Sweden and Switzerland held an "International Seminar on External Finance for Low-Income Developing Countries," for which Bank staff prepared a report entitled "Toward Resolving the Debt Problem of Severely Indebted Low-Income Countries (SILICs)," and, in presenting the findings of the paper, Bank officials asserted that debt was not the most important development problem, while acknowledging that it was an issue, and that, despite a growing impression among some, multilateral debt was not a large and growing problem. Multilateral debt *was* being dealt with prior to HIPC, via the IDA Debt Reduction Facility, the Fifth Dimension program, and, above all, by "defensive lending" [but they were not allowed to call it that]. Nonetheless, the first two efforts were fairly minor, and wrongly support a view that there was continuity in the way debt relief was handled. In addition, defensive lending meant that a smaller and smaller percentage of lent funds went to actual economic reform efforts over time. In short, the issue of multilateral debt was not being dealt with systematically or in an effective manner. In addition, these early mechanisms slowed learning on this issue by giving management reason for saying that the issue *was* being dealt with adequately or that there was no multilateral debt problem.

In fact, Bank officials argued that multilateral debt was a small proportion of total SILIC external debt and hence proposals to weaken the preferred creditor status of the multilaterals were inappropriate. As late as March 1995, both the Fund and the Bank continued to defend this position. In a joint paper, they reiterated the central position that "multilateral debt is not presently, nor expected to be in the future, a significant burden for a majority of heavily indebted poor countries *provided that adequate policies and current levels and terms of concessional lending can be sustained*."[43] Given the nature of the structural dilemma and the track record of structural adjustment in these countries, this was a huge and very optimistic qualification. The paper also claimed that the recent adoption of the Naples terms by the Paris Club meant that a "framework and instrumentalities are now largely in place for an effective case-by-case approach." Bank President Lewis Preston reiterated that diluting the Bank's preferred creditor status was unnecessary and would prove to be counterproductive.[44]

The resistance of Bank management seems to have been driven by the belief that a real debt problem did not exist, and, even if one did, that current mechanisms, largely Paris Club rescheduling and more lending by all major creditors, were adequate to cope with it. This view was underpinned and justified by fears about the cost of any new major initiative, especially one that jeopardized the Bank's credit rating and preferred creditor status. Yet underneath all this there seemed also to be a strong belief that debts were meant to be paid and that allowing non-payment would foster serious moral hazard, which might undercut the power and influence of the Bank. Similar views were shared by a number of major creditor countries. It is not clear how much these views influenced the Bank's analytic work on debt burdens and the possible need for debt relief, especially for multilateral debt.

Members of the Board were not, however, in full agreement with management's position. A majority of the members who discussed the paper in mid March felt that the debt sustainability analyses were too optimistic, particularly in terms of projected export growth and available multilateral resources. As was to be the usual situation during the HIPC saga, the key countries broke down into basically three groups: [1] the "proponents" – the UK,[45] Netherlands, Sweden, and Switzerland, [2] the "potentially sympathetic worriers" – U.S., Canada, Australia, China, and some middle-income developing countries such as India and Indonesia, and [3] the "reluctant ones" – France, Japan, Italy, and Germany. Eventually, as the movement, both within the Bank and the NGOs, grew, group two merged with group one, while group three continued to grumble vigorously. As we shall see, however, there were major bumps along the way.

In the discussion of this March 1995 paper defending the status quo, the UK and Netherlands made it very clear that the problem was much more serious than the paper indicated. Switzerland, Sweden, and India expressed similar views, while the U.S., Australia, China, and India again expressed uncertainty about the Bank's capacity to do

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[43] IMF and World Bank, "Multilateral Debt of Heavily Indebted Poor Countries (HIPCs)," March 1, 1995, SecM95-215, emphasis added.

[44] Presidential Memorandum, "Multilateral Debt of the HIPCs," March 1, 1995.

[45] The United Kingdom clearly has been the key major power behind the movement for debt reduction, heavily influenced by its very active and increasingly professional NGOs. The major NGOs also had influence with other countries in this group.

more, but suggested it continue to explore more options. On the other side, France, Japan, Italy, and Germany basically accepted the Bank's position, with France strongly insisting that the problem could be dealt with via existing mechanisms and procedures (read the Paris Club). The consensus of the meeting called for the Bank to continue exploring options while keeping in mind its position and implications for its policies.

Largely as the result of increasing public pressure on a variety of fronts, the G-7 at its summit in Halifax in June 1995 called upon the Fund and the Bank "to develop a comprehensive approach to assist countries with multilateral debt problems through the flexible implementation of existing instruments *and new mechanisms where necessary.*"[46]

B. Change at the World Bank

New Leadership and a Working Group

At least a public rhetorical shift had taken place at the Halifax G-7 summit; now came the hard part of testing that rhetoric and turning it into something real. Prior to this time, concern did exist in various parts of the Bank about the poor country debt issue, especially in the Africa region. Debates were taking place, work done, and ideas discussed, but management blocked all of this. It was not allowed to go anywhere.

A crucial point was reached when Australian-born American banker James Wolfensohn became the ninth president of the World Bank on June 1, 1995. He was more open to the views of debtor governments and the NGOs, as he demonstrated in a trip to Great Britain before he took up his new position. While there, he met with a group of NGOs, including Oxfam, who urged him to take the debt issue very seriously. At the same time, the Bank had been extending its interactions with NGOs, although they were mostly project-related. After taking up his post at the Bank, Wolfensohn took a trip to Africa in which debt issues were particularly salient. In Uganda, for example, Oxfam helped to set up a meeting between Wolfensohn and local NGOs, including the Uganda Debt Network.

Wolfensohn was less worried about the financial market consequences of altering the Bank's preferred creditor status, and needed a major policy initiative to demarcate his arrival at the head of this powerful international organization. He chose debt and empowered sympathetic elements of the Bank staff to accelerate its ongoing work on debt. Wolfensohn authorized the creation of a small, very low profile working group or task force on debt issues. It was headed by an economist who, after joining the Bank in 1994, started working quietly on these issues (based in part on a doctoral dissertation on debt sustainability), while establishing ties in a variety of arenas interested in these issues, including among NGOs.

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[46] Halifax Summit Communique, June 1995; emphasis added.

The working group's low profile was designed not to upset critics of new efforts on debt inside the Bank, in the IMF, among some major creditor governments, and, particularly, in the Paris Club secretariat. The working group focused on the notion of debt sustainability and the issue of multilateral debt, fighting strong resistance inside the Bank to any change in the status quo. The dominant line of thinking continued to argue that no major debt problem existed – certainly not one of insolvency, that current liquidity problems were being dealt with effectively via new lending and by the Paris Club, and that increasing outside pressure to deal with this issue ought to be ignored and resisted. These were deeply entrenched views – ones the working group fought hard to change. By July 1995 the working group had produced a draft paper acknowledging the existence of a multilateral debt problem and proposing a set of mechanisms to deal with the debt problems of a set of 20-24 poor countries in a comprehensive way. Central to the proposal was the creation of a Debt Reduction Fund that would help to pay multilateral debt *after* all other debt mechanisms – private and public – had provided maximum debt relief.

A Leaked Working Paper

In mid September a copy of the draft report was leaked to the *Financial Times*, which published two stories and an editorial that spelled out the proposal for a multilateral debt reduction facility and praised it.[47] Wolfensohn was traveling overseas and had not seen the draft report. A revised version of it,[48] which had undergone limited internal review but was not a recommendation of Bank management, was discussed a week later. At the same time, Bank officials consulted with the IMF and others on their reaction to the leaked proposal. It called for "the establishment of a Debt Reduction Fund that would coordinate action for reducing the entire debt burden of these countries to a sustainable level."[49] In the process, the issue of write-off was neatly side stepped. Some who had been involved in the working group referred to the facility as the "Washington Club" to distinguish it from the Paris and London Clubs. It was to "provide debtors with a much needed forum where debt relief is discussed in a concerted and comprehensive way, within the framework of an overall strategy to allow them to achieve debt sustainability."[50]

Buried in one of the report's annexes is a clear sketch of four successive phases envisioned by the proposal, with a progression through each until debt sustainability is

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[47] Michael Holman, "World Bank plans Dollars 22bn fund for poorest countries," p. 1; Michael Holman, "Debt and Africa's Poor: the World Bank relents – Michael Holman reports on a 180-degree policy shift on how to cope with the continent's Dollars 160bn debt mountain," p. 6, and [editorial] "New steps on debt," p. 25, all Financial Times, September 14, 1995.

[48] "A Debt Reduction Fund for Heavily Indebted Poor Countries," Staff Working Paper, September 16, 1995, marked "Confidential Draft."

[49] "A Debt Reduction Fund for Heavily Indebted Poor Countries," p. 2.

[50] "A Debt Reduction Fund for Heavily Indebted Poor Countries," p. 9.

reached. The four phases are: I - private, II - bilaterals, III - multilaterals, and IV - bilaterals again, if needed. An important strategic rationale for the proposed fund was "the eventual removal of a major constraint on investment and growth…that would be an essential spur to further adjustment."[51] This is an important argument, one that gets lost with enhanced HIPC in 1999, given its tight focus on poverty reduction. The inflexibility of enhanced HIPC in this regard, thereby preventing investment in more growth-related projects, was the major complaint of the HIPC finance officials that met with OED representatives in London in March. It also is a reflection of the failure of the "implicit bargain" in the structural adjustment regime for African and other poor countries referred to above: "do what we tell you to do, and you will have the funds to invest in growth-related activities to support ongoing economic reform because private external investment will flow in." For most of these countries this has simply not happened, and enhanced HIPC as it stands now may further aggravate this problem.

Lastly, given the history of the sovereign debt regime, the paper makes the important point that the risks of the proposed fund are high because its multilateral nature "defines its major challenges, since consensus building and coordination at the multilateral level take time."[52] Given the uproar and resistance that the leaked report generated, it is stunning that the HIPC Debt Initiative emerged only a year later, although it then stalled. In large part, this emergence was due to the fact that much of the groundwork outside the Fund and the Bank had already been laid and to the hard bargaining that took place among all of the key players; despite considerable disagreement on key issues, compromises and concessions were made.

Some in the Bank and many in the NGO community believed that the report was leaked in order to sabotage the proposal. Wolfensohn and senior Bank staff were caught off-guard and embarrassed. So were key creditor countries. An emergency board meeting was held the evening of the *Financial Times* leak. From Beijing, Wolfensohn called the leak "distressing" and commented: "It is a personal and tactical observation, but it is more difficult to negotiate something as serious as that when you read it in the newspaper and you have not yet had the benefit of serious discussions with the participants. When I have an answer on what I think we can do in coordination with our shareholders in the International Monetary Fund, I'll make an announcement. But I don't know when that will be. It could be that the *Financial Times* may have delayed it."[53] Describing the Bank's proposal as "ideologically unsound," an IMF official said, "The Fund would not get involved. This would undermine the Fund's position and credibility. Writing off debt is not our business."[54]

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51 "A Debt Reduction Fund for Heavily Indebted Poor Countries," p. 9.

52 "A Debt Reduction Fund for Heavily Indebted Poor Countries," p. 13.

53 Quoted in Tony Walker, "World Bank sees debt write-off snag," Financial Times, September 16, 1995, p. 3. Wolfensohn made the statement the day after the leak. It is my view that the leak of the report actually helped to overcome resistance by making opposition more open and public.

54 Quoted in Michael Holman, "IMF cool to World Bank debt plan," Financial Times, September 15, 1995, p. 6. The statement was made the day of the leak. As one West African minister put it, "The Critical

The revised version of the leaked paper was discussed at an Executive Session of the Board on September 21, 1995.[55] The chair explained that the paper was meant to be a staff-level working paper that would eventually be discussed with the Fund and that Wolfensohn had been very explicit about wanting intensive work that explored new options for dealing with a multilateral debt problem. The UK, the Netherlands, and Sweden voiced strong support for Fund-Bank efforts to help the HIPCs. The UK thought it was appropriate that the paper considered radical options and that limited efforts by creditors groups would not be able by themselves to solve the problem. The Netherlands supported a new multilateral approach aimed at developing an exit strategy for the HIPCs. On the other hand, France and Japan stated that they were not ready to support the proposal, with France expressing particularly vehement opposition to a significant role for the Bank.[56]

Wolfensohn decided to engage in serious negotiations with the Fund and other key players about the proposal, and the Fund announced its willingness to do so. In the period after the leak, Fund staff were told, despite some very negative views held by senior officials, to work with colleagues in the Bank, although it was clearly going to be a rough ride. In fact, considerable tension remained in the Bank over this issue as well. A senior Fund official said, "It is not a matter of a good idea or a bad idea. It is a matter of what is the preferable way to, what is the best way to use what are inevitably going to be limited resources."[57] The IMF's managing director, Michel Camdessus, said, "We support here in the IMF the ongoing efforts of the Bank in this area and we stand ready to assist in whatever measure we can." Yet as two observers noted, "In private, however, senior IMF officials are much chillier. They heap scorn on the details of the World Bank's calculations, argue that the scale of the problem is much less than claimed by the Bank and the NGOs, and question whether debt relief is the best use of scarce funds."[58] By the time of the Fund-Bank annual meetings in early October, although a number of G-7 countries were opposed to the plan, the Bank's Development Committee asked the two institutions to have proposals on multilateral debt ready for discussion by the time of its next meeting in April 1996. Wolfensohn asserted that Fund-Bank discussions were "proceeding in a totally amicable, professional and as good as you can have way,"

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voice is that of the Fund, and I'm not going to celebrate until that institution endorses it. In the meantime, I'm not holding my breath," quoted in Michael Holman, "Debt and Africa's Poor: the World Bank relents," Financial Times, September 14, 1995, p. 6.

[55] Only a partial transcript exists for this Executive Session. The transcript ends with eight countries waiting to speak, including the U.S., Italy, Canada, and China.

[56] It must be remembered that the French had fought tenaciously against any major role in debt relief by the Fund and the Bank since the 1950s.

[57] Quoted in George Graham, "World Bank's debt relief idea under fire," Financial Times, September 28, 1995, p. 4.

[58] Both statements in George Graham and Stephanie Flanders, "Enthusiasm cools for debt relief proposal," Financial Times, October 4, 1995, p. 4.

although he added, "I'm not sure that there is unanimity even among the people we are trying to help."[59] Unanimity certainly did not exist among Bank staff. Nevertheless, the Bank eventually got the IMF on board by stressing the existence of a "debt overhang" that prevents increased development flows.

The Bank proposal did generate positive, although sometimes cautious, reaction from key NGOs such as Oxfam, Christian Aid, and the Debt Crisis Network, as well as from the Commonwealth secretariat. Oxfam's director, David Bryer, made his support clear very early on and observed, "The political initiative has at last caught up with the economic reality that current debt levels are unsustainable."[60] Wolfensohn clearly had the larger context in mind. Noting that the Bank was "not doing this in isolation" and that "there is a lot of emotion out there and a need to do something," he said there was "no doubt that if we were to stop the debate tomorrow, the debate will continue around the world sponsored by many, many organizations who are giving this central focus and were indeed doing so even before my arrival." The proposal generated a split among many of the NGOs working on debt, largely because of the continued link between debt relief and structural adjustment. Divisions among the NGOs remained as the HIPC saga unfolded, and an Oxfam official working in the U.S. had a law about them: "My law of Washington is that people who are making less compromises than you are sellouts who don't know why they're in this business. And people who are making less compromises than you are wild-eyed idealists who have no idea how to accomplish something and would rather be right than make any change in the real world. Virtually everyone sees themselves as the midpoint in the spectrum."[61]

Initially, the leak did galvanize opposition to the plan among more hard line G-7 governments. Although the initiative was likely to help only about 20 countries and not quickly, it was resisted strongly from the beginning by Japan, Germany, and Italy, even Belgium, because of concerns, not always expressed explicitly, about cost, burden sharing, moral hazard, and issues related to the proposed sale of IMF gold reserves; it was likewise seen to undermine the credibility of the IMF and the World Bank as enforcers of major economic reform. The United States continued to have doubts along the way. The Paris Club secretariat was highly suspicious of the plan, as was much of the IMF staff. The Paris Club staff, and the French government, fought a vigorous battle right up to the day HIPC was approved. At the time of the leak, the French complained vigorously that the leaked document had significantly lifted expectations that the Bank was making a dramatic change in regard to debt and left the premature impression that

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59 Quoted in George Graham, Financial Times, October 10, 1995, p. 5.

60 Quoted in Michael Holman, "IMF cool to World Bank debt plan," Financial Times, September 15, 1995, p. 6. Oxfam issued a report in support of the proposal at the time of the annual meetings in early October, "Multilateral debt: and end to the crisis." The Commonwealth secretariat commissioned a study by Dr. Tony Killick of London's Overseas Development Institute, entitled "Solving the Multilateral Debt Problem," which it issued in early October.

61 Quoted in, Andrew Bauck, "Oxfam and Debt Relief Advocacy," Cascade Center for Public Service, Public Service Curriculum Exchange, 2001, p. 10.

Bank shareholders approved of the plan and that Bank and Fund positions were the same. Yet the British said that they were afraid of the opposite – the perception that the Fund and the Bank were squabbling.

C. The Politics of an Emerging Initiative

By late January 1996 the Bank and the Fund had jointly produced two papers on the nature of the problem and on the concept of debt sustainability and the application of it to the 41 HIPC countries;[62] both papers were discussed in an informal session of the Bank's Executive Directors in late February. By early March the Bank and Fund had put together a basic proposal for HIPC debt relief;[63] it was discussed at a meeting of the Bank's Executive Directors on March 14, 1996. The UK, Switzerland, Belgium, and Canada expressed strong support for the proposal, with a few suggestions to make it more realistic. They urged continued forward movement. The U.S., Russia, China, and India provided support in principle in the spirit of supporting a consensus for more action. The Netherlands and Sweden, on the one hand, and France, Germany, Italy, and Japan, on the other, all expressed hesitation, but the two groups had different reasons -- the former that the initiative was not strong enough, the latter that it was too strong. France expressed considerable skepticism, indicating that the approach was unrealistic and unworkable. In particular, it criticized the assumption that the Paris Club would go to 90 percent debt reduction as part of the mechanism. Above all though, the issue that started to rear its head in a clear way was widespread concern, by proponents and opponents alike, about how the initiative was to be funded. The Bank's Development Committee welcomed the proposed framework in its April meeting. Bank and Fund staff had done what it had asked of them the previous October – a striking achievement, given the strong initial opposition to the revised version of the Bank's working group paper, as well as the earlier version of it that was leaked to the *Financial Times*.

Over the months between April and September 1996 more staff work was done, particularly on financing issues and on two illustrative cases – Uganda and Nicaragua. Bank Executive Directors discussed this work on September 10, 1996, almost exactly a year after the Bank's working group document was leaked. By this time the battle had turned definitively from accepting the initiative to how to fund it. Even its strongest supporters now became vigorous examiners. In short, the battle now shifted to one that pitted all the bilateral creditors against the Bank, and, to a lesser degree, the Fund. Burden sharing now became the obsession. The UK, for example, indicated that all creditors should make a fair contribution and that it would be wrong to condition multilateral action on prior bilateral action. Yet it was never obsessed about cost issues, assuming that they would be worked out over time as the pressure increased to fulfill raised expectations; it was more focused on getting the structure of the initiative in proper shape. The U.S., Japan, and Canada also noted that it would be wrong to condition multilateral action on prior bilateral action. France, Italy, and Germany were skeptical

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[62] World Bank/IMF, "Analytic Aspects of the Debt Problems of Heavily Indebted Poor Countries," and "Debt Sustainability Analysis for the Heavily Indebted Poor Countries," January 31, 1996, SecM96-94.

[63] IMF and World Bank, "A Proposed Initiative for Assisting HIPCs," March 6, 1996, R96-0036.

about equal burden sharing because the Paris Club had not discussed, much less agreed to, 90 percent reduction. Only Sweden felt that it might be wise for the Paris Club to contribute more than the Bank.

The more technically capable NGOs such as Oxfam International and Eurodad made important contributions to the design of the HIPC apparatus, not always getting what they wanted but certainly making a difference as advocates of the debtor countries. In fact, it was one of the NGO consultants from the epistemic community that came up with a key compromise formula that the IMF and World Bank were to be "preferred but not exempt." Oxfam in particular had excellent access to key executive directors on the boards of both the IMF and the World Bank, to staff in each institution, and to finance ministry officials of key creditors. The same holds true for some of the academic fragments of the epistemic community interested in debt.

What finally emerged was the complicated Rube Goldbergian[64] mechanism that the HIPC Initiative came to be, with the Paris Club continuing to have a central role while allowing the IMF, the World Bank, and the other multilateral creditors to tackle their debt problem with the HIPC countries. The IMF was brought on board as Michel Camdessus eventually saw the wisdom of trying to steer the design of the mechanism rather than resist it. In addition to seeing the writing on the wall, some evidence exists that he was influenced by the arguments of the Catholic Church and its debt-focused NGOs, as well as by other religious figures.[65] Over the years Pope John Paul had sent senior aides to the IMF and World Bank to argue for debt relief. The HIPC Initiative was formally approved and announced at the September 1996 Fund/Bank joint annual meeting. It was the result of the complicated interactions of the triple helix that combined normative social pressure and influence of NGO networks, the ideas of epistemic economists and small creditor states, leadership by a major G-7 creditor heavily influenced by its own NGOs, learning and leadership change at the World Bank, eventual acquiescence and serious negotiation on the part of the IMF, and a set of complicated political compromises between the major players of the international debt regime, but particularly major creditor states and the IMF and World Bank. This confluence of factors allowed striking but still limited innovation. The absence, however, of one or two of these elements could have led to no innovation, but instead to continued halting adaptation. Think, for example, what the outcome might have been with different governments in the U.S. and the UK, different leadership at the Bank, or the absence of NGO pressure and proposals.

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[64] According to Webster's Ninth New Collegiate Dictionary (1983), Rube Goldbergian is an adjective named after an American illustrator that means, "accomplishing by complex means what seemingly could be done simply" as "a kind of Rube Golberg contraption…with five hundred moving parts."

[65] Confidential interviews; also see "Summary: Seminar on Multilateral Debt," Archbishop's House, Westminster, London, February 12, 1996, Cardinal Basil Hume presiding. Contact with Catholic NGOs continued as HIPC was implemented; see "Briefing Notes: Michel Camdessus, Managing Director, International Monetary Fund, May 30, 1997," typescript, about a meeting between Camdessus and two well informed Catholic groups in Washington on that date.

The intent of HIPC was to provide an exit from the rescheduling process by reducing debt to "sustainable" levels so that it is not an impediment to growth and poverty reduction. It was billed as a "new paradigm" for international action, despite the fact that it built on existing mechanisms in a very complicated way. It was meant only for those countries that demonstrated a strong commitment to major IMF and World Bank economic reform for at least six years and was conditioned on continued compliance with their dictates. In a complex, multi-stage process, the Paris Club countries would provide concessional debt relief and reduction on a case-by-case basis to eligible countries, with the IMF and the World Bank providing important formal debt relief for the first time. In fact, the HIPC apparatus shifted the center of gravity from the Paris Club toward the IMF and the World Bank because they were tasked with doing the debt sustainability analyses central to the process. All non-Paris Club creditor countries and commercial creditors were supposed to provide comparable treatment, although how this would be achieved was not clear. With Russia now a member of the Paris Club, about $170 billion of Soviet-era debt was to be brought under the HIPC umbrella. Initial estimates put the cost to the creditor countries, the IMF, and the World Bank at about $5.5 billion, with the hope that it would catalyze private financial flows and help reintegrate these countries into the global economy in productive ways. The cost would prove to be much higher, however, and the catalytic effect much lower.

Slow Start

Although the HIPC initiative was formally adopted, disputes over financing and case modalities were to significantly slow its implementation. On September 19, 1996, for example, the chairman of the Paris Club issued a letter that urged the Fund and the Bank to "move forward to define and implement the contribution they intend to make – out of their own resources." The Paris Club agreed that for a quite "limited number" of countries – "on a case-by-case basis" – that it would go beyond *Naples* terms. The following July, the chairman of the Paris Club wrote again indicating that it would after all agree to up to 80 percent reduction of eligible debt subject to proportional action by the other bilateral and multilateral creditors.[66] A number of bilateral creditors made it clear that any effort to get the Paris Club to go higher than 80 percent would set off "difficult discussions." Sweden pointed out that these burden sharing battles were the main reason for the slow implementation of HIPC.

Similar battles were fought over contributions to the HIPC Trust Fund, with the U.S., Canada, Germany, Japan, Belgium, and Australia insisting that the contributions be voluntary. Wolfensohn stuck to the Bank's position that the Paris Club should go to 90 percent debt reduction and that, in order to protect the preferred creditor status of the Bank, he did not want to do more than the bilateral creditors. He warned that if these were not possible then the objectives of the initiative might have to be adjusted. All the

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[66] Letter from the Paris Club to the Interim Committee, September 19, 1996; "Communication from the Paris Club," Paris club Chairman's Summary, July 15, 1997.

while the projected costs of the initiative continued to rise.[67] The U.S., UK, Japan, and Sweden and the Netherlands strongly suggested that the multilaterals provide additional resources. France insisted that the bilateral creditors should not have to bail out the multilaterals. Germany and Italy expressed similar concerns; while Canada, the Netherlands, and Switzerland worried that cost considerations were unduly affecting the determination of debt sustainability ratios in cases under consideration.

At the same time battles were being waged on other fronts, such as the nature and length of track record. [68] The form of conditionality, the degree of flexibility that might be introduced in specific cases, the setting of sustainability ratios, and moral hazard were among others. Many of these battles were fought over Uganda. It became the first country to enter the complicated multi-staged HIPC process, but not without considerable controversy. Some actors did not want to start with Uganda precisely because its case for relief was so strong they feared making precedent, setting changes in the delicately negotiated framework almost before it was off the ground. Key Paris Club creditors, such as Japan, remembered all too well how the ratchet effect worked in the Paris Club. This fed fears about loosening of agreed criteria, moral hazard, and increased costs. Major battles over funding and technical design were fought over Uganda, and the Ugandan government lobbied effectively, in part by using NGOs to push the country's case over a wide range of issues. It freely shared data with the best of the NGOs, Oxfam International in particular, and used its epistemic contacts to great effect. It also sent a high-level delegation to Eurodad's annual conference in January 1997 and, working with the NGOs, it actively used major international media to make its case.[69] Oxfam weighed in with a hard-hitting press release:

> This decision [to delay] will hurt the poor people in Uganda. This year many children, especially girls, will not be going to school, many health clinics will go without basic medicines. The decision also sends the wrong signals to those other countries undertaking painful economic

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[67] Thailand and other middle-income countries suggested that states that were concerned with this problem and "with vested interests in the HIPCs" should finance the initiative. This was a reminder that other developing countries saw HIPC as an initiative of the big powers that served their interests, hence they should pay the costs. A good number of middle-income countries had real ambivalence about HIPC.

[68] In discussing track record, Argentina cautioned that the assumption that good economic policy leads to improved economic conditions was based on thin evidence and thus that it is important to factor in the possibility that in some countries the supply response of reform efforts may not come quickly. While not intending to do so, this important Latin American country, one that is now in serious trouble -- yet again, made a shrewd comment on the nature of the structural dilemma that led to the HIPC in the first place.

[69] See, for example: D. Kitabire [Finance Ministry official], "The HIPC Debt Initiative and Its Implementation in Uganda," presentation to the Eurodad Annual Conference, the Hague, January 28, 1997; J.S. Mayanja-Nkangi, Minister of Finance, "Delayed debt will cost Uganda dearly," Letter to the Editor, Financial Times, March 10, 1997. On NGOs in Uganda, see Susan Dicklitch, The Elusive Promise of NGOs in Africa: Lessons from Uganda, (New York: St. Martin's, 1998).

> reforms. If Uganda, which is seen as the jewel in the economic reform crown, is so shoddily treated what incentive is there for other countries.[70]

A Ugandan debt NGO, the Uganda Debt Network, also lobbied both in Uganda and at the global level for quick application of HIPC to Uganda.[71]

The Bank's Executive Directors finally discussed the decision point documents for Uganda in late April 1997. The U.S., UK, Canada, and the Netherlands supported a low debt-to-export ratio in order to ensure a robust and well deserved outcome, while Japan, Germany, and Italy supported a higher ratio because Uganda was not seen as vulnerable and because of fears about cost inflation and the use of IDA resources. France expressed concern about multilateral burden sharing, assuming that the Fund and the Bank would have to pick up the share held by the African Development Bank. Given Uganda's exceptional track record, more consensus existed on establishing a shorter period to the completion point, but even here Japan and Italy argued for the standard time to completion point in order to ensure strong policy performance.

Thus, Uganda became the first country approved for HIPC treatment after important battles were fought on several fronts. Uganda did not get everything it wanted but far more than it would have without the efforts of the NGOs and their epistemic community allies. Similar processes played out with Bolivia, Côte d'Ivoire, and, more contentiously, Mozambique. Hence, the main NGOs and their epistemic community allies played a major role in affecting the design of HIPC thereby altering the structure and process of the international debt regime, *and* they continued to be influential with each county case as it came up, helping to defend the debtor's interests in the face of powerful larger forces. Finally, in April 1998, Uganda received its first actual HIPC debt relief, a year and a half after the initiative was launched. One Western diplomat praised Uganda's pro-active approach by "adopting the reforms as their own and not using the IMF and World Bank as scapegoats when the going gets tough."[72] HIPC lead to considerable institutional learning for Bank and Fund staff. Coordination became far greater, although tough battles were fought, with hard bargaining and difficult political compromises on many fronts over a variety of procedural and substantive issues. This accounts for much of HIPC's slow start. Some of the battles went all the way up to both Boards. There were two big debates over: [1] long-term debt sustainability, and [2] other resources flows and additionality. The rise of HIPC was a very political process.

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[70] Justin Forsyth, Oxfam International press release, "Oxfam condemns delay on Uganda's debt relief: A betrayal of the commitment to reduce poor country debt," Washington, April 23, 1997.

[71] On the Uganda Debt Network (affiliated with Jubilee 2000), see http://www.uganda.co.ug/debt.

[72] Quoted in "Uganda Debt Deal Seen Boosting Investor Confidence," Reuters, April 9, 1998 [Internet].

HIPC Blends and Ratchets: Côte d'Ivoire

As with Paris Club debt agreements, country cases in HIPC always have some blend of economic and political considerations. The classic early HIPC case was Côte d'Ivoire. France very strongly wanted Côte d'Ivoire to be one of the first cases, although it was not eligible under the initial guidelines. France thus suggested that fiscal indicators be used, particularly since the country had a very open economy. France argued that this could be done without any substantial change in the framework because the criterion had been originally discussed but excluded on what France considered to be an "extremely narrow interpretation" of eligibility. When the IDA Executive Directors met informally in April 1997 to discuss Bolivia, Burkina Faso, Côte d'Ivoire, and Uganda – the first four possible cases, the French executive director put the political case very clearly: "If it is impossible to agree on flexibility along the lines that I have suggested, my authorities will publicly state during the spring meetings their judgment that the current framework is fundamentally flawed; that it is doomed to be implemented in such a narrow way that only a handful of countries will be privileged to be declared eligible, and that the framework, therefore, needs to be redesigned before any decision, even in principle, on eligibility can be taken. *They would, of course, regret delaying the first case* [Uganda]."[73] He went on to say that if flexibility could not be achieved, "I think we would expect a lively political debate at the Interim and Development Committee meetings."

The Netherlands, as well as Mozambique and other developing countries, argued for flexible and broad-based criteria, while the UK, U.S., Sweden, Canada, Australia, and Germany argued that the flexibility be kept within the existing framework. Japan opposed the new criteria, indicating that the changes undermined past discussions and might cause delay in implementation. Italy expressed similar concerns, while the Swiss too believed that it undermined the original design of the initiative. With this in mind, Belgium indicated that the process lacked transparency and suggested that the staff prepare new guidelines for implementation. The staff did so and included the new fiscal and open economy considerations to be used on a case-by-case basis for countries that fell below the 200 percent debt-to-export ratio. France was very pleased with the "very objective grounds" that were the basis of the new guidelines. In the discussion of the new guidelines, Japan again stated its opposition to the change, but indicated that it would agree to the change as long as it was the last change and that no further loosening be allowed. Russia formerly abstained, expressing surprise at what it believed to be the weak analytic basis for setting sustainability criteria. Italy, India, China, and Indonesia expressed similar concerns. In the same vein, Switzerland also formally abstained, indicating that if the criteria were to be changed, they should be applied to all of the HIPCs and not only on a case-by-case basis. Since the fiscal criteria were later added as new sustainability ratios and aspects for vulnerability assessments for all HIPCs, Côte d'Ivoire is not only an example of a strong politico-economic blend case, it is also a prime example of the ratchet effect in action.

[73] Emphasis added.

With additional cases, many of the rules were bent or stretched in order to provide more relief, some as a result of debtor and NGO pressure on specific cases, some from the creditor side as individual creditors wanted special deals for their clients, as with France for Côte d'Ivoire. At the same time Ghana was ineligible because it had been adequately and responsibly servicing its debt, which was hence considered to be sustainable. It is ironic that Ghana thus suffered from a form of "moral hazard" by paying its debts, although not the kind much trumpeted by critics of alleged Fund and Bank "bailouts" of countries and private creditors. Another major irony emerged for Ghana with EHIPC, as will be discussed below.

Serious doubts remained, however. Major NGOs -- led by Jubilee 2000, Oxfam and Eurodad -- maintained that the Paris Club and, in particular, the IMF lacked the will to achieve serious debt relief. They claimed that IMF conditionality was much too stringent; challenged the way sustainability, vulnerability and threshold indicators were assessed; and pointed to weak comparability mechanisms and, above all, to a seriously inadequate commitment to poverty reduction. Oxfam charged the IMF and some of the major countries with systematic attempts to delay and restrict implementation, partly through data manipulation, while asserting that industrialized countries could easily afford the costs. Not all of the 41 HIPC countries were to be eligible for HIPC relief. In fact, only about half of the original 41 were likely to even be considered, and only seven countries had even entered the process after three years.[74] On both the technical knowledge and moral discourse fronts, the battle for greater representation, accountability and, hence, according to the NGOs, better international economic governance would continue.

V. Enhanced HIPC

The shock of the Asia crisis slowed the momentum of the debt relief movement, a fact about which HIPC leaders were particularly bitter. Kwesi Botchwey, the architect of Ghana's mini-economic miracle, noted that the projected cost of HIPC was only "about a fifth of the resources that were mobilized in the space of a few months for bail-out operations for a handful of countries as a result of the Asia crisis."[75] But as a result of renewed pressure, the World Bank in late 1998 and 1999 undertook a quite wide-ranging and intensive two-stage process of consultation and review of HIPC. Informal consultation and exchange had now become formal and institutionalized. It included regional meetings, including one in Africa,[76] with NGOs and debtor governments and

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[74] The seven were Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, and Uganda; packages for Ethiopia and Guinea-Bissau were discussed but put on hold due to armed conflict (a criterion never applied to Uganda, however). Benin and Senegal were evaluated and declared to have sustainable debt.

[75] "Financing for Development: Current Trends and Issue for the Future" paper for UNCTAD X, Bangkok, February 12, 2000, p. 12.

[76] HIPC Review Seminar, July 29-30, 1999, Addis Ababa, hosted by UNECA. It was attended by 21 African countries, including Nigeria, Ghana, and Sierra Leone; donor countries such as Canada, the

consultation via a specially created set of Web pages administered by the World Bank. At the same time close consultations and negotiations took place among the creditor players in the debt regime. Out of this process came EHIPC in September 1999. Almost everybody took credit for it, of course, including the major creditor countries, especially the U.S. A Treasury report stated that "the United States led the effort to redesign the HIPC Initiative to provide deeper, broader, faster debt relief."[77] The claim was that the U.S. got everything it wanted. That may be so, but it got things it had not wanted even two years earlier.

In the emergence of EHIPC, the evolution of views of key G-7 players did make a real difference: the intensifying interest of Gordon Brown in the UK (reinforced by NGO pressure), Clinton's trip to Honduras in March 1999, which also raised Congressional interest or at least knowledge about the problem, and, above all, the change of government in Germany and the altered views of Chancellor Gerhard Schroeder's government, reinforced by the fact that Germany was the host of the next G-7 meeting in Cologne. The Development Committee and the then Interim Committee also helped to maintain pressure to maintain progress on poor country debt, especially leading up to EHIPC. Bank staff used the Development Committee to maintain momentum, and the NGOs put pressure on both committees. This also allowed the views of other countries to be manifested.

EHIPC was meant to be "enhanced" -- bigger, better, faster. The World Bank claimed that it would cost about $30 billion, possibly more, and that it would cut in half the approximately $90 billion in public debt of the 33 HIPC counties it considered likely to qualify eventually for relief. Many actors had serious doubts, however. Funding was not ensured even for the first couple of years, the amount of increased debt relief remained questionable, and the NGOs and debtors worried about the issue of "additionality" -- that is, whether this debt relief would be in addition to all other assistance and not just another version of it at the same level. Thus, the "failure of the implicit bargain" holds for debt relief as well as structural adjustment – in short, explicit and implicit promises that additional resources from the public *and* private sectors would follow to help to maintain debt sustainability have not been fulfilled. While loosened somewhat, major conditionality remained; in fact, as noted below, the NGOs ended up creating new forms of conditionality, despite their longstanding opposition to it. This just goes to show that one's view of conditionality depends a great deal on the type of conditionality; each actor likes its own type of conditionality.

Netherlands, Switzerland, the United Kingdom, and the U.S.; international organizations such as the ADB, IMF, World Bank, IDB, OECD, UNICEF, UNDP, WHO; research organizations such as the Institute for Development Studies and the Overseas Development Institute; and NGOs such as AFRODAD, Uganda Debt Network, EURODAD, Oxfam, Christian Aid, World Vision, Debt Relief International, and Jubilee 2000. Honduras, Russia, and the European Commission also attended the meeting. On the consultation process, see www.worldbank.org/hipc/hipc-review.

[77] "US Debt Reduction Activities FY 1990 Through FY 1999," Public Report to Congress, Feb. 2000, p. 9.

A. Rise to Dominance of Poverty Reduction

One significant change incorporated in EHIPC is that all debt relief is now to be tied in a detailed way to poverty reduction. This is to be ensured by the creation of Poverty Reduction Strategy Papers (PRSPs) put together by debtor countries *in consultation with civil society groups*. In theory at least, IMF and World Bank adjustment lending programs are to be finalized only after these efforts have been taken into account. The PRSP process is very demanding. The IMF noted, "These strategies must be genuinely country-owned and reflect the outcome of an open participatory process involving governments, civil society, and relevant international institutions and donors." These plans "should contain systematic and participatory analyses of poverty, short- and long-term tradeoffs of alternative policy decisions, and the impact of proposed reforms for the most vulnerable social groups. These strategies will also address the critical, and often complex, issues related to building capacity, enhancing governance, and supporting transparency in policymaking." In addition to far better data, "the PRSPs will need to include clear, monitorable key actions that would allow, if endorsed by the two Boards, a country to reach its completion point under the HIPC Initiative; it is also essential in this context that all available resources are integrated in a transparent, accountable budgetary framework, which could include poverty/social funds, to ensure their effective use to combat poverty."[78] An elaborate process of consultation was developed for the PRSPs, and a much simpler one for the interim PRSPs that were used to keep the process moving.

B. NGOs and Poverty Reduction

If seriously implemented by all sides, this new process could be an important change in international governance on debt, aid, and development more generally, and could have implications for the unfolding of democratization processes in HIPC countries. In addition, it has the potential to be a process for enhancing state capacity and legitimacy. A report by a leading NGO was uncharacteristically almost giddy about the possibilities:

> The IMF and World Bank have now agreed to provide assistance to countries within a framework whereby countries will, through a process of consultation with civil society, the private sector and external donors, develop their own poverty reduction strategies. This could become a *turning point* in the way these institutions and the wider aid community support development. Poverty reduction is intended to be 'front and center' of all IMF/World Bank operations, including macroeconomic policies.

[78] IMF and IDA staff, "Poverty Reduction Strategy Papers--Status and Next Steps," November 19, 1999, at www.imf.org/external/np/pdr/prsp/status.htm.

> These changes could mean that civil society becomes truly engaged in the design of national policy. It could mean that the existing economic paradigm would be debated openly in poor countries, with the potential impacts on the poor, both positive and negative, discussed and addressed. Clearly there are difficulties with this new approach. Some governments may not want to open up and may want to continue a closed system with the Bank and the Fund.
>
> For the first time, it could be that policy design will not be done in Washington or by a few Ministry of Finance officials, but openly in the country concerned.... The changes therefore offer major opportunities to civil society in developing countries, and their partners in the North, to address this agenda and to hold both institutions, and governments, to account.[79]

The NGOs see the changes incorporated into EHIPC as major victories with implications far beyond debt relief and poverty reduction for poor countries. These victories are part of a larger ongoing process of making the IFIs more transparent and accountable,[80] resulting from a combination of discourse, networks, expertise, bargaining, and pressure. The NGO networks have thus become an important new part of international economic governance. They are, however, aware that this process could easily go astray. As a result, the NGOs have made it very clear they will be vigilant and protective of their newly won gains: "Finally, powerful governments and the Boards of the Bank and the Fund are aware that Jubilee 2000 and civil society organizations around the world are watching these developments and will raise havoc if these changes are not implemented seriously."[81] It remains to be seen whether the NGOs have the financial and administrative resources to maintain careful vigilance over the long term. After Seattle, however, they believed this threat to be much more credible, especially since the social movement capabilities of the NGOs have grown significantly. The NGOs attempted to prove this with their A16 or "Mobilization for Global Justice" mass direct action campaign at the IMF/World Bank spring meetings in Washington, D.C., April 8-17, 2000 using the slogan "De-Fund the Fund! Break the Bank! Dump the Debt!"[82] and then again at the annual meetings in Prague in October.

In fact, the NGOs may be correct. "The battle for Seattle" may have been both a substantive and symbolic turning point. The social and political weight and influence,

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[79] Oxfam, "Outcome of the IMF/World Bank September 1999 Annual Meetings: Implications for Poverty Reduction and Debt Relief," Oxfam International Policy Paper, October 1999; emphasis in the original.

[80] This process is not purely the creature of the political left, however. For a vivid reminder of this, see what has come to be called the Meltzer Report: the Congressional International Financial Institution Advisory Commission's report, http://phantom-x.gsia.cmu.edu/ IFIAC/ USMRPTDV.html.

[81] Oxfam, "Outcome of the IMF/World Bank September 1999 Annual Meetings."

[82] On these demonstrations, see the A16 web site: http://www.a16.org.

via both public and private channels, of the NGOs and their related social movements have reached a maturation point that has been building for more than 20 years such that they may well be able to hold the feet of the major players to the fire. The innovations of HIPC and EHIPC were things achieved not by the North-South state-to-state bargaining of the NIEO era, but rather by taking the politics of this and other issues inside the political arena of the major industrial democracies. Does this mean, as some have grandiosely claimed, that a "global civil society" has emerged? No, far from it, if for no other reason than that it is still mostly a "Northern" phenomenon. Nonetheless, something basic has changed; a new reality that has been emerging quietly for a long time is now a fact of life for states and IFIs.

Major actors on the creditor side have, often with gritted teeth, praised the role of the NGOs while trying to coopt them via consultation or deflect them. It is not at all clear who is being coopted, however. In 1999, former U.S. Treasury Secretary Larry Summers commented on how "grateful we are to the many committed NGOs and others in the development community who have kept debt relief high on the international agenda this year and helped to generate the political will for action... Thanks in large part to the efforts of the Jubilee 2000 coalition, the advent of the millennium has given us an historic opportunity to accelerate these efforts, and help these countries finally build an attractive environment for private investment and market-led growth." Referring to the fragile nature of EHIPC, especially given that it is far from adequately funded, the IMF's former Managing Director, Michel Camdessus, noted that "it shows us above all, how fragile our collective commitments are, and how small the chances that they will be fulfilled without a universal mobilization of public opinion, as has been the case with Jubilee 2000."[83]

One World Bank official put it more directly. After acknowledging that the NGOs in Jubilee 2000 have provoked a necessary and healthy debate and played a critical role in forcing a discussion in industrialized countries on debt, he noted that "we are continuously being monitored and told what needs to be improved. Groups have proposed different ways to ensure that countries channel the savings from debt relief into social programs. And other groups have asked that projects financed with debt relief, as well as new lending, be closely monitored to avoid mistakes of the past."[84] The NGOs, of course, give themselves much of the credit. Oxfam, for example, claimed that "without such visible public pressure, politicians in the G7 and other countries would not have given HIPC reform the impetus required; and without strong advocacy from a wide range of NGOs and other actors, policy makers would not have been pushed into

[83] Lawrence H. Summers, "Conference on Debt Relief and Poverty Reduction," Washington, DC, Treasury News press release, July 26, 1999 at www.ustreas.gov; Michel Camdessus, "From the Crises of the 1990s to the New Millennium," remarks in Madrid, Spain, November 27, 1999, www.imf.org/np/speeches/1999.

[84] Axel Van Trottenberg quoted in a World Bank review of HIPC, April 5, 1999, www.worldbank.org/html/today/archives/apr5-9-99.

improving mechanisms with such strong linkages to poverty reduction."[85] This assertion is largely correct.[86]

The obstacles confronting the new debt framework that the NGOs have helped to create are numerous. Above all is the viability and credibility of the PRSP consultation process. Camdessus made this very clear in one of his last speeches:

> The participation of civil society is crucial; people must assume ownership of the major economic choices adopted by their countries. *But, of course this process cannot fail to raise many questions.* How can such a process be effective in countries where civil society -- especially its poorest segments -- is not yet well organized, or where democracy is only now taking root? How can we ensure that the process builds capacity of governments and elected institutions? Will this approach be too costly for countries with weak administrative systems? How can we ensure that the consultative process does not result in undue delays in mobilizing badly needed external assistance?[87]

Although Larry Summers asserted that "there is no time to waste in channeling debt relief to the very poorest" and "we should not and must not allow that opportunity to go to waste," he pointed out that:

> At the same time, we know that institutions and policies that will effectively target critical social needs take time and commitment to put in place. And we know that where these things are not in place, support earmarked for one purpose can easily flow to other less deserving ones. Spending targeted for rural health must not become state-of-the-art urban hospitals. And spending intended for raising basic literacy must not translate into more free places at university for the children of the elite. We must work to ensure that improvements in the quality of these investments proceed on the same timetable as increases in their quantity.[88]

The NGOs sense that they are caught in a dilemma of their own creation – the tension between the need for swift debt relief and the newly won imperative of consultation with civil society. Their main response is that extensive civil society

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[85] Oxfam, "Outcome," p. 7.

[86] Demonstrating influence is a methodologically difficult task; one way is process tracing via numerous and carefully crafted interviews that attempt to verify information via "triangulation." This section draws on a series of confidential interviews.

[87] Michel Camdessus, "Poverty Reduction and Growth: An Agenda for Africa at the Dawn of the Third Millennium," Libreville, Gabon, January 18, 2000, at www.imf.org/external/np/speeches/2000/011800.htm; emphasis added.

[88] Summers, "Conference on Debt Relief," p. 3.

capacity-building efforts are needed, and they want the IFIs and the donors to pay for it, while they help provide it. Despite their longstanding opposition to structural adjustment and conditionality, many of the NGOs are now very much part of the process. For their part, many HIPC countries see an even longer structural adjustment laundry list and a much more complicated, and politically sensitive, process. HIPC leaders wondered what they were to do if the PRSP consultation process led to demands for the return of subsidized food, health, transportation and educational programs as part of a poverty reduction strategy! President Chiluba of Zambia said, "Then we were told, no, no, no, Africa needs to embrace the spirit of partnership with NGOs but the NGOs where I come from, ZCTU [Zambian Confederation of Trade Unions] also want increased wages. And then the IMF says do not give them, we do not know which way to go."[89]

Funding again became an issue, and this time the NGOs did battle on a different front – the U.S. Congress. In October 2000, a complex Jubilee 2000-led bipartisan coalition, which included major business support, convinced the U.S. Congress to fully fund the U.S. contribution to HIPC, grant approval to use IMF gold proceeds to fund it, *and* declare its opposition to the imposition of user fees for basic healthcare and education in structural adjustment programs for poor countries. The latter is to be enforced by the Treasury and U.S. representatives to the IMF and World Bank. This was accomplished by making effective normative appeals to conservative House Republicans who then allied with liberal Democrats and the U.S. Treasury, along with some clever policy proposals and intensive, hardheaded, and intelligent lobbying.[90] This is yet another interesting example of how economic governance patterns are opening up in interesting ways.

For savvy governments who already have experience and have developed state capacities in the social policy arena, such as Ghana and Uganda, the new HIPC process offers real opportunities; for others, this is far less clear. Many hope that the PRSP process will strengthen democratization and state capacity building efforts, but actors of all types are skeptical. For the IFIs and the creditor countries, this process also quietly shifts important responsibility to the international and African NGO community.

C. EHIPC and Uganda

For some countries, such as Uganda, the benefits will be real and supportive. As with HIPC, Uganda was the first country to benefit from EHIPC. It will receive debt

[89] Quoted in in Bivan Saluski, "IMF reforms have brought poverty, says Chiluba," The Post of Zambia (Lusaka) February 9, 2000.

[90] See Bauck, "Oxfam and Debt Relief Advocacy," pp. 16-17; this is a fascinating and very complex story, one that I have good interview data on. The latest twist is Bono taking U.S. Treasury Secretary Paul O'Neill on an Africa debt relief tour.

relief of about $55 million annually over the next 30 years under EHIPC in addition to the $45 million annual relief agreed to under HIPC. At a Consultative Group meeting in March 2000, donors pledged about $2.5 billion over the following three years for poverty reduction under Uganda's Poverty Eradication Action Plan (PEAP). At the same time, they criticized official corruption as well as Uganda's involvement in the war in the Congo.

The Uganda Debt Network continued to grow and increase its capabilities. By late 2000 it had more than 60 institutional members as well as strong ties to the Uganda Joint Christian Council and business, student, and labor organizations. The Catholic Church gave it particularly strong support. It held several campaigns in Uganda to raise the level of awareness about debt relief, as well as participated in Jubilee 2000's international activities, especially lobbying about EHIPC treatment of Uganda. It launched a major anti-corruption drive to make sure debt savings were used properly and lobbied parliament about future debt levels. Above all, however, it was becoming very active in coordinating civil society participation in the PRSP process, with the help of Northern NGOs. Lastly, it improved its own organizational capabilities and created its own independent Website.[91]

Ugandan NGOs have helped make Museveni's Uganda stronger while increasing creditor country and international financial institution accountability. Uganda succeeded because it was perceived by the major actors in the debt regime to be doing what was expected of it. Without Uganda's decade of impressive economic reform, it would not have been able to help make changes in the debt regime and benefit from them. In many ways, it is still a self-help world. With its pro-active behavior and the help of other actors, Uganda government has been able to grab back some sovereignty and build new capacity, while increasing its legitimacy. In the current African context, this is no mean feat for a HIPC. Nonetheless, Uganda has not yet been able to break the back of the structural dilemma. Private capital is not flowing into Uganda in any substantial amount; it remains heavily dependent on grants and debt.

In April 1998 Jubilee 2000 helped to form Jubilee 2000 Afrika in Accra, Ghana, as a regional coordinating body for debt campaign work in Africa. By late 2000, Jubilee 2000 had campaigns in more than 20 African countries, with active organizations in at least 14 of them. Many of these were based on existing local NGOs, such as the Jesuit Centre for Theological Reflection in Zambia, which joined with the Zambian Catholic Commission for Justice and Peace to launch a debt campaign in 1998; it was also running the Jubilee 2000 campaign in Zambia. By early 2000 its main focus was on making the PRSP process operate in an open, accountable, and effective manner. It worked to build the capacity of civil society groups to take part in the process and helped to coordinate it. As with the Uganda Debt Network, it ran its own Website and had its own international and regional ties. In February 2000 it held a national conference on debt and proposed a Zambian Debt Mechanism to ensure that all debt relief goes to poverty reduction. The

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[91] For a good look at the activities of the Uganda Debt Network, see its website at http://www.udn.or.ug.

group's coordinator summed it up succinctly: "Jubilee 2000-Zambia has come a long way in a short time. A silly idea, a crazy dream. But now the reality! Please keep giving us your hard work and dedication – we have a long ways to go yet. But we are moving and the goal – poverty reduction in a society of greater justice – is too great to be slow about."[92]

Similarly strong efforts exist in Mozambique, Tanzania, and elsewhere. In short, African NGO work on debt is sinking real roots and moving beyond debt relief, facilitated by the victory of the international NGOs on the issue of the linkage between debt relief and poverty reduction, and more recently between debt and AIDS. They may be taking on viable social movement characteristics. In addition, it is now possible to find situations where African and international NGOs do not completely agree on how debt savings should be applied to poverty reduction in particular countries and where African NGOs are influencing the views of the international NGOs on this and other matters. This should be taken as a good thing.

Unforeseen events can get in the way, however. Although excluded from HIPC because it was servicing its debt, Ghana was included in EHIPC and should have been next in line after Uganda. It was not to be, despite Ghana's expectation of obtaining much deserved early relief. Japan announced that any country that took advantage of EHIPC debt relief would forgo any further Japanese concessional aid. Japan is Ghana's biggest donor country. As a result, one of Africa's two-star economic reformers "voluntarily" withdrew from EHIPC. As Kwesi Botchwey lamented with understatement, "It is worth noting that Japan's decision to make countries, notably Ghana, choose between HIPC relief and continued Japanese assistance is an unfortunate development." He adds, "Ghana has in fact opted out of the HIPC Initiative for this reason, although it is by no means clear that this is in its best long-term interest."[93] After vigorous public debate, Ghana eventually changed its mind and was granted EHIPC relief in February 2002.

D. An Assessment of EHIPC

On the donor side the hope is that this process will build legitimacy and "ownership" of structural adjustment programs without cutting the heart out of them. This may be difficult to accomplish. Expectations have been raised very high by EHIPC, and there is plenty of room for failed expectations. This is a dangerous situation, one

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[92] Jubilee 2000-Zambia, "Jubilee 2000-Zambia: What is the way forward!" http://www.jctr.org.zm/jublileewayf.htm.

[93] Kwesi Botchwey, "Financing for Development: Current Trends and Issue for the Future" *UNCTAD X*, Bangkok, February 12, 2000, p. 12. Ghana made the decision hastily and without running adequate net resource flow calculations because it was dealing with a major crisis with Ashanti Goldfields. Mozambique, on the other hand, made the decision to stay with HIPC and do without Japanese assistance. Other major donors did not place much pressure on Japan to change its position, hesitating to rock the boat, given what they considered to be more important crosscutting issues. Personal communication from Kwesi Botchwey, March 25, 2000.

created by the Bank and the Fund, the G-7, and by the NGOs (in this case because they think it will get them more relief over the longer run).

The PRSP process in its grandest form could be viewed as a somewhat meager attempt by creditor countries to extend their own "compromise of embedded liberalism"[94] to the poorest countries of the world, based, almost literally, on a relatively small "pot of gold."[95] The longer run question remains how the partial extension of embedded liberalism might be financed. The major creditors are having enough trouble financing EHIPC as it is. But the recent summit on development finance in Monterey, Mexico and the G-7 meeting in Canada show that the battle continues. The political fact is, however, that the NGOs have won the battle over EHIPC debt savings; they are to go exclusively to "poverty reduction." The primary focus of key NGOs and some debtor governments has been on health and education, with a secondary emphasis on rural and other infrastructure. In addition to EHIPC, a number of creditor countries, including the U.S., Britain, France, Canada, Germany, and Italy, have taken steps to write-off significant amounts of bilateral concessional debt.

EHIPC is not a magic bullet; it is important for a number of countries but very far from turning Africa and other poor countries around.[96] It is very far from making a major dent in the structural dilemma. In this context, it is not clear that an exclusive focus on poverty is the correct approach. By EHIPC there was as a very clear sense that

[94] Embedded liberalism is the notion that industrial democracies have long handled the processes of economic adjustment, especially to external changes, by buffering the social and political costs of adjustment in ways not necessarily congruent with neo-liberal economic doctrine and that they have preached the latter to developing countries while doing the former. See John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order, International Organization, 36/2 (Spring 1982); "Political Structure and Change in the International Economic Order: The North-South Dimension" in his edited volume Antinomies of Interdependence, Columbia University Press, 1983, pp. 423-87; and "Embedded Liberalism Revisited: Institutions and Progress in International Economic Relations," in E. Adler and B Crawford, eds., Progress in Postwar International Relations, (New York: Columbia University Press, 1991), pp. 201-34. The Paris Club countries have never applied embedded liberalism--what they practice, not what they preach--to the debtors; also see: Thomas M. Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Economic Adjustment" in Fragile Coalitions: The Politics of Economic Adjustment, ed. Joan Nelson (Washington, D.C.: Overseas Development Council, 1989), pp. 115-38. On the fraying of embedded liberalism in the industrial democracies, see Richard Clayton and Jonas Pontusson, "Welfare-State Retrenchment Revisited: Entitlements, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies," World Politics, 51/1 (October 1998), pp. 67-98.

[95] See the recent report by the new Center for Global Development and the Institute for International Economics that calls for the use of IMF gold to fully fund EHIPC as a first step to reinventing the "international aid architecture;" it is written by two leading "insider/outsider" economists: Nancy Birsdall and John Williamson, Delivering on Debt Relief: From IMF Gold to a New Aid Architecture (Washington: Center for Global Development and the Institute for International Economics, April 2002).

[96] For a good analysis of the limits of EHIPC, see General Accounting Office, "Developing Countries: Debt Relief for Poor Countries Faces Challenges," Report to Congressional Committees GAO/NSIAD-00-161, Washington, D.C., 2000. To view the current status of HIPC, see the IMF and World Bank HIPC websites: http://www.imf.org/external/np/hipc/hipc/htm and http://www.worldbank.org/hipc/.

the process had acquired multiple objectives but still had only one instrument. The objectives included debt sustainability, regularization of relations with creditors, poverty reduction, and, as a result of these objectives, growth. There was also an increasing perception that debt relief was but one part in a much larger picture, one that needed to be dealt with for real debt sustainability to be achieved. Real and significant tensions remain here. There are two main ways to respond to the charge that HIPC is not dealing sufficiently with growth issues: [1] that the PRSPs really are about growth, and [2] that growth is being handled by the Fund, the Bank, and the "donors" in ongoing structural adjustment work, especially via PRGFs. Neither response is satisfactory.

In sum, new actors and processes have been unleashed in response to the plight of HIPC countries, which might significantly alter the way the larger development regime functions over the longer run. Under intense pressure, the IMF, the World Bank, and the Paris Club managed to get 22 HIPC countries well into the process by the end of 2000. HIPC has improved the coordination on debt, aid, capacity building, and negotiation processes in major ways. The PRSP process has reached far beyond HIPC, for example. In the long run, the most significant change may well not be EHIPC itself, but rather the new processes and perceptions that it has helped to unleash. The larger puzzle is important, but it is only partly about debt and development financing more generally. It is also about debtor administrative and absorptive capacity, type of economy, the nature of growth strategy, and trade access – in short, all issues raised by the earlier discussion of the structural dilemma.

VI. A HIPC Slippery Slope

It is important to remember that HIPC remains only one part of the sovereign debt regime. The Paris Club remains more of a player than many realize. In fact, real tensions exist between Paris Club and EHIPC practices. As Charles Lipson discovered to his surprise in the early 1980s, the Paris Club has long been an important part of the structure of international economic governance. It played a central role in managing the Third World debt crisis that started with Mexico in August 1982. Table 1 shows Paris Club reschedulings of important debtors between 1983 and 1994 – 13 countries and 54 reschedulings. The Paris Club also rescheduled the debt of 34 poor countries 116 times during this period.[97]

[97] World Bank, Global Development Finance 2001 (Washington, D.C.: World Bank, 2001); Paris Club web site at http://www.clubdeparis.org/.

Table 1

Paris Club Reschedulings of Selected Countries, 1983-94

Country	Reschedulings	Time Period
Argentina	5	1985-92
Bolivia	4	1986-92
Brazil	4	1983-92
Chile	2	1985-87
Costa Rica	5	1983-93
Ecuador	6	1983-94
Egypt	2	1987-91
Mexico	3	1983-89
Morocco	6	1988-92
Nigeria	3	1986-91
Peru	5	1984-94
Poland	5	1985-91
Yugoslavia	4	1984-88
Total	54	

Source: World Bank, Global Development Finance 2001.

Since the early 1990s the Paris Club has been thought of primarily as a forum for dealing with the debt of a sort of global underclass of poor states with its serial reschedulers. This impression was reinforced strongly by the appearance of HIPC in 1996 and its revision in 1999. In fact, this is an incorrect and misleading perception. The Paris Club has continued to play a broad role in dealing with sovereign debt difficulties, as it has since its inception with Argentina in 1956. To illustrate this point, Table 2 lists all of the Paris Club agreements since 1996 – the year HIPC was created. There was a total of 76 agreements for 43 countries: 30 HIPC countries with 57 agreements (26, or 45.6 percent, of these were under HIPC auspices), 5 low-income countries with 8 agreements, 6 lower middle-income countries with 8 agreements, and 2 upper middle-income countries with 3 agreements. In short, 30.2 percent of Paris Club debtors, with 25.0 percent of the agreements, were **not** HIPC countries. The presence now of global economic malaise and strategic crises has the potential to increase the amount of non-HIPC business for the Paris Club, as well to force a major revision of EHIPC itself. As we shall see below, the prospects for bending the existing framework of the enhanced HIPC Initiative are already in place, and pressure is mounting to add more countries to the list and provide more generous debt relief for many non-HIPC countries. The latter process is likely to be accelerated by the politicization of a larger number of country cases as, and to the extent that the economic malaise and strategic crises intensify and reinforce each other.

Table 2

PARIS CLUB RESCHEDULINGS: 1996-2002

HIPC Countries

Benin	1996,**2000**
Bolivia#	**1998, 2001**
Burkina	1996, **2000**
Cameroon	1997, **2001**
Cen Afr Rep	1998
Chad	1996,**2001**
Congo-B	1996
Cote d'Ivoire	**1998**
Ethiopia	1997,2001
Ghana	1996, **2001**
Guinea	1997,**2001**
Guinea-B	**2001**
Guyana	1996,**1999**
Honduras	1996,1999
Kenya	2000
Madagascar	1997,2000,**2000,2001**
Malawi	**2001**
Mali	1996,**2000**
Mauritania	**2000**
Mozambique	1996,**1997,1999, 2000,2001**
Nicaragua	1998
Niger	1996,**2001**
Rwanda	1998
Sao Tome	2000
Senegal	1998,**2000**
Sierra Leone	1996,2001
Tanzania	1997,**2000,2002**
Uganda	**1998,2000**
Yemen	1996,1997,2001
Zambia	1996,1999
Total:	**30/57**

Country/rescheduling
Bold = under HIPC auspices
= Blend country

Low-Income Countries

Georgia	2001
Indonesia#	1998,2000
Nigeria#	2000
Pakistan#	1999,2001,2001
Ukraine	2001
Total:	**5/8**

Lower Middle-Income Countries

Bosnia#	1998,2000
Djibouti	2000
Ecuador	**2000**
Peru	1996
Russia	1996,1999
Yugoslavia#	2001
Total:	**6/8**

Upper Middle-Income Countries

Gabon	**2000**
Jordan	1997,1999
Total:	**2/3**

TOTAL: 43/76

HIPC = 69.8%/75.0%
LI = 11.6%/10.5%
LMI = 14.0%/10.5%
UMI = 4.6%/4.0%

Non-HIPC = 30.2%/25.0%

Country%/Rescheduling%

Sources: World Bank, Global Development Finance 2001; Paris Club Website

*Calculations by the author; accurate as of February 27, 2002

Paris Club agreements almost always have some political aspects to them.[98] The degree to which this is the case varies greatly from case to case. A number of classic

[98] Many would argue, for example, that all nine of the Paris Club reschedulings for Zaire between 1976 and 1989 were clearly political. See Thomas M. Callaghy, "Restructuring Zaire's Debt, 1979-1982," Dealing with Debt: International Financial Negotiations and Adjustment Bargaining, Thomas J. Biersteker, ed. (Boulder: Westview Press, 1993), pp. 107-31; "The Political Economy of African Debt: The Case of Zaire," Africa in Economic Crisis, John Ravenhill, ed. (New York: Columbia University Press, 1986), pp.

politicized cases are generally recognized – Poland and Egypt in 1991, Jordan in 1994,[99] and Russia in 1993, 1994, 1995, 1996, 1999.[100] Significant debt reduction took place in the first three country cases, 50 percent each for Poland and Egypt. Others might add the Paris Club agreements for Indonesia in 1998 and 2000 that resulted from the Asia crisis, and, as well as Bosnia in 2000, and Yugoslavia and Pakistan in late 2001.

The Paris Club continues to flounder over the issue of what to do with non-HIPC countries with serious debt problems, what one Western official calls the "slippery slope towards Hipcization." A key battleground is the issue of when to extend Naples terms to countries that are not IDA-only, such as the "blend" countries marked in Table 2 -- countries that can borrow from both the IBRD and IDA. Non-IDA countries supposedly have the ability to borrow from the private international capital markets. Between 14 and 20 blend countries exist, either real or "notional."[101] In other words, plenty of room exists to expand the notion of debt sustainability and debt reduction under existing Naples terms, much less under any new terms that would apply to non-HIPC countries.

An illustrative example of slippery slope pressure from a G-7 source is the call in the fall of 2001 by the UK development secretary, Clare Short, for Naples-like terms to be extended to Pakistan and for HIPC to be extended to include five CIS states with a combined debt of $5.7 billion – Armenia, Georgia, Kyrgyzstan, Moldova, and Tajikistan. Adding to the HIPC list is not unprecedented; in fact, the Comoros were added in 2001. In short, bend the blends and make new HIPCs. In October 2001, Short declared that Pakistan should be made eligible for debt rescheduling terms usually reserved for poorer countries for its roughly $12 billion Paris Club debt. "This would serve geopolitical ends while keeping Pakistan on track with recent reform efforts."[102] As for the five CIS states, she noted, "These are the HIPC countries everyone has forgotten about. They are not in transition, they are developing countries and they are sinking into poverty. They need development assistance otherwise poverty will grow with increased human suffering, and political instability could affect the future of Europe."[103]

307-46; and "Life and Death in the Congo: Understanding a Nation's Collapse," Foreign Affairs, 80/5 (September/October 2001), pp. 143-49 I date the real beginning of the Third World debt crisis as June 16, 1976, the date of Zaire's first Paris Club agreement.

[99] The U.S. went way beyond the framework of the Paris Club agreement in the corresponding bilateral agreement signed with Jordan.

[100] All of the cases have been recognized as such in U.S. government documents on Paris Club procedures.

[101] The issue of "blend" countries is very complex and contentious; a full discussion of it is beyond the confines of this paper. A place to start is IDA, "New Options for IDA Lending Terms," IDA, September 2001 [an IDA 13 discussion paper].

[102] Alan Beattie, "Attack on Afghanistan: Debt relief call for Pakistan, plea by UK minister," Financial Times, October 8, 2001; also summarized on the Website of Jubilee Plus [www.jubileeplus.org].

[103] Larry Elliot and Mark Milner, "Call for debt relief in former Soviet states," The Guardian, July 16, 2001.

The IMF and World Bank held a conference at Lancaster House in London, hosted by the British government, in February 2002 to discuss debt relief for seven of the poorest states of the former Soviet Union – Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan, and Uzbekistan [CIS-7]. Georgia had a Paris Club rescheduling in March 2001, and, Kyrgyzstan, Moldova and Tajikistan are next in line, but most of the debt of these countries is owed to international financial institutions, which makes the situation particularly sensitive. The discussion was based on two joint Fund-Bank papers that argue for generous debt relief for five of these states, but stop short of calling for relief of debt owed to the Fund, Bank, and other international financial institutions as is now available under HIPC. They do argue, however, that these countries should get at least Naples terms in the Paris Club, however.[104] By April, the Fund, Bank, ADB, and EBRD launched an initiative to assist the CIS-7. By this time, however, these countries were deemed to have the option of requesting multilateral debt relief if traditional forms of relief leave them "with debt levels *above HIPC thresholds*."[105] As it stands now, one or two of the seven might qualify, but this number is likely to grow. Short's proposal to make them full-fledged HIPC states is more controversial because it would make them eligible for multilateral agency debt relief. More to the political end of the blends, in the new context of 9/11, are the new "frontline" stans – Uzbekistan, Kazakhstan, and Kyrgyzstan -- with $14.7 billion, $833 million, and $436 million in bilateral debt respectively. Just prior to 9/11, the IMF closed its resident representative office in Uzbekistan, but soon after 9/11 it started serious negotiations with the Uzbek government for Fund assistance.

Such behavior leads to charges of direct "Cold War"-like behavior as the major powers change their own policy views and lean on the Fund and the Bank to do likewise. A senior World Bank economist, already in trouble with the Bank hierarchy for making unauthorized statements, voiced what many of his colleagues think but will not say: "It is obvious that there is political pressure now to expand lending to countries that are going to be allies in the war against terrorism," which constitutes "huge grounds for concern" by propping up corrupt, inefficient and authoritarian governments. "In a way, this is really redoing some of the big mistakes of the Cold War."[106] A prominent Washington financial journalist quotes one Bush administration official as saying, "Of

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[104] "Poverty Reduction, Growth and Debt Sustainability in Low-Income CIS Countries," February 4, 2002, and "Armenia, Georgia, Kyrgyz Republic, Moldova, and Tajikistan: External Debt and Fiscal Sustainability," February 6, 2001, both available on the Fund Website [www.IMF.org]. Also see Stefan Wagstyl, "Former Soviet Countries: Debt relief urged for poorest seven," Financial Times, February 19, 2002.

[105] "Ministers Endorse International Initiative for Seven Poor Countries of the Commonwealth of Independent States," IMF Press Release No. 02/23, April 20, 2002; emphasis added.

[106] William Easterly, FT.com, October 1, 2001, cited on the Jubilee+ Website; also see his recent controversial book, The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics (Cambridge: MIT Press, 2001), which goes to the heart of the structural dilemma that led to HIPC; also see "The Failure of Development," Personal View, Financial Times, July 4, 2001.

course the countries that help us are more likely to receive help in return,"[107] yet another example of the shifting balance of politico-economic blend countries. Other countries worry about the opposite – being punished for not cooperating enough.

Pressure for greatly increased debt relief will continue to mount on many sides, complicated in interesting ways by crosscutting politics among the major creditors. One of the main ways of providing more relief would be to breach the IDA-only line in the sand and extend Naples terms to a larger number of countries. In the aftermath of 9/11, State Department desk officers floated such plans for "their" countries, while others at State and Treasury spent time knocking them down. The really explosive issue, one with real import for the viability of international economic governance, will be if, and under what conditions, formal international financial institution debt relief will be extended beyond HIPC. As for the HIPCs themselves, the issue of "topping up" – going beyond Cologne terms as needed -- will become more urgent. "Topping up" is already authorized under current EHIPC rules to deal with very special cases; these cases may increase in number very rapidly. This issue was likely to raise its head anyway even without the current economic malaise and strategic crises, as it became clear that EHIPC, like the first HIPC and the Paris Club menus before it, is inadequate to deal with the structural dilemma of the poorest and least developed. As one official put it to me, "The ball will be back in our court."[108] Indeed, it is, and this raises the issues of leadership, communication, and cooperation. Yet Bank staff would like HIPC to remain "ring fenced" so that it can be fully and properly implemented, a view shared by major creditors as well; there is no burning desire for a HIPC 3. According to this view, looking toward another round of HIPC would take the focus away from the larger issues upon which debt sustainability actually depends.

By May 2002 only five of the 26 countries currently in the HIPC process had reached their so-called "completion points" – the point at which they receive the bulk of their debt relief. Burkina Faso became the most recent one in May 2002. The British have made it very clear that they wish to see HIPC accelerated and countries protected from falling commodity prices. In fact, shocks of all kinds are very much at issue now, from famine, to war, to AIDS, to environmental degradation. Many NGOs and other governments believe that these issues ought to be on the table. As one NGO official put it, "Our job is to never be satisfied." This is really a battle over the nature and efficacy of global triage. In a report to G-7 finance ministers, Kevin Watkins of Oxfam made it clear that "the attacks of September 11 are creating an economic disaster in developing countries."[109] Once the NGOs recover their political footing, which they now seem to be

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[107] Paul Blustein, "U.S. Weighs Aid Boost as Global Slump Worsens," Washington Post, September 21, 2001; he also has a new book out about the IMF and the Asia Crisis, The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF (New York: PublicAffairs, 2001).

[108] Confidential interview, Washington, D.C., October 23, 2001.

[109] Kevin Watkins, quoted in FT.com, October 12, 2001, and cited on the Jubilee Plus Website.

doing, they and their social movements will intensify demands for much more significant debt relief based on the knock on effects of 9/11.

The NGOs have already been using poverty reduction, the environment, and AIDS and other health issues as levers for more generous debt relief, and they are moving rapidly toward the much more thorny issue of trade. A number of policy proposals are now on the table about which there is already considerable disagreement.[110] The issue of an international bankruptcy procedure has moved to the fore much faster than many expected, although it clearly still has a long way to go. The U.S. proposal to transform much of IDA's work from loans to grants is another example. In November 2001, Clare Short dismissed it as "a crazy idea."[111] Issues now at the margin of the policy table may have to be taken more seriously, if not finally acted on. One example is the establishment of a Franco-German commission to study some form of Tobin tax -- an excise tax on cross-border currency and possibly other capital transactions that could be used for development purposes, including debt relief.[112]

Will the institutions of international economic governance such as those on sovereign debt hold up under these new challenges? The jury is still out, but it is certain that major battles will be fought and tension will cross from one policy sector to another. Irritation will rise as creditor countries and institutions struggle over who will pay the cost, especially as the magic of the markets is not going to solve any new crisis by itself, just as it has not solved any of its predecessors. Cooperation between major powers to avoid beggar-thy-neighbor policies may be in short supply, while middle powers begin to play a more important role, particularly China.

The procedures of the Paris Club, the IMF, the World Bank, and now EHIPC are clearly in flux and the cost of more debt relief will be high. It is not at all clear how stable these structures of international economic governance will be. Managing these tensions will take considerable skill and luck. Despite the growing influence of NGOs and their social movements, it is still a distinctly state-centric world controlled by the OECD industrial democracies. Coping with complex new challenges requires leadership from the major powers and the most important international financial institutions, plus dialogue with NGOs and other civil society groups, both North and South.

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[110] See the dispute over Oxfam's recent report "Rigged Rules and Double Standards: Trade, Globalization and the Fight Against Poverty," 2002, and Martin Wolf, "Doing More Harm than Good," Financial Times, May 8, 2002, plus the letters to the editor in response to Wolf's attack on the report. The NGOs are likely to find trade a more difficult issue to organize around than debt.

[111] Quoted in New York Times, "The IMF Cites Terrorism And Issues Bleak Forecast," November 19, 2001.

[112] On the Tobin tax and related proposals, see the Tobin Tax Initiative in the U.S. at www.ceedweb.org/iirp/ or www.tobintax.org; the UK's Tobin Tax Campaign conducted by War on Want at www.tobintax.org.uk/; the Halifax Initiative in Canada at www.halifaxinitiative.org/hi.php/Tobin/; and in Italy the Campagna Tobin Tax at www.manitese.it/tt/tt.htm.

VII. Conclusion: International Economic Governance and Change

Over the last several years a debate has intensified about the overall stability of the patterns of globalization that have so preoccupied us for the last decade and about which so much ink and passion have been spilt. Three basic positions exist about this issue, which I can only sketch very briefly here: that of the proponents, the opponents, and the worriers.

The first, and seemingly most common, view is that of the proponents who argue that globalization is an unstoppable, market-driven force, which, with minor blips aside, is good for most of the world's people. This view has not been particularly worried about the stability of this new system. It is a view that is popular among international business leaders and the world's most prestigious business schools. With an explicit or implicit anti-statism, this perspective has commonly ignored the possibility of a major economic downturn, much less any geo-strategic threat to the functioning of the world economy. The proponents rarely consider how fragile, for example, our basic transportation and communications systems might be, much less the ripple effects of various and new forms of war, violent and economic alike. This view also appears to have forgotten that Bretton Woods came as a response to the Great Depression and world war.

In the second view, the opponents of globalization have argued that the spreading and intensifying patterns of globalization are not good for most of the world's people and the very planet they inhabit. They wish to see globalization slowed, reformed or even stopped. This view has been accompanied by increasingly vocal and sophisticated social movements and more professionalized advocacy networks made up of largely NGOs. Seeing globalization as a phenomenon increasing in force and geographical impact, many of these opponents have implicitly accepted the view of the proponents that major political, economic, and geo-strategic obstacles to globalization do not exist.

In the third, and much less prominent, view of globalization, the worriers are very concerned about its stability, not just in terms of what appear to be its periodic crises, but more particularly its political, institutional, and strategic underpinnings. While usually admitting that globalization is, on the whole, probably a good thing, the worriers argue that it is far from a solely market-driven and self-stabilizing set of processes, and hence is relatively fragile.[113] The worriers are not at all convinced that current mechanisms of international economic governance -- such as the IMF, the World Bank, the regional development banks, the World Trade Organization, the Group of 7/8 and other venues of inter-governmental consultation, the Paris and London Clubs, EHIPC, the OECD, the Berne Union, the Bank of International Settlements, and the Basle committee -- are up to the task of keeping the system stable, much less making it beneficial for larger groups of countries and people. In the context of 2001-02, it is important to think seriously about

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[113] See Robert Gilpin, The Challenge of Global Capitalism: The World Economy in the 21st Century (Princeton University Press, 2000); Harold James, The End of Globalization: Lessons from the Great Depression (Cambridge: Harvard University Press, 2001).

the efficacy of the patterns and institutions of economic governance in the face of new challenges.

The globalization worriers may well have a point. It might make sense to take their concerns more seriously than we have to date. Even if current challenges prove not to be as serious as some fear, many of the same issues remain central to the ongoing debates about international economic governance -- as will the Paris Club and HIPC, for all the reasons Charles Lipson discovered belatedly in the early 1980s.

Will the institutions of international economic governance such as those on sovereign debt hold up under these new challenges? The jury is still out, but it is certain that major battles will be fought and tension will cross from one policy sector to another. Irritation will rise as creditor countries and institutions struggle over who will pay the bill and bear other more political costs of adjustment, especially as the magic of the markets is not going to solve any new crisis by itself, just as it has not solved any of its predecessors. Cooperation between major powers to avoid beggar- thy-neighbor policies may be in short supply.

The new NGO networks have become hinges that join international and local forces and discourses. While the NGOs have much less scope and sway than the IMF, the World Bank, the Paris Club, and the aid missions of the major powers, they are attempting, with some success, to increase their influence while turning their local presence into a more permanent one. In addition, connections grow between all of these actors and between them and the HIPC and other states and societies in which they operate. The NGOs that work on debt have also deployed themselves as an increasingly effective and global social movement. In the process, they have helped to change the rules and discourse of the debt regime, increased resource flows, brought about new forms of international and local governance via EHIPC and the PRSP process, and created or strengthened local NGOs. In short, they have reshaped governance processes. It remains to be seen, however, if they have shaped them in the most effective form. A key continuing challenge for the Bank and the Fund will be to balance these new forces of influence on the processes of international economic governance with their own hard-headed analysis about the best way to tackle a problem. Their political task is to remain open to dialogue while convincing others that they have viable and efficient solutions to problems. As with the U.S. in its role in the world today, this outcome will be better served by engagement rather than unilateralism. This is not to say that engagement will be easy or fun.

Given the complexities and power structures of the current international system, reform usually comes slowly and incrementally. Very little came of all the heat and rhetoric of the efforts of developing states in the 1970s and 1980s to set binding, generalizable rules for a New International Economic Order and very little has come from all of the more recent discussion of a grand “New Financial Architecture” generated by the Asia crisis. Resulting from the complex interactions of the debt triple helix, however, the Uganda Multilateral Debt Facility, HIPC, and EHIPC are innovative extensions of the sovereign debt governance structures. Contrary to the stillborn efforts of the NIEO, these new processes emerged largely because the NGOs and their allies took the battle inside the domestic political arenas of the major OECD democracies. They made large international development policy issues into domestic political issues. And, grudgingly or not, the major powers responded. An important point to remember, however, is that the debt campaign did not attack interests and constituencies that are central to the domestic politics of the OECD. In short, debt was an easy issue.

But the dilemma of the HIPC story is that since this new debt relief mechanism is not a magic bullet, but rather one part of a much larger development context of considerable complexity, it will not make much of a dent in the structural dilemma. The tensions built into HIPC discussed above, especially the one between debt sustainability and growth on the one hand and poverty reduction on the other, come into play here. Growth is central to the effort to achieve viable debt sustainability, and on the international side the key issue is ultimately trade access to the OECD countries. The NGOs have now clearly realized the importance of this issue and have begun to work on it. They are likely, however, to find their task much more difficult precisely because this time their efforts **do** impinge on very sensitive and powerful domestic political interests in the "donor" countries. Yet they are correct that this issue is central, and the World Bank and IMF agree. What is needed is not just debt triage but trade. Here the concerns of the globalization worriers come into play: will the major industrial democracies be able to adjust their own domestic politics so that the larger and very important changes in regard to trade can be made? Given the past track record and current events, serious doubt exists. One senior development official has recently characterized major power rhetoric on trade as "a culture of willful, mutual, repetitive deceit."[114] If debt relief is to mean anything, the issues of growth and trade must be tackled. Necessities, however, often do not become realities. Getting HIPC has been hard enough, and it was a very political process. The politics of trade may be much harder to deal with. The worriers have a right to be concerned – the political underpinnings of international economic governance are central and may well not be up to that task.

The procedures of the Paris Club, the IMF, the World Bank, and now EHIPC are clearly in flux and the cost of more debt relief will be high. It is not at all clear how stable these structures of international economic governance will be. Managing these and related tensions will take considerable skill and luck. Despite the growing influence of NGOs and their social movements, it is still a distinctly state-centric world controlled by the OECD industrial democracies. Coping with complex new challenges requires leadership from the major powers and the most important international financial

[114] See "Stephen Lewis Speech on G7, NEPAD," Healthgap, healthgap@critpath.org, 6/24/02. Lewis also observes: "It seems to me that the element of manipulative deceit rears its head again on the question of liberalizing trading arrangements. The mantra of the aristocratic patricians of the G8 countries is that trade will set you free. But how in God's name can you promise a liberalized trading regimen on the one hand, while promulgating $190 billion worth of domestic agricultural subsidies on the other? And that's just the United States. Add another $160 billion or more from the European Union, throw in other heavily protected industries, and you effectively deliver a message to Africa that the new round of trade talks under the WTO are a Machiavellian illusion." The answer to his question is: politics. See the discussion of embedded liberalism in note 94 above.

institutions, plus dialogue with NGOs and other civil society groups, both North and South. The role of the U.S. and other major powers is central. G-7 tensions over unilateralism versus multilateralism are rampant. International economic governance is ultimately very political and requires hardheaded and informed engagement, not unilateral action or detachment.[115]

[115] For similar views about the nature and importance of major power leadership and the tensions between unilateralism and multilateralism, see Joseph S. Nye, The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone (Oxford: Oxford University Press, 2002).