

Leading Latin Countries Pre-pay IMF Debt; Motivations Differ

Brazil and Argentina closed out 2005 by announcing full repayment of their outstanding debts to the International Monetary Fund. Brazil's balance totaled approximately \$15.46 billion and was repaid just a few weeks after their December 13 announcement. Following the Brazilian lead, Argentine president Néstor Kirchner announced an identical plan to repay its \$9.9 billion IMF debt, completing the transaction on January 4.

While similar on the surface, the two prepayments differ considerably in character and in the spirit in which they were announced. Announcing Brazil's full IMF repayment two years ahead of schedule, Minister of Finance Antonio Palocci and Henrique Meirelles, president of Brazil's Central Bank, attributed the government's ability to repay their debt well in advance to the success of the IMF policies they had adopted over the past three years. Brazil obtained IMF loans in 2002 to avoid defaulting on its debt. Repayment of the debt will be funded by the country's reserves, which have grown to \$66.7 billion from just \$15 billion two years ago. Finance Minister Palocci added that early repayment enables Brazil to save more than \$900 million in interest costs.

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LEGISLATIVE REVIEW

House and Senate Adopt FY06 Foreign Assistance Levels

Before the Christmas break, Congress passed the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006. Despite concerns that priorities such as the war in Iraq and reconstruction of the Gulf Coast would cut into resources for foreign assistance, appropriations for the international financial institutions and debt relief exceeded the amount enacted in 2005 by almost \$71 million.

Congress trimmed the President's request by \$45 million (3% of the total), allocating those cuts across a group of programs in the IFI account. [See IFI Appropriations Chart, FY06, page 7].

Notable for its size and focus on the world's poorest countries, the World Bank's IDA program received full funding or \$950 million this year. The Bretton Woods Committee had made IDA a legislative priority this year and published a report circulated widely on Capitol Hill analyzing IDA's effectiveness and utility to the United States. [See www.brettonwoods.org for report].

In other areas of the Foreign Operations legislation, the President's \$3 billion request for the fledgling Millennium Challenge Corporation (MCC) was met with only \$1.77 million from Congress. The MCC had projected signing 4 compacts with developing countries per quarter through the end of FY06, a projection judged unrealistic by the Senate.

Funding for the Global HIV/AIDS Initiative, on the other hand, fared considerably better. Congress just

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*Antonio Palocci,
Finance Minister of
Brazil*

Managing Director of the IMF, Rodrigo de Rato, lauded Brazil's early repayment decision, stating that, "... The excellent track-record of policy management by the Brazilian authorities has provided the basis for the consolidation of market confidence, the sustained improvement of macroeconomic performance, and an improvement in the profile of domestic as well as external debt."

Argentina's debt repayment, on the other hand, was announced in a different spirit. President Néstor Kirchner asserted repeatedly in 2005 his intent to free his administration from the obligation to implement policies imposed by the Washington-based IMF. Kirchner used his status as host of the recent Summit of the Americas to widely proclaim the IMF's culpability in precipitating Argentina's economic crisis in 2001.

For Kirchner, prepayment of the IMF obligation signals an abrupt end to the 22-year relationship with the Fund, which he asserted, "has been a constant vehicle for interference, because it is subject to periodic review and is a source of demands and more demands."

Roberto Lavagna, who served as Argentina's economy minister until he was fired last month, sought to renew the country's agreement with the IMF. Lavagna's stark divergence from Kirchner's agenda led to the appointment of Felisa Miceli, the president since 2003 of the state-run Banco de la Nación, and a fellow interventionist committed to Kirchner's economic vision. Miceli's appointment caused concern among Fund experts and banking circles, in particular because of her background in devising state financing programs for public development projects and her rejection of orthodox austerity measures as a means to fight Argentina's increasing inflation. Kirchner plans to remedy rising inflation via the issuance of a \$1.5 billion credit

line through the Banco de la Nación for productive investment in purchase of capital goods for industry and agriculture.

Far from a cost-cutting measure, Argentina's prepayment will actually precipitate an increase in its financing costs. The interest rate that Argentina was paying the IMF was 4.2%. The new debt it will be forced to issue in order to repay the central bank will most likely be at a coupon rate of approximately 9%. This, combined with the emancipation from the IMF and Lavagna's firing, caused the markets to react unfavorably to Kirchner's announcement with both the peso and bond prices falling.



*Néstor Kirchner, President of Argentina, and Luiz Inácio
Lula Da Silva, President of Brazil*

Now that the IMF is out of the picture, one of Argentina's largest creditors has become Hugo Chávez, president of Venezuela, another sign of Chávez's growing impact on the political landscape of Latin America.

Some analysts see politics as a main source of motivation in both countries. President Lula da Silva of Brazil has been under fire for a corruption scandal and a below average performance of the Brazilian economy. The elections next October are coming quickly, and he faces a tough battle to win a second term. Kirchner has slightly more time, but runs the risk that the strong economic recovery that Argentina is currently experiencing will weaken by the April 2007 elections.

Bretton Woods Committee Launches New Multilateral Roundtable

The Bretton Woods Committee announces the launch of a new initiative geared toward deepening the relationship between private sector companies and the international financial institutions. The Multilateral Roundtable will be comprised of Committee member companies with a stake in policy formulation and commercial opportunities at the multilateral development banks, including the World Bank, regional development banks, the WTO and IMF.

Participation in the Multilateral Roundtable is open to companies interested in promoting policies at the Bretton Woods institutions that facilitate international commerce and to companies desirous of increasing commercial opportunities in tandem with these institutions.

As a group, the Multilateral Roundtable will work to increase the capacity of the multilateral institutions to promote open markets and international commerce; to deepen the dialogue between the business sector and the multilateral institution; and to afford opportunities to member companies to expand business. To achieve these objectives, the Multilateral Roundtable will arrange informal meetings and briefings with officials of the Bretton Woods institutions and the U.S. government to keep group members informed and to facilitate open dialogue. In instances in which narrower policy issues arise, more focused subgroups will be created to pursue specific policy changes.

Carole Brookins, Committee member and former U.S. Executive Director of the World Bank, and Bill Frenzel, Committee Co-Chair, have agreed to provide leadership to the group.

The Bretton Woods Committee is interested in hearing from members on policy issues of concern to business where the Multilateral Roundtable may play a role. To provide input or to express interest in taking part in the Multilateral Roundtable, please contact Jim Orr or Anne Smith at the Bretton Woods Committee at 202-331-1616.

Masood Ahmed Replaces Tom Dawson as IMF External Relations Chief

On January 25, 2006, IMF Managing Director Rodrigo de Rato named Mr. Masood Ahmed as Director of the IMF's External Relations Department. On May 1, Ahmed will officially succeed Tom Dawson, who has served as the IMF's External Relations Director for six years.



*Masood Ahmed, new Director of
External Relations, IMF*

Ahmed, a national of Pakistan, holds a M.Sc. in Economics from the London School of Economics and brings a wealth of experience to the External Relations department from a distinguished career in both the World Bank and the Fund.

Between 1979-2000, Ahmed has held a number of senior positions at the World Bank, including that of Vice President, Poverty Reduction and Economic Management Network. He was appointed Deputy Director of the IMF's Policy Development and Review Department in 2000, and is currently on an external assignment at the United Kingdom's Department for International Development as the Director General, Policy and International.

In the first Bush and early Clinton administrations, Tom Dawson served as U.S. Executive Director to the IMF. Prior to that he oversaw multilateral institution policy in the Reagan Treasury Department and later was the top aide to the chief of staff of the Reagan White House. At Merrill Lynch where he worked on emerging market finance he was an active member of the Bretton Woods Committee. Tom's departure signifies the first tentative steps toward a partial retirement, and we look forward to welcoming him back into the Committee's ranks.

IMF Extends 100% Debt Relief to Nineteen Countries

The Executive Board of the International Monetary Fund (IMF) recently offered a positive assessment of the first group of countries eligible for debt relief under the Multilateral Debt Relief Initiative (MDRI). The qualifying countries will be granted 100% debt relief in early 2006. The 19 countries that qualified for 100% debt relief on December 21, 2005 include: Benin, Bolivia, Burkina Faso, Cambodia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda and Zambia.



Rodrigo de Rato, Managing Director, IMF

“This is a historic moment, which will allow these countries to increase spending in priority areas to reduce poverty, promote growth, and to make progress towards achieving the Millennium Development Goals,” said Rodrigo de Rato, Managing Director of the IMF. “Bringing the MDRI to this stage since it was proposed in June 2005 has taken an intensive effort.”

The only hindrance to implementation of the debt relief is receipt of consent from some contributors to a special trust fund created to finance the debt relief. De Rato urged donors to grant rapid consent in order to expedite the process.

The final list of eligible countries is still uncertain, pending determination of eligibility for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. To qualify for MDRI relief, eligible countries must be current on their obligations to the IMF and demonstrate satisfactory performance in three key areas: macroeconomic performance; implementation of a poverty reduction strategy detailed in a Poverty Reduction Strategy Paper (PRSP) or a similar framework; and public expenditure management systems.” Countries must first have reached the completion point under the HIPC Initiative before being considered for relief under the MDRI.

Wolfowitz Begins the Search for No.2

World Bank president, Paul Wolfowitz has begun the process of seeking a replacement for the number two job at the World Bank. Shengman Zhang, who held the position since 1997, left at the end of 2005 to become Vice Chairman of Global Banking at Citigroup, and Chairman of the company’s Public Sector Group.

Wolfowitz has appointed an 8-member selection committee to help him find developing countries candidates for the position. According to Wolfowitz, this is part of an effort to open up a previously closed decision making process. Developing countries and Bank critics have long called for a more transparent selection process of top Bank and IMF officials, and the selection committee marks a major departure from past Bank practice in which selection and appointments happened largely out of sight of Bank staff and outside observers.

“I am asking the committee to look for candidates who share our commitment to the Bank Group’s mission of poverty reduction, who have extensive experience in developing countries and preferably come from developing countries; and who are dedicated to assuring that the Bank Group is a model of integrity and accountability,” Wolfowitz wrote. “The committee will be supported by an external private search firm which we are in the final stages of selecting,” he added.

Until a final decision is made, Bank treasurer and former New Zealand treasury official, Graeme Wheeler will act as the interim managing director. Wheeler will also head the selection committee. Joining him on the committee are Frannie Leautier, vice president of the World Bank Institute; Pamela Cox, vice president, Latin America; Dorothy Berry, vice president for human resources at the International Finance Corp.; Michel Wormser, sector director, Africa infrastructure; Daniela Gressani, country director for Central Europe and the Baltics; Philip Adoteye, senior auditor; and Robin Cleveland, a senior advisor to Wolfowitz.

Wolfowitz said he plans to separate managing director Zhang’s roles of global operations and strategy into two positions. He hopes to build a more efficient operation based on measurable results and work to debunk perceptions of a bloated bureaucracy at the Bank. He has also insisted that, despite staff concerns, he has no plans for a major shake-up.

...And Makes Other Key Appointments

World Bank President Paul Wolfowitz recently named trusted individuals to advise on U.S. outreach and to lead the effort root out any corruption within the Bank. On January 10, Kevin Kellems, Senior Advisor to World Bank President Paul Wolfowitz stepped up as the new Director of Strategy of the World Bank's External Affairs Department. In this new role, Kellems will have an important role governing outreach to the U.S. Congress and to other governments.

In announcing Kellem's appointment to World Bank staff, Paul Wolfowitz highlighted some of his contributions thus far as a close advisor to the new Bank president. "[Kellems] has helped us to mobilize support for the multilateral debt relief initiative; to emphasize the development stakes in international trade negotiations; and to improve public understanding of the importance to the development agenda of governance, transparency and accountability."

Kellems comes to the Bank with a strong background in international policy and communications, having previously advised Wolfowitz at the U.S. Department of Defense, served as Communications Director and Spokesman for Vice President Dick Cheney and Advisor to Richard Lugar, Chairman of the Senate Foreign Relations Committee.

In a second important move, Wolfowitz named Suzanne Rich Folsom Director of the Department of Institutional Integrity on January 17. The Department of Institutional Integrity is the Bank's internal watchdog tasked with investigating suspected fraud and staff misconduct. Folsom replaces Maarten de Jong who stepped down from the position last fall.

In his recent remarks to the World Bank's Board of Directors, Wolfowitz indicated his clear intention to address the corruption problem that continues to plague the Bank. "This is not just an annoyance on our main work or a side issue," Wolfowitz told the 184 country representatives present at the Board meeting, "the whole subject of governance and accountability are really central to development and therefore having our own house in order is a central foundation of our work."

When asked what he meant by corruption "problems", Wolfowitz offered more detail. "By problems, I mean very precisely clear-cut cases of bribes, kickbacks, manipulation of the contracting process, and fraudulent procurement."

Folsom joined the World Bank senior staff as a Counselor to former President Jim Wolfensohn, who asked her to lead an effort to increase political and financial support for the World Bank across the United States.

In the official announcement of the appointment, President Wolfowitz praised Folsom for her "deep understanding of the importance of accountability, discretion and reputational risk".

The Financial Times and Village Voice recently published articles critical of Wolfowitz for allegedly circumventing normal hiring procedures in the making of a few important appointments. However, balanced observers both within and outside the Bank point out that Wolfowitz has done nothing that varies from past practice, in which new bank presidents appoint a few trusted deputies to senior positions. They also cite Wolfowitz' important break with tradition in making the search for the bank's number two executive transparent and based on merit.

Wolfensohn, Zhang Join Citigroup

Jim Wolfensohn's pace has not slowed a step since he left the presidency of the World Bank Group in May of 2005. In April, Secretary of State Rice announced his appointment as Special Envoy for Gaza Disengagement by the Quartet principals representing the United States, Russia, the European Union and the United Nations.

Wolfensohn's role in Gaza was to oversee the crucial nonmilitary components of Israel's withdrawal from the Gaza Strip and parts of the West Bank, and to try to effect a revival of the Gaza economy.

His newest challenge comes from Citigroup, which announced in November that the former bank president would serve as an advisor to senior management on global strategy and on international matters. In 2006 he will become Chairman of the company's International Advisory Board and will also work as an advisor to clients around the world.

About his new position Wolfensohn said, "I am very pleased to work again with people whom I have known for many years and who care deeply about strengthening both local and global economies. Citigroup, through its

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United States Foreign Assistance Undergoes Major Restructuring

In a move that heralds a major restructuring of United States' foreign aid programs, President Bush recently appointed Ambassador Randall Tobias, former chair of Eli Lilly Co. and the Bush Administration's AIDS Czar, to serve jointly in the newly created position of Director of United States Foreign Assistance and the Administrator of USAID.

The newly created position of Director of Foreign Assistance carries the rank of Deputy Secretary of State and reports directly to the Secretary. Once confirmed, Ambassador Tobias' responsibilities will span a broad range of programs. In addition to directly managing USAID and all State Department foreign assistance funding and programs, the Director of U.S. Foreign Assistance will also manage the strategic direction and provide guidance to all other foreign assistance programs delivered through the various agencies and entities of the U.S. Government, including the Millennium Challenge Corporation and the Office of the U.S. Global AIDS Coordinator.



Ambassador Randall Tobias

Tobias, whose Senate confirmation is expected sail through the Senate, has already made his mark as an impressive part of the Bush Administration as the first United States Global AIDS Coordinator, a position that carries the rank of Ambassador. As the "AIDS Czar",

Ambassador Tobias led a \$15 billion, five-year effort to prevent AIDS and treat those with the disease, launched the innovative President's Emergency Plan for AIDS Relief (PEPFAR), and oversaw all U.S. Government international HIV/AIDS assistance across the various agencies and government departments that deliver it.

Tobias will replace USAID Administrator Andrew S. Natsios, who resigned in early January from the post after almost 5 years of service. Natsios plans to teach at Georgetown University.

The creation of the position of Director of U.S. Foreign



Condoleezza Rice, Secretary of State

Assistance will be coupled with significant modifications to the U.S. foreign aid program that are designed to intensify American efforts in developing nations. As such, Secretary Rice announced a widespread overhaul of State department postings that will redirect large numbers of foreign service officers to developing nations such as China, India, Nigeria and Lebanon, thereby reducing personnel in less critical

developed nations, including Europe and Washington. Approximately one-third of the 6,400 State Department's Foreign Service positions will be impacted by the strategic refocusing on developing nations over the next five years. This rethinking of geopolitical priorities and structural changes at the highest levels of government foreign assistance efforts are illustrative of Secretary Rice's new plan for "transformational diplomacy." "In the 21st century, emerging nations like India and China, and Brazil and Egypt and Indonesia and South Africa are increasingly shaping the course of history," said Secretary Rice.

Perhaps the greatest effect the restructuring will have is on the relationship between the Department of State and USAID. Structural changes are not intended to merge the two entities, however the fact that Ambassador Tobias would oversee both bodies is sure to impact the dynamics of the relationship. "Effectively, this will allow a single person to have visibility into these various accounts," said one State official.

Outside of the government however, some see the change as a risky one. Jim Bishop, a senior officer of InterAction (an interest group representing claimants on USAID funding) said, "We're concerned that the same priority won't be given to long-term development as resources are siphoned to support shorter-term diplomatic or military objectives." Others worry that USAID will lose its independence and its shared leadership with the Director of U.S. Foreign Assistance will result in a significant politicization of U.S. foreign assistance efforts.

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work with clients and communities around the world, is promoting stability, economic opportunity, and a better future for people, particularly in developing countries, and I look forward to helping advance that work even further.”

Wolfensohn joins former World Bank Group Managing Director, Shengman Zhang, who was recently appointed Vice Chairman, Global Banking, Citigroup Corporate and Investment Banking, and Chairman of the company’s Public Sector Group. Zhang was Vice President and Corporate Secretary of the World Bank Group from 1996 to 1997 and member of the Executive Board for China from 1994 to 1995. Earlier in his career, he held a number of senior positions at the Ministry of Finance in China.

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exceeded the President’s request, earmarking \$1.99 billion, \$200 million of which constitutes the United States’ contribution to the Global Fund.

International Financial Institutions FY06 Appropriations				
		U.S. \$ (Thousands)		
Appropriation	FY06 President's Budget	House	Senate	Final
<u>I. International Financial Institutions (IFIs)</u>	\$1,335,329	\$1,227,830	\$1,288,358	\$1,290,138
International Dev. Assn. (IDA)	\$950,000	\$950,000	\$900,000	\$950,000
Multilateral Investment Guarantee Agency (MIGA)	\$1,742	\$1,742	\$1,300	\$1,300
Global Environ. Facility (GEF)	\$107,500	0	\$107,500	\$80,000
Inter-American Development Bank (IDB)	-	-	-	-
Inter-American Investment Corp. (IIC)	\$1,742	\$1,742	\$1,500	\$1,742
Multilateral Investment Fund (MIF)	\$1,742	\$1,742	\$3,742	\$1,742
Asian Development Bank (AsDB)	-	-	-	-
Asian Development Fund (AsDF)	\$115,250	\$115,250	\$119,000	\$100,000
African Development Fund (AfDF)	\$135,700	\$135,700	\$135,700	\$135,700
African Development Bank (AfDB)	\$5,638	\$5,638	\$3,600	\$3,638
European Development Bank (EBRD)	\$1,016	\$1,016	\$1,016	\$1,016
International Fund for Agricultural Development (IFAD)	\$15,000	\$15,000	\$15,000	\$15,000
<u>II. Debt Restructuring Programs</u>	\$99,750	\$65,000	\$99,750	\$65,000
Includes HIPC, HIPC Emergency (Supplemental Funding), Tropical Forest Conservation Act (TFCA)				
<u>III. Other Accounts</u>				
Technical Assistance	\$20,000	\$20,000	\$20,000	\$20,000
Total U.S. Treasury International Accounts	\$1,455,079	\$1,312,830	\$1,408,108	\$1,375,138

Save the Date! Upcoming Event: The Bretton Woods Committee Examines the “Bottom of the Pyramid” on March 15

Corporations in the developed world are in heated competition to serve approximately one-third of the world’s market. The remaining two-thirds live in poor countries and, despite their numbers, are largely ignored. Rethinking the traditional business model to include the world’s poorest citizens as consumers, participants, entrepreneurs, and marketers, offers corporations the rare opportunity to “do well while doing good”. In addition to the bottom line benefits of vastly expanding a customer base and



procuring first-hand expertise in previously unknown markets, the bottom of the pyramid business model empowers the poor, harnessing their energy and first hand expertise in hard to reach markets.

The Bretton Woods Committee will hold a symposium featuring C.K. Prahalad, author of The

Fortune at the Bottom of the Pyramid in Washington on March 15. Prahalad is a global business consultant who has worked with senior management in companies worldwide as well as being the Harvey C. Fruehauf Professor of International Business Administration and Professor of Corporate Strategy and International Business at the University of Michigan Business School. The Fortune at the Bottom of the Pyramid is based on the premise that “the real source of market promise is not the wealthy few in the developing world, or even the emerging middle-income consumers. It is the billions of aspiring poor who are joining the market economy for the first time.”

Prahalad will join the Bretton Woods Committee to share his theories and his experiences with businesses that have successfully and profitably harnessed the entrepreneurial spirit and buying power of the world’s billions of poor people, creating a win-win for those in poverty and making great strides towards sustainable economic development where it is most needed.

The Bottom of the Pyramid symposium will take place on March 15th. Location and time to be announced in the near future.

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