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In this issue

Sustained and consistent reforms are critical to restoring confidence in Latin America

Speaking at the Thirty-Third Washington Conference of the Council of the Americas on April 29, IMF Managing Director Horst Köhler expressed optimism about Latin America's growth prospects. Despite difficult economic times, he said, the people have indicated no desire to return to past authoritarian regimes, and several countries have recently reaffirmed their commitment to a market-based system. A summary of Köhler's address, delivered at the U.S. Department of State, follows.

Latin America is beginning to recover from a difficult year, Köhler said. In 2002, the region experienced its worst downturn in 20 years, although there were significant differences between countries. Growth slowed in many countries, particularly Argentina and Venezuela, but picked up in Mexico and Peru. The adverse global environment affected many Latin American countries, especially those that relied on financing from international capital markets.

Horst Köhler: The IMF is fully engaged in supporting economic reform in Latin America.

Countries with stronger policies, such as Chile and Mexico, weathered the crisis better.

Agenda for success

The first quarter of 2003 brought additional signs of improvement, Köhler said, *(Please turn to the following page)*

IMF Institute seminar

Politics of IMF lending: who borrows from the IMF and why?

At a March 28 IMF Institute seminar, a trio of political economists attempted to "make sense of IMF lending." They made a case for looking beyond old-style economics, which ignores political factors, in favor of new-style economics, which incorporates all of politics into a single variable. This new approach, they said, can provide a more nuanced economic picture because it focuses on the conflicts of interest that are inherent in the political environment. Factoring politics into economic decisions also has implications for both the IMF and the countries that borrow from it, as Jeffrey Frieden (Harvard), James Vreeland (Yale), and Erica Gould (University of Virginia) highlighted in their presentations.

Left to right: IMF Institute Director Mohsin Khan with Jeffrey Frieden, Erica Gould, and James Vreeland.

Why do countries that have or could conceivably have access to external financing turn to the IMF for a loan? Why is there an IMF? It has been said that if the IMF did not exist, it would be necessary to invent it. Jeffrey Frieden reiterated that view, dipping into history to describe the international creditor committees that have existed since the development of modern

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Restoring confidence in Latin America

(Continued from front page) including export growth in several countries and improved market perceptions. In Brazil, the new government's macroeconomic policies are beginning to bear fruit, and he welcomed Brazil's successful return to international capital markets for the first time in over a year. He also welcomed Uruguay's recent debt exchange offer, which will help achieve a more sustainable medium-term debt profile for the country. On Argentina, Köhler noted that the IMF stands ready to work with the new leadership on a comprehensive reform program, which will be needed to build on the current stabilization gains and establish a firm basis for sustained strong growth, commensurate with the country's considerable potential. It is these developments, Köhler said, that give him grounds for optimism.

William R. Rhodes (right), Chairman of the Council of the Americas, confers with Köhler.

In addition, he noted that new leaders in the region were formulating agendas for increasing long-term sustainable growth while improving social equity. He pointed to three elements that he considered particularly important:

- increasing the economy's resilience to crisis by achieving low inflation, which will require, first and foremost, placing public financing on a solid footing;
- strengthening the institutions that underpin a market economy and implementing structural reforms to raise economic growth potential; and
- addressing issues of social equity and governance to buttress popular support for reform.

Köhler noted that there was no single model for success. In many cases, he said, national traditions would shape individual approaches. But he was certain that the common agenda held much promise for the region. "Promoting sound institutions and strengthening the culture of accountability and trust are critical to ensuring sustainable long-term growth and social equity. Without social equity, there can be no social peace, and without social peace, long-term investment and sustainable economic growth will remain elusive."

The IMF is fully engaged in supporting economic reform in Latin America, Köhler said. It is helping its members make their economies more crisis-proof by providing policy advice, technical assistance, and resources to support national economic programs. Outstanding IMF resources to the region are about $42 billion, more than half of the IMF's total lending. And, increasingly, he said, the IMF is helping countries meet international standards and codes in the economic and financial areas, an objective that is particularly important for restoring investor confidence. As for the poorest countries in the region—for example, Nicaragua—the IMF is extending financial support for their reform programs through its Poverty Reduction and Growth Facility.

Challenges for the region

Köhler agreed with Mexico's former president, Ernesto Zedillo, that the main problem in much of Latin America had been too little reform and, in particular, inconsistent reform. "Sustained and consistent reforms are critical to restoring confidence—confidence needed for more investment and better access to financial markets." Thus, Latin America's key challenge will be to keep good policies on track.

But, Köhler said, Latin America also needs, and deserves, support from the rest of the world. The first priority, he said, should be to strengthen trade, which offers significant potential for economic growth and for reducing countries' vulnerability to external shocks stemming from swings in capital flows. For Brazil alone, Köhler said, the liberalization of market access under free trade agreements with the European Union and the Americas could boost exports by $18 billion, or 32 percent, primarily for agricultural products. In that connection, he welcomed the initiative to establish a free trade area of the Americas. However, in moving ahead with the free trade area, he cautioned that it would be imperative to ensure consistency with the multilateral trade discussions being held under the Doha Round. Trade is critical to restoring confidence to the world economy, and the United States and Europe bear primary responsibility for ensuring that the Doha Round is brought to a successful conclusion. And, by supporting higher economic growth and poverty reduction, it will also enable developing countries to participate more fully in the benefits of globalization. Regional and multilateral trade initiatives share the same objective: raising economic growth and prosperity by promoting trade and cross-border investment.

Latin America has enormous potential for growth, Köhler concluded. And it now has leaders who know the way forward: through investment in better integration with the global economy. ■

Why countries borrow from the IMF

(Continued from front page) sovereign lending 150 or so years ago. Their IMF-like function was to deal with the difficult cross-border and jurisdictional property right issues that accompanied sovereign lending. For example, the Ottoman Public Debt Administration was set up in 1881 and functioned for about 50 years: in its heyday, it controlled about one-fourth of the revenue of the Ottoman Empire. Between the two World Wars, creditor committees coexisted with the League of Nations and eventually led to the Bank for International Settlements, established to deal with German reparations and debt payments. In the absence of an international bankruptcy court, those institutions, Frieden said, like the IMF today, monitored and supervised debtor country policy and conditional lending.

Debtor-country scenario

Like their historical counterparts, modern debtor countries are often unable to pull themselves out of debt, partly because of conflicts within governments about what changes need to be made. Jeffrey Frieden presented a debtor-country scenario to illustrate a conflict between the desirability of access to external credit and the desirability of policy change. Suppose, he said, a country has three special interest groups. One interest group strongly favors gaining access to credit and adopting economic reforms. Another group strongly opposes reform but is indifferent to access to credit. A group in the middle wants access to credit but is ambivalent to, or opposes, reform. This third, pivotal group functions as a "veto player" and must be won over if reform is to take place.

According to Frieden, this situation offers scope for Pareto improvements (when a reallocation of resources makes at least one group better off without making any group worse off) because the first group could compensate the others for the costs of reform out of the benefits it gains from acquiring access to external credit and implementing policy reforms. However, such outcomes are politically difficult to achieve.

Value of IMF conditionality

When the special interest groups are unable to strike a political bargain, a country neither reforms nor gains access to external credit. But an IMF-supported program, according to Frieden, can help untie this knot. For one thing, it serves as a country's seal of approval and a commitment device for undertaking reform, which signal private markets that the country's domestic policies are credible. These features allow private creditors to extract what they need to know about a country's creditworthiness from a plethora of information, much of it incomplete and asymmetric.

It is valuable to try to understand IMF lending as a signal to private markets.
—Jeffrey Frieden

Comments sought on financial soundness indicators guide

To encourage countries to develop stronger and more effective financial sectors, the IMF is preparing the *Guide on Financial Soundness Indicators.* The IMF recognizes that analytically sound and readily understood indicators can give policymakers and the markets a good quantitative picture of the stability and soundness of a country's financial system. The guide, currently in draft form, will provide background information on concepts, definitions, and data sources and offer techniques for compiling and disseminating core and encouraged indicators.

Core indicators seek to assess the banks' (deposit-taking institutions') capital adequacy, asset quality, earnings and profitability, liquidity, and sensitivity to market risk. These indicators are likely to be useful in all countries, regardless of their institutional characteristics or stage of development, and are feasible to collect without excessive extra resources.

Encouraged indicators seek more detailed data for deposit-taking institutions and go beyond these institutions to other key sources of vulnerability, such as nonbanks, corporations, households, and relevant markets, including securities and real estate markets. The encouraged indicators are designed to add depth to financial soundness assessments but may be relevant at the present time for only a limited number of countries.

Experts from international statistical organizations, standard setters, and IMF member countries provided comments on an earlier draft; the current version incorporates their comments. Beginning in April, the draft guide has been the subject of a series of regional outreach seminars, in which the guide's major themes and issues have been discussed, and comments elicited from a wider range of users. In addition, the current draft has been posted on the IMF's website for public review and comment.

Once comments have been received, the draft will undergo another round of revisions. The guide is expected to be finalized by the end of 2003.

The text of the draft guide is available on the IMF's website at www.imf.org/external/np/sta/fsi/eng/fsi.htm. Comments, which must be received by *June 20*, can be e-mailed (staf2fsi@imf.org), faxed (1 (202) 623-5411), or mailed, addressed to: Director, Statistics Department, International Monetary Fund, 700 19th Street NW, Washington, DC 20431, U.S.A.

Although countries often complain that the IMF imposes conditions on them, conditionality could make reform more likely.
—James Vreeland

But the most important characteristic of an IMF-supported program is that it can change a country's domestic political balance by addressing its conflicts of interest. Through its conditionality, an IMF-supported program can offer compensation with an international component. That is, it links access to IMF lending, hence external credit, to domestic policy change. The veto players acquiesce because the compensation carries an international component. But, he noted, the impact of conditionality depends on two things: the character of the veto players and the character of a country's political institutions. With regard to the veto players, at what price are they willing to reduce their opposition to reform in exchange for access to external credit? As for institutions, do they have other available commitment devices and compensation mechanisms, and how responsive are they to special interest groups?

But the ultimate question, Frieden said, is, what motivates politicians to broker trades with broad long-term effects? The longer a politician's time horizon, the more likely he or she is to internalize the positive effects of the deal. The larger the politician's constituency, the more likely it is, again, that he or she will internalize the positive effects of the policy.

It is valuable, Frieden concluded, to try to understand IMF lending as a signal to private markets. The signal is credible and valuable because of the IMF's ability to catalyze the reworking of domestic political coalitions by linking access to credit to policy change. And political economy? It might be relevant even for apolitical economists, Frieden said, because it can open up areas for new understanding.

Why do countries turn to the IMF?

In exploring debtor countries' motivations, James Vreeland also looked at the role of veto players. He argued that the more veto players a country's political system had, the more likely it was that the executive would enter into an IMF arrangement.

Although countries often complain that the IMF imposes conditions on them, Vreeland suggested that conditionality could make reform more likely. A reform-minded executive may be unable to push through unpopular reforms without the approval of other actors—for example, the congress or coalition partners, depending on the system—who represent veto players. But the executive does not necessarily need approval to enter into an IMF arrangement, which may call for the very measures the executive favors. Once an agreement with the IMF is signed, Vreeland said, a country's failure to meet program commitments incurs "rejection" costs: restricted access to IMF credit; postponement or cancellation of debt rescheduling; and loss of investment, as failure would send a negative signal to investors.

To illustrate, he described Uruguay's situation in 1990, when an unpopular president (Luis Alberto Lacalle de Herrera) sought to push through reforms but faced multiple obstacles: a legislature in which a different party held the majority, a coalition government that fell apart, and a system with a national referendum involving, potentially, a further veto. So Lacalle negotiated an IMF program (a Stand-By Arrangement, approved in 1990), and the outcome was considered a success overall. Uruguay ended up with a budget surplus of 0.37 percent of GDP in 1990 and of 0.91 percent in 1991. Moreover, the state monopoly on insurance was eliminated, and four banks were privatized.

Switching perspectives, Vreeland suggested that increasing the number of veto players could have the opposite effect on the IMF. Executives hindered by many checks and balances would probably require more assistance to push through unpopular reforms and, at the same time, be less able to commit to significant policy changes. Thus, if the IMF sought agreements with countries that were likely to bring about the most reform, it could prefer countries with fewer veto players. Vreeland noted that this political economy perspective of IMF lending had implications for IMF reform. Whereas "the IMF claims it prefers not to get involved in domestic politics," he said, it becomes involved the moment it attaches conditions to its resources that entail raising taxes and cutting spending. Vreeland concluded that the IMF could perhaps make it an official policy to seek out and assist reform-minded governments or, in some other way, make its role in countries' domestic politics explicit.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 21	1.77	1.77	2.27
April 28	1.75	1.75	2.24

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2003).

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

Data: IMF Finance Department

How IMF lending has changed

Focusing on the political factors that influence IMF lending, Erica Gould began by reviewing the work of scholars who have modeled the IMF to explain lending patterns (see box, below). The three models may offer some useful insights into the politics of the IMF, she said, but they have missed a key dynamic.

According to Gould, the dramatic changes that have occurred in IMF conditionality over the past 50 years have been driven by financiers that supplement IMF loans, as well as by changes in the sources of state financing. The financiers are crucial to the success of IMF programs and, for that reason, have some leverage over program design. Change occurs because the three types of financier—creditor states, private financial institutions, and other multilateral organizations—have different reasons for lending and different preferences as to what should be included in an IMF program. Creditor states provide finance for political ends and favor relatively few conditions so that their allies are not destabilized by a program; private financial institutions are profit oriented and prefer conditions that will enable them to be repaid; other multilateral institutions are motivated by policy objectives and prefer specific, detailed conditions related to their areas of expertise.

Gould used material from the IMF's archives to test the plausibility of her argument. Her data set included 249 loans (all Stand-By, Extended Fund Facility, Structural Adjustment Facility, and Enhanced Structural Adjustment Facility Arrangements) between 1952 and 1995, coded according to the targeted conditions. She focused on binding conditions, or performance criteria, which program countries must meet to continue receiving IMF financing. Her findings included

• a relatively gradual increase in the number of conditions in IMF programs (although her data for the 1990s, she said, are less complete);

• relative stability in the length of IMF programs through the mid-1970s, after which their length shot up and became more variable; and

• increased phasing over time, with loans being released in a larger number of tranches.

Gould said her quantitative research and case studies provide initial support for her argument. Each group has systematically different reasons for providing supplementary financing to IMF borrowers. Thus, as the sources of financing have shifted and diversified over the years, Gould argued, so, too, have the demands on the IMF and the institution's activities. For example, lending was initially dominated by a small number of creditor states, but their number has risen since World War II. The other two types of financier, meanwhile, have become more active.

Many outsiders are studying the IMF and trying to understand the reasons for changes in its activities. Some, Gould observed, would argue that her work supports the contention that the IMF is an agent for multinational corporations and banks and should be further reformed. Others would argue that one of the IMF's primary purposes is to facilitate supplementary financing for borrowers and that, as a result, the influence of supplementary financiers on IMF conditionality is neither surprising nor problematic. In the end, she said, which actors should be influencing the IMF and its activities depends on what one thinks the IMF's role should be. ■

Which actors should be influencing the IMF and its activities depends on what one thinks the IMF's role should be.
—Erica Gould

Models of IMF lending

Erica Gould outlined the perspectives of three competing models of the IMF.

Realist. Powerful states control IMF lending. The United States, the largest shareholder, controls IMF decisions, and lending thus reflects U.S. interests. The IMF is more likely to lend to a U.S. ally, determined by its voting record in the United Nations relative to the U.S. voting record.

But, Gould says, this measure of alliance may be capturing something different. For example, countries voting increasingly like the United States may be reforming or democratizing and are thus most likely to receive loans.
Source: Strom Thacker, 1999, "The High Politics of IMF Lending," World Politics, *Vol. 52, pp. 38–75.*

Bureaucratic. IMF staff and management determine IMF activities and lending, with changes in conditionality being driven internally by organizational actors.

(1) The IMF is viewed as an actor in itself with some autonomy to pursue its own interest and is not simply a conduit for state preferences. The IMF derives some autonomy through development of expert knowledge, which in turn has driven changes in conditionality.

(2) The IMF is trying to maximize its budget, staff, and independence. Changes reflect the bureaucracy's drive for greater power.
Sources: Michael Barnett and Martha Finnemore, "Expertise and Bureaucratic Power at the International Monetary Fund" (unpublished), and Roland Vaubel, 1996, "Bureaucracy at the IMF and the World Bank," World Economy, *Vol. 19, pp. 195–210.*

Liberal. States direct activity of international organizations, which are seen as serving the collective interests of states rather than the narrow interests of the powerful. Changes in these organizations' activities are often attributed to objective changes in the nature of the problems they are trying to address.
Source: IMF staff.

ECOSOC dialogue with Bretton Woods institutions

Improved coordination sought in Monterrey Consensus follow-up

On April 14, the United Nations Economic and Social Council (ECOSOC) gathered for the sixth annual high-level dialogue with the Bretton Woods institutions. The meeting, which took place in New York City, focused on improving coordination in implementing the Monterrey Consensus and on tracking progress toward achieving the UN Millennium Development Goals (MDGs).

Before heading home after the spring meetings of the IMF and the World Bank, ministers of finance and development stopped in New York City for a day-long session with ministers of foreign affairs, UN delegates, senior officials from international organizations (including the UN, the IMF, the World Bank, and the World Trade Organization (WTO)), and representatives from civil society and the private sector. This year's top issue was how to increase coherence, coordination, and cooperation between multilateral organizations in following up on commitments made at the March 2002 International Conference on Financing for Development in Monterrey, Mexico.

The other priority was identifying the actions and policies needed to help countries achieve the MDGs, with an emphasis on ensuring sound domestic policies, reducing distorting agricultural subsidies and increasing market access for developing countries, ramping up official development assistance, securing debt sustainability for heavily indebted poor countries, and enhancing the voice and vote of developing countries in international organizations.

Eduardo Aninat: The IMF is working with the World Bank to monitor policies and actions needed to make progress toward reaching the Millennium Development Goals.

Deputy Secretary-General Louise Fréchette, opening the meeting on behalf of the UN Secretary-General, recalled that political leaders had pledged in Monterrey to remain engaged and to use the UN as a forum for dialogue, in particular to bring together the key specialized multilateral institutions in finance, trade, and development. In a statement that resonated in many subsequent interventions, she pointed out that developing countries had long been encouraged to eliminate subsidies to improve their fiscal positions and create conditions necessary for growth but that advanced economies persisted with agricultural subsidies and tariffs that hurt developing countries' exports.

Eduardo Aninat, IMF Deputy Managing Director—representing both IMF Managing Director Horst Köhler and the Chair of the International Monetary and Financial Committee (IMFC), Gordon Brown—focused on the conclusions coming out of the April 12 IMFC meeting. He reaffirmed the IMF's commitment to helping countries achieve the MDGs and encouraged stakeholders to build on the historic compact for development reflected in the Monterrey Consensus between developed and developing countries.

Aninat also highlighted the IMF's work on surveillance and financial assistance, noting that the IMF was doing its part by working with the World Bank to monitor policies and actions needed to make progress toward reaching the MDGs. The IMF was also aligning its concessional financing (the Poverty Reduction and Growth Facility) with the priorities outlined in domestically generated and owned Poverty Reduction Strategy Papers (PRSPs), which play a central role in bringing together domestic policies and international support in reaching the MDGs at the country level.

Clearly, the IMF's efforts to reach out to the UN in recent years, in particular its support for the Monterrey Consensus and the MDGs, have contributed greatly to a better understanding between officials in New York and Washington. While many people on both sides of the fence have contributed to this outcome, Aninat was specially commended for his constructive role. As Nitin Desai, UN Under-Secretary-General for Economic and Social Affairs, noted, by now people understood that "not everyone in Washington had red tails and not everyone in New York had white wings."

On a more serious note, there appeared to be widespread support for the PRSPs as the most promising framework for implementing the MDGs and recognition of the value added in reaching out to a wide range of actors, including parliamentarians. There was also broad recognition of the emerging consensus on the need for institution building and enhanced capacity, including the capacity of developing country officials to negotiate trade agreements. All of these initiatives are likely, in turn, to facilitate medium-term progress toward the MDGs.

Fathallah Oualalou, Morocco's Minister of Finance, noted that many participants identified a lack of coherence in developed country policies, underscoring the need to address this problem. Developing countries were also urged to recognize that their policies lacked coherence at the domestic level. They could not be sure, for example, that their finance, trade, and planning ministers were always on the same wavelength.

Priorities for the future

Several broad themes emerged from the meeting's presentations, with participants acknowledging the consensus on what domestic policies are needed, the desirability of faster progress in reaching goals, the key role of trade, the need for policy coherence, the importance of more and better-quality aid, and the key issue of improving the voice of developing countries in the deliberations of the IMF and the World Bank.

Faster progress in implementing the MDGs and the objectives of the Monterrey Consensus. Concerted and strong political will is needed if countries are to realize their commitments. Trevor Manuel, Finance Minister of South Africa and Chair of the joint World Bank–IMF Development Committee, noted that, at the spring meetings, the committee had welcomed progress in developing a global monitoring framework that would permit regular assessment of progress toward development goals. Monitoring will reinforce accountabilities in the developing and developed countries, as well as in their institutional partners.

Consensus on the domestic policies that developing countries need to pursue to achieve the MDGs. There exists broad agreement that prudent macroeconomic and structural policies are essential, particularly to increase savings and investment opportunities. Also critical are good governance, strong institutions, peace and political stability, active and effective human development policies, and infrastructure development. Aninat, in particular, stressed that such policies would help underpin sustainable growth and strengthen countries' resilience to adverse global developments.

A successful Doha Round of trade negotiations is essential. Many delegates agreed with WTO Deputy Director-General Francisco Thompson-Flôres that the Doha Round incorporated ambitious goals that, if successful, would go a long way toward strengthening confidence in the world economy and helping countries fight against poverty. He noted that the September 2003 Cancun ministerial meeting would be a key opportunity to provide the momentum needed to ensure that the round is completed on schedule by end-2004. Many delegates stressed that areas of critical importance for developing countries—especially agriculture—required urgent attention.

There must be policy coherence at the national, regional, and international levels. As implementation occurs at the country level, domestic policymaking processes will need to be coordinated so that policies emanating from different ministries are mutually reinforcing. PRSPs were widely seen as a useful vehicle to promote more coherent domestic development policies. A number of speakers agreed with Morocco's Oualalou that regional groupings, such as the New Partnership for Africa's Development, could also help countries improve the effectiveness of policies. Gert Rosenthal, Guatemala's Ambassador and President of ECOSOC, spoke for the entire gathering when he concluded that, on the international level, the current dialogue between ECOSOC, the Bretton Woods institutions, and the WTO could also enhance coherence, as this dialogue spanned the different cultures of finance, trade, development, and foreign affairs ministries.

Louise Fréchette: Developing countries have long been encouraged to eliminate subsidies to improve their fiscal positions and create conditions necessary for growth, while advanced economies persist with agricultural subsidies and tariffs that hurt developing countries' exports.

The quantity and quality of official development assistance (ODA) must be substantially increased. In addition to a call for countries to meet their ODA commitments, many speakers concurred with Hilde Frafjord Johnson, Norway's Minister of International Development, that the regulations and reporting requirements demanded from recipient countries should be streamlined and harmonized to enhance the effectiveness of aid.

It will be important to improve the voice and representation of developing countries in the decision-making processes of the IMF and the World Bank. Manuel noted that many participants indicated that strengthening the capacity of developing countries would enhance their voice and improve the accountability and legitimacy of international institutions. Some participants agreed with Fouad Siniora, Lebanon's Minister of Finance and the chair of the Group of 24 that the voting power in the IMF and the World Bank should be redistributed to reflect developments in the global economy. These issues are scheduled for further discussion in the two institutions.

Preview for October meeting

While the April 14 dialogue did not conclude with formal agreements, its ideas will feed into a General Assembly discussion on progress on the Monterrey Consensus in October. That meeting will also evaluate where the world is in terms of achieving the MDGs. ■

Patrick Cirillo, IMF Secretary's Department,
and Axel Palmason, IMF UN Office

Do public policies play a role in reducing poverty?

Poverty reduction is today the central objective of the IMF's policy design and advice for low-income economies, along with the institution's more traditional emphasis on correcting financial imbalances and promoting the development of productive resources and economic growth. In a recent IMF Working Paper, "Is Growth Enough? Macroeconomic Policy and Poverty Reduction," Dhaneshwar Ghura, Carlos Leite, and Charalambos Tsangarides find that some public policies are "super pro poor"—that is, they appear to directly influence the incomes of the poor.

The renewed sense of urgency for faster, deeper poverty reduction has spawned a growing debate on the determinants of poverty and strategies for alleviating it. A key point of reference in the literature has been the impact of rapid economic growth on poverty reduction in East Asia. Indeed, recent empirical work has found that economic growth is a key driver of poverty reduction, with little or no direct role for economic policies (once account is taken of the effects of economic growth). The fact that recent research finds that public policies play only a small role, or no role, in directly lowering poverty motivated this study.

Measuring poverty

A major challenge for research in this area stems from the scarcity of poverty-related data for low-income countries. There are several ways of measuring poverty. For example, the United Nations, in setting its Millennium Development Goals, defines as poor those who live on less than $1 a day. In this study, poverty is defined as the average income of the lowest 20 percent of the population in the income distribution—a measure used by other researchers for econometric analysis. We used data from a large set of developed and developing countries during 1950–99.

Main findings

An initial, simple exercise of identifying correlations between variables (see box, below, for a summary of methodology and variables; see the Working Paper for details) indicates that, on average, countries in which the poor have incomes higher than those of their counterparts in other countries are characterized by higher macroeconomic stability, lower income inequality, better internal environments, more democratic political institutions and better governance, a better-educated population, more open trade regimes, and higher levels of financial development.

The IMF has a key role to play in helping to alleviate poverty.

Methodology and variables

Econometric work with data for several countries spanning a number of years faces some daunting challenges: country- and time-specific effects, endogeneity of explanatory variables, omission of relevant variables, and uncertainty about the effectiveness of the underlying statistical model, among other things. In this study, we used two methodologies.

The first is a traditional framework to reproduce some of the existing results in the literature and to show that the methodology is perhaps inadequate for such analysis. In particular, while correcting for a number of the econometric problems noted, this framework cannot address model uncertainty, which arises because of the lack of clear theoretical guidance on the choice of explanatory variables.

The second methodology—a check for robustness—corrected for this problem along with the others. In simple terms, it attempts to account for all possible combinations of explanatory variables in the statistical regressions. We used 18 potential explanatory variables, basing the robustness check inferences on the results of a very large number of regressions.

The 18 potential explanatory variables accounted for
- overall average income (which was kept in all the regressions);
- the internal environment or resources (including natural resources and ethnicity);
- institutions / governance (including rule of law and level of democracy);
- human capital (including educational outcomes and life expectancy);
- physical capital (including private and public investment);
- macroeconomic stability (including inflation and fiscal balance);
- government size (ratio of government consumption to GDP);
- the trade regime (including share of exports and imports in GDP);
- the external environment (including changes in the terms of trade); and
- financial development (including the ratio of broad money to GDP).

The econometric analysis confirmed the importance of economic growth in raising the incomes of the poor, although the elasticity of the incomes of the poor with respect to average income is sensitive to the variables that are included in the statistical regressions (an elasticity of one implies that a 1 percent increase in overall average income raises the average income of the poor by 1 percent). We also found that the econometric estimates derived from the traditional statistical regression framework were not robust. In particular, the traditional framework was unable to say anything about the direct impact of public policies on the incomes of the poor. As a result, one would tend to conclude that such policies may have no independent effect and alleviate poverty only through their influence on economic growth.

But, using a second framework to check for robustness (see box, page 128), we found that the data contained other interesting information, especially about the role of public policies. The findings confirmed the relationship between economic growth and poverty reduction, although the relationship is less than one to one. More specifically, for a given target for poverty reduction over a certain period of time, the economic growth rates required could exceed what can reasonably be expected (compared with what would be required if an increase in economic growth resulted in an increase of one to one or greater in the incomes of the poor). We also found that certain public policies have a direct impact on the incomes of the poor, even after controlling for the effect of economic growth. These include policies that lower inflation, shrink the size of the government, promote financial development, and raise the educational level. The policy-related variables are considered "super pro poor" because they raise the incomes of the poor directly, as well as indirectly, through economic growth. The direct and indirect effects are mutually reinforcing, and there are thus no identified trade-offs between growth promotion and poverty alleviation. The results also indicate that the poor are significantly vulnerable to adverse movements in the terms of trade.

Another interesting result relates to the importance of secondary school (and not primary school) enrollment in directly raising the incomes of the poor. This result appears puzzling in view of the notion that primary education plays a central role in lowering poverty. Our finding does not contradict this view; instead, given that social indicators for health and education are highly correlated, this result tends to highlight the importance of public policies that enhance social outcomes. In addition, to the extent that the secondary school enrollment ratio represents the quality of the accumulation of investment in basic education, health, and nutrition, this result points to the importance of the quality of investment in human capital in poverty reduction efforts.

Some of the statistically nonsignificant results are also noteworthy. For example, a number of variables—such as trade openness, the investment rate, the extent of democracy, life expectancy at birth, and the extent of civil wars—that have been shown in the empirical literature to affect economic growth do not directly influence the incomes of the poor (once the level of overall average income has been accounted for). A corollary is that, to the extent that it is closely related to globalization, trade openness does not appear to hurt the incomes of the poor but, instead, has a positive effect by boosting overall economic growth.

Schoolchildren in Guinea.

Policy implications

We found that raising overall economic growth is indeed key to poverty reduction. The bottom line is that growth—and lots of it—is needed so that the extra income generated can also benefit the poor. But, while growth is a necessary condition for poverty reduction, it is by no means sufficient. Countries need to implement policies that focus on creating an enabling environment for the poor to participate in, and benefit from, the growth process.

Our results also suggest that the IMF has a key role to play in helping to alleviate poverty. The IMF's primary mandates include assisting countries in the design of policies that lead to low and predictable inflation; reorienting government resources to productive outlays (including health and education) by, for example, lowering unproductive government consumption; and deepening the financial sector. In promoting such policies successfully, the IMF can do a lot to lower poverty in the world, and it needs to continue focusing on this issue in sub-Saharan Africa, Latin America and the Caribbean, and parts of Europe and Asia where large segments of the populations live in absolute poverty. Coordination with the World Bank and other development agencies is important, as they also have a key role in focusing on, for example, social policies that lead to higher social outcomes in low-income countries, as well as on

Public policies that raise the educational level of a population also raise the incomes of the poor.

strategies to help these countries diversify their export bases (to lower their vulnerability to adverse terms of trade shocks).

The pro-poor public policies described in this paper enable the poor to participate in the growth process through the labor market or self-employment and to safeguard the purchasing power of their incomes. A stable macroeconomic environment, characterized by low and predictable inflation, makes it possible for the poor to do the latter. One argument in the economic literature is that inflation is a "harsh tax" on the poor because they are less likely than the rich to have access to financial hedging instruments protecting the real value of their wealth. Financial sector development also benefits the poor by facilitating access to credit and improving risk sharing and resource allocation. Educational achievement, facilitated by government investment in health and education, allows the poor to participate in the economic growth process through employment. The reduction of government consumption (used as a proxy for government size in this study) allows more scarce resources to be devoted to investment in health and education.

Pro-poor public policies enable the poor to participate in the growth process through the labor market or self-employment and to safeguard the purchasing power of their incomes.

Unresolved questions

The existing empirical literature on poverty reduction leaves a number of questions unresolved. First, how can public policies have an independent effect on the incomes of the poor when the underlying framework controls for overall income as an explanatory variable, which itself incorporates the poor's income? We believe that the independent effect occurs through a distributional channel, but how exactly? For such an evaluation, it would be necessary to specify relevant transmission mechanisms and to rigorously test their empirical relevance. It would also be important for more empirical work to be undertaken on policies that allow the poor to participate fully in, and benefit from, the economic growth process.

Second, it is not clear how relevant the recommendations derived from cross-country regression studies are for individual countries. There is, therefore, a need for more country-specific studies of experiences with poverty reduction, despite the dearth of data. Third, the impact of economic growth and the "super pro poor" policies on the incomes of the poor does not necessarily imply causation from one to the other. An examination of the issue of causation would require continuous data over long periods of time for a given country—but such data rarely exist.

Finally, the issue of how long it takes for public policies to make a significant dent in poverty needs careful consideration. Again, more poverty-related data are needed. An important challenge for the international community is to finance the collection and dissemination of more household-level poverty data over time in low-income countries. ■

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Copies of Working Paper No. 02/118, "Is Growth Enough? Macroeconomic Policy and Poverty Reduction," by Dhaneshwar Ghura, Carlos Leite, and Charalambos Tsangarides, are available for $15.00 each from IMF Publication Services. See page 131 for ordering information. The full text of the Working Paper is also available on the IMF's website (www.imf.org).

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IMF Working Paper

Deciphering the determinants of stock market volatility

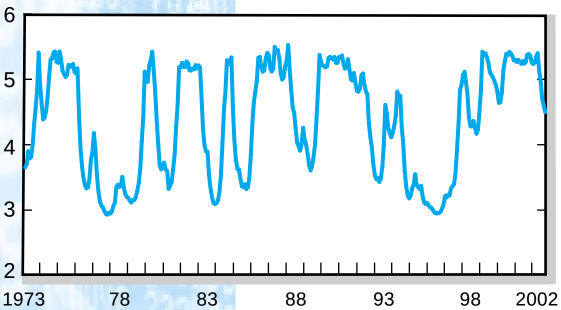
Since the dawn of modern stock exchanges in early seventeenth-century Europe, periodic bouts of stock price volatility have puzzled economists and noneconomists alike. Commenting on one such episode—the boom and bust of the famed South Sea company shares in 1720 England—Sir Isaac Newton is said to have remarked, "I can measure the motion of bodies, but I cannot measure human folly." An important strand of current research focuses on the role of country location and industry affiliation in determining stock price movements. In a new IMF Working Paper, Luis Catão of the IMF's Research Department and Allan Timmerman of the University of California, San Diego, gauge these effects.

The extent to which country and industry factors influence stock returns has important practical implications. If stock returns are primarily determined by country location, investment risk can be reduced by holding an internationally diversified portfolio. If industry factors are paramount, crossing national borders will yield meager gains, and risk diversification can more easily be accomplished by investing in different industries in a given country. Catão and Timmerman use a new methodology (see box, page 133) to examine these relationships and find that the benefit of exiting from national stock markets and buying foreign stocks declines dramatically during periods of high global volatility, such as the current one.

Their study also supports the so-called geography or cultural view of financial markets—that is, that stocks tend to move together more tightly across English-speaking countries (and notably so between the United Kingdom and the United States) and much of continental Europe, but much less so between, say, Japan and the United States. This is true during periods of both high and low volatility and implies that being purely Anglophile or Europhile is not beneficial, at least when it comes to diversifying equity risk.

Overall stock market volatility has been highly cyclical

(percent a month)



Data: IMF, Working Paper No. 03/52

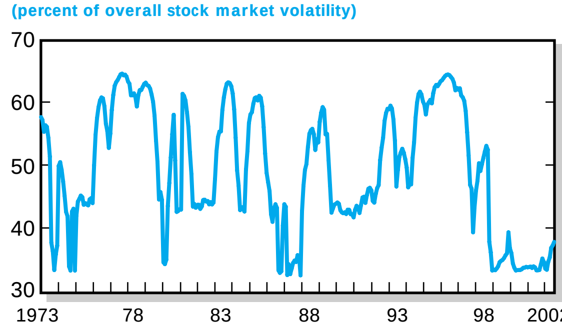
Nature of volatility

Applying their methodology to a global data set of monthly returns for about 4,000 firms from 1973 to 2002, Catão and Timmerman find overwhelming evidence of two distinct and well-defined "states" of high and low volatility. Overall market volatility (country- and industry-specific volatilities plus a "global" volatility component common to all firms) is highest around the time of the first oil shock (1973–75), the second oil shock (1979–81), the debt crisis of the early 1980s, the 1987 stock market crash, and the 1991 Gulf War (see chart, left). After a dramatic decline during 1992–96, volatility rose and remained persistently above its historical average through 2002. Despite its dramatic rise in recent years, volatility has moved up and down over the past 30 years: periods of high volatility have been followed by periods of low volatility. This evidence dispels the notion, held by some, that stock market volatility has been trending upward as financial markets become more globalized.

The country component of volatility has historically accounted for about two-thirds of overall market volatility (see chart, below). In contrast, the industry contribution was, for most of the time, much lower (see chart, page 133). Since 1997, however, the contribution of the industry factor has nearly tripled, to the point of standing at par with that of the country factor, each accounting for nearly one-third of overall market volatility. A similar phenomenon was observed during periods of industry-specific global shocks, such as the oil crises of 1973–75 and 1979–81. However, the recent rise of the industry factor has been far more persistent.

Country factors have historically driven stock market volatility

(percent of overall stock market volatility)



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Another salient finding is that the volatilities of country and industry factors often move in opposite directions, both absolutely and in terms of their contribution to overall stock market volatility, as in the post-1997 period. Also, several periods of high overall market volatility have been associated with high industry volatility, such as the early 1970s, 1979–81, and 1997–2002. On the one hand, this suggests that major industry shocks effectively become global shocks. On the other hand, the diverging patterns of country and industry volatilities pose interesting possibilities for risk diversification.

Implications for risk diversification

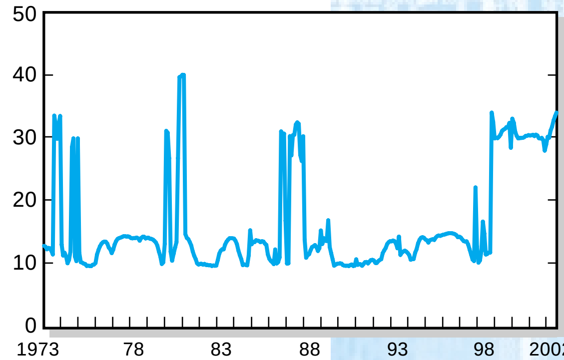
An important practical spin-off of their analysis, Catão and Timmerman say, is the feasibility of reducing overall investment risk by diversifying portfolios along country or industry lines. They point out that, given that overall market returns display distinct patterns of volatility, as do country and industry factors, a crucial question for risk diversification is how these components move together during different periods of volatility. This question is not only relevant for the individual investor but also has important macroeconomic implications. For instance, the more synchronized the movement of stock returns, the less diversifiable the equity risk. This raises the equity risk premium and, hence, the cost of capital for firms, which, in turn, tends to choke aggregate investment.

The main question then becomes: what happens to the various relationships between industry and country portfolios when the global market is characterized by high or low volatility, and when industry and country factors themselves experience high or low volatility?

Catão and Timmerman's analysis leads to four conclusions:

Industry factors have played a relatively small role historically

(percent of overall stock market volatility)



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New model incorporates dynamics of country and industry factors

Traditionally, a standard method has been used to identify the relationship between stock returns and country and industry factors. A simple cross-sectional regression of stock returns is run for a large number of firms and countries on a set of dummy variables that capture a variety of country and industry characteristics. Then monthly variations in these dummy variable coefficients are averaged over time, and their respective contribution in explaining total stock return volatility is computed.

While appealingly simple, this methodology has significant drawbacks, say Catão and Timmerman. First, to compute country and industry contributions, the traditional model uses either arbitrary fixed subperiods—an approach that invariably introduces sample-selection biases—or rolling moving averages that may result in artificial U-shapes or curves. Second, this procedure implicitly assumes that changes in country and industry factors are very gradual. In reality, policies that influence country risk often display distinct changes, and the emergence of new technologies, such as information technology, can rapidly and drastically alter the dynamics of industry factors. Third, the linear structure of the standard model simply cannot account for periods of sustained increases in volatility.

To overcome these drawbacks, Catão and Timmerman developed a new two-stage model. In the first stage, cross-sectional regressions of individual firms' stock returns are run on a set of country and industry dummy variables to form country-specific and industry-specific portfolios. Each of these portfolios measures excess returns (positive or negative) associated with investing in a specific country or industry as opposed to investing globally. In the second stage, the dynamic evolution of such excess returns is jointly modeled as a regime-switching process—that is, it is allowed to undergo an alternating sequence of high- and low-volatility states.

The new method has two main advantages. First, using stock return data for individual firms to form country and industry portfolios allows the model to deal with "unbalanced" panels where not all firms survive through the period under review. This is important because any real world data set will include firms that come to life and die within the selected time period. In contrast, other methods that are based on full panel estimators of very large data sets that are artificially balanced for computational ease will have biased results insofar as relevant information is lost by excluding firms that do not live throughout the whole period. Second, the construction of country and industry portfolios reduces the number of time series to a manageable dimension, allowing the model to focus on the dynamics of the relevant portfolios.

• Diversification gains vary significantly depending on the level of volatility underlying the global, country, and industry factors. In particular, the benefits of investing abroad tend to be much more meager when global volatility is high.

• Given the correlations between various country portfolios, the benefits of investing abroad are even smaller when international diversification is confined to Anglo-Saxon countries or continental Europe.

• When global volatility is low, it makes sense to diversify equity holdings across national borders. One practical manifestation of this was the massive wave of foreign investment in the years prior to the 1997 Asian crisis.

• Finally, while overall diversification gains are more meager when global and industry-specific volatility both rise (as in the post-1997 period), in such periods investors benefit somewhat more by diversifying across industries rather than along country lines. ■

Copies of IMF Working Paper No. 03/52, "Country and Industry Dynamics in Stock Returns," by Luis Catão and Allan Timmerman, are available for $15.00 each from IMF Publication Services. See page 131 for ordering information. The full text is also available on the IMF's website (www.imf.org).

Forum showcases region's stock exchanges

Africa is "more than ready" for foreign portfolio investment

Given the "striking absence" of local capital in Africa, noted Mark Malloch Brown, Administrator of the United Nations Development Program (UNDP), stock markets have a potentially vital role to play in helping develop local capital markets and encouraging foreign investment inflows. A two-day forum provided an opportunity to showcase some of the high-performing companies listed on African exchanges and the considerable scope for future investment opportunities.

Ndi Okereke-Onyiuke: If Africa could build strong regional exchanges, "perhaps the world will talk to us."

On April 14–15, more than 500 Wall Street analysts, institutional investors, African finance ministers, and high-level representatives from African stock exchanges gathered in New York City to exchange information and explore the potential investment opportunities in Africa and its 18 active stock exchanges. The first African Capital Markets Development Forum, jointly sponsored by the UNDP and the African Stock Exchanges Association (ASEA), in collaboration with the New York Stock Exchange (NYSE), is part of a broader effort by the UNDP to boost foreign investment in Africa—an effort that includes organizing investment dialogues in African countries and providing grant financing to help them secure sovereign credit ratings.

Stock markets—new and old

Ndi Okereke-Onyiuke, Chair of ASEA and Chief Executive Officer of the Nigerian Stock Exchange, noted that both the ASEA and most stock markets in Africa have a short history. The ASEA, she said, was founded in 1993 chiefly to promote the development of African capital markets and to highlight the largely untapped investment opportunities in the sub-Saharan region. The ASEA-UNDP-NYSE forum represents a relative high point because it has been difficult, thus far, to give African exchanges a high profile in the West. Okereke-Onyiuke expressed the hope that if Africa could build strong regional exchanges, "perhaps the world will talk to us."

Neither ASEA nor its member exchanges are "asking for handouts," she stressed. They are extending an invitation to developed countries—particularly their private sectors—to become partners in creating the wealth needed for Africa's long-term development and poverty reduction. This is a potential win-win endeavor since increased investment in Africa's exchanges can benefit all parties, she added, noting that five African exchanges were among the top performers worldwide in 2002.

Bryant W. Seaman III, Vice President, International, New York Stock Exchange, provided the perspective of a major developed country exchange. He noted that Africa offers an "unparalleled opportunity" for high-growth equity investment. The NYSE wants to be a "good partner" with Africa's leading companies and with the home markets of these companies. Dual listings by African companies on their home exchanges and on the NYSE can benefit the home markets of African companies, he explained, pointing out that 56 percent of the total average daily trading volume for the seven African companies currently listed on the NYSE takes place on the home market. Two additional African companies have listed on the NYSE so far this year, and African listings now make up 28 percent of the exchange's new foreign listings. Moreover, more African companies have plans to have dual listings on the NYSE in the coming year.

Attracting financing for development

"It takes money to make money," acknowledged Walter H. Kansteiner, U.S. Assistant Secretary of State for African Affairs, as he outlined U.S. government programs to make financing available in developing African private and capital markets. Africa, for its part, is eager. "To ask if Africa is ready for portfolio investment is to ask a starving man if he is ready for food," declared Yaw Osafo-Maafo, Ghana's Minister of Finance. Wealth creation is crucial for development, and Africa is, he said, "more than ready" for foreign portfolio inflows.

Like many forum participants, Osafo-Maafo lamented the negative media images and lack of information that have hampered Africa's 53 countries in their efforts to attract private foreign investment. A sovereign credit rating, he suggested, can help counter this. "It is better to be rated low than not at all," he said, and added that Ghana plans to secure a sovereign credit rating in the third quarter of this year. Timothy Thahane, Lesotho's Minister of Finance, also spoke strongly in favor of independent sovereign credit ratings. Attaining such a rating, he observed, is critical for African countries' policies and would be essential for borrowing on the international capital markets.

Strong early showing

The performance of many of Africa's stock markets to date suggests considerable promise. Osafo-Maafo reported that 11 exchanges achieved positive returns in U.S. dollar terms in 2002, with the exchanges of Botswana, Ghana, Mauritius, and the West African Economic and Monetary Union countries posting very strong returns ranging from 27 percent to 42 percent. These compared with returns of 24 percent and 19 percent in the U.S. and U.K. capital markets, respectively.

There are several reasons for this relatively strong performance, suggested Cyrille Nkontchou, Managing Director of LiquidAfrica, an innovative private enterprise providing Internet-based financial information and an electronic brokerage infrastructure for African markets. He cited the ability of many African stock markets to offer high dividend yields (even in U.S. dollar terms); the emergence of "pan-African plays" in the 1990s, especially in telecommunications; listed subsidiaries of multinational firms that trade at a significant discount to their parent firms, even though the subsidiaries are often more profitable and growing at higher rates; and risk strategy diversification offered by African markets, which are largely uncorrelated with major world markets.

Zéphirin Diabre (left) UNDP Associate Administrator, confers with Mark Malloch Brown, UNDP Administrator.

And the prospects for these stock exchanges look even brighter. Nkontchou predicted that three major trends will significantly transform these stock markets: improved trading infrastructure, increased participation by local institutions, and increased market liquidity combined with promising future listings.

Osafo-Maafo called on Western exchanges and investors around the globe to join African exchanges in holding annual meetings like this one; provide technical support to African exchanges and help them modernize, develop the necessary financial instruments, and avoid the pitfalls that developed country exchanges encountered in the past; and encourage more listings of African companies on developed countries' exchanges. Thahane joined Okereke-Onyiuke and Osafo-Maafo in noting the importance of developing information and communications technology and other aspects of stock market infrastructure so that, among other things, communication could be improved between African exchanges and more developed exchanges.

Benefits of regional integration

Nkontchou noted the striking contrast between the trend toward regionalization and globalization in major developed country markets and a proliferation of new national exchanges in Africa over the past decade. For African countries, a stock exchange is still perceived as a symbol of national sovereignty, he observed.

But, as Kansteiner and several other forum participants underscored, regional integration—together with further macroeconomic and structural reforms—could help African capital markets develop and overcome some of the impediments that currently constrain them, notably small market size and illiquidity. Integrated financial markets give investors

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a trusted "signal," Kansteiner said, pointing to how dozens of U.S. stock markets eventually consolidated into three highly successful ones.

Charles Konan Banny, Governor of the Central Bank of West African States, reviewed the achievements of the eight member countries of the West African Economic and Monetary Union. He cited, in particular, harmonized business laws and indirect taxes, standardized banking practices, a free trade area, and a regional stock exchange (the Bourse régionale des valeurs mobilières, founded in 1998). But challenges remain, and he emphasized the private sector's key role in promoting regional integration, economic growth, and stability.

From left, Ghana's Minister of Finance Yaw Osafo-Maafo, U.S. Assistant Secretary of State for African Affairs Walter Kansteiner, and Chair of the African Capital Markets Development Forum Claude Bébéar (chair of AXA).

More public-private partnerships

Stressing that the "seed core" of African stock exchanges' business is small and midsized firms, Alan Patricof, chair of Apax Partners, shared impressions of visits he made to 10 African countries last year. While financing for very large projects and for microcredit projects is plentiful, he said, there is a crucial shortage of capital for small and midsized firms, whose financing needs fall in the $200,000–$500,000 range. Africa's biggest challenge, Patricof indicated, would be to nurture this key group of firms, which have great potential to expand and create jobs, contribute to economic growth, and eventually seek listings on exchanges.

To meet their needs, he recommended increased linkages between large international companies and small and medium-sized enterprises. This would allow large companies to take on a mentoring role and share their skills and knowledge, as well as their capital. While conceding that there was still a great need for donor aid, Patricof stressed that this particular effort should be driven by the private sector, perhaps in partnership with the public sector and international donors.

Patricof currently chairs a commission of private sector and African leaders and practitioners, convened by the Corporate Council on Africa (CCA) in partnership with the Institute for International Economics (IIE). Based on his discussions with private sector firms in the region over the past year, Patricof urged African countries to address corruption, poor infrastructure, poor corporate governance inadequacies in basic skills and management training, and onerous registration procedures and other administrative barriers.

James Harmon, a former chair of the U.S. Export-Import Bank and vice chair of the CCA-IIE commission, shared Patricof's view that efforts to attract increased capital to Africa would be most successful if driven by the private sector, in partnership with the public sector and international donors. He termed the Ex-Im Bank "one of the best public-private partner it was doing little business in Africa. Even today, he said, all of the OECD's export credit agencies together provide a relatively tiny amount of export credit to sub-Saharan Africa. There is clearly scope for these agencies, together with agencies such as the U.S. Overseas Private Investment Corporation (OPIC), to serve as large financing sources.

To help redress Africa's needs, Harmon proposed that all OECD export credit agencies be mandated, or at least aim, to lend 2.5–3 percent of their total credits to sub-Saharan Africa. He also provided a preview of some of the recommendations the CCA-IIE commission would present to the U.S. government in June: a 10-year tax holiday for U.S. businesses that invest in Africa and maintain their operations for at least 10 years; liberalization of the African Growth and Opportunity Act to increase trade flows; more OPIC money for African countries; and a more aggressive stance on debt forgiveness. ■

Jacqueline Irving
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