

## IMF, World Bank Face Irrelevance

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Latin America Finds its Own Means of Development

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WASHINGTON -- The International Monetary Fund and the World Bank aren't very popular these days in Latin America. Venezuelan President Hugo Chavez wants to sever all ties with the top two international financial institutions based in Washington, claiming they are "tools of U.S. imperialism." Ecuadorian President Rafael Correa has evicted the World Bank representative from his country and declared him persona non grata, saying the bank's loans are tantamount to blackmail.

Given Chavez's and Correa's reputations for antagonism, their actions might seem expected. But other governments throughout the region, conservative and liberal alike, are also distancing themselves from the institutions for a variety of reasons.

Not least because of the marketplace. In this period of high liquidity, private lenders are offering terms that are more attractive and come without the substantial strings attached to World Bank or IMF lending. These other lenders, attracted to the region by its increasing wealth, are also free of the baggage that burdens the multilateral institutions, especially their role in Argentina's 2001 economic collapse and the current scandal surrounding World Bank President Paul Wolfowitz.

Over the last two years, Argentina, Bolivia, Brazil, Nicaragua and Venezuela have paid off their IMF loans or let their agreements with the institution lapse. Since 1999, Latin American countries have been borrowing between one-fourth to one-half less from the World Bank. As early as next month, Argentina, Bolivia, Brazil, Ecuador, Paraguay and Venezuela will open Banco del Sur (Bank of the South) as an alternative regional development bank.

Most regional leaders aren't about to follow Correa and Chavez off the precipice -- they would rather see the 63-year-old institutions alive and reformed instead. At a meeting last week with Washington Post editors and reporters, Colombian President Alvaro Uribe said "these institutions should be adjusted. ... We believe in permanent improvement, not in closing them." Brazilian President Luiz Inacio Lula da Silva has for some time equated the reform of multilateral agencies with the work of defending democratic institutions.

Unfortunately, there are few signs that the bank and the IMF are listening. If anything, the current good health of the global economy appears to be feeding a "sense of complacency," according to Liliana Rojas-Suarez, a former IMF official now with the Washington-based Center for Global Development. While "good times are the best times for planning" for crises, she added, the IMF is "putting off very important decisions, despite the fact that (it is) losing relevance."

Critics say that the multilateral institutions could recover a lot of their credibility if they granted countries with emerging economies more representation on their boards. During spring meetings last month, the Group of 24 developing countries, including eight from Latin America, stressed that increasing its voice at the bank and the IMF "remains of the utmost importance for the (institutions') legitimacy and effectiveness."

Structural reform aside, the IMF needs significant strategic change. The Latin American Shadow Financial Regulatory Committee, a group of former Latin American economic and finance ministers chaired by Rojas-Suarez, articulated several proposals last month -- including better preparation for international financial crises, which the committee warned could be particularly devastating in Latin America. In that regard, they believe the IMF must focus exclusively on financial issues and develop a new facility that could serve as a way of gaining quick access to credit in case another international crisis breaks.

At the World Bank, reform may be happening in spite of itself. In fact, some believe that competition is the best force behind change. "I think the market is doing it," said Chris Humphrey, a World Bank consultant working in Bolivia, Ecuador, Peru and Venezuela. "We are desperate for clients," and ready to adapt in order to secure and keep them. "The middle-income countries know how to use us," he added. "We can no longer go with the recipe of the month of what is supposed to lead to development (because) they are defining their own development paths."


Precisely. The days of Washington-touted reforms, known as the "Washington Consensus," are over. Today perhaps the only consensus, particularly in South America, is "a common aspiration for autonomy," Brazilian Ambassador Antonio de Aguiar Patriota said in an interview. "The new spirit is that on our terms we are producing the right kinds of results."

And unless the Washington-based financial institutions get the message, the entire region will turn its back on them.

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