CHAPTER 2

Internal or External Norm Champions: The IMF and Debt Relief

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1. Introduction

A small number of industrialized states, along with non-governmental organizations (NGOs), and eventually the World Bank converged in favour of the appropriateness of multilateral debt relief for poor countries. They attempted to persuade powerful member states and the International Monetary Fund (IMF) to endorse an emerging norm on multilateral debt relief. Yet, the IMF staff, trained as neoclassical economists and socialized within a technocratic organizational culture that had been hesitant to adopt the debt relief norm, was unable to translate debt relief into policy without serious modifications, leading to an IMF devised global policy norm. This chapter traces how IMF staff and management interactions with the Fund's board and other external actors enabled the emergence of the Heavily Indebted Poor Countries (HIPC) policy norm. The HIPC policy norm was more compatible with the Fund's belief system and organizational culture (compared to the social development norm, see Vetterlein, in this volume).

Key states, acting as norm advocates, first raised the idea of giving debt relief to poor countries in the early 1980s. These states attempted to negotiate and persuade other states, IO leaders and staff that debt relief was necessary to ensure the economic viability of heavily indebted poor countries. The HIPC had per capita income below $785 per capita and could only borrow from the terms of both the World Bank's IDA and the IMF's Poverty Reduction and Growth Facility (PRGF) (Teunissen and Akkerman 2004: xxiii). Major Western creditors, the private sector, and multilaterals however, resisted the idea and rejected calls to turn debt relief into actionable policy. Despite a number of states acting as norm advocates for debt relief, particularly the United Kingdom, Canada, the Netherlands and the Nordic states, a number of the IMF's largest shareholders remained hesitant to endorsing and championing a debt relief norm in fear of moral hazard, contagion and free-riding behaviour.

The external normative environment, however, eventually triggered the norm's emergence as other actors continued to converge in favour of the idea. Social influence from NGOs, the World Bank, and key Group of Seven (G7) states began to mount as they advocated the idea in the late 1980s. While there was some progress in advancing the norm of bilateral and commercial debt relief, the norm of multilateral debt relief was slower to become legitimized and institutionalized by the IMF. Upon prompting from the G7 meeting in Halifax in the Fall 2005, the Interim Committee of the Board of Governors on the International Monetary System (known as the Interim Committee or IMFC) asked the IMF and World Bank Executive Boards to suggest ways to meet the challenges of poor countries' multilateral debt. The G7 turned to the IMF and the World Bank to suggest specific ways of achieving debt relief for the poorest countries. The G7 needed the expertise of the Bretton Woods staff to devise a debt relief proposal that had strong analytical and theoretical findings (Gstöhl 2007). The IMF staff, prompted in large part by the United Kingdom, conducted a number of studies and proposed policy recommendations before the IMF Executive Board.

By the fall of 1996, the Heavily Indebted Poor Countries Initiative (HIPC) policy norm was presented to the Interim Committee and accepted by the IMF's Board of Governors. This policy was to the surprise of many, including the Chairman of the Interim Committee, Belgium Finance Minister Philippe Maystadt, who noted:

> When, in October 1995--less than a year ago--the Interim Committee encouraged the Fund and the World Bank to continue their work on ways to address the problem of the burden of multilateral debt, few observers would have thought that a credible strategy could have been devised and endorsed by the international financial community as early as today. Even fewer observers would have found it likely that *the IMF could be a key partner in this strategy*. Today, I am delighted that we have reached an agreement on a set of proposals to help the poorest countries to achieve an exit from unsustainable debt (IMF 1996a, italics added).

What role did the IMF staff play in shaping a policy for the emerging multilateral debt relief norm? After all, this would be the first time that the G7 had entrusted the IMF with devising a policy to meet the challenges of low income country multilateral debt. Previously, the G7 worked in the confines of the Paris Club to determine ways of transferring debt relief to debtors (Gstöhl 2007). Moreover, the IMF staff's technocratic organizational culture had generally been resistant to a version of debt relief that did not involve their continued monitoring and measuring of countries' policies (conditionality). As a consequence of its selective recruitment of conservative macroeconomists and rigid hierarchical organizational structure (see Momani 2004 and 2005), the IMF's belief system and resultant organizational culture tended to resist unconditional and widespread debt relief. Fund staff have been trained to believe that the solution to poor countries' debt problems lied in fixing debtors' underlying policy failures while injecting liquidity in the economy to help countries' short term balance of payment deficit. Moreover, the Fund's organizational mandate requires staff to 'safeguard resources' by devising programs that 'ensure timely repayment' of Fund financing. Bearing these organizational features in mind and coupled with continued contestation among key IMF shareholders, how would the IMF staff renegotiate and frame debt relief to Management and, more importantly, to the IMF Executive Board when debt relief did not resonate with its organizational culture and organizational mandate?

Using internal IMF documents of Executive Board meeting minutes and IMF staff reports this chapter process-traces how the IMF staff played a key role in determining the policy norm on multilateral debt relief. By opening up the 'black box' of the IMF, this chapter aims to show how the Fund staff's analysis of the low-income countries played an important and yet under-theorized role in shaping the emergence of the HIPC initiative. Without opening this black box, the story of how HIPC emerged would be half told. Moreover, focussing on strategic interests and external material power cannot explain how this norm emerged. Instead, this chapter is inspired by non-material explanations of IO behaviour (see Checkel 1999; St. Clair 2006). By 'going micro', as Johnston (2001) has challenged IO scholars to do, this chapter looks at the 'pathways and mechanisms' of policy-making in IOs. Asking scholars to search for the origins of norms (see Park 2006), norm internalization within IOs (Park 2005), and the consequences of IO diffusing norms on power relations (Boas and McNeill 2004) are all important to our understanding of IOs' role in world politics.

While the overall norm of debt relief continues to evolve and be contested throughout its norm life circle, this chapter focuses on the emergence of the policy norm in the mid-1990s and examines how the IMF staff, through a process of social recognition, eventually became advocates of the HIPC policy norm. In the first phase of the norm circle, there is externalization and objectivation of the HIPC policy norm. Multilateral debt relief would only be taken up by the

IMF after it had been reconciled with the Fund staff's particular belief system and organizational culture. To that end, IMF staff would only view multilateral debt relief as appropriate after translating the norm of debt relief into the HIPC policy norm that adhered to the Fund's organizational culture and standardized procedures. Here the second stage of the policy norm circle kicks in: norm stabilization where HIPC is habitualized and institutionalized. In policy terms, this meant that the HIPC initiative would have conditionality and back-loaded graduation of debt relief at its core, thereby fixing what the staff believed were the underlying policy failures of debtors. The proposed HIPC policy norm therefore resonated with the Fund's economistic belief system. Moreover, HIPC would fit with the Fund's technocratic organizational culture and organizational mandate that has always valued timely debt repayment through graduated monitoring of debtors. This would then be easily operationalized through the standardized conditionality procedures already used by the IMF in implementing program loans. In the final stage of the HIPC policy norm circle, the norm is challenged, contested, and further modified into HIPC II. Ultimately, HIPC helped push the realization of a holistic development norm complex where poor countries where able to reduce their debt commitments to focus more on social welfare and poverty reduction. HIPC therefore supports the move toward a holistic development norm complex by facilitating and coordinating donor strategies and promoting policy coherence among creditors.

The HIPC initiative proposed by the IMF staff was a policy norm that IMF executive directors did not fully endorse. The UK, Nordic countries, Canada, and eventually the United States wanted a more aggressive form of HIPC, one that would be more far reaching than the policy norm advocated by the Fund. Germany, Japan, France, and Italy wanted little to do with debt relief at the IMF. Staff and Management, who both demonstrated trepidation toward the idea of debt relief from the very beginning, would endorse a policy norm that could resonate with their organizational culture. Taking advantage of continued divisions at the board, the IMF staff and Management were able to get their way in endorsing the HIPC initiative that was heavy-handed and interventionist. The IMF staff would be at the core of the initiative by monitoring and graduating debtors toward debt relief. Only then would the Fund's staff begin to internalize the policy norm and, with World Bank and NGO pressure, push for its institutionalization.

2. Norm Building: External Support for Debt Relief

In the early 1980s, the debt incurred by many of the world's poorest countries was rapidly increasing. As former UK Executive Director to the IMF Huw Evans noted, the international community had believed that these debtors were hurting but could pay back in time. Markets, however, were more pessimistic than state governments, marking down the face value of many of these states' commercial debt by significant margins. The UK and Sweden were sympathetic to the issue of debt relief, and the two norm advocates took the idea forward to the Paris Club in an effort to burden-share the initiative with other official creditors (Evans 1999). By the mid-1980s, the Paris Club considered rescheduling debt by extending the terms of payment and adjusting interest rates, but a policy for multilateral debt relief was often rejected as it was believed that giving debt relief to countries with poor policies would promote free-riding and moral hazards; debt relief would not provide a long-term fix to the underlying policy issue; and, debt could be repaid over time (Evans 1999). In other words, Western creditors believed that the debtors had a liquidity problem but were not actually insolvent. Moreover, economic research had not concluded that cutting debt could result in either reduced poverty or improved economic growth (Evans 1999). Up until the late 1980s, the external normative environment was not conducive to the idea of multilateral debt relief.

However, by the late 1980s bilateral debt relief was being endorsed and championed by the US Administration but only for select countries deemed to be of geostrategic importance, namely middle-income countries in the US' backyard. The 1989 Brady plan, for example, was envisioned to help key Latin American countries overcome their immense debt owed to commercial banks through the use of 'Brady Bonds'. The United States also orchestrated a large debt relief through the Paris Club for Egypt in 1991, in exchange for Egypt's contribution of military forces to the US-led coalition in the Iraq-Kuwait war (Momani 2004). As Evans describes, by the early 1990s, support for official and bilateral debt relief increasingly coalesced and the external normative environment showed signs of being ripe for change. The United States, for example, started to revise its views on debt relief with support from the Clinton administration, the sympathy of Treasury Secretary Lawrence Summers and Robert Rubin, the pressure of NGOs on the US Congress, and the precedent of the generous debt forgiveness given to Latin America, Egypt and Poland (Evans 1999). The United States began to internalize the idea that high levels of official and bilateral debt were harmful to US geopolitical interests.

In addition, at the 50th anniversary of the Bretton Woods organizations, the UK's Chancellor of the Exchequer Kenneth Clarke (with the Dutch and Nordic states) took a debt relief proposal to the 1994 spring meetings of the IMF and the World Bank (Evans 1999). Soon after, a number of European NGOs, led by Eurodad, Oxfam, and Novib, met to develop a common position on how best to spread the debt relief norm by raising the question of whether the multilateral creditors should keep their preferred creditor status. Writing a common letter to the Group of Seven meeting in Naples in early July, the NGOs agreed that the IMF and World Bank should have a preferred creditor status, but should not be exempt from debt relief efforts (Bokkerink and Van Hees 1998). Bowing to the external pressure of advocates for debt relief, the G7 responded with the Naples Terms of up to 67% debt relief on bilateral debt through the Paris Club. The G7 would now pressure the Bretton Woods organizations to also formulate a policy position.

The IMF and World Bank began studying the question of extending official and bilateral debt relief to the multilateral debt held by these institutions. As bilateral debt relief and restructuring started taking form the debt stock of heavily indebted poor countries changed. As bilateral aid started to be delivered to HIPCs in the form of grants instead of loans, the share of debt owed to multilaterals increased (Birdsall and Williamson 2002). By 1996, those later identified as heavily indebted poor countries were paying nearly half of their debt payments to multilateral creditors (see Figure 1); moreover, 30% of the long term debt stock of these countries was owed to multilateral creditors (Bokkerink and Van Hees 1998). The issue of multilateral debt relief could no longer be ignored nor be discounted as a small portion of the HIPCs overall debt stock.

Both the IMF and the World Bank Management had issued studies that would help them to continue to defend their 'preferred creditor status' which in effect meant that the IMF's loans and interest would be paid before outstanding loans to commercial banks (many of which were represented by the London Club) and to official creditors (many of the Western countries that were represented in the Paris Club).[i] The IMF and World Bank issued a joint paper on 7 February 1995 noting that "…there is no evidence of an unmanageable hump of debt servicing to the multilaterals for the vast majority of heavily indebted poor countries, and multilateral institutions as a group can continue to provide positive net transfers without adverse implications for debt service profiles for the foreseeable future" (IMF 1995a: 2). The IMF and World Bank resisted adopting the multilateral debt relief norm. In response, the NGO community highlighted the errors in using optimistic growth projections used by the IMF/World Bank staff in their analysis. It appeared that as preferred creditors, the IMF and World Bank Management had strategic interests in underplaying the overhang of multilateral debt.

At the IMF Executive Board meeting on 24 February, the reaction to the IMF/World Bank joint paper remained mixed. The UK, the Dutch, and the Nordic-Baltic countries pressured others to consider more active engagement on debt relief. At the board meeting, the UK Executive Director Huw Evans stated: "My conclusion is that the problem is more serious than the Fund staff paper admits. And that the Fund has a role in resolving this problem" (IMF 1995b: 8). Those who were mild supporters of the idea and yet remained worried about the implications that debt relief would have on the Fund's mandate included the United States, Canada, China, Switzerland, and Australia. Canada's Executive Director Ian Clark responded to the study saying: "…the analysis loads most of the responsibility for alleviating the debt burden onto bilateral creditors through the Paris club stock-of-debt reduction program and onto multilateral lenders other than the IMF….the IMF and World Bank cannot be grant agencies. Nevertheless, these multilateral credit organizations cannot ignore the fact that their interest charges, regardless of how concessionary, divert some productive resources away from the debtor country" (IMF 1995b: 14). The Germans, French, Italians, and the Japanese remained hesitant at the meeting to support multilateral debt relief. As France's Executive Director had stated "I draw the following conclusion from this excellent set of papers: our strategy remains valid" (IMF 1995b: 15). The Germans took the hardest stance against the idea of debt relief. The German Alternate Executive Director Von Kleist stated

> We are…quite uncomfortable with the fact that in the papers the Fund, which is a monetary institution, is not distinguished clearly enough from the various multilateral development institutions…[and] we agree with the staff's conclusion that there is no evidence of a widespread problem of multilateral debt among the heavily indebted poor countries (IMF 1995b:54-55).

The mixed reaction to the staff paper at the IMF board started to brew debate outside of the meeting. Eventually the second, hesitant board group were persuaded by fellow board members and their respective NGOs on the merits of a debt relief policy norm; however, the third group of resisters- including the Germans, French, Italians, and the Japanese- continued to fight forcefully against the idea (Callaghy 2002). The mixed reaction to the first joint set of IMF/World Bank studies prompted the Executive Directors to ask for further IMF and World Bank staff analysis of the issues.

The subsequent 31 March joint report revised some of the optimistic assumptions used in growth projections of the February report and qualified the assumptions made in estimating the size of the multilateral debt burden, but the basic conclusion of the February report remained unchanged: multilateral debt was still sustainable and therefore not a problem (IMF 1995c). The IMF Managing Director proposed expanding the purview of the Enhanced Structural Adjustment Facility (ESAF) to give more loans on better concessional terms through the use of the Fund's own gold resources. This did not appease some of the forceful proponents of debt relief. Huw Evans made the most vigorous argument for change: "These [HIPC] countries should not have to rely on repeated Fund lending solely to cover their debts to this institution. And the Managing Director's approach ignores the very real problems that stem from debt overhang" (IMF 1995d: 10). The Americans supported the British, as Karin Lissakers noted:

> I have to say that I think we have a problem. It is not a big problem for the institution, it is not a big problem for the world economy, but it is a big problem for a small number of member countries in this institution and the multilateral development banks. I think it is time we acknowledge that. The staff paper dances around that issue a little bit. But the facts speak for themselves, as Mr. Evans has

> argued very effectively….He lays out the case very strongly and I endorse his statements (IMF 1995d: 26-27).

On the other extreme, the Germans continued to argue vehemently against IMF involvement in ‘development issues’ and refused the idea of using IMF gold sales to finance ESAF. The Board remained deadlocked, but the United States was indeed becoming increasingly persuaded by the UK’s arguments and the case for a more aggressive debt relief norm. With the United States holding a veto card at the IMF Executive Board and the need for Management to find the sense of the meeting and put forward ideas that would produce consensus at the board, the IMFs voting rules and procedures would present an important opportunity to carve a space for the creation of the HIPC policy norm.

In the critical months after the second joint report, tension between the IMF and the World Bank grew on the issue of debt relief. Here we see the external normative environment slowly changing in favour of a multilateral debt relief norm. The World Bank was being increasingly persuaded by NGO analysis, while IMF management and hardliner members of the IMF board continued to stick to the long held position of downplaying the multilateral debt problem (Bokkerink and Van Hees 1998). The World Bank was becoming increasingly more sympathetic to the idea of debt relief as President James Wolfensohn, who took the helm on 1 June 1995, was trying to find his own *raison d’etre* (Mallaby 2004). Wolfensohn, in many ways a norm entrepreneur in favour of progressive change at the Bank, had authorized a small World Bank working group to quietly study the issue of debt sustainability and multilateral debt. The working group fought to challenge the idea that debtors were illiquid but not insolvent, producing a critical report in June that called for a more comprehensive approach to debt relief (Callaghy 2002).

The World Bank working group, led by Chief of the International Finance Division Nawal Kamel, had recommended the creation of a Multilateral Debt Facility (MDF), to be used by 20 indebted countries and that would be funded by bilateral and multilateral donors (including the World Bank and IMF’s own revenue). This would not be a direct write off of bad debts, but rather a drawing down of a special trust fund used to pay the principle of HIPC debt. The proposal, however, would not require countries to have IMF/World Bank programmes in place; in other words, the IMF would not be using their performance benchmarks to determine continued debt relief (Hertz 2004). The MDF proposal was leaked to the media in September 1995 and the response of the IMF was highly critical. Stanley Fischer, Deputy Managing Director at the IMF, was reportedly “...furious at the prospect of debt relief going to these countries at all...” (Hertz 2004: 114). An IMF official told the Financial Times that “the Fund would not get involved…This would undermine the Fund's position and credibility. Writing off debt is not our business” while describing the report as “ideologically unsound” (Holman 1995:6). Clearly, the idea of unconditional debt relief was incompatible with the staff’s belief system and organizational culture. The external World Bank pressure to develop a debt relief policy norm was rejected by Fund Management and staff. Meanwhile, the IMF staff had circulated their own study to the IMF Executive Board which reiterated the point that most low-income country debt stock was sustainable. They did caution, however, that for a few low-income countries the status quo would be insufficient to have countries exit their debt situation (IMF 1995e: iv).

Without the IMF, the MDF proposal would have little value, particularly because IMF loans have significantly shorter repayment terms than the World Bank (Evans 1999). After very public squabbling between the IMF and the World Bank on the matter (Callaghy 2002; Graham and Flanders 1995), the two organizations were asked by the Interim Development Committee to have joint studies on the issue of debt relief ready for the 1996 spring meetings. This may have been further prompted by US Treasury Secretary Lawrence Summers who reportedly told both

Camdessus and Wolfenshon that the IMF/World Bank squabbling in the media needed to be stopped (Hertz 2004). Despite support for a debt relief policy norm among a few of the IMF shareholders and the World Bank, the idea was widely criticized on principle within Fund Management and generally among the IMF staff for its incompatibility with the organization's mandate and culture. Nevertheless, the Development Committee asked for detailed and country-specific analysis of the HIPCs debt situation. Top-down normative pressure was building on the IMF staff.

3. Opposing debt relief to devising the HIPC policy norm

Based on a detailed and comprehensive document-analysis of IMF papers, acquired through the IMF archives, this chapter now turns to open the black box of the IMF's internal decision-making process in the lead up to the HIPC policy norm proposal. To briefly recap, the IMF staff and key IMF shareholders had resisted the multilateral debt relief norm for a number of years despite changes in the external normative environment and endorsement among prominent IMF shareholders. At an impasse, the IMF and World Bank staff were asked to again jointly study and report on the subject in the Fall of 1995 and jointly report to their respective Executive Boards in January 1996. In particular, the staff were asked to use country-specific factors and move beyond 'illustrative scenarios' and 'stylized assumptions' (IMF 1996b: 4).

Two joint studies were prepared and were to be discussed at the IMF Executive Board on 20 February 1996. The first report, *Debt Sustainability Analysis for the HIPC*, studied the debt situation of 41 countries on an individual basis.[ii] The staff argued that 8 countries had unsustainable debt, 12 were deemed to be 'possibly stressed', and 14 were classified as having 'sustainable debt' (IMF 1996b: 9). In the second report, *Analytical Aspects of the Debt Problems of HIPC*, the staff raised a series of theoretical issues and considerations on the debt situation of the HIPC. The report tried to answer the question of whether HIPC debt was sustainable without repeated rescheduling. Simply, would HIPCs be able to payback their multilateral debt? The staff raised some doubts on the surety of an answer by stating that "...a good deal of judgment is required in arriving at such an assessment" (IMF 1996c: iii)This was a departure from findings in previous reports which affirmed the ability of HIPCs to repay. This report also raised the looming question of whether moral hazards would arise as a result of debt relief. In keeping with the technocratic IMF organizational culture and the conservative economistic belief system, the staff responded by proposing an increased oversight role in dealing with the HIPC:

> A potential advantage of refinancing/rescheduling (accompanied by conditionality) relative to explicit up front debt reduction may be that by allowing the Fund and the Bank to constantly monitor policy performance in the indebted country, it leads to better policies and less moral hazard problems. With [sic] a strategy of granting debt reduction after a good track record is established, on the other hand, multilateral creditors may lose their ability to influence policy after the initial period (IMF 1996c: 14).

The staff therefore suggested that conditionality and policy monitoring could help allay the potentially negative effects of moral hazards. They cautioned, however, that this 'short-leash approach' could compromise policy ownership among the HIPC. Nevertheless, the IMF staff endorsed a debt relief policy norm if they could effectively devise and monitor the HIPC. Based on the findings of the first report, one could infer that the IMF staff found at least 8 countries could be helped with some measure of debt relief combined with conditionality. The staff had emphasized that a case-by-case approach would be needed in determining country circumstances and they had not recommended a wide reaching mechanism that would provide debt relief to all

HIPCs. Again, in keeping with their technocratic organizational culture, the Fund staff wanted absolute control in determining country eligibility for debt relief. From reading the documents, it may be inferred that the staff refrained from making too many policy recommendations; instead, they waited for the board to deliberate and discuss the staff findings.

Prior to the scheduled IMF Executive Board meeting to discuss the findings of the staff reports, the Managing Director, UK Director Huw Evans, and World Bank representatives attended a February 12th meeting in London on the problem of multilateral debt. The meeting was hosted by the Catholic Church in England, the Archbishop of Westminster George Basil Cardinal Hume. Michel Camdessus was reported to have been deeply affected by the meeting as he came "...face to face with the hostility of world Catholic leaders toward the institution he lead and its economic policies" (Pettifor 2006; also see Basil Hume 2008, Boughton 2001: 11). When Camdessus returned to report to the board a few days later, he noted that during the London meeting he was "arguing against the need for a special facility" (IMF 1996d: 3). Evans countered, however, that "the seminar participants had concluded that there was a need for further action by both the Fund and the Bank, beyond present instruments" (IMF 1996d: 3). External normative pressure on the Fund intensified.

The board met on 20 February 1996 to discuss the two papers. The UK's Huw Evans opened the meeting by reiterating the need for the Fund to develop a policy for the multilateral debt relief norm. Evans noted that the IMF staff papers were too optimistic; a view shared by the Canadians and the Americans. The US director Karin Lissakers made the strongest attempt to persuade other board members on debt relief, noting that "We do not want these countries to be perpetual welfare cases, but that is really what we are talking about here" (IMF 1996e: 29). The French, Germans and Japanese, however, took opposite stances by noting that the staff refrained from calling the situation an all out debt crisis. Using selected staff findings to support their position, the three states opposed the idea of a special mechanism that would provide universal debt relief to the HIPC. Perhaps, the strongest consensus among the protagonists was the belief that the IMF needed to apply conditionality to future financing and that a 'short-leash' approach of continuous staff monitoring would be needed in further devising an initiative. As France's director put it: "...good economic policy matters more than debt" and that "...there is no serious alternative to conditionality" (IMF 1996e: 11-12). These were among the strongest points of consensus in the otherwise divided board. Taking advantage of a divided board that also requires Management, by rules and regulations of the IMF, to bring forth decisions made on a 'consensual basis', the staff would autonomously devise a policy for the strengthening debt relief norm.

Building on the framework of the Paris Club mechanism of rescheduling debt, the IMF and World Bank staff proposed the HIPC policy norm that would involve debt reduction in two graduated steps, spanning six years. Debt relief would be 'back-loaded' and could result in up to 90% debt relief at the Paris Club, and this would be matched by other bilateral and commercial creditors, provided that the countries remained under the purview of the IMF and World Bank to the very end of their 'graduation'. Once the debtors received debt relief from its other creditors, then the IMF would help debtors achieve debt levels deemed sustainable (based on net present value of debt to exports). The IMF and World Bank would also convene a group of countries to provide 'a financing plan' that would help the HIPC achieve debt sustainability targets set by the IMF and World Bank staff by contributing into the ESAF facility. The staff noted, moreover, "the options considered for easing the burden of multilateral debt all involve the original claims being repaid in one way or another—there is no proposal to write off (or down) multilateral debt" (IMF 1996f: 4).

The IMF and World Bank staff's HIPC policy norm met the board's key concerns about preserving the IMF's preferred creditor status while proposing a policy norm that would address the concerns of shareholders who wanted debt relief. The staff's suggestions for a graduated program whereby the staff would continuously monitor and approve HIPC eligible members' progress on meeting set targets had also addressed concerns over moral hazards and free-riding behaviour. Canada, the UK, and the US tried to persuade other board members that the proposed HIPC policy was still deemed to be "...institutionally too conservative" and that "the sequential timing is too long. It is neither economically effective and efficient nor politically sustainable" (1996g: 7, 18). The US noted that governments who implemented hard reforms would not be rewarded with debt relief because governments would not see debt relief during their tenure. But, Camdessus countered that "...leaders could be reappointed or re-elected" (IMF 1996g: 19). The US Executive Director and the Managing Director continued to go back and forth in disagreement on the sequencing of debt relief and the ability of the HIPC to politically sustain the graduated process of debt relief. Germany, France and Japan continued to reject the underlying norm of the HIPC policy. Without a board consensus on the HIPC policy norm, the Managing Director asked the staff to move forward and propose actionable policies. The staff, in collaboration with the World Bank staff, held firm on their policy norm and a few weeks later would propose to the board a nearly identical policy norm: graduated, two-step, and back-loaded debt relief over 6 years from ESAF. This time, however, the staff proposed more action items for the Paris Club and less discussion of the Fund's involvement in HIPC.

When the Executive Board returned to meet on 8 April 1996, to discuss the revised, yet essentially unchanged, staff recommendations for a HIPC policy norm, the US director spoke first and forcefully criticized the staff. Lissakers noted that she was "...disappointed in the staff paper currently under consideration" (IMF 1996h: 3) and she continued to highlight the fact that the staff did not take into consideration concerns raised in the last meetings, instead the staff 'seemed to retreat' from 'ambitious' ideas in previous reports. Directors continued to disagree on the staff report; some believing the report was too conservative and others believing that it was too risky.

A number of directors, with agreement from the Managing Director, suggested that the staff's HIPC policy norm be presented to the Interim Committee as a proposal endorsed by Management while not mentioning the Executive Board (IMF 1996h: 3). Camdessus noted that "Although the management of the World Bank and the Fund were willing to take full responsibility for the proposed report to the Interim Committee, every effort had been made to reflect the views expressed by executive directors in that report" (IMF 1996h: 5). The deadlock in the board resulted in the staff and management getting their way. Fund staff and Management were able to take advantage of the board's divisions and move the policy norm forward for its institutionalization. The top-down pressure from the IMFC to have the Fund devise a policy plan in under a year and the external normative environment in favour of debt relief were important points of pressure on Management and the board to bring forth actionable policy. The criticisms most forcefully raised by the United States and the United Kingdom were not addressed; namely, the prolonged and back-loaded nature of debt relief under HIPC. The HIPC policy norm was presented as a 'framework of action' to the Interim Committee meeting a few weeks later as a proposal from Management. The same proposal was submitted and approved at the September 1996 annual meetings of the IMF and World Bank. IMF management and the staff, despite disagreement of the Executive Board, had the approval of the interim committee to proceed with the HIPC initiative.

4. IMF Staff Push for a Limited Version of the HIPC Initiative

Eventually, the HIPC initiative was endorsed by the IMF Board of Governors in September 1996. The IMF staff could not draft a proposal that would meet the interests and needs of its strongest shareholders. The United States and the United Kingdom wanted a broader and more ambitious policy norm that would have seen greater debt relief. This was a position generally endorsed by many of the developing country members and by Canada and the Nordic states. The US also wanted the IMF to use its own resources to pay for the ESAF contribution. Germany, France, and Japan wanted to curtail the initiative as much as possible and did not want to see the use of Fund resources to finance the ESAF. They were also the most resistant to the debt relief norm. This can be partly explained by the fact that HIPCs owed a significant portion of their bilateral debt to these three states (See Table 1). The strategic concerns of these three countries were unmoved despite the normative suasion of others at the board.

The case of how the HIPC policy norm was eventually internalized cannot be explained, however, by examining external material power and strategic interests. There is no shortage of studies that have shown how IMF policies and decisions have been determined by US geostrategic interests (Momani 2004; Stone 2002). Despite their global and IMF voting power, the United States and the United Kingdom were unable to shape the HIPC policy norm into the form that they had envisioned. Again, the institutionalized HIPC policy norm was one that resonated with the IMF's cultural constraints, despite American and British attempts to persuade other executive directors to accept a more comprehensive debt relief proposal. On numerous occasions, the US and the UK directors tried to also persuade the staff to find more countries in need of debt relief by questioning the assumptions used in their studies and by prompting more in-depth country level studies. This widened the net of what staff deemed to be countries with unsustainable debt.

One external factor that did have an impact on the IMF staff and their studies was the social influence of the World Bank staff. Indeed, in the critical year that the IMF staff worked with the World Bank to devise a set of policy proposals to the Interim Committee, there is an evidenced shift in IMF staff views on debt relief. The IMF staff moved away from arguing that there was no debt problem to a position where the IMF staff qualified that indeed there were for some countries a real inescapable multilateral debt problem. While there is little evidence that the IMF staff ever internalized the need for comprehensive debt relief per se, there is evidence that the IMF staff did recognize multilateral debt as a problem for selected countries. Giving the staff an opportunity to study the issue in depth seemed to be an important turning point in its social recognition of multilateral debt relief. This process had to also fit with the Fund's technocratic organizational culture that emphasizes problem-solving through technical and macroeconomic analysis. Bluntly put, moral suasion alone would not have worked to convince the staff of the merits of a debt relief norm, but – similar to the social development norm (Vetterlein, in this volume) – the opportunity to come to a 'scientific' and technical analysis of the problem was a key means of helping the staff internalize the HIPC policy norm and allowed them to propose it, albeit in a limited form.

It is also argued that having the IMF staff work with the World Bank staff helped shape the outcome of the policy proposals. Others have noted how World Bank President Wolfensohn helped to champion debt relief within his organization (Mallaby 2004). Cooperation between the IMF and World Bank staff in devising studies for the Executive Boards had helped persuade the IMF staff toward a more sympathetic position on debt relief. The IMF staff did prove to be somewhat permeable to new ideas, but based on inferences from the staff and board documents, the staff and Management also managed to limit powerful members' pressure for a more comprehensive debt relief proposal by dominating the middle position in board meetings.

The HIPC initiative would require a strong involvement of IMF staff in monitoring and graduating debt relief recipients; this was a departure from the World Bank's MDF proposal of June 2005 which did not require HIPC debt relief recipients to have an IMF programme in place. Clearly, it was important to the IMF staff to have control over graduating borrowers that used the HIPC initiative. Despite powerful members' concerns over conditionality and a loss of country ownership, the IMF staff reiterated the need to monitor sound economic policies. They continued to point out that the HIPCs' need for sound economic policies outweighed the rationale for debt relief. Here the IMF staff played an important role in convincing shareholders that heavily indebted poor countries would not free-ride if kept under an IMF programme. This in part supports a constructivist argument for the need to better appreciate the internal workings and culture of the IMF. Opening the 'black-box' of the IMF helped to reveal how ideas generated in a strategic and normative environment are then filtered throughout an organization with a distinct culture and unique governance structure to allow for the emergence of the HIPC policy norm.

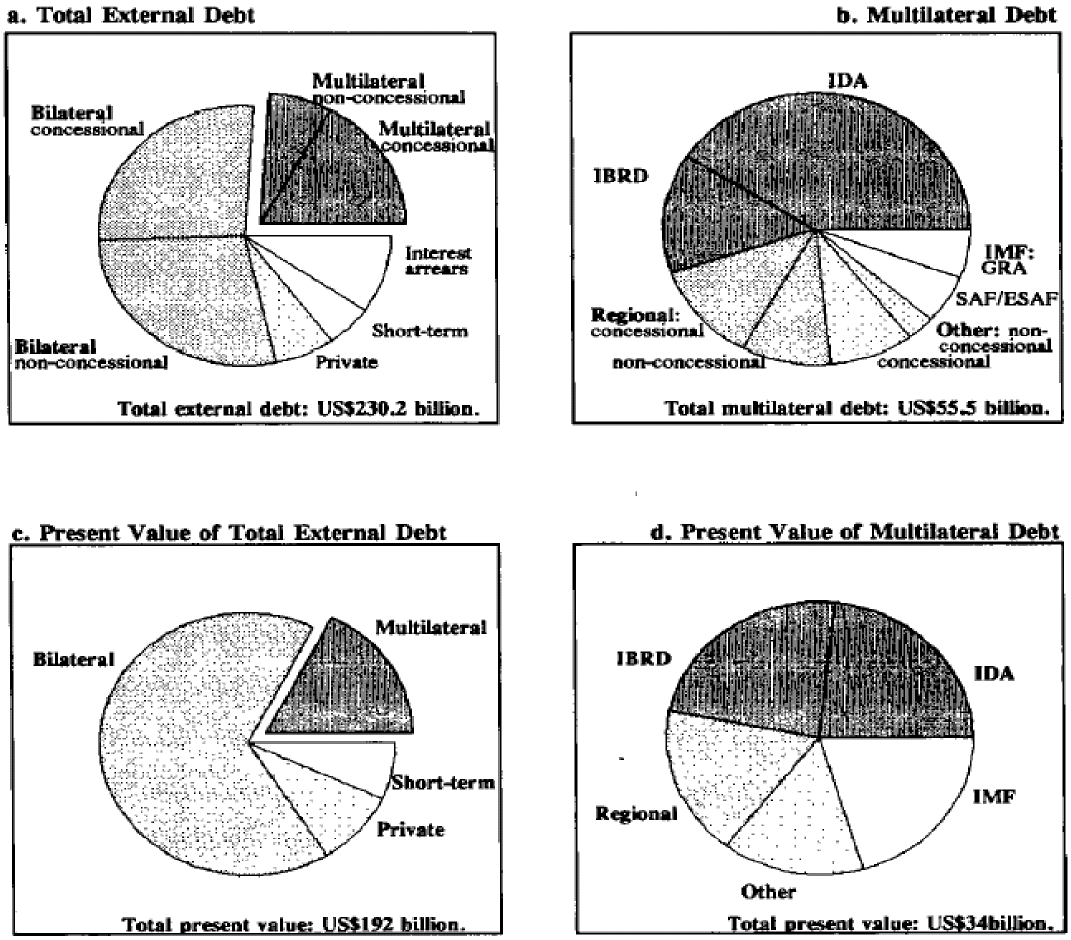
The IMF staff's noted expertise and position of 'authority' did play a key role in determining the final shape of the HIPC initiative (Barnett and Finnemore 2004). As also seen in other chapters in this volume, the IMF staff have the intellectual dominance within the organization and despite the normative suasion used by powerful board members, they were able to further capitalize on Board divisions to push through a policy norm that resonated with their organizational culture. The Executive Board's reliance on the IMF staff as the gatekeepers of information and data in the organization is a crucial part of explaining how the IMF staff and Management were able to determine the shape and form of the HIPC policy norm. Without opening the 'black box' of the IMF, the story about the emergence of the HIPC policy norm would remain half told.

5. Conclusion

Despite the external normative environment in favour of debt relief and the normative suasion of powerful members at the IMF Executive Board, the IMF staff and Management were able to endorse the HIPC policy norm that resonated with its belief system and organizational culture. This case suggests that the IMF staff indeed have intellectual dominance within the organization and despite external pressures to shape the content of HIPC, once they undertook analysis of possible multilateral debt relief, the IMF staff were able to keep their visions of the initiative intact: strong, back-loaded conditionality that would be given in a graduated process and monitored by the IMF staff.

Despite its emergence in 1996, the HIPC policy norm has yet to stabilize. Member states continued to resist the policy norm, while others championed for its extension and expansion. The HIPC policy norm would transform in many ways. The Jubilee 2000 campaign successfully challenged the failures of the HIPC, noting the lack country ownership in many countries and the failure of HIPC to graduate borrowers. In 1999, HIPC was transformed to 'enhanced HIPC' or HIPC II after successful moral suasion by the Jubilee 2000 campaign on powerful states (Busby 2007). The 1999 enhanced HIPC lowered the threshold of debt-to-export ratio from 200-250% to 150%, removed the ex-ante conditionality, and required debtors to adopt a national consultation process to produce a consensual debt strategy document called the Poverty Reduction Strategy Papers. The Multilateral Debt Relief Initiative, again, continued to transform HIPC II. These post-HIPC initiatives were successful grassroots-level campaigns that tried to persuade Western governments to strengthen and extend the HIPC policy norm. These subsequent initiatives showed more signs of the fundamental norm of holistic development than the HIPC policy norm institutionalized by the IMF staff in 1996. Nevertheless, the multilateral debt relief norm continues to evolve today, showing more signs of transformation than decay.

Figure 1: HIPC Debt 1993



Source: IMF 1995f: *Multilateral Debt of the Heavily Indebted Poor Countries* (Washington, DC: IMF Archives) (9 February) SM/95/30: 5.

Table 1: G7 Debt Holdings 1998-1999

Dollars in Millions	*Canada*	*France*	*Germany*	*Italy*	*Japan*	*U.K.*	*U.S.*
Bilateral claim—40 countries	$711	$13,033	$6,586	$4,311	$11,200	$3,092	$6,210
As % of GDP	0.1%	0.9%	0.3%	0.4%	0.3%	0.2%	0.08%
As % of G-7 claims	1.57%	28.9%	14.6%	9.5%	24.8%	6.8%	13.8%

Source: Busby, Joshua William 2007: 'Bono Made Jesse Helms Cry: Jubilee 2000, Debt Relief, and Moral Action in International Politics', *International Studies Quarterly* 51: 260.

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[i] While the BWI's preferred creditor status is not enshrined in international law, it has been an understood and implicitly accepted by Fund members. Both commercial and official creditors accepted that the IMF loans and interests would be repaid before them in case of a sovereign debt crisis. Had the Sovereign Debt Restructuring Mechanism been enacted at the Fund, the legal basis of the Fund's preferred creditor status would have been enshrined.

[ii] Although, there were detailed analysis for only 23 of the 41 countries and the remainder were preliminary suggestions.