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Headlines for Wednesday, January 12, 2000:

- UK BAN ON ARMS EXPORT CREDITS FOR POOREST COUNTRIES.
- IMF CONCEDES USE OF CAPITAL FLOW CONTROLS.
- RATES IN ECUADOR FALL, OFFICIALS RESIGN OVER DOLLARIZATION PLAN.
- IFC LOANS VENEZUELA POWER COMPANY $30 MLN FOR FLOOD RECOVERY.
- SAKAKIBARA CALLS FOR ASIAN CURRENCY REGIME.
- Also in this edition: EU AND JAPAN URGE NEW TRADE ROUND. US PROPOSES $1.6 BLN COLOMBIAN AID PROGRAM.

UK BAN ON ARMS EXPORT CREDITS FOR POOREST COUNTRIES.

The UK is to ban the use of export credits for arms sales to 63 of the world's
poorest nations as part of an attempt to ensure aid and debt relief are
channelled into poverty reduction rather than military spending, the Guardian
(UK, p.24) reports Chancellor of the Exchequer Gordon Brown announced last
night. The government was imposing an indefinite block on the export credit
guarantee department underwriting unproductive expenditure in struggling
developing nations, he said, and called on other Western nations to follow the
British lead.

Speaking in Oxford, Brown said: "Britain's export credits will only support
productive investment that assists social and economic development and reduce
poverty. Britain's ban will only fully achieve its aim if it is applied by all
exporting countries."

The ban will cover the 41 states eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) debt relief initiative, and a further 22 nations who can only obtain "soft loans" from the World Bank, notes the story. Agence France-Presse also reports.

Brown stressed that there was a need for a strong link between debt relief and poverty reduction, and said there needed to be a change in the culture and operations of the World Bank and the IMF, measures to build skills in developing countries, partnerships between governments and NGOs on the ground, and vigilance in ensuring that resources were not wasted on unproductive spending.

The news comes as British cabinet ministers are embroiled in an internal dispute over a proposal to lift restrictions on arms sales to Pakistan, the Guardian (p.1) says in a separate report, citing leaked cabinet office papers. Minutes from a cabinet office meeting last month reveal that Defense Secretary Geoff Hoon and Trade and Industry Secretary Stephen Byers are pressing for an end to a freeze on 80 arms exports licenses imposed after last October's military coup. But Foreign Secretary Robin Cook and International Development Secretary Clare Short are implacably opposed and still committed to the principle of an "ethical foreign policy".

Commenting in an editorial, the Guardian (p.21) says that regardless of the short-lived jubilation with which some Pakistanis greeted ousted Pakistani Prime Minister Nawaz Sharif's downfall, Britain's message to Musharraf was crystal clear. A new bout of authoritarianism was not the solution to Pakistan's chronic problems of poverty, debt and corruption.

In other news, the Japan Economic Newswire reports that campaigners from the Jubilee 2000 Coalition UK group staged a demonstration Tuesday outside the Japanese Embassy in London calling on Japanese Prime Minister Keizo Obuchi to take the lead in canceling the debts of poor countries. The campaigners say they plan to stage protests outside the embassy every week until they see positive action from the Japanese government, and other demonstrations are planned outside embassies across the world.

Meanwhile, U2 lead singer Bono writes in an op-ed reprinted in El Pa¡s (Spain, p.12) that more debt relief for the poorest countries is needed from the IMF and the World Bank. World Bank President James Wolfensohn will go the distance if

the politicians let him, Bono writes, and they will let him if we keep telling
them to let him.

University of Paris XII professor Pierre-Henri Chalvidan also writes in La Croix
(France, p.23) that the relatively reserved response of the French public to the
campaign to forgive poor countries' debts resides in a fatalistic view of the
relation between economics, politics, and charity. Politics and charity are
seen to be powerless against economic laws, Chalvidan says.

IMF CONCEDES USE OF CAPITAL FLOW CONTROLS.
A report published yesterday by the IMF acknowledges that controlling both inflows and outflows of capital can provide help to countries seeking to shield
themselves from crisis, reports the Financial Times (p.8). The IMF staff report-"Country Experiences with the Use and Liberalization of Capital Controls"-suggests a modest evolution of the institution's thinking on the utility of capital controls, the story says.

The report concedes that controls have helped some countries insulate themselves-if temporarily-from financial crises, and acknowledges that rapid
liberalization, badly handled, can increase vulnerability to financial crises.
The report also concludes unremarkably that capital controls cannot substitute
for sound economic policies. Comprehensive controls are the most effective in
insulating countries from external pressures, but this comprehensiveness also
increases economic distortions and costs.

The Wall Street Journal (p.A18) also reports, saying that according to the IMF,
capital controls brought only mixed blessings to the Asian countries that resorted to them during the recent financial crisis. In regard to whether Malaysia did the right thing in imposing controls, "the jury is still out," Stefan Ingves, director of the IMF's monetary and exchange department, said in
releasing the report. The IMF can't yet tell how much of the improvement is due
to capital controls, and how much is attributable to other domestic and international factors, the piece says.

The news comes as Babette Stern of Le Monde (France, p.15) comments in a piece
on the "crisis of world economic institutions" that the refusal of outgoing World Bank Chief Economist Joseph Stiglitz to hide his disagreement with the
rigorous policies imposed during the Asian financial crisis has shaken the so-called "Washington Consensus"-the development model that requires macroeconomic balance and market liberalization.

If the G7 countries agree to US Treasury Secretary Lawrence Summers' proposals regarding the changes to the IMF's future role, they should also reaffirm the World Bank's mandate to take the lead in medium- to long-term development and to reform education, health, and judicial systems, Stern writes.

RATES IN ECUADOR FALL, OFFICIALS RESIGN OVER DOLLARIZATION PLAN.
Ecuadorean interest rates fell sharply yesterday following endorsement by the central bank of the country's controversial dollarization proposal, reports the Financial Times (p.6). The sucre firmed at the opening of trade yesterday at 25,000 to the US dollar, while the central bank lending rate fell to 30 percent from 160 o percent. The interbank borrowing rate tumbled to 25 percent from 152 percent, as the market began to factor in the prospect of a stable exchange rate.

Approval by the Banco Central de Ecuador of the plan proposed as an emergency measure by President Jamil Mahuad came at the cost of the resignation of central bank governor Pablo Better, who opposed the scheme, the story notes. Four other members of the central bank's board supported the dollarization plan, Les Echos (France, p.8) reports, adding that Better will be replaced by central bank official Miguel Davila.

Analysts are still debating the viability of the plan but said that, in theory, the country had sufficient reserves to cover the monetary base, the FT continues. If the Ecuadorean Congress approves the plan, Ecuador would become the first country to formally dollarize its economy since 1944, when Micronesia and the Marshall Islands adopted the greenback, one analyst noted.

The Wall Street Journal (p.A16) also reports, noting that the success or failure of Ecuadorian president Jamil Mahuad's push to dollarize his country's economy depends less on the technical details than on his ability to do something he has failed to do since taking office in August 1998: gain credibility.

IFC LOANS VENEZUELA POWER COMPANY $30 MLN FOR FLOOD RECOVERY.

The IFC yesterday approved a $30 million emergency loan to Venezuelan power company La Electricidad de Caracas (EDC) to help rebuild after the devastating floods and mudslides that hit the country last month, reports Dow Jones. The IFC described the emergency loan as an unprecedented measure it took to relieve suffering in the coastal area around Vargas. Venezuelan authorities have said three days of heavy rains in mid-December in that area have caused the worst natural disaster in the country's history.

EDC will use the loan to help reconnect electricity supplies to low-and middle-income areas that otherwise would have been a low priority for repairs. "Without street lighting, crime in these neighborhoods has soared," IFC Executive Vice President Peter Woicke is quoted as saying. "People are connecting homemade wiring to the electricity poles that carry power, posing enormous danger especially to children." Lack of electricity also prevents refrigeration and fresh water supplies crucial in a tropical climate.

The IFC doesn't normally provide lending for humanitarian relief, but the circumstances were right in this case, which may serve as an example for future lending, Woicke said. The IFC could expedite the loan approval because it had worked with EDC in the past, he added. Last June it approved a $73 million loan to utility to upgrade low-and middle-income area power distribution.

SAKAKIBARA CALLS FOR ASIAN CURRENCY REGIME.

Former Japanese Vice Finance Minister Eisuke Sakakibara has called for an Asian currency regime to be developed to stabilize exchange rates in the region, reports AFP. In remarks published today in the New Straits Times (Malaysia), Sakakibara said, "We need a cooperative regime among Asian currencies-ringgit/yen, won/yen, yen/baht, and so on. It may take time but it is absolutely necessary at least in the medium term. Some sort of a unification of currencies might be difficult but we could start with something like an Asian currency unit."

Sakakibara said the IMF had made several crucial mistakes in early stages of the Asian economic turmoil, which began in mid-1997, and "in some cases, precipitated the crisis rather than halting the crisis." Noting that "I don't think it is possible to really stop the occurrence of future crises," he said a strong national supervisory authority, high foreign reserves, and

contingent
arrangements with the private sector and across the region would, however,
forestall any crisis.

The news comes as Reuters reports that IMF Asia-Pacific Director Hubert
Neiss
said today that South Korean authorities are not seeking to alter the
trend of
the won and would probably fail if they tried. "As far as the exchange
rate is
concerned, Korea has a floating exchange rate that will basically be
determined
by the market," Neiss is quoted as saying during a visit to Tokyo to
attend a
seminar organized by the World Bank and the ADB Institute on bank
restructuring
in Asia.

Also in this edition: EU AND JAPAN URGE NEW TRADE ROUND. US PROPOSES
$1.6 BLN
COLOMBIAN AID PROGRAM.
EU AND JAPAN URGE NEW TRADE ROUND. The EU and Japan yesterday agreed to
try to
get a new international trade round "back on track" as soon as possible,
reports
the Financial Times (p.9). Following talks in Brussels between Japanese
ministers and senior commissioners of the EU, they said the early launch
of a
new round of global trade negotiations should remain the WTO's priority.

They also reaffirmed their commitment to a comprehensive agenda to include
not
only talks on agriculture and services, to which WTO members are
committed, but
also the establishment of additional rules for investment, competition, and
trade facilitation. The story notes that a broad agenda is opposed by the
US,
among other countries.

In their joint statement, the EU and Japan said they would study with
other WTO
members how to ensure an "appropriate balance between efficiency and
transparency" in decision-making at the WTO, particularly though better
consultation procedures.

The news comes as Public Citizens' Global Trade Watch Director Lori Wallach
writes in a letter to the editor of the FT (p.12) that her group supports
the
"pruning back" of the WTO so that it does not meddle in subjective areas
such as
food safety protection and instead leaves them for national and local
governments to decide.

Meanwhile, multinational companies face tough new restrictions on their
international activities under a draft code of conduct drawn up by the
OECD and

other countries including Brazil, Argentina, and Chile, notes the FT (p.8)
in a
separate report. In the most far-reaching review of OECD guidelines on
multinationals for a quarter of a century, officials are proposing new
standards
on corporate governance, workplace conditions, environmental safeguards,
bribery, and protection for whistleblowers. The guidelines, which are
being
released in draft form this week, are scheduled to be approved by an OECD
ministerial meeting in June, although divisions over scope and
implementationmay prevent agreement.

US PROPOSES $1.6 BLN COLOMBIAN AID PROGRAM. The administration of US
President
Bill Clinton will ask Congress to provide $1.6 billion in financial aid to
Colombia to help that country fight narcotics trafficking, Dow Jones
reports.
The aid will be split over two years with an additional $954 million being
earmarked in a supplemental budget request for fiscal year 2000 and $398
million
being set aside in fiscal year 2001.

Secretary of State Madeleine Albright said the White House has pushed
others to
provide Colombia with financial assistance as well. To emphasize the
point, the
story says, she noted that the IMF had agreed to extend a $2.7 billion
loan to
Colombia and that the World Bank would provide Colombia with $3 billion.

In other news from Colombia, El Tiempo (p.1) reports that the World Bank
has
changed its strategy for Colombia. The priorities now are rescuing the
financial system, reordering the public sector, and expanding the social
welfare
system.

AFRICA'S AIDS DISASTER IS EVERYBODY'S PROBLEM. Africa cannot fight the war
against AIDS alone, writes UNDP Administrator Mark Malloch Brown in the
International Herald Tribune (p.8). There is a money gap and a governance
gap.
Neither the finance nor the institutions and policies are adequately in
place.
The UN family, the World Bank, bilateral donors, the private sector, and
NGOs
must deepen collaboration and do more at the country and global levels.

The comment comes as Le Monde (France, p.3) reports that to underscore the
devastating effects of the AIDS epidemic on the socio-economic development
of
Africa, the UN Security Council for the first time in its history
consulted with
World Bank President James Wolfensohn, Malloch Brown, and UNAIDS Executive
Director Peter Piot.

Meanwhile, the Washington Times (p.A11) reports African countries say
wealthy
nations should make HIV-fighting drugs more available and affordable to

residents of the continent, while applauding the new US initiative to increase
funding for AIDS prevention programs and research.

Separately, AP reports that while education is the cornerstone of the new $150
million effort to combat the spread of AIDS in Africa, superstition and tradition often prove more influential than leaflets and television ad campaigns.

In a letter to the editor of the New York Times (p.A26), Seth Berkley, president
of the International AIDS Vaccine Initiative, writes that it is imperative that
world leaders recognize that an affordable AIDS vaccine is the best long-term
hope for ending this epidemic.

BRIEFLY NOTED...The Russian ruble fell sharply against the US dollar yesterday,
dropping 2.5 percent to 28.44 rubles against the dollar compared to 27.73 rubles
in the previous session, AFP reports, noting that the ruble has been undermined
by expectations of inflation tied to Russia's planned repayment of $3 billion of
external debt in the first quarter and suspension of loans from the IMF... An
IMF delegation arrived yesterday in Ukraine to discuss the resumption of a three-year loan of $2.6 billion, AFP reports.

In the annual "Index of Economic Freedom" it publishes with the Heritage Foundation, the Asian Wall Street Journal says the report, using World Bank data, shows that income inequality is no more prevalent in free economies than
in less free economies. In fact, while distribution of income varies between
the freer economies, income inequality is markedly higher in the least free economies.

Brazil announced an inflation rate of 8.94 percent in 1999 yesterday, slightly
outpacing the figure agreed with the IMF but impressive considering the 40 percent devaluation of the nation's currency one year ago, reports AFP...The
Argentine economy is beginning to show signs of recovery, but traces of its 18-month recession linger, AFP reports analysts said yesterday.

The Yemeni government's reform program has won praise as well as financial help
from the World Bank and the IMF, writes Michael Barron in the Journal of Commerce (p.7). But more must be done. Specifically, reducing the influence of
both qat (a mild narcotic which has an adverse effect on work-force productivity) and guns would make a significant contribution to Yemen's attraction to foreign investors and allow the country to reap the full benefits
of its impressive economic reforms, Barron says.

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By Dean Baker

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Canadian Health Care; the Internet Economy; Trade & Inflation

HEALTH CARE

"Clinton Issues Health Care Plan"
Charles Babington
Washington Post, January 20, 2000, page A1

This article discusses a new health care proposal that President Clinton plans to submit to Congress, which will extend health care coverage to part of the uninsured population. At one point the article refers to the Children's Health Insurance Program, an earlier Clinton initiative, and asserts that this program "was expected to help about half of the nation's 11 million uninsured children; about 2 million have signed up so far."

While the Clinton administration claimed that this program would cover half of the uninsured population, a study by the Congressional Budget Office concluded that the program would only serve about 2 million children, as apparently turned out to be the case. (See "Health Care Bills Don't Meet Goals Budget Aides Say," by Robert Pear, New York Times, 7/2/97, page A1; also ERR, 8/16/99)

"Full Hospitals Make Canadians Wait and Look South"
James Brooke
New York Times, January 16, 2000, Section 1 page 3

Discussing the state of the Canadian health system, this article reports on the overcrowding of many hospitals and the long delays that have become standard for many important medical procedures. It notes that Canada's system of universal health care had been a model for many in the United States, but then adds, "Today, however, few Canadians would recommend their system as a model for export."

According to OECD data, in 1997 (the most recent year for which data is available), Canada spent 9.3 percent of its GDP on health care. The United States spent 14.0 percent. Since the

United States is a wealthier country, the discrepancy in dollars spent is even larger: $2095 per person in Canada, compared with $4090 for the United States. Public sector health care spending has actually declined in real terms in Canada since 1990. In the United States it has risen by more than 45 percent.

Since the data also shows that Canada, despite spending less on health, has better health outcomes in terms of life expectancy at birth or life expectancy at age 65, there is reason to believe that the Canadian system may still be superior in many respects to the U.S. system. (See ERR, 12/27/99.).

"Congress, Preoccupied by Elections, Shows Signs That Debt Reduction Will Be Its Main Goal"
Richard W. Stevenson
New York Times, January 20, 2000, page A14

This article assesses the priorities of Congress and President Clinton in this election year. At one point the article comments that "President Clinton is pushing big proposals to improve access to health care, add prescription drug coverage to Medicare and expand the tax credit for the working poor."

It is questionable whether any of these proposals can appropriately be categorized as "big." Measured as a share of projected federal spending over the next ten years, the President's health care plan is approximately 0.5 percent, the prescription drug benefit is approximately 0.7 percent, and the expanded tax credit for the working poor is approximately 0.1 percent. By comparison, the Carter-Reagan military build-up that began in 1978 increased the Pentagon's share of the federal budget by approximately 8.0 percentage points by the time it ended in 1986.

"France Presses the U.N. to Help Poor Nations Get AIDS Drugs"
Barbara Crossette
New York Times, January 16, 2000, Section 1 page 11

This article reports on efforts by the French government to get the United Nations to play a more active role in making AIDS drugs available to people in developing nations. At one point the article notes the concerns of the pharmaceutical companies over the possible erosion of their drug patents. The article states that AIDS drugs were developed "at enormous cost in research and testing."

However much the pharmaceutical industry may be spending on research and testing, according to the Pharmaceutical Manufacturers and Researchers of America (the industry trade group), the industry employs 40 percent more people in marketing than in research and testing.

At one point the article refers to a speech that Vice President Al Gore made at the United Nations Security Council last week, and then adds, "Mr. Gore learned last year how complicated efforts to aid poorer nations can be when negotiations with pharmaceutical companies are involved. He drew protestors to his campaign rallies after he presented the position of American drug companies in talks with South

Africa."

Mr. Gore was not attempting to aid poorer nations in these talks with South Africa. He was attempting to impose patent restrictions on the use of AIDS drugs in South Africa. That is the reason his campaign rallies drew protests.

MEDICARE & SOCIAL SECURITY

"GOP Rivals Escalate TV Ad War"
Howard Kurtz
Washington Post, January 15, 2000, page A6

"Bush Calls McCain Plan a $40 Billion Tax Hike
Thomas B. Edsall and Dan Balz
Washington Post, January 16, 2000, page A10

"McCain Leads the Way as Republican Rivals Attack Bush"
Richard L. Berke
New York Times, January 16, 2000, Section 1 page 14

"McCain Cites Rich-Poor Gap in Touting Plan"
Dan Balz
Washington Post, January 17, 2000, page A3

"Bush Tax Plan May Spell Trouble Later"
Dan Balz
Washington Post, January 19, 2000, page A4

These articles all refer to the projected depletion of the Social Security and Medicare trust funds. The articles include, without comment, statements that imply the programs are in imminent danger. For example, the Kurtz article repeats a statement in a McCain ad that the candidate would "use the bulk of the surplus to secure Social Security far into the future to keep our promise to the greatest generation."

The "greatest generation" is a term usually applied to the people of the generation that fought in World War II. According to the most recent projections from the Social Security trustees, the program will be able to pay all scheduled benefits until the year 2034, with no changes whatsoever. At this point, the youngest members of the "greatest generation" will be 105 years old.

The Medicare trust fund is also projected to be fully solvent well beyond the constitutional term limit of office for the next president. The adjustments that might be needed to deal with future shortfalls are well within the range of changes implemented in past years. There is no reason, based on existing projections, for claiming that these programs need to be "saved" (See ERR, 1/10/00).

While none of these articles challenge the candidates' misleading comments on Social Security and Medicare, the Berke article does provide this sort of correction on a different topic. The article points out the failure of the Republican candidates to mention the Clinton administration's efforts to open foreign markets to U.S. agricultural products, when they promised to open foreign markets in a public debate.

INTERNET

"Spinning a Tax Web and Trying to Catch an Opponent"
Alison Mitchell and Frank Bruni
New York Times, January 19, 2000, page A16

This article reports on the efforts by Texas Governor George W. Bush and Arizona Senator John McCain to gain support for their positions on taxes. At one point the article notes that many governors oppose a national ban of sales taxes on Internet purchases because the shift to online commerce "could" reduce state sales tax revenue.

The shift to online commerce would reduce state sales tax revenue. If a state has two stores, one subject to sales tax and one that is not subject to sales tax, and business switches from the former to the latter, tax revenue will fall. This is exactly the situation with the growth of Internet commerce; there is no plausible basis for questioning this outcome.

"Gigabytes Behind"
William Drozdiak
Washington Post, January 15, 2000, page A1

This article discusses the belief of some political and business leaders in Western Europe that the region has fallen far behind the United States in harnessing new technologies. At two different points, the article asserts that these leaders "acknowledge" that Europe has applied mistaken economic policies by not following the example of the United States. The article does not explain how it has determined the European policies were in fact mistaken, as it implies.

Economists usually view productivity growth as the most important measure of an economy's dynamism and the main determinant of living standards in the long run. According to data from the OECD and the Bureau of Labor Statistics, most European nations have generally experienced more rapid rates of productivity growth than the United States over the last two decades.

One of the metrics used to demonstrate the failure of European policies is the volume of sales over the Internet. The article presents evidence that U.S. Internet sales are three times as large as European sales. It is important to note that U.S. Internet sales receive a large government subsidy, since they are not subject to the state and local sales taxes that apply to goods sold in traditional retail outlets.

According to standard economic theory, this sort of subsidy creates economic inefficiencies since it favors Internet retailers that might be less efficient than traditional competitors. Since Internet buyers are more affluent on average than the population as a whole, this subsidy is also hard to justify on equity grounds. There are few economists who would contend that Europe has pursued the wrong policy by not providing a subsidy that leads to both inefficiency and inequity.

TRADE

"Trade Deficit Set Record in November"
Joseph Kahn
New York Times, January 21, 2000, page C1

"Trade Deficit Hits a Record $26.5 Billion"
John Burgess
Washington Post, January 21, 2000, page E3

These articles report on the latest trade data from the Commerce Department, which showed that the deficit again hit a record level in November. Much of the discussion in these articles is quite confused. For example, the Times article contrasts the current trade deficit to the high deficit years of the '80s, and claims that "few economists or politicians question the competitiveness of the United States now as they did then. With inflation staying low and the government running a budget surplus, the United States is better equipped today to handle a big deficit than it was 15 years ago."

It is not clear what economists would use as a better measure of competitiveness than the size of the trade deficit, which is a simple market test. If U.S. goods are better at their current price than foreign goods, then the U.S. should be running a trade surplus. The size of the current deficit suggests that the market views U.S. goods as being overpriced.

It is also not clear how low inflation and the budget surplus make the United States better situated to handle a trade deficit at present than in the '80s. The conventional view among economists in the '80s was that the nation's large budget deficits were causing the trade deficit. (They were frequently referred to as the "twin deficits.") Most economists argued that if the United States reduced its budget deficit, the trade deficit would also be eliminated. Clearly this view has been shown to be wrong, as the large budget deficit has been turned into a large surplus, while the trade deficit has soared. But the large budget surplus does not make the United States in any obvious way better situated to pay back its foreign debt in the future.

Both articles include tentative comments suggesting that the large trade deficit could be beneficial because it holds inflation down. There is no doubt that the trade deficit is holding inflation down to some extent. Firms are obviously buying goods abroad because they are cheaper than goods produced here. If they had to pay more for domestically produced goods, then there would be more upward pressure on prices.

However, this benefit is inherently short-term. The United States is borrowing from abroad to support its current trade deficit. Such borrowing cannot be sustained indefinitely. If the trade deficit stays at its current level in relation to the GDP, the nation's foreign debt will have risen to more than 75 percent of the GDP by 2015, the date when the Medicare trust fund is projected to be depleted. The foreign debt will have risen to more than 1.8 times the GDP by 2034, the date when the Social Security trust fund is projected to be depleted.

At some point--probably long before these dates--the borrowing must stop. When that happens, the dollar will decline and the beneficial effects from the current trade deficit will be reversed. Rising import prices will put upward pressure on inflation. The longer this adjustment process takes, the worse the impact will be.

It is worth noting that the Times article reports that U.S. Treasury Secretary Lawrence Summers is urging that Europe and Japan adopt more expansionary monetary policies to foster more rapid growth. While many prominent economists argue that contractionary central bank policy has been a major factor slowing growth and raising unemployment in these countries, most media coverage directly contradicts this view. The vast majority of reporting on the slow growth in these countries has emphasized structural obstacles to growth and almost completely ignored the importance of monetary policy. (See ERR, 7/19/99, 10/11/99, 12/6/99).

"Whistling Past the New Economy"
David E. Sanger
New York Times, January 16, 2000, Section 4 page 1

This article discusses how the presidential candidates are trying to avoid many of the issues associated with regulating the Internet and other aspects of the "new economy." At one point, the article asserts that the candidates are all "free traders."

This is not true; all the candidates have indicated their intentions to protect and extend patent and copyright protection. These are forms of protectionism that create enormous static inefficiencies, since they raise the prices of products such as recorded music, videos or pharmaceuticals by several hundred or even thousand percent. By comparison, other trade barriers rarely raise the price of goods by more than 15-20 percent. While patents and copyrights provide incentives for innovation and creativity that may warrant the costs they impose, they are still impediments to free trade.

It is also worth noting that none of the candidates have taken a stand against restrictions that limit trade in professional services, such as doctors' services. In recent years, the United States has tightene income of doctors. (See "AMA and Colleges Assert There is a Surfeit of Doctors," by Robert Pear, New York Times, 3/1/97, page A7; "U.S. to Pay Hospitals Not to Train Doctors, Easing Glut," by Elisabeth Rosenthal, New York Times, 2/15/97, page A1.) While the candidates have favored free trade in goods such as automobiles and apparel, which are produced primarily by less educated workers, they have not been consistent advocates of free trade.

The article also comments that the candidates are "mindful of Mr. Greenspan's message that surging imports keep inflation in check." While this is true in the short run, it is not accurate in the long run. The current trade deficit is associated with massive borrowing from abroad, at present more than $300 billion a year. At some point in the future, the United States will stop borrowing and will have to pay out interest on its past debt. When this occurs, the dollar will have to fall enough so that the U.S. can export more than it imports. This will lead to upward pressure on prices, since the falling dollar will raise the price of imports. In short, the lower inflation resulting from the current trade deficit will be offset by higher inflation at some point in the future when the deficit is reversed.

BRAZIL

"Brazil's Economy Is Better, But Is the Recovery Lasting?"
Simon Romero
New York Times, January 18, 2000, page C4

This article reports on Brazil's economic recovery since devaluing its currency last winter. The article notes evidence of renewed economic strength, much of which, such as a surge in exports, is directly related to Brazil's decision to devalue its currency.

The article does not note that the IMF had strongly opposed Brazil's decision to devalue. It forced the nation to spend tens of billions of dollars to support its currency at an inflated level.

OUTSTANDING STORIES OF THE WEEK

"Investing's Longtime Best Bet Is Being Trampled by the Bulls"
Gretchen Morgenson
New York Times, January 15, 2000, page A1

This article reports on the increase in stock turnover in recent years. According to data presented in the article, an average share of stock on the New York stock exchange is now held for slightly over a year, while shares on the Nasdaq are held on average for less than six months.

Dean Baker is an economist and the co-director of the Center for Economics and Policy Research (http://www.cepr.net). His latest book
(co-authored with Mark Weisbrot) is Social Security: The Phony Crisis (University of Chicago Press). ERR is a joint project of FAIR and CEPR.

ERR is edited by Jim Naureckas.

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Editor?s Note: Due to adverse weather conditions, World Bank headquarters were
closed on Tuesday and Wednesday, and Development News?Daily Summary was not published. News items appearing on those days are summarized in this issue,
together with today?s news.

Headlines for Friday, January 28, 2000:

- WOLFENSOHN CALLS FOR IMAGINATIVE SOLUTIONS AT DAVOS.
- WORLD BANK AID TO EAST ASIA IS EASING OFF.
- INDONESIA NEEDS $4.2 BLN TO $4.7 BLN FROM CGI: WORLD BANK.
- IN AFRICA, DEBT RELIEF HAS TWO SIDES.
- ANTI-FREE TRADE PROTESTERS HOLDING PLANNING SESSION IN FEB.
- Also in this edition: OED REPORT SAYS BANK FORESTRY POLICY FAILED. FORMER PM SAYS UKRAINE MISUSED $613 MLN FROM IMF.

WOLFENSOHN CALLS FOR IMAGINATIVE SOLUTIONS AT DAVOS.

It has lately become routine for international development institutions to interrupt euphoric talk about the magic of the new global economy with stern
reminders about the world's poorest, writes World Bank President James Wolfensohn in the International Herald Tribune (p.6). We need those interruptions, perhaps nowhere more than at high-profile events such as this
week's annual gathering of political, financial, and business leaders in Davos,
Switzerland.

Despite all the efforts of governments, official institutions, and NGOs, we will
never significantly reduce the number of hungry children unless we forge dynamic

coalitions of governments, civil society, and the private sector to build a global economy that benefits all people, says Wolfensohn. We need these coalitions now more than ever. Global poverty is getting worse. Some 1.2 million people now live in extreme poverty.

There are those who argue that global economic integration is behind these alarming numbers. To be sure, the benefits of globalization can be cruelly distributed. But simply blaming globalization does not help, says Wolfensohn,
noting that he has visited too many places isolated from the global economy where the water is too poisonous to drink, children starve for lack of food, and
simply giving birth is a leading cause of death.

We can use the energy and technology driving globalization to help the poor,
Wolfensohn writes. If we are creative and committed, we can take advantage of
this moment in history to do miraculous things.

They are already happening, Wolfensohn adds. The World Bank is a participant,
along with the WHO, UNICEF, Aventis Pasteur, the Gates and Rockefeller Foundations, and the International Federation of Pharmaceutical Manufacturers
Association in launching the Global Alliance for Vaccines and Immunization (GAVI). Its mission is straightforward: to protect all children, no matter how
poor, from preventable disease. Through this coalition we will help to create
conditions in which pharmaceutical companies can not only make drugs available
to those who desperately need them, but also to improve their long-term market
competitiveness.

This is just the beginning, says Wolfensohn. The debate on globalization and
its effects on the poor is legitimate and necessary. No one has a monopoly on
the truth. Everyone should have a voice, most importantly the poor themselves.

Our challenge is to move beyond the rhetoric and recognize that we live in a
time of astonishing possibility. Whether it be immunizing all children from
preventable disease or linking every school in Africa to the Internet, solutions
to problems which seemed insurmountable just a few years ago are now within reach. We need everyone, from those who filled the streets in Seattle to those
coming to Davos, to make it happen.

Meanwhile, in his State of the Union speech last night, US President Bill Clinton proposed tax credits to pharmaceutical companies to speed development of
vaccines against malaria, tuberculosis and AIDS in poorer nations, the New York
Times (p.A1) reports. Clinton said his budget would include US$150

million to
fight disease around the world. In his speech, Clinton also said that
"open
markets and rules-based trade are the best engines we know for raising
living
standards, reducing global poverty and environmental destruction, and
assuring a
free flow of ideas".

Writing in the IHT (p.6), GAVI Secretary Tore Godal and Harvard University
professor Jeffrey Sachs say that as leaders of global capitalism meet in
Davos,
their greatest challenge is to find ways to spread the prosperity and
technology
boom in the richest countries to the rest of the world.

The comments come as Dow Jones reports that Wolfensohn has a heavily
charged
agenda for his 12-hour stay in Davos, where he plans to meet with corporate
leaders as well as government representatives from developing nations. "I
will
speak to leaders of the technology industry on how to use knowledge
technology
in combating poverty," Wolfensohn is quoted as saying. "The single most
important task in this decade will be to spread the use of information
technology down to the village level." While in Davos, the story notes,
Wolfensohn will also speak on a panel about GAVI.

Meanwhile, reports the IHT (p.1), according to a PricewaterhouseCoopers
survey
presented at Davos yesterday, more than 500 of the top corporate
executives in
the world fear that the Internet will widen the wealth gap between
industrialized and developing countries, with some warning that this could
create a risk of social unrest.

WORLD BANK AID TO EAST ASIA IS EASING OFF.
The World Bank is winding down much of its crisis relief to East Asia, but
its
technical assistance will remain at existing levels to help the region
pursue
structural reforms, reports the Asian Wall Street Journal and the Wall
Street
Journal (p.A14). As a result of this return to normal, pre-crisis
operations,
World Bank lending to East Asia will drop to $4.5 billion this year from
nearly
$10 billion in each of the past two years, the Bank said. This decline
isn't
expected to hurt East Asia's balance of payments since the gap could be
easily
filled by the return of private capital to the region.

However, says the story, East Asia's relatively quick recovery has created
another worry for the Bank. As its lending volumes decline, so may the
extent

of its leverage to press the former crisis-hit economies for much-needed reforms. Departing World Bank Vice President for East Asia and the Pacific Jean-Michel Severino warned that the region could be vulnerable to another external shock if doesn't complete the restructuring of its financial and corporate sectors and set up adequate social safety nets. He cautioned that the region's gains could be quickly reversed if interest rates rise, exports decline, and Asian currencies are exposed once again to foreign-exchange risks.

The Bank has made a "huge contribution" in cushioning the impact of the crisis on the region's poor and in pointing the crisis victims in the direction of reforms, the story says Severino said. Although growth has returned to South Korea, Thailand, and Malaysia, the Bank now has to worry about helping the slower economies catch up, he added.

Writing in the Nikkei (Japan), Severino also says that for some, the ongoing economic recoveries spell the end of the will to restructure and reform. But restructuring has progressed at an impressive pace, such as provisioning for non-performing loans, recapitalizing banks, restructuring the terms of corporate debt, shutting down failed firms and banks. It is the broader reform agenda that has been slow, especially at the implementation level, because it often involves changing how business is done-for instance, introducing accounting standards that accurately portray the condition of firms, institutionalizing legal systems that reliably provide for the protection of property and the enforcement of contracts, and bankruptcy provisions that lend assurance to how claims will be resolved.

These are time-consuming reforms that require capacity building on the institutional as well as personnel front, Severino says, adding that the World Bank will remain active in the region. With our global knowledge base, he says, we will continue to assist regional governments and institutions to become stronger, more competitive, and less vulnerable.

INDONESIA NEEDS $4.2 BLN TO $4.7 BLN FROM CGI: WORLD BANK.
Indonesia needs $4.2 billion to $4.7 billion in 2000 from the Consultative Group for Indonesia (CGI) of foreign aid donors, which meets in Jakarta next week to consider how much money it will give, Reuters reports the World Bank said today.
"Of gross financial needs of $6.6 billion, about $2.2 billion is expected to be rescheduled under the auspices of the Paris Club and possibly the London

Club,"
the Bank said in its economic briefing ahead of the CGI meeting next
Tuesday and
Wednesday. "This means that Indonesia needs between $4.2 billion and $4.7
billion from the CGI for 2000."

Meanwhile, reports Asia Pulse, the International NGO Forum on Indonesian
Development (INFID) called on the CGI to demand conditions for new loans
to the
country. INFID chairman Zoemrotin KS said that the CGI should demand
greater
transparency from the Indonesian government in the state administration.
There
should also be public discussions about the amount of new loans for
Indonesia,
he said, as the country is already beset with debt.

The Jakarta Post adds that the Indonesian government is asking the World
Bank to
drop a one percent advance fee it has to pay once it signs a new "project
loan"
with the Bank, National Development Planning Board (Bappenas) Deputy
Chairman
Hidayat Syarief said yesterday. The advance fee was burdensome for the
government, he said.

In other news from Indonesia, Reuters reports that the World Bank also said
today it had released a $300 million loan tranche to Indonesia-the first
such
payment since new lending was suspended over the politically charged Bank
Bali
scandal. "The first $300 million disbursement of a $600 million
adjustment loan
to support policy reform in the government's safety net programs will be
released today to the government of Indonesia," the Bank is quoted as
saying in
a statement. It said the signing of Jakarta's latest letter of intent
with the
IMF and progress on the Bank Bali issue had enabled the release of the
money.

But the Bank also stressed Indonesia's donors wanted to see the country's
new
democratic system sustained, says Reuters in a separate report-a warning
to the
disgruntled military not to attempt a coup. "This is a clear signal of
international support for the government of Indonesia as it puts in place
its
new economic recovery program," World Bank country director for Indonesia
Mark
Baird is quoted as saying.

The news comes as the Bank today said poverty levels appeared to have
stabilized
in Indonesia, although the number of poor was still unacceptably high and
it
would take years to bring the rate down to pre-crisis levels, Reuters
notes.
Moreover, said the Bank, "a recent analysis shows that roughly half the
households in Indonesia have more than a 50-50 chance of falling below the

poverty line in the near future."

The Bank today also warned that Indonesia's plans to placate restive provinces
by giving them more control over their finances could undermine government finances and swell the budget deficit unless handled with care. It suggested a
national dialogue involving provincial and local governments, civil society organizations, and the public, to try to resolve the issue.

IN AFRICA, DEBT RELIEF HAS TWO SIDES.

Until recently in Bugiri, Uganda, school was conducted outdoors, says a story in
the Los Angeles Times (1/27, p.A1). But now schoolchildren meet beneath shiny
metal roofs in a new classroom, one of thousands of development projects across
Africa.

But the school is different in a potentially momentous way: Construction money
came from a new account created when foreign lenders canceled some Ugandan government debt. And because of strict controls, none of the newly freed-up
cash appears to have been stolen or misused. The unusual approach to financing
the school is at the center of a contentious overhaul of the global creditor-debtor relationship. At a time of unparalleled prosperity in the US
and Western Europe, the world's most impoverished countries are poised to benefit from billions of dollars in canceled debts owed to wealthy countries and
big international institutions.

In order to reap this reward, strapped governments, mostly in Africa, have decided to play by the rules of the powerful lenders. Uganda is the first to
benefit by redirecting money once earmarked for paying off debts to such things
as building schools and buying medicine.

Two dozen African countries are lined up for the unprecedented debt assistance,
but the write-offs have touched deep emotions. On a continent where bad governance and corruption are endemic, and Washington-based international institutions have patchy records, the debt relief programs run by the World Bank
and IMF are being scrutinized through the prism of Africa's tumultuous past.

At the center of the debate is a battle over what strings should be attached to
debt relief-and how much of the developing world's estimated $2.3 trillion debt
should qualify. Some critics complain that the stringent structural

adjustments
required by international lenders could perpetuate the paternalistic north-south
dynamic that has shacked the continent throughout its modern history. Others
counter that without such tough guidelines, inept African leaders will squander
the money they save.

"A lot of countries are watching Uganda's experience," said Randolph Harris, the
World Bank's representative in Kampala. "A lot still needs to be done, but theyare doing things right."

Also on the subject of Africa, Henry Louis Gates and Kwame Anthony Appiah, both
of Harvard University, write in the Wall Street Journal (p.A18) that Richard
Holbrooke, the US delegate to the UN, has dedicated his month's tenure as president of the Security Council to focusing on the crises plaguing Africa.
With the continent devastated by AIDS, half of sub-Saharan Africans living in
poverty, and half the world's civil wars on African soil, this attention has
come none too soon. They write that the past glories of Africa reveal its potential, but its present situation poses real challenges to us all.

There are two essential elements of a global agenda for Africa, they write. The
first is a serious commitment to help with AIDS. The second is a well-organized
program of substantial debt forgiveness.

ANTI-FREE TRADE PROTESTERS HOLDING PLANNING SESSION IN FEB.
The grassroots army of protestors that disrupted last month's WTO summit in Seattle will regroup next month with a meeting to plan their strategy for further protests this spring, reports UPI in Platt's Commodity News. The Open
World Conference of Workers will meet on February 11-14 in San Francisco for an
event billed by its organizers as a "building action to set the stage for labor
and activist involvement" in protests planned for meetings of high-profile organizations, such as the April 9-16 IMF/World Bank spring meetings in Washington, and at UN headquarters in New York in June. Organizers said the meeting would "bring together trade union leaders and activists to discuss concrete ways in which we can work together to defeat the 'free trade' agenda of
the multinational corporations and to defend the hard-won gains of the workers'
movement."

The news comes as the Economist (p.19) says in an editorial that to the well-meaning, honorable folk who generally run multinationals, all this discontent is a travesty. They are at least as accountable (to their

shareholders and the law) and a good deal more transparent than the average NGO.
Meanwhile, NGO campaigners need big business as a tic-bird needs a wildebeest.
By alighting on big companies, they can often force through changes that would
be hard to achieve through the political process alone. They can claim a seat
at international negotiations, even though they represent nobody but their members.

Multinationals should continue to listen to NGOs, say the editorial, to try to
do no harm, to accept the responsibilities that go with size and wealth. Yet,
in the main, they spread wealth, technologies that living standards, and better
ways of doing business. Perhaps if a few bosses took to the streets with placards, that message might more readily get across.

Also in this edition: OED REPORT SAYS BANK FORESTRY POLICY FAILED. FORMER PM
SAYS UKRAINE MISUSED $613 MLN FROM IMF.
OED REPORT SAYS BANK FORESTRY POLICY FAILED. An unusually frank internal evaluation report says the World Bank has failed to implement its own policies
at the expense of the things it was supposed to protect - forests and the poor,
Reuters reports. Critics inferred from the report that the Bank, through its
structural adjustment loans, had vicariously contributed to deforestation.

World Bank spokeswoman Caroline Anstey said the report should be seen in a positive light since it was commissioned by President James Wolfensohn to help
him draw up a new forest strategy more in tune with the current situation. "The
important thing is the report was called for by (Wolfensohn,) who recognized
there needed to be a change from the 1991 policy," Anstey said. "The report concludes that the time has come for a new Bank forest policy, better attuned to
the needs of developing countries and the changing dynamic of the forest sector."

The World Bank has often been criticized for lending for projects such as building dams which destroy the environment, says the story. In recent years
the Bank, led by Wolfensohn, has attempted to shake off that image through a
series of alliances with environmental groups. The internal report was written
by the World Bank's Operations Evaluation Department, a semi-autonomous group
which reports directly to the Bank's board.

FORMER PM SAYS UKRAINE MISUSED $613 MLN FROM IMF. Former Ukrainian Prime Minister Pavlo Lazarenko is preparing to air allegations that former members of
President Leonid Kuchma's government engaged in embezzlement and money laundering, including misappropriating millions of dollars in IMF loans, reports
the Financial Times (p.16). According to Joel Bartow, a former FBI agent, Lazarenko says $613 million in IMF funds were diverted from the central bank in
December 1997 and invested in speculative government bonds, reaping interest
rates of up to 66 percent. About $200 million in proceeds were allegedly deposited in the Belgian and Swiss accounts of people close to Kuchma.

The Ukrainian government said yesterday the central bank had done nothing improper with IMF funds. "The airing of false allegations is nothing but an
attempt to excite public opinion and create a negative image of Ukraine's authorities," the government said.

The IMF meanwhile said it was unaware of any allegation that its funds had been
misused in Ukraine, but remained wary since it was misled by the Russian central
bank in a similar transaction.

DENMARK IN TURNAROUND ON WORLD BANK PCF. Danish Environment Minister Svend Auken has said he expects Denmark to be a contributor to the World Bank's Prototype Carbon Fund (PCF) shortly, reports the Jyllandsposten (Denmark, 1/26).
So far, the governments of Sweden, Finland, Norway, and Holland have each contributed $10 million to the fund, and Denmark would face criticism for being
the only Nordic country to not support it, the story says.

Denmark had been very skeptical of trading of greenhouse gas emissions reductions credits, the story notes, but in a turnaround, Auken now believes it
is the way of the future. Pointing out that Denmark was the first country in
the world to have implemented CO2 quotas domestically, Auken said he was in favor of the World Bank initiative, adding that the PCF should not be the only
mechanism for trading emissions reductions credits.

JAPANESE EXIMBANK DISBURSED $100 MLN LOAN TRANCHE TO RUSSIA. The Japanese Export-Import Bank has transferred a $100 million loan tranche to Russia, Interfax reports First Deputy Prime Minister Viktor Khristenko said. The loan
was disbursed in keeping with Russia's agreement with the World Bank by way of
cofinancing another tranche of the SOCAL-2 coal sector loan of the same size, he
said. Khristenko described it as "the continuation of Japan's strategic partnership with Russia based on reliance on definite economic requirements, not
some political factors," the story notes.

BRIEFLY NOTED...Latvia said yesterday an agreement in principle had been reached
on a $40 million World Bank structural adjustment loan for administrative and
economic reforms, reports Reuters.

Kenyan officials and health care activists are pushing legislation to reduce
Kenya's growing demand for tobacco, the Los Angeles Times (p.A2) reports. With
the US and Europe beginning to win their own wars against smoking, research by
the World Bank shows that cigarette manufacturers are seeking to boost markets
in developing countries, the piece notes...High inflation, a yawning account
deficit and a towering unemployment rate give pessimists in South Africa reasons
to trash the economic prospects, but fears have given way to remarkable surge of
confidence in the future, the Journal of Commerce (p.8) reports.

The New York Times (p.A4) reports global biosafety talks in Montreal are
tackling one of the most important issues remaining in the effort to formulate
the world's first treaty regulating trade in modified products: must a nation
have scientific proof before it can ban a genetically engineered crop or animal,
or can it act even in the absence of scientific certainty? The US and several
other big agricultural exporting nations say that incorporating the
precautionary principle too strongly would allow countries to ban imports of
genetically products simply based on fear or protectionism. But European and
developing countries say precaution is justified because not enough is known
about the environmental effects of genetic engineering. The Washington Post
(p.E2) also reports.

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Clinton vs. Reagan; 'Saving' Social Security; Medicare's Finances

CLINTON & THE ECONOMY

"The Battle of the Decades"
Richard W. Stevenson
New York Times, February 8, 2000, page C1

This article examines the current recovery and contrasts the argument that the Reagan tax cuts were the main factor driving growth with the argument that it was Clinton's deficit reduction. At several points the article misrepresents the recent history of the economy.

The most important of these misrepresentations is that the last two decades have been a period of extraordinary growth which requires some explanation. In fact, the economy has grown less rapidly on average in the last two decades than in previous decades. GDP growth has averaged 3.0 percent since 1979. It averaged 3.2 percent in the '70s, and 4.4 percent in the '60s. If consistent measurements were applied, the gap would be even larger, since new measurement techniques from the Bureau of Labor Statistics have added approximately 0.2 percentage points to the annual growth rate in the years since 1978.

At one point the article touts financial innovations as one of the engines of recent growth. It remains to be seen whether this is accurate. In the '80s, deregulation allowed Savings & Loans to use tens of billions of dollars to support speculative real estate ventures that subsequently went bankrupt. Currently financial markets are funneling tens of billions of dollars into Internet start-ups, many of which have never shown a profit. If most of these companies turn out not to be viable, then this investment will have been an enormous waste of capital.

The article refers to the tax increases and spending cuts instituted in 1990, and asserts that "the deficits had continued to increase." The U.S. economy went into a recession in 1990. Deficits always increase when the economy goes into a recession. As the economy began the recovery in 1993, the deficit began falling sharply. Measured as a share of GDP, the deficit was 0.8 percentage points lower in 1993 than in 1992. This was before any of the Clinton tax increases or spending cuts were put in place.

The article also appears to accept President Clinton's assertion that the United States is on a "sustainable long-term growth path." Over the last four years, the trade deficit has increased from 1.2 percent of GDP in 1995 to 2.8 percent of GDP in 1999. If it continues to increase at this rate, the annual trade deficit would be over 5.0 percent of GDP in 2005, a level virtually unimaginable for a major industrial nation. Even if the trade deficit stabilized at its current level, it would cause the nation's foreign debt to rise to a level equal to 60 percent of GDP by 2010. This level of indebtedness would also be without precedent for a major industrialized country. The rate of growth of consumer debt is also unsustainable for any long period of time. For these reasons, it is questionable whether the United States can really be said to be on a sustainable long-term growth path.

"Administration Takes a Bow in Final Economics Report"
Joseph Kahn
New York Times, February 11, 2000, page C8

This article examines the final Economic Report of the President released by the Clinton administration. The article notes that the Report predicts that productivity growth will average 2.1 percent annually over the next four years. The most recent Social Security Trustees Report assumes that productivity growth will average 1.35 percent annually over the program's 75-year planning horizon. If productivity grew at a 2.1 percent annual rate over this period, the fund would be fully solvent for almost 50 years with no changes whatsoever.

At one point the article notes that the U.S. government has gone from running large deficits to large surpluses. It comments, "that reversal has freed hundreds of billions of dollars for investment in more productive sectors." Actually, the increase in government saving implied by this shift from deficits to surpluses has been almost completely offset by a decline in private saving. As a result of this decline in private savings, the share of GDP available for private investment was virtually the same as at the peak of the last business cycle in 1989, when the government was running a large deficit.

"Clinton to Ask For Increase in Assistance to Industry"
Richard W. Stevenson
New York Times, February 5, 2000, page A10

This article reports on a new set of proposals by President Clinton which would assist firms in competing internationally, and provide more assistance to workers displaced by trade. According to the article, the proposals will cost $386 million next year. Of this sum, $215 million would go to increase the funds available to Export-Import Bank, and the rest would go to support a variety of training programs. As a share of projected federal spending, the additional money for the Bank is 0.012 percent, while the amount being requested for training is 0.010 percent.

The article refers to Vice President Al Gore as a supporter of free trade. This is inaccurate. While he has supported the removal of trade barriers to imports of goods like cars and textiles, he has not opposed barriers that protect doctors and other highly paid professionals from foreign competition (see, e.g., "AMA and Colleges Assert There Is a Surfeit of Doctors," by Robert Pear, New York Times, March 1, 1997, page A7; or "U.S. to Pay Hospitals Not to Train Doctors, Easing Glut," by Elisabeth Rosenthal, New York Times, 2/15/97, page A1.) At times Gore has also worked to try to increase protectionist barriers. For example, he tried to force South Africa to apply patent protection to AIDS drugs sold within its borders.

SOCIAL SECURITY

"It's Official: First Lady Is Now Candidate Clinton"
Adam Nagourney
New York Times, February 7, 2000, page A1

"Hillary Clinton Makes It Official"
Lynne Duke
Washington Post, February 7, 2000, page A1

These articles discusses Hillary Rodham Clinton's official announcement that she is a candidate for the United States Senate. Both articles quote a line from her speech in which promised to work to "save Social Security."

It is questionable whether Social Security is in need of saving, since the most recent projections from the Social Security trustees show that the program can pay all scheduled benefits, with no changes whatsoever, through the year 2034. The projections from the non-partisan Congressional Budget Office (CBO) show the program to be even stronger. (See ERR, 2/7/00.)

"A Sobering Surplus Scenario"
Eric Pianin and John M. Berry
Washington Post, February 8, 2000, page A1

"Clinton's Budget Stresses Surplus and Having It All"
Richard W. Stevenson
New York Times, February 8, 2000, page A1

These articles analyze President Clinton's proposed budget. Both articles refer to the president's intention to use the Social Security surplus to pay down the debt. This proposal will not directly improve the finances of the program at all: Social Security's finances are not affected at all by how or whether the government spends the money it borrows from the program. Indirectly, paying down the debt can have a modest impact on the future tax burden facing workers; however, it does not qualitatively change the situation.

For example, if the government uses the entire projected Social Security surplus over the next ten years to pay down debt, the national debt will be approximately $2.2 trillion smaller than if the nation ran balanced budgets over this period. The projected real interest rate (the nominal interest rate minus the inflation rate) is approximately 3.0 percent, which means that the government would be saving $66 billion annually in real interest payments by 2010, as a result of using the Social Security surplus to pay down the debt.

GDP is projected to be $15 trillion in 2010, which means that the interest savings would be approximately 0.44 percent of GDP. Alternatively, if the economy grew by 0.2 percentage points more rapidly than projected, by 2010 GDP would be 2.0 percent higher than current projections show. A 2.0 percent increase in GDP would increase tax collections by an amount equal to 0.4 percent of GDP, approximately the same impact as paying down the debt for 10 years. (It's worth noting that projected GDP growth for the next ten years has been revised up by approximately 0.6 percentage points in the last three years.) In short, the impact of paying down the debt on the government's ability to pay off its obligations to Social Security is very limited.

MEDICARE & THE BUDGET

"Clinton, in Budget, Seeks to Bolster Medicare Program"
Richard W. Stevenson
New York Times, February 7, 2000, page A1

This article discusses President Clinton's proposals for the last budget of his administration. At one point in discussing his plan to put more money aside to support Medicare, it refers to "Medicare's deteriorating finances."

According to the projections issued by the Congressional Budget Office (CBO) last month, the annual surplus in the Medicare trust fund is currently $22 billion and is projected to rise to $28 billion by 2002. In 2010, the last year for which CBO publishes explicit projections for the trust fund, the annual surplus is projected to be $11 billion. The cumulative surplus in the fund at that point is projected to be approximately $384 billion. According to these projections, the trust fund is projected to be fully solvent for close to 20 years into the future even if no changes are made.

The article also includes comments from Republican spokespeople who criticized Clinton's proposal to adjust spending levels for inflation in his baseline budget. It is worth noting that prior to the Republican takeover of Congress in 1994, baselines were routinely calculated with the assumption that real (inflation-adjusted) spending levels would remain constant. CBO stopped including inflation adjustments in its baseline projections only after being directed to do so by the Republican Congress.

THE IMF

"An Optimistic Farewell at the IMF"
John Burgess
Washington Post, February 9, 2000, page E1

This article reports on the last news conference held by Michel Camdessus in his capacity as managing director of the IMF. At one point the article quotes Camdessus as saying "There are still people around the world□?saying that the IMF kills babies." The article then adds that Camdessus was "alluding to radical critics who argue that austerity programs that the IMF imposes on borrowing countries can force cutbacks in crucial social services." The article then goes on to quote Camdessus referring to such criticism as "demagoguery."

It is worth noting that some of the most prominent economists in the world have made these sorts of criticisms, most notably Jeffrey Sachs, a Harvard economics professor, and Joseph Stiglitz, the former chief economist at the World Bank and one time chair of the President's Council of Economic Advisors. Both have argued that some of the IMF austerity programs in recent years have actually worsened the economic situation in the countries they were designed for, and led to unnecessary suffering for their people.

JAPAN

"Japanese Economy Shrinks Again"
Clay Chandler
Washington Post, February 7, 2000, page A5

This article reports on new economic data which shows that the Japanese economy shrank in the fourth quarter of 1999. At one point the article asserts that the ratio of Japan's debt to GDP is now more than 130 percent. While this figure is accurate by one measure of Japan's debt, the more standard "net debt" measure calculated by the OECD shows a debt to GDP ratio of approximately 40 percent (Employment Outlook, 6/99, Annex Table 35).

RUSSIA

"IMF Cites Concerns, Withholds Russia Loan"
Sharon LaFraniere
Washington Post, February 6, 2000, page A25

This article discusses the International Monetary Fund's decision not to release a $640 million loan to Russia. The official reason was the government's failure to make acceptable progress in following the IMF's economic program. According to the article, Russia's economy grew by 3.2 percent last year. By contrast, in the eight years after the collapse of the Soviet Union, when Russia's government was receiving IMF assistance, its economy contracted by close to 50 percent. Russia never attained a growth rate close to its 1999 level in any of the years when the IMF deemed Russia to be in compliance with its economic program.

"Tight Space. No Privacy. Soviet Decor"
Michael Wines
New York Times, February 5, 2000, page A1

This article reports on the cramped housing conditions for many Russians living in Moscow. According to the article, it is common for four or more families to share a single apartment. At one point the article purports to give "a little history." It then traces the current cramped housing situation to the decision of the Communist government in 1918 to divide up churches, mansions and private apartments in order to provide new living quarters to peasants and factory workers. The article attributes this decision to a desire "to erase all vestiges of class in the new Communist paradise."

Whatever ideological motivations the government may have had in creating communal living quarters, the decision also had the effect of vastly improving the housing situation for tens of thousands of Russian workers and peasants who were either homeless, or lived in even more cramped facilities previously. The article only notes that this measure was a "tightening up" for the relatively wealthy segment of the population that had previously enjoyed comfortable living arrangements. It doesn't acknowledge the gains to the rest of the population from this policy.

SOUTH AFRICA

"Former Allies Clash Over South African Economy"
Rachel L. Swarns
New York Times, February 5, 2000, page A6

This article discusses disputes between South Africa's trade unions and the government over the direction of economic policy. At one point the article refers to South Africa's public sector as "bloated." It does not indicate the basis for this characterization.

Outstanding Stories of the Week

"Experts Strongly Dispute Consumer Savings Claim"
George Lardner Jr.
Washington Post, February 10, 2000; Page A6

This article examines Texas Gov. George W. Bush's claim his tort reform measures have saved Texans billions of dollars in insurance fees. The article presents the assessments of regulators and consumer groups that most of the savings from paying lower damage claims has gone to increased profits rather than being passed on in lower premiums.

Dean Baker is an economist and the co-director of the Center for Economics and Policy Research (CEPR). His latest book (co-authored with Mark Weisbrot) is Social Security: The Phony Crisis (University of Chicago Press). ERR is a jointproject of FAIR and CEPR.

ERR is edited by Jim Naureckas.

Recent articles can be found on the websites of the New York Times and Washington Post.FAIR's critique of these outlets can be found at http://www.fair.org/media-outlets/nyt.html and http://www.fair.org/media-outlets/wpost-newsweek.html.

RECORD TYPE: FEDERAL (NOTES MAIL)

CREATOR: preventionews@cdcnpin.org (preventionews@cdcnpin.org [UNKNOWN])

CREATION DATE/TIME:15-FEB-2000 09:45:54.00

SUBJECT: [CDC News] CDC HIV/STD/TB Prevention News Update 02/15/00

TO: prevention-news@hattrick.qrc.com (prevention-news@hattrick.qrc.com [UNKNOWN]
READ:UNKNOWN

TEXT:
CDC HIV/STD/TB Prevention News Update
Tuesday, February 15, 2000

The CDC National Center for HIV, STD, and TB Prevention provides the following information as a public service only. Providing synopses of key scientific articles and lay media reports on HIV/AIDS, other sexually transmitted diseases and tuberculosis does not constitute CDC endorsement. This daily update also includes information from CDC and other government agencies, such as background on Morbidity and Mortality Weekly Report (MMWR) articles, fact sheets, press releases, and announcements. Reproduction of this text is encouraged; however, copies may not be sold, and the CDC HIV/STD/TB Prevention News Update should be cited as the source of the information. Contact the sources of the articles abstracted below for full texts of the articles.

HEADLINES

PEER-REVIEWED JOURNALS
"Cytomegalovirus Retinitis in the Era of Highly Active Antiretroviral Therapy"

GENERAL MEDIA
"Botswana Comes to Grips With AIDS"
"Bradley, Outraged, Defends His Health Plan"
"Program Aims to Reduce the Rate of AIDS for Black Women"
"500,000 Children Miss Their TB Jabs"
"Durex: Teenagers Call for Better Education to Cut High Rate of Teen Pregnancies in Britain"
"More Than a Third of Condoms Unsafe"
"Female Condoms to be Sold Next Month"
"Monitoring Infectious Diseases With Electronic Eyes"

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PEER-REVIEWED JOURNALS
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"Cytomegalovirus Retinitis in the Era of Highly Active Antiretroviral Therapy"
Journal of the American Medical Association (02/02/00) Vol. 283, No. 5, P. 653; Whitcup, Scott M.

Many changes have taken place in the last few years in the presentation and course of cytomegalovirus (CMV) retinitis in AIDS patients who are taking highly active antiretroviral therapy (HAART). Before the advent of HAART, CMV retinitis was the most common intraocular infection in AIDS cases, affecting up to 40 percent of patients. A new study of 28 patients with CMV retinitis shows that the condition can be controlled without anti-CMV therapy in patients with high enough CD4 cell counts. Patients receiving HAART have been able to prevent retinitis from progressing even when not taking anti-CMV therapy. Research suggests that anti-CMV therapy can be stopped in patients with stable CMV retinitis. The scientists note, however, that more research is needed to fully determine the effects of restored immune response on the eyes.

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GENERAL MEDIA
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"Botswana Comes to Grips With AIDS"
Boston Globe Online (02/15/00) P. E2; Knox, Richard A.

In some parts of Botswana, half of all pregnant women are infected with HIV, but after being offered a drug treatment to minimize the transmission of the virus to their babies, less than 50 percent of the women accepted. A fatalism associated with HIV and AIDS in Africa prevents many from trying drug treatments, when they are available. Only 200 people in Botswana have access to antiviral drugs that are helping millions with HIV in wealthy nations. In an effort to address that disparity, a new virology lab funded with a $4.9 million grant from Bristol-Myers Squibb will be dedicated today in the capital city of Gabarone. The facility is the first attempt in an immense effort to bring AIDS drugs and, hopefully, a vaccine to Africa. The lab will run 100 to 200 HIV tests a day, and will investigate the subtype of HIV known as 1C, which is responsible for half of the world's HIV infections, especially in Africa and India, according to Harvard researchers. The clade C subtype has spread more rapidly in East Africa than type B in North America, and scientists do not know if it responds to treatment similar to the way other subtypes do. Dr. Max Essex, a Harvard AIDS researcher, believes the clade C virus is more easily transferred from mother to child and during heterosexual intercourse than other types. The vaccines being created to fight HIV-1B may not work on clade C, another reason that research is needed on this subtype.

"Bradley, Outraged, Defends His Health Plan"
New York Times (02/15/00) P. A21; Dao, James

Presidential candidate Bill Bradley responded on Monday to criticism by Vice President Al Gore's that Bradley's plan for universal health care would prevent some HIV and AIDS patients from being covered. In a recent speech, Gore asserted that Bradley's plan, which calls for ending Medicaid, would have a detrimental effect on poor people with HIV. Bradley explained, however, that current Medicaid recipients would receive private insurance under the system that covers government workers.

"Program Aims to Reduce the Rate of AIDS for Black Women"
Detroit Free Press Online (02/15/00); Gerritt, Jeff

Sisters and Daughters of Sheba is a program that aims to stem the increasing rate of HIV infection among African-American women. In Michigan, where the program is based, African-American women have an HIV rate 19 times higher than that for White women. The free program provides basic information on HIV and other sexually transmitted diseases and discusses self-esteem issues with the women. It also teaches women to care about themselves and their health, and also teaches teenagers to practice safe sex, using peer mentors. Founder Debra Ann Brodie, a Detroit psychologist started Sheba in 1996, and since that time nearly 400 women and girls have participated. The program is supported by a three-year, $210,000 grant from the Centers for Disease Control and Prevention, and $30,000 from the Michigan AIDS Fund.

"500,000 Children Miss Their TB Jabs"
UK Telegraph Online (02/15/00); Hall, Celia

An ongoing shortage of vaccine has forced 500,000 British schoolchildren to go without their tuberculosis (TB) shots, according to TB Alert. The charity noted that the supply problem could extend for another year, in which case nearly 1 million children would have missed their vaccinations. The Department of Health halted the school TB program in late 1999, after Medeva Pharma, the only licensed source of the BCG vaccine in Britain, reported manufacturing problems. The disruption of the program has some concerned because the number of TB cases in England has been rising, albeit slowly, since 1987.

"Durex: Teenagers Call for Better Education to Cut High Rate of Teen Pregnancies in Britain"
M2 Presswire (02/14/00)

New research suggests that many British believe that a lack of education about contraception is why the United Kingdom has a high rate of teenage pregnancies. The 2000 Durex Report found that more British teens are having unprotected sex compared to last year, up from 13 percent to 19 percent. But other age groups also admitted to having unprotected sex in the past year, including one in six 21- to 24-year-olds and one in 10 25- to 34-year-olds. The survey revealed that the role of condoms in preventing sexually transmitted diseases is also not thoroughly known, as only 28 percent of adults questioned said they can protect against chlamydia. The Durex survey involved more than 8,000 participants between the ages of 16 and 55.

"More Than a Third of Condoms Unsafe"
South China Morning Post Online (02/15/00); Lau, Shirley

Over one-third of the condoms bought in Hong Kong are unsafe even after improvements made in recent years, according to the Consumer Council. The organization bought 27,000 condoms and tested the 66 different brands for bursting volume, bursting pressure, and tensile strength. Twenty-five brands failed at least one trial. The most reliable brands were Lifestyles and Durex, while Fairlady, Forex, and Joy's were the least. Dr. Michael Tsui Fok-sun of the Consumer Council noted that while the quality of the prophylactics has increased in the past 12 years, he voiced concern that "some products still fail to fully protect people from pregnancy and [sexually transmitted diseases]."

"Female Condoms to be Sold Next Month"
Australian Broadcasting Corp. News (02/15/00)

The Family Planning Association of New South Wales, Australia, will import and distribute female condoms starting next month. Female condoms protect against disease and are a new option for women to protect themselves during intercourse, without having to depend on men.

"Monitoring Infectious Diseases With Electronic Eyes"
American Medical News (01/31/00) Vol. 43, No. 4, P. 20; Stapleton,

Stephanie
President Clinton's request for a $20 million increase in funding for disease surveillance would provide the opportunity to have better and more efficient information available to healthcare professionals. The new funding would be used to help pay for a nationwide electronic disease surveillance network as well as a new initiative to increase the role of private sector laboratories. As emerging infectious diseases become more common, it is important to be able to identify outbreaks quickly, especially as some strains become resistant to antibiotics. Diseases from the past are also re-emerging with more potency, and the threat of bioterrorism demands action as well. By tracking cases of the flu or other viruses, epidemiologists can detect problems and predict outcomes. Dr. Carol J. Baker, president-elect of the Infectious Diseases Society of America (IDSA), believes the program "would have a direct impact in terms of patient care," and she notes there is already evidence that it would be successful. Baker noted that a pilot study from the IDSA and the Centers for Disease Control and Prevention linked infectious disease physicians with the CDC via the Internet.

RECORD TYPE: FEDERAL (NOTES MAIL)

CREATOR: Documents <documents@GAO.GOV> (Documents <documents@GAO.GOV> [UNKNOWN])

CREATION DATE/TIME:23-MAR-2000 16:37:38.00

SUBJECT: GAO Daybook - March 23, 2000

TO: daybook@LISTSERV.GAO.GOV (daybook@LISTSERV.GAO.GOV [UNKNOWN])
READ:UNKNOWN

TEXT:
Note: Some recipients have been dropped due to syntax errors.Please refer to the "$A
March 23, 2000

The General Accounting Office (GAO) today released the following reports
and
testimony:

REPORTS:

1. HIV/AIDS: Use of Ryan White CARE Act and Other Assistance Grant Funds
GAO/HEHS-00-54, Mar. 1.

2. Medicare Contractors: Further Improvement Needed in Headquarters and
Regional Office Oversight GAO/HEHS-00-46, Mar. 23.

3. Community Health Centers: Adapting to Changing Health Care Environment
Key
to Continued Success GAO/HEHS-00-39, Mar. 10.

4. EPA Paperwork: Burden Estimate Increasing Despite Reduction Claims
GAO/GGD-00-59,. Mar. 16.

TESTIMONY:

1. Health Care Access: Programs for Underserved Populations Could Be
Improved,
by Janet Heinrich, Associate Director for Health Financing and Public
Health
Issues, before the Subcommittee on Public Health and Safety, Senate
Committee on
Health, Education, Labor and Pensions. GAO/T-HEHS-00-81, Mar. 23.

2. Social Security Disability: Raising the Substantial Gainful Activity
Level
for the Blind, by Barbara D. Bovbjerg, Associate Director for Education,
Workforce, and Income Security Issues, before the Subcommittee on Social
Security, House Committee on Ways and Means. GAO/T-HEHS-00-82, Mar. 23.

3. Human Capital: Observations on EPA's Efforts to Implement a Workforce
Planning Strategy, by Peter F. Guerrero, Director of Environmental
Protection
Issues, before the Subcommittee on VA, HUD, and Independent Agencies,
Senate
Committee on Appropriations. GAO/T-RCED-00-129, Mar. 23.

4. Environmental Protection Agency: Comparing Annual Budgets for Science
and
Technology, by David G. Wood, Associate Director for Environmental

Protection
Issues, before the Subcommittee on Energy and Environment, House Committee on
Science. GAO/T-RCED-00-132, Mar. 23.

5. Water Quality: Identification and Remediation of Polluted Waters Impeded by
Data Gaps, by Peter F. Guerrero, Director of Environmental Protection Issues,
before the Subcommittee on Fisheries, Wildlife, and Water, Senate Committee on
Environment and Public Works. GAO/T-RCED-00-131, Mar. 23.

6. Export Controls: National Security Risks and Revisions to Controls on
Computer Systems, by Harold J. Johnson, Associate Director for International
Relations and Trade Issues, before the Senate Committee on Armed Services.
GAO/T-NSIAD-00-139, Mar. 23.

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CREATOR: Paul Zeitz <pzeitz@unicef.zm> (Paul Zeitz <pzeitz@unicef.zm> [UNKNOWN])

CREATION DATE/TIME:28-MAR-2000 07:29:51.00

SUBJECT: [debt-for-aids] Send Comments: Proposed AIDS Marshall Plan

TO: debt-for-aids@eGroups.com (debt-for-aids@eGroups.com [UNKNOWN])
READ:UNKNOWN

TEXT:
Proposed Strategic Plan
(DRAFT as of 28 March 2000)

AIDS MARSHALL PLAN

Scaling-Up the
HIV/AIDS and Orphans Response
in Sub-Saharan Africa and Asia
to Accelerate Poverty Reduction

"Hope for the Future"

Please send comments to:

Dr. Paul Zeitz
Intercountry Coordinator
UNAIDS Debt-for-AIDS Activity
P.O. Box 31966, Alick Nkhata Road
Lusaka, Zambia
Tel: 260-1-252055, ext 276; Fax: 260-1-251214
cell: 260-1-702042; email: pzeitz@unicef.zm
www.egroup.com/group/debt-for-aids

The HIV/AIDS Crisis

The HIV/AIDS pandemic is the worst infectious disease crisis since the bubonic plague halved the population of Europe in the five years after its arrival there in 1347. Recognizing the magnitude of this crisis, African leaders, UN Agencies, and many other governments and international organizations have declared HIV/AIDS to be the single most critical development crisis facing Africa today. Dr. Peter Piot, Executive Director of UNAIDS states, "The impact that AIDS is already having on sub-Saharan Africa is catastrophic, and the scenario will only worsen unless leaders work together to invest more much more. Investments in health and social development are already eroding we must act quickly and strategically so that these investments are not wholly obliterated."

Developing, financing, and implementing programs to slow the spread of the epidemic and reduce its impact are now among the highest priorities of development organizations and African governments. While a growing number of effective clinical and behavioral interventions are being developed to reduce the transmission of HIV and improve care and support for those who are infected, the availability of resources to implement these interventions lags far behind the needs of the hardest-hit countries. In addition, these same countries are facing a secondary orphan crisis which will persist for decades to come (Hunter and Williamson 1997). Although the HIV/AIDS crisis has led some donor countries to increase their foreign assistance allocations, there is little sign that the level of funding needed to mount an effective response to the epidemic will materialize from traditional sources.

The Link between HIV/AIDS and Poverty

There is a growing recognition among policymakers and development experts that HIV/AIDS, which is not being addressed as a development and security crisis, is having a devastating impact on poverty. Simply put, poverty spreads HIV/AIDS and HIV/AIDS spreads poverty. A summary of the catastrophic effects of HIV/AIDS at the societal level, macroeconomy, on sectoral activities, on poverty at the community and household levels, and the economic impact of inaction are described below:

Societal Impact of HIV/AIDS

1) AIDS is now the leader killer of persons living in Africa;
2) Life expectancy in countries severely affected by HIV/AIDS is dropping by 10-20 years; reaching as low as 37 year in Eastern and Southern Africa (WHO, UNAIDS);
3) Many countries in Africa are threatened with a reversal of child mortality rates (WHO, UNAIDS);
4) In severely affected countries like Zambia, the annual number of AIDS-associated deaths is not projected to peak until the year 2005, and then it is project to stay high for the foreseeable future (GRZ);
5) By the year 2010, it is estimated that 16-25% of children living in selected African countries will be orphaned. Orphaned children are less likely to get fed, to get educated or to contribute economically to society (Hunter and Williamson).
6) HIV/AIDS disproportionately affects people between 15-44 years of ages, which is the most economically productive age group of the population.

Macroeconomic Impact of HIV/AIDS

1) Higher levels of HIV prevalence are correlated with a higher distribution of income inequality within urban areas of a country (Ainsworth and Over);
2) Higher levels of HIV prevalence are correlated with falls in the long-term growth rate of per capita income (Bonnel);
3) Countries with an HIV prevalence level below 5% will see a minimal impact on GDP growth rate, however, countries with HIV prevalence around 20% are correlated with declines in GDP growth rate of approximately 2% on a cumulative annual basis (Bonnel);
4) Countries with an HIV prevalence level below 5% will see a minimal impact on GDP per capita growth rate; however, countries with HIV prevalence around 20% are correlated with declines in GDP per capita growth rate of 1% on a cumulative annual basis (Bonnel);

Sectoral Impact of HIV/AIDS

1) Severely affected countries are showing that at least 50% of hospital beds are filled with AIDS patients, which is projected to absorb between 55-65% of already overstretched health budgets by the year 2005 (Alban)
2) Labor intensive businesses will be severely affected by HIV/AIDS, with some companies experiencing HIV/AIDS costs absorbing between 4-14% of profits by the year 2005 (Alban);
3) Agricultural production has been shown to decrease by 37-61% in

severely affected communities in some African countries (UNAIDS, Alban).

Poverty Impact of HIV/AIDS on Communities and Households

1) The poorest households are bearing the greatest burden from HIV/AIDS (Ainsworth and Over);
2) AIDS-affected households experience a dramatic declines in income of 52-67% (Alban);
3) AIDS-affected households reduce the outlay for education by as much as 50% ---thus creating a cohort of less educated persons for the future (Alban);
4) AIDS-affected household increase expenditures for health care by more that 400% (Alban).
5) Severely HIV-affected countries are seeing a worsening in the proportion of persons living below the poverty level (LCMS/Zambia).

Economic Impact of Inaction

1) The cost of implementing prevention, care, and mitigation increases exponentially with higher levels of HIV Prevalence. It is estimated that when the HIV prevalence rate is less than 5%, comprehensive HIV/AIDS programs cost less that US$3 per capita, however when the prevalence rate exceeds 15%, the cost of HIV/AIDS program rises rapidly to about US$10-12 per capita (Bonnel);
2) The longer the delay in introducing scaled-up HIV/AIDS programs, the greater the likelihood that HIV prevalence rates will rise rapidly; and then the costs of scaling-up programs will become prohibitive. It is estimated that is will cost approximately US$6 per capita to cover 80% of target populations with comprehensive HIV/AIDS programs (Bonnel).

Economic Constraints Prevent Effective Response

Over the last fifteen years, sub-Saharan Africa has made less economic progress than any other region of the world. This issue extends well beyond disappointing economic growth: between 1985 and 1996, twenty-one sub-Saharan countries contracted economically. The overall per capita economic growth rate, weighted by population, was estimated to be negative 0.6 percent per year (and a dismal negative 2 percent per year in the first half of the 1990s). Although a group of ten or so countries began to rebound in the mid-1990s and are now growing, driving up the region-wide per capita average GDP growth to 1.4 percent/year, a dozen others are still experiencing falling GDP/capita (Fischer et al. 1998). Three quarters of the continent's population survives on less than $2 per day (World Bank 2000).Over the last fifteen years, sub-Saharan Africa has made less economic progress than any other region of the world. This issue extends well beyond disappointing economic growth: between 1985 and 1996, twenty-one sub-Saharan countries contracted economically. The overall per capita economic growth rate, weighted by population, was estimated to be negative 0.6 percent per year (and a dismal negative 2 percent per year in the first half of the 1990s).

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1996, twenty-one sub-Saharan countries contracted economically. The overall per capita economic growth rate, weighted by population, was estimated to be negative 0.6 percent per year (and a dismal negative 2 percent per year in the first half of the 1990s).

Partly as a result of their poor economic performance, few countries in the region can mount an effective national response to HIV/AIDS, nor can their citizens pay for treatment once infected. As indicated in Table 1, annual spending on HIV/AIDS in selected countries in Africa, from all sources, averages less than $1/capita (UNAIDS 1999). This does not cover even the relatively modest amounts needed for basic HIV/AIDS prevention education and outreach, let alone to the more significant investments required to provide care and treatment to those already infected (Cameron 1992; Soderlund et al. 1993).

In addition to these economic constraints which prevent an effective response, historically there has been a paucity of political will and neglect by political leaders and policymakers within Africa and within the broader international community. Partly as a result of their poor economic performance, few countries in the region can mount an effective national response to HIV/AIDS, nor can their citizens pay for treatment once infected. Annual spending on HIV/AIDS in selected countries in Africa, from all sources, averages less than $1/capita (UNAIDS 1999). This does not cover even the relatively modest amounts needed for basic HIV/AIDS prevention education and outreach, let alone to the more significant investments required to provide care and treatment to those already infected (Cameron 1992; Soderlund et al. 1993)

Eradicating the Debt Crisis in Africa

One of the circumstances that perpetuates African poverty and makes adequate investment in the HIV/AIDS crisis nearly impossible is the region's external debt burden. African countries currently carry a combined external debt of $227 billion. Service on this debt, some $14.5 billion per year, is equal to 5 percent of the region's GDP and consumes nearly 15 percent of export earnings (World Bank 1998). Debt service payments, when actually paid, require sub-Saharan African countries to expend scarce foreign exchange and government revenues on debt servicing, rather than on critical social needs (Seshamani 1999).

In an era when basic social services like education and health care are deteriorating throughout the region, many people have come to regard the perseverance of Africa's debt burden as incompatible with development. This belief propelled debt relief for the poorest countries to the top of the international development finance agenda during the second half of the 1990s. From grass-roots movements like Jubilee 2000 to the U.S. Department of Treasury, there has been wide-ranging and active support for reducing the debt owed by poor countries to banks, governments, and multilateral institutions in the developed world. Most of the organizations that have taken a stance on debt relief have also called for more resources to be invested in improving the welfare of the poorest people. Some encourage direct investment of debt relief savings in HIV/AIDS, health, and education programs. Others recommend an indirect approach, by requiring that specific development goals be achieved as a condition of debt relief.

One alternative to traditional foreign assistance---and a solution that has many other development advantages--is to channel the budgetary savings from debt relief into HIV/AIDS investments. As Table 1 shows, the amounts currently spent on debt servicing far exceed investment in HIV/AIDS in many African countries. If even 50 percent of these countries' debt alone were cancelled, it would be possible to double the resources available to prevent, manage, and mitigate the impact of HIV/AIDS. One alternative to traditional foreign assistance and a solution that has many other development advantages is to channel the savings from debt relief into HIV/AIDS investments. As Table 2 shows, the amounts currently spent on debt servicing far exceed investment in HIV/AIDS in many African countries.

If even 50 percent of these countries' debt alone were cancelled, it would be possible to double the resources available to prevent, manage, and mitigate the impact of HIV/AIDS. One alternative to traditional foreign assistance and a solution that has many other development advantagesCis to channel the savings from debt relief into HIV/AIDS investments. As Table 2 shows, the amounts currently spent on debt servicing far exceed investment in HIV/AIDS in many African countries.

Table 1:Potential of Debt Relief to Generate Resources for HIV/AIDS Response

Country	Potential bilateral debt relief dividend (U.S. $/capita)	Potential total debt relief dividend (bilateral and multilateral) (U.S. $/capita)	Current spending on HIV/AIDS (U.S. $/capita)
Ghana	$3.33	$15.98	$0.12
Kenya	$5.24	$12.92	$0.76
Malawi	$1.39	$4.46	$0.63
Mozam.	$2.57	$2.79	$0.16
Nigeria	$1.69	$6.46	$0.03
TZania	$0.19	$0.70	$0.07
Uganda	$3.66	$5.00	$1.81
Zambia	$7.79	$16.18	$0.73

Sources: Sachs et al. (1999); UNAIDS (1999)

There are many legitimate claimants on new funds potentially freed up by debt relief, including basic education, environmental protection, infrastructure development, and primary health care.

Because the HIV/AIDS crisis in Africa and Asia has been declared a security crisis with the potential to obstruct achievement of all other development goals, including economic growth and political stability and security, however, it is easy to justify placing HIV/AIDS prevention at the front of the queue. Specifically:

1) HIV/AIDS is causing a reversal of development gains made over the past 30 years;
2) HIV is completely preventable and an increased investment in a broad-based Multisectoral response has been demonstrated to reverse the spread of the virus;
3) Scaling-up the delivery of existing HIV/AIDS interventions can yield tangible and measurable results, within a limited timeframe.

Action Environment

Governments are actively developing Poverty Eradication Action Plan (PEAP)/Poverty Reduction Strategy Papers (PRSP) and the National HIV/AIDS Strategic Plans and Sectoral HIV/AIDS Strategic Plans.

Bilateral and multilateral cooperating partners are also developing new Initiatives with the aim of scaling up the National HIV/AIDS Response.

Priority Intervention Packages

Lifelong Prevention of HIV Infection Package

This package will focus on the development and the rapid delivery of a highly effective HIV vaccine.

Pre-sexually Active Persons Prevention Package

Persons living in Africa between the ages of 5-10 years will theprimary focus of thi children the skills that they need to delay onset of sexual activity for as long as possible so that children can focus their time and energy on learning.

Sexually Active Persons Prevention Package

Persons living in Africa who have become sexually active will be the primary focus of this package. Interventions will focus on reducing

Orphans Prevention and Labor Productivity Package

HIV-positive persons, most of whom are parents of young children, will be the primary focus of this package. HIV-positive persons will receive interventions to ensure that they will live longer, healthier, dignified and productive lives---and so that they can continue parenting their children. This will include ensuring an adequate food supply, the prevention and early treatment of opportunistic infections, and expanding access to antiretroviral agents.

Household Coping Package

The package will focus on supporting the ability of households who are affected by the HIV/AIDS and orphans crises to improve their coping capacity. A focus on the improving support for the children who are caring for AIDS patients

AIDS Marshall Plan Strategic Objective

To eradicate HIV/AIDS Globally by 2020.

ACTION AGENDA

A. Declaring HIV/AIDS a Security Crisis

In support of the unprecedented UN Security Council Meeting of January 2000 declared HIV/AIDS a security crisis, the following actions are prioritized:

1. UN Agencies, including UNAIDS, UNICEF, UNDP, WHO and the World Bank continuously declare HIV/AIDS and the plight of orphans in Africa and Asia as a security and development crisis. Efforts to disseminate and replicate these declarations are required;
2. Implement political mobilization strategies to increase the momentum among many political leaders to respond to the HIV/AIDS, including Orphans as an urgent security and development crisis. Efforts To disseminate and replicate these declarations are required;
3. The International Partnership s Against AIDS (IPAA) and UN HIV/AIDS

Theme
Groups--being spearheaded by UNAIDS ?will be strengthened to create and sustains
political will [in Africa, Asia and Globally] to respond to HIV/AIDS as a security crisis;
5. IPAA and UN HIV/AIDS Theme Groups will be strengthened to ensure that there is an enabling policy environment for all stakeholders/partners to scale-up an emergency response to HIV/AIDS;
6. Aggressive Regional Strategies and Strategic Plans for Political Mobilization could be designed to reinforce political will for action;
7. Aggressive Public Relations Campaigns could be designed to reinforce political will for action, to re-energize technicians, and to sustain support for the response;
8. Spearheading new innovative partnerships between public and private sectors to address the HIV/AIDS crisis;
9. The AIDS Marshall Plan will garner the support of UN Agencies, including the World Bank, UNICEF, WHO, and UNDP, as they are launching new expanded Initiatives to combat HIV/AIDS, TB, and the orphans crisis;
10. The AIDS Marshall Plan will garner the support of bilateral Initiatives are being launched: USA launched the LIFE Initiative in 1999, the Sweden launched a new Initiative in 1999, and Italy is launching a new Initiative; Germany is launching a Southern Africa regional Initiative to combat AIDS-related TB.

B. Mainstreaming HIV/AIDS, including Orphans, in Development Instruments

1. Ensure that HIV/AIDS-OVC features as a suprasectoral priority of mainstream development instruments, e.g. Poverty Reduction Strategy Papers (PRSPs), Enhanced Highly Indebted Poor Country Initiative (HIPC), etc;
2. Ensure that countries, the World Bank, and IMF explicitly monitor public expenditures for HIV/AIDS and orphans, and set public expenditure ceilings for HIV/AIDS and orphans as part of the Medium-Term Expenditure Frameworks;
3. HIV/AIDS and Orphans interventions should appear as priorities in the Poverty Reduction Growth Facility (PRGF) and in the Enhanced HIPC Initiative documents;
4. Specific HIV/AIDS and Orphans outcome indicators should be incorporated into the PRSP, the PRGF and the HIPC instruments;
5. A proportion of the budgetary savings from the Enhanced HIPC debt relief should be earmarked for mounting a scaled-up response to the HIV/AIDS and orphans crises;
6. Bilateral debt relief should be accelerated and eradicated to support an enhanced response to the HIV/AIDS and orphans crises;
7. HIV/AIDS and orphans strategies should be incorporated as an additional funding priority of the World Bank Credits;
8. Strengthening the capacity of the"Poverty Units" of the Ministry of Finances to carry out the tasks defined above and to link to Jubilee 2000 groups.

C. Strategic Frameworks---Defining National and Sectoral Priorities: Implementing Strategic Multisectoralism

1. Support countries to develop National Strategic Framework for HIV/AIDS, including Orphans;
2. Selective multisectoralism means that key strategic sectoral Ministries (Health, Education, Agriculture, Youth and Defense) develop appropriate sector-specific strategic plans;
3. As a matter of priority, countries should develop a multisectoral National Orphans Prevention and Response Strategic Plans;

4. Countries should consider developing "District/Rural Response Initiatives (DRIs)." DRIs should clarify strategies for strengthening the ability of civil society to implement HIV/AIDS and Orphans interventions, including the rural expansion of NGO networks. DRIs should define strategies for developing the capacity of decentralized partners (Local Councils, NGOs, and private sector partners) to design, implement, and evaluate HIV/AIDS-Orphans activities is an urgent priority;
5. Countries should consider developing "Programmes for the Modernization of Agriculture" which include a focus on reducing HIV transmission;
6. Countries should prioritize the integration of HIV/AIDS and Orphans response strategies into the Universal Primary Education strategies---as a key strategy for primary prevention;
7. Countries should consider developing HIV/AIDS Business coalitions to foster innovative public-private partnerships;
8. Countries should develop strategies for ensuring timely, reliable, quality, and expanded access and distribution of critical HIV/AIDS supply for the public and private sectors, including supplies for implementation of sectoral plans. Key supplies include condoms, test kits, drugs, and IEC materials;
9. Countries define strategic priorities (geographic, multisectoral, target groups,Interventions) through participatory processes with civil society;
10. Countries define catalytic projects for scaling-up and/or replicating best practices;implementation strategies for each intervention, and strategies regarding top-down versus bottom-up delivery of interventions;
11. Countries define coordination mechanisms for implementing a scaled-up response

D. Costing/Budgeting of Strategic Frameworks
[e.g. IAEN, Template for costing of priority interventions based on Bonnel/Watts]

1. Countries utilize a standardized framework for costing priority interventions;
-focussed on affordability of interventions in different environments
2. Countries defines high/medium/low costing scenarios;
3. Allows for cross-country comparisons.

E. Monitoring and Evaluation Framework: Global Indicators for HIV/AIDS-OVC Prevention, Care, and Mitigation
[Template developed by UNAIDS, WHO, CDC, USAID, and MEASURE--Bernhard et al.---Global Indicators]

1. Countries define Monitoring and Evaluation Framework: What results are we are buying for how many resources?
2. Country strengthening of monitoring and evaluation systems is needed for the overall Country Strategic Plan and for each implementation partner;
3. Allows for cross-country comparisons.

NOTE: A Strategic Plan (Items C-D-E above) define strategies, they are
accurately costed, different budget scenarios are presented, and they are explicitly linked to outcome indicators. The explicit and direct link between "Resources----Actions----Outcomes" must be defined clearly in each Strategic Plan in order to receive full funding.

F. Resource Transfer Mechanism: "Poverty Reduction Action Funds"

1. Establishment of resource transfer mechanisms at the Global and country levels that can deliver resources reliably to decentralized partners (public and private sector) on a supplementary basis to support the full implementation of country-level strategic plans (items C-D-E above);
2. Create common mechanisms at the Global- and Country-levels to attract supplementary resources from Governments, donors (grants), creditors (budgetary savings from debt relief), multilateral banks (WB-IDA credits; ADB) and foundations (grants);
3. Management of funds based on principles of accountability, transparency, participation, innovation, and results;

G. Institutional and Technologic Requirements for Scaling-Up [e.g. Institutional Strengthening with WB-IDF/ADB grants; Technical Resource Networks (TRNs) under development]

1. Country-level institutions need to be strengthened or created to mount and sustain an effective multisectoral response for at least the next 20 years. A National Coordinating mechanism is required , as well as, sector-specific HIV/AIDS institutional units;
2. Technical resource networks (TRNs) to support the decentralized implementation of HIV/AIDS-OVC interventions to be strengthened;
3. Information technology at the country and regional-levels needs to be optimized to support scaling-up of the HIV/AIDS-OVC response at local level. Countries to develop proposals for support to foundations (e.g. Gates Foundation).

AIDS Marshall Plan Implementation at the Global-Level

A. International Partnerships Against AIDS

The IPAA s will be the primary stremgthened as the primary coordination mechanism to oversee the implementation of the AIDS Marshall Plan. The International Partnership Against AIDS in Africa (IPAAfrica) was launched in 1999. UNAIDS will create an International Partnership Against AIDS in Asia (IPAAsia), based on the experience of the IPAAfrica.

The IPAAs will establish an regionally-based implementation centers to ensure rapid and effective implementation of the AIDS Marshall Plan using state-of-the-art communications and transportation technologies.

B. Global AIDS Marshall Plan Trust Fund

The World Bank will establish the Global AIDS Marshall Plan Trust Fund to provide resources in the form of grants to scale-up the HIV/AIDS and orphans response to accelerate poverty reduction.

C. HIV Vaccine by 2015

The AIDS Marshall Plan will strive to accelerate vaccine development so that a Global coverage can be reached to eradicate HIV infection.

D. Global AIDS Corps

As the devastation of HIV/AIDS, orphans, and poverty crises have already reaked havoc on the human resource capacity of most HIV/AIDS afflicted countries, especially in Africa, a Global AIDS Corps will attract persons from around the World who are skilled persons and professionals to volunteer to work in African institutions (government, civil society, and private) at the national, regional, and local levels to accelerate action against HIV/AIDS and poverty reduction.

AIDS Marshall Plan Implementation at the Country-Level

Implementation of the AIDS Marshall Plan (AMP) will be operationalized through exisiting mechanisms:

A. Poverty Reduction Strategy Papers (PRSPs)

AMP will be designed to enhance the HIV/AIDS link to poverty. As the IDA and IMF concessional programs, made during a Joint Meeting of the Development Committees of the IMF and the World Bank in September 1999 agreed to strengthen the link between poverty reduction and debt relief by supporting country efforts to develop Poverty Reduction Strategy Papers (PRSPs). The PRSPs are intended to be country-driven, to be developed transparently with broad participation of elected institutions, stakeholders including civil society, key donors, regional development banks. The PRSPs are intended to be linked to the development goals outlines in the Comprehensive Development Framework. The PRSPs are intended to include macroeconomic, structural, and social policies that will contribute to long-term poverty reduction. These policies will be monitored with measurable intermediate and outcome indicators, including HIV/AIDS and orphans. It is envisioned that the policies, pace and usage of debt-relief under the Enhanced Highly Indebted Poor Country Initiative (HIPC) will eventually be integrated into the PRSPs.

The macro-level discussion of policies and expenditure priorities that will take place as part of the participatory process to develop the interim-PRSP and the final PRSP are key opportunities for ensuring that HIV/AIDS and orphans issues□?in the context of poverty reduction--are adequately addressed. In addition, the PRSP will serve as the basis for reviewing and refining sectoral strategies□?this also offers key opportunities for addressing the HIV/AIDS crisis.

B. Poverty Reduction Growth Facilities (PRGF)

To operationalize the new focus on poverty reduction by the IMF, the Economic Structural Adjustment Facility (ESAF) will be reformed into the Poverty Reduction Growth Facility (PRGF). The PRGF will replace ESAF programs and will be technically based on the PRSPs described above.

C. Enhanced Highly Indebted Poor Country Initiative (HIPC)

The Enhanced HIPC Initiative is now designed to:

1. Lower debt sustainability thresholds, or make it easier for countries to be eligible for debt relief;
2. Faster debt relief through the use of interim relief;
3. Introduce floating completion points to shift the focus of assessment toward positive achievements and outcomes. These reforms are designed to increase the number of countries that are expected to be eligible for debt relief.

Countries that are first compliant with ESAF or PRGF are potentially eligible for HIPC. Once an interim-PRSP or a final PRSP is approved by the governing boards of the IMF and the World Bank, then countries can negotiate participation in the HIPC. Once a Debt Sustainability Analysis (DSA) substantiates the need for debt relief, the countries are eligible for HIPC. Then the IMF and World Bank develop a HIPC Document in close consultation with governments. The HIPC Document is then presented for approval to the Governing Boards of the IMF and World Bank for approval. If successful, then countries have reached the "Decision Point." Countries are then eligible for interim debt relief under the HIPC. Based on further progress towards achieving agreed upon indicators from the PRSP and the HIPC documents, then countries can reached the HIPC "Completion Point." Once the completion point is reached, then broader debt relief is implemented. The time frame between the Decision Point and the Completion Point is estimated to be from 6 months to 3 years.

Debt relief is implemented by reducing debt servicing obligations tomultilateral and "budgeting savings" are then channeled into poverty reduction program, including the HIV/AIDS and orphans crises, as defined in the PRSPs.

D. Poverty Reduction Action Fund

As countries benefit from the the AIDS Marshall Plan Trust Fund, accelerated debt relief, bilateral grants, and from increased domestic revenues from economic growth, then a comprehenisive resource transfer mechanism is required. It is proposed that country-level Poverty Reduction Action Fund should be created as the primary resource tranfer mechanism to implement poverty reduction, including HIV/AIDS and orphans programs as a critical component of the Country's Medium Expenditure Framework. The Poverty Reduction Action Fund will be used to fully fund the National HIV/AIDS Strategic Frameworks and sectoral HIV/AIDS framework to scale-up HIV/AIDS in the context of accelerating poverty reduction.

Partnerships to Accelerate Action

The AIDS Marshall Plan (AMP) will strive to create innovate partnerships to accelerate action:

1. AMP G8 Domestic Alliances

Jubilee 2000
Global Coalition for Africa
Corporate Council on Africa
US-Africa Chamber of Commerce
Private Sector
Sister Cities Initiatives
Private Voluntary Organizations
African-G8 Organizations/Institutions
Religious Organizations
Foundations
Professional Associations

2. AMP Country Alliances

Jubilee 2000
Private Sector
Sister Cities Initiatives
Non-governmental Organizations
Universities
Religious Organizations

3. AMP Global Science and Technology Alliance

National-level Academy of Sciences
Governments (e.g. NIH)
Universities (domestic and international)
Foundations
International AIDS Vaccine Initiative

The purpose of the Science and Technology Alliance will be to promote the use of Technology innovation systems for the accelerated development and application of Africa-specific health and development technologies, specifically HIV-AIDS and malaria vaccines. Efforts will be made to develop cross-usable technologies for use in the developed and developing world. The creation of Industrial Consortia (domestic and international) and Vaccine-Specific Trust Funds for technology development will be considered. This alliance will also work to identify appropriate means for expanding the use of the of the Global Information Infrastructure to support the AMP. Incentives for private investment in AMP-prioritized technologies will be developed.

Operational Guidelines for The Global AIDS Marshall Plan Trust Fund

Section 1: Introduction

At the (possible) initiation of the USG, the World Bank will establish "The Global AIDS Marshall Plan Trust Fund" to scale up the HIV/AIDS and Orphans response to accelerate poverty reduction in Africa and Asia.

It is envisaged that the Trust Fund will maximally leverage the start-up US financial commitments in order to mobilize additional resources from the USG, from other donors, the private sector, NGOs, and recipient countries. The Trust Fund would only provide grant assistance, and would not be empowered to make loans. In providing such grants, the Trust Fund would give priority to countries that have shown:

a) A Strong Government commitment to combatting HIV/AIDS by developing partnerships with the private sector, communities, NGOs, and people infected or affected by HIV;
b) A high□?or potentially high--HIV/AIDS prevalence rate;
c) A verified commitment to eradicate corruption at all levels of the system, including in the drug procurement and supply systems;
d) A verified commitment to achieving results;
e) A verified commitment to social and economic human rights.

Once endowed, the Trust Fund Fund will issue grants through the country level Poverty Reduction Action Fund to government Ministries, NGOs and/or the private sectors to accelerate and expand the delivery of cost-effective HIV/AIDS interventions in the context of poverty reduction in support of the National AIDS Frameworks, and the sectoral frameworks.

This document summarizes the institutional arrangements, financial mechanisms, and grantmaking procedures of the Trust Fund. It is envisioned that this document will be updated on a regular basis.

Section 2: Institutional Framework

Institutional Structure

1. AIDS Marshall Plan Trust Fund

The World Bank will initiate the AIDS Marhall Plan Trust Fund. The resources collected will be managed through mutual fund mechansims so that core donations can yield additional income.

2. AIDS Marshall Plan Trust Fund Governing Body

The Trust Fund will receive advice from a distinguished international Advisory Board.

3. Financial Accountability of the AIDS Marshall Plan Trust Fund

There will be a zero tolerance for corruption of resources expended through the Trust Fund. Approximately 5-10% of the resource provided into the Trust Fund will be set aside to ensure that all funds are managed by effective systems according to the rules and regulations of the International Accounting Standards and the Generally Accepted Accounting Principles and Practices. Also, independent bodies, such as Transparency International, will be strengthened to serve as a civil society monitoring system.

Rolling Design

As part of the implementation of the Trust Fund, it is envisioned that the IPAAs will be responsible for routinely convening stakeholders to review progress in the implementation of Trust Fund activities. On an annual basis, the Trusst Fund will review performance milestones and issue a Annual Report. This Report will be provided to all key stakeholders and to all contributors to the Fund.

Section 3: Financing Mechanisms

The Trust Fund will be funded through two channels, namely debt relief resources and through grants from countries, donors, foundations, and the private sector.

The funds through debt relief will be made available by participating bilateral and multilateral creditors. Creditors with claims on African countries will grant debt relief so that the budgeting savings from debt relief will be credited to the same countries Poverty Reduction Action Fund.

Monies accessed through grants will be sourced from sympathetic multilateral and bilateral donors, foundations, and the private sector.

Operational Modalities of the Trust Fund

1. The Trust Fund monies will be held in a bank account to be managed by the World Bank;

2. Funds from the governments, creditors, foundations or the private sector shall be disbursed directly into the Trust Fund;

3. Interest accrued shall be retained in the Trust Fund and will form part of the resources available to the Trust Fund;

4. Disbursement procedures will be simple and standardised, so that donors are assured of accountability;

5. The World Bank shall issue payment instructions to the Trust Fund Advisory Group in order to debit the Trust Fund Account and fund respective country-level Poverty Reduction Action Funds;

6. 5% -10% of all resources placed in the Trust Fund will be set aside
for accounting and auditing procedures. The accounting and auditing resources will be used to monitor the management of funds within the overall Trust Fund and the management of funds by grantees from the HIV Response Fund.

7. World Bank will issue quarterly financial reports on the Trust Fund. The IPAAs will issue quarterly and annual reports on the AIDS Marshall Plan, its goals, programs, projects, and activities, and the effectiveness of such activities in reducing the worldwide spread of AIDS.

8. The World Bank shall keep detailed records in respect of the HIV Trust Fund Account as follows:

a. Disbursements made by contributors, i.e. name, currency, amount and US Dollar equivalent, date, etc);
 b. Interest accrued minus charges on daily basis;
 c. Payments made to the various program components;
 d. Balances of the Account at the end of every month;

10. The World Bank shall maintain records which shall include such information as pledges received from donors, contributions of the GRZ, payments instructions issued to the Bank of Zambia to fund respective programme components, and returns from programme operatives on the use of funds disbursed to them from the HIV Response Fund;

11. The Trust Fund shall be subject to annual auditing by an internationally recognised or agreed upon auditing firm and such audits will be funded by the Trust Fund;

12. At least once a year, there will be a meeting of all the stakeholders to allow for full dialogue about the HIV/AIDS situation, debt situation and the activities of the Trust Fund.

Appropriate Uses of the Trust Fund

The resources of Trust Fund will serve exclusively for supporting countries to scale-up the HIV/AIDS and orphans response to accelerate poverty reduction.

E. Trust Fund Grants to Poverty Reduction Action Funds

The IPAAs, the Trust Governing Body, and the World Bank t will be responsible for establishing a transparent mechanism for soliciting, reviewing, and issuing grants for expanding HIV/AIDS activities, in the health, education, agriculture, defense and other appropriate sectors. Prospective country grantees will have to establish detailed Strategic Plans, workplans, a monitoring and evaluation plans, and budgets as part of their proposals. Grantees will be responsible for the financial management of the Trust Fund resources in accordance with international accounting principles and practices.

The IPAAs will establish Technical Review Committees for review of all country proposals. The Technical Review Committees will make recommendations for Trust Fund grants based on the technical quality and financial soundness. The recommendations of the Technical Review Committee will be approved by the Trust Fund Advisory Group. All Grantees will be required to produce quarterly reports which describes implementation progress, use of funds and plans for the subsequent quarter. An Annual report will be produced by April 30th of subsequent year which includes implementation performance and financial accounts.

Monitoring for Success

Outcome and impact measures that are part of the country-level PRSPs will be the basis for monitoring the impact of the AMP.