Business as usual

The World Bank, the IMF and the liberalisation agenda

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Christian Aid
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Executive summary
A message from the G8

> 'It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own economic strategies, for which they should be accountable to all their people.'
> G8 communiqué on Africa, Paragraph 31, July 2005

On 8 July 2005 Tony Blair and the other G8 leaders stepped in front of the cameras at the Gleneagles Hotel in Scotland to sign the 2005 summit communiqué. This collective statement contained headline-grabbing figures on more aid and debt cancellation. Yet it was the above paragraph that captured the attention of many with an interest in development.

These two lines are hardly radical stuff – they merely say that poor countries should be allowed to choose policies of their own that put their citizens' interests first. However, put into effect, this would mean an end to more than 20 years of rich countries using their power as donors and creditors to enforce a dogmatic, and often disastrous, liberalisation agenda on poor countries.

The International Monetary Fund (IMF) and the World Bank lead the charge towards liberalisation and, by association, conditionality. They made loans and rescheduled debt on condition that countries adopted economic policies that included rapidly opening markets to international competition, reducing support to domestic producers, privatising state enterprises and devaluing currencies. To bring this to an end would be nothing less than a revolution in the relationship between rich and poor countries.

Christian Aid hopes that the G8's statement signifies just that. However, research compiled in *Business As Usual – the World Bank, the IMF and the Liberalisation Agenda*, a new report from Christian Aid, is a warning against complacency.

Plus ça change?
It is not as if the demise of economic policy conditionality has not been announced before. Chapter one looks at how, in 1999, the IMF and World Bank heralded the dawn of a new relationship. They claimed that, in future, national governments would make the decisions and there would be a new emphasis on consultation and poverty reduction.

Dubbed a 'radical overhaul' by the international financial institutions (IFIs), with the benefit of hindsight others might describe it as a simple rebranding. The reality is that while the methods used to enforce liberalisation and specific policy demands have evolved, the fundamentals have remained the same.

Evidence from eight low-income countries in sub-Saharan Africa shows that the IMF and World Bank have yet to genuinely loosen the strings. Chapter two looks at how policy-making in these countries is still in the stranglehold of conditionality.

The Bank's claims that the number of conditions have been reduced are misleading; a simple tally cannot measure the effect of the formal conditions that were, and many cases still are, in place. Besides, its calculation turns a blind eye to the plethora of new ways in which the IMF and World Bank are still influencing policy. For example, applying benchmarks for the dispersal of loans is conditionality in all but name. Equally, the economic rankings it produces for the benefit of prospective investors unsurprisingly favours the most liberalised countries. Such duplicitous measures can be less transparent and less accountable than the overt restrictions that went before.

There is no evidence that the IMF and World Bank have dropped their dogmatic position on liberalisation, a policy that the UK government has questioned and acknowledges as 'controversial'. All that has happened is that the focus of liberalisation has moved from one area to another. So, following the opening of developing countries' markets to imports in the 1990s, more recent conditions have tended to focus on the liberalisation of local markets. Pressure for privatisation increasingly focuses on the service sector, having already galloped through industrial state enterprises. The effect is an imbedding of liberalisation in the economies of developing countries.

The democratic cost

The impact of forced liberalisation on poor people's livelihoods and development has been well documented by Christian Aid and others. While this remains our central concern, there are other costs, as we discuss in chapter three.

The G8 communiqué clearly states that governments should be accountable to their populations – yet conditionality means that they are instead accountable to their financiers. What's more, some of the conditions in the communiqué reinforce this trend. For instance, the issuing of decrees to push through controversial reforms is a specific requirement for some IFI grant programmes.

Democracy is further undermined at the international level. While deeply flawed, the World Trade Organisation (WTO) offers the prospect of internationally negotiated rules governing international trade. This, though, is undermined by the role that the IFIs play in the world's poorest countries. IFI conditions have forced poor countries to undertake widespread liberalisation, making a mockery of the flexibility they are supposed to receive under the WTO, and frustrating any chance they have to negotiate trade-offs.

Recommendations

The practices of the World Bank and IMF fall far short of the principles adopted by the G8 leaders in July. If these principles are not to be empty words then action is needed. As Tony Blair said in the press conference that followed the signing of the communiqué, 'You don't simply by issuing the communiqué do the work. The work now has to be done.'

The IMF and World Bank's current activities damage livelihoods and threaten democratic processes. Radical reform is needed. Our report recommends:

> Where there are provisions for parliamentary approval or civic involvement, IFI practice should change to ensure that they are complied with. This means:
>
> - immediately withdrawing or renegotiating a loan if a parliament either partly or fully rejects it
> - no longer forcing governments to pass new laws – this is the business of parliaments alone
> - requiring all relevant documents to be submitted to parliament – this could include country strategies and analytical work, as well as standard loan documentation.
>
> The Bank and IMF must ensure that their institutional starting point for supporting development strategies is objective. This means examining the viability of alternative

policies; they must not automatically assume that liberalisation will foster growth or poverty reduction. Instead, the impact of liberalisation options should be carefully assessed, enabling countries to make their own informed choices.

- The IFIs must end the practice of making loans or grants conditional on adopting specific economic policies.
- The IFIs must not use general criteria to decide which countries qualify for loans or grants. Such decisions must be based on an assessment of the particular circumstances of each country.

It is clear that the practices of the World Bank and the IMF fall very far short of the principles adopted by the most powerful leaders in the world when they signed the G8 communiqué in Gleneagles in July. The G8 leaders bankroll the IMF and the World Bank. It is up to them to stop these institutions from peddling an outdated and discredited set of policies to governments that can't afford to say no.

Introduction

‘It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own economic strategies for which they should be accountable to their people’

Gleneagles communiqué, signed by the G8 leaders, July 2005

‘We believe that it is inappropriate, and has proven to be ineffective, for donors to impose policies on developing countries’

DFID/Foreign Office/Treasury policy paper, *Partnerships for Poverty Reduction: Rethinking Conditionality*, 2005

In the last 12 months, the UK government and the G8 both appear to have revised policies which insisted on economic policy changes as the price of aid. The G8 affirmed the need for developing countries to draw up their own development plans.

The UK government went further, admitting that some conditions may have had negative effects. ‘There are examples where privatisation has not benefited poor people and therefore the use of conditionality in such cases has been criticised,’ it said in its cross-departmental paper, *Rethinking Conditionality*. ‘In some cases, poor people have suffered during trade liberalisation, where conditionality has been excessively restrictive.’

This change of heart by the UK and the G8 comes a few years after an apparent rethink by the World Bank and the International Monetary Fund (IMF).

During the 1980s and 1990s, these two bodies used their positions as the primary financers and disbursers of aid to dictate economic policy throughout the developing world. In exchange for aid, recipients were expected to satisfy a number of stringent conditions. These usually involved opening their markets to western imports, privatising state-run enterprises, abolishing support to domestic industry and agriculture and cutting government spending.

The results were disastrous for developing countries, many of which were unable to compete in an unfair global trade system.

By the late 1990s, the international financial institutions (IFIs) were forced by to change tack, in the face of mounting evidence that their policies were failing and growing criticism from non-governmental organisations (NGOs). The Bank and Fund began the new millennium by giving their approach to conditionality what they called a ‘radical overhaul’. Others might describe it as a simple rebranding.

Christian Aid commissioned research examining the way the Bank and Fund are working on trade in eight sub-Saharan African low-income countries (LICs): Mozambique, Mali, Malawi, Kenya, Tanzania, Senegal, Ethiopia and Ghana. We found evidence that the Bank and the Fund continue to force trade liberalisation on developing countries, as the price of grants and loans. Far from reforming their practices, the IFIs have found new and more intrusive ways of forcing their agenda on poor countries.

This paper assesses how far the Bank and the Fund have really changed their practices. The evidence suggests there is still a long way to go. Although they claim to have made a number of changes in the way they lend money to developing countries and what they ask in return, the Bank and Fund continue to demand that governments change their economic policies to get loans, grants and debt relief. Many of the countries in our research were required to implement specific changes in their trade policy, or to privatise particular companies, to get loans.

The IFIs consistently recommend that countries make considerable concessions at the World Trade Organisation (WTO), frequently undermining poor countries' negotiating position in this highly political forum. They push governments into adopting certain policies by judging a country's eligibility to borrow against fixed and narrow criteria that, inevitably, promote liberalisation and privatisation.

Bank and Fund advice to individual countries almost always follows the liberalisation line. They also have a host of new programmes that actively endorse the kind of policies needed to support trade liberalisation, involving privatisation and the reduction of regulations on business activity.

Besides influencing economic policy, the IFIs' activities undermine developing country governments' accountability to their own people. The Bank and Fund enforce their conditions by requiring governments to issue decrees where laws need to be changed, rather than going through parliaments. They also recommend governments hide trade conditions in documents less open to public scrutiny.

The UK and the G8 have now spelled out their opposition to conditionality. It is up to them to force the Bank and the Fund to stop imposing failed economic policies on the very people who are least able to cope with economic failure.

Chapter one
A change of heart on trade conditionality?

> 'Conditionality has evolved into a mutual commitment device which holds governments accountable for reliably making progress toward their own poverty reduction strategy and the development community reliably providing financial support to help achieve these results.'
>
> Stefan Koeberle, adviser, World Bank, August 2004

This statement, with its emphasis on 'mutual commitment', encapsulates the new, friendly face of conditionality, as presented by the IFIs. But is their change of heart really as radical as they would have us believe?

Having seen the consequences of their policies for developing countries in the 1980s and 1990s, over the last five years the Bank and Fund have said they intend to reduce the burden of conditionality.

Between 2000 and 2002, the Fund announced that it wanted to 'streamline' the number of conditions imposed and to limit their intrusiveness. It produced guidelines stressing the importance of country ownership, and it said that, in future, the Fund's main lending instrument to low-income countries (LICs) should be based on each country's own priorities, as outlined in its poverty reduction strategy paper (PRSP).

> The Bank chimed in not long after. In 2004, it replaced its adjustment lending with 'development policy lending', to reflect a new approach. Announcing the change, it claimed to have learnt from experience, acknowledging that policy programmes 'are not effective when they are not owned by the countries themselves.'
>
> World Bank, 2004[1]

As well as rethinking their most controversial methods, the IFIs have also indicated that they may be moving away from their uniform approach to development policy.

> 'The lessons of the 1990s show that generalized policy prescriptions have often failed and that there is no single model of development.. This principle has been reflected in the new operational policy OP 8.60, which no longer contains any policy prescription or presumption for World Bank development policy lending.'
>
> World Bank, 2004[2]

Both organisations have adopted a clear focus on poverty reduction, implicitly recognising that pursuing growth by expanding exports and encouraging foreign direct investment is not enough. They have responded to evidence of the limits of trade liberalisation by acknowledging the importance of specific country conditions.

During reviews of their conditionality and trade-related activities, both institutions have felt able to congratulate themselves. This year, the Fund's trade review noted that the trend of rising trade conditionality of the 1990s had been 'sharply reversed'.[3]

Similarly, 'The Bank's use of conditions has declined sharply over the past decade and their content has shifted from short-term economic adjustment (including privatisation) and trade to medium-term public sector governance and social sectors reforms.'[4] The Bank now says that less than two per cent of its conditions relate to trade.

Christian Aid’s study of how the Bank and the Fund were working in eight sub-Saharan African LICs makes it all too easy to conclude that the ‘radical overhaul’ of trade conditionality has been a grand exercise in spin.

Formal numbers of trade conditions do appear to be declining. But these figures tell us little about the real extent of IFI influence on trade regimes. This is partly because other areas of IFI activity have emerged as important new modes of influence. These are no less capable of determining the structure of production, trading patterns – and thus who benefits from reforms. What’s more, they are potentially more intrusive.

The fall in the number of trade conditions does not even indicate that the old approach has been abandoned. In fact, the Bank and Fund have not abandoned trade conditions at all. Where the job is not yet done, traditional policy and conditionality continue. Support, tolerance or even analysis of unorthodox economic policies is extremely rare.

Efforts to ensure local ownership and participation in policy-making are inadequate. The IFIs continue to pursue policies that undermine local democracy. Put simply, since their rebranding, the Bank and Fund continue to insist on economic policy conditions as the price of loans or grants. As the next chapter shows, this can be through formal conditions – or more subtle ways of achieving the same end. They include:

- collaborating with other financial institutions through the Coherence Agenda
- setting preconditions for aid
- offering advice based on their own biased research
- exploring new opportunities for conditions
- exerting influence through local programmes
- attempting to influence non-trade policy.

Chapter two
Their own economic strategies?

In their communiqué following July's summit at Gleneagles, the G8 leaders made it very clear that developing countries should be allowed formulate their own economic policies. Yet the IFIs continue to put pressure on aid recipients to adopt policies which put their creditors, rather than their citizens, first.

Formal conditions on loans and grants

> 'Despite significant gains in trade liberalisation over past decades there is still a sizable "unfinished agenda".'
>
> IMF review of Fund work on trade, 7 February 2005

Although the numbers of policy conditions are going down overall, we found little evidence in our case studies that the IFIs were losing interest in influencing trade through formal conditions.

There are several possible explanations for this apparent anomaly.

The Bank and the Fund both claim that the number of trade conditions is falling. But the number says very little about how significant the conditions actually are. For example, a condition that calls for the 'implementation of comprehensive trade reforms', as the IMF demanded in Kenya in 2003, involves the government pursuing a long and complex process of policy reform that will affect a number of different sectors.

In this way, one single condition might involve much more change in a developing country's policy than several conditions setting out in detail how a government is expected to go about privatising just one company. The number of conditions doesn't say very much about how much influence the Bank and Fund have – what matters is the kind of conditions they impose.

In some cases, the number of conditions has fallen because the IFIs have already got almost everything they wanted. For example, there are fewer conditions on privatisation than before. But this is because in some countries there is little left to privatise. In Ghana, of 354 state-owned enterprises, 318 had been privatised by 2003. There are plans to privatise all of the remaining 36, except for the Ghana Commercial Bank.[5]

In some countries, trade conditions may be falling because barriers are already low –thanks to earlier rounds of lending and related conditions. According to the IMF's 'trade restrictiveness index' (TRI) – a ranking of individual countries according to a range of trade policy measures – African countries are considerably more liberalised than they were in the late 1990s. So, where the average African TRI rating was 5.9 in 1997, it was just 4.2 in 2004[6] – by the IMF's terms, this is a good thing.

As policies are changed, the Bank and Fund focus their attention elsewhere. For example, quantitative restrictions (quotas, for example) were the first target of trade policy conditionality. As these declined, tariffs became the focus, followed by non-tariff barriers to trade and, eventually, customs and trade facilitation matters.

The Bank notes – in its own review – that certain types of conditions have become 'exhausted'. A reduction in the number of trade conditions in some countries is a reflection of the fact that trade has been comprehensively liberalised and that the IFIs are turning their attention to other policies that may impede the flow of money and goods across borders.

Christian Aid's study shows that formal conditionality is alive and well. In a two-stage process, the Bank now imposes conditions which affect how much a country can borrow overall. The Bank and Fund then each impose a further set of conditions, every time a specific loan is agreed.

Firstly, all countries borrowing, or hoping to borrow, from the Bank have to go through a review of their policies, as spelled out in the Country Policy and Institutional Assessment (CPIA). This determines how much they are able to borrow. Each government's CPIA rating is a major factor determining its access to World Bank credit (for more detail on this CPIA, see below).

The Bank then designs a medium-term investment plan for each country – the Country Assistance Strategy (CAS). This determines how much they are able to borrow. Countries which comply with CAS conditions will get access to higher levels of funding overall, while countries which do not may lose financing.

CAS conditions for access to higher levels of funding include:

In Ethiopia (2003):

- increasing private participation in telecoms and electricity generation
- restructuring the commercial bank of Ethiopia
- increasing exports.

In Ghana (2004):

- increasing opportunities for private sector participation in the electricity sector
- implementing the West African Economic and Monetary Union common external tariff (ie lowering tariffs).

In Mozambique (2003):

- completing privatisation of the banking system
- privatising land and natural resources.

Mozambique stands to lose access to financing if it backslides on any commitments on trade liberalisation.

The World Bank – poverty reduction support credit (PRSC) conditions in case study countries

Tanzania (PRSCs agreed in 2003 and 2004)	- draft amendments to Land Act to present to parliament - draft bill amending the Public Procurement Act - approval of implementation plan for Business Environment Strengthening for Tanzania programme by IF Steering Committee - phase I Legislation (employment relations, collective labour relations, dispute resolution and labour market institutions) presented to parliament - reviewed business licensing system - prepared agriculture sector development framework.
Ethiopia (2004)	- improved investment climate for private sector development in rural and urban areas - enactment of procurement proclamation - implementation of measures to accelerate privatisation programme - restructuring of fertiliser market - submission of application for accession to WTO.
Ghana (2004)	- implementation of first tranche of plan to remove key regulatory and administrative barriers - submission and implementation of procurement bill - power sector reforms, implementation of public procurement practices plan.
Mozambique (2004)	- reduction of highest level of import duties from 20 to 25 per cent - council of ministers to issue a new procurement decree to bring public procurement practices in line with international practice - decree on hiring foreign labour to be revised to relax some of the rigidities in the labour market - national assembly to approve new commercial code and new financial institutions law - unbundling of the state-owned electricity company, bids invited for private participation in electricity distribution.

The IMF – poverty reduction and growth facility (PRGF) conditions in case study countries

Kenya (PRGF agreed in 2003)	- presentation of bill to establish framework for the transparent privatisation and sale of public assets - reduction of top external tariff rate from 35 to 25 per cent - implementation of comprehensive trade reforms - rationalisation of the investment code - reforms in the parastatal sector - tax reform.
Ethiopia (2002)	- introduction of VAT - improving fertiliser input market competitiveness - restructuring the financial sector, in particular Commercial Bank of Ethiopia.
Mali (2005)	- operational plan for the privatisation of the state cotton company, the CMDT - privatisation strategy for telecoms company (SOTELMA) - preparation of detailed plan on reform of the cotton sector.
Malawi (2003)	- regularisation of financial relations between the National Food Reserve Agency and the Agricultural Development and Marketing Corporation (ADMARC), including a government decision on the settlement of disputed cross-obligations related to the strategic grain reserve - divestiture of ADMARC's non-core assets.

Formal conditions on debt relief

The World Bank and IMF underestimate the number of conditions they impose, as neither institution includes in their tally the conditions attached to debt relief under the heavily indebted poor countries' (HIPC) scheme. Yet these have become an important new vehicle for economic conditions.

- In 2002, the IMF required privatisation of Zambia's state electricity company, ZESCO, and state bank, ZNCB, in return for debt relief. Despite considerable public resistance, the prospect of failing to meet the conditions and losing debt relief, means the sales will still probably go ahead.
- The release of Senegal's final tranche of debt relief was contingent on structural reforms, including the dissolution of the state company that provided seeds and fertiliser to the groundnut sector. The reform led to chaos, affecting thousands of producers.
- In Tanzania, privatisation of the water system in the country's largest city, Dar es Salaam, was a key condition for debt relief. However, in 2005 the government of Tanzania withdrew

from its contract with the British water company Biwater, accusing them of breach of contract, and expelled its officials.

Christian Aid's research shows that formal conditions still exist, despite the new language being used by the Bank and the Fund. However, the IFIs have also developed a range of new ways to influence economic policy in developing countries.

The Coherence Agenda, the IMF, the World Bank and the World Trade Organisation (WTO)

> 'We will continue to work to ensure that there is appropriate flexibility in the Doha Development Agenda negotiations. This flexibility will help least developed countries to decide, plan and sequence their overall economic reforms in line with their country-led development programmes and their international obligations.'
>
> Gleneagles communiqué, signed by the G8 leaders, July 2005

> 'All three institutions foster the progressive liberalisation of trade in goods and services. The Fund focuses on the overall policy framework; the World Bank, on development and sectoral issues; and the WTO, on a rules-based approach to liberalisation and transparency. They all collaborate to ensure policy coherence.'
>
> IMF executive board on trade review, April 2005

Both the Bank and Fund attribute the decline in their formal trade conditions partly to the emergence of the WTO as a forum for developing countries to negotiate a reduction in trade barriers. A more cynical interpretation would be that shareholders have found another forum for leveraging reform.

The IFIs are actively attempting to influence the outcome of negotiations, directly undermining the distinguishing characteristic of the WTO: that it offers all its members an equal voice.

> 'Trade communication has become considerably more forceful, most visibly through management speeches, letters and communiques in support of the Doha round.'
>
> IMF review of work on trade, February 2005

The Doha round of trade negotiations has prompted a substantial amount of activity by the IMF, including:

- speeches by management 'highlighting the development benefits of an ambitious' (ie strongly liberalising) round ahead of key meetings
- letters to heads of state of member countries 'urging progress' in the round
- 'unprecedented participation' of the managing director and deputy managing director at WTO general councils
- research papers
- 'operational contributions' such as the Trade Integration Mechanism (essentially a measure to prop up the round by 'mitigating' countries concerns' in the short term)
- 'concerted effort in the past three years by management to emphasise the sound economic rationale for free trade'.[7]

The activities of the IMF and theWorld Bank over the last 20 years have already put developing countries at a disadvantage in negotiations. Their supposedly autonomous liberalisation under IFI programmes means they have fewer bargaining chips and can extract fewer reforms from other WTO members.

A Senegalese official, M Demba Dembele, put it like this: ‘Having made sweeping unilateral trade concessions through repeated liberalisation policies imposed by the IFIs, they have given up all the cards they could have used at the WTO, or elsewhere.’

As well as the general effect of past conditions, there are specific ways that ongoing IFI work on trade negotiations can undermine developing countries. Some of the work done by the Bank and Fund contradicts and therefore weakens the positions of developing country groupings at the WTO.

One of the key issues for developing countries in negotiations on agriculture is the importance of protecting certain crops from trade liberalisation. One way to do this is to set up a mechanism, called a ‘special safeguard’, where certain crops can be protected if imports start to rise and jeopardise poor farmers’ livelihoods. The IMF has weighed into these highly politicised negotiations, firmly on the side of rich countries.

In June 2005, an IMF working paper advised against setting up such a mechanism, recommending that countries should voluntarily limit their use of any safeguards that might be agreed. The Fund recognises that this is in direct opposition to developing country submissions to the WTO.

In current talks on non-agricultural market access (NAMA) – the concessions and flexibilities to which developing countries are entitled – depend on the number of bound tariffs (the maximum tariff a country can have according to WTO rules) and level of applied tariffs (the tariffs a country actually has, which may be considerably lower than the maximum allowed tariff). For many countries, applied tariffs have been set – and continue to be set – by IFI programmes.

Both the Bank and Fund support increasing bindings on tariffs – in other words, getting countries to commit to keeping tariffs below a certain level and reducing the gap between bound and applied tariffs. Developing countries are currently negotiating on both these issues at the WTO.

IFI-led privatisation and commercialisation of public services undermines developing countries' use of the General Agreement on Trade in Services (GATS) public service exemption. Countries can opt out of liberalisation of public services on condition that these services should not be provided on a ‘commercial basis, nor in competition with one or more service providers’.[8] However, because of IFI conditions, many of these services have recently been privatised. The GATS agreement will ensure that no future government can take privatised health or water provision back into the public sector.

The IFIs also make countries go beyond their WTO commitments, obtaining reforms in areas not yet subject to WTO disciplines. Both Ghana and Malawi are liberalising government procurement policies as a result of IFI pressure – despite a decision by WTO members in Cancun not to negotiate on this. In both cases, local suppliers and workers must now compete with global suppliers for government contracts.

In Ghana, the procurement conditionalities were so invasive that a World Bank board member expressed concern that the country was being forced to liberalise well beyond WTO requirements, and asked why they should be in the vanguard of procurement liberalisation.

Meanwhile, the World Bank's concessional lending arm, the International Development Association (IDA) exerted significant pressure on Malawi's government to liberalise its procurement. In its 2005 evaluation, the Bank states that there was limited government support for of the IDA's proposed reform. It was only after a great deal of pressure from the IDA that the cabinet finally accepted the proposal in September 2002. The new Public Procurement Act was passed by in September 2003 – two years later than anticipated.

Preconditions for aid

> 'The importance of strong policies and institutions for successful reform has given rise to calls for selectivity of aid in favour of better-performing countries with a solid track record of performance.'
>
> 'Country performance is mandated to play a large role in the allocation of scarce IDA resources.'
>
> World Bank conditionality review, issues note, December 2004

In addition to attaching conditions to specific loans or amounts of money, since 2001 the World Bank has also 'filtered' all countries seeking loans, to assess how much they might be eligible to borrow on the basis of existing policies. A country's access to financing depends on the World Bank's assessment of the 'quality' of its policies and institutions – an assessment which is based on very narrow criteria, unrelated to the particular circumstances of each country.

The World Bank's country policy and institutional assessment (CPIA) influences not only how much money a country can get from the Bank as loans or grants, but also the amount of debt a country can accumulate overall.

A CPIA involves Bank staff judging countries' performance against 16 indicators which provide a clear signal to governments about what the Bank considers 'good' policy and therefore, what they have to do to get higher levels of funding from the Bank. CPIAs show that the Bank has not moved away from its pro-trade liberalisation bias.

To achieve the highest rating under the heading 'trade policy and foreign exchange regime' requires that: 'Average tariff… is low (10 per cent or less), with low dispersion and insignificant or not quantitative restrictions or export taxes. Trading monopolies are absent or unimportant. Indirect taxes… do not discriminate against imports or exports.'

Other criteria also have implications for trade policy. For example, to score highly under 'efficiency of revenue mobilisation', countries must ensure that: 'The bulk of revenues are generated by low-distortion taxes, such as sales/VAT, property, etc. Import tariffs are low and export rebate or duty drawback are functional. There is a single statutory corporate tax rate.'

In all, 20 per cent of the CPIA score depends on the nature of a country's trade regime.

The CPIA's blindness to a country's particular circumstances can have serious implications. Mozambique received a medium CPIA score in 2002, affecting its ability to raise loans or get concessional financing. The World Bank said it was concerned about several of the country's policies, including its tariff regime, with an average tariff of 10-20 per cent and a maximum rate of 30 per cent. The Bank was particularly concerned by the export tariff on raw cashews and the variable import duties on sugar.

Yet ironically these policies had been the subject of heated debate between the IFIs and the Government of Mozambique. In both cases, the Mozambican government wanted to increase tariffs, to protect local industries struggling to find their feet after the 12-year civil war which had devastated much of Mozambique's infrastructure. The cashew and sugar processing industries had received considerable investment and were employing tens of thousands of people. But the export of raw cashew and the import of processed sugar were putting these jobs at risk. The government's attempts to protect these industries prevailed – despite fierce opposition from the Bank and the Fund.

This example illustrates how, through its CPIA assessment, the Bank is criticising policies which have already been thoroughly debated – both within the country and with the IFIs themselves. Mozambique is being punished for perfectly legitimate policy choices.

As well as affecting overall amount of money lent to individual countries, CPIA ratings also determine policy conditions for new operations, potentially overriding priorities within the PRSP. The Bank's CAS, (which lays out its 'business plan' for lending and activities), '….is increasingly focused on aspects of CPIA that are shown to be weak. The CAS trigger conditions can also include policy targets from the PRSP, to the extent that they are expected to strengthen policy and institutional performance.'[9]

Research and advice

> 'The main instrument for operationalizing the trade agenda is mainstreaming the findings of various pieces of analytical work in the development strategies of client countries and in the Bank's own country and regional assessment strategies.'
>
> World Bank, *Leveraging Trade for Development*, March 2004

> 'Recent years have seen a decline in the number of trade-related programme conditions under Fund supported programs, but an upswing in aspects of trade-related surveillance, research and other activities.'
>
> IMF review of work on trade, 7 February 2005

> 'Some countries also criticize the Bank's advice for being too narrow and policy-based lending for insufficiently considering policy alternatives in specific areas'
>
> World Bank conditionality review summary findings, June 2005

Both the World Bank and the IMF have increased their capacity for trade-related research since 2001. The World Bank created its trade department in 2002. The following year, the IMF created a unit within its research department to undertake trade-related work. Both produce an extensive range of analysis and publications.

They also actively promote their findings through workshops and conferences. The dominance and reach of these institutions means that their work has disproportionate influence.

Such influence should bring with it a responsibility for fully exploring options for policy reform and presenting different viewpoints. There are some dissident voices at the World Bank and a few at the IMF. But most of their publications and analyses follow the underlying agenda on trade that has persisted for decades.

As well as offering general research and advice, both institutions also carry out assessments of countries' policies and institutions. These often take the form of simple observations, advice or recommendations. Yet they directly influence these countries' reform programmes – either through conditions, or through such activities as technical assistance.

IMF 'Article IV' consultations are held annually in every country between Fund economists, national authorities and other relevant local bodies. They enable the Fund to monitor the economic policies of member countries and provide a guide to IMF lending, as well as a signal to investors. During these consultations, a report on the state of the economy and state of trade regime are presented to the IMF's executive board, before results are presented to the government of the country concerned. In countries that go on to borrow from the IMF, the Article IV recommendations become a part of the conditions for getting loans.

Reports of Article IV consultations reveal the assumptions made by IMF staff about what constitutes good economic policy. The 2003 IMF staff report of Kenya's consultation asserts:

> 'In order to further encourage investor confidence, sustained progress will be needed in implementing key structural reforms. In the staff's view, a comprehensive medium-term reform strategy would need to include privatisation of key parastatals, including Kenya Telkom.'
>
> IMF, Kenya: Article IV Consultation, 2003

The Bank's surveillance activities are two-fold. The CPIA has been discussed above. The Bank also conducts reviews of developing countries' trade policies for the diagnostic trade information study (DTIS). This is an assessment of a country's trade regime undertaken to inform its participation in the integrated framework for technical assistance (IF), the main agency for distributing aid to support trade and trade negotiations. The DTIS identifies 'problems' with a country's trade policies, which the IF might be able to solve.

Among our case studies, the countries that had had a DTIS were all recommended at least some of the most controversial elements of the standard Bank/Fund policy package: export and foreign investment promotion, agricultural modernisation, financial sector liberalisation, larger role for the private sector in service delivery, and trade liberalisation.

For example, in Ethiopia (not currently a WTO member), the recommendations included:

- vigorous privatisation of state owned enterprises
- promotion of foreign investment in sectors with export potential, including areas currently reserved for domestic investors
- opening the domestic banking system to competition
- increasing the private sector's role in export support services
- introducing legal and regulatory reforms, in line with WTO rules, to attract foreign investment; these should include a review of the fiscal regime, labour laws, work and residence permits and competition policy.

Beyond trade: conditionalities that reinforce liberalisation

> 'The institutions are being called on by their powerful members to intrude much more deeply into areas previously the reserve of national governments...'
>
> UNDP human development report, 2002

A fall in the number of trade conditions only has real value if it indicates a genuine commitment to giving countries greater freedom to design their trade regimes. But countries are being prevented from making these choices and are punished when they try to escape from the straitjacket of the IFI model.

Christian Aid's research has uncovered an expanding range of IFI activities in policy areas related to trade. Rather than dismantling the old model of trade reform, the IFIs are using these new areas to force countries to adopt policies that support their own standard economic model. This further undermines the ability of countries determine the nature of their own trade regimes and the structure of their economies.

As Bank staff remarked in a 2003 information note entitled 'Trade and development after Cancun': 'The Bank is now supplementing its advice on reductions in border protection with suggestions on ways to design and implement the complementary policies that are needed to benefit from trade reforms.'

The Bank's own conditionality review in 2005 went further, adding: 'The emphasis is now on improving the underlying conditions for trade by removing behind-the-border barriers to trade.'

Private-sector development

> 'The emphasis on privatisation has strongly declined since the 1990s. The shift away from privatisation is related to the increased attention to the quality of the investment climate as a whole.'
>
> The World Bank conditionality review summary findings, June 2005

Under its private-sector development agenda, the Bank can seek to promote controversial investor rights and liberalisation of investment regimes – preventing countries from managing investment for development purposes.

In Ethiopia, the private-sector development trigger in the 2003 CAS demands that the government: '…improve the investment climate, increase private participation in telecom and power generation, streamlining business regulations and resolution of most outstanding foreign expropriation cases'. In other words, privatisation, investment liberalisation and strengthening of investors' rights – all highly controversial and potentially damaging economic reforms.

Governance

The good governance agenda can also disguise privatisation. This can happen through promotion of decentralisation, where regional authorities lack the means to take over services previously provided by the state. Anti-corruption measures can also involve privatisation, as a means of moving away from rent-seeking state-owned enterprises. In Ghana, a project to support decentralisation included as a condition the 'commericialisation, privatisation… and cost-sharing of agricultural services'.[10]

Trade facilitation

Trade facilitation requires countries to improve customs procedures and logistics to reduce costs to traders. This can mean lucrative deals for foreign investors who, for example, can enter a newly 'competitive and efficient' and newly liberalised transport services market. In Senegal, under the guise of 'reforms sought for trade facilitation' the World Bank required the government to reduce all tariffs and limit the use of temporary import taxes on sensitive products.[11]

Chapter three

Accountable to their people?

In their July communiqué, the G8 recognised that economic policy-makers must be accountable to their people if governments are to play their part in reducing poverty. However, the World Bank and the IMF are themselves undermining this accountability by the conditions they impose and the way they impose them.

Achieving sustainable poverty reduction requires strategies that are designed to suit local conditions, have both popular and political support, and are properly implemented. These factors should be the basis for donor and IFI activities. The IFIs have taken some steps in this direction by institutionalising PRSPs as the cornerstone for donor and IFI development activity, and by establishing the Parliamentarians Network at the World Bank. But these efforts are not enough to counteract the influence of those holding the purse-strings.

Poverty reduction strategy papers (PRSP)

> 'The PRSP is a compulsory program through which people with money tell people without money what to do in order to get money.'
>
> John Page, World Bank at InterAction Forum, April 2001

The PRSP is the basis of donor-recipient relations and the point of reference for all development activities. It is intended to promote transparency, greater donor coordination around nationally defined objectives and strategies, as well as a comprehensive approach to development centred around poverty reduction. It should therefore be robust and well-conceived, drawing on strong processes and consultation.

Unfortunately, that is not the case.

As UNCTAD noted in a 2002 report: 'A close examination of the macroeconomic and structural adjustment policy content of PRSPs shows that there is no fundamental departure from the kind of policy espoused under what has come to be known as the "Washington Consensus".'[12]

Shortly after the launch of PRSPs in 1999, Christian Aid showed that there was very little economic policy content in the programmes – although they were supposed to set the framework for poverty reduction.[13] This left the door wide open for the IFIs to exert their influence over economic policy in even less transparent and consultative ways. Judging by the PRSPs in our case study countries, little has changed.

- Economic content is stated as vague objectives rather than concrete policy actions or projects.
- What economic content there is appears to conform to standard IFI policy.

Trade-related content of PRSPs

The following table reproduces extracts relating to four key areas that determine the composition and nature of trade regimes. It is worth noting that none contain controversial recommendations, and few contain realisable policy actions. Instead they outline general aims – which in some cases read like the Bank's own 'wish list'.

PRSP document	Trade	Investment	Privatisation
Mozambique Action Plan for the Reduction of Absolute Poverty (PRSP agreed in 2001)	Create conditions to ensure that international trade is one of the instruments that will sustain rapid and wide growth.		Employment and enterprise development – expand the participation of the private sector in the business community, including its participation in infrastructure public companies. Develop and adopt strategies on public companies and on government assets in the business community.
Tanzania (2000)	Maintain prudent fiscal and monetary policies and reduce the trade gap.	Restructuring and re-staffing of Tanzania Investment Centre as investment promotion agency. Approving a proposal to relax restrictions on foreign portfolio investment.	Promotion of the private sector in delivery of public health services.

Ghana (2003)	International Trade – improve export competitiveness and diversify export base.	Create the right institutional environment for entrepreneurial development. Prepare institutional, legal and financial framework for effective partnership with not-for-profit and private providers.	Rationalise the role of the state – the government must divest itself of activities which are not relevant or appropriate to the performance of the state in the exercise of good governance. Implement revised divestiture programme – sectors covered include electricity, water and waste, and banking.
Mali (2002)	Reduce existing handicaps by pursuing and consolidating trade liberalisation policy implemented since 1990s.	Integrated framework for development of private sector - development of trade within regional context, facilitating access to markets, improving legal and fiscal environment. Continued privatisation of state-owned companies, building solid financial systems.	Improving public sector performance – transfer to the private sector activities that should not be handled by the public service.
Malawi (2002)	Expand export market share. Establish trade promotion centres. Negotiate for stronger position in COMESA, SADC. Negotiate for stronger position with WTO, US and EU.		Commercialise and privatise utility boards (ESCOM, water boards). Privatise MTL, MDC and Air Malawi. Privatise ADMARC, sell off storage facilities.

Kenya (2003)	Enhanced role of trade – enhanced export growth - implement trade policy - implement customs union - exploit AGOA - enhance regional trade.	Increased private investment. Increased credit to private sector. Reduced demand for credit from government from domestic market.	Efficient telecoms services – privatisation of Telkom. Increased access to water/ improved water resource management – privatisation of water supply services. Increased availability, reliability and affordability of energy – power-sector design and privatisation studies.
Ethiopia (2002)	Develop and diversify export sector.	Remove any hindrances of access to foreign collaboration and financing.	Expedite implementation of private sector participation in production of electricity.

PRSPs have become the vehicle for legitimising the IFI agenda on trade. The vague nature of their economic content gives IFIs ample space to tailor solutions to suit them. The World Bank recently carried out a survey of stakeholders for its conditionality review; 50 per cent of respondents felt that the Bank introduced elements that were not part of the country's programme. It is reasonable to assume that most of these were from those countries where the Bank concentrated its efforts – that is, IDA countries, especially in Africa.

The IMF's recent evaluation found that only 'one in five IMF conditions seems to be directly aligned with concrete policy actions described in the PRSP'.[14]

In Tanzania's PRSP there is only one passing reference to trade – yet lenders remain focused on liberalising agriculture and reducing the trade gap. The PRSP did not mention tax reform, although tax reform is required as a 2001 HIPC condition.

Mozambique's PRSP does not call for privatisation, but privatisation is a major platform of the IFI programme. The World Bank's 2001-3 CAS specified that the government would lose access to resources if there was backsliding on privatisation. By the same token, it would gain access to resources if it increased private-sector participation in energy, telecoms and transportation.

Far from being a vehicle to genuinely increase accountability between governments and people, PRSPs seem to be more about providing the IFIs with enough scope to push their standard agenda on developing country governments. Christian Aid's research shows that, where people are genuinely consulted on trade policy, the results can be very different from the standard prescription, concentrating on managing trade to avoid risk, rather than to increase openness.

Undermining democracy

> 'The global landscape has changed dramatically as IFIs have realised that democratic oversight of government actions is critical to the fight against poverty.'
>
> World Bank*, Helping Parliaments to Help the Poor,* January 2003

The IMF and World Bank generally conduct their business with the finance ministries of developing countries. This gives treasuries sway over decisions that should properly be made by other governmental departments – notably ministries of trade.

Often, the process also bypasses the legislatures of recipient governments. The ability of the IMF in particular to switch access to funding on or off encourages this. As a result, parliaments' wishes are sometimes overridden or, more frequently, parliaments understand that their role – if any – is to rubber-stamp IFI decisions.

IFIs sometimes induce governments to issue executive decrees, shifting power from the legislative to the executive branch of government – and thoroughly undermining the democratic process.

In Mozambique in 2004, the World Bank called for decrees in the following areas:

- improving the administrative framework for hiring expatriates
- issuing procurement regulations in line with international standards
- relaxing restrictions on foreign labour
- removing rigidities in the labour market
- approval by the Council of Ministers for new codes for corporate and personal income taxes.

Aid represents 50 per cent of spending by the Mozambican government, 75 per cent of public investment and 90 per cent of the budget for the ministry of agriculture and fisheries. A 2002 publication by the Bank's evaluators, *Rural Vision to Action*, states that the views of the Mozambican government are consistent with those of the bank, 'given the influence of the Bank and other donors, on the government'.

Conditionality in practice: Malawi vs Ghana

In aid-dependent countries, there are many ways that donors can influence economic policy. The different experiences of Malawi and Ghana (see page 11) show how donors can force governments to follow a particular policy agenda. Both countries have histories of disagreements with the IMF. In both cases, the views of the IMF prevailed.

Since 1995, funding for Malawi's economic reforms and for all its development programmes has been jeopardised because the IMF signalled that Malawi had departed from its programme commitments. Donors responded by cutting their own financial assistance to one of the world's poorest countries.

Since 2004, Malawi has been under an IMF 'staff monitoring programme', to prove its ability to behave well. Malawi has certainly learnt its lesson.

'The main problem is that no one gives aid unless the IMF says so, says Ben Botolo, chief economist within Malawi's ministry of economic planning and development. 'This becomes a dangerous thing. If you are desperate for cash they can push anything at you and you must accept it.'

Among the changes Malawi was forced to accept was a plan to dismantle the state's agricultural marketing board (ADMARC) despite opposition from the public and the Malawian parliament. Impact assessments have subsequently shown that this reform has increased problems for farmers.

The Ghanaian government took a different stance, refusing to accept the IMF's demands. In 2002, the minister of finance walked out of negotiations with the IMF, refusing to cut allowances paid to health workers and teachers. Allowances are one way a government can try to stop the brain-drain of doctors and other professionals – more than two-thirds of doctors trained in Ghana left the country between 1993 and 2002.

Not only did the IMF cease its support, but other donors similarly refused to continue sending aid. Ghana lost over US$100 million dollars of aid money between September 2002 and March 2003, when a new programme was agreed. The allowances were kept – but at the cost of salary increases in other areas. In 2004, to keep within the IMF's limit on public expenditure, the government of Ghana had to renege on a negotiated agreement with public sector workers.[15]

Conclusions and recommendations

The IFIs' approach to trade and conditionality has shifted. But the change is not nearly as radical as they would have us believe. The World Bank and IMF have attempted to support the old orthodoxy rather than dismantle it, and conditionality has taken on less obvious, but more intrusive forms.

Economic policy conditions are damaging because they undermine democracy and reduce the accountability of a government to its own people. Even if the policies being imposed were entirely harmless, the practice of conditionality would still raise serious questions. But the policies that the Bank and IMF continue to press on developing countries are far from harmless.

In the short term they harm the poor, because inappropriate liberalisation costs jobs and damages farmers' livelihoods. In the long term, they also harm whole economies, by preventing governments from doing what is necessary to promote domestic industries.

Reinforcing democracy

There might be a legitimate role for donors in ensuring that policies are made in an accountable and democratic manner. In some countries it is clear that national processes must be improved to ensure that they can provide appropriate development strategies. These must form the basis of any donor or IFI-led development activity.

Where there are provisions for parliamentary approval or civic involvement, IFI practice should change to ensure that they are complied with. This means:

- Immediately withdrawing or renegotiating a loan if a parliament rejects it in any way.
- No longer forcing governments to pass new laws. This is a parliament's business.
- Requiring all relevant documents to be submitted to parliament. This could include country strategies and analytical work, as well as standard loan documentation.

Ending economic policy conditions

The Bank and Fund must ensure that their institutional starting point for supporting development strategies is objective. This means examining the viability of alternative policies; they must not automatically assume that liberalisation will foster growth or poverty reduction. Instead, the impact of liberalisation options should be carefully assessed, enabling countries to make their own informed choices.

- The IFIs must end the practice of making loans or grants conditional on adopting specific economic policies.
- The IFIs must not use general criteria to decide which countries qualify for loans or grants. Such decisions must be based on an assessment of the particular circumstances of each country.

It is clear that the practices of the World Bank and the IMF fall very far short of the principles adopted by the most powerful leaders in the world when they signed the G8 communiqué in Gleneagles in July. The G8 leaders bankroll the IMF and the World Bank. It is up to them to stop these institutions from peddling an outdated and discredited set of policies to governments that can't afford to say no.

Endnotes

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