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Treacherous conditions

How IMF and World Bank policies tied to debt relief are undermining development

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By Peter Hardstaff
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This report is part of the World Development Movement's (WDM) ongoing campaign to cancel the unpayable debts of the world's poorest countries and remove the inappropriate and damaging policy conditions attached to debt relief.

Additional research and sub-editing by Tim Jones

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WDM campaigns to tackle the root causes of poverty. With our partners around the world, we win positive change for the world's poorest people. We believe that charity is not enough. We lobby governments and companies to change the policies that keep people poor.

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1. Introduction

"Today, [the World Bank and IMF] have become dominant players in the world economy. Not only countries seeking their help but also those seeking their 'seal of approval' so that they can better access international capital markets must follow their economic prescriptions, prescriptions which reflect their free market ideologies and theories."
Joseph Stiglitz, Former World Bank Chief Economist[1]

1.1 Debt – a potted history

As a result of the oil crisis induced interest rate hike in the 1980s, inappropriate lending, conflict, corruption and unfair trading conditions, developing countries have been unable to pay off the loans they were encouraged to take on in the 1970s and have become increasingly indebted. These countries are still paying millions of pounds back to the West in interest payments each year. For example, the forty-one poorest, most indebted countries owe some US$213 billion.[2] This is money that could have been spent on education, health care or development in the indebted poor countries, helping to tackle their high levels of illiteracy, mortality and poverty.

The World Development Movement (WDM), and its network of supporters and local groups, has been campaigning on debt for the last 16 years. In the run up to the new millennium, WDM joined with many other campaigners, to form the Jubilee 2000 campaign. Jubilee 2000 proclaimed that there should be a debt free start to the new millennium and succeeded in putting debt cancellation at the top of the international political agenda. WDM is now working with its successors in the UK, the Jubilee Debt Campaign, to keep up the pressure.

1.2 The inadequate response

After denying there was a problem for years, the International Monetary Fund (IMF) and the World Bank finally sought to address the debt crisis through setting up the Heavily Indebted Poor Countries Initiative (HIPC) in 1996. This resulted in commitments to writing off some of the mountain of debt.

The good news is that a recent report, 'Relief Works', shows that reductions in debt payments have resulted in more spending on health care and education.[3] This is most striking in countries such as Uganda where a strong civil society network is holding the government to account.

The bad news is that HIPC does not go far enough. It is too slow, helps too few countries and cancels only a part of the debt. Even the IMF and World Bank are now saying that HIPC is failing.[4,5] Recent reports show clearly that the internationally agreed targets for poverty reduction, the Millennium Development Goals, will not be achieved without full debt cancellation for the poorest countries.[6]

Successive meetings of world leaders have tweaked the terms of HIPC, most recently in Kananaskis (Canada) in June 2002, but the wealthy creditors continue to extract funds from the world's poor, compounding their suffering from famine, HIV/AIDS, floods and declining commodity prices.

As well as this failure to provide the resources for full debt cancellation, an equally serious problem with the HIPC initiative is that it is being used by the IMF and World Bank as yet another lever with which to press for free market policy reform in the poorest countries. These policies – known as conditionality – are the focus for this briefing.

1.3 Expanding the free market frontier – conditions attached to debt relief

For over twenty years, the IMF and the World Bank – acting on behalf of their political masters in the industrialised world – have been requiring poor countries to implement a wide range of economic and social policy reforms, such as trade liberalisation, investment deregulation and privatisation, in return for low interest rate loans. For example, according to the IMF, "Trade liberalization has been a key element of Fund-supported programmes over the past twenty years."[7]

These infamous, and much reviled Structural Adjustment Programmes (SAPs) contributed to increasing inequality and marginalisation of the poor. Study after study pilloried the inappropriate policy prescriptions being foisted on developing countries.[8] UN reports have repeatedly pointed out that these policies have been dominant in the poorest countries during the past two decades, a period of severe economic decline in sub-Saharan Africa and stagnation in Latin America.[9]

SAPs have now been replaced by plans drawn up by developing countries themselves. In theory, these Poverty Reduction Strategy Papers (PRSPs) are developed in consultation with civil society, but in practice, the IMF and World Bank have retained their dominant influence and the power of veto. Typically PRSPs require privatisation of public utilities,

deregulation, removal of subsidies (including those that benefit the poor), promotion of exports and foreign investment, and import liberalisation (where it has not happened already).[10] Although the name has changed, SAP-style policies still predominate.

And with the advent of HIPC, the World Bank and IMF have yet another route through which to push structural adjustment. Not only are policies such as privatisation, investment deregulation and trade liberalisation being attached to the provision of new loans, their implementation has also now become a central feature of debt relief.

During spring and summer 2002, it was reported that at least seven[11] of the 20 countries that qualify for interim debt relief (i.e. some debt relief before they reach 'completion point') were being denied it because they had not fully implemented the policies required by the World Bank and IMF.[12]

So, while it is still important to press for complete cancellation of the unpayable debts of the poorest countries – which WDM continues to do – it is also critical to de-link debt relief or debt cancellation from the harsh and inappropriate economic policies being pushed by the IMF and World Bank.

2. Penalising the poor – how conditionality works

"If governance is about openness and accountability surely the IMF should understand Zambians' concerns. People are saying that the past process of privatisation was not open, accountable and mindful of the poor. The IMF has argued that Zambians themselves chose privatisation through the PRSP process. In the formulation of the PRSP, civil society always asked if there was any room for alternative policies. We were told that the Boards of the IMF and World Bank expected 'sound economic policies'. The Boards were the ones who finally approved the programmes."

Mulima Kufekisa Akapelwa, Catholic Centre for Justice, Development and Peace, Zambia[13]

"In theory, the fund [IMF] supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies."

Joseph Stiglitz, Former World Bank Chief Economist[14]

2.1 Decision-point documents

The Highly Indebted Poor Countries Initiative (HIPC) requires the countries that qualify for debt relief to go through a number of stages. The first of these is what is called 'decision point', where the IMF and World Bank agree to provide debt relief to the country. This agreement is made on condition that the country in question undertakes a set of economic policy steps that are set out in its 'decision point document'.

WDM's own analysis of the decision point documents for the 26 countries that have so far progressed under HIPC is revealing, if not particularly surprising. Of these 26 documents, all mentioned a previous privatisation programme and an ongoing/future privatisation process. 15 specifically mentioned planned privatisation in public utilities or basic services such as energy, telecommunications, water and transport.[15] 23 mentioned past efforts to liberalise trade and 11 indicated a continuing trade liberalisation process.

From these documents it is clear that the IMF and World Bank are using the debt relief process to ratchet further free market reforms out of some of the world's poorest countries. It is also clear that there seems to be little differentiation between countries based on their varying social and

economic circumstances. The same policy prescriptions are handed out no matter what the situation in the country.

WDM's analysis of decision-point documents merely confirms what many have been saying for years. According to one author, "privatisation of state industries, including public utilities, cut backs in the civil service, and deregulation of investment and industry standards … have been features of adjustment programmes for years, but more recently the financial institutions have been using the promise of more debt relief to push them more vigorously."[16]

2.2 New loans, Poverty Reduction Strategy Papers and policy advice

It is not through just the decision point documents that the poorest and most indebted countries' economic policies are influenced. The next stage of HIPC requires countries to produce a 'Poverty Reduction Strategy Paper' (PRSP) which is also a condition for receipt of IMF loans under the so-called 'Poverty Reduction Growth Facility' or PRGF (previously known as the enhanced structural adjustment facility – ESAF) and the receipt of World Bank loans under its 'Poverty Reduction Support Credit' (PRSC) scheme.

Although the rhetoric surrounding PRSPs is of 'country ownership' and 'participation', the IMF clearly indicates that it will only provide support to countries implementing what it sees as the 'right' policies and that national ownership only seems to extend as far as deciding on the pace and sequencing of reforms rather than on the reforms themselves. For example, the IMF states that, "Sustained pro-poor economic growth, based on robust private-sector activity and investment, *will* be the keystone of the poverty reduction strategy. The Fund will continue to advise on and support policies *to this end*, including prudent macroeconomic management, freer and more open markets, and a stable and predictable environment for private sector activity … The *participatory process* will facilitate open debate on issues such as the *social impact* of policy measures and the *pace* and *sequencing* of reforms."[17] (emphasis added).

The IMF also gives a telling indication of the degree to which its principal donors (e.g. USA, Europe, Canada and Japan) want to steer the outcome of PRSPs, stating, "Since donors will have their own perspectives on priorities and funding possibilities, they need to be closely involved in the participatory process."[18]

Theoretically, there is some accountability in the process, through the requirement of the boards of the IMF and World Bank needing to endorse the PRSP before any new loans can be disbursed. But important decisions are often made by staff of the IMF and World Bank. As reported by the Ghanaian media, "The joint IMF/World Bank boards have not approved the Ghana Poverty Reduction Strategy (GPRS). The Bank has demanded some changes to the GPRS before it takes the document to the joint boards. The approval at that level is important as it is that date which sets the timeline for meeting High Indebted Poor Countries (HIPC) conditionalities."[19]

Nor is there accountability in the decisions of the board. Even though the UK Chancellor of the Exchequer, Gordon Brown is chair of the IMF Board and International Development Secretary, Clare Short is on the World Bank Board, there is little accountability to the UK Parliament. There is even less for the developing countries who have few seats on the board and little decision-making power.

Perhaps unsurprisingly given the continuing influence of the IMF and World Bank, PRSPs end up advocating the same old policies as those contained in the decision point documents and SAPs before them. WDM's own analysis of the first four full PRSPs and twelve 'interim' PRSPs in 2001 demonstrates that the policy content of these strategies does not constitute a major change from the past. The report concludes, "The core macro-economic elements have changed little from the old structural adjustment programmes with a continued adherence to privatisation, liberalisation and a reduced role for the state."[20] A similar conclusion is reached by Jubilee 2000 Zambia which states that, "there is actually no major change in the shift by the two financial institutions. The move of renaming ESAF as PRGF is only an attempt to add poverty reduction into SAPs without changing the actual policy conditions."[21]

More recently civil society organisations in three countries – Bangladesh, Pakistan and Sri Lanka – have rejected their countries' PRSPs because consultation procedures were not adequate. In April 2003 it was reported that campaigners have slated the Sri Lankan PRSP because it "has been drafted without any consultation of civil society and differs very little from previous IMF recommendations."[22] Similar criticisms of World Bank and IMF dominated processes, lack of real civil society involvement and little consideration of alternative policies have been levelled at the PRSP processes in Malawi[23], Benin[24], Mali[25], Uganda[26], Mozambique[27] and

Tanzania[28]. As one study looking at a range of PRSPs concludes, "PRSPs from wildly divergent countries reveal great universality in vocabulary, process, form, content and even prescription."[29]

In any case, even if the content of PRSPs is not to their liking or has avoided any mention or discussion of structural policies such as liberalisation or privatisation, the IMF, through its 'Poverty Reduction Growth Facility' (PRGF), and the World Bank, through its 'Poverty Reduction Support Credits' (PRSCs), can still impose the same old policy prescriptions. Evidence is beginning to emerge that, in some cases, the policy conditions attached to these loan agreements does not match the content of PRSPs.[30]

It is therefore clear that, while the rhetoric has altered, the substance of IMF and World Bank conditions, and their strict adherence to a set of standard free market policies remains unchanged. This is despite the growing evidence that many of these policies have not worked, despite the fact that they undermine developing countries in trade negotiations and despite massive public protest across the developing world.

3. The case against IMF and World Bank economic orthodoxy

"After 20 years of implementing structural adjustment programmes, our economy has remained weak and vulnerable and not sufficiently transformed to sustain accelerated growth and development. Poverty has become widespread, unemployment very high, manufacturing and agriculture in decline and our external and domestic debts much too heavy a burden to bear."
Kwamena Bartels, Ghanaian Minister for Works and Housing, May 2001[31]

"Industrial countries, who are able to determine [World Bank and IMF] policies, do not use the institutions and do not, therefore, have to live with the consequences and failures of their policies."
Caliari & Schroeder, New Rules for Global Finance, 2003[32]

3.1 Unsuccessful

The continued attachment of policy conditions such as trade liberalisation and privatisation to the provision of debt relief or concessional loans runs counter to the evidence on the success of these policies over the past few decades.

On trade, the United Nations Conference on Trade and Development (UNCTAD) has found that the rapid and extensive trade liberalisation undertaken by the poorest countries (least developed countries) during the 1990s failed to benefit the poor. In fact, it was associated with rising poverty, with the countries worst affected being those that had liberalised most.[33] Similarly, another UNCTAD report concludes, "The more recent evidence from liberalization episodes in sub-Saharan Africa as well as Latin America suggests that they have often been accompanied by an increase in unemployment."[34] UNCTAD also highlights the association between liberalisation and increased wage inequality and reductions in average wages.

African governments themselves have become increasingly sceptical about the supposed benefits of trade liberalisation. In a paper submitted to the current WTO negotiations, Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe point out that, "Most African countries have undertaken, in the past two decades, wide-ranging economic reform

measures in the context of the structural adjustment programmes under the tutelage of the World Bank and International Monetary Fund. The main emphasis of these reforms has been on trade liberalisation. These reforms have lowered trade barriers but the broad-based development that was expected to ensue has remained elusive … Indeed, empirical studies show that industrial growth has fallen behind GDP growth in Sub-Saharan Africa since the 1980s with de-industrialization in a number of African countries being associated with trade liberalisation."[35]

Agricultural liberalisation and poverty in Malawi
Liberalisation in particular sectors such as agriculture has undermined the achievement of public policy goals like food security. A WDM report on Malawi in 2002 detailed how, as in other countries, agricultural reforms were imposed without the donors having undertaken a proper analysis of their potential impact and consequences, particularly on the poor. Standard policies were applied to Malawi, following a one-size-fits-all approach. Subsidies for small farmers and the poor were reduced, price controls and regulations removed, and agencies that played a social role, such as the agricultural marketing agency, ADMARC, were re-structured and/or privatised. The results of this agricultural liberalisation included price rises (e.g. of agricultural inputs) and increased hoarding of grain, price rises and a lack off affordable food for the poor.[36]

In contrast to the poor performance of the liberalisers, during the period 1996 to 2000, four of the top five fastest growing developing countries (Equatorial Guinea, China, Mozambique, and the Dominican Republic) were classed as having trade restrictive policies by the Wall Street Journal (no data was available on the fifth, the Maldives).[37] Similarly, although during the 1990s the IMF ranked Mauritius as one of the most protected economies in the world,[38] between 1975 and 1999, the country achieved an average annual per capita growth rate of 4.2 per cent and a reduction in income inequality. The policy choices and the success demonstrated by Mauritius are perhaps no surprise given that, since 1988, the country has not owed the IMF any money under its Structural Adjustment Programmes so has not been subject to SAP conditionality.[39]

Undermining sustainable livelihoods – coffee liberalisation, over-supply and price collapse

In coffee producing countries, the World Bank and IMF have been advising and/or requiring governments to liberalise. This has involved measures such as eradicating controls on supply and on prices, disbanding state trading boards and actively encouraging increased production and exports. For example, in 1998, under the HIPC initiative, Côte d'Ivoire's eligibility for debt relief was made conditional on the full liberalisation of the coffee sector by the 1998/99 crop year.[40] This was also backed up with a second national agricultural services support project, funded by the World Bank, which sought to increase productivity for all crops, including coffee, as well as stressing the requirement to fully liberalise the coffee sector.[41]

Perhaps the greatest 'success' has been in Vietnam where the World Bank has helped promote a massive expansion of coffee growing. In 1993, for example, the World Bank funded an agricultural rehabilitation project with an aim of diversifying export income through the expansion of coffee and rubber exports.[42] Since the late 1980s, Vietnam has risen from a marginal coffee producer – producing less than 50 thousand metric tons – to one of the World's largest (by the late 1990s it was producing some 400,000 tons).[43]

During the same period, the World Bank and IMF were requiring other coffee producing nations – such as Uganda, Ethiopia and Kenya – to liberalise their agricultural sectors and were encouraging increased coffee exports. For example, a study of Uganda by the World Bank in 1993 advised the Ugandan Government to plan for a greater share of the world coffee market. The study argued that Uganda "could double its coffee exports to perhaps 5 million bags, without significantly effecting medium-term international prices for Robusta coffee".[44]

Unfortunately, the study did not seem to take into account the implications of increased production and exports being encouraged by the IMF and World Bank in other parts of the world. The result of the oversupply has been a price collapse and a crisis in coffee producing countries. According to a World Bank study in 2002, "Coffee prices have declined sharply in recent years because of large increases in coffee production and exports from traditional exporters such as Brazil

and new entrants such as Vietnam. Between July 1998 and June 2001, coffee export prices declined by almost 50 percent."[45]

Ironically, the kind of policies that now help coffee producing countries qualify for debt relief under HIPC (i.e. reducing state intervention in coffee markets) have contributed to increased coffee production causing oversupply in the market resulting in a price crash and a commodity crisis which has rendered the debt relief they eventually receive less effective.

Incredibly, any standard economic textbook will tell you that an increase in supply, without an increase in demand, will lower prices. Yet it looks like the IMF and World Bank economic experts forgot the basics as they encouraged increased production and exports and reduced state intervention across the globe.

While recent evidence debunks the myth that unilateral liberalisation policies are good for development, historical evidence demonstrates conclusively that most, if not all, of today's industrialised and newly industrialised countries used a wide variety of what would now be considered 'trade distorting' policy interventions during their development process.[46] Yet little or none of this evidence and analysis on the real world implications of trade liberalisation seems to have permeated through to IMF and World Bank policy-makers or their political masters in industrialised country treasury/finance departments.

The richest countries are systematically attempting to deny the poorest countries access to the policy mechanisms they used to grow wealthy, which has been characterised by one author as 'kicking away the ladder' to development.[47] Perhaps what is most shameful is that this is being done behind the rhetoric of 'poverty reduction'. Examination of the evidence clearly undermines the link between these policies and successful development in the poorest countries, making it high time trade liberalisation conditionality was abandoned.

On privatisation, the story is of a similar 'one-size-fits-all' policy being imposed on all countries regardless of their different social, economic and political circumstances. This policy, particularly in the case of basic service[48] privatisation, is also based more on a theoretical assumption that reducing government intervention will benefit everyone than on real evidence that it benefits the poor.

A review of structural adjustment related privatisation case studies concluded that privatisation of public utilities often resulted in increased charges – adversely affecting the poor – and often resulted in net unemployment.[49] A study conducted by four IMF researchers concluded that, "the empirical evidence suggests that significant reductions in employment are indeed associated with privatisation."[50]

Privatisation and debt relief in Zambia

Zambia has sold 257 out of 280 state firms in the past ten years. Now, in return for debt relief, Zambia is required to privatise its national commercial bank (ZNCB), electricity (ZESCO) and telecommunications (ZAMTEL) companies.[51]

The JCTR (part of the Jubilee Zambia Campaign) has criticised such policies stating, "Any honest evaluation of the past ten years of privatisation will acknowledge that *overall* it has done great damage to the Zambian people's livelihood: loss of jobs, closure of businesses, foreign dominance of assets, increase in poverty levels etc."[52]

Although the JCTR recognises that the three state run companies slated for privatisation are badly managed and need to change, it calls for a "Clear de-linking of this process from Zambia's qualification for HIPC, so that the debt relief process is not held to ransom to foreign multinationals."[53]

According to BBC news, in February 2003, Zambia's president Levy Mwanawasa seemed to agree with this argument, telling the IMF that he wanted to rethink the country's privatisation programme because "there has been no significant benefit to the country" and "privatisation of crucial state enterprises had led to poverty, asset stripping and job losses."[54]

However, despite the concerns expressed by the public and the Government, the IMF representative in Zambia – Dr. Mark Ellyne – is reported to have threatened withdrawal of the promised $1 billion in debt relief under HIPC if the Government did not privatise Zambia's national bank (ZNCB).[55] The latest reports suggest that the Zambian Government is going to privatise ZNCB after all.[56]

In contrast, there is no sound evidence to suggest that public sector involvement in, or control of, public services is necessarily and always less 'efficient' or less effective. In fact, there is a growing body of evidence to suggest that both the public sector and alternative forms of service supply (e.g. not for profit and community managed systems) can achieve levels of efficiency and effectiveness equal to or beyond those of the standard privatisation model.[57,58] For example, an empirical global energy sector study examining the performance of both public and private energy companies concluded that in generation, transmission and distribution there is no significant difference in efficiency between the two types of operator.[59]

The 'one-size-fits-all' approach to privatisation by the IMF and World Bank also presents a further problem. Although more and more countries are selling off state-owned assets or contracting out state-run operations to the private sector, in some cases (e.g. water and energy) only a small number of transnational companies are realistically able to make bids for these operations.

Governments are increasingly forced to provide sweeteners (e.g. reducing the buying price, paying off debts, providing tax breaks or low interest rate loans, guaranteeing consumer prices or levels of demand, making payments in foreign currency etc.) in order to attract the few foreign investors available. As one report concludes, "Governments are privatising water and electricity utilities all over the world – often at the bidding of the IMF/World Bank. The result is that countries are now having to compete to attract one of the small pool of international investors who participate in these international tenders. As the stakes are so high – often substantial amounts of World Bank loan funding are contingent on such deals – governments have to offer generous concessions to entice the investor."[60]

Such concessions – paid for through the public purse – can wipe out the budgetary savings that provide one of the central arguments used in favour of privatisation. For example, between 1991 and 1998 the Brazilian Government made some US$85 billion through the sale of state run enterprises. However, over the same period, it spent US$87 billion 'preparing' the companies for privatisation.[61]

Corporate welfare – energy privatisation in the developing world
Perhaps the most-used argument in favour of privatisation is that it will deliver competition to a sector made 'inefficient' by a state-run monopoly operation that does not respond to market signals. This competition, it is argued, will result in efficiency gains, reduced prices and thus will ultimately benefit the poor. However, the reality in sectors such as energy generation is somewhat different.

Typical of the energy sector are long-term contractual arrangements for companies to be the sole supplier of the service. As one group of researchers points out, "a one-off invitation for tenders from 5 or 6 companies well-known to each other, followed by a 25 to 30 year monopoly before retendering, does not deliver much competition."[62]

However, even monopoly control of an essential service does not seem to be enough to make companies feel sure of making profits. In order to make it 'attractive' for multinational companies to invest in building new capacity in poor countries, the World Bank and IMF advise governments to provide further guarantees. In the energy sector, this has taken the form of what are called Power Purchase Agreements (PPAs), under which the state, or the state power company, guarantee to pay a fixed price (usually in a foreign currency) for a fixed period (up to thirty years or more) for whatever energy the company can generate from new capacity regardless of the demand.[63] This effectively shields the companies from having to respond to market signals (e.g. changes in consumer demand) and from any fluctuations in the nation's currency, meaning they are ultimately being underwritten by taxpayers in developing countries.

Without having to respond to market signals there is no economic reason to believe that private companies will create 'efficiency gains'. Once again, there is a gaping chasm between World Bank and IMF free market competition rhetoric and the realities of private monopolies, fixed prices and guaranteed demand.

Perhaps not surprisingly, experience of PPAs has been a disaster, particularly in Asian countries where the financial crisis (i.e. loss in value of the domestic currency) meant governments (who had to pay companies in foreign currency) were paying more for electricity.

For example, the Indonesian state electricity company announced a twelve fold increase in losses in 2000, largely because the strong dollar increased the cost of payments to private energy suppliers under PPAs.[64]

Naturally, governments find it difficult to pass all of these costs on to consumers. Price increases in essential services are often accompanied by increased government subsidies in order to reduce the impact on the poor. For example, after electricity privatisation in the Dominican Republic, prices increased by some 51 per cent but the government attempted to absorb 42 per cent so as to only pass on 9 per cent to the consumer. This resulted in mounting government debts of some US$100 million.[65] Surely there can be no justification for making policies that hurt the poor and incur mounting debts a condition for receiving debt relief?

Yet despite evidence of problems with PPAs, the World Bank and IMF still seem set on pushing ahead with such policies. For example, in 2000, after strong public opposition to a parliamentary bill in the Philippines to enable privatisation of the Philippine National Power Corporation, the IMF and the Asian Development Bank (ADB) threatened to withhold loans worth nearly US$1 billion unless the bill was passed. The bill was duly passed in 2001 accompanied by promises of increased competition and reduced electricity rates. However, in contrast to the World Bank and IMF's free market rhetoric, a PPA was struck to guarantee that any new capacity created by private producers would be paid for and that payments would be made in US dollars.[66] It has been estimated that some US$9 billion out of US$15 billion total liabilities of the Philippine electricity utility consist of obligations under such PPAs.[67]

The IMF and World Bank have also made increasing private sector participation in the energy sector a condition for a number of countries receiving debt relief under HIPC. For example, it is specifically mentioned in Uganda's 'decision-point' document[68] while, at the same time, the International Finance Corporation (IFC) – another part of the World Bank – is lending Uganda money to pay a US owned company to build a hydro-electric dam on condition that the company is given a guarantee, through a 30 year PPA, that all the electricity it produces will be bought no matter what the demand.[69] Such corporate welfare in return for debt relief is simply a recipe for further indebtedness.

There is a growing body of literature cataloguing the failures of privatisation programmes all over the world from both an economic and social perspective.[70] Although not all privatisation of state run enterprises necessarily and always has adverse impacts on the poor, and the 'private sector' encompasses a wide diversity of operators (including not for profit companies) so cannot be stereotyped, the weight of evidence demands a major change to current conditionality.

3.2 Unfair

Conditions, such as privatisation, trade liberalisation and investment deregulation, being imposed on countries in return for debt relief and new loans are undermining the negotiating positions of poor countries in the World Trade Organisation (WTO).

According to the IMF, "Industrialised countries have mainly liberalized in accordance with multilateral and regional commitments. Other countries, while also influenced by multilateral and regional initiatives, have more often liberalized unilaterally … Many of the trade reforms have been undertaken in the context of Fund-supported programmes."[71]

Despite the continuing adherence by free trade proponents to the claims of economic textbooks that unilateral trade liberalisation benefits importers more than exporters, most governments take a more pragmatic view of trade policy. Trade policy reform is seen as part of a bargaining process where policy change is only ever made in return for concessions by other countries. Therefore, as the IMF indicates above, the industrialised countries wait for 'trade rounds' before liberalising in order to gain maximum concessions out of other countries. They rarely liberalise unilaterally.

Yet developing countries are being forced, through conditionality, to do the opposite. This undermines developing countries in the WTO. It is sheer hypocrisy for industrialised government ministers to tell developing countries to stand up for their interests in the WTO whilst at the same time – through the World Bank and IMF – systematically undermining their negotiating position by making loans and debt relief conditional on unilateral trade liberalisation. Developing country delegates in the WTO are handicapped before they even start negotiating as they have little or nothing to bargain with. It is like they are playing a chess game but have had all their pawns taken away before they start.

The creeping expansion of the WTO's remit into more and more policy areas also means that seemingly non 'trade-related' conditionality can also impact on developing countries in the WTO. Privatisation and deregulation of domestic investment policies, and the increased access this entails for foreign companies into domestic markets, is part of a pincer movement by industrialised countries. On the one hand, the poorest countries are effectively forced to privatise and deregulate investment policies by being denied debt relief and/or new loans by the IMF and World Bank if they do not. On the other, industrialised countries are pressuring the poorest countries to 'lock-in' this market access and deregulation, through making binding, effectively irreversible commitments in the WTO General Agreement on Trade in Services and, potentially, through a proposed new agreement on investment in the WTO.[72]

The fact that, through IMF and World Bank programmes, poor countries have had to privatise and reduce their regulation of foreign investment is being used to justify making binding commitments in the WTO in order to 'lock-in' these policies and stop governments from changing economic course in future. As UK Trade Minister, Baroness Symons has stated, "A [WTO] multi-lateral framework for investment … will … help *lock in* individual countries' own investment reform efforts."[73] (emphasis added). The UK Government is clearly keen to use WTO rules to stop future developing country governments from 'backtracking' – perhaps in response to policy failure and/or public concern – on the policies they have been forced to implement by the World Bank and IMF.

The unfairness of using debt relief to force unilateral trade liberalisation is best summed up by Francis Ng'ambi, chair of the Malawi Economic Justice Network when he states; "It is a cruel irony that to get any debt relief at all, the IMF and World Bank are forcing us to follow unsuitable trade policies, which are driving us further into poverty. At the same time, rich countries are pushing for international trade rules which are making these policies effectively irreversible."[74]

3.3 Undemocratic

As has already been mentioned, despite the changing rhetoric from Structural Adjustment Programmes (SAPs) to 'participatory' Poverty Reduction Strategy Papers (PRSPs), the economic conditions have remained the same. The IMF and World Bank have the final say on structural policies while the public and parliamentarians are deemed fit

only to comment on the ‘pace’ and ‘sequencing’ of policies (rather than the policies themselves) or any ‘safety net’ mechanisms that could help ameliorate the adverse impacts on the poor.

This continuing lack of democratic legitimacy is one reason why the free market policies being attached to debt relief and new loans by the IMF and World Bank are being challenged time and again by social movements throughout the world. Since late 1999, WDM has been documenting widespread and continuing resistance to World Bank and IMF imposed economic policies all over the developing world.[75] Over the past three years, WDM has documented some 238 separate incidents of civil unrest involving millions of people across 34 countries. Many of these incidents ended with the deployment of riot police or the army, resulting in almost 100 documented fatalities, with arrests and injuries running into thousands.

These WDM reports clearly demonstrate that those affected by, and protesting against, IMF and World Bank policies are not always the poorest of the poor, such as peasant farmers, indigenous peoples and the unemployed. They are also the newly emerging middle-classes: teachers, civil servants, priests, doctors, public-sector workers, trade-union activists and owners of small businesses.

Significantly, this broad based movement clearly indicates how policies promoted by the IMF and World Bank are not only keeping the poor in poverty, but are also impoverishing sectors of society generally relied upon for wealth creation, economic development and civil society leadership. Policies intended to promote economic development and poverty reduction in the emerging and fragile economies of developing countries are not only failing, but are actually leading to economic stagnation, which is felt across the social spectrum.[76]

One explanation for this civil unrest is that the conditions attached to new loans and debt relief are bypassing national democratic processes. For example, although the Nicaraguan National Assembly unanimously passed a law in August 2002 suspending all private concessions involving water use (which includes the hydroelectricity sector)[77], this conflicts with a condition in Nicaragua’s HIPC ‘decision-point’ document relating to privatisation of state electricity companies[78], which include Hidrogesa the state hydroelectric company.

Similarly in Zambia, on 4 December 2002, the Zambian Parliament voted for a motion urging the Government to rescind their decision to privatise the Zambia National Commercial Bank (ZNCB). Matthew Mwale MP said, "Time has come for government to go and tell the IMF and World Bank that Zambians through their elected representatives have said no to the sale of ZNCB".[79] On 25 January 2003 President Mwanawasa announced that three state owned companies – including ZNCB – would remain in public hands and that he had written to the World Bank and the IMF inviting them to discuss the issue.[80] As has already been mentioned, the IMF representative in Zambia is reported to have threatened withdrawal of debt relief if ZNCB was not privatised. The Zambian Government and IMF entered talks at the start of February, and by the end of March, selling the bank was once again on the agenda.[81] By the start of April, the Government had admitted that it will be privatising ZNCB after all.[82]

Up to now the World Bank and IMF seem to have viewed public protest or parliamentary opposition as a hurdle for developing country governments to jump over in order to get to the finish line, rather than a reason to change the direction of policy. Such opposition tends to be dismissed by the IMF and World Bank as pleading by 'vested interest elites' blocking pro-poor policy reform. Yet the breadth and recurrence of public and parliamentary opposition to these policies in developing countries suggest otherwise. And even if this were true in some cases, it provides no justification for the IMF and World Bank to bypass national democratic processes in poor countries.

4. Time for a rethink

"Both the [World] Bank and the [International Monetary] Fund today deal with areas of policy that reach deep into the policy-making process within member governments, and that are going well beyond their original mandates."
Caliari & Schroeder, New Rules for Global Finance, 2003[83]

Despite the name changes, the free market policies lying at the heart of the much discredited 'structural adjustment programmes' of the IMF and World Bank remain largely unaltered. These policies are being attached to the provision of debt relief and new loans to the poorest and most indebted countries in the world. Yet these policies have been proven to be unsuccessful, unfair and undemocratic. It is time for a rethink.

WDM believes that the *concept* of participatory, country-owned poverty reduction strategies is good. However, the current way in which the end result is influenced by the IMF, World Bank and their principal donors in industrialised country treasury/finance departments has to change. Also, PRSPs – whatever their content – should not be used as leverage in loan or debt relief decisions. If the poorest countries achieve a truly participatory PRSP that is widely endorsed and accepted within the country – and encompasses both the goals and the policy mechanisms to achieve them – then there is simply no reason to make implementation of the plan a condition for receiving debt relief or new loans.

That said, it is important to emphasise that this does not mean that all conditionality should be stopped or that *all* privatisation and trade liberalisation is wrong. It is about choices, coercion, reversibility and democracy. Both privatisation and trade liberalisation policies can work when implemented at an appropriate stage in a country's development, with effective government regulation and with public support, but there is no evidence that the IMF and World Bank are capable of dealing with such subtlety. Past evidence and current practice still suggest a belligerent adherence to theory rather than a careful examination of real world evidence, and a rigid 'one-size-fits-all' approach to policy.

It is therefore time for a rethink of World Bank and IMF conditionality. Recent attempts by the IMF to 'streamline' its conditions have been a token effort. The number of conditions imposed on countries is likely to

remain largely unaltered, particularly when 'un-streamlined' World Bank conditions are taken into account, and alternatives to the type of free market policies imposed by these institutions were not even open for consideration.[84]

WDM therefore believes there should be an immediate explicit commitment that provision of debt relief and new loans will not be made conditional on privatisation, investment deregulation or trade liberalisation. The conditions WDM believes should be attached to debt relief and new loans should be restricted to those that relate to adherence to democratic processes and financial controls to prevent fraud or misuse of funds. This includes conditions to ensure effective participation of civil society in PRSP processes and conditions to ensure transparent monitoring and reporting of how money is actually spent by governments.

It is time for the World Bank and IMF – and their donor governments – to do more than simply restate their rhetoric on participation, country ownership and poverty reduction. It is time for the poorest countries in the world to have control over economic policy and to be able to explore their own routes to development.

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