

Colludo

Whodunit to the World's Poor?

Campaign briefing

October, 2003



Treacherous Conditions

How IMF and World Bank Conditions Tied to Poor Country Debt Relief are Undermining Development

Beware Politicians Bearing Gifts...

Remember our politicians' promises to end the poor country debt crisis? Well, under their much-trumpeted Heavily Indebted Poor Country (HIPC) Initiative, only 8 countries have had significant debt stock cancelled, amounting to less than 10% of total poor country debt. Yet research shows full poor country debt cancellation is needed if the UN Millennium Development Goals are to be met. Worse still, the International Monetary Fund (IMF) and World Bank are using the HIPC initiative to impose damaging free market policies on poor countries.

Total Control Conditions

For over twenty years the IMF and World Bank have demanded that poor countries implement economic policies such as trade liberalisation, investment deregulation and privatisation in return for loans. These discredited and loathed Structural Adjustment Programmes (SAPs) increased inequality and poverty. As a result they have been replaced by supposedly more progressive Poverty Reduction Strategy Papers (PRSPs) attached to debt relief as well as loans. PRSPs are in theory "country-owned", but the IMF and World Bank dominate their development and retain the power of veto, so it is no surprise they contain largely the same economic policies as SAPs. If they really were widely endorsed and accepted by poor countries there would be no reason to make their implementation a condition for receiving debt relief or new loans.

Delaying debt relief

Meeting the conditions laid down by the IMF and World Bank, of which there are usually over 100, delays delivery of debt relief. During spring and summer 2002, at least seven of the 20 countries eligible were denied even interim debt service relief because they had not fully implemented the policies required, and at least 13 HIPCs have had debt stock cancellation delayed.

Unsuccessful

In 2002 the United Nations Conference on Trade and Development (UNCTAD) stated that the extensive unilateral trade liberalisation undertaken by the poorest countries in the 1990s was associated with rising poverty, increased unemployment, wage inequality and reductions in average wages. The countries worst affected were those that had liberalised most.

The theory behind liberalisation is that government regulation of markets is inefficient and wastes resources compared to leaving the decisions to business. However liberalisation favours the rich and powerful because it also limits governments' ability to help the most vulnerable, undermining public policy goals like food security.

For example one-size-fits-all agricultural reforms imposed in Malawi had a huge detrimental impact. Subsidies for small farmers and the poor were reduced, price controls and regulations removed, and agencies that played a social role were re-structured and/or privatised. The results included massive price rises and food hoarding, exacerbating famine.

In contrast, the countries which have liberalised less are doing much better. In Mauritius, from 1975-99 annual per capita growth averaged 4.2 per cent and income inequality fell. During the 1990s, the IMF ranked Mauritius as one of the most protected economies in the world. Similarly, the Wall Street Journal classed four of the top five

This briefing summarises "Treacherous Conditions", part of a series of reports and actions building the case of *The People vs. the IMF and World Bank*, calling for an end to the debts of the world's poorest countries without attaching unjust conditions.



fastest growing developing countries from 1996-2000 (Equatorial Guinea, China, Mozambique, and the Dominican Republic) as having "trade restrictive" policies (no data was available on the fifth, the Maldives).

Most, if not all of today's industrialised and newly industrialised countries used a wide variety of what are considered 'trade distorting' (i.e. preventing completely free trade) policies to help them develop, but the IMF and World Bank are now denying poor countries the chance to do the same.

On privatisation, the story is of a similar 'one-size-fits-all' policy imposed on all countries regardless of their different social, economic and political circumstances. There is no real evidence, particularly in the case of public service privatisation, that reducing government intervention benefits the poor. In fact, privatisation of public utilities often results in increased charges - harming the poor - and as an IMF research project stated, "*...significant reductions in employment are indeed associated with privatisation.*"

In contrast there is growing evidence that both the public sector and other forms of service supply (e.g. not for profit and community managed systems) equal or beat the efficiency of the standard privatisation model.

A further problem is that although more and more countries are being forced to sell off public assets, in some cases (e.g. water and energy) only a small number of transnational companies are realistically able to bid for them. Governments have to provide sweeteners (e.g. reducing the buying price, providing tax breaks, guaranteeing levels of demand, making payments in foreign currency etc.) in order to attract the few foreign investors available, wiping out any profit from the sale. For example, between 1991 and 1998 the Brazilian Government made some \$85 billion through the sale of state run enterprises, but spent \$87 billion 'preparing' the companies for privatisation.

There is a growing catalogue of the failures of privatisation programmes all over the world from both an economic and social perspective. Although not all privatisation always has adverse impacts on the poor, and the 'private sector' encompasses a wide

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

The World Bank and IMF have been requiring coffee producing countries to liberalise. This has involved dropping controls on supply and exports, disbanding state trading boards and encouraging increased production and exports. For example, production in Vietnam grew from less than 50 000 tons in 1989 to over 400,000 tons by the late 1990s. During the same period, the World Bank and IMF required nations like Uganda, Ethiopia and Kenya to liberalise their agricultural sectors and increase coffee exports.

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 driven increased coffee production, causing oversupply in the market resulting in a price crash which has rendered the debt relief they eventually receive less effective. Any standard economic textbook will tell you that an increase in supply, without an increase in demand, will lower prices. Yet incredibly, the IMF and World Bank economic experts forgot the basics as they encouraged increased production and exports across the globe.

"After 20 years of implementing structural adjustment programmes, our economy has remained weak and vulnerable... 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
Government
Minister, May 2001



diversity of operators (including not for profit companies), the weight of evidence demands a rethink.

Unfair

Rich countries usually only open their markets in exchange for concessions from other countries. They rarely liberalise unilaterally. It is therefore unfair and sheer hypocrisy for industrialised governments to tell developing countries to stand up for their interests in trade talks at the World Trade Organisation (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.

The creeping expansion of the WTO's remit into more and more areas also means that even conditions apparently unrelated to trade can impact on developing countries in the WTO. Privatisation and deregulation of domestic investment policies, and the increased access this brings for foreign companies, are part of a pincer movement by rich 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 if they do not. On the other, industrialised countries are pressuring the poorest countries to 'lock-in' this market access and deregulation, through making effectively irreversible commitments in the WTO General Agreement on Trade in Services (GATS) and, potentially, through a proposed new agreement on investment.

Undemocratic

The IMF and World Bank have the final say on economic policies in PRSPs while the public and parliamentarians are deemed fit only to implement them or comment on any 'safety net' for the poor. This lack of democratic legitimacy is one reason why these conditions are being challenged throughout the world. Since late 1999, the World Development Movement has documented 238 separate incidents of civil unrest involving millions of people in 34 developing countries, resulting in almost 100 documented fatalities, and thousands of arrests and injuries.

Significantly, the broad based nature of this movement demonstrates how policies

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 (ZANACO), electricity (ZESCO) and telecommunications (ZAMTEL) companies. According to BBC news, Zambia's President Levy Mwanawasa has told the International Monetary Fund that he wants 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."

The JCTR (part of the Jubilee Zambia Campaign) reaches a similar conclusion 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." 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."

Despite this opposition, the IMF representative in Zambia, Dr. Mark Ellyne, threatened withdrawal of the promised \$1 billion in debt relief under HIPC if the Government did not privatise Zambia's national bank.

"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."

Francis Ng'ambi,
Chair of the Malawi
Economic Justice
Network

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 and civil society leadership. Policies claimed to promote economic development and poverty reduction are actually leading to economic stagnation, which is felt across the social spectrum.

The conditions attached to debt relief are also undermining national democratic processes. For example in Zambia, on 4 December 2002, the Zambian Parliament voted for a motion opposing privatisation of 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*". But after pressure from the IMF including threatening to withhold desperately needed debt relief (see box), the Government caved in.

The World Bank and IMF seem to view public protest or parliamentary opposition as a hurdle for developing country governments to jump over, rather than a reason to change the direction of policy.

Time for a rethink

The free market policies attached to debt relief and new loans by the IMF and World Bank have been proven to be unsuccessful, unfair and undemocratic.

Poverty Reduction Strategy Papers (PRSPs) should become truly "country-owned" not dictated by the IMF and World Bank.

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 can work when implemented at an appropriate stage in a country's development, with effective government regulation and public support, but the IMF and World Bank are not capable of dealing with such subtlety.

WDM believes there should be an immediate

commitment that debt relief and new loans will not be made conditional on privatisation, investment deregulation or trade liberalisation. The conditions WDM believes can and should be attached to debt relief and new loans include ensuring effective participation of civil society in PRSP processes and to ensure transparent monitoring and reporting of how money is actually spent by governments.

Colludo: Whodunit to the World's Poor?

Something criminal is happening to the world's poorest countries.

Bludgeoned with crushing debt; Blackmailed into treacherous conditions

Whodunit?

It is time rich country leaders, including the UK Government, stopped colluding with the IMF and World Bank to use debt as a lever against poor countries. Instead they should cancel all poor country debt without attaching unjust economic conditions that benefit big business but harm the poor.

Take Action

Please act now to keep up the pressure for change.

Contact WDM or visit the WDM Website www.wdm.org.uk for

- Action Cards and a template letter to send to your MP
- More information including the full version of this report
- Colludo posters (A2)
- Become a WDM Debt Activist and/or a WDM member

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