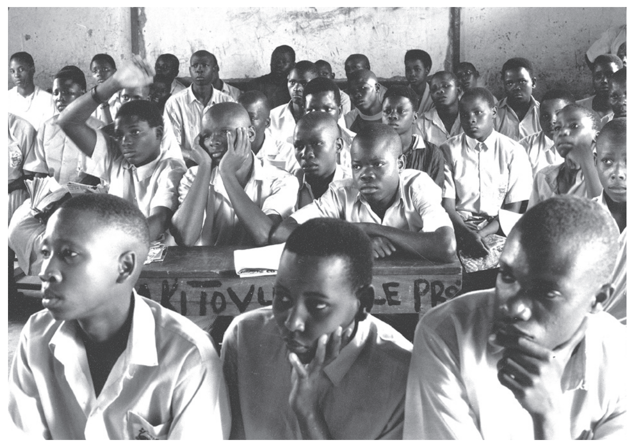
# Rethinking Participation

## Questions for Civil Society about the Limits of Participation in PRSPs



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# Acronyms

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|---|---|
| **CAS** | Country Assistance Strategy |
| **CPIA** | Country Policy and Institutional Assessment |
| **CSO** | Civil Society Organization |
| **DPL** | Development Policy Loan |
| **HIPC** | Heavily-Indebted Poor Countries |
| **IDA** | International Development Association |
| **IFIs** | International Financial Institutions |
| **IMF** | International Monetary Fund |
| **JSA** | Joint-Staff Assessment |
| **LOI** | Letter of Intent |
| **MDGs** | Millennium Development Goals |
| **NGO** | Non-governmental Organization |
| **PNoWB** | Parliamentary Network on World Bank |
| **PRGF** | Poverty Reduction and Growth Facility |
| **PRSC** | Poverty Reduction Support Credit |
| **PRSP** | Poverty Reduction Strategy Paper |
| **PSIA** | Poverty and Social Impact Assessment |
| **SAP** | Structural Adjustment Program |
| **SMEs** | Small and Medium-size Enterprises |
| **SOEs** | State-owned Enterprises |
| **WTO** | World Trade Organization |


## AUTHORS

**Rick Rowden**
*Policy Analyst*
ActionAid International USA
1112 16th Street NW
Washington DC 20036
RickR@actionaidusa.org

**Jane Ocaya Irama**
*Policy Coordinator*
ActionAid International Uganda
P.O. Box 676
Kampala, Uganda
Janeol@actionaiduganda.org



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Charles Abani, Nancy Alexander, Soren Ambrose, Romilly Greenhill, Khadim Hussein, Fabien LeFrancios, Matthew Lockwood, Elena McCollim, Atila Roque, Sabbir Bin Shams, Todd Tucker, Koy Thomson, Patrick Watt, Mark Weisbrot


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Liba Taylor/ActionAid

# Executive Summary

This ActionAid USA/ActionAid Uganda Discussion Paper is designed to elicit debate and discussion among ActionAid country programs and other civil society organizations (CSOs) which participate in public consultations for Poverty Reduction Strategy Papers (PRSPs). While acknowledging the benefits of CSO engagement in public PRSP consultations, the paper raises important questions for CSOs about the limitations and constraints of the consultations that have been documented over the previous four years of experience. Based on this historical record, the paper suggests that CSOs consider the benefits of also participating in alternative public forums as supplementary or complimentary methods of civic mobilization around questions of development policy.

After 15 years of mounting criticism and protests around the world, the World Bank and International Monetary Fund promised in 1999 that their controversial structural adjustment policy reforms attached as loan conditions to borrowing countries would finally be allowed as subjects for public consultations. This paper documents that these reform policies have not been meaningfully discussed or debated during the government-led public consultations in the PRSP processes. The paper builds on earlier research by ActionAid USA that analyzed how CSOs in seven participating countries were prohibited from raising public policy debates about alternative economic policies in their formal PRSP consultations.

The focus on poverty by the IMF (since 1999) and the World Bank (since 1989) is limited to lessening the social damage done by the negative impacts of their structural adjustment policy reforms, not to actually change the basic framework or the policy reforms. By agreeing to focus only on poverty-related issues such as priorities for health and education expenditures, CSOs can risk neglecting other core areas of development policy. This Discussion Paper suggests that subjects such as industrial policy, trade protection, subsidy support to domestic industries, domestic investment, levels of deficit spending, price supports, regulation on foreign investment, achieving lower interest rates and subsidized credit for domestic industry, and bolstering public health, education and agricultural services are also key fundamentals of national development policy that should be subjects for public consultations. However, after four years of participation in PRSP processes that have largely excluded these issues from public consultations, CSOs now may wish to consider advocating for the creation of alternative CSO-led public spaces in which such subjects could be meaningfully explored, and with much broader participation by parliamentarians and media.

Part 1 of this Discussion Paper reviews the donor-driven nature of the PRSP process and explores the dynamic in which international creditors and donors essentially narrow the national policy making space available in borrowing countries. Part 2 of this paper documents the track record of how CSOs have been precluded from publicly debating the current structural adjustment policies in the public consultations for PRSPs. Despite the official rhetoric that claims IMF loans (PRGF arrangement) will be based on the poverty-reduction goals of a country's PRSP, evidence suggests that the reality is the other way around–that PRSPs must, in fact, be aligned within the PRGF budget constraints set by the IMF. That many borrowing governments must conform to PRGF lending conditions or

The main purpose of this Discussion Paper is Part 3, which raises critical discussion questions for consideration by national and international CSOs that continue to participate in the PRSP process. If the structural adjustment policies and possible alternatives can not be discussed or debated in government-led PRSP consultations, then CSOs should consider whether participation in other CSO-led public formats might be a more useful strategy for advocating alternative development policies and mobilizing domestic political support for them. Arguably, the particular features of such alternative civic forums and the degree to which they supplement the PRSP process or influence new government decisions would vary from country to country.



else risk losing access to all other international bilateral and multilateral creditors and lenders must be acknowledged. It is important for CSOs to consider the degree to which this external pressure limits the policy space available, and circumscribes the outcomes of PRSP consultations. How should CSOs respond to these limitations?

The Annex offers a detailed list of “forbidden debates” on key national economic policies that have so far been restricted from the agendas of government-led PRSP consultations. These are key development policy questions which CSOs may find useful for public discussions and debates.

***"Discussions on the macroeconomic framework are to be more open and iterative. Key macroeconomic policies, including targets for growth and inflation, and the thrust of fiscal, monetary, and external policies, as well as structural policies to accelerate growth, are subjects for public consultation."***

International Monetary Fund, 2001[1]

# Introduction

***"Structural adjustment programs are just not on the table for discussion in the public consultations for the PRSP."***

Khadim Hussain, ActionAid Pakistan, 2004

This ActionAid USA/ActionAid Uganda Discussion Paper is designed to elicit debate and discussion among ActionAid country programs and other civil society organizations (CSOs) which participate in public consultations for Poverty Reduction Strategy Papers (PRSPs). While acknowledging the benefits of CSO engagement in public PRSP consultations, the paper raises important questions for CSOs about the limitations and constraints of the consultations that have been documented over the previous four years of experience. Based on this historical record, the paper suggests that CSOs consider the benefits of also participating in alternative public forums as supplementary or complimentary methods of civic mobilization around questions of development policy.

The paper acknowledges that the PRSP process has offered important benefits to civil society in many countries and that CSOs have used the opportunities presented by engagement with PRSP consultations to increase the national coherence and coordination of civil society in their countries, and to better mobilize communities and sensitize social sectors about the priorities for health and education budget financing. Common benefits have included a deepening knowledge of budget financing issues and a general trend towards increased scrutiny of local and national government officials by citizens on budget expenditure issues. In several countries, the PRSP process has been very useful for improving relations between civil society and governments, particularly in nations with histories of poor relations between governments and CSOs. These types of domestic political improvements as side-effects of the PRSP process have supported the strengthening of civil society in several countries, and the significance of these improvements should not be neglected. However, there are many issues related to the PRSP process generally and the CSO participation in particular that are deserving of further evaluation and reflection. This Discussion Paper is primarily concerned with one important aspect of the four-year track record of CSO participation: Are the structural adjustment policies or alternative development policies being discussed or debated in the PRSP consultations? The paper presumes that most CSOs believe such debates would be useful and are necessary for comprehensive discussions of development policy and poverty reduction strategies.

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[1] *The IMF's Poverty Reduction and Growth Facility (PRGF): A Fact sheet*. International Monetary Fund. March 2001.

done by the negative impacts of their structural adjustment policy reforms, not to actually change the basic framework or the policy reforms. By agreeing to focus only on poverty-related issues such as priorities for health and education expenditures, CSOs can risk neglecting other core areas of development policy. This Discussion Paper suggests that subjects such as industrial policy, trade protection, subsidy support to domestic industries, domestic investment, levels of deficit spending, price supports, regulation on foreign investment, achieving lower interest rates, and bolstering public health, education and agricultural services are also key fundamentals of national development policy that should be subjects for public consultations. However, after four years of participation in PRSP processes that have largely excluded these issues from public consultations, CSOs now may wish to consider advocating for the creation of alternative CSO-led public spaces in which such subjects could be meaningfully explored, perhaps with much broader participation by parliamentarians and media.

Part 1 of this Discussion Paper reviews the donor-driven nature of the PRSP process and explores the dynamic in which international creditors and donors essentially narrow the national policy making space available in borrowing countries. Questions are raised about the power dynamics between the borrowers and creditors in the PRSP process, in which low-income borrowing countries must participate in order to access desperately needed loans and credit from wealthy countries. The rhetoric about the national strategy papers being "country-owned" is contrasted with the fact their final PRSP content must be pre-approved by the IMF and World Bank.

The international financial institutions (IFIs) began imposing a host of free trade and free market-oriented economic policy reforms as binding conditions on access to loans for low-income countries in the late 1970s and early 1980s. These structural adjustment programs included major institutional and policy reforms that sought to reduce inflation and stabilize other macroeconomic fundamentals. Although the hyperinflation plaguing many countries in the early 1980s was successfully brought under control, the set of market-oriented policy reforms known as the "Washington Consensus" have been highly controversial and unpopular in many countries over the last 25 years as they have resulted in a failure to promote national economic development in dozens of the world's poorest countries. See Box 1 for the standardized set of structural adjustment policy reforms and the most common criticisms.

Around the world a variety of social movements and citizens' groups including environmental activists, labor unions, women's groups, religious organizations and many other types of local, national and international development NGOs waited for many years for the opportunity to publicly debate the efficacy of the structural adjustment policies that are enforced by the IMF and World Bank through binding loan conditions. In 1999, CSOs were finally promised the opportunity to do so in the government-sponsored public consultations that would be part of the process of drafting national PRSPs.

The PRSP process began as a by-product of the international debt-relief program developed in the late 1990s, in which 42 heavily-indebted poor countries (HIPCs) could qualify for partial debt-cancellation but were required to first show that they would use the savings from foreign debt payments responsibly. Poor countries hoping to get debt-cancellation through the HIPC program were required to produce a strategy paper describing how the saved revenue would be directed towards "poverty-reduction" goals. Later the number of borrowing countries required to produce PRSPs expanded beyond those seeking foreign debt-cancellation to include all of the lower-income countries which borrow from the World Bank's low-interest loans, known as the International Development Association (IDA) countries. Since 1999, the IMF and the World Bank began making future credits available to the low-income IDA countries only after they drafted national PRSPs and submitted them for "endorsement" by the boards of the two major IFIs. The national strategy papers are supposed to serve as the basis for future lending designs in World Bank and IMF loans.

Part 2 documents how, after four years, parliamentarians and civil society groups are still precluded from debating the current structural adjustment policies within the

**Box 1**

## Loan Conditions: Structural Adjustment Programs and Common Criticisms

### STRUCTURAL ADJUSTMENT PROGRAMS

**Macroeconomic Policy Reforms (national)**

- Tight fiscal austerity reforms (curtailing budget size, shifting from deficits to surpluses)
- Tight monetary policy reforms (setting very low inflation targets, determining money
- Supply & currency exchange rates, and high interest rates)

**Structural Policy Reforms (usually sector specific)**

- Rapid unilateral trade liberalization
- Financial liberalization
- Privatization of state-owned enterprises and public utilities
- Deregulation
- Rapid decentralization
- Labor law "flexibility"
- Market-oriented agricultural land reforms

### COMMON CRITICISMS OF STRUCTURAL ADJUSTMENT PROGRAMS

- A violation of national sovereignty over economic policy making
- A failure to achieve higher per capita economic growth rates relative to previous 20 years
- A failure to create sufficient employment opportunities;
- Much higher annual foreign debt payments that have led to even deeper fiscal budget cuts
- Worsened inequality within poor countries and between rich and poor countries
- Unsustainable environmental destruction by rapid natural resource extraction
- Human rights violations as local people are relocated to make way for large development projects
- Reduced government spending resulting in lay-offs, salary freezes, and cuts in basic services provision
- Removal of price controls led to higher prices for food staples and public transportation fuel
- Higher interest rates that have made commercial loans inaccessible for domestic companies
- Trade barrier reductions led to floods of cheaper imports that have destroyed domestic industries and jobs, and have caused a loss of traditional key source of government revenue
- Currency devaluations and export-promotion policies have led to increased costs for imports
- Limiting available agricultural land for production for local food markets has increased food costs while reducing regional and national food security
- Market-oriented land reform schemes undermine communal systems and often drive small rural farmers into bankruptcy and into the unemployed or informal urban sector
- The weakening of labor laws and other social protections undermines workers' rights and stifles development of a middle class
- Increases national economic vulnerability to volatile international commodity prices markets
- Financial liberalization has led to greater domestic capital flight and increased vulnerability to volatile international financial markets and short-term speculative investment

## United Nations Development Program on Structural Adjustment Programs

"The problem facing many developing country governments is that large budget deficits have forced them to undertake macroeconomic stabilization and adjustment. But since the early 1980s adjustment policies have focused on reducing public spending—rather than mobilizing tax and non-tax revenues—to reduce the deficits. In a recent external review of International Monetary Fund (IMF) Extended Structural Adjustment Facility programs, a group of independent experts concluded that public spending limits have often been set too tight, with detrimental effects on human capital and growth."
*from "UNDP Human Development Report 2003" pp.107-108.*

## Joseph Stiglitz on Structural Adjustment Programs

"Not all the downsides of the Washington Consensus policies for the poor could have been foreseen, but by now they are clear. We have seen how trade liberalization *accompanied by high interest rates* is an almost certain recipe for job destruction and unemployment creation—at the expense of the poor. Financial market liberalization *unaccompanied by an appropriate regulatory structure* is an almost certain recipe for economic instability—and may well lead to higher, not lower interest rates, making it harder for poor farmers to buy the seeds and fertilizer that can raise them above subsistence. Privatization, *unaccompanied by competition policies and oversight to ensure that monopoly powers are not abused,* can lead to higher, not lower, prices for consumers. Fiscal austerity, *pursued blindly,* in the wrong circumstances, can lead to high unemployment and a shredding of the social contract."
*from "Globalization and Its Discontents," (2002), page 84*

the government-led public PRSP consultations. The focus on "poverty-reduction" over the last several years, including all of the work done on participatory poverty assessment surveys, has ushered in a new era in the dominant development policy discourse. The World Bank and IMF led the way in this effort, respectively renaming some of their structural adjustment loans as "Poverty Reduction Support Credits (PRSCs)" and the "Poverty Reduction and Growth Facility (PRGF Arrangement)".[2] The institutions claimed these new structural adjustment loans would be based on the poverty-reduction goals articulated in borrowing countries' national PRSPs and would be pro-poor in their design. In response, many CSOs and social movements have invested resources and engaged in the PRSP consultations, working on issues from analyzing poverty to conducting research and negotiating health or education budget expenditure priorities.

The paper builds on earlier research by ActionAid USA (January 2002) that analyzed the PRSP process in seven participating countries.[3] That report raised concerns about both the lack of transparency of key loan documents that outline agreements between borrowing governments and the IFIs and the exclusion of civil society organizations from public policy debates about alternative economic policies in the formal PRSP consultations.

Despite the official rhetoric that claims IMF loans (PRGF arrangement) will be based on the poverty-reduction goals of a country's PRSP, evidence suggests that the reality is the other way around – that PRSPs must in fact be aligned with the PRGF budget conditions that were predetermined by the IMF. CSOs should consider the degree to which borrowing governments are under pressure to conform to PRGF lending conditions or else risk losing access to all other international bilateral and multilateral creditors and lenders. CSOs should acknowledge the substantial limitations this pressure then creates regarding what is possible for the official agendas of the PRSP consultations.

The main purpose of the Discussion Paper is Part 3, which raises critical discussion questions for consideration by national and international CSOs that continue to participate in the PRSP process. Such questions examine whom within civil society has utilized the spaces opened-up by the national PRSP processes, to what extent the PRSP consultations might bypass formal democratic processes, and to what extent has a recent focus on "poverty reduction" become a substitute for a broader discussion of development policies.

A main question asks, "Is Not Being Allowed to Discuss Structural Adjustment Policies Acceptable?" How should CSOs respond to the fact that structural adjustment policies and possible alternatives can not be effectively discussed or debated in government-led PRSP consultations?
One possible response by civil society is to consider whether participation in other types of CSO-led public formats might be a more useful strategy for advocating alternative development policies and mobilizing domestic political support for them. ActionAid country programs have had a wide range of experiences with the PRSP process and the attitudes and levels of engagement vary significantly from ActionAid Sierra Leone's expanding involvement on the one hand to ActionAid Pakistan's boycotting of the PRSP process on the other. Participation in the government-led PRSP consultations and alternative CSO-led forums should not be considered as an "either/or" proposition. Arguably, the particular features of alternative civic forums and the degree to which they could supplement the PRSP process or otherwise influence government decisions would vary from country to country.

The Annex offers a detailed list of "forbidden debates" on key national economic policies that have so far been mostly restricted from the agendas of government-led PRSP consultations. These are key development policy questions which CSOs may find useful for public discussions and debates.



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[2] All structural adjustment and sectoral adjustment loans will soon be renamed Development Policy Loans (DPLs).

[3] *"Inclusive Circles Lost in Exclusive Cycles,"* ActionAid USA Briefing. January 2002. Based on experiences of ActionAid staff and partners in Haiti, Kenya, Malawi, Nepal, Rwanda, Uganda and Vietnam. A contribution to the first Global Poverty Reduction Strategies Comprehensive Review. This brief is extracted from a seven-country review of ActionAid engagement of World Bank/International Monetary Fund policies with particular focus on Poverty Reduction Strategies written by Mishka Zaman, ActionAid USA.

Gideon Mendel/Network Photographers

PART 1

# A Donor–Driven Process

### *Power Imbalance Between Borrowers and Creditors*

All national Poverty Reduction Strategy Papers (PRSPs) must first be screened by joint-staff assessments (JSAs) comprised of staff from both institutions before they can be submitted for "endorsement" by the boards of the IMF and World Bank.[4] The significance of this fact should not be underestimated when analyzing the power dynamics of the relationships between dependent borrowers and the powerful international institutions who act as "gatekeepers" to all major bilateral and multilateral donors and creditors.

PRSPs are primarily for lower-income countries. Many larger, middle-income countries which can more easily access lending from private international capital markets, such as Brazil, China, India or Indonesia, have much greater leeway when it comes to dealing with the IMF and World Bank on structural adjustment and other policy reforms tied to loan conditions. However, the dependency of smaller and poorer countries on access to low-interest loans allows the IFIs a far greater degree of leverage and political power in these countries. In the eyes of many of these lower-income borrowing governments, the principle purpose of the PRSP is to cave-in to enough standardized neoliberal policies to secure their access to desperately needed external financing. If the purpose of PRSPs was to actually formulate "country-owned" homegrown policy prescriptions, then the executive boards of the IFIs would not undercut the sovereignty of their borrowers by requiring that they first approve PRSPs as a condition for extending credits, grants and debt relief.

The IFIs have said their executive boards might be willing to endorse an imperfect PRSP but this is unlikely since the JSA would first communicate separately with the submitting country about how the PRSP might be improved before the final version is submitted to their boards. IFI staff have admitted that there will be a process of negotiation between the IFIs and a country if a PRSP is not a sufficiently "detailed" document on which to base lending activities. As the PRSP reaches finalization, the JSA will draw up an assessment of the PRSP and would:

> **"...discuss with the authorities any modifications to the strategy that might be considered necessary to allow managements to recommend to the Boards that the PRSP be endorsed… this would be an important input into the authorities' decision as to at what stage and in what form they wished to present the PRSP for consideration by the Boards. It is expected that, as under current arrangements, in general, authorities would only wish to seek a discussion of their PRSP when managements would recommend its endorsement."**[5]

Because this pre-screening process is well understood, CSOs should consider to what degree it impacts the nature of the public consultations that are supposed to inform the PRSP. The documented track record over the last four years of public PRSP consultations in borrowing countries (detailed in Part 2) suggests that borrowing governments

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4 The IFIs insist that because national PRSPs are "country-owned documents", the executive boards do not "approve" them; instead the boards merely "endorse" them. However, "endorse" and "approve" are synonyms according to Merriam Webster's New Collegiate Dictionary.

5 *"Concluding Remarks by the Chairman of the IMF's Executive Board,"* December 21, 1999.

tend to actively discourage debate on key economic issues because they are engaging in a type of self-censorship so as to avoid having to submit a PRSP that would be rejected by the JSA. Given that there exists a very real political power asymmetry between dependent borrowing governments and the international creditors, CSOs participating in the PRSP process should consider to what degree these power asymmetries impact on the freedom with which borrowing countries can really explore alternative economic policies that are not preferred or condoned by the creditors/donors.

William Schuerch, Deputy Assistant Secretary of the US Treasury, was asked by NGOs at an informal monthly meeting in Washington DC why finance ministers of developing countries continue to willingly adopt the controversial structural adjustment policies that have failed to raise per capita economic growth or reduce poverty during the last 20 years. Schuerch frankly explained, "because the finance ministers do whatever they need to do to get the cash" offered by creditors and donors.[6] Such a process must also constrain the extent to which borrowing governments can allow for meaningful input from civil society in the PRSP consultations.

The IMF has often been quite frank about the degree to which its principal donors (i.e. US, 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."[7]

The power imbalance between borrowers and creditors, and the constraints it exerts on the freedom of CSOs to discuss alternative economic policies in the PRSP consultations, has been widely explored. For example, one review of several Sub-Saharan African PRSP processes expressed concern about the context within which the countries are drafting their PRSPs, and negotiating IFI loans:

> **Starved of investment resources and crippled with the debt burden, they are desperate for immediate debt reduction [and future lending] so as to free up resources for the import of essential items without which they cannot function…They are drawing up these plans, however, in full knowledge that if their plans do not fit with the world view of the World Bank and Fund, they are unlikely to get approval, and this knowledge is bound to affect the shape of the plans."**[8]

The study added, "This is very well understood by personnel in African Ministries of Finance, and partly explains why, despite their countries' intensely painful and costly experience of increased openness to trade since the late 1960s, they go along with the basic package. Indeed, they receive help and guidance in the drafting of PRSPs, for example via joint IFI staff reviews."[9]

For example, the national association of trade unions in Ghana explored this phenomenon in its review of Ghana's PRSP process when it identified two separate processes underway: "On the one hand, the political relations and policies that are being established in closed-door boardrooms in Washington and the appearance of broad consultations with civil society on the other. There are also the conditionalities that are attached to new loans which government, in dire need of external in-flows, is made to submit to by the creditors."[10] At one point in the process, the Ghanaian media reported, "The joint IMF/World Bank boards have not approved the Ghana Poverty Reduction Strategy (GPRS). The Bank [staff] 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 time line for meeting Highly

6 Comments by William Schuerch at an informal meeting with NGOs at World Wildlife Fund in Washington DC, July 1, 2003.

7 *"The Poverty Reduction and Growth Facility (PRGF)–Operational Issues."* Washington D.C. International Monetary Fund. 1999.

8 *"The International Financial Institutions' Relations with Africa: Insights from the Issue of Representation and Voice"* by Caroline Thomas, Politics Dept, Southampton University UK. June 2003. [Forthcoming chapter in Paul Williams and Ian Taylor (eds) *Into Africa: External Involvement in the African Continent After the Cold War* (Routledge, London)].

9 *Ibid.*

10 *"Views of the Trades Union Congress (Ghana) on Ghana's Poverty Reduction Strategy,"* TUC. September 2001.

Indebted Poor Countries (HIPC) conditionalities," which must be met in order to receive desperately needed debt-relief.[11]

In another example, the Honduran NGO network, Interforos, was told by their government officials that "the Fund's position with regard to macroeconomic policies were not negotiable."[12] In Kenya, the Finance Minister was reportedly sacked after a series of public statements that alleged the IMF and the World Bank were forcing the Government to undertake unwanted changes in its PRSP.[13]

This dynamic of self-censorship among government officials of borrowing countries that prevents discussions of alternatives to structural adjustment policies in PRSP consultations was explained by the finance minister of a country developing a PRSP: "We do not want to second guess the Fund. We prefer to pre-empt them by giving them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – i.e., we believe in structural adjustment."[14]

Ideally, parliaments should be integrated into the various phases of PRSP development in borrowing countries. In the budget process in most countries, parliaments are involved by virtue of their national constitutions, and in part their involvement with long-term development plans such as a PRSP is also statutory (e.g. Ethiopia and Burkina Faso). Institutionalized participation by parliaments in formulating the PRSP and in monitoring and publicity requires explicit political decisions. A December 2003 report by the German aid agency, GTZ, examined parliamentary participation in the drafting of PRSPs in 28 countries in sub-Saharan Africa found the following:

- **In the 19 countries with full PRSPs (as of August 2003) there are now more attempts to involve parliaments, albeit minimal and hardly institutionalized at all in some cases; in 12 countries, there have been at least individual substantive debates with parliaments or groups of parliamentarians (Benin, Chad, Ghana, Guinea, Madagascar, Malawi, Mauritania, Mozambique, Rwanda, Tanzania, and Uganda).**
- **There was a formal vote in parliament on the PRSP in Burkina Faso, Mali, Niger and Senegal.**
- **The parliaments in Cameroon, Ethiopia and Zambia were involved solely through more or less accidental participation of individual parliamentarians in consultations.**
- **In Gambia, there was no participation whatsoever by the parliament.**[15]

There are only a few examples of PRSP countries in SSA involving institutional participation by parliamentary organs in formulating the PRSP, but in other countries, parliament was informed of important aspects of the document only *after* it had been adopted by the government and endorsed by the IMF and the World Bank executive boards (e.g. Benin and Zambia). The GTZ report found that most parliamentarians, however, are hardly aware of the PRSP process, do not make use of opportunities to participate, and exchanges between parliament and civil society in developing the PRSPs were also limited to isolated instances.[16]

In addition to the question of how involved or not parliamentarians have been in the drafting of PRSPs, there are equally important questions about how much scrutiny parliamentarians give to a whole range of other IFI loan



11 *"IMF Holds Ghana to Ransom."* Ghanaweb. (www.ghanaweb.com) General News of Monday. February 10, 2003.
See also: *"Treacherous Conditions,"* World Development Movement.

12 *"PRSP: Beyond the Theory. Practical Experiences and Positions of Involved Civil Society Organisations."* by Knoke, I and P. Morazan. 2002. www.Brot-fuer-die-welt.de; see also: *"Do PRSPs Empower Poor Countries And Disempower The World Bank, Or Is It The Other Way Round?"* QEH Working Paper Series–University of Oxford Working Paper Number 108. by Frances Stewart and Michael Wang.

13 *"Are we getting lost in exclusive anti-poor, adjustment lending policy cycles?"* Zaman, M. 2002. ActionAid USA Policy Brief. See also: *"Do PRSPs Empower Poor Countries And Disempower The World Bank, Or Is It The Other Way Round?"* QEH Working Paper Series–University of Oxford Working Paper Number 108. by Frances Stewart and Michael Wang.

14 *"The Highly Indebted Poor Countries (HIPC) Initiative: a human rights assessment of the Poverty Reduction Strategy Papers (PRSPs)."* by Cheru, F. 2001. Economic, Social and Cultural Rights–Report submitted to the 57th session of the Economic and Social Council of the United Nations, Commission on Human Rights, agenda item 10E/CN.4/2001/56.

15 *"Parliaments in Sub-Saharan Africa: Actors in Poverty Reduction?"* by Walter Eberlei and Heike Henn. GTZ, Division 42, State and Democracy, Planning and Development Department, Section Economic Affairs, PRSP/Africa Department. December 2003.

16 *Ibid.*

The GTZ report found that most parliamentarians,... are hardly aware of the PRSP process

conditions, particularly key structural adjustment policy reforms that are not discussed in public PRSP consultations but are present in other IFI loan documents signed by borrowing governments. The issue of privatization provides an important example. On privatization issues, parliamentarians in borrowing countries might be particularly offended by the heavy hand of external creditors/donors in reshaping their domestic economies and interfering in their parliamentary processes to do so. For example, a World Bank publication called *"Public Communication Programs for Privatization Projects: Toolkit for Task Team Leaders and Clients,"* advises World Bank staff to work with borrowing governments to overcome any parliamentary opposition to privatization that might exist:

> **"To achieve timely passage of legislation on privatization, it is necessary that the government identify a key group of legislative supporters for individual transactions and that they be nurtured in a systematic and consistent manner. Consensus building and communication mechanisms have to be put in place early on, so that key members of the legislature are fully briefed on upcoming proposals through institutional channels, are aware of the benefits of passage and the costs of inaction, and develop a stake in the success of privatization."**[17]

These types of World Bank staff engagements with borrowing governments on legislative strategies appear to be in direct violation of the World Bank's Articles of Agreement which clearly stipulate that, "The Bank and its officers shall not interfere in the political affairs of any member."[18]

This Toolkit for World Bank country staff also included a chart called "Top 5 Constraints to Privatization in Africa," which lists the constraints, the causes and the effects in three columns. Interestingly, the second constraint to privatization is listed as "political uncertainty," and the cause of this is "democratization".[19] The undeniable presumption is that without democratization processes it would be much easier to push unpopular privatization reforms through parliaments in borrowing countries.

## *Other Determinants of IFI lending*

While all eyes have been paying attention to the PRSPs and the public consultations for drafting them, CSOs risk neglecting other key determinants of IFI lending, such as structural adjustment loans and a host of other key policy reforms and projects that receive much less attention and scrutiny. It is a double-standard that the PRSP process requires borrowing governments to practice greater accountability and transparency with their citizens while at the same time the information disclosure policies of the IMF and World Bank do not subject themselves to similar accountability or transparency. For example, transparency reforms among the binding loan conditions for Uganda's PRSC required the Government to submit a bill to parliament called the Access to Government Information Bill, which is supposed to empower citizens with accurate and timely government financial and accounting information. While this is very much in line with what CSOs have been calling for, it contrasts significantly with the World Bank's own Information Disclosure Policy, which insists that many types of loan documents of decisions and agreements reached between the World Bank and borrowing governments will remain secret and undisclosed from the public.

For example, the World Bank does not disclose any of its key structural adjustment documentation such as the "President's Report," the "Tranche Release Memoranda," or early drafts of the Country Assistance Strategy (CAS) and instead lets those parliamentarians and civil society organizations which participate in the public consultations for drafting the PRSP do so without the knowledge of these and several other secret agreements between their governments and the Bank.

[17] *"Public Communication Programs for Privatization Projects: Toolkit for Task Team Leaders and Clients,"* see: http://www.worldbank.org/developmentcommunications/Publications/wb%20toolkit%20book%203.6.02.pdf

[18] See IBRD Articles of Agreement, Article IV, section 10; IDA Article V, section 6; IFC Article 3, section 9; MIGA section V, article 34.

[19] *"Public Communication Programs for Privatization Projects: Toolkit for Task Team Leaders and Clients,"* see: http://www.worldbank.org/developmentcommunications/Publications/wb%20toolkit%20book%203.6.02.pdf

The PRSP consultations are undermined by the fact that all major types of binding loan conditions are not made fully transparent to the public until it is too late and governments are committed.

Very few CSOs and parliamentarians are paying appropriate attention to the often dozens of other loan packages and agreements for other policy reforms and projects between the IFIs and other multilateral and bilateral creditors and donors. For example, Ugandan NGOs had expressed a growing concern that throughout their PRSP process no one was scrutinizing any of the other nearly $1 billion in World Bank loans to the Government of Uganda. Between 1998-2001, the World Bank had approved 21 different loan packages for various economic policy reforms and development projects for Uganda totaling over $1 billion.[20]

It is not technically possible for CSOs and parliamentarians participating in the PRSP consultations or Public Expenditure Reviews to accurately assess which poverty-reduction goals are feasible without also knowing what other conditions their governments have committed to in several other undisclosed loan documents. Although the World Bank has made recent improvements in its Information Disclosure Policy, civil society groups, parliamentarians and media are still not able to access key information because the World Bank and IMF do not disclose all the structural adjustment and project documentation to the public, and when certain information is finally made available, it is usually disclosed *after* the fact when decisions are a *fait accompli*, not in draft form or prior to government agreement or World Bank or IMF Executive Board approval, when such information would be useful for public debate.

Such key documents include the draft Country Assistance Strategies (draft CASs) before they go to the executive boards. The World Bank's Country Assistance Strategy (CAS) drives the institution's assistance to developing countries and spells out what the World Bank will finance and the rationale for these priorities over about a three-year time horizon. The CAS lists the World Bank's priorities, many of which often do not conform to the PRSP priorities, although the CAS may identify areas of disagreement between the Bank and the borrowing government. Because the CAS can diverge from the PSRP priorities, the entire stream of loan/grant operations may diverge as well. Currently the CAS is only released *after* World Bank board approval, and not before. Even then, the World Bank information disclosure policy allows borrowing governments to still choose to keep the CAS undisclosed from their publics if they wish to do so. However, for the PRSP consultations to be meaningful, the entire contents of the CAS must be made clear to parliamentarians and civil society groups, and in *draft* form, *before* borrowing governments finalize the agreements with the World Bank.

Other crucial World Bank documents include the letters ostensibly written and signed by the finance ministers of borrowing countries. The official letter to the World Bank is called the Letter of Development Policy (LDP) and the official letter to the IMF is the Letter of Intent (LOI). These letters often lay out many of the binding commitments they have made to the IFIs regarding structural adjustment policy reforms and are only made available *after* the commitments have been agreed, not in draft form when such information would be useful for public debate. Because these letters are supposed to be written by borrowing countries' finance ministries and are technically "country-owned" documents, the IFIs claim it is not up to them to decide about disclosure of early drafts of these letters. Parliamentarians and CSOs involved in PRSP consultations should call on their governments to disclose early drafts of such letters before binding commitments are finalized.

The PRSP consultations are undermined by the fact that all major types of binding loan conditions are not made fully transparent to the public until it is too late and governments



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[20] *"New Strategies, Old Loan Conditions: Do the New IMF and World Bank Loans Support Countries' Poverty Reduction Strategies? The Case of Uganda."* by Nyamugasira, W. and Rowden, R. 2002.
RESULTS Educational Fund and ActionAid Uganda.

CSOs have tended to focus on the social budget expenditure issues related to the PRSPs to the neglect of other areas

are committed. Loan conditions today typically include "Prior Actions" to be implemented by borrowing governments before monies are disbursed by the World Bank and IMF boards. The World Bank's standard loan conditions include "CAS Triggers" that are binding conditions which determine loan operations over three years; "Tranche Release conditions" to be met before each subsequent installment of the loans can be released; and "Performance Triggers" to be used as conditions for the release of single loans. The IMF's typical loan conditions include "Prior Actions", "Performance Criteria", and "Structural Benchmarks",[21] some of which will heavily restrict budget and spending possibilities. The disclosure of early drafts of all loan agreements and official letters of agreement would be especially helpful for meaningful PRSP consultations.[22]

CSOs have tended to focus on the social budget expenditure issues related to the PRSPs to the neglect of other areas, and few have been monitoring the details of the binding loan conditions of other structural adjustment policy lending. Without a complete knowledge and understanding of the binding loan conditions tied to a host of other loan documents, the CSOs which participate in PRSP consultations will be working with incomplete information. To highlight this point, the Trade Unions Congress (TUC) of Ghana articulated the need for PRSP participants to have much better public access to and scrutiny of key lending documents before they are finalized or officially agreed:

> **"There have been no consultations between government and civil society with respect to government's Letter of Intent…which forms the basis of the IMF support of Ghana's short to medium term economic programme. In this letter can be found the specific commitments that government has made to the Fund. We are referring in particular to Tables 1 and 11 of the Letter of Intent that set out the 'Quantitative Performance Criteria and Benchmarks'.**
>
> **These criteria set out the conditionality, which go along with the [IMF loan], in addition to the general liberal, monetarist and fiscal macroeconomic underpinnings of government economic policy. There is also the complementary conditionality that determines the World Bank's support under its Country Assistance Strategy (CAS) for Ghana. Unlike the government's Letter of Intent to the Fund that is a public document [after board approval], the government's Letter of Development Policy (LDP), which sets out the complementary conditionality of the Bank, is a closely guarded secret. These circumstances certainly raise questions about consultations that have any real chance of leading to significant review of the draft Ghana Poverty Reduction Strategy"**[23]

## *The CPIA*

In addition to the loan documents with binding conditions, perhaps one of the most important documents that is least understood by civil society and parliamentarians is the World Bank's "report card" used jointly by the IMF and World Bank to assess the performance of each low-income borrowing country every year. Called the Country Policy and Institutional Assessment (CPIA), these report cards are not made available to the public, nor even to the borrowing country being graded.[24] Currently the World Bank publishes CPIA scores only for clusters of countries at a time, not for individual countries.[25]

The most important thing to understand about the CPIA is that it is very fundamental in determining the actual level of World Bank lending and setting subsequent loan conditions. However, a high CPIA score *may not correlate with*



[21] Often Structural Benchmarks are not specific quantitative binding loan conditions but can serve as general goal posts for the basic direction of IMF-mandated policy reforms.

[22] The Washington DC-based NGO, Bank Information Center (BIC), provides a comprehensive list of various disclosed and undisclosed key lending and other documents (www.bicusa.org) of the World Bank and regional multilateral lending institutions.

[23] *"Views of the Trades Union Congress (Ghana) on Ghana's Poverty Reduction Strategy,"* TUC. September 2001.

[24] World Bank country directors may choose to share CPIA scores with country officials but are not required to do so.

[25] The US-based Citizen's Network on Essential Services (CNES) has obtained three such "report cards". Parliamentarians, CSOs and news media can view their CPIA score their country was given by the World Bank over the last two years can look for their country's scores at the CNES website: http://www.servicesforall.org/html/news_notices/spring2003/spring_2003_II.shtml

*successful poverty reduction, or even high economic growth.*[26] Instead, the CPIA score reflects the extent to which a government has embraced “neoliberal” policy and institutional reforms (e.g., liberalization, privatization, fiscal austerity) that are standard features of structural adjustment policies. This raises important questions about which is more important to the World Bank: poverty reduction or compliance with structural adjustment policy reforms?

Technically, the CPIA score is based upon performance relative to 20 criteria grouped into four categories:

1) Economic management;
2) Structural policies;
3) Policies for social inclusion; and
4) Public sector management and institutions.[27]

While the World Bank discloses the list of the 20 indicators that comprise the CPIA score, it is important to note that the Bank does not disclose how it calculates each of these 20 indicators. The criteria used to assess the score for each indicator remain secret.

The World Bank’s overall country rating is comprised of three main factors:

1) the overall CPIA score;
2) a score for the Annual Report on Portfolio Performance (ARPP), which gives a higher score to borrowing governments who can most quickly spend or “move” through government procurement the monies received in loans and become ready to accept additional future lending; and
3) a third factor called the “governance premium” or “governance factor.” The governance factor relates to the degree of financial good governance and transparency for donors, creditors and foreign investors, and similar to CPIA criteria, it is unclear how it is calculated. The governance factor appears to be applied in ways that can swing a country’s overall World Bank rating into better or worse grades.[28]

Parliamentarians and CSOs which participate in public PRSP consultations should understand that in many respects the CPIA rating has a greater influence on actual World Bank lending decisions than does the PRSP. A government’s CPIA score will determine:

- **The volume of assistance: Among PRSP countries, the governments that receive the highest volume of assistance (including budgetary assistance) may not be those with the best PRSPs, but rather those that receive high performance scores on the CPIA. (In 2002, the Bank’s top performing poor countries were: Bhutan, Cape Verde, Honduras, India, Maldives, Mauritania, Samoa, Senegal, Sri Lanka, St. Lucia, St. Vincent/Grenadines, Tanzania, Uganda and Vietnam)**
- **Major policy prescriptions: The CPIA may be more influential than the PRSP in determining which policies a government must adopt in order to obtain IMF and World Bank financing. Regardless of PRSP content, loan conditions may require further market-oriented reforms if a government receives a low CPIA rating in a particular area (e.g., privatization of public services).[29]**

## *Implications of CPIA ratings*

For CSOs, parliamentarians and other participants in the PRSP consultations, it is important to know if their national governments have received higher or lower CPIA scores for which of the 20 criteria and why. PRSP countries with high CPIA ratings have governments which have for the most part embraced the IFI’s preferred structural adjustment policies.

[26] *“Poverty Reduction Strategy Papers and the Vision Problems of the International Financial Institutions.”* by Nancy Alexander and Timothy Kessler December 2003 Citizens’ Network on Essential Services. *“Country Ownership Undone,”* by Nancy Alexander, CNES, February 2004. CNES cites a study by Yale University professor Lawrence King that examined the extent to which 12 East European countries were adopting the neoliberal policy and institutional reforms favored by the IFIs; he found an inverse relationship between high CPIA scores and low levels of economic growth rates; see *“The Emperor Exposed: Neoliberal Theory and De-Modernization in Post Communist Society,”* Yale University, 2002.

[27] The Bank also rates the quality of governance of each country.

[28] Starting with the 2001 Lending Strategy Review (FY03-05), the “governance discount” was replaced by the “governance factor.”

[29] *“Poverty Reduction Strategy Papers and the Vision Problems of the International Financial Institutions.”* by Nancy Alexander and Timothy Kessler December 2003 Citizens’ Network on Essential Services.

*"CPIA ratings are an important factor in determining how much a country can borrow from the World Bank. Despite their significance, ratings are not disclosed, leaving the public and critical decision-makers in countries unable to determine if their borrowing eligibility has been fairly and appropriately assessed."*

**Jennifer Kalafut, Bank Information Center, Washington, DC**

In the World Bank's March 2003 review of CASs titled, "Country Assistance Strategies: Retrospective and Future Directions," the Bank described the uses of the CPIA score for the PRSP process in the following way:

> **"Triggers for the lending scenarios in the CAS are increasingly focused on aspects of the CPIA that are shown to be weak. The triggers can also include policy targets from PRSP, to the extent that they are expected to strengthen policy and institutional performance."[30]**

The report says that there is an attempt to align the CPIA and PRSP, but does not say how this will be undertaken.[31]

If the CPIA scores can have such a dramatic impact on overall decisions guiding World Bank lending and actual policy reforms (binding loan conditions), then the process of determining CPIA scores should be fully understood and at the center of public PRSP consultations. Civil society organizations, parliamentarians and other participants in public PRSP consultations should request this information from their governments and local World Bank country directors.

Jennifer Kalafut of the Washington DC-based Bank Information Center (BIC) explained, "CPIA ratings are an important factor in determining how much a country can borrow from the World Bank. Despite their significance, ratings are not disclosed, leaving the public and critical decision-makers in countries unable to determine if their borrowing eligibility has been fairly and appropriately assessed. The best way to ensure that the rating system is accurate is full disclosure of CPIA rating results and calculations."

The World Bank's semi-independent watchdog arm, the Operations Evaluation Department (OED), similarly concluded, "The only reasonably effective way to ensure equity across borrowers and to enable the Bank to take advantage of external expertise and experience is to provide for complete disclosure of CPIA design, rating results, allocations (normative, lending strategy review outcomes, and CAS base case lending amounts), and the reasons for any discrepancies between them."[32]

Without the full public disclosure of the key documents that determine the actual policy reforms and degree of access to lending, such as the CPIA scores, then the public consultations for the PRSP process will remain severely undermined by a lack of adequate information. The degree to which meaningful discussions on actual determinants of World Bank lending are not allowed to enter into the PRSP process should alarm parliamentarians, CSOs, news media and other participants and observers in the process.

Some Executive Board members at the World Bank have recently expressed mixed opinions about whether or not to publicly disclose CPIA scores or the methodologies for calculating the various 20 indicators. In Box 2 are some excerpted comments made by Executive Directors or World Bank staff according to a leaked, redacted transcript of an October 28, 2003 Executive Board discussion on the issue. The comments show there is a considerable lack of consensus among board members on disclosure of the CPIA, the politically-selective uses of the CPIA, and a lack of certainty about the soundness and efficacy of the scoring methodology. Indeed, some members question if the World Bank has the adequate expertise to be making judgments about some of the CPIA's 20 indicators.



30 *"Country Assistance Strategies: Retrospective and Future Directions,"* World Bank. March 2003.

31 ActionAid USA has requested from the World Bank a written explanation and clarification of the relationship between the PRSP process and the influence of the CPIA score has on the process.

32 *"Review of the Performance-Based Allocation System, IDA 10-12"*, Operations Evaluation Department, World Bank. IDA Review. February 14, 2001.

If there is such a deep level of concern about the efficacy of the current score design being expressed in this executive board discussion, then the design and methodology of the CPIA scores should be fully opened to public scrutiny and public input so that outside experts could assess the legitimacy of the device. Parliamentarians and civil society groups participating in PRSP consultations should call on the World Bank to publicly disclose CPIA scores.

The existence of the CPIA is important primarily because acknowledgement of the World Bank's report card and its function militates against genuine public participation in the formulation of meaningful poverty reduction strategies and national ownership of domestic development policies. If the CPIA, ARPP, governance factor, and documents such as the CAS currently direct the overall World Bank lending levels and binding loan conditions, one can reasonably question how much leeway remains for input from CSOs in the PRSP consultations. The rigidity of the CPIA may well undermine any possible flexibility for possibilities within the PRSP. The existence of these World Bank ratings shows how the whole potential for the PRSP process is precluded from the outset by this other driving need for the borrowing government to get a good CPIA score. "At the same time, borrowing governments find themselves in a bind if their citizens choose a path towards poverty reduction that does not correspond to the World Bank-IMF roster of preferred 'good' policies."[33] Such pressures further underscore how the outcome of PRSPs are primarily driven by the IFIs.

A section of the September 2003 joint IMF and World Bank report on the progress of PRSP implementation, titled "Macroeconomic Dialogue and Fund Engagement in the Participatory Process," concluded by calling on borrowing governments, not themselves, to "take the initiative in mainstreaming the discussions of macroeconomic frameworks and policies in the participatory processes," and insisting that governments "need to provide an explicit forum for macroeconomic dialogue in the context of the PRSP process."[34] However, this places borrowing governments in a nearly impossible situation as they are both driven by the need to adhere to structural adjustment policies in order to get a good CPIA score while they are also admonished to open up the discussion of policies in the PRSP consultations; and truly open discussions in PRSP consultations could result in CSOs advocating for new policy positions that would earn a country a lower CPIA score. Unless the details of CPIA scores and other crucial IMF and World Bank loan documentation are fully disclosed in the public PRSP consultations, and these pressures are openly juxtaposed with poverty-reduction goals, it is unclear how borrowing governments can be expected to host meaningful public debates on macroeconomic policy or other structural adjustment policy reforms.

A June 2003 study by UK-based Southampton University distinguished between merely consulting on poverty-reduction issues and actual participation in making policy strategies:

> **"However, consulting does not amount to involving people in participatory decision making. For the PRSP process to gain legitimacy, governments and the IFIs must support the development of genuine participation, and this means that policy frameworks must be up for negotiation."**[35]

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33 *"Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction,"* by Jenina Joy Chavez Malaluan and Shalmali Guttal. Focus on the Global South. January 2003.

34 *"Poverty Reduction Strategy Papers—Detailed Analysis of Progress in Implementation Prepared by the Staffs of the IMF and World Bank"* International Monetary Fund and International Development Association. September 15, 2003.

35 *"The International Financial Institutions' Relations with Africa: Insights from the Issue of Representation and Voice"* by Caroline Thomas, Politics Dept, Southampton University UK. June 2003. [Forthcoming chapter in Paul Williams and Ian Taylor (eds) "*Into Africa: External Involvement in the African Continent After the Cold War*" (Routledge, London)].

“ It’s difficult to measure some components of the CPIA such as trade policy, governance, accountability and corruption without interfering in the internal politics of the countries involved.”

**Box 2**

**Excerpts from leaked minutes of October 28, 2003 World Bank executive board discussion of the CPIA that show a deep concern about the soundness and methodology of the CPIA**

“...greater disclosure of a judgment-based system for resource allocation could open the Bank to criticism that this was being done on the basis of political, ideological or other non-economic considerations, which contradicted IDA’s Articles of Agreement.”

- “ CPIA ratings based on judgment could be used by NGOs or opposition political groups to weaken democratically elected governments.”
- “ Maybe IDA should endeavor to conduct evaluations in a more participatory manner and reduce the impact of subjective judgment in the evaluation process.”
- “ There is no consensus on the relative importance of the various components of the CPIA for growth and poverty reduction or the relative weights they should be given in the index.”
- “ The policy dimensions of the 20 CPIA criteria in the ratings involves a one-size-fits-all approach when there was no agreement among development practitioners on issues such as what constitutes good fiscal policy, good trade policy, a good foreign exchange regime or good budgetary and financial management...there are differences in approach even among countries in the EU on issues such as fiscal deficits and arguments within the US on the advisability of deficit-driven growth.”
- “ ...some evaluators might not be qualified to make judgments in areas outside their primary expertise, such as gender or governance.”
- “ It’s difficult to measure some components of the CPIA such as trade policy, governance, accountability and corruption without interfering in the internal politics of the countries involved.”
- “ Staff explained that the rating system had evolved considerably since its inception in 1997 and this was an ongoing process. Improvements had been made in 2001 to reduce the subjectivity of ratings, but it was important that they reflect the professional judgment of Bank staff, based on country knowledge, Bank information, information from donors and publicly available indicators.”
- “ The Bank is not now able to share its ratings with other multilateral development banks and bilateral partners– this is a major weakness that needed to be addressed.”
- “ The CPIA is designed for allocation of resources and tends to penalize weak performers while rewarding those who demonstrate improvement.”
- “ At present, Country Directors use their discretion in informing client governments of their CPIA ratings [even though these ratings determine their access to resources and the thrust of their future policies].”
- “ Staff commented that any grading exercise involves judgments and those who were not happy with these judgments would complain...the Board should share responsibility for explaining and defending it...”

Over 150 incidents of civil unrest and protests have been documented in several dozens of countries over the last 25 years when the unpopular reforms were implemented, with more than half of these in the last 6 years alone.

### *Why Debating Structural Adjustment Policies is Necessary*

Since they were first introduced to stabilize the crisis of hyperinflation that plagued Latin America in the late 1970s and early 1980s, the dominant structural adjustment policy reforms favored by the IMF and World Bank and known as "The Washington Consensus," have been met with harsh public criticism. Over 150 incidents of civil unrest and protests have been documented in several dozens of countries over the last 25 years when the unpopular reforms were implemented, with more than half of these in the last 6 years alone.[36] A recent example includes the protest that erupted in Honduras in November 2003 during a meeting between the government and the IMF over a stalled $600 million loan. The IMF was opposed to the government's decision "to purchase two major electricity distribution companies without the consent of the fund."[37] A week earlier Congress had passed the Water Law, which allows for privatization of municipal water services. It was also expected to pass a Civil Service Law to control the salaries of 100,000 public employees. The IMF has made passage of these two "reforms" a precondition for an agreement giving Honduras $350 million in credits and $1 billion in debt relief. The protesters demanded that the president veto the Water Law and that Congress not pass the Civil Service Law.[38] The unrest followed social unrest in Bolivia and Ecuador in the prior month (October 2003) and was called "by labor unions and social activists to protest government economic policy, including austerity measures called for by the International Monetary Fund."[39]

The IMF and World Bank structural adjustment programs were ostensibly based on correcting massive imbalance of payments problems while also using tight fiscal and monetary discipline in an effort to lower inflation. It was claimed that such structural readjustments would also lead to higher rates of economic growth. Other concomitant policies included radical budget cuts for public expenditures, wide-ranging privatization of state-owned enterprises and rapid, unilateral trade liberalization, the withdrawal of the state's role in production and marketing, particularly in agriculture, and eventually capital account and financial liberalization.

For 25 years, criticisms of the impacts of the policies are that they failed to promote higher economic growth rates and actually have worsened inequality in poor countries; the tight monetary policies led to reduced government spending resulting in lay-offs, salary freezes, and cuts in basic service provision and higher prices for remaining public services; higher interest rates have made commercial loans inaccessible for domestic companies, leading to bankruptcies and further lay-offs; currency devaluation led to increased costs of imports and lower consumption; increased export-oriented agricultural production led to more arable land being used for export crops instead of local food markets (reducing food security) and an increased reliance on volatile international commodity prices; and that the removal of price controls led to rapid price rises for basic goods. Despite rhetoric about formally evaluating the impacts of such policies, this has not been done.[40]

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[36] Woodroffe, Jessica and Mark Ellis-Jones. *"States of Unrest: Resistance to IMF Policies in Poor Countries,"* World Development Movement report (London). September 2000. Also see *"States of Unrest II,"* which covers protests through all of 2001; Walton, John and David Seddon. *"Free Markets and Food Riots: The Politics of Global Adjustment."* Cambridge: Blackwell Publishers, 1994; Caffentzis, George and Silvia Federici, *"A Brief History of Resistance to Structural Adjustment"* in Danaher, Kevin, ed., *"Democratizing the Global Economy: The Battle Against the IMF and World Bank."* San Francisco and Monroe, ME: Global Exchange and Common Courage Press, 2001.

[37] *"Six Die in Dominican Protests of Slumping Economy"* by Manel Jimenez. Reuters. November 11, 2003.

[38] *"Honduras: Thousands Protest IMF Measures,"* by Weekly News Update on the Americas, August 24 2003.

[39] *"Six Die in Dominican Protests of Slumping Economy"* by Manel Jimenez. Reuters. November 11, 2003.

[40] *"Structural Adjustment: The SAPRIN Report; The Roots of Economic Crisis, Poverty and Inequality,"* By the Structural Adjustment Participatory Review Initiative Network (SAPRIN). A Report on the Joint Participatory Investigation by Civil Society and the World Bank of the Impact of Structural Adjustment. London & New York: Zed Books, 2004; See also, *"Structural Adjustment: Theory, Practice, and Impacts,"* by Giles Mohan, Ed Brown, Bob Milward, Alfred B. Zack-Williams, Tunde Zack-Williams. London: Routledge, 2000; *"Policies to Roll-back the State and Privatise? Poverty Reduction Strategy Papers Investigated."* World Development Movement. By Alison Marshall with Jessica Woodroffe, additional research by Petra Skell. April 2001.

The structural adjustment policies have failed to deliver on the two major reasons used to justify their application: that they would increase economic growth and reduce poverty.

The structural adjustment policies have failed to deliver on the two major reasons used to justify their application: that they would increase economic growth and reduce poverty. The best conventional indicator that economists have to measure national economic development is per capita economic growth rates, and over 20 years of the neoliberal reforms, per capita economic growth rates have been markedly lower than during the previous 20 years. For example, a 2001 study by the Washington DC-based Center for Economic and Policy Research suggested the recent 20-year era of globalization has brought substantially less progress than was achieved in the previous twenty years. This paper looked at the major economic and social indicators for all countries for which data were available, and compared the recent 20-year period under the structural adjustment policy reforms (1980-2000) with the previous 20-year period (1960-1980). These indicators included: the growth of income per person, life expectancy, mortality among infants, children, and adults, literacy, and education. For economic growth and almost all of the other indicators, the last 20 years have shown a very clear decline in progress as compared with the previous two decades. Among the findings: the fall in economic growth rates was most pronounced and across the board for all groups or countries; progress in life expectancy was also reduced for 4 out of the 5 groups of countries; progress in reducing infant mortality was also considerably slower during the period under neoliberal reforms (1980-2000) than over the previous two decades; and progress in education also slowed during the later period.[41]

This report was then corroborated by World Bank economist, William Easterly, who published a 2001 analysis with similar conclusions to the CEPR report, calling it "puzzling" that poverty-reduction was indeed more successful in the prior two decades than in the last two under World Bank and IMF policy influence, and that per capita income growth rates had been much higher in the earlier period, too.[42]

Regarding the last 5 years, Latin America is representative of the continuing slow growth and lingering poverty among countries that have adopted the IMF and World Bank policies. For the first 5 years of the current decade, 2000-2004, per capita GDP in Latin America is expected by the IMF to grow by 0.2 percent annually, or about 1 percent for the whole 5-years period. This low growth rate continues the long period of economic failure: for the prior 20 years, 1980-1999, the Latin America region grew by only 11 percent (in per capita terms) over the whole period. By comparison, for the two decades from 1960-1979, Latin America experienced per capita GDP growth of 80 percent.[43] According to the United Nations Economic Commission for Latin America and the Caribbean, the percentage of households in poverty in Latin America–with poverty defined as insufficient income to meet basic needs–grew from 34.7 percent to 35.3 percent during the last 20 years, meaning that despite the population growth, roughly the same proportion of people is impoverished today as 20 years ago, only now there are more of them.

In 2003, the United Nations Development Program's annual Human Development Report harshly admonished the IFIs by calling for a broader policy view of how best to lift the least developed nations out of extreme poverty rather than the "Washington consensus of the World Bank and International Monetary Fund," that includes extreme budget discipline, deregulation and the liberalization of trade and finance.[44] The UNDP report documented that 54 countries had become poorer in 2003 than they were in 1990, while

41 *"The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress,"* by Center for Economic and Policy Research. 2001. www.cepr.net

42 *"The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform, 1980-1998,"* by William Easterly. The World Bank. February 2001. www.worldbank.org/research/growth/pdfiles/lostpercent20decades_joeg.pdf

43 *"Another Lost Decade? Latin America's Growth Failure Continues into the 21st Century,"* by Mark Weisbrot and David Rosnick. Center for Economic and Policy Research. November 13, 2003. www.cepr.net

44 *"Human Development Report 2003: Millennium Development Goals: A compact among nations to end human poverty."* United Nations Development Programme. 2003. www.undp.org/hdr2003

45 *"Programs to Help Poor Nations Criticized,"* by Naomi Kopple. Associated Press. July 08, 2003

46 *"The lost decade: They were promised a brighter future, but in the 1990s the world's poor fell further behind."* by Larry Elliott, economics editor. The Guardian (UK). Wednesday July 9, 2003

Malloch-Brown called for a "guerrilla assault" on the neoliberal policies and for a reaffirmation of the role of the state in development policy: "Market reforms are not enough. You can't just liberalize; you need an interventionist strategy."

life expectancy fell in 34 countries–primarily because of the HIV/AIDS epidemic–and 21 countries were hungrier in 2003 than they were in 1990.[45] The study said the IFI's current policy approach, which is based on a total reliance on market forces and increased trade to achieve development, will not succeed. Mark Malloch-Brown, administrator of the UNDP, said many countries in Africa and Latin America that had been previously held up as examples of how to kick-start development were today among the stragglers in the global economy. "The poster children of the 1990s are among those who didn't do terribly well." Malloch-Brown called for a "guerrilla assault" on the neoliberal policies and for a reaffirmation of the role of the state in development policy: "Market reforms are not enough. You can't just liberalize; you need an interventionist strategy."[46] The UNDP report added that: "Over the past 20 years too much development thinking and practice have confused market-based economic growth with laissez faire."[47]

The laissez faire approach of structural adjustment policies has led to a direct cutback in basic government services provision in most countries that borrow from the IFIs. There is an increasing acknowledgement that insufficient national health budgets and education budgets have been the consequences of strict IMF budget austerity. "The IMF and the World Bank should no longer set these kind of ceilings," Malloch-Brown said.[48] In a direct rebuke to the neoliberal policy approach that insists high economic growth rates must come first, and only then can increases for public health and education budgets be afforded later, Jeffrey Sachs, former IMF advisor and current special adviser to Kofi Annan on the UN Millennium Development Goals (MDGs), said, "Poor countries cannot afford to wait until they are wealthy before they invest in their people."[49]

Instead, "Public interventions are necessary to set the preconditions for market-led economic growth," said Sakiko Fukuda-Parr, chief author of the UNDP report.[50]

The economist Paul Krugman recently summed up the general situation in his *New York Times* column, reporting that the Latin American countries that had made the biggest commitment to implementing the macroeconomic and other structural reforms favored by the IMF and World Bank were now failures ranging from "disappointing" in Mexico to "catastrophic" in Argentina.[51]

Krugman contrasted this track record with the evident successful economic development of East Asian economies and parts of India and China, but neglected to spell out exactly why the difference in the outcomes. In fact, while East Asia traditionally had higher domestic savings rates and lower levels of economic inequality, parts of East Asia may well have developed so successfully because of the fact that these countries mostly resisted and never fully adopted the IFI's structural adjustment policy reforms to the same degree as Latin American and African nations. Instead, these East Asian economies largely maintained high levels of trade protection and state-directed subsidy support for key domestic industries, engaged in deficit spending and maintained relatively lower interest rates for domestic commercial loans, fully supported public infrastructure and public health and education services, maintained price controls for basic commodities, and heavily regulated foreign investment to make sure it provided positive spin-offs for domestic industries. In many ways, these economies in East Asia mimicked what the industrialized countries of Japan, Europe and the US had themselves done during the last couple of hundred years of their own successful industrialization.[52]

47 *Ibid.*

48 *"Boom Bubble of 1990s Leaves 50 Nations Poorer –UN,"* by Evelyn Leopold. Reuters. July 8, 2003

49 *"The lost decade: They were promised a brighter future, but in the 1990s the world's poor fell further behind."* by Larry Elliott, economics editor. The Guardian (UK). Wednesday July 9, 2003. See also the conclusions by Sachs and others in their 2001 WHO Commission on Macroeconomics and Health. http://www.who.int/gb/EB_WHA/PDF/WHA55/ea555.pdf

50 *"Programs to Help Poor Nations Criticized,"* by Naomi Kopple. Associated Press. July 08, 2003

51 "The Good News," by Paul Krugman. The New York Times. November 29, 2003

52 *"Kicking Away the Ladder: Development Strategy in Historical Perspective,"* by Ha-Joon Chang. Anthem Press, 2002

Despite this disparaging track record and increasing criticism of the IMF and World Bank policies, the biggest donor governments on the executive boards of the IFIs still insist that borrowing countries must adhere to what they refer to as "sound macroeconomic policies"

However, as Krugman noted, most Latin American countries fully complied with the edicts of the neoliberal structural adjustment policies; "they liberalized, privatized and deregulated their economies,"[53] with effects ranging from disappointing to catastrophic, and much of Africa has done the same with similar results.

Despite this disparaging track record and increasing criticism of the IMF and World Bank policies, the biggest donor governments on the executive boards of the IFIs still insist that borrowing countries must adhere to what they refer to as "sound macroeconomic policies," and they will reject PRSPs (and access to debt relief, loans, or credit) of countries who have adopted "unsound" policies. But CSOs, think-tanks, and NGOs that work on development policy must question what is meant by "sound" or "unsound". The 300-year history of state interventionist policies used by the successfully-industrialized economies contrasts with the 25-year track record of the neoliberal framework and this contrast demands that NGOs ask important questions about how the US Treasury and finance ministries of other major IFI executive board members determine "soundness". If "sound" macroeconomic policies are the neoliberal ones the IMF and World Bank currently attach as binding loan conditions, then what does this say about the opposite policies used successfully by East Asia, the US and Europe—that these were "unsound"? Such logic is difficult to accept.

One can reasonably ask why the IMF and World Bank would continue to condition lending on nearly the opposite policies that were used by the countries that industrialized successfully. This question remains especially important given the track record of much lower per capita economic growth rates and lingering high levels poverty in many of the countries where the IMF/World Bank reforms have been implemented. Such a 25-year track record makes clear why citizens generally, and development NGOs particularly, today need to place the structural adjustment policies at the center of vigorous public debates and discussions of development policy.

The IMF and World Bank often claim to agree with their critics that there is no "one-size-fits-all" approach and that its extreme budget austerity is not systematic. However, this rhetoric contrasts with the fact that IMF fiscal inflexibility is still the rule in low-income countries, leading, for example, to inflation targets below 5 per cent without clear justification.[54]

This gap between what the IMF has committed to (to reduce poverty, help achieve the MDGs) and the "straightjacket" that it still imposes on most borrowing countries reflects a problem with the IMF's analysis of challenges faced by low-income countries. Even though the hyperinflation of the late 1970s and early 1980s has long since abated, the IMF still often perceives the problem in terms of stabilizing countries and getting their deflationary macroeconomic policies correct in order to create the right environment for pro-poor growth. Yet, despite many years of lower economic growth rates and considerably lower levels of inflation have not persuaded the IMF to reconsider its concepts about the need for macroeconomic stabilization in borrowing countries today. Some countries in Africa for example have long been stabilized, but in a state of stagnation and low growth or locked-in to a dependence on factors that they have no control over, such as the world market prices of their raw commodity exports.

## *IMF as Gatekeeper*

Another important reason to bring the IMF's favored macroeconomic framework and other structural adjustment reform policies into the center of public discussions is

[53] *"The Good News,"* by Paul Krugman. The New York Times. November 29, 2003

[54] *"Poverty Reduction and the 'Stablisation Trap'–The Role of Monetary Policy,"* by Anis Chowdhury. Draft thematic summary on monetary policy for the Asia Pacific Program on Macroeconomics and Poverty Reduction.

IMF fiscal inflexibility is still the rule in low-income countries, leading, for example, to inflation targets below 5 per cent without clear justification.

**Box 3**

**Which are the "Unsound" Policies?**

| **IMF/WB Loan Conditionalities** | **Successfully-Developed Countries** *(Europe, US, Canada, Japan, East Asia)* |
|---|---|
| **1** Trade Liberalization | **1** Trade Protection |
| **2** Foreign Investment Liberalization | **2** Foreign Investment Regulation |
| **3** Privatization of Companies/Utilities | **3** Public Companies/Utilities |
| **4** Deregulation | **4** Regulation |
| **5** Tight Fiscal & Monetary Policies | **5** Keynesian Fiscal & Monetary Policies |
| **6** Export-Led Growth Model | **6** Domestic Investment & Export-Led |
| **7** Primary Goods Production | **7** Processing & Industrial Diversification |

because of the unparalleled power the IMF has amassed over the years as the "gatekeeper" to all other multilateral and bilateral donors and creditors upon whom borrowing governments depend. One of the most debated aspects of the IMF's role in poor countries is this gatekeeper function. In other words, having an IMF program in place and "on track" sends a signal to global financial markets and to all other major donors and creditors that a borrowing country's economic policies are "sound" and therefore acts as a green light or "seal of approval" for other donors to move ahead with lending. Conversely, the suspension or cancellation (when a country gets "off-track" with its IMF PRGF or standby arrangement) of this green light for a particular borrowing country often creates a snowballing effect, inducing all other major donors and creditors to suspend their aid, credit or debt-relief programs. This is particularly problematic for heavily aid-dependent countries. It can also lead to situations in which countries that do not necessarily need an IMF program are eager to keep the IMF involved just for its powerful signaling effect.

It is an irony that a macroeconomic framework ostensibly dedicated to financial stabilization can often create destabilization, increased volatility and disastrous financial consequences for its borrowers when the IMF suddenly withdraws its stamp of approval and other creditors and donors suddenly suspend their aid programs, too. A recent IMF working paper focusing on the policy implications of such aid volatility gives an idea of the magnitude of these effects. It shows, for instance, that countries that stayed "on-track" with the binding loan conditions of their IMF program received three quarters of what donors had originally committed, but this figure slipped down to one third for those experiencing interruptions in their IMF program.[55]

With such immense power to impact the lives of hundreds of millions of the world's poorest people, the legitimacy of the IMF's structural adjustment policies needs to be placed at the center of public PRSP discussions and debates. If the policies have not produced more jobs, higher per capita economic growth, or substantially reduced poverty in the last 25 years, then CSOs should reasonably question why their national PRSPs should continue with the same economic policies for the future. But the failure to allow structural adjustment policies to be discussed in PRSP

[55] *"Aid Volatility: An Empirical Assessment,"* by Ales Bulir and A. Javier Hamann. International Monetary Fund. IMF Staff Papers, Vol. 50, Nov. 1, 2003.

If the policies have not produced more jobs, higher per capita economic growth, or substantially reduced poverty in the last 25 years, then CSOs should reasonably question why their national PRSPs should continue with the same economic policies for the future.

consultations, detailed below, starkly contradicts what World Bank President James Wolfensohn had said about the importance of public participation in the PRSP process. When the PRSP process was first introduced in 1999, Wolfensohn said "for development to be real and effective, we need local ownership and local participation. Gone are the days when development can be done behind closed doors in Washington or Western capitals or any capital for that matter".[56] But in fact, in 2004, the same sets of structural adjustment policy reforms are still very much being decided behind closed doors. The donor-driven nature of the PRSP process narrows the political space for sovereign, independent national policy-making and can undermine legitimate democratic procedures where they exist.

Referring to the IFI-imposed market discipline of the structural adjustment policies, Harvard University Professor Dani Rodrik stated that, "The broader the sway of market discipline, the narrower will be the space for democratic governance… International economic rules must incorporate 'opt-out' or exit clauses [that] allow democracies to reassert their priorities when these priorities clash with obligations to international economic institutions. These must be viewed not as 'derogations' or violations of the rules, but as a generic part of sustainable international economic arrangements."[57] Joseph Stiglitz reminded policy makers of the importance of the "social contract" between citizens and their national governments. "When government policies abrogate that social contract, citizens may not honor their 'contracts' with each other, or with the government. Maintaining that social contract is particularly important, and difficult, in the midst of social upheavals that so frequently accompany the development transformation. In the green eye-shaded calculations of the IMF macroeconomics there is, too often, no room for these concerns."[58] Despite the paramount importance of this struggle between the conditions of external donors/creditors and national democratic policy making, such fundamental questions are currently excluded from the agendas of the donor-driven PRSP consultations process.

"International economic rules must incorporate 'opt-out' or exit clauses [that] allow democracies to reassert their priorities when these priorities clash with obligations to international economic institutions."



56 *"Coalitions for Change"* Address to the Board of Governors, Washington, D.C., September 28, 1999.

57 *"Four Simple Principles for Democratic Governance of Globalization,"* by Dani Rodrik. Harvard University, May 2001.

58 *"Globalization and Its Discontents,"* by Joseph E. Stiglitz. New York; WW Norton, 2002. p.78.

Mark Boettcher/ActionAid

PART 2

# The Record–

## The Failure to Address Structural Adjustment Policies in PRSP Consultations

### *The Promises*

In August 2000, the IMF promised that the PRSP/PRGF process would be based on "broad participation" and that "greater [country] ownership is the single most often cited, but also the least tangible, change in moving to PRGF-supported programs."[59]

The IMF stated that "over time, we should be in a position to demonstrate" that:

- **PRSPs have been produced in a transparent process involving broad participation, including representatives of the poor**
- **PRSPs have been produced by the country authorities, and not by Bank and Fund staff: well meaning efforts to "improve" the presentation of country-authored documents should be avoided**
- **the main features of PRGF-supported programs can be seen to be drawn from the country's PRSP**[60]

Most importantly, the IMF promised a new flexibility in which country-owned strategies might be allowed to diverge from traditional IMF loan conditions:

> **"Evidence of the Fund's increased flexibility on policies; it is likely that we would be able to identify in some PRSPs which we can endorse and support overall, some policy choices different from or contrary to Fund policy advice. Staff should endeavor to highlight these instances in JSAs and/or staff reports for PRGF-supported programs, as they arise. Of course, such differences should not be expected in every case, and would not be contrived merely to demonstrate flexibility. Conversely, there may be strategies that are sufficiently flawed that the Fund cannot support them even though they are country-owned."**[61]

The IMF's March 2001 PRGF Fact sheet referred to the public PRSP consultations:

> **"Discussions on the macroeconomic framework are to be more open and iterative. Key macroeconomic policies, including targets for growth and inflation, and the thrust of fiscal, monetary, and external policies, as well as structural policies to accelerate growth, are subjects for public consultation."**[62]

However, the IMF has withdrawn those two sentences from its more recent September 2003 Fact sheet on the PRGF and replaced them with the following:

> **"First, the principle of broad public participation and greater country ownership is central to the PRGF. In this regard, discussions on the macroeconomic framework and policies underlying PRGF-supported programs are more open, since they are based directly on the nationally-owned PRSP."**[63]

### *The Record*

Early in the process it became evident that CSOs would not easily be allowed to enter into a public debate on structural adjustment policies, much less put forward alternative

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[59] *"Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs,"* Prepared by the Policy Development and Review Department. International Monetary Fund. August 16, 2000.

[60] *Ibid.*

[61] *Ibid.*

[62] *"The IMF's Poverty Reduction and Growth Facility (PRGF): A Factsheet."* International Monetary Fund. March 2001.

[63] *"The IMF's Poverty Reduction and Growth Facility (PRGF): A Factsheet."* International Monetary Fund. September 2003.

Parliamentary and civil society participants have been given no space within which to discuss the package of structural adjustment policies that still dominate the final versions of their national PRSPs and the IMF's PRGF Arrangements.

development policies. Early research by ActionAid and others had shown that "Governments appear to be far more comfortable with [civil society] organizations playing the traditional role of 'implementers' than of them providing policy solutions and options particularly on fiscal and macroeconomic targets and goals. To them, the utility of [civil society] organizations lies in their outreach and ability to organize grass roots consultations on the basic needs of the working poor and excluded groups."[64]

When Angolan CSOs met in June 2001 to organize their input into the government's interim PRSP, they complained that the Government seemed reticent to organize a consultation and that the only PRSP workshop open for participation was confined to social matters. NGOs consistently report that there are two parallel processes, one for "social" issues discussed in the context of PRSP –with some public participation–and another for "macroeconomic" and other structural adjustment policy issues discussed in the context of PRGF–with no participation.[65]

This has often meant that parliamentary and civil society participants have been given no space within which to discuss the package of structural adjustment policies that still dominate the final versions of their national PRSPs and the IMF's PRGF Arrangements. In Bolivia, the national NGO network CEDLA complained that the economic model was "a given" and they were only permitted to tinker around the edges of a model with which they fundamentally disagreed and considered to be actually exacerbating poverty. The IMF representative stated that the recommendations of the "alternative dialogue process" of civil society groups managed by the Catholic Church would only be permitted to influence the allocation of HIPC debt funds. "Macroeconomic targets and strategies were not open to change."[66]

A May 2003 report by CEDLA noted, "The participation of Bolivian civil society in the definition of macroeconomic programs is virtually nil, above all with reference to the PRGF."[67] The report concluded that in Bolivia, a structure for public debate and consultation over structural adjustment policies does not exist. Nor is their sufficient will, recognition, or "ownership" of the idea of opening a debate on macroeconomic policies, or of trying to adapt these to microeconomic behavior, which is the level on which society decides and actively participates. "Despite the IFIs' rhetoric about participation, there is no evidence that proposals of alternatives to the reigning model would influence macroeconomic policy."[68]

Most CSOs report that they were barred from participating in macroeconomic and structural policy discussions in the official PRSP consultations. In a 2002 survey, there was a broad consensus among civil society in Ghana, Malawi, Mozambique, Tanzania, Zambia and Bolivia that NGOs and their coalitions have been "totally unable to influence macro-economic policy or even engage governments in dialogue about it."[69]



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64 *"Inclusive Circles Lost in Exclusive Cycles,"* ActionAid USA Briefing. January 2002. Based on experiences of ActionAid staff and partners in Haiti, Kenya, Malawi, Nepal, Rwanda, Uganda and Vietnam. A contribution to the first Global Poverty Reduction Strategies Comprehensive Review.

65 *"Ignoring the Experts: Poor People's Exclusion from Poverty Reduction Strategies,"* Christian Aid Policy Briefing. October 2001. Prepared in partnership with INESC, Rede Brasil, Mozambique Debt Group, LINK, CEDLA, UNITAS.

66 *Ibid.*

67 *"The IMF's Poverty Reduction and Growth Facility: A Blind Alley,"* by CEDLA (with support from Oxfam), May 2003.

68 *Ibid.*

69 *"Civil Society in the PRSP Process."* Report for DFID Mozambique by McGee, R. and N. Taimo (2001); see also: *"Do PRSPs Empower Poor Countries And Disempower The World Bank, Or Is It The Other Way Round?"* QEH Working Paper Series – University of Oxford Working Paper Number 108. by Frances Stewart and Michael Wang.

70 *"Experience with Poverty Reduction Strategies in Latin America and the Caribbean,"* Overseas Development Institute. PRSP Synthesis note 5. February 2003; see also: *"Do PRSPs Empower Poor Countries And Disempower The World Bank, Or Is It The Other Way Round?"* QEH Working Paper Series – University of Oxford Working Paper Number 108. by Frances Stewart and Michael Wang.

Honduran NGOs have complained of being excluded from workshops on the macroeconomic chapter of their PRSP, which was included in the final document without ever having been circulated to CSOs or parliamentarians for discussion and input.[70] Another study of six African PRSP and interim-PRSP policy discussions noted that the workshops rarely discussed sequencing of policy reforms or alternative policies and possible trade-offs, and only in only one (Uganda) was there discussion on the impact of structural adjustment.[71] Vietnamese NGOs said their national policies on poverty "may well be country-owned," but "there will be little that is country-owned in terms of the macroeconomic framework in which such policies will be carried out, if Vietnam wants the loans."[72]

A February 2002 report by Institute for Development Studies noted that civil society participation in PRSPs has been the subject of several studies, most of which conclude that it has been "patchy, limited to consultation rather than decision-making, and without impact at all in the field of macroeconomic policy."[73]

A May 2003 study by the UK Gender and Development Network that analyzed the form that gender issues have taken in the PRSPs of Tanzania, Bolivia, Malawi and Yemen found:

> **"In some of the case studies, civil society opposition to neoliberal adjustment, macroeconomic policies and indebtedness take the form of alternative visions of development that embody deep-rooted criticism of past government economic policy. Their criticisms of the link between these issues and poverty reduction have not been allowed to surface within the PRSP process…"[74]**

Regarding Tanzania and Bolivia, the report noted:

> **"…Alternative visions of development have been advanced in opposition to neoliberal adjustment, macroeconomic policies and indebtedness. These have been extremely critical of government economic policy and oppose the core elements of the current round of PRSPs. Despite the increase in national debates around PRSPs about poverty and government spending, strong criticism of the existing economic model and its failure to reduce poverty has not been allowed to surface within process."[75]**

An August 2003 report by CIDSE/Caritas International concluded the World Bank has generally become more open to engaging civil society in dialogue on social policy. However, "it is just as rigidly opposed to dialogue on its own macroeconomic policy."[76] In Honduras, civil society was consulted on only one pillar of the PRSC–that which dealt with governance, transparency and public sector efficiency. Problems identified by civil society became conditions attached to the PRSC. While risky in terms of government ownership, the reforms were generally desirable.
For example, one condition was a system of monitoring and evaluation for the PRSP which would involve civil society. However, the section of the PRSC on growth, investment and competition–where civil society also had policy opinions to offer–"was not opened up to consultation."[77]



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71 *"Reviewing Some Early Poverty Reduction Strategy Papers in Africa,"* by Robb, C. and A. Scott. 2001. IMF policy discussion paper PDP/01/5; see also: *"Do PRSPs Empower Poor Countries And Disempower The World Bank, Or Is It The Other Way Round?"* QEH Working Paper Series University of Oxford Working Paper Number 108. by Frances Stewart and Michael Wang.

72 *"Macro Policy Analysis on Trade Liberalization, Agriculture and Gender in Vietnam"*, by Pham, TuongVi and Michael Karadjis, with contribution from Han,Tuyet Mai. Center for Natural Resources and Environmental Studies, Vietnam National University, Hanoi – research conducted for Gender and Trade Workshop coordinated by Women's Agenda for Change/Oxfam HK Cambodia in Phnom Penh June 23-30, 2003.

73 *"Assessing participation in poverty reduction strategy papers: a desk-based synthesis of experience in sub-Saharan Africa,"* by McGee, Rosemary, Josh Levene, and Alexandra Hughes, Research Report 52. Institute for Development Studies. February 2002.

74 *"Failing Women, Sustaining Poverty: Gender in Poverty Reduction Strategy Papers,"* by Ann Whitehead. Report for the UK Gender and Development Network. May 2003.

75 *Ibid.*

76 *"Evaluation of Poverty Reduction Strategy Papers."* CIDSE/Caritas International input to the IEO/OED Review. by Caoimhe de Barra. August 2003.

77 *Ibid.*

Pakistani CSOs said: "We feel it is imperative to completely re-evaluate all prevailing norms about policy formation and how we conceive of 'participation'."

A November 2001 study by the International Confederation of Free Trade Unions (ICFTU) documented that one problem frequently faced by trade unions and other CSOs once the PRSP process gets going is that governments have often been reluctant to broach some key questions that have an impact on poverty levels. These were notably issues such as monetary policy, overall government budget management, exchange rate policy and the trade regime. Governments, presumably with the backing of the IFIs, "have tended to try to keep discussion limited to spending decisions regarding the use of resources coming from debt relief or new IFI concessionary loans."[78]

According to the study, when governments have accepted discussions on broader fiscal and monetary issues, in some cases they have only done so in a very controlled manner. For example, in Malawi the government accepted to create a PRSP working group on "macroeconomic and poverty targets" only after repeated insistence by civil society organizations, and in spite of the fact that nineteen other thematic groups had been created as part of the PRSP process. After the government finally agreed to create the macroeconomic group, only two civil society representatives were allowed to participate in it, "and they were handpicked by the government to attend meetings alongside representatives of the IMF and World Bank."[79]

The ICFTU report questioned the implications of governments like Malawi acquiescing to such a procedure, and raised concerns about how seriously in-country IFI representatives took the country-ownership and civil-society-participation features that are supposed to be key elements of the PRSP process. The ICFTU stated: "Trade unions believe that macroeconomic policy inevitably has an important impact on growth and poverty reduction. They should be an important part of a comprehensive poverty reduction strategy and be submitted to the same degree of civil society consultation as all other issues."[80]

An October 2002 open letter signed by ActionAid Pakistan and 34 other NGOs and labor unions to the PRSP Secretariat in the Pakistani finance ministry stated:

> **The content of the I-PRSP…indicates that no genuine participation has taken place–the thrust of the document is that fiscal stabilization remains a precursor to growth, which remains a precursor to poverty reduction. This neoliberal philosophy has characterized policy prescriptions of the IFIs over the past two decades, and has brought Pakistanis nothing but sharp increases in social, economic, and environmental poverty.**
>
> **…The entire PRSP process has simply reinforced a previously tried and failed policy paradigm. It has also undermined democratic political processes within the country and thereby threatens the sovereignty of the state itself. We cannot ascribe to the conceptions of development that have been propagated through this process. We feel it is imperative to completely re-evaluate all prevailing norms about policy formation and how we conceive of "participation". Without thorough, critical debates on these issues, it is impossible for us to feel comfortable with interacting with the government and international actors on such issues. As such therefore, we reject the PRSP, both as a process and in its content.**[81]



78 International Confederation of Free Trade Unions (ICFTU) Submission to IMF/World Bank Review on the PRSP Process. Washington DC. November 13, 2001.

79 *Ibid.*

80 *Ibid.*

81 *"Letter rejecting the PRSP,"* by 35 Pakistani NGOs and labor unions to the PRSP Secretariate within the Ministry of Finance, Pakistan. October 22, 2002.

82 *"PRSP Dangers Exposed Again."* Bretton Woods Update. No.33. March/April 2003. London, Bretton Woods Project. See also: *"Treacherous Conditions,"* World Development Movement.

83 *"Malawi,"* by Jenkins, R. and Tsoka, M. (2003). Development Policy Review. 21(2), March 2003.

84 "Benin," by Bierschenk, T., Thioleron, E., and Bako-Arifari, N. (2003). Development Policy Review. 21(2), March 2003.

85 *"Mali,"* by Dante, I., Gautier, J., Marouani, M., and Raffinot, M. (2003). Development Policy Review. 21(2), March 2003.

86 *"New Strategies, Old Loan Conditions: Do the New IMF and World Bank Loans Support Countries' Poverty Reduction Strategies? The Case of Uganda."* by Nyamugasira, W. and Rowden, R. 2002. Bretton Woods Project.

In April 2003 it was reported that civil society organizations protested the Sri Lankan PRSP because it "has been drafted without any consultation of civil society and differs very little from previous IMF recommendations."[82] Similar criticisms of World Bank and IMF-dominated processes that lack real civil society involvement and little consideration of alternative policies to structural adjustment have been leveled against the PRSP processes in Malawi,[83] Benin,[84] Mali,[85] Uganda,[86] Mozambique[87] and Tanzania.[88]

A December 2003 joint report on the PRSP process by Church of Sweden, Diakonia, Save the Children Sweden and the Swedish Jubilee Network, which drew on their partners' experiences, documented that agendas for civil society consultations were set by governments and international actors without prior consultation, thereby constraining the ability of civil society to take up the issues most pertinent to them:

> **"Governments have often (though not universally) excluded civil society from discussion of economic policy, limiting discussions to social elements of poverty reduction policy. Furthermore, contents of macroeconomic policies contained in the World Bank Country Assistance Strategy (CAS) and [the IMF] Poverty Reduction and Growth Facility (PRGF) have not been subject to public debate. In some countries these and other factors have led to frustration and conflict between civil society groups and government…"**[89]

In addition to many reports by national and international civil society organizations, the World Bank and the IMF have also documented the problem as well. For example, in an IMF/World Bank March 2002 review of PRSPs, they stated: "The macroeconomic policy and structural reform agend–for example, trade liberalization and privatization –are, however, sometimes not even on the table for discussion. Even countries like Uganda that have a rich history of macro-level participation do not indicate that civic inputs have substantially shaped the direction of ongoing fiscal and agricultural reforms".[90]

A September 2002 Progress Report for the joint IMF-World Bank Development Committee on the implementation of PRSPs similarly concluded, "there remains substantial scope for improvement, particularly in opening up the macroeconomic and policy dialogue…"[91]

The internal and quasi-independent "watchdog" research arms of the IMF and World Bank have undertaken a joint research project on aspects of the PRSP process. The evaluation undertaken by the IMF's Independent Evaluation Office (IEO) will be conducted in parallel with that of the World Bank's Operations Evaluation Department (OED). In a preliminary Issues Paper for their study, the IEO noted:

> **"Areas leaving most scope for further improvements [include] a perceived need to encourage deeper and broader discussion and analysis of the macroeconomic framework and the policies in PRGF-supported programs, with increasing focus on the analysis of the sources of growth."**[92]



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[87] *"Mozambique,"* by Falck, H., Landfald, K., and Rebelo, P. (2003). Mozambique. Development Policy Review. 21(2), March 2003.

[88] *"Tanzania,"* by Evans, A., and Ngalwea, E. (2003). Development Policy Review. 21(2), March 2003.

[89] *"Reducing Poverty or Repeating Mistakes? A Civil Society Critique of Poverty Reduction Strategy Papers."* by Diana Sanchez and Katherine Cash. Church of Sweden, Diakonia, Save the Children Sweden and the Swedish Jubilee Network. December 2003.

[90] *"Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs."* IMF/World Bank. March 26, 2002.

[91] Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund On the Transfer of Real Resources to Developing Countries) Poverty Reduction Strategy Papers (PRSP)– Progress in Implementation. September 13, 2002. DC2002-0016.

[92] *"Evaluation of Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility"* International Monetary Fund's IEO Evaluation: Independent Evaluation Office of the IMF. Issues Paper/Terms of Reference. January 31, 2003.

To inform their Issues Paper, the IEO had solicited a questionnaire from external sources and collected the comments, including the following assessment about the lack of public discussion on structural adjustment policies generally, and the macroeconomic framework in particular:

> **"Some critics also suggest that the level of civil society participation tends to decline or break down altogether as the PRSP process approaches key final stages. They argue that the final document tends to be substantially different in language from the penultimate one discussed with stakeholders. Thus, while the participatory process initially raises a number of expectations on the evolution of policies, the final version of the PRSP does not always reflect conclusions of the civil-society based consultation process. Other observers argue that the inability of the participatory process as implemented to address conflicting interests/policy tradeoffs means that it inevitably has a limited impact at the implementation stage. Such problems may be greatest for macro-economic policy formulation–where the IMF has primary responsibility."**[93]



In understanding why structural adjustment policies have not been discussed in PRSP consultations, one important factor is the lack of economic literacy on the part of governments and civil society. Many governments have limited technical capacity relative to the substantial complexities inherent in establishing macroeconomic policies and targets. For example, the IMF and World Bank are calling on governments to more openly discuss the selection, impacts, and trade-offs of various macroeconomic policies (i.e., lower budget deficits versus higher spending on poverty reduction). Yet, there are questions about the extent to which many governments are capable of effectively engaging in such discussions–even where they may be willing to do so. There are also major challenges in establishing a participatory process and the complexities of economic issues may in the short term limit the extent to which civil society can challenge the IMF's favored neo–liberal macroeconomic policies or other structural adjustment policies. This can be especially politically difficult in countries that lack democratic or representative traditions and thus have few existing means for getting citizen or civil society organizations' input or for electing representatives to such public discussions.

A review by the research arm of the US Congress, the General Accounting Office (GAO), noted that:

> **"Even if the capacity of the national governments were improved and civil society were effectively engaged in a dialogue on the macroeconomic framework, national ownership would be hampered by the current limitations in economic knowledge on how different policies actually affect elements of the macroeconomic framework. The World Bank and others are attempting to develop models that may help explain the impact of various policies, but the process is slow due to technical complexities and limited country-specific data."**[94]

Many other observers of the PRSP process have also highlighted the problem of a lack of economic literacy among the civil society organizations as impeding macro-economic policy debates in the PRSP consultations. The Institute for Development Studies reported:

> **"Many civil society sources cite weaknesses in their own capacity as a prime reason why they failed to make an impact on PRSP content, besides the reluctance of governments and IFIs to extend consultations to macroeconomic policy issues…While the 'soft policy areas' of health and education are ones they are often familiar with through operational work or professional training, capacity to analyze and formulate macroeconomic policy is virtually non-existent in the southern NGO sector."**[95]

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[93] *Ibid.*

[94] *Ibid.*

[95] *"Assessing participation in poverty reduction strategy papers: a desk-based synthesis of experience in sub-Saharan Africa,"* by McGee, Rosemary, Josh Levene, and Alexandra Hughes, Research Report 52. Institute for Development Studies. February 2002.

CSOs should consider these very real constraints when assessing what is possible with their continued engagement and commitment of resources in the PRSP process.

This considerable problem of economic illiteracy among civil society and borrowing governments is further exacerbated by the intellectual hegemony of the Bank when it comes to development policy and dominant neoliberal economic theory: "Through its global and national-level studies, and its extensive network of official, journalist and academic contacts, the Bank has a strong influence on policy debates…"[96] The IFIs even provide a 1,000 page "PRSP Sourcebook" to borrowing governments to help facilitate the drafting of the "right" policies favored by the institutions. Some African finance ministers conceded they are comfortable taking the lead from the "knowledge Bank" when it comes to policy making.[97]

However, it might be false to assume that if only economic literacy levels were improved, then vigorous and lively public debates over structural adjustment policies would occur in the PRSP consultations. Despite the serious problems with the lack of economic literacy generally, there are in fact several places where sufficient economic literacy capacity exists among CSOs to engage in policy discussions yet this has still not been allowed to occur. Despite the importance of economic illiteracy as a factor in the equation, after four years of a near total absence of public debates on structural adjustment policies within the PRSP consultations in countries, today CSOs should ask if there are there *other* factors besides the economic literacy of CSOs and governments, such as the degree to which borrowing governments actively engage in self-censorship and curtail the agendas of public PRSP consultations.

As mentioned in Part 1, the most important reason why structural adjustment policies have not been debated the PRSP consultations may very well be this self-censorship dynamic among the borrowing governments, who may reasonably fear that if public discussions are free and open they could lead to advocacy for alternative policies in draft PRSPs that would be rejected as "unsound" by the JSA pre-screening process. For this reason, fundamental political constraints that stem from the power inequality between creditors and debtors tend to narrow the confines of what is possible to discuss within the public PRSP consultations. CSOs should consider these very real constraints when assessing what is possible with their continued engagement and commitment of resources in the PRSP process.

The issue was further elaborated in advance of the fall 2003 annual meetings of the IMF and World Bank, in a joint institutional report on the progress of PRSP implementation that offered a detailed and frank assessment of this problem. A section of the report titled, "Macroeconomic Dialogue and Fund Engagement in the Participatory Process," is worth quoting. Rather than providing a space where parliamentarians and civil society could actually debate the current structural adjustment policies or proposals for alternatives, the report described the limits of participation by CSOs in the process: "More commonly, however, rather than involvement in formulation, there tends to be an emphasis on participatory monitoring of macroeconomic developments. These limitations are ***partly*** an issue of country capacity: deepening and widening of skills is necessary to strengthen ownership of macroeconomic frameworks."[98] However, the report neglected to elaborate on what the other parts of the problem might be. In response to a follow-up request for this paper, the IMF elaborated on its use of the word "partly" to further describe the dynamic of self-censorship among the borrowing governments:

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[96] *"Blinding with Science or Encouraging Debate? How World Bank analysis determines PRSP policies,"* by Alex Wilks and Fabien Lefrancois. Bretton Woods Project. 2002.

[97] *"Transcript of a Press Conference of African Finance Ministers and Governors of Central Banks"*. April 11, 2003. International Monetary Fund.

[98] *"Poverty Reduction Strategy Papers—Detailed Analysis of Progress in Implementation Prepared by the Staffs of the IMF and World Bank"* International Monetary Fund and International Development Association. September 15, 2003.

This four-year track record of the absence of such discussions in the official PRSP consultations suggests that the original promises about what the PRSP process would offer have not been fulfilled.

> **"The report in question said that the lack of macroeconomic dialogue is partly due to a capacity issue. This is an acknowledgement that there could be a host of other issues, from the fact that certain issues if publicly discussed can lead to a destabilizing result (like exchange rates levels or banking crises), to the poor coordination in timing of the budgetary/macroeconomic discussion and the PRSP participatory process to the unwillingness of some authorities to engage in such discussion. We do not have an inventory of such impediments, but there are many things that can impede such discussions."[99]**

The fall 2003 joint IMF-World Bank report further conceded:

> **"More generally, there has been limited progress in the set of recent full PRSPs…in opening the public debate to include a discussion of the macroeconomic framework. This reinforces the earlier criticisms from civil society groups and other observers that tough policy choices and trade-offs are routinely considered only between ministry of finance and central bank officials and Fund staff during discussions regarding the PRGF-supported program, rather than in the PRSP participatory process."[100]**

However, it is striking that the IFIs' report concluded by calling on the borrowing governments, not themselves or other major donors or creditors, to "take the initiative in mainstreaming the discussions of macroeconomic frameworks and polices in the participatory processes," and insisting that governments "need to provide an explicit forum for macroeconomic dialogue in the context of the PRSP process." The recommendation solely to governments implies that it is borrowing governments alone who are responsible for the lack of the public dialogue on the macroeconomic framework and other structural adjustment policies. Such an assessment sidesteps the dynamic of why borrowing countries engage in self-censorship and the power imbalances between borrowers and creditors that drive it.

The IMF promised to engage with civil society early in the PRSP process, stating, "It is important that Fund engagement in the participatory process begin early—at the stage when PRSPs are being formulated—and be ongoing, and that the Fund continue its outreach efforts to civil society and donors." However, despite the responsibility for mainstreaming the discussions of the macroeconomic framework being placed solely with the borrowing governments who lead the consultations, the IMF makes it quite clear that it shall still be carefully involved where it counts:

> **"The Fund needs to remain aware of all important steps in the design and evolution of the macroeconomic frameworks contained in PRSPs, on which PRGF programs are to be based—early and ongoing engagement is crucial in this regard."[101]**

The US Treasury Department, which dispatches its US Executive Directors to the boards of the IMF and World Bank and has predominant influence in both institutions, likely has some opinion about the fact that structural adjustment policies have not been debated in the PRSP consultations. But in interviews for this report, Ms. Judy Laufman, who works on PRSPs at US Treasury, and Mr. Peter Dohlman of US Treasury, who served as Assistant to the US Executive Director at the IMF, said they could not comment on why the structural adjustment policies had not been more fully debated in the public PRSP consultations because they are not directly involved in that process. Mr. Dohlman did express the view that "there should be an open discussion around macroeconomic policies in PRSP consultations."[102]

This four-year track record of the absence of such discussions in the official PRSP consultations suggests that the original promises about what the PRSP process

[99] Email discussion with Simonetta Nardin, IMF NGO Liaison. March 19, 2004.

[100] *Ibid.*

[101] *Ibid.*

[102] Interview with Judy Laufman at US Department of Treasury. November 5, 2003; Interview with Peter Dohlman at IMF. December 16, 2003.

The fact that the conditions demanded by the PRGF Arrangement have ended up constraining and limiting the possibilities of PRSPs raises important questions about the limitations of CSO and parliamentary participation in the PRSP process.

would offer have not been fulfilled. Since 1999 the World Bank and IMF have been telling their critics and protesters around the world to come in from out in the streets and participate in a genuine dialogue and develop country-owned national strategies. After four years, the clear pattern that has emerged is one in which the IMF and World Bank remain "aware of important steps in the design and evolution" of PRSPs, and civil society and parliamentarians remain excluded from discussions of structural adjustment policy reforms and possible alternatives. The track record shows that CSOs are not being truly asked to assess the fundamental policies that actually affect their countries' economies, and this amounts to a severe limitation on the participation in PRSP consultations.

## *Alignment with PRGFs*

Officially, a country's PRSP is supposed to provide the basis for an IMF PRGF Arrangement. The PRGF is supposed to flow from the PRSP. However, much evidence exists to indicate that the reality is the other way around– that PRSPs must in fact be aligned with the dictates of PRGF conditions. The fact that it is actually countries' PRSPs which must conform to the IMF's predetermined PRGF-related conditions has been the focus of much attention. The track record in this regard contrasts sharply with the original 1999 promises the IMF had made about the ways in which the PRGF would be based on the PRSP process:

> **"All PRGF-supported programs would stem from, and be drawn from, the PRSP and be formulated with country authorities in close coordination with the World Bank…most targets and policies embodied in PRGF programs will emerge directly from the country's poverty reduction strategy…Structural conditionality in Fund programs would be drawn from, or elaborate on, the structural measures identified in the PRSP"[103]**

The fact that the conditions demanded by the PRGF Arrangement have ended up constraining and limiting the possibilities of PRSPs raises important questions about the limitations of CSO and parliamentary participation in the PRSP process. That PRSPs are actually aligned by PRGFs implies that even if public discussions on macroeconomic and structural policies were allowed in the PRSP consultations, it would not change the political reality that the national economy will still be shaped by the conditions of the PRGF Arrangement. In other words, public consultations on these policies may not matter since the policies are already predetermined by the lending conditions of the IFIs.

Today one could reasonably assume that public debates on structural adjustment policies have not materialized simply because the IFIs never intended to relinquish control over this debate. The IMF's use of the word "most" in the above passage to describe the targets and policies embodied in the PRGF implies that there has always been the possibility of *other* PRGF-directed targets and policies that may be different from those in a country's PRSP, and that the PRGF credit line might even be conditioned on such other targets and policies that are *not* in the PRSP. But according to the official rhetoric about the PRSP philosophy and proper sequencing, this should be impossible.

Regarding the 1999 promises about the PRSP-PRGF relationship, again, the IMF stated, "Structural conditionality in Fund programs would be drawn from, or elaborate on, the structural measures identified in the PRSP".
The European network of development NGOs, EURODAD, questioned the meaning of the IMF's use of the phrase "or elaborate on" to describe how it would work with the structural measures identified in the PRSP when determining its structural conditionality in PRGFs.[104] CSOs and other

103 *"Concluding Remarks by the Chairman of the IMF's Executive Board,"* International Monetary Fund. December 21, 1999; see also; *"An Independent Guide to PRSP,"* by EURODAD.

104 *"An Independent Guide to PRSP,"* by EURODAD.

When governments backtrack on the PRSP's "priority public actions," the donors and creditors then decide amongst themselves which of the priorities they will finance, thereby overturning the "country-owned" aspects of the plan.

participants in the PRSP consultations should ask to what degree does the IMF's "elaborating on" the PRSP possibly undermine a country's own participatory PRSP process?

The IMF has been recently carrying out research which examines the key issues confronting low-income countries which are designing and implementing their national poverty reduction strategies. This has been part of an effort to address the IMF's "knowledge gaps" in key areas regarding PRSPs, as identified in the March 2002 joint Bank/IMF review of PRSPs and the IMF review of its PRGF.

In April 2003, the IMF and World Bank organized a workshop with the UK government on "Macroeconomic analytical issues in taking the PRSP approach forward" held in Washington DC. It gathered around 50 participants from academia, lending and borrowing governments, civil society, and staff from the Bank and the IMF and other multilateral institutions. The aims of the workshop were to identify and prioritize medium-term areas of research and discuss the current guidance for countries, donors and IFI staff on macroeconomic analysis underlying PRSPs. A joint World Bank-IMF research conference planned for mid-2004 will review preliminary findings.[105]

One of the notes presented at the workshop was derived from a recent paper for discussion by the Executive Board of the IMF and entitled "Aligning the PRGF and the PRSP approach–issues and options,"[106] and caused concern among workshops participants. It addressed issues that have led to criticisms that the PRGF is disconnected from the PRSP process. Many observers have complained that despite talk of "country ownership" and governments being "in the driver's seat," numerous nationally-designed, supposedly country-owned poverty-reduction strategies have mimicked IMF prescriptions used in previous programs, especially the macroeconomic components. However, the IMF considers a PRSP as a country's "business plan", and believes that to date, many PRSPs are very ambitious because they are based on optimistic assumptions of levels of external assistance, capacity to absorb more foreign aid, future growth performance and poverty outcomes. As a consequence, the PRSPs differ markedly from more "realistic" government annual budgets that are more in line with targets specified in actual IMF loan agreements.[107] This has led to two opposing visions of the national budget: an overoptimistic one for the PRSP consultations, and a more realistic one for the government and donors/creditors to negotiate behind closed doors.

The danger of such divergent budget projections is that when public expenditures identified in the PRSP process are based on the IMF's overoptimistic projections for economic growth or exports and these fail to materialize in reality, governments are forced to backtrack on expected budget outlays. When governments backtrack on the PRSP's "priority public actions," the donors and creditors then decide amongst themselves which of the priorities they will finance, thereby overturning the "country-owned" aspects of the plan.

When the IMF changed the name of its Enhanced Structural Adjustment Facility (ESAF) loan to the PRGF Arrangement three years ago, it announced that it would reduce or "streamline" the total number of loan conditions and that the conditions would be aligned with PRSPs. By declaring this, the IMF seemed to recognize that macroeconomic parameters needed to be adjusted in line with poverty



105 *"Weakest Link or Missing Link"* Bretton Woods Update. No. 34–May/June 2003. by Bretton Woods Project (UK). http://www.brettonwoodsproject.org/missing

106 *"Aligning the IMF's Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Approach,"* International Monetary Fund. April 25 2003.

107 *"Weakest Link or Missing Link"* Bretton Woods Update. No.34–May/June 2003. by Bretton Woods Project (UK). http://www.brettonwoodsproject.org/missing

108 International Confederation of Free Trade Unions (ICFTU) Submission to IMF/World Bank Review on the PRSP Process. Washington DC. November 13, 2001.

109 *Ibid.*

UK-based Bretton Woods Project described what it calls the "missing link" between what countries consider desirable and necessary for their national budgets and what the IMF considers realistic.

reduction objectives. However, there is a general sense that this has not been the case in practice. A study of 23 PRSPs by the International Confederation of Free Trade Unions (ICFTU) concluded, "we have seen little indication so far that the Fund has been more flexible in terms of fixing fiscal and monetary policy benchmarks in order to align them with PRSPs."[108] In addition, by declaring that the IMF will no longer concern itself with social issues that are outside of its "core areas of expertise," even if they are important components of poverty reduction strategies, the risk exists that the gulf between macroeconomic policy and poverty reduction goals will grow even greater. In this way, "'streamlined conditionality' could create situations in which IMF conditionality systematically undermines national poverty reduction strategies."[109]

The IMF has stated that solutions to this problem are "not so simple". But the UK-based Bretton Woods Project noted that, "If donors were really serious about supporting ambitious national plans designed to reach targets often linked to the Millennium Development Goals (MDGs), they would show flexibility and align programs linked to their assistance on actual, if ambitious, national priorities."[110]

But the solution to this problem proposed by the IMF is rather different. The IMF's note presented at the Washington DC workshop proposed to reconcile this current tension between the realistic and overoptimistic budget projections by "explicitly adopting in PRSPs two frameworks: each of which would serve a different purpose". One would be the "ambitious business plan" putting forward the country's vision, the other one an "operating plan" or a "baseline framework" of what can "realistically" be achieved in light of existing constraints. For example, in Cameroon the JSA of the country's PRSP recognized the value of a second, more optimistic budget scenario focusing on the poverty-reduction Millennium Development Goals (MDGs), saying it is "instructive for the current PRSP and for future analysis and debate"; however, despite this, the JSA fully supported the more "realistic" budget scenario based on the IMF's PRGF targets, including targeting a fiscal surplus.[111]

The IMF's two alternatives to solve the apparent contradiction in budget scenarios would be either: 1) to make the PRSP less ambitious by basing it on existing capacities, resources and policies; or 2) continue to have the PRGF based on the more "realistic" baseline national budget and to thereby accept a continuing disconnect from the PRSP's more optimistic national budget projections. But these choices of alternatives is not what civil society, parliamentarians, protesters and long-time critics of structural adjustment policies were promised at the introduction of the PRSP process and will not likely be considered acceptable by the public.

UK-based Bretton Woods Project described what it calls the "missing link" between what countries consider desirable and necessary for their national budgets and what the IMF considers realistic. The IMF claims it is ready to learn the lessons of its own failures in terms of its previous overoptimistic economic growth projections that have led to high expectations in the past, but it remains difficult to reconcile the IMF's recent emphasis on "country ownership" and its commitment to contribute to the MDGs with its apparent reluctance "to cede control over the macroeconomic policies of borrowing countries and let them choose between a range of [alternative] options."[112]



110 *"Weakest Link or Missing Link"* Bretton Woods Update. No.34– May/June 2003. by Bretton Woods Project (UK). http://www.brettonwoodsproject.org/missing

111 *"Joint Staff Assessment of the Cameroon PRSP,"* by World Bank/ IMF. August 2003. See also: *"The IMF and the Millennium Goals: Failing to Deliver for Low Income Countries."* Oxfam Briefing Paper 54. September 2003. with EURODAD. Regarding fiscal surplus plans, the IMF has moved in recent years from limiting borrowing countries' deficit spending levels, to not allowing any deficit spending at all, to more recently demanding that some countries actually curtail spending in order to maintain budget surpluses–this, even at a time when countries are experiencing nearly 50% unemployment levels and/or are in full-blown economic depressions. In contrast, rich countries are free to engage in deep deficit spending even during only mild economic recessions.

112 *"Weakest Link or Missing Link"* Bretton Woods Update. No.34– May/June 2003. by Bretton Woods Project (UK). http://www.brettonwoodsproject.org/missing

"There was minimal discussion of the macroeconomic framework in any of the PRSP processes"

In reaction to the IMF note presented at the Washington DC workshop, a group of NGOs including Oxfam, World Vision and others joined with the EURODAD Network to submit an open-letter response. The NGOs noted that "Firstly it is important to note that in many countries the disjuncture was not between the PRGF and the PRSP as such, but between the macro-framework of the PRSPs and their spending plans. In the majority of cases, the PRGF was agreed before the PRSP, and its macroeconomic framework is based entirely on the agreed PRGF targets."[113]

The open-letter response by these NGOs underscored there is a consistent problem resulting from both a significant over-optimism on future economic growth rates and levels of exports while also continuing to use conservative, contractionary targets on deficits (or surpluses) and inflation. "There was minimal discussion of the macroeconomic framework in any of the PRSP processes," but at the same time "spending plans in PRSPs often were drawn up in the absence of expenditure ceilings until very late in the process, and despite some prioritization were often costed at far more than the resources available."[114]

Given this existing disjuncture between realistic and overoptimistic budget projections is already problematic, there is reason for concern that the IMF's proposed plan to further divide the two tracks (between a more general "business plan" for the PRSP process and a more realistic "baseline macro-economic framework" for the actual national budget) would only worsen the disjuncture problem. Rather than introducing greater realism and ownership to the PRSP process, it would instead support the perception that the real decisions regarding resources are being made elsewhere, and that the PRSP is in fact redundant. On the other hand, arguably, an optimistic and ambitious PRSP could be useful in signaling to other donors where the financing gaps are in budget priorities, even where it continues to diverge from the PRGF.

One assessment is that the IMF's note was not an official IMF paper, and it is likely that the idea was being thrown at participants to see what initial reactions would be and adjust consequently. In any case, going ahead with this approach might further undermine the legitimacy and usefulness of the entire PRSP exercise, which is already increasingly questioned by a number of stakeholders.

US Treasury's Peter Dohlman agreed that there has been a disconnect between PRGFs and the PRSPs, and added that even low baseline scenarios in PRGFs were in some cases still not "realistic".[115] The US Treasury's position is that "PRSPs must be consistent with PRGFs and national budgets, and PRGF baseline scenarios need to be even more realistic." And PRSPs "have to be more realistic, monitorable, costed and well-prioritized."[116]

There is evidence to suggest that some IMF executive board members would be willing to consider formalizing the fact that the PRSP is truly aligned by a PRGF based in realism, rather than continuing to pretend it is the other way around. Doing so would perhaps dampen the over-optimism of the PRSPs, but it would solve the problem of the increasing disconnect with PRGFs. However, doing so would also make clear the inability of CSOs or parliamentarians to have an impact on core macro-economic and structural policies, and truly call into question the efficacy of continued CSO participation in public PRSP consultations.

What is at issue in this PRSP-PRGF discrepancy is: Will the IMF and finance ministries cede any control to CSOs over decisions on targeting the levels of the budget deficit,



113 *"Comments on 'IMF Staff Note on Macroeconomic Programming for Poverty Reduction'"* Open Letter by NGOs. May 26, 2003. www.brettonwoodsproject.org

114 *Ibid.*

115 Interview with Peter Dohlman at IMF. December 16, 2003.

116 *Ibid.*

117 *"Merging in the Circle: The Politics of Tanzania's Poverty Reduction Strategy"* by Jeremy Gould and Julia Ojanen. Institute of Development Studies, University of Helsinki. Policy Papers 2/2003.

What is at issue in this PRSP-PRGF discrepancy is: Will the IMF and finance ministries cede any control to CSOs over decisions on targeting the levels of the budget deficit, overall spending, and inflation?

overall spending, and inflation? PRSPs which actually seek to achieve measurable poverty-reduction, let alone the MDGS, will ultimately require far greater scaling-up of public expenditures than is currently possible under current IMF budget austerity. Can PRSPs that are costed according to what it would require to fulfill the MDGs ever be compatible with the IMF's deflationary budget austerity in its PRGFs? Until this fundamental contradiction is addressed and resolved in open, meaningful public debates, those CSOs participating in PRSP consultations will continue to be limited by it.

## *Structural Adjustment Policies Remain Unchanged in PRGFs and PRSCs*

A review of Tanzania's PRSP process and the subsequent structural adjustment loans to the country was critical of the limited impact the PRSP process had in changes to the controversial structural adjustment policies. "In its substance, the PRSP represents a limited and short-sighted approach to Tanzania's development options which replicates the neoliberal conditionalities of earlier structural adjustment policy."[117] The PRSP privileges budget allocations to social sector spending (primary health and education) "at the expense of the longer-term structural issues like factor productivity, employment, the viability of small-holder agriculture and agro-industrial linkages." The review observed:

> **"The Government's responsibility for promoting economic transformation is largely restricted to budgetary instruments for the management of aid-sponsored public expenditure. Tanzania's marginal position in the global market is taken for granted. The neoliberal policies of privatization, trade liberalization and economic deregulation have not resolved core economic problems in the past and no reasons are given as to why the same measures should be more effective this time around. In leaving crucial policy issues aside, the PRS process deteriorated into an exercise of 'budgetism' as against a genuine consideration of the various policy alternatives available to Tanzania."[118]**

A 2002 Report by the United Nations Conference on Trade and Development (UNCTAD) noted that "the IFIs' model for poverty reduction strategies shows strong continuity with the structural reform and liberalization agendas that have been pursued for more than 20 years. Macroeconomic policy remains unaltered."[119] There has been a much more significant break with the past in terms of the processes of policy formulation than in the content of the policies, "which show a continued commitment to the economic reform and liberalization that characterized structural adjustment policies."

A study by the US Congress' General Accounting Office (GAO) on this phenomenon titled, "Few Changes Evident in Design of New Lending Program for Poor Countries," found that although the PRGF envisions consolidating the program elements into a single framework and giving them greater prominence, "GAO believes that such a change represents a shift in emphasis rather than a change in the Fund's stated philosophy, with signs of this shift evident over the past few years."[120] The GAO report further described the situation:

> **"The design of the Poverty Reduction and Growth Facility does not differ significantly from the Enhanced Structural Adjustment Facility because the new program includes elements that have been pursued under the previous program for a number of years. One change in the new program—that the macro-economic targets and policies in Fund programs will emerge from a government-led process involving civil society and donors—could be a major departure from how the macroeconomic framework has been traditionally chosen. However, even this builds on features that the Fund has discussed and pursued for some time."[121]**

118 *Ibid.*

119 *"Escaping the Poverty Trap: The Least Developed Countries Report,"* by United Nations Conference on Trade and Development. June 2002

120 *"Few Changes Evident in Design of New Lending Program for Poor Countries."* Report to the Chairman, Committee on Foreign Relations, U.S. Senate. United States General Accounting Office GAO. May 2001. International Monetary Fund GAO-01-581.

121 *Ibid.*

The PSIA tool was based on the recognition that there is scope even in the low-income countries for fiscal flexibility, and therefore for an impact analysis of different economic policy options.

## *Why PSIAs are Not Used*

Poverty and Social Impact Assessments (PSIAs) were initially supposed to be tools designed to assist with ex-ante assessments of various policies in attempts to determine what impacts policies may have, particularly on the poorest sectors of society. In theory, the tool was to provide participants in PRSP consultations with the ability to assess several competing policy approaches and weigh the trade-offs of various economic policy options and alternatives. The IMF made it clear that the PSIA should enable countries "to weigh trade-offs of reforms and to take ownership of the policies to be implemented."

However, a May 2003 review of 11 PRGF agreements by the Economic Policy Empowerment Programme found that PSIAs were not being carried out for the majority of reforms in new PRGF programs.[122] Although macroeconomic reforms were undertaken in 94% of all PRGFs, none of the documents presented a rigorous study analyzing the impact of these reforms. In addition, although privatization was a structural reform in 83% of programs, only 14% of documents contained some form of PSIA done in advance these privatizations.[123] This is further supported by the EURODAD analysis, which found that of the 11 PRGFs analyzed, only one (for Malawi) made reference to PSIA and this was simply in the form of a one page box where the IMF outlined its rationale for the reforms in the program.

The proposal for the creation of the PSIA tool was based on the recognition that there is scope even in the low-income countries for fiscal flexibility, and therefore for an impact analysis of different economic policy options. It was also recognized that considerable work is being done globally on developing different methods for modeling the impact of macroeconomic reforms. However, while there is considerable debate over the extent to which economies and overall frameworks can be fully modeled, what is clear is that simple steps can be taken immediately to examine the impact of discreet options, and that simple "partial equilibrium" models linked to household survey data, are increasingly viable. Given this situation, many CSOs and parliamentarians believe that the PRSP consultations should involve full use of the PSIA for weighing options of various macro-reform scenarios, drawing together the knowledge and learning going on globally, and "using these studies to generate the ownership of macroeconomic frameworks in the context of a country's PRSP."[124] Many believe the IMF has an obligation to offer such a tool and make certain that such a tool is utilized to weigh various policy options, but despite some limited progress, the Economic Policy Empowerment Programme report concluded that "the IMF is essentially failing to deliver on either policy flexibility, or PSIA, ostensibly two of the key features of the PRGF."[125]

Originally the PRGF Arrangement was intended to allow for a new degree of fiscal flexibility by presenting alternative policy scenarios for poverty reduction in each country.[126] These alternative macroeconomic scenarios would enable the public assessment of different policy choices, and would be the basis for PRSP financing frameworks, would be used for signaling needs and mobilizing higher aid commitments from donors, and would allow for larger budget deficits and poverty-reducing spending to be programmed from the outset.[127] However, Oxfam concluded that, "Unfortunately [such] scenarios are rare and where they do exist they are not impacting on programming."[128]



122 "Pro-poor Macroeconomic Policies Require Poverty and Social Impact Analysis" by Rafael Gomes and Max Lawson. May 2003. Economic Policy Empowerment Programme.

123 *Ibid.*

124 *"Comments on 'IMF Staff Note on Macroeconomic Programming for Poverty Reduction'"* Open Letter by NGOs. May 26, 2003. www.brettonwoodsproject.org

125 *"Pro-poor Macroeconomic Policies Require Poverty and Social Impact Analysis"* by Rafael Gomes and Max Lawson. May 2003. Economic Policy Empowerment Programme.

126 *"Key Features of IMF Poverty Reduction and Growth Facility,"* International Monetary Fund. September 1999

127 *Ibid.*

The IFIs' favored structural adjustment policy reforms should be among a set of many various policy options that ought to be weighed and debated in full and open PSIA analyses.

One reason why the PSIA tool may not have been used very much to date is what the IMF and World Bank staff explained to the US General Accounting Office as the "gray area". The IMF and the World Bank consider macroeconomic stability to be a necessary prerequisite for economic growth and poverty reduction, although not sufficient on its own to achieve those goals. Countries that experience macroeconomic instability, such as high inflation rates, have also tended to experience low or even negative economic growth rates. This main concern over the negative effects of macroeconomic instability underlies the IMF's continuing goal that a country's macroeconomic framework and other structural adjustment policies should work to maintain stability, once achieved. "However," the GAO report cautioned, "Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction."[129] According to IMF and World Bank documents, there is a "substantial gray area" between those policies that may be considered too austere and those that cause macroeconomic instability. "Presumably, one goal of including the macroeconomic framework within the national poverty reduction dialogue would be to explore this gray area" to establish an effective mix of policies consistent with the medium-term goals of the country.[130] For example, if deficit spending is pegged at 4% of GDP and inflation at 5% annually, what will be the costs to stability if the deficit is extended to 5% of GDP? At risk is often significant additional revenue for health or education expenditures.

Based on the GAO's analysis of numerous documents and discussions with IMF and World Bank officials, it is difficult to determine whether in fact there is a "substantial" range of macroeconomic policy targets to be discussed and explored within this so-called "gray area."
This is due to two factors:

> **"First, precise identification of the bounds of the gray area is beyond the current understanding of the economics profession. For example, many economists, including some at the Fund, think that inflation above a 7 to 11 percent range is risky, whereas others think the level can be between 20 and 40 percent before it starts to endanger economic growth. Second, the harsh economic realities confronting these very poor countries also work to limit the choice of policies or the amount that spending can be prudently increased over a short period of time. Both of these factors are strongly influenced by the desire to ensure that whatever macroeconomic framework is agreed to, it does not put the country at greater risk of macroeconomic instability."**[131]

Despite the difficulties of defining the boundaries of the gray areas, CSOs and parliamentarians involved in the PRSP process should be given access to effective PSIA tools and the freedom with which to publicly weigh and debate a broad array of various policy options that can include some basic variety of scenarios for national policy directions. The IFIs' favored structural adjustment policy reforms should be among a set of many various policy options that ought to be weighed and debated in full and open PSIA analyses.



128 *"The IMF and the Millennium Goals: Failing to deliver for low income countries."* Oxfam Briefing Paper 54. September 2003. With EURODAD.

129 *"Few Changes Evident in Design of New Lending Program for Poor Countries."* Report to the Chairman, Committee on Foreign Relations, U.S. Senate. United States General Accounting Office GAO. May 2001. International Monetary Fund GAO-01-581.

130 *Ibid.*

131 *Ibid.*

**PART 3**

# Questions for CSOs About Continued Involvement in the PRSP Process

Kalesh Lathigra/NB Pictures/ActionAid

As far back as November 2001, a meeting of national and international CSOs had already agreed that the PRSP process would one day have to be put to the test of credibility:

> **"Engagement around PRSP is not an end in itself, and eventually it has to be judged in terms of whether the present donor-designed poverty analysis and reduction strategy "template" gives way to a national and socially-owned one, particularly as regards decisions on macroeconomic policy choices and the consideration of causes of poverty that are external to the country, including systemic factors that do not let the donors, creditors, trade policies and multinational corporations off the hook."**[132]

This paper has documented the track record of PRSP consultations to show that the structural adjustment policies generally, and macroeconomic policies in particular, have not been allowed to be meaningfully debated and alternative policies have not been discussed by participating CSOs or parliamentarians. After four years of such PRSP consultations, one might have expected to see a panoply of various nationally-owned strategies based on very different sets of policy approaches reflecting various individual national contexts, including many alternatives to the dominant structural adjustment policies. But instead, today one finds that none of this diversity exists in PRSPs.

A January 2003 report on the PRSP process by Thailand-based Focus on the Global South summed up an emerging consensus: "Experiences thus far from Asia, Africa and Latin America indicate…that…country governments have little control over the structure, content and policy prescriptions in their respective PRSPs, thus making a mockery of Bank-Fund claims of national ownership, public accountability and broad based participation."[133]

The purpose of this Discussion Paper is to acknowledge the important limitations of the PRSP process and raise questions for CSOs, social movements, parliamentarians and other participants in PRSP consultations about how best to respond to the situation.

### *Do the PRSP Consultations Bypass Formal Democratic Processes?*

In what ways might the PRSP consultations formalize decision-making that should be taking place in much broader national legislatures or courts? What have the public consultations for drafting PRSPs done for the democratic debate within countries? Some critics of the role given to CSOs have argued that the PRSP process amounts to a new consultative mode of development policy formulation, in which "the dominance of the public policy arena by a narrow corps of transnational development professionals occludes the possibility of deepening democratic oversight."[134] Some critics have expressed concerns that representative democratic structures, imperfect as they might be, can be bypassed by a type of "fast-track democracy" in which "legitimacy of [structural adjustment] policies is being sought through the establishment of direct channels of communications" with CSOs used as brokers to bring "the poor" directly into the policy arena.[135]

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132 *"The World Bank and the PRSP: Flawed Thinking and Failed Experiences."* By Jubilee South, Focus on the Global South, AWEPON, and the Centro de Estudios Internacionales with the support of the World Council of Churches. Ottawa, November 16, 2001.

133 "Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction," by Jenina Joy Chavez Malaluan and Shalmali Guttal. Focus on the Global South. January 2003.

The role of CSOs in the PRSP process has raised important new questions such as, What role should civil society play in policy formulation in relation to parliamentarians, local governments and national government agencies?

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Critics have questioned how the newly-opened political space has been filled, at what cost, and at whose expense. For example, David Brown, of the UK-based Overseas Development Institute, has argued that the discretionary element inherent in this model of participation can create a "quiescent form of representation, for there are no entitlements. On the one hand, those who continue to be excluded under the discretionary arrangements have no legal right to demand representation. On the other, those who are included will be put under pressure to accept whatever they are offered, on the grounds that, as supplicants, they could have received much less."[136]

In contrast to the participation of CSOs in PRSP consultations, this paper has documented the relatively minor role played thus far by parliamentarians in the PRSP process.
The World Bank has promised to work more closely with parliamentarians in the future and created the Parliamentary Network on the World Bank (PNoWB), which is the Bank's public relations flagship for dialogue with MPs. Reflecting a desire to influence the increasing interest of parliamentarians in IMF and World Bank policies, the secretariat of the PNoWB is currently placed inside the World Bank's Paris office and is currently run by World Bank staff, who also control the conference agenda. However, there are indications that the PNoWB seems to be becoming more independent from the World Bank and CSOs ought to consider how to maximize the opportunity to get their parliamentarians much more involved with monitoring, discussing and publicly debating structural adjustment policies both within parliaments as well as other alternative public forums.

The chairman of the PNoWB Board of Directors, Dutch Parliamentarian Bert Koenders, has asked the World Bank to help assure a larger role for legislatures in setting the PRSPs within their countries and has formally requested the World Bank to tell borrowing governments that the World Bank executive board will not approve PRSPs unless governments have them reviewed by their legislatures. The network recently concluded a February 2004 annual meeting in Paris, attended by a record number of 183 parliamentarians from 70 countries, and about 80 others– from the World Bank, the IMF, other banks and NGOs.

The PNoWB's ongoing operations, which mainly include education for parliamentarians in various forms, are funded by Finland and the Netherlands. The network is formally independent of the World Bank, and became registered French non-profit as of 2003. It is currently run by a nine-member board, with representatives from Brazil, Romania, Italy, Lebanon, Finland, the Netherlands, Uganda, Cameroon, Thailand and the United Kingdom. Chapters



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134 Ibid. See also: "Merging in the Circle: The Politics of Tanzania's Poverty Reduction Strategy" by Jeremy Gould and Julia Ojanen. Institute of Development Studies, University of Helsinki. Policy Papers 2/2003.

135 *Ibid.*

136 *Ibid.*

An opinion letter from the IMF general counsel's office warns that national officials must not share IMF documents with legislators.

have been founded for India and East Africa to provide more regional focus, such as to study the preparation of World Bank CASs in Kenya and India. PNoWB maintains a web site (http://www.pnowb.org).

The IMF solicited public comments from Jan-April 2004 on recommendations that IMF staff increase their interaction with parliamentarians. While supportive of expanded IMF dialogue with parliamentarians, the recommendations of an internal IMF working group also suggest cautious limitations. The IMF cautioned its staff against doing anything with legislators that would subvert the bargaining authority of government officials. In addition, the staff is urged not to pressure the government into outreach with legislators. The report of working groups of IMF directors does not deal with an existing limitation on sharing IMF documents with parliamentarians, but an opinion letter from the IMF general counsel's office warns that national officials must not share IMF documents with legislators. The report provides a few bits of information on the extent of contact now between Fund officials and parliamentarians, citing a survey that, "Just two-thirds of resident representatives and less than half of mission teams reported meeting with legislators in 2002."[137]

CSOs worked well with parliamentarians within several key government delegations to the World Trade Organization's summit in Cancun, Mexico in 2003 and showed that important alliances between CSOs, parliamentarians and trade ministries could help influence the outcome in arenas where poorer countries have traditionally been overrun by imperatives of rich countries. CSOs should now ask how they can similarly intensify their work with their own parliamentarians on IFI-related issues and ensure that the PNoWB becomes truly independent of the IFIs and an important voice for full public disclosure of structural adjustment policies, all binding loan conditionalities mandated by the IFIs, and strong advocates for public debates about possible alternative economic policies.

## *Is "Poverty Reduction" the Same Thing as Development Policy?*

The PRSP process and its public consultations are in sync with a general public relations emphasis shift by the IMF and World Bank in the late 1990s when the institutions claimed that "poverty reduction" would be their priority. The focus on poverty reduction is not based on a shift away from the policies of structural adjustment programs, rather it is based on efforts to lessen the negative social impacts of these policies on the poorest victims.

While lessening the negative impacts of structural adjustment policies is doubtless an important endeavor, CSOs should question if "poverty reduction" initiatives are the same thing as the broader issues of traditional "development policy". Has lobbying for priorities within the national health or education budgets become a replacement for all of the other important policy debates about other core development policies? Should development policy CSOs also be equally concerned with policy advocacy on such issues as jobs creation, industrial policy, trade protection, targeted subsidy support to domestic industries, subsidized lower interest rates on credit for domestic industry, domestic investment, deficit spending, the decisions over whether or not to privatize or maintain public utility, health and education services? If so, have development CSOs dropped the ball on development policy by agreeing to focus only on the permitted areas within PRSP consultations? If they have, how might this broader policy sphere be reclaimed?

137 "Report of the Working Group of IMF Executive Directors on Enhancing Communication with National Legislators," by International Monetary Fund. January 15, 2004. The report is available at: http://www.imf.org/external/np/ed/2004/ecnl/index.htm

### *Are Rights-Based Approaches to Development and the IFIs Compatible?*

The current IFI governance framework does not promote the rights of local and national populations to development and self-determination. The IFIs do not take into account or acknowledge any contradictions between their external loan conditions and the abilities of borrowing governments to fulfill their stated obligations to their own peoples regarding commitments under the United Nations' International Covenant on Economic, Social and Cultural Rights or other conventions. Instead, the World Bank and the IMF generally bypass international human rights conventions altogether. During the deliberations of the 25th meeting of the UN Sub-Commission on Human Rights, the IMF claimed that it did not have to abide by human rights standards and is not bound the human rights declarations and conventions and since human rights are not mentioned in its Articles of Agreement. Studies commissioned by the Sub-Commission show that in both the HIPC debt-relief and PRSP programs, the lack of borrowing country participation amounts to a breach of human rights, self-determination and public participation. A report by UN special rapporteurs Joseph Oloka-Onyango and Deepika Udagama criticized the IFIs' emphasis on free market reforms and conditionalities, saying that it deprives communities of the rights to health, education and basic welfare. Challenging the IMF's assertions, the report also finds that multilateral institutions are not above international law, including human rights law, and that some loan conditionality requirements breach the human rights obligations of multilateral institutions, as well as compel states to breach their own human rights commitments [to their own citizens].[138]

At the conclusion of its 25th meeting, the UN Sub-Commission on the Promotion and Protection of Human Rights resolved that the World Bank and IMF are bound by obligations enshrined in international human rights covenants, and must incorporate human rights considerations in the formulation and review of PRSPs. The Sub-Commission also recommended that governments ensure the realization of human rights in the implementation of PRSPs.[139] When considering governance reforms for the IFIs, CSOs should consider if the lack of IFI accountability to the UN generally, and to international human rights laws in particular, is compatible with 21st century standards of transparency and accountability. If the IFIs are incapable of or unwilling to recognize moral/ethical authority standards higher than their own economic imperatives, can this be consistent with fundamental commitment to a rights-based approaches to development work adopted by ActionAid, Oxfam and other CSOs?

### *Is Not Being Allowed to Discuss Structural Adjustment Policies Acceptable?*

Despite the positive opportunities and important improvements presented by the PRSP process, if the PRSP format is not providing a political space in which structural adjustment policies and alternative economic policies can be publicly discussed or debated, then CSOs should ask if this is an acceptable outcome to the process.
If this outcome is determined to be unacceptable, then CSOs should consider the benefits of participation in alternative public formats might be more strategically beneficial for moving forward the development policy debate in their countries.





138 The Sub-Commission on Human Rights Resolution 2001/5 and Progress Report by Joseph Oloka-Onyango and Deepika Udagama can be found at the UN Sub-Commission on Human Rights Website; See also, *"Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction,"* by Jenina Joy Chavez Malaluan and Shalmali Guttal. Focus on the Global South. January 2003.

139 *Ibid.*

### *How Could PRSP Consultations Be Improved?*

Some CSOs may accept that being precluded from debating structural adjustment policies or alternatives is the price necessary for realizing other domestic political benefits of participation in the PRSP process. In such cases, CSOs who wish to continue engaging in their national PRSP process and seek to improve it may consider making their future participation contingent upon the IFIs agreeing to some of the following improvements:

1) An agreement by the IFIs to cease the practice of "endorsing" national PRSPs
2) An up front disclosure by the IMF of the ranges of PRSP goals and targets that it deems "realistic" for a particular country (an admission that it will not cede any control over budget austerity to CSOs)
3) Disclosure by the World Bank and borrowing governments of CPIA ratings, including descriptions of how those ratings were calculated;
4) An agreement by the World Bank to cease using donor and creditor input, including the CPIA, to determine major PRSP policy prescriptions
5) The full disclosure in draft form of CASs and all other IFI loan documentation before it is agreed upon by the IFI executive boards
6) The comprehensive use of detailed PSIA analyses for each major proposed policy reform, including full debates of an array of various policy option scenarios
7) The permanent and clear de-linking of PRSPs and PRGFs from access to HIPC debt relief
8) An agreement by the IFIs that they will not accept PRSPs that have not been subjected to full parliamentary or legislative debates, or votes, on adopting PRSPs
9) An agreement by the IFIs to allow for "exit clauses" in all financing and debt relief agreements that permit governments to opt out of any policy conditions that clash with democratically-determined policies

### *Invited Spaces or Created Spaces?*

If CSOs believe that not being able to debate structural adjustment policies after four years in PRSP consultations is unacceptable, then they should consider the possible benefits associated with participating in their own alternative public spaces. What are the costs and benefits of remaining in limited "invited" spaces where CSOs do not set the agenda and alternative, "created" spaces where they could? Given the four-year track record of PRSP consultations, it might now be incumbent on CSOs and other members of civil society to work more closely with their parliamentarians and news media to create such alternative public spaces which could assure the freedom to include structural adjustment policies and alternative policies on the agendas. Civil society sponsors could invite local and national legislators, the media and even government officials and donors, but the important distinction would be that the power to set the agenda would be reclaimed by civil society.

Some CSO actors have warned against creating alternative forums. For example, Phil Twyford, formerly of Oxfam International, suggested that doing so may "leave CSOs out in the cold" by forfeiting its seat at the PRSP table. But such concerns are based on perceiving the choice between alternative public forums and PRSP consultations as an "either/or" imperative, which is not necessarily true. Currently ActionAid country programs exhibit a wide variety of attitudes and levels of engagement with PRSP processes, ranging from a new commitment to step-up engagement by ActionAid Sierra Leone on the one hand to a decision by ActionAid Pakistan to boycott the PRSP process on the other. Participation by CSOs in the government-led PRSP consultations and alternative CSO-led forums is not an "either/or" proposition. A wide array of iterative dialogues and connections between PRSP consultations and other civic forums could be developed according to country-specific conditions. Arguably, the particular features of alternative civic forums and the degree to which they could supplement the PRSP process or otherwise influence government decisions would obviously vary from country to country. Today the important question for civil society is: How could alternative public forums serve to politically mobilize key sectors of society to push for meaningful development policy reforms in ways which are currently not possible within the limits of PRSP consultations?

# Conclusion

This Discussion Paper has attempted to review the donor-driven nature of the PRSP process and underscore the political limitations and constraints the process places on the breadth of policy making space in borrowing countries, and within their national PRSP consultations.
Acknowledging and understanding these limitations of the PRSP process is a crucial step for CSOs that are currently wrestling with questions about how best to proceed as the donors begin a second round of PRSP reviews in their countries.

After four years of experiencing participation in the PRSP process, development CSOs should now ask if structural adjustment policies and possible alternative economic development policies should be subjects for public discussion. If the answer is yes, then they need to acknowledge the political facts of the limitations of participation in PRSP consultations and make important decisions about how best to move forward to broaden and deepen the development policy debates in their countries. This report raised questions for CSOs to consider about how to improve the PRSP consultations and the possible benefits of creating alternative public forums. It concludes with an Annex that offers a detailed list of "forbidden debates" on key national economic development policies that have so far been restricted from the agendas of government-led PRSP consultations. These are key development policy questions which CSOs may find useful for more comprehensive public discussions and debates.

# Annex: The "Forbidden Debates" That Should Happen

Below are fundamental economic policy debates that do ***not*** occur within the government-led public consultations held for the purposes of informing national Poverty Reduction Strategy Papers (PRSPs). As discussed in Part 1, because PRSPs must be approved by the executive boards of the IMF and World Bank, and pre-screened through an assessment committee comprised of staff from both institutions, governments are under tremendous pressure to constrain the public PRSP consultations to discussions of certain economic policy issues (such as budgeting priorities for health or education spending).
Some CSOs may find these constraints unacceptable and wish to seek more comprehensive discussions of development policies in alternative public forums.
The following list economic policy debate questions could serve as a starting point for broader discussions in parliaments and other alternative public forums that actively involve citizens' organizations, parliamentarians and independent media as well as local & national government officials:

## General

- What are the current demands of external donors/creditors when it comes to structural adjustment policies?
- What are the opinions of parliamentarians and civil society organizations about these current demands?

## Fiscal Policy

- How are budget surplus/deficit targets are arrived at in the first place?
- How can sense be made of the unacknowledged contradiction in the budget-cutting policies favored by external creditors/donors and the need to expand health, education and other public spending on services necessary to fulfill PRSPs and meet the MDGs? (let alone meet all of the budgetary expenses associated with monitoring and evaluating the outcomes on the ground of PRSPs and MDGs)
- How can the level of budget deficit spending or budget surplus targets be determined by the sovereign national governments with citizen and parliamentary input and based on short-term and medium-term needs unique to a country's particular context? (Obviously the US and EU feel free to violate their balanced-budget agreements and engage in deficit spending at times of economic recession—shouldn't other countries be similarly free to do so depending on unforeseen economic developments?)
- What are alternatives to the budget surpluses demanded by the IMF? What would be the consequences if the budget surplus was somewhat smaller than what the IMF wants? What if the country actually ran a budget deficit instead? What would be the trade-offs between a small surplus versus a small deficit? What would be the difference between a budget deficit of 5% of GDP versus a bigger deficit of 7% of GDP? How can the government, civil society and parliamentarians debate these various scenarios in public and arrive at their own consensus based upon varying risks, consequences and benefits?
- Why is a particular kind of tax (i.e. a regressive one like the VAT) chosen over a more progressive one? What are other possibly more progressive taxation structures? Are more progressive tax structures possible? Many developing countries have regressive tax structures, particularly the IFI-favored use of value-added taxes (VAT) on consumer goods and property taxes. If more progressive structures could be designed and enforced, could significantly larger revenues sums be generated? How can more progressive tax policies help the states with obligations to redistribute wealth in countries or raise revenues to assist with meeting the MDGs?

## Monetary Policy

- Are determinations of risk by foreign investor's willingness to purchasing government bonds the only way the level of interest rates for domestic companies can be arrived at? Are there other methods which the state can devise to subsidize commercial rates to its domestic businesses so that they can more easily access regular commercial loans, expand production and higher more employees?
- Must a fear of inflation be the only guide for the central bank policy of borrowing governments? In the US and other industrialized countries central banks base interest rate policy decisions with an eye to both inflation rates and unemployment rates. The IMF insistence that borrowing countries keep inflation rates in the 3-5% range has had adverse consequences for economic growth, employment and poverty rates, this despite there being no evidence that low inflation is good for growth, however many studies show that economic growth can be stimulated when inflation rates are allowed to go between 5-20% or possibly higher. What do

these studies say about alternative options for determining central bank policies? Can citizens' organizations, parliamentarians and government officials publicly debate and decide for themselves the appropriate levels of inflation targets, interest rates and other policy tools, and choose from a range of competing scenarios depending on possible risks and rewards? Can unemployment rates be taken into account when establishing acceptable levels of interest rates?

## Financial Liberalization

- When commercial banks are freed through deregulation to concentrate their lending in more secure urban areas, this dries up financing for small farmers and other SMEs in rural areas, highlighting a clear need for a state supported system that ensures financial access to rural areas when private sector actors are unwilling to service outlying areas. Can borrowing governments find ways of maintaining and improving public financial services for rural areas?
- What is the historical evidence on the track record of financial liberalization? Does the IMF recent concession that there is no correlation between financial liberalization and better economic growth rates open the possibility for retaining a degree of financial controls? If so, should the IMF continue to make financial sector liberalization a cornerstone of its binding loan conditionality?
- What does the historical track record say about the dangers/benefits of opening the domestic economy to more short-term, speculative "hot" money from foreign investors into local stock exchanges, bond markets, currencies, etc., versus the traditional types of long-term foreign direct investment? Do the benefits outweigh the vulnerabilities to sudden capital flight and collapse? If not, shouldn't borrowing countries be free to regulate the degree of their financial opening in accordance with the national economic interests (as did Malaysia)?

## Privatization

- Are there alternatives for borrowing governments to the demands of external donors/creditors when it comes to privatizing state-owned enterprises or essential public services?
- Can external creditors/donors justify calling for the privatization of profit-making SOEs?
- How are the best values of SOEs determined?—why are profitable SOEs (which are the most attractive to private buyers) often sold at bargain prices?
- Are there effective oversight regulations in place to ensure that buyers actually pay for the SOEs in there entirety?
- Have preliminary assessments been done to show that profits from the low-price sale of the SOE, with administrative costs figured in, are actually going to generate more revenue than that which would have been generated by taxes from the SOE over the long-term had it remain in state hands? Will the taxes paid by the newly-privatized entity be greater than the profits than had been generated by the SOE before sale (including the new added administrative costs of state regulation of the newly-privatized enterprise)?
- Are privatizing SOEs the same thing as public services like basic health care, education and utility services, or are the latter fundamentally different?
- Are there historical lessons to be gained from the long track record of public services in all of the successfully industrialized countries?
- Was there not a recognition in the rich countries as far back as the 1800s that where the private service providers saw no profitability, it was up to the state to provide these essential services if governments felt that getting their citizens educated and healthy

were long-term investments that would lay the foundation for better economic growth in the future? If so, shouldn't borrowing governments be free to use the state to lay the same types of long-term foundations in their national development strategies for the same reasons?

- Is there evidence that private providers can serve poor people better than can public services? If so, where is the evidence that private service providers work better? How is "better" defined? In terms of increased coverage? Lower cost? What about quality?
- Regarding education services, is increased enrollment in rural areas the sole indicator that ought to be considered when deciding over private or public service provision? What quality of education are the children getting? What is the cost burden that governments are shifting to their parents when private provision is enacted (not so much user fees but rather opportunity cost because they have to donate free labor)? How professional is the private teacher workforce, and what labor protections have they been deprived of that teachers in the public schools still enjoy?
- The world's major water conglomerates told the creditors/donors (at the third annual World Water Forum in Tokyo in 2003) that moving into borrowing countries' markets to serve poor consumers was just not profitable enough for them and to continue in this process would require the donors/creditors to provide them with greater "credit enhancements" (subsidies) to make it artificially profitable for them. If this is the case, why should donors/creditors be willing to spend money on subsidies to Northern water corporations rather than in investments in expanding & improving existing public water utilities in borrowing countries? Is the ideological preference for private sector over public sector the only dynamic guiding the donors/creditors on this issue?
- When SOEs are inefficient in terms of profitability, are there still not other social, economic, and political benefits to maintaining the steady employment and other economic spin-off benefits that employment provides to local economy, community?
- While external donors/creditors claim that SOEs are inherently inefficient, research shows that competition and regulation reforms can be perhaps more important factors in determining how efficient/ inefficient an SOE can be. Can improvements in the relevant regulatory climate and competition policies be fully explored before borrowing countries automatically comply with donor/creditor demands to privatize SOEs?

## Trade Policy

- Why do the WTO and IFIs continue to refuse to do impact studies on trade liberalization on jobs? Are there studies that show cases in which trade liberalization has led to more and better-paying formal sector jobs? Without such evidence, should borrowing governments continue to lower their trade barriers, quotas and tariffs on imports and risk exposing their domestic industries and jobs in order to comply with demands by external donors/ creditors?
- Can the historical record on trade policy (which shows how all of the industrialized countries used very high levels of trade protection and subsidy support to protect and strengthen their own domestic industries when they were developing) be openly discussed and made known to everyone? If trade protection played such a major role in the successful development of all of the rich countries, is there a role for it in borrowing countries?
- Should the IFIs continue to demand further trade liberalization from borrowing countries after some of those same borrowing countries made an explicit public call for the right to retain trade protection

during the WTO summit in Cancun in September 2003 (namely the Group of 33, or "Friends of SPs & SSMs" [strategic products and special safeguard mechanisms])?

- What are appropriate levels of liberalization/ privatization for which industries and for what lengths of time? Are there good reasons retain trade protection, or at least greater degrees of trade protection for certain domestic industries? Even if a certain factory or industry is financially unproductive, are there other reasons for the state to continue subsidizing or protecting it (employment, taxes, spin-off benefits to communities and other industries, etc)? Are there good reasons to liberalize less than what is being called for by external donors/ creditors?
- Who are the most appropriate trading partners (new research shows that trade between two countries of similar economic development can be mutually beneficial but the benefits and detriments to trade become more adverse when between countries of different levels of economic development)?

## Land Reform

- Why should a market-based strategy to land reform be chosen in the first place, over a (re)distribution strategy?
- If a market-based reform is being pursued, what sorts of mechanisms could create a more just distribution of land, such that land-poor farmers seeking to buy land would at least have equal, or more equal, access to services that can fairly assess the value of their land?
- How much transparency is there regarding landholdings, e.g., are large landowners required to report their holdings or does the law enable them to shield them and thereby avoid taxes?
- How can small farmers who take out large bank loans with market-level interest rates to purchase land be protected against falling into unsustainable debt and losing title to their new land and being expelled all over again? What systems could prevent this cycle?
- Why do the IFIs insist on abolition of communitarian arrangements for land use?
- Why should market-based ownership of titles be imposed on borrowing governments when these have been shown to lead to increases in land inequality (even where they initially appeared to create more egalitarian distribution)?

## Labor Policy

- Are IFI conditionalities about "labor flexibility" reforms consistent with International Labor Organization (ILO) standards? What international legal commitments is the government currently obligated under?
- What was the historical role of labor rights (organizing, collective bargaining, minimum wages, worker safety, benefits) in the successfully industrialized countries? How and why did expansion of worker security and labor rights coincide with expanding middle-classes in the industrialized countries? Can those same benefits be realized by workers in borrowing countries?
- Are policies that make workers more vulnerable, less secure ("flexible") best for national economic development? In contrast, are policies that external creditors/donors decry as "rigidities" such as minimum wage guarantees or the right to collectively bargain, bad for national economic development? What is the historical evidence?
- Should national labor laws be allowed to be enforced in the so-called Free Trade Zones, and export-processing zones favored by the external donors/ creditors? What are the costs of not doing so?

## Foreign Investment Regulation

- What is the historical record of the use of regulations on investors in all of the industrialized countries?
- Have foreign investors historically been treated quite differently than domestic companies? If so, why? Were there good reasons for distinguishing between the two? (one takes profits out of the economy while the other recycles that profit into the domestic economy). If so, should external creditors/donors today insist on "national treatment" for foreign investors by governments? Should borrowing governments retain any special requirements or limitations on foreign investors in order to guarantee that there are spin-off benefits to the rest of the local economy, as all the industrialized countries have done to ensure they harness benefits from foreign investment?
- Should foreign investors have to pay taxes to the host government? Are tax-holidays justifiable? What are the costs? Is there evidence to suggest that tax-holidays or their absence really has an impact on whether or not FDI flows into a country?
- Should foreign investors be required to pay minimum wages or follow labor laws? Should foreign investors be criminally liable for illegal activities or violations of financial regulations by host governments?
- Should technology transfers and other partnerships with domestic companies and industries be a regulatory requirement of foreign investors to ensure that the host country eventually benefits from that technology for the development of its own industries?
- Should external creditors/donors continue to call for investment deregulation in some of the same countries which publicly declared their opposition to such measures when the Group of 90 declared they were opposed to the WTO's "New Issues" (including investment and procurement deregulation) during the September 2003 summit in Cancun?

## Domestic Investment/Public Investment

- Must production, particularly agricultural production, be geared towards export markets? Must state investments be geared towards improving the "investment climate" for foreign investors?
- Are there alternative investment strategies that promote investment in the domestic market activity? What about industrial policy–state targeted subsidies for research & development to expand and diversify domestic economic activity into new areas, new roads and expanded agricultural extension services to connect small farmers to domestic markets, new credit schemes and subsidized commercial loans for small & medium-sized enterprises (SMEs), efforts to facilitate greater food security by expanding domestic food markets, etc? Is there a middle ground between a completely open strategy and the 1970s-style of import-substitution industrialization (ISI)? Are there combinations that could provide more a nuanced middle ground, supporting production for both export markets and domestic markets?
- To what extent can a thorough groundwork of public investment actually facilitate later private investment (as opposed to seeing the two as opposing, as external creditors/donors tend to)?

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