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INTERNATIONAL MONETARY FUND FOR THE AID OF POOR COUNTRIES?

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ODA: Official Development Aid
WB: World Bank
IMF: International Monetary Fund
HIPC: *Heavily Indebted Poor Countries*
PRSP: *Poverty Reduction Strategy Paper*
PRGF: *Poverty Reduction and Growth Facility*
ESAF: *Enhanced Structural Adjustment Facility*

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1. WB AND IMF: WHAT THEY ARE AND WHAT THEY DO

The World Bank and the International Monetary Fund (referred to from now on as *WB* and *IMF*) constitute, together with the regional banks of Development (1), the denominated Multilateral Financial Institutions. Both saw the light of day at a time, in July 1944, in an International Conference on Monetary and Financial Matters convoked by Roosevelt, the North American President in the tourist complex of Bretton Woods (2).

The aim of this meeting was to learn from the past, in an attempt to avoid the repetition of the errors of "economic misgovernment" committed after World War I (that, followed by the Great Depression and the policies of "impoverishing the neighbour", had served as a breeding ground for attitudes that had a lot to do with the outburst of World War II). The meeting aimed at creating a new international economic order, integrated by three main axes: a new monetary and financial system, a frame to regulate commerce and lastly, conditions for economic growth and full employment.

At Bretton Woods two main proposals were brought forward, defended respectively by Great Britain (elaborated by Keynes, the well-known economist) and the United States. Both proposals proceeded from the side of the winners of the war, and so the starting point could certainly not have been very balanced. The United States, the great saviour of the Allied countries, succeeded in getting their strong position to prevail and they imposed, besides, the American dollar as the reference currency of the new monetary system.

A Bank instead of a Fund, a Fund instead of a Bank

The difference is interesting. The proposal of Keynes was to create an international Central Bank, accompanied by an Investment Fund for reconstruction after the war; what turned out was quite the contrary: a bank was created: the International Bank for Reconstruction and Promotion or IBRP (the origin of the World Bank) to support reconstruction in Europe and a fund: the IMF, to regulate and supervise the international monetary system. The roles were thus inverted with important consequences for the future of both institutions. The third proposal of Keynes: the creation of an International Organisation of Commerce did receive the support of the Conference but it took a long time before the idea materialised into what we now know as the World Organisation of Commerce.

Changing functions

The original function of the IMF of controlling the international monetary system tottered with the dollar crisis of 1973, the year in which fixed currency rates gave way to currency flotation which is what is prevalent nowadays. From that time onwards the IMF has devoted its attention to three main functions:

• vigilance and supervision of the economies of its member countries

• technical assistance (in fiscal and monetary issues)

• and financial assistance (support to countries with temporary difficulties in Balance of Payments and/or the implementation of programmes for adjustment and economic reforms)

The World Bank was established in the first place with the aim of *creating the necessary conditions to support reconstruction in Europe.* An aim that was "boycotted" shortly after by the United States as they opted (in an attitude that is once again in vogue with the States) for unilateral help through the Marshall Plan.

This fact, added to the increasing demand for finance on the part of the very poor countries, was responsible for forging the growing inclination of the World Bank towards its current format of being an agency of development as is currently recognised in its mandate of "helping countries to reduce poverty, particularly attending to their institutional, structural and social dimensions".

Composition and functioning

Although we generally speak of the World Bank as a single institution, in reality it is a group of associated organisations, which constitute the so-called "World Bank Group". Besides the IBRP (which currently focuses its interest on credits for countries of higher income), the group is composed of the following institutions:

• the International Association for Promotion (IAP) which is dedicated to the concession of credit in more "suave" conditions to countries whose annual per capita income is less than 925 dollars.

• the International Financial Corporation (IFC) which lends its support to the private sector in developing countries

• the Multilateral Organisation for Guarantee of Investments (MOGI) that supplies guarantees of investment to protect companies who invest in countries of "no commercial risk"

• the International Centre for the Settlement of Investment Differences (ICSID) that offer services of conciliation and arbitration to resolve controversies between Governments and foreign investors

With respect to functioning, this is similar in both institutions. The formal ownership of these institutions corresponds to member States, and the distribution of powers is effected by virtue of the capital disbursed by the same. The capital disbursed depends in its turn on the size of the economy of the country, which means that although developing countries constitute a numerical majority, the real capacity of decision is concentrated in industrialised ones.

And so the United States have currently 18% of the votes in the IMF, more than the whole of Latin America, western Asia and sub-Saharan Africa put together. In the World Bank, the per capita vote of North American citizens is equivalent to 38 times the vote of Chinese citizens, and the G7 as a group has as much as 45% of the votes.

On the other hand, since the General Assembly of both institutions is held just once a year, whereas daily decisions are taken by the so-called “Governors’ Council” in which countries have to group themselves to be represented, the system of functioning by “seats” dilutes even more the presence of poor countries because only the more powerful countries have a seat of their own.

2. BANK AND FUND IN ACTION: PRESENCE AND INFLUENCE IN COUNTRIES OF THE SOUTH

During the more than 50 years that have elapsed since the famous Conference in Bretton Woods, international economy has gone through radical changes. The world for which the Bank and the Fund were created no longer exists. The influence, however, that they exercise from their headquarters in Washington DC is greater than ever, especially in developing countries.

Bank and Fund as source of resources

As lenders of financial resources, both institutions control thousands of millions of dollars. The WB alone is the origin of approximately 60% of the official multilateral financing to developing countries (3). In the nineties, it granted annually in different kinds of operations some 22,000 million dollars. Despite the fact that the increase in the movement of private capital flow has reduced the relative importance of the World Bank as a financier of the developing world, one must bear in mind that since *private investment focuses its attention on a reduced number of countries with better economic expectations*, the role of the Bank and other official financiers continues to be particularly important in very poor countries.

With respect to the IMF, financial assistance was not included in the beginning as one of its main functions. However, the remodelling of its functions as from 1973 and the outburst of the debt crisis at the beginning of the eighties gave an impulse to the IMF as an important financier for developing countries. It is precisely at this time that the Bank and the Fund launched their programs of structural adjustment in which different areas of political reform were grouped together and these came to be known as “the Washington Consensus”.

Adjustment programs conditioned the granting of funds to the implementation of several measures of fiscal discipline, reorientation of public expenditure, financial and commercial liberalisation, privatisations, promotion of direct foreign investment, etc. The idea behind these processes was *to increase government earnings in foreign currency through exports and to correlatively reduce public expenditure in order to restore health to the national economy.*

Their role as “impellers” of policies

Through these means, the Bank and the Fund have obtained a capacity of influence on the economic policy and strategies of development of the countries of the south, which exceeds by far the importance of the amount they finance. Currently the majority of industrialised countries demand the implementation of the conditions set down in “adjustment programs” as essential requisites for supplying aid for development. The possibility for poor and indebted countries to receive some type of debt relief is also subjected to implementing these impositions. An influence that is not restrained to the field of big macroeconomic figures or the capacity of political decision of governments but which has an even greater impact on the living conditions of hundreds of millions of people, many of whom have never even heard of Bretton Woods.

In fact, adjustment programs have not only not obtained the desired effect in matters of economic growth and the re-balancing of the balance of payments but they have generated a series of social and environmental costs of dramatic consequences for the poorer population.

And so, the average growth of per capita income in countries that applied social adjustment programs not only did not rise but it actually fell 0.5% during the first half of the nineties. Even in countries that registered higher growth rates, this growth on rare occasions was translated into a significant reduction of poverty. In a city like Ghana, that obtained an annual growth of 4% at the end of the nineties, a person on an average level of poverty would have to wait another 30 years before expecting to pass this threshold, 40 years in the case of still poorer people.

This fact gives rise to one of the debates that have produced articles galore between defenders and detractors of the World Bank and the IMF: the sufficiency of quantitative growth in the fight against poverty as opposed to the necessity of tackling qualitative aspects, orientated fundamentally to the redistribution of wealth (4).

As far as social indicators are concerned, the pressure exercised in adjustment programs in favour of budgetary cuts and costs recovery (through tax levies and other measures designed to get the population to cover part of the expenses that originally was paid for by the State) have also been felt in the access of the poorer people to basic social services.

In Zimbabwe, for example, expenditure in primary health was reduced by one-third in the first half of the nineties. To contribute to the financing of services, the government introduced tax payments which implied the exclusion from health care of the very poor.

Of course, in all these situations the Bank and Fund cannot be pointed out to as the only guilty agents. The governments themselves of the south share an important part of the responsibility. However, equally erroneous is the tendency of Washington's institutions to point the finger at the capitals of nations, accusing them of being solely responsible for failures in the application of adjustment programs,. Defects have often originated in the design itself of adjustment programs and the incorporation of later modifications in the same are a tacit recognition of deficiencies that neither the Bank nor the Fund have openly dared to take responsibility for.

Financial and political impositions through external debt

We had mentioned previously that the external debt crisis had much to do with the increase of importance acquired by the IMF as a supplier of resources for developing countries. In fact, structural adjustment programs were the first response of the International Financial Institutions to the outburst of this crisis (the Bank and Fund loaned the indebted country the necessary resources to meet its more immediate payment obligations, in return for which, this country committed itself "to put its house in order" and to generate more resources with which to return the funds it had received). But even here adjustment programs have failed to obtain the expected results since debts have not only not been paid off but up to the present day they have also been increasing in size.

Despite this, the World Bank and the IMF did not formally acknowledge till the nineties that external debt could be a dead weight for the development of poor countries. It was only after pressure was exercised by certain international organisations (fundamentally by the agencies of the United Nations such as UNICEF and PNUD) and the NGOs of the world that the G7 in the meeting of 1995 in Halifax decided to request from both institutions a “global and comprehensive” design for dealing with debt. A year later, the president of the World Bank, James Wolfensohn brought forward the Initiative for debt relief of the *Heavily Indebted Poor Countries* (HIPC).

The aim of this initiative was to reduce indebtedness to levels considered “bearable”, which were established fundamentally as *the relation between the amount of the debt and exports* (main source of foreign currency). That is to say, if the total amount or the annual service of the debt exceeded a certain percentage with respect to exports as a whole, the debt was considered unsustainable and the load would have to be reduced.

Despite the expectations with which the Initiative was received, its functioning in practice has been and continues to be particularly complex. In fact, three years after it was put into practice only two of the 41 countries initially identified as possible beneficiaries had begun to receive debt relief. A relief that was moreover linked to the implementation of structural adjustment programs and whose scope continued to be clearly limited.

These and other difficulties motivated the launch in 1999 of the second phase of the Initiative, known as the “reinforced HIPC”, in which an attempt was made not only to increase the number of favoured countries and the quantity and speed of relief received, but also to reinforce the link between relief of the debt and reduction of poverty.

With respect to debt relief, success achieved here continues to be uneven. The first year of this second stage was marked by frenetic activity which ended with the incorporation of a total of 22 countries at the end of this period. However, in the course of the whole of 2001 only one country has been added to this privileged list and so the number of countries both inside and outside the HIPC waiting for a solution to the debt crisis carries on being very high.

Challenges still to be met

Currently organisations and worldwide anti-debt campaigns are putting pressure on the World Bank and International Monetary Fund, and are demanding a definitive solution to this problem. A change in the consideration of debt sustainability is being claimed in the first place.

According to present procedures, availability of resources to pay off the debt is first calculated, after which, with the resources that are left over the needs of human development of the country in question are met. What is now requested is a change of focus in which resources necessary to achieve the objectives of development would be assured first, and with the remaining resources the country would attend to paying off its corresponding debt.

What is being claimed is a change in the rules of the game, such that creditor institutions (multilateral organisations and governments) would not be both judge and interested party in the processes of debt alleviation, and that a just and transparent procedure be established for the arbitration of a debt (5).

Finally, a claim is being made both to creditors and debtors for certain mechanisms to be created that would be different from “responsible indebtedness” and by virtue of which the following would be assured: *a better use of financing, a greater implication of different agents in the indebted countries and a revision of the conditions* linked to loans.

3. BEYOND FINANCING THE ROLE OF INTERNATIONAL FINANCIAL ORGANISATIONS IN THE INTERNATIONAL DISCOURSE ON DEVELOPMENT

> Besides their role as financiers and their direct influence on the national policies of poor countries, the World Bank and the IMF are an indispensable reference in economic theory and studies on development. This fact is particularly significant in the case of the World Bank that since 1996 styles itself as "The Knowledge Bank" in an openly acknowledged effort to incorporate a new vision that "stimulates the revolution of knowledge in developing countries and acts as a global catalyst to create,share and apply necessary information for poverty reduction and economic development" (6).

For this purpose, the Bank has reinforced its activity, both internal (creating thematic groups, data bases and other analytic tools) as well as external (increasing the production of external use reports, participating in all types of conferences and formation sessions and stepping up its presence in internet). It is not, however, a new effort but a role that dates back to the year 1978, when the Bank began to elaborate the Report of World Development, an annual publication, which exercises an enormous influence on the debates and policies of governments and institutions of the whole world.

It is in this sense that the results of a survey commissioned in 1999 by the Bank itself are particularly revealing. The survey was carried out with the participation of 271 politically responsible people from 36 developing countries or ones in the transition process 84% of the people interviewed stated that they used the reports of analysis of the World Bank, an institution that all considered as their principal source of information (among a total of 17 national and international organisations). The potential of this privileged position can be readily noticed and has raised diverse suspicions, refering not only to the information monopoly of the Bank but above all to the objectivity and independence of its analysis and proposals.

Neutrality placed in doubt

It is particularly interesting to get to know experiences like that which occurred in the study *The East Asian Miracle* of 1993 (7), initially proposed by Japan to show the positive effect of public political interventions in the case of the Asian experience. After a hazardous internal process of revisions at different levels, the document that was finally published was very different from the first drafts and surely far removed from the Japanese expectations. In particular, the conclusions of the study which could discourage "adjustment policies" were eliminated, and the general tone of the study firmly grounded in the Consensus of Washington was maintained.

This process of "editorial supervision" (!) through the hierarchies of the Bank are one of the ways by which the World Bank is capable of maintaining a unitary line of thinking and it affects equally the publication of articles in the press by the executives of the Bank. And so, some cases have been made public of workers who have been sanctioned by "disciplinary actions" for not having obtained the corresponding approval of the Department of External Relations of the Bank before publishing their articles.

Famous examples of this political pressure are to be had in the recent resignations of Joe Stiglitz and Ravi Kanbur (ex-chief economist of the Bank - Nobel Prize of Economy 2001 - and ex-in charge of the Report on World Development, respectively). Both arose from the divergence of opinion with the dominating line.

4. THE WORLD BANK AND IMF TODAY

> The trajectory of the IMF and the WB has been marked by the personality and trajectory of their Presidents (Executive Director in the case of the IMF). In particular, the arrival of James Wolfensohn to the Presidency of the WB in 1995 marked a notable change in this institution and in some measure, in the relation of the Bank with the IMF. Besides other spheres, among which various attempts of internal reorganisation of doubtful success stand out, this change was perceived in the priority given to the objective of the fight against poverty, as the Bank's main mission.
>
> Things turned out that during his mandate, which in theory is to last till 2005, the Bank has maintained a strong orientation towards the private sector and a notable alignment with "orthodox" economic policies. Nevertheless, it is certain that the rhetoric of poverty has penetrated the Bank with intensity, a strong demagogical charge and some changes in practice which in all fairness should be acknowledged.

Given the numerous overlaps that exist between the Bank and the IMF in the application of programs, credits and policies, this new tendency in the Bank has marked in some way the IMF, although in practice changes in the IMF have not occurred due in part to the extreme influence exercised on this institution by the American Treasury department. In fact occult conflicts - some of them public - have been reproduced between the Fund and the more advanced sectors of the Bank, both in the definition of policies as also in their application to concrete cases (8).

The orientation taken in the fight against poverty can be analysed from various perspectives: the portfolio of projects, sectoral policies and credit, relation with the private sector, etc. We have chosen to limit ourselves in this booklet to the impact of this orientation in crucial national economic policies that the Bank and Fund promote in countries in which they have more influence, when they apply an unending range of conditions before granting them finance.

Fight against poverty in national economic policies

As we have seen in Chapter 2, citizen pressure exerted through campaigns for debt cancellation, was responsible for rich countries and Financial Institutions to change from not considering External Debt as a problem to placing it in the centre of their agenda of finance and development. But progress did not stop there since social organisations demanded that resources freed from the payment of external debt should be dedicated by these poor countries to basic services and social investment.

This call, backed by governments of various developed countries had its effect on the Bank and IMF which set in motion the process of PRSP (*Poverty Reduction Strategy Papers*) when launching the reinforced HIPC initiative in September of 1999. The process in question was interesting since it took into account certain previous orientations such as the necessity for governments of the south to assume a leading role in development or give importance to social participation.

In fact the process consists in the following: as a necessary condition to be able to obtain debt cancellation through the HIPC initiative, countries would have to produce a strategy (or PRSP) headed by the Government and in consultation with civil society. This, however, does not rule out that for documents to be finally "backed" by the governing bodies of the Bank and Fund, this formality is converted, as is to be expected, into something much more.

In theory a PRSP has for its setting the objectives of Development of the Millennium, which have been assumed by the international community in recent years and endorsed in the year 2000 by the Assembly of the Millennium of the UN. These objectives range from the reduction of extreme poverty by half in 2015 to universal primary education, and achieving among other goals the reduction of child mortality. A PRSP has to fix these objectives for the country in question, mark a calendar, quantify their cost, fix results and indicators and explain the origin of the funds that will be used to finance them and the policies that will be introduced to obtain them.

Although arising from the HIPC initiative, the PRSP process is like an umbrella, since the objectives of the fight against poverty are those the country defines as the national plan and to achieve them, the country counts on the resources freed from debt payment, the resources from Official Development Aid and on its own national budget. It is, therefore, a document of policies that should help to fix some common objectives for all agents and to facilitate the coherence and co-ordination of the actions oriented towards the fight against poverty,

At the time of launching the PRSP process, jointly promoted by the WB and the IMF, the latter changed the name of its main political working tool - and influence - with the very poor countries. The ESAF (*Enhanced Structural Adjustment Facility*) changed to call itself PRGF (*Poverty Reduction and Growth Facility*)

It is worth paying attention to the change of acronym (ESAF to PRGF) since in a rhetorical somersault the offensive "structural adjustment" changed to "poverty reduction", with an explicit mention of "growth" just in case somebody seemed to doubt it. This, as we will see presently, is just a case of cosmetic change where macroeconomic measures are concerned: *the same content, with the same wrapping - maybe the ornamental bow is a slightly different colour.*

A last factor to be highlighted in the theory of the PRSP and the PRGF is that according to the WB and the IMF, the PRSP acts as the main umbrella. And for this reason the macroeconomic policies contained in the PRGF, defined by the IMF with each government, *should be consistent with the objectives of the fight against poverty*. Besides, the measures contained in the PRGF are also, in theory, subject to public discussion.

Evaluation of the PRSP: uneven processes

Oxfam International is supporting in various countries local organisations involved in the follow-up of the PRSP process. At the same time, we make use of the experience in specific countries as feed-in for evaluations and proposals which we transmit to the Bank and IMF in Washington and to our own governments inasmuch as they are shareholders of both. Intermón Oxfam heads, within the group Oxfam International, the follow-up of these processes in Bolivia, Chad, Nicaragua and Honduras.

Despite the short elapse of time, already more than 40 preliminary or final PRSPs have been developed. And this gives us sufficient ground to conclude that to date theory is far removed from practice.

It is certain that the PRSPs have opened very interesting spaces and expectations in many, especially African and Asian countries, some of which have had a lamentable trajectory with respect to openness and dialogue with civil society. In many cases, an absolute lack of various freedoms that civil society finds itself submitted to, has choked their development. Added to this situation is the fact that normally negotiations are carried out between the Bank, IMF and governments in strict secrecy and with a high level very often of imposition on the part of the financial institutions.

It is, however, fair to acknowledge that there now exists at least a legitimacy for the claim of space that requires society to be consulted and this space in some way is growing. However, experience indicates that the participation of civil society in influencing the process is marginal and quite insignificant. The dynamics of consultation have been carried out with little clarity on the objectives and without transparent information which at times is not even translated into the language of the impoverished nation. A good example is the draft of the PRSP of Nicaragua which was available in English in Washington before it was in Managua.

Frequently the PRSPs have been designed by small technical teams of the ministries of Economy that have hardly counted on Parliament or social organisations, even less on the impoverished nation itself. Diverse parallel processes, shortage of time for consultations, and limited information have led in the best of cases to unending lists of activities, without marking priorities for investing the money coming from HIPC and from development aid. Governments, the WB and the IMF have systematically ignored the proposals of civil society, a result, as in Honduras or Bolivia, of many of the processes of participation being widely carried out by the organisations themselves.

Whether for lack of experience or inclination, the WB and the IMF have often acquiesced in little participation, approving whatever initiative presented by Governments. A classical evil of the programmes of the fight against poverty is thus repeated: the impoverished nation, who supposedly knows best why it is poor and who is most involved in this fight is not counted on.

Is anything changing in the WB and IMF?

In respect of the content, the development of PRSPs has shown the weakness of many governments at the time of preparing budgets linked to objectives and results at medium term. In many cases the distance is wide between the objectives of poverty reduction and the financing necessary for the same. One hopes that at least in some countries the progress that has been achieved in setting in motion PRSPs will permit greater parliamentary and social control of public expenditure.

The biggest frustration, nevertheless, comes from the extreme conservatism in macroeconomic policies. Firstly because they have not been subjected to the announced public debate. The new PRGFs have followed the same occult processes as the former ESAFs and in no way have they been subjected to a process of consistence and interaction with the objectives of the fight against poverty included in the PRSPs.

The writer of this booklet had an interview in Managua and La Paz with the mission heads of the IMF and was able to check the absolute lack of willingness to subject macroeconomic programs to public scrutiny. By maintaining this lack of transparency as also *parallel lines, with no crossings, between objectives of the fight against poverty and economic policies*, the tradition is reinforced by which objectives are fixed which later are found to be unachievable on account of economic restrictions and policies that at times even aggravate the situation of the poor. There is the risk then that the PRSPs are nothing more than a new form of "social network" - cushions in the shape of assistance programs to alleviate the effects of economic policies that are disastrous for the impoverished population.

In fact, the conditions contained in the new PRGFs are not much different from the old ESAFs, even in respect to their unending number which seems to be an authentic and exhaustive prescription pad of financial orthodoxy. It is estimated that only in some countries is this process as a whole capable of achieving an increase in social expenditure of 1.2% of the GDP.

Combined with this extreme rigidity in public expenditure are the classical measures of liberalisation and privatisation that will be analysed in the following chapter and which carry on being the true conditions of the IMF. So in Honduras the nation's advance was not restrained by the HIPC initiative due to it being unaware of an alternative proposal of PRSP made by civil society or because its strategy of poverty reduction was weak in its objectives. Nevertheless it did give a warning that it would stop debt cancellation through the HIPC if it did not finalise with diligence the privatisation of its electricity sector.

Beyond the Consensus of Washington

As we have indicated, from Intern Oxfam we were hoping that the PRSP process, as well as the new tool of the IMF would imply a significant step forward in moving further away from the restricting influence exercised by the so-called "Consensus of Washington". A collection of prescriptions of economic policy that repeats the "mantras" of stability, liberalisation, privatisation and deregulation; that under the influence of the IMF is applied to any country whatsoever in the world; and which aims at an economic growth based on commercial opening, the private sector and insertion in global economy.

The effects of these policies have not been uniform, but if we pass a glance over the countries, victims of the same, we cannot help acknowledging a coincidence that they have failed for the most part to favour growth and even when this has been produced, there has been an absolute lack of equity in its distribution.

When checking out how their Government during the PRSP process, was insisting that the current model of growth would be the key solution to poverty reduction, Bolivian NGOs pointed out: “This approximation will benefit social groups connected with transnational capital, while the negative effects of these policies will be suffered and paid for by the wide majority of the Bolivian population. If extreme inequality is a problem in Bolivia, the PRSP of the Government is doing nothing to face it through changes aiming at a greater redistribution of income.

Before Simplification

Those who criticise the critics of the Consensus of Washington are accused of wanting to return to closed nations, with leaping and hyperinflationary deficits. Nothing further from the truth, but between huge deficit and absolute inflexibility in public expenditure that hardly admits changes in the nature of the same or increases in social investment that are limited but important in their application, there is a wide field for discussion. Discussion that should be carried out according to priorities of national development and not according to what staff of the IMF decide in Washington (9).

Services that are inaccessible for the very poor

In respect of privatisation, we are witnessing once more in current years the extreme pressure of the IMF to privatise everything, including basic services, normally without the accompaniment of government regulation that would prevent excesses of a dominating private sector.

The IMF has also exercised much influence too at the time of stressing greater workforce flexibility and the creation of free zones which favour private investment without conditions. In countries where tax-collection is marginal, taxes have not been precisely one of the areas that the standard packets of the IMF have paid attention to, although in the event they have done so, the taxes that have been indicated are of a regressive nature, such as VAT, rather than income or company taxes.

In the wake of macroeconomic prescriptions, there followed in the nineties a series of sectoral reforms, pushed forward in this case by the World Bank and regional banks in specific sectors. The taxes that the population had to pay to accede to basic education or to primary health (already mentioned in Chapter 2) are one of their better known effects ... and of more negative impact.

Despite the fact that the Bank has recently shown for the first time its concern for the effects of allotments for education, the fact is that privatisation in the provision of services and decentralisation to regions and municipalities without transference at the same time of the necessary resources has increased the pressure on poorer families with the result of keeping more children - especially girls - out of schools.

As pointed out by the Congress of syndicates of Ghana in their comments on the PRSP: “Macroeconomic analysis of the causes of poverty is *orientated from the standpoint of an exclusive concern for monetary and fiscal matters, and this does not allow the frame of policies to face the real causes of poverty,* something that would permit developing instruments that would eradicate poverty in a systematic way. Development and not macroeconomic stability should be the central reference of policies.

This could imply that the Government should develop a mixture of measures that do not adjust themselves to traditional neoliberal policies that Ghana and other African countries have been following for the last 20 years. That is to say, economic policies should avoid doctrinal privatisation, as the already planned privatisation of water and electricity, liberalisation subject to no controls and indiscriminate liberalisation of grants. There should be a creative application of liberalisation and intervention, aimed at setting free the entrepreneurial energies of the population.

There is an open debate regarding up to what point the external pressures in the North and in the South and the consciousness of failure in their objectives have led the Bank and IMF to abandon strict adherence to the Consensus of Washington and “to contaminate it” with other measures that would counterbalance the exclusive neoliberal focus, obtaining thereby a Revised Consensus (Williamson 1996). Among these measures: a greater emphasis on protection of social expenditure, public regulation (especially of the financial sector), regional markets and the generation of opportunities for the impoverished population through productive investment and access to resources.

"a creative application both of liberalisation and of public intervention, aimed at setting free the entrepreneurial energies of the population"

Though rhetoric undoubtedly points in this direction, a review of various PRGF programs of the IMF and the already mentioned resignation of R. Kanbur from the WB (10), for maintaining his point of view in the Report on World Development, do not permit us to harbour great expectations of an effective change. Red tape bureaucracy and the Department of Treasury need to be kept content first.

5. "LIBERALISE, SOMETHING WILL REMAIN" THE PROCESSES OF COMMERCIAL AND CAPITAL LIBERALISATION

> Nowadays "opening up" has been converted into the dogma of commercial policy. Although the World Organisation of Commerce (WOC) is seen to have the lead role in the world for commercial liberalisation, the ones who assume the responsibility of urging developing countries to open up their frontiers to imports and to orientate their economies to export are the World Bank and especially the IMF. Besides, most policies of liberalisation normally are accompanied by the radical elimination of grants for production.

The average number of conditions related with liberalisation that is imposed with PRGF programs *has been multiplied by three* between the end of the eighties and that of the nineties. When Indonesia and Korea were forced to count on the help of the IMF when immersed in the Asian crisis, the aid was accompanied by 19 and 9 conditions of liberalisation respectively. PRGFs of the year 2000 for Tanzania and Yemen contained 9 and 22 commercial conditions including the elimination of tariff and non-tariff barriers. And one must not forget that non-compliance of those conditions would be punished by financial cuts not only by the IMF and the Bank but by other sources too and by a slowing down of debt cancellation.

In addition to specific pressure, both the Bank as well as the IMF have gone all out to publish studies that show the good points that commercial opening has for the poor. And they have had blatant success - which is not surprising, given the high level of pressure exerted. And so, the average tariffs at the end of the nineties in sub-Saharan Africa and in the South of Asia were a half of what they were at the beginning of the eighties; a third in the case of Latin America and the countries of the East of Asia.

Double measuring scales of the commercial system

To verify the hypocrisy of liberalisation one has only to look at the instruments used by the IMF. We could look specifically at the TRI (*Trade Restrictiveness Index*) an index which measures countries from 1 to 10, 1 being a country that is completely open and 10 a country that is strongly protected. Well, using this index one can verify that many developing countries are more open than developed nations. Mozambique, Zambia and Mali and up to 16 countries of sub-Saharan Africa have liberalised more than the EU. In the case of America, 17 countries of Latin America and the Caribbean are equally open or more than the economy of the United States, the paradigm of liberalisation.

Haiti is probably the star disciple of the IMF, although there are other heroic candidates like Bolivia or Indonesia, that had to pass in three years' time from a TRI of 4, similar to that of the EU to the maximum opening reflected in a TRI of 1 with all the drastic and urgent reforms that had to be introduced to achieve this end. That country (Haiti), the poorest of the Western Hemisphere, reached in 1986 a TRI of 1, maximum opening, enlarging the list of the "superliberalising countries" supervised by the IMF. This fact has had disastrous effects for the majority of poor Haitians. For example, 80,000 rice-producer families were thrown into misery by the entrance of American rice subsidised doubly in production and export.

"Do as I say, not as I do..."

Like this example one can find many others in diverse countries. An accelerated and maximum liberalisation, that does not take into account national priorities of development, food security or the impact on the impoverished and main strata of the population. And in a context in which, *the markets of developed countries remain mainly closed and strongly subsidised in key products.*

According to an estimate of Oxfam International, poor countries are deprived of earning some 100,000 million dollars - double the aid for development - on account of unjust commercial barriers. At the same time, the EU and the United States subsidise their agriculture with 300,000 million dollars annually, lowering prices and generating surpluses which they use to flood world markets, since the major part of these funds are not channelled in favour of rural development that rewards the small producer; rather they are aimed at intensive production in the hands of big landowners and companies.

While we have been writing this Booklet, a steel crisis has taken place in the United States. In this crisis the Bush administration (for electoral reasons) has decided to raise tariffs by 30% on steel imported from many countries of the world. It would seem it favours a free market on Mondays, Wednesdays and Fridays. But on Tuesdays and Thursdays when national interests are affected, protectionism shines in all its splendour.

The double measuring scale of the WB and IMF

So, it is too unjust and impossible to compete or to develop one's country or to fight against poverty. It is certain that the WB and IMF constantly recommend to developed nations that they open up their markets. But there is a "slight" difference. These countries - main shareholders of both institutions - *can turn, and do turn, a deaf ear on these suggestions.* On the other hand, impoverished countries have by force to yield to the liberalising "recommendations of the IMF if they wish to have access to financing and debt cancellation.

One can imagine optimistically that the social pressures in the North and in the South and the unquestionability of data will finally end up making flexible the liberalising fanaticism of the IMF. It does not seem so heterodox to think seriously that just as developed nations have done and are doing, it is necessary to retain certain degrees of selective and strategic protection in countries of the South, accompanied by subsidies that are backed by development aid so as to promote diversified development based on a growing internal market and competitive in the foreign market ... and all this on equal terms!

However, H. Köhler, executive director of the IMF, is of a different opinion. Recently, at a meeting with NGOs he stated: "To be honest, I am discussing this with my own team who tells me that though a quick liberalisation is a *shock*, poor countries should achieve this so that they make themselves competitive and insert themselves in the global economy... The main problem of commerce is the satisfaction advanced countries feel not only about their protection but also especially about grants. I would encourage poor countries to be credible in their own economic policies (that is to say, to liberalise. Author's note) and then to be tougher at the time of demanding changes in advanced countries. Because if they are slow at liberalising, this would please rich countries since it would feed their perception that "if they do not hurry, why should we run?"

Liberalisation of the accounts of capital: an orthodoxy with serious consequences

With the same insistence as that shown in the commercial field, the World Bank and IMF (together with other organisations such as the OWC or the OECD) have been exerting pressure in recent years on developing countries for them to open up their stock markets to international financial flows. Financial integration is supposed to be good *per se* for growth and necessary for the co-ordination of participation in international commerce and investments. From this presumption, liberalisation of the accounts of capital have in recent years formed part of the conditions included in IMF programs, among other things due to the pressure exerted by the Department of Treasury of the US, the country of origin of a good part of circulating flows.

All along recent years, diverse events (mainly the crisis of Southeast Asia, about which we will speak a little later) have generated a certain re-thinking of these processes of liberalisation. However, the essence itself of opening up has never been questioned and the debate has been about the rhythm and the sequence of the process, maintaining the final result unquestioned (11).

These pressures are doubly problematic

On the one hand, because *the supposed cause-effect relation between the liberalisation of capitals and economic growth has really not been proved.* In theory, the IMF backs these processes presupposing that they help to attract more resources for investments which in turn generate growth. However, in the majority of cases, the control of capitals is not the most important obstacle for investments. Other aspects such as the weakness of institutions or the absence of appropriate domestic policies can play a much more important role.

The ghost of financial crises

To the absence of proved benefits one must add too the verification of *potential dangers that liberalisation poses to certain countries*, which fundamentally take the form of macroeconomic crises, with very serious consequences for the most poor. Enlightening examples in this sense are the countries of Southeast Asia that in the early nineties, driven by the above-mentioned international pressure, had liberalised their financial and stock markets.

In 1996 the five countries most affected by the crisis had received a capital entry of more than 100,000 million dollars, the greater part invested on a short-term basis. As swiftly as they entered they went out and the balance of 1997 was negative for these same countries: the net departure of capital was 12.000 million dollars. The departure of capital left investors panicking. And as J. Stiglitz says, "When all try to withdraw their money at the same time, an economic problem is posed. A big economic problem" (12). A problem that got aggravated by the irresponsible way of acting of the IMF who, without being guilty of the situation that was generated, did play an important role in the deepening and prolongation of the recession.

The IMF had recourse immediately to the "emergency kit" which it had used in the financial crisis suffered in the 80s by Latin America where it had imposed measures such as fiscal austerity and firmer monetary policies. However, the Asian situation had little or nothing to do with the Latin American one. Governments had already balanced their budgets and adjusted their monetary policies.

The diagnosis made was erroneous, and erroneous too was the medicine imposed. In addition to "not curing" the disease, it generated some very high social costs which included among others doubling the number of people in poverty in Indonesia or the number of unemployed in Thailand.

Proposals for stabilisation

The liberalisation of accounts of capital, therefore, increases the risks of crisis since it opens up economies to more volatile flows which can much more easily enter or leave the country, generating thereby a situation of volatility that contributes to increasing uncertainty. Precisely to try to slow down this type of situations and increase international financial stability, certain initiatives from different sectors are being considered such as the establishment of a tax on international financial transactions (popularly known as the Tobin tax, although the current proposals differ quite significantly from the original idea of James Tobin (13)).

There has been much discussion on the essential finality that a tool of this type should have - a tool that, it is hoped on the one hand, will contribute to reducing financial instability and on the other hand, will generate important resources that can be used to fulfil the objectives of development on an international scale. From the point of view of Oxfam International, the main objective of this tax would be the increase of financial stability, though evidently the obtaining of new resources for development would also be highly desirable.

Given that the measures taken to date for maintaining international financial order have neither avoided crises nor attacked the speculative nature of financial operations, a tool like the tax that is being considered could be a very important support (though not the only one) in the search to find a lasting solution to this problem.

As in other previously mentioned aspects, the problem posed by the stance of the World Bank and IMF vis-à-vis the liberalisation of the accounts of capital stems from *the confusion of ends and means.* The ultimate end is the eradication of poverty and liberalisation can be or not be a useful tool to achieve this. But liberalisation understood as an end in itself could perhaps have no positive effect for the very poor or in the worst of cases, could have devastating consequences.

Another recurring problem in the way of acting of international financial organisations consists in the application of a single pattern for all cases, ignoring the importance of specific national conditions and the role that the corresponding authorities can play at a given point in time. In this respect, it is fundamental that countries retain the option of making use of capital controls in the frame of a structured macroeconomic policy. The establishment of a set of norms and standards at a national level should be based on specific investigations on their particular levels of financial and economic development and should not be imposed upon from the outside on the basis of a model that either no longer exists or simply is not exportable.

6. ATTACKS BY THE RIGHT-WING THE MELTZER REPORT AND THE STANCE OF THE UNITED STATES

> It is easy to fall into the error of thinking that the World Bank and International Monetary Fund are today the extreme paradigms of ultraliberal ideology. Undoubtedly the error has contributed largely to its expansion. But public pressure in the North and South and the awareness of failure in a good number of projects and policies, has brought to it a certain evolution, with uneven results as we have analysed earlier. However, this fact has occurred at the same time as a major involution has been produced in the United States, accentuated by the new legislature of Bush through the isolationism that, among other things, has no need of multilateral institutions.

The beginnings of the North American "concern"

In the particular case of the World Bank, attacks were started already towards the end of Clinton's term of office. The last Secretary of the North American Treasury, Larry Summers, declared before the country's directors of the Bank in May 2001 that: "... I am concerned about the tendency of the Bank to place emphasis on "empowering" and participation instead of economic approximation, which is leading to less emphasis on the analytic element of the work of the Bank".

These moderate accusations have toughened with the Bush administration. Paul H. O'Neill, Secretary of the Treasury, expressed in the New York Times on February 21, 2001 his "..... frustration on account of the difficulty to change the World Bank, that has failed in its objective of alleviating poverty".

The Meltzer Report, paradigm of conservative criticism

The artillery and ideological basis for criticism of the World Bank, and in a way, of regional banks and the IMF, has been given by the Meltzer Report, prepared by the conservative academician Allan H. Meltzer for the Congress of the United States. A first report was presented in 2000 and the next one a year later, in March 2001.

The report strongly attacks the Bank, using its own data to affirm that it is an institution that is "expensive, inefficient, ineffective, bureaucratic and lacks clear objectives". Meltzer makes an in-depth study of the internal organisation of the Bank, attacking its President, the diversity of established plans and objectives, the lack of impact of projects and the deficits in evaluation.

Specifically, the Report criticises the close approach of the bank to NGOs and social organisations in general, concluding that: "The Bank affirms that it respects local autonomy but selects its programs according to the opinions of non-elected NGOs (...) It will not achieve the objective of improving the quality of life and democracy as long as programs are selected by the Bank together with NGOs".

It is quite probable that this report and its political repercussions have given more headaches to the Presidency of the Bank than all the protest marches in front of the Bank's headquarters.

Meltzer finally put forward a set of proposals for change - some of them, reasonable on paper, to improve management. However, in others there appear signs of an attempt to limit the role of the World Bank in the future. Some of these intentionally made proposals refer to the outlay of the Bank in Asian and Latin American countries as also in countries with income exceeding 4,000 dollars.

Loans or donations? The debate never ceases

However, it is probable that the most noteworthy and debated upon proposal has been the one by which loans are converted into donations in a good part of Bank aid to very poor countries. On the way to the Conference of Monterrey, Bush gained various points in supportive popularity when he proposed the conversion 50% of the AIF credits (the "soft" counter of the Bank) to donations.

The proposal "sells" since it was presented as a form of avoiding over-indebtedness and facilitated the financing of programs in countries with extremely corrupt Governments, by allowing programs to be executed directly through contractors without counting on the Government. Donations appear, moreover, to be a more reasonable form of giving aid for social services, such as education that do not have a commercial benefit.

Together with this proposal in the Meltzer Report there came along another that consisted in postponing payments and subsidising the interest of credits granted to countries who would commit themselves seriously to making institutional reforms.

Bush was very hard with the critics of these proposals, accusing them of lack of solidarity. And it is certain that if these were carried out, there would be notable advantages as Oxfam International acknowledged when they suggested if not 50% something between 20 and 30% of credits should be converted into donations.

But the Meltzer proposal is by itself not very good. The accelerated change to donations and the greater subsidising of credits would leave the Bank without capital in a decade. What would happen then? Bush would no longer be in power; would his substitute be more interested than him in rushing to the financial rescue of the World Bank with an immense quantity of resources?

The fact that the United States is the last world donor of aid with a miserable 0.1% of its DGP and that each restoration of funds to the World Bank - for quantities very much less than those necessary in the event the Bank went ahead with the case of donations - would give rise to a very strong debate in American institutions.

Despite having announced in Monterrey an increase of American aid for development, at no moment has the Bush administration linked this proposal of the Meltzer Report with a parallel and equivalent increase of fresh contributions of funds to the World Bank.

The stance maintained by Oxfam International points in the direction of promoting more donations instead of credits to very poor countries, but always accompanied by new finances for the World Bank. If this were not so, the proposal of Meltzer would be a sellable form of sentencing the Bank to death in a matter of ten to fifteen years, which is what the Republican right-wing hard-liners have been wanting to do for quite some time.

7. CONCLUSIONS

> As we said at the beginning of this Booklet, the world for which the World Bank and IMF were created no longer exists. In certain measure, both institutions have shown an extraordinary capacity for change. The Bank has forgotten (for obvious reasons) about the reconstruction of Europe and the IMF has done the same with its role of supporting industrialised countries with temporary problems in their balance of payments. However, some essential aspects remain unchanged, such as the pre-eminence of the market above the rest of institutions and of the focus on economics above all other types of more social and political considerations. Despite the changes in the theoretical discourse that have been produced in recent years, *wide differences are noted in practice*, and the legitimacy of both institutions are recurrently being questioned.

The proposals of reform, integrated in the discussions on "New International Financial Architecture" (triggered by the recent financial crisis), cover a wide diversity of stances ranging from the total suppression of existing Institutions to the creation of new ones. In our point of view, the current process of globalisation, far from minimising, makes the existence of *global rules of the game* more necessary - rules that would mark up to what point one could reach. Equally necessary in this case would be the existence and good functioning of *sufficiently prepared and independent referees* who could impose these rules in an impartial way.

In this respect, a radical transformation of existing organisations is becoming clearly necessary and this should cover not only their composition and functioning (including the immediate *revision of the distribution of powers* and increasing notably the *participation of poor countries in the taking of decisions*) but also their programs and actions in the field (revising in a much deeper way imposed conditions *and the social effects of the same* and, above all, basing much more their actions on strategies *and plans put forward by the countries concerned*).

It has become very necessary to reconsider the relation between ends and means, in order to be able to recognise the pre-eminence of objectives of development over all sorts of measures, the efficacy of which should be measured according to results and not the other way round. Fundamentally, the objectives of development should be objectives of the millennium and should be marked out at the beginning on an international level but for the specific form they take in a given country, this should be done essentially in a national ambit.

The proposals are on the table. Who can wait no longer are the thousand and more million poor that inhabit the planet.

NOTES

1.Outstanding among them are the Inter-American Bank of Development (IBD), the Asian Bank of Development (AsBD), the African Bank of Development (AfBD) and the European Bank of Reconstruction and Development (EBRD)

2.For this reason they are often known as the “Institutions of Bretton Woods”, or they are generally spoken of as the “System of Bretton Woods” when referring to the group of Multilateral Financial Institutions and their functioning.

3.The importance of multilateral financing as a whole has increased with respect to the total amount of official resources to the developing world, and has risen from 20-25% in the 70s to 50% in the 80s. All along the 90s, this percentage has carried on growing, due to the decrease in the levels of Official bilateral Development Aid and to the increase of loans of the multilateral bank during the Asian crisis.

4.In their report *Growth is good for the poor* the investigators of the World Bank, David Dollar and Aart Kray, try to show how economic growth helps equally all strata of society. Oxfam International replied to this argument in another report entitled *Growth with equity is good for the poor*, in which insistence is made on the fact that economic growth *per se* is not sufficient to reduce poverty.

5.This proposal has in recent months attained encouraging levels of credibility as can be seen from the stance that has begun to be taken by the IMF itself in this respect. The “Consensus of Monterrey”, approved at the Conference of the Financing of Development (Monterrey, Mexico, March 2002), has also welcomed this proposal.

6.World Bank, *Knowledge for All*. http://www.worldbank.org/knowledgebank/vision.html

7.This process is explained in detail in the book *Altruismo, Mercado y Poder*, of José Antonio Sanahuja, Col. Libros de Encuentro, n. 10, Intermón, Oxfam 2001; pg. 140-143. We recommend the reading of this book which serves as the main reference on which this Booklet is based.

8.The most outstanding cases involve two of the personages mentioned in the previous chapter: on the one hand J. Stiglitz who as Chief Economist of the Bank had bitter confrontations with the IMF especially at the time of the Asian crisis and about the policies of the IMF in Russia, and on the other hand, the pressures exerted on the team of the Report of World Development headed by R. Kanbur that caused him to resign from the Bank in 2000.

9.“When the IMF decides to help a country, it sends a ”mission" of economists. These economists often lack sufficient experience about the country. They have probably more knowledge about 5-star hotels than the villages that enter their field of work. They work hard, plunging themselves all night deep down in numbers. But their task is impossible. In a question of days or at the most weeks they have to develop a coherent program which is sensitive to the needs of the country. It goes without saying that “crunching” a few numbers and statistics rarely provides the necessary knowledge to establish a strategy of development of an entire nation. Worse still, crunching numbers is not always a very good policy. The mathematical models that the IMF uses are frequently defective or outdated. Critics accuse the institution of getting knowledge of the economy by using moulds to make biscuits, and they are right. It is known that some visiting teams to a country have written drafts of their reports even before reaching that country." *Why do thousands of people protest in Washington?*, J. Stiglitz. April 2000.

10.Kanbur defended in this Report a strategy of fighting against poverty based on three related axes: opportunity - access to resources, credit, productive investments; “empowering” - promotion of participation, creation of strong institutions, elimination of discrimination; and security - reduction of vulnerability, prevention of all sorts of crises. The Report did not question growth but pointed out to a wider conception of poverty that could not be confronted from the narrow frame of orthodox neoliberal policies.

11.It was manifested this way in the process of the Conference of Monterrey on Financing for Development, during which the suitability of liberalising stock markets was never considered. Only the necessity of doing so was acknowledged “in a well ordered process coherent with the objectives of development”.

12.*What I learnt from the world economic crisis.* J. Stiglitz.

13.In particular, the currently most accepted version is the proposal by Spahn in 1996 that includes a system of “double taxation” with a general minimal rate (from one or two basic points, that is to say, 0.01% o 0.02%) for all transactions (basic tax) which would be increased only during periods of high risk and turbulence in rate exchanges. The basic rate would not generate big capital evasion, but in cases of “excessive” volatility could reach really prohibitive rates.

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