Norwegian Church Aid

Occasional Paper

World Bank and IMF use of privatisation and liberalisation policy conditionality and its effects on selected recipient countries.

April 2007

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Published by Norwegian Church Aid
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Contents

Abbreviations and Acronyms

WB	World Bank
IMF	International Monetary Fund
ZCCM	Zambia Consolidated Copper Mines Limited
PRGF	Poverty Reduction and Growth Facility
ZNCB	Zambia National Commercial Bank
ZESCO	Zambia Electricity Supply Company
HIPC	Heavily Indebted Poor Country
CABS	Common Approach to Budget Support
AFRODAD	African Forum and Network on Debt and Development
EURODAD	European Network on Debt and Development
ESAPs	Economic Structural Adjustment Programmes
PRSC	Poverty Reduction Sector Credit
GoM	Government of Malawi
SMP	Staff Monitored Program
ADMARC	Agriculture Development Marketing Corporation
WDM	World Development Movement
FIVAS	Association for International Water Studies
PPIAF	Public Private Infrastructure Advisory Facility

1. Introduction and context

This paper first looks into the extent privatisation and liberalization conditionality is still going on (after year 2000) in the World Bank (WB) and the International Monetary Fund (IMF). Secondly, summarises previous reports and findings on liberalisation and privatisation policy conditionality. Thirdly, it looks at consequences privatisation and liberalization policy conditionality has had on the population in two recipient countries, Malawi and Zambia. Lastly it concludes by giving a set of recommendations to World Bank and International Monetary Fund, borrowing governments and civil society organisations.

This paper will argue that the World Bank (WB), and International Monetary Fund (IMF) continues to attach economic policy conditionality, mainly privatisation and liberalisation policies to loans/grants, debt relief and debt cancellation programs it extends to recipient countries. Privatisation and liberalisation policy conditionalities once they are implemented have largely raised the cost of basic human needs beyond the reach of the poorest in most impoverished countries.[1] These policies have failed to promote sustainable development and end poverty and have largely impacted negatively on the lives of the poor in most recipient countries. Instead of leading countries to recovery, growth and debt sustainability countries have experienced stagnation and increased indebtedness.

WB/IMF economic policy conditionality, without which a loan deal is currently not available, consists of policies of trade and financial liberalisation, privatisation of state owned companies, and restriction on social expenditure. Recipient governments are forced and pressed to reduce public spending on health, education, and food in order to repay debt, to privatise state owned enterprises, devalue their currencies in order to cheapen their exports, remove subsidies on agriculture inputs and promote export crops for international market negating their domestic agricultural needs and food security. Among other factors the above has created the conditions that have caused and exacerbated the debt crisis, famines, conflicts, poverty and environmental degradation, and the WB and IMF must share responsibility for that.

There is no difference between the World Bank and IMF and their respective use of conditionality. They both impose conditionalities. IMF mandate was suppose to be macro-economic where as the WB has been micro-economic. However IMF has expanded its mandate. The IMF must untie policy advice from loans and World Bank should stick to lending for projects and not for policy.

Privatisation has been strongly endorsed by both the World Bank and the IMF and is a standard ingredient in any 'economic reform programme' prescription. It is based on the notion that governments have no business in the market place and that the least government is the best government and 'despite the convincing claims of its critics the Bank remains wedded to privatisations'[2] Poverty Reduction Strategy Papers (PRSPs),

[1] The NO-NONSENSE GUIDE to GLOBALISATION, by Wanyne Ellwood.
[2] The NO-NONSENSE GUIDE to GLOBALISATION, by Wanyne Ellwood.

which are a conditionality from the Bank and Fund, are littered with commitments to privatise. For example, the Government of Uganda says in its PRSP that "In the long run privatisation will transfer the need for major investment expenditures on to the private sector" (Uganda PRSP 2000). In Mauritania, "emphasis will be placed on completing reforms related to the liberalization and privatisation of services in the telecommunications, energy and air transport services" (para 138, Mauritania PRSP). In Burkina Faso, the government aims to implement the "privatization of existing state interests in order to facilitate the entry of new firms, resources, and technology into various segments of the market" (Para 4.2.1.2.2Burkina Faso PRSP).

The World Bank's Private Sector Development Strategy released in February 2002 reinforces what it calls 'policy-based lending to promote privatisation'. The initiative seeks to expand the Bank's International Finance Corporation (IFC), whose role is to open doors to Multinational Corporations. The goal is to increase the role of private business in the services sector e.g. water, sanitation, electricity, education and healthcare.

The World Bank's former Chief economist, Joseph Stiglitz 2003, wrote in his book, ***Globalisation and its Discontents***, critique of the Bretton Woods Institutions 'the net effect of the policies set by the Washington consensus has all too often been to benefit the few at the expense of the many, the well-off at the expense of the poor. In many cases commercial interests and values have superseded concern for the environment, democracy, human rights, and social justice'

The Structural Adjustment Participatory Review Initiative (SAPRI) gathered grassroots information over a four-year period, originally with the participation of the ex-World Bank President Jim Wolfensohn. However when the Bank realised the outcomes it declined to participate in the release of the final report. The SAPRI review confirmed what economic justice campaigners had been saying for years: 'adjustment policies contributed to further impoverishment and marginalisation of local populations while increasing inequality'

Economic policy conditionality from the Bank and Fund undermines democracy and policy ownership. By imposing particular policy choices onto the recipient countries, WB/IMF weakens governments sovereignty and accountability to their own people, and instead make them answerable to unaccountable external institutions for their choice of economic policies, their level of spending on public services and political decisions[3]. The WB/IMF would like recipient countries to 'own' the policy conditionality but genuine ownership can only be derived if the countries themselves participate in the making of policies, this is the generally not the case as policies are usually imposed, often against the wishes of the governments and people, as this paper demonstrates. Parliaments and civil society are not involved in the development of Poverty Reduction and Growth Facility (PRGF) programmes, which comes with economic policy conditionalities (Zambian case). The WB/IMF do not present different policy alternatives and their consequences despite the acknowledgement that these are critical factors for establishing ownership.

[3] Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation: Jubilee Debt Campaign , September 2006

Economic policy conditionality touches on structural and sensitive issues that are beyond the mandate of the WB/IMF and often not needed to manage crisis in recipient countries. Policy conditionalities like privatisations and liberalisations, have proved not to generate sustainable growth, and are often designed in ways that are insensitive to social impacts resulting in the burden felling heavily on the poor. Scholars like Karl Polanyi's criticism of the IMF/WB market based economic model, that put money and investors at the centre of its concerns rather than social values and human well-being is justified given the devastating negative impact the model inflicted in poor countries. He wrote 'to allow the market mechanism to be the sole director of the fate of human beings and their natural environment…would result in the demolition of society'[4].

There have been calls for economic policy conditionality reforms in the Bank and Fund. The World Bank[5] (2005) carried out a review of its conditionality where a set of best practice principles was adopted. It acknowledged that the overall number of conditions it imposes on the world's most impoverished nations is falling not rising. The World Bank's 2005 review of conditionality concludes that economic reform will fail if it is not driven and owned by the countries themselves. A multi – country study by the EURODAD (European Network on Debt and Development)[6], highlighted the fact that far from decreasing the number of conditions is increasing. In addition controversial economic reforms such as privatisation and liberalisation continue to be pushed.

The United Kingdom-DFID (2004) issued a new conditionality policy calling for a reduction in the overall number of policy conditions; greater country ownership and a stop to conditions, which push sensitive '*policies*' like privatisation and trade liberalisation policies.

UK policy is based on the three objectives underlying; reducing poverty and achieving the MDGs; respecting human rights; and strengthening financial management and accountability. This what it calls the right <u>kind</u> of conditionality. UK government has distanced itself from "conservative and neo-liberal" policies and conditionalities. It stressed the important role of parliaments and civil society in building local ownership and generating debate. UN agencies at country level should help countries use the money from the World Bank in accordance with their own priorities.

The Norwegian government has adopted a bold stance on macroeconomic conditionality (The Soria Moria Declaration 2005). They have called for an end to the practise of using much-needed aid and debt relief to force developing countries to adopt controversial and unproven reforms such as liberalisation and privatisation reforms. The G8 leaders (2005) highlighted the importance of national governments sovereign right to determine their own national economic policies.

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[4] The Great Transformation : Karl Polanyi
[5] Review of World Bank Conditionality, World Bank, September. 2005
[6] Eurodad, 2006. World Bank and IMF Conditionality: A Development Injustice

The effects of liberalisation and privatisation policy prescriptions have 'been noticed, dramatically and traumatically, in many developing countries. WB and IMF have themselves been forced to take note of the disastrous impacts of their policies …unfortunately but not surprisingly, they have only made cosmetic changes to the substance of their imperative prescriptions. The major changes have been in language and words'[7]

The IMF policies and mechanisms are badly designed from the viewpoint of social impact, reducing access to basic services, and increasing poverty. They cause social and political upheavals, financial crash and economic downturn, and devastate lives of millions of poor people in most developing countries. Most countries undergoing IMF conditionality have been affected by demonstrations and riots. Protests all over the world have arisen against mass retrenchments, higher tariffs, and disconnections of water, telephone, electricity, rail and public service transport systems, as a result of economic policy conditionality mainly privatisation and liberalisation.

[7] The Debt Scam: IMF, World Bank, and Third World Debt – Damien Millet, Eric Toussaint 2003 pvii

2. Definitions: Conditionality, privatisation and liberalisation

The IFIs and NGOs operate with different definitions particularly regarding conditionality. Norwegian Ministry of Foreign Affairs Conditionality Research (2006) defined conditionality as 'the application of specific, pre-determined requirement that directly or indirectly enter into a donor's decision to approve or continue to finance a loan or grant'. The researchers state "we have decided to adopt a broad definition of conditionality, that includes the full spectrum of requirements, from legally binding conditions to criteria for screening potential borrowers – so-called ex-ante conditionality". With such definition, they do recognize that both binding and non-binding conditions, as well as indicators for assessing performance and for selectivity purposes (such as CPIAs) inform lending decisions, thus have an impact on the government's policies. This is a bridge builder between the often self-referring IFIs analysis on the one hand and critical NGO analysis on the other.

The above research defined **Privatisation** as 'the partial or total transfer of property of responsibility from the public sector (government) to the private sector (business) or private persons. **Liberalisation** is defined as 'any relaxation of previous government restrictions, in areas of social or economic policy or political organisation. The researchers opted for broad definitions of privatisation and liberalisation, including transfer of responsibilities and not solely change of ownership (when it comes to privatisation).

AFRODAD (2006) defined privatisation simply as 'the transfer of all or any of three kinds of property rights from the state to the private sector; ownership rights, operating rights and development rights since these constitute the most common type of privatisation in sub-Saharan Africa'[8]. In general privatisation has been undertaken as one of the reform measures to reduce government role in the economy and broaden the role of the private sector.

This paper adopts Olav Stokke[9] (1995) definition of conditionality, as ***"the use of pressure, by the donor, in terms of threatening to terminate aid, or actually terminating or reducing it, if conditions are not met by the recipient. It is a means of changing the priorities or even the values of the recipient".***

The following examples clearly show when and how pressure, threats and termination were used by the WB/IMF on recipient countries.

In 2001, Colombia, in the city of Cartagena, privatisation of the water supply was one of the last policies to be implemented by the outgoing mayor. The incoming mayor had vociferously opposed privatisation and planned to reverse the policy on taking office. However, after a four hour meeting with the World Bank where he was told that

[8] Privatisation: The Case of Tanzania AFRODAD 2006
[9] Aid and Political Conditionality 1995

privatisation was a condition for the release of aid funds, privatisation was reinstated on the policy agenda[10].

In Honduras, debt relief under HIPC was delayed for six months while the IMF demanded more progress on electricity privatisation (Oxfam 2000).

Tanzania debt relief was held up by complications in the privatisation of the National Commercial Bank (WDM 2000). The government was pressurized to privatise Dar es Salaam Water and Sewerage Authority (DAWASA) (AFRODAD 2006)

Ecuador made large profits from oil sales. As part of the requirements of an IMF loan programme, the government set up an oil stabilisation fund in 2001 into which its oil revenues would be accumulated. When the Ecuadorian Congress made moves in 2002 to set aside a portion of this fund for social sector spending, the IMF raised objections, arguing that dealing with the country's debt was a priority. Despite this pressure, setting aside ten per cent for health and education was eventually passed into law.

In 2005, Ecuador's then-finance minister Rafael Correa worked alongside Congress to further restructure the oil stabilisation fund in order to channel a greater portion of oil revenues into social sector programmes. This time, both the IMF and World Bank objected. The World Bank delayed and ultimately cancelled an already approved loan to Ecuador, based on their concern that these changes amounted to a 'policy reversal'. It is absurd and disgraceful that pro-poor and democratic policies are being vetoed by organizations supposedly interested in reducing poverty and democracy[11].

[10] Nickson, Andrew (2001a) 'Establishing and Implementing a Joint Venture for Water and Sanitation Services in Cartagena, Colombia' GHK Working Paper http://www.ghkint.com/pdf/Cartagena.pdf
[11] Enough is enough: The debt repudiation option - Christian Aid 2006

3. Review of other research studies on WB/IMF use of economic policy conditionality

3.1. The Norwegian Ministry of Foreign Affairs Report

Both, governments and civil society organisations have carried out a number of research/studies and reviews on WB/IMF economic policy conditionality. In 2006, The Norwegian Ministry of Foreign Affairs released a report: The World Bank's and the IMF's use of Conditionality to Encourage Privatisation and Liberalization: *Current Issues and Practices Report* prepared as a background for the Oslo Conditionality Conference, November 2006. The report was prepared in the light of the statement of the current Norwegian government declaration (the Soria Moria Declaration) that Norwegian aid shall not support programs that are made conditional on liberalization and privatisation policy prescriptions. The main purpose of the research was to evaluate to what extent the World Bank and the International Monetary Fund (IMF) still support such programs, to what extent they have put undue pressure on governments to privatise or liberalise, and the extent to which they follow their own guidelines. The report was done in each of the following countries: Bangladesh, Mozambique, Uganda and Zambia.

The Researchers found out that privatisation and liberalisation are still included as conditionalities in WB and IMF loans, but less common than before. The research says "there is general agreement that the number of privatisation and liberalization conditionalities has declined…(but disagreement on whether) the main policy focus is currently on governance and economic management or the basic orientation has not changed, and privatisation and liberalization are still priorities for the IFIs". It reveals that the policy advice given by the IMF and the WB on privatisation and liberalisation has changed; a clear trend towards greater pragmatism and focus on complementary policies, but changes not uniform across cases and sectors. The WB/IMF were found to be exert considerable influence through providing policy advice, and have not generally elaborated alternative policies to those involving privatisation and liberalisation.

The findings of the cases were as follows:

a) In the case of Bangladesh, the privatisation of parts of the energy sector was viewed as being in line with governmental priorities and earlier reviews of the sector. However, the WB was viewed as having been deeply involved in the elaboration of these reviews and thus setting the agenda for reforms. The WB is, in this case, indirectly exerting influence on setting priorities, thus it could be interpreted as conditionality. EURODAD 2006[12] reports that Bangladesh faces direct conditions calling for privatisation of its banks, electricity and telecommunications sectors as well as additional reforms to the gas and petrol sectors that will facilitate private sector involvement. Additionally, it has a condition attached to WB a loan, calling on quantitative restrictions to trade imports on sugar to be removed

[12] Eurodad, *World Bank and IMF conditionality: a development injustice* (2006).

b) In the case of Mozambique, the WB was found to be the main proponent of privatisation in the energy sector, but when government priorities shifted away from privatisation, the WB is said to have accepted it. Christian Aid 2005 [13] found out that Mozambique has also been subject to conditionalities concerning privatisation of the banking system.

c) In the case of Uganda, privatisation and liberalisation are found not be important elements in current reforms, and all Poverty Reduction Sector Credit (PRSC) conditionality are jointly decided by the government and donors. However, it is noted that the government might indirectly have been pushed into participating in IMF PRSCs in order to be approved by bilateral donors. Moreover, there were some liberalisation intentions included Water and Sanitation programmes, but the research argues that this was jointly agreed between government and development partners with little criticism from the civil society.

Uganda has already liberalised many sectors as it has been the 'good boy' of the IFIs – thus this could explain a decrease in conditionalities. According to Christian Aid 2005 decline in formal trade conditions could be attributed to the emergence of the WTO as a forum for developing countries to negotiate on reduction of trade barriers. EURODAD 2006 research revealed that, in Uganda, where 23% of all children under 5 are malnourished, faced a number of 195 conditions attached to its WB development grant.

d) In Zambia, the WB/IMF are found to have used conditionality to pressure for the adoption and implementation of policies to privatise state owned banks and public utilities. They first used Economic Structural Adjustment Programmes (SAPs) conditionality to pressure for the privatisation of the Zambia Consolidated Copper Mines Limited (ZCCM) in the late 1990s, and later the Poverty Reduction and Growth Facility (PRGF) was used to pressure for the privatisation of the Zambia National Commercial Bank (ZNCB) and the state owned energy utility Zambia Electricity Supply Company (ZESCO). The case study questions the efficiency of this pressure. Despite the Government's preference of the ZNCB commercialisation option as opposed to privatisation, there were initial delays to its implementation, most notably in the preparation of a business plan that was expected to address, inter alias, risks, pricing strategy, and electricity tariff issues.

The Norwegian study concluded that, the Zambia case is a clear case of WB/IMF use of conditionality. This is also a case where a government claimed its "policy space" and came up with policy alternatives, in this case commercialisation. Based on previous failure of privatisation the IMF was weak to enforce privatisation conditionality on Zambia National Commercial Bank (ZNCB).

[13] Christian Aid, *Business as usual: The World Bank, the IMF and the liberalisation agenda* (September 2005).

3.2. AFRODAD (African Forum & Network on Debt and development) Studies

According to two major research studies undertaken by AFRODAD firstly, ***The Impact of the Poverty Reduction and Growth Facility on Social Services in Malawi (2005***), and secondly ***The Impact of Economic Reform Programs on Social Services in Malawi (2006)*** the country was subjected to a number of conditionalities (including privatisation and liberalisation) from the IMF between the decision point and completion-point period.

The first PRGF (2000) for Malawi was supported by budget support commitments from the Common Approach to Budget Support (CABS) group of donors. The CABS comprised of the UK, the European Union, Norway, Denmark and Sweden. These donors co-ordinate their macro-financial support to the Malawi government. They also review government's macro-economic performance within the PRGF programme and conduct sector policy dialogue on agriculture and natural resources as well as policy dialogue in the transport sector, among other sectors.

Crucial features of the program were liberalisation of maize marketing and stopping subsidisation of petroleum. The PRGF I went off track within a year of its approval. Most CABS budget support was conditional upon GoM (Government of Malawi) remaining on track with the IMF and so was suspended when the PRGF went off track due to financial indiscipline[14].

In 2003, there was an apparent improvement in fiscal management and Malawi got back 'on track' with the IMF PRGF in October 2003, consequently resulting in the CABS donors resuming disbursements of budget support. This did not take long. There was again a relaxation in expenditure control in the run-up to the May 2004 elections, resulting in a 2003/04 deficit of -7.8% and the abandonment of the PRGF.

The Malawi government then agreed with the IMF to implement a Staff Monitored Program (SMP) in order to establish a track record of good expenditure, prior to approving the second PRGF. By all means, the SMP was successful, and restored donor confidence, and consequently led to the signing of the new PRGF in 2005.

In August 2005 the IMF Board approved a new Poverty Reduction & Growth Facility (PRGF) for Malawi, indicating a substantial improvement in the country's international standing. A substantial number of structural performance conditionalities and benchmarks were put in place, most of them targeting 2006, when Malawi was likely to reach completion point for HIPC. These included the privatisation of the Agriculture Development Marketing Corporation (ADMARC).

[14] This represented 23% of budgeted revenue in 2001/02. See Whitsworth presentation: Malawi's recent fiscal performance & prospects, Presentation, http://www.sarpn.org.za/documents/d0001778/index.php

3.3. World Development Movement (WDM) and the Association for International Water Studies (FIVAS) Report

World Development Movement (WDM) and the Association for International Water Studies (FIVAS) analysed the work of the Public Private Infrastructure Advisory Facility (PPIAF) formed in 1999 supported by the World Bank, United Kingdom, and Norway among other donors. The report found out that 'PPIAF has become a key driver of water and sanitation privatisation in 19 developing countries. 'Although PPIAF does not use conditionality in its conventional sense, its aid is effectively conditional because it requires countries to be involved in some form of privatisation if they are to access its funding'[15].

The report noted the use of conditionality in the PPIAF, '...for the past 25 years the IFIs, alongside government donors, have required countries to implement free market economic policies, including water privatisation, in return for aid, loans and debt relief. PPIAF funding is often intimately linked with ...IFI conditionality; sometimes following but more often a pre-cursor to donor demands for water privatisation'.

In December 2000, PPIAF in Paraguayan is found to have paid a consultant to develop options for a concession contract for the Paraguayan water utility, Essap, funded work to get the Paraguayan government, the Essap managers, consumers and business groups to agree to the concession privatisation. Despite demonstrations against the privatisations, and an anti-privatisation senate vote, ***as a condition of its May 2006 loan agreement*** with the IMF, the government had to agree to privatise Essap through a management contract by December 2006. The Bank also made the amount of lending available to the government between 2004 and 2007 conditional on water privatisation'

In February 2007 Norway announced that it has decided to pull out of PPIAF because it promotes water privatisation in developing countries. Norway has contributed $2,85 million to the Public Private Infrastructure Advisory Facility (PPIAF) since 1999. "This is good news," said Andrew Preston, director of FIVAS. "We're not talking about a large amount of money in development terms, but it's nonetheless an important and correct decision. We hope this will send a signal to other donor countries, and not least the World Bank itself, that there are better ways of using aid funds."[16]

3.4 IMF/WB mandate and evaluations

The World Bank' report on the progress of the implementation on the Good Practice Principles on Conditionality states that the use of conditionality is broadly consistent with the good practice principles and that most Bank programs are well aligned with government priorities and customized to country circumstances. However, there areas that need further attention. The Bank is said to be concerned by the number of benchmarks in its programmes and intents to reduce the number.

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[15] Down the drain: How aid for water sector reform could be better spent (November 2006)
[16] Press Release 22 February 2007, FIVAS

While the World Bank does not consider benchmarks to be conditionality, this report argues that this is what they are. Country Performance and Institutional Assessment (CPIA) exercise is conditionality. World Bank policy is often underpinned by subjective and ideologically driven research and analysis. This unbalanced research is harmful as it underpins policy recommendations regarding liberalisation and privatisation of different types of public services, including health services. A recent independent audit of World Bank research, which examined over 4,000 World Bank activities, between 1998 and 2005, found that policies are not formulated on the basis of a balanced analysis of wide range of research. Policies are rather largely formulated on the basis of historical preference, and then backed up by selective research and biased analysis. The evaluators noted that there was remarkably little work co-authored by non-Bank researchers from developing countries, and that Bank research was 'inward looking' with a high proportion of citations in Bank papers referring to other Bank papers.

4. Country case studies demonstrating WB/IMF pressure

4.1. The Case of Malawi

IFIs pressure to privatise the Agriculture Development Marketing Corporation (ADMARC)

Ironically, with regards to the country's heavy reliance on agriculture, the first company in Malawi to be subjected to privatisation was the Agriculture Development Marketing Corporation (ADMARC). This was an institution that provided food support and back-up for rural Malawians, and whose full privatisation still remains a big contention. It is a clear case that illustrates pressure from the WB to privatise.

Privatisation of ADMARC had been part of World Bank conditionalities for more than 10 years. It represents a central element in an approach to agriculture that holds that full liberalization of the sector will be best for the poor. This approach has been increasingly questioned in the context of the recurrent food crises in Malawi (2002). Full liberalization of the agriculture sector under the Bank greatly contributed to the food crisis and the subsequent deaths in 2002.

ADMARC has been the driving force of food security in Malawi because of a number of reasons. Right from its formation, it marketed agricultural inputs and outputs, and provided good support especially in most rural areas where there was poor infrastructure, where other traders would find it difficult to operate. In most of the rural areas, it has been proven that without ADMARC, most peasant farmers would not have had food sufficiency most of the years. This is one area that gives some true colours to privatisation at grassroots levels. A number of factors are not taken into consideration as IFIs provides recipient countries with their conditions. Mostly, these have to do with poor understanding of the local and remote situations, knowledge of the infrastructure available and real levels of poverty.

Such a move also has a lot of social implications for the employees. For a poor country like Malawi where poverty is rampart and over 50% of the population is unemployed; organisations like ADMARC provided some employment to a percentage of the population. The closure of over 100 markets meant that all those people who worked in these markets were now unemployed. Very little options were available to them. They could not go in produce trading because the wages they were getting from ADMARC were low and because most of them were seasonal or temporally employees, their being layed off work was not compensated with any benefits which could help them continue leading a dignified and comfortable life.

Even Poverty and Social Impact Analysis (PSIA) undertaken by World Bank concluded that ADMARC played an important role in supporting the lives of poor women and men, and that this role would be destroyed by privatisation. However, this publication was delayed for two years; until the Malawian Parliament had agreed to the reform process of privatisation to go ahead (AFRODAD 2006).

Most civil society organizations, as well as important government ministries felt that privatisation of ADMARC was wrong too. In an interview with IRIN, the then head of Disaster Preparedness Department, was quoted saying[17]: "They [ADMARC] have markets throughout the countryside. The concern is, if it is privatised, would the private owner keep these markets - maintain and sustain markets, which are not profitable? The answer is no. The private owner would be looking for a return on investment. Some of these markets are not profitable, [they] are a social service, and people are concerned about this. But then again, the IMF and the donors say we must privatise ADMARC, along with the other parastatals. I believe the Breton Woods Institutions are wrong - they don't look at the social aspects of the parastatals. When these social aspects are removed, misery is brought on the people. The people become poorer."

After all the reforms, including partial commercialising ADMARC and closing some of its outlets, several problems have been identified. An Oxfam Report (2002) identified that although private traders were allowed to complement the marketing activities of ADMARC, a problem still exists in the sense that these private traders find it difficult to go to some remote areas due to poor roads and transport services. Thus, some farmers in areas where ADMARC withdrew have found it difficult to sell their produce and to buy food and inputs. This poses a problem to the government since it has a duty to ensure that these areas have access to markets for produce, food, and inputs. Consequently, ADMARC has found itself being called upon to service such areas.

Since the government had to support ADMARC's commercialisation programme as advised by the World Bank, one reality it has had to face is that if ADMARC were to make a commercial decision when operating in these areas, the poor would be adversely affected. For example, if ADMARC were to supply maize to food-deficit households in such areas, the commercially viable price would be beyond their reach. The government has therefore entered into memoranda of understanding with ADMARC to the effect that it will undertake to pay ADMARC for the costs it incurs while performing such social roles on its behalf. However, the problem that still remains is that in most cases, the government has not lived up to its obligations and separating the social role is not easy.

Related to the problem discussed above, is the fact that a cost-effective mechanism is not yet in place for the supply of food to food-deficit areas. For example, sometimes ADMARC moves maize from one corner of the country to another during the buying season, only to be asked to transport it to another far corner of the country during lean months. But as already mentioned, the government usually does not fully reimburse the transport costs that ADMARC incurs in undertaking such operations.

A fierce political debate rages about the future of ADMARC. Donors, especially the World Bank, have long pushed for its privatisation, and noted its poor financial performance, as well as accused it of corruption and lack of transparency. Malawian governments, anxious to maintain a strong government role in controlling the national staple, have fiercely

[17] See http://www.irinnews.org/report.asp?ReportID=35235

resisted full privatisation. In 2004, the government was forced to speed up ADMARC reform as a condition for a World Bank loan but the new government has taken virtually no steps to implement this.

The debate currently regards the *extent* of privatisation and the difference between ADMARC's 'commercial' and 'social' functions. The Bank is pushing for an end to ADMARC's role in setting minimum prices across the whole country but accepts it could still play a role in price setting and buying maize in remote rural areas. The Bank has pulled back from demanding complete privatisation, conceivably in light of civil society and political opposition in Malawi

Table 1: The effects of ARDMC privatisation/commercialisation on the poor Malawi

Conditionality	Negative effects	Positive effects
Privatisation of ARDMC	Poor farmers deprived of social services ARDMC used to offer	Helped securing debt relief from World Bank and IMF
Liberalisation of the Agriculture sector Removal of subsides and scrapping of government credit scheme and devaluation of Kwacha	Increased price of fertiliser and seeds Left poor farmers without access to agricultural inputs Caused food insecurity Deteriorating agricultural productivity Eroded livelihoods Increased rural inequalities	
Maize market liberalisation	UNCTAD study noted that ʻagricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off.	
Liberalisation of the agricultural commodities	Prices set by market forces are too low to poor farmers- they are left without markets Private traders shun rural areas because they are unprofitable and have poor roads	
Cutting in government funding of Agriculture -5% of national budget allocated in 2005	Productivity declined Lack of funds to provide extension and advisory services to poor farmers Lack of funds to finance agricultural development infrastructure like roads	

4.2. The case of Zambia

IFIs pressure to privatise ZESCO and Zambian National Commercial Bank (ZNCB)

In 1999 the Zambian government signed a PRGF program with IMF whose aim was to restore macroeconomic stability and promote sustainable growth by reducing inflation, strengthening the external position, and emphasizing the critical role of private sector development. The principal structural reforms related to privatisation, public service reform, and the strengthening of the banking system.

The 1999 arrangement expired at the end of March 2003 without the completion of the final review and agreement on a new three-year PRGF arrangement. This was because of delays by the Government in the privatisation of the Zambia National Commercial Bank (ZNCB) and because of a large increase in compensation awarded to government employees in April 2003.

According to the World Development Movement, the IMF in 2002 withheld $1 billion in debt relief if the government did not go ahead in privatising the state bank, the Zambian National Commercial Bank. 'If they don't sell, they will not get the money', IMF representative Mark Ellyne is reported to have said. This was after Zambia's parliament had voted against privatisation[18].

Due to these shortcomings that were by the IMF understood as a failure on the part of the Government to comply with the agreed benchmarks, an agreement was reached on an IMF Staff Monitored Program (SMP) in July 2003 to run from July to December 2003. Performance under the SMP was initially not satisfactory and, consequently, the SMP was extended to June 2004 with the aim of re-establishing a good record of macroeconomic management and performance. Before it could be allowed to move out of SMP, the country was expected to meet a number of conditions that included a reduction in the budget deficit to the agreed target of not more than 3 percent of the GDP and holding a public sector wage bill-to-GDP ratio of not more than 8 percent. In addition, the country was expected by the IMF to privatise the remaining public entities in the energy and telecommunication sectors, INDENI Refinery, Zambia National Oil Company and Zambia Telecommunications Company (Zamtel). The SMP remained operational until June 2004 when some improvement was registered and, eventually, the IMF granted a new three-year PRGF to run from 2004 to June 2007. This PRGF amounted to SDR 220.095 million (about US$320.41 million). It is currently running.

In the context of the above, two structural reforms were identified under PRGF, which also served as HIPC Completion Point triggers. These were (a) the privatisation of the state-owned energy utility, ZESCO; and (b) the privatisation of the remaining state-owned commercial bank, namely, the Zambia National Commercial Bank (ZNCB).

[18] Zambia: Condemned to debt – How the IMF and WB have undermined development, WDM, London 2003, p10

With regard to ZESCO, an understanding was reached in 2003 between the Government, IDA and the IMF that the objectives of restructuring and privatisation as originally envisaged could be pursued by the commercialisation of the company. This was as a result of the Government resistance to privatising the utility company. Under the commercialisation option, the Government would retain its ownership of ZESCO while allowing it to operate purely on commercial basis without state interference.

As concluded by the Norwegian research study, in Zambia, the IMF used conditionalities to pressure for the adoption and implementation of policies to privatise state owned banks and public utilities. IMF used conditionalities under the PRGF to pressure for the privatisation of the Zambia National Commercial Bank (ZNCB) and the state owned energy utility Zambia Electricity Supply Company (ZESCO), despite the Government's preference of the commercialisation option as opposed to privatisation.

According to a report issued by the Irish government in 2003, Zambia lost budget support and its debt reduction was held up because of being off track with the IMF PRGF. The World Bank currently has US$630 million in conditional-aid-money committed to Zambia within the current Country Assistance Strategy 2004 – 2007.

With respect to ZNCB, the Government took measures in 2000 to improve the Bank's financial position. To ensure that the ZNCB's operations would not become a costly contingent liability once again, the IMF called for the issuance of international bidding documents for the sale of a majority (controlling) interest in the bank as a HIPC completion point trigger. International bidding documents were issued in March 2003. However, the prolonged negotiations with the selected preferred and reserve bidders could not be successfully concluded and the board of the Zambia Privatisation Agency (ZPA) terminated the negotiations on March 15, 2005, with the aim of issuing a new invitation to bid for the sale of 49 percent equity in ZNCB with management control "as soon as possible." In addition, the Government has agreed to offer a 26 percent share of ZNBC on the Lusaka Stock Exchange, following an agreement with a strategic investor, which would reduce government's ownership to 25 percent, the maximum share allowed by a single entity under the Banking and Financial Services Act. This trigger was not fully met by the time Zambia was being considered for HIPC Completion Point status. Nevertheless, based on the Government's commitment to restart the privatisation process expeditiously, the IMF Board granted a waiver for the nonobservance of this HIPC completion point condition. Zambia eventually reached the HIPC Completion Point in April 2005. The post-Completion Point negotiations for the sale of 49 percent of ZNCB have been completed and the privatisation is expected to be completed soon.

The economic program underlying an arrangement for a loan package is formulated by the country in consultation with the IMF, and is presented to the Fund's Executive Board in a "Letter of Intent." Once the Board approves an arrangement, the loan is released in phased instalments as the program is carried out. Various programs that are agreed upon have varying levels of conformity to benchmarks. The following example illustrates the link between the Article IV-consultations and the Zambian government's Letter of Intent and gives an idea of the kinds of requests or "advice" that the IMF has given to Zambia.

1999[19] Article IV Executive Board summary on *Structural Reforms:*

"Directors regretted that limited progress had been made in privatising state enterprises in the non-mining sector in 1998. They welcomed the high priority accorded in the government's medium-term adjustment program to the divestment of public enterprises, including public utilities, parastatals in the petroleum sector, and financial institutions. Directors commended the authorities for the trade liberalization measures taken in 1998, and emphasized that trade liberalization should remain one of the key elements of the authorities' medium-term adjustment program."

Zambian Letter of Intent March 10, 1999

"The **privatisation of state enterprises** is key to the government's efforts to raise efficiency and bolster economic growth. In January 1999, the government and a foreign mining company reached firm understandings on the sale of the main asset packages of the ZCCM, which is expected to take place by end-March 1999. As regards the non-mining sector, we plan to do the following: offer for sale a minority shareholding and management rights in the telecommunications company (ZAMTEL); concessioning of the railway system; privatise the Zambia National Commercial Bank (ZANACO); instruct the Zambia Privatisation Agency (ZPA) to explore the options for divestiture of the electricity company (ZESCO), parastatals in the transport sector (the Njanji Commuter Company and ZAMPOST), and the National Savings and Credit Bank; ensure that the Zambian and Tanzanian privatisation agencies will submit recommendations to their respective governments on options for private sector participation in the operations of the commonly owned TAZARA railway and TAZAMA pipeline."

On March 25, 1999 the Executive Board approved a three-year ESAF arrangement in an amount equivalent to SDR 254.45 million, the mechanism, instruments and processes are not fully told. Presumably, the approval was made based on the Letter of Intent from the Zambian Government dated 10 March 1999 to the Managing Director of the IMF in which The Minister of Finance of Zambia describes the policies that Zambia intends to implement in the context of its request for financial support from the IMF. It is a well-known fact that the Letter of Intent confirms what the IMF would like to see as some of the key benchmarks in the programme'. The IMF hides behind the country's Letter of Intent in its imposition of its conditionality. **This is hidden conditionality.**

The Zambian Minister of Commerce Trade and Industry, speaking at the ***UNCTAD and Ministry of Commerce Trade and Industry Investment Review Workshop in Lusaka, on 22 August 2005,*** admitted that privatisation in Zambia was responsible for the de-industrialisation of the economy, among other negative consequences *(AFRODAD 2006)* For Zambia, and indeed other countries that adopted IMF policies, the experience of privatisation and liberalization has resulted in increased poverty and hardships. Other policies include government expenditure ceilings that result in perpetuation of poverty.

[19] On March 25, 1999, the Executive Board concluded the Article IV consultation with Zambia (Press release number 99/10) see Annex 2 below.

The speed at which the parastatals have been privatised left most Zambians outside the main economic playing field and the entry of foreign investors. The high level of retrenchments that followed the policy of liberalization/privatisation resulted in depressed average household income levels, something that has had its toll on social welfare. This suggests that, at least in the short-term, the policy of liberalization, in general, and privatisation, in particular, has not brought to the average Zambian the anticipated relief from his/her economic and social ills. To the average Zambian, the privatisation process in Zambia has been poorly managed, particularly from the social perspective. It is generally felt that the government has done little during the privatisation process to minimize the welfare costs of increases in inequality and poverty that emerged from, fro example, job losses.

Trade liberalisation obligations under WTO made Zambia one of the most liberalized countries in Africa. Rapid growth of imports compared to exports caused balance of payments problems. There has been import surges of manufactured goods from China, mainly clothes and South Africa, mainly food products such as tomatoes, eggs and chickens are posing concerns for local producers, and this has impacted negatively on domestic farmers. Goods from South Africa dominate the wholesale retail and wholesale sectors. This means it is difficult for local production to compete with imports, which are often subsidized. Domestic producers have also suffered as a result of the decline in input subsidies, which has made many of them less competitive in domestic markets.
While privatisation is associated with profitability and efficiency gains, the wider public is more concerned over the apparent social costs. Privatisation is seen as harming the poor, the disenfranchised and workers, raising prices for essential services, and giving away supposed national treasures to foreign corporations and investors. For the general public, privatisation is the prime cause of rapidly increasing inequality. At issue are the effects of privatisation on the welfare of different income groups or households. The concern is not specific to Zambia only for almost all privatisation programmes globally have done much more to enhance efficiency than equity. At least initially, privatisation has worsened wealth distribution and, to a lesser extent, income distribution.

Table 1: The effects of privatisation/commercialisation on the poor in Zambia

Conditionality	Negative effects	Positive effects
Privatisation of public enterprises: Copper mines, ZESCO, ZNCB, ZAMTEL	-De-industrialisation of the economy -Drop in employment levels -Communities in the Copperbelt see no developmental gains being realised -New investors in the copper mines are not providing social services health and education, roads, jobs, schools, housing, HIV/Aids and malaria awareness and prevention programmes -New companies lack corporate social responsibility -Collapse of quality of employment in the copper mines, no permanent or personable contract jobs – hiring and firing -Increased poverty and hardships	Benefited from Multilateral Debt Relief Initiative in 2005 (MDRI) because of its implementation of privatisation and liberalisation policies.
Liberalisation of the Agriculture sector (1990s) Removal of subsides and scrapping of government credit scheme	-Agricultural GDP grew at aver 4% in the 1990s but slowed to 1.7% during the 2000s -Left poor farmers without access to agricultural inputs -Caused food insecurity -Deteriorating agricultural productivity -Eroded livelihoods -Increased rural inequalities	There has been some diversification away from a dependence on maize towards other crops as a result of liberalization policies.
Government Expenditure ceilings	Government failed to employ critical staff shortages in the education and health sector	
Trade liberalisation - obligations under WTO – among the most liberalized countries in Africa	Rapid growth of imports compared to exports caused balance of payments problems Poor terms of trade and market access restrictions in developed countries as well as subsidies, for example on cotton, which depress world prices. During the 1990s a massive drop in output from the mining sector, together with copper price declines, devastated the industry, contributing to increasing poverty. Import surges of manufactured goods from China and South Africa impacted negatively on domestic farmers. Difficult for local production to compete with imports, which are often subsidized. Domestic producers have also suffered as a result of the decline in input subsidies, which has made many of them less competitive in domestic markets.	According to the World Bank, agricultural exports have increased over the period 1995-2004, averaging 22 per cent, led mainly by cotton and vegetable exports.[i]

4.3 IMF wrong policy advice during the Asian financial crisis

Asian financial crisis, that brought down the famed tiger economies in 1997 gave impetus to an ongoing review of the Fund and Bank, economic policy conditionality. Until then the 'Tiger Economies' of Thailand, Taiwan, Singapore, Malaysia, and South Korea had been the success stories of neo-liberal policies. The crisis proved how disastrous policy conditions are. The human costs of the crisis were immediate and devastating. Across the region economic output plummeted while unemployment soared especially in Indonesia. As bankruptcies soared, firms shut their doors and millions of workers lost their jobs. More than 400 Malaysian companies declared bankruptcy between July 1997 and March 1998 while in Indonesia – the poorest country in the region affected by the crisis, 20 per cent of the population nearly 40 million people were pushed into poverty[20]. The advice to the government to close 16 banks, without first assuring the public that their deposits in the banking system were safe, led to large deposit withdrawals and capital flight from the country.

The impact of the IMF economic policy conditionality, of financial liberalisation, unregulated investment in the region had the devastating effect of reducing both family and government expenditure on social and health services for years afterwards. In Thailand, more than 100 000 children were yanked from school when parents could no longer afford fees[21].

In 2002, Argentina collapsed, defaulting on $100 billion of its $140 billion foreign debt. Argentina had followed the neo-liberal prescriptions of the IMF, including radical deregulation, radical tariff liberalization, and financial liberalization. When this mix of policies unravelled in 2001 and 2002, the IMF's credibility suffered since it had thrown in billions of dollars in stabilization loans in support of them.

The East Asian crisis posed a serious challenge to the orthodox economic prescriptions of the IMF since none of these had succeeded in bringing about the growth, reduction in inequality, and decrease in poverty in the region.

A number of big borrowers in Asia, the Philippines, India, and China, mindful of the devastating consequences of IMF-imposed policies, have refrained from new borrowings from the Fund. In 2003, the Thai government declared it had paid off most of its debt to the IMF and said it would soon be financially independent of the organization. Indonesia ended its loan agreement with the Fund in 2003 and recently announced its intention to repay its multibillion-dollar debt in two years. Now, this trend has been reinforced by the recent moves of Brazil and Argentina, which, in paying off all their debts and declaring financial sovereignty, have implicitly asserted that they do not want to borrow again.

[20] The NO-NONSENSE GUIDE to GLOBALISATION, by Wanyne Ellwood.
[21] Ibid

5. Conclusions and Recommendations

The World Bank (WB), and International Monetary Fund (IMF) continues to attach economic policy conditionality, mainly privatisation and liberalisation policies to loans/grants, debt relief and debt cancellation programs it extends to recipient countries despite evidence that these policies have failed to promote sustainable development and end poverty and have largely impacted negatively on the lives of the poor in most recipient countries. The continued use of conditionality is problematic because, it hinders recipient countries policy space to choose their own policy solutions; secondly, governments are placed under undue pressure to adopt policies they otherwise would not have adopted leading to lack of ownership of national policies and thirdly, developing country governments lack accountability towards their own populations as they have to focus on answering to the IFIs. Privatisation or liberalisation in itself is not negative, but it should be left upto the borrowing countries to make their own policy choices.

However, despite recognition of the problem, little is being done to ensure a reduction in the burden of conditionality in practice, and the poor still suffer from it and cast doubt on the Fund and Bank's commitment to reducing the policy conditionality burden. The IFIs must untie policy advice from loans and that the World Bank should stick to lending for projects and not for policy.

5.1. Recommendations to International Financial Institutions and bilateral donors

i) The IFIs must untie policy advice from loans, aid and debt relief. In particular, the World Bank and IMF should stop imposing harmful economic policy conditions like privatization and trade liberalization.

ii) World Bank should stick to lending for projects and not for policy.

iii) The World Bank and the IMF should restrict the policy conditions they attach to debt and aid relief to those that are absolutely necessary for ensuring financial accountability and to a set of broad poverty reduction and gender equity goals, which have been mutually agreed with developing countries.

iv) Privatisation, trade liberalization, and spending limitations, are at odds with the MDGs, which put health, educational, and social needs at the centre of the development agenda.

i) Country ownership of IFIs programmes, can only be realised when there is genuine participation by the government and people of recipient countries, and only if the content of conditionality i.e. the policies are appropriate and bring about positive results.

ii) Review trade liberalisation conditionality to take account of the need to enable countries to tailor their trade policies to their particular conditions and development needs.

iii) Agree with debtor governments on standards that assure transparency, accountability, and human rights.

iv) Recipient countries should be allowed to make their own policy choices.

v) Donor community should present different policy alternatives and the consequences of different policies should be elaborated.

vi) What actually ends up at the World Bank's plate comes from the bilateral donors. Bilateral donors must consider withdrawing funding from WB/IMF.

vii) World Bank and the IMF funders must ensure that these financial institutions adopt a policy, which prevents them from imposing economic policy conditions on poor countries when providing finance and debt relief.

viii) Create forums for equitable policy dialogue between northern and southern governments based on common commitments to international human rights law and other international agreements and its implications for the goals and modalities of international cooperation and aid.

5.2 Recommendations to recipient countries

i) There are alternatives to IMF policy conditionality package and these alternatives can be effective, and even more effective than the policies of the IMF.

ii) Observe standards that assure transparency, accountability, and human rights.

iii) Establish Regional banking institutions, which understands the complexities of a region better than the IMF and which would not impose conditionalities.

iv) Built capacity and confidence even when facing 25 donors on the other side of the table and domestic expertise and consultants rather than using international.

5.3 Recommendations to Civil society organisations

i) Continue to strongly argue against conditions on loans and grants and hold donors responsible when human right are not respected in the donor funded project and programmes.

ii) Challenge donor governments to withdraw their funding from World Bank and IMF where it will be used to push economic policy conditionality on recipient countries.

iii) Monitor WB enforcement of economic policy conditionality as well as the actual ownership of policy processes.

iv) Help built local ownership of polices.

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