International Financial Institutions (IFIs)– The major barrier to change in the aid system

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Introduction

The IFIs sit at the heart of the global aid architecture. The World Bank is a major source of finance for developing countries and the IMF has a crucial function in "signaling" which countries receive more funding from both official and private sources. These roles confer incredible power to these two institutions that have spread their wings well beyond their original mandates. The governance of the World Bank and IMF is severely skewed towards rich countries that dominate decision-making in these institutions.

The World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB) and other donor agencies have, for the past few decades, provided Bangladesh with loans and grants in the name of such lofty pretexts as 'poverty reduction' and 'international development'. However, these loans inevitably come tied with conditions which hinder the country's economic growth and poverty reduction. The detrimental effects these conditions have had on Bangladesh are immeasurable, putting the country under increasing pressure to abide by the prescriptions imposed by the donors.

IFIs and conditionality

As advocates of corporate globalization, IFIs and their allies work for international capitalism, exerting a heavy influence on global trade policies that mainly promote trade liberalization and public sector privatization. Many of the least developed countries (LDCs) have become a place of experimentation for trade liberalization at the hands of international financial institutions (IFIs) who pressure the government into liberalizing trade policies. This causes serious devastation in public service sectors including heath, education, water, agriculture and food.

Despite the movement for democratization across the developing world, International Financial Institutions (IFIs) have been continuing to bypass parliaments, a trend that is at odds with donor insistence on 'good governance.' The WB, IMF and Regional Development banks attach conditions with an intention of economic reforms which they legitimize through a range of documents including Poverty Reduction Strategy Papers (PRSPs).

PRSPs contain conditions such as cutting social expenditures - also known as austerity - implementing user fees in basic services such as education and health, focusing economic output on direct export and resource extraction, devaluation of overvalued currencies or lifting import and export restrictions, removing price controls and state subsidies, privatization or divestiture of all or part of state-owned enterprises, enhancing the rights of foreign investors vis-a-vis national laws, improving governance and fighting corruption. Many of these have negative consequences for the situation of the poorest people in these countries.

IMF imposes two types of policy conditions, namely quantitative and structural. Quantitative conditions are imposed at the macroeconomic level of the poor countries, while the structural ones are for institutional and legislative policy reforms. All of them prove to be not relevant to tackling the challenges that the countries faces, unfair, undemocratic, ineffective, and inappropriate mainly because they undermine democratic accountability within countries and deprive the poor of the access to services (education, health, etc) at a low cost. Yet the influence of IFIs to open up the domestic market is so powerful that the government cannot resist or deny their illegitimate influence and power.

Since the 1980s, IFIs – backed by key G7 shareholders – have become increasingly preoccupied with the structural obstacles to growth and poverty reduction, and have sought to use loans to leverage the reforms that their Washington-based economists have deemed desirable. As a result, the average number of World Bank conditions per program tripled between the early 1980s and mid-1990s, and by the 1990s IMF 'mission creep' led to it bolstering the Bank's efforts with its own structural conditions.[1]

The World Bank provides most of its loans for a specific project on the basis of particular strategic policies, called Structural Adjustment Programmes (SAPs). The main conditions of SAPs have been: massive privatization of industries and major utilities; the blanket application of the 'free market policy' which actually means a unilateral canceling of all tariff restrictions by the country on the receiving end of the loans; withdrawal of all types of subsidies for the sake of 'efficiency'; and drastic cuts in government spending in order to ensure so-called 'macro-stability' of the economy.

The dominant position of the IFIs

In many cases, in terms of policies and projects, IFIs are directly violating the principles of the Paris Declaration. Aid is more aligned to structural adjustment policies striving for trade liberalization and privatization than nationally created development plans. The supremacy of donors continues to rule the day. Furthermore, by acting as the gatekeeper of aid disbursements by other countries, they act as a major hindrance to aid effectiveness reforms.

In the mid eighties, when Bangladesh was under a military regime, Structural Adjustment Programmes (SAPs) were introduced. The main conditions of these SAPs were: massive privatization of industries and major utilities; the blanket application of the 'free market policy' which actually means a unilateral canceling of all tariff restrictions; withdrawal of all types of subsidies; and drastic cuts in government social spending to ensure macro-economic 'stability'.

[1] www.dfid.gov.uk

International Financial Institutions(IFIs)– The major barrier to change in the aid system

This resulted in the disintegration of a number of industries including the Adamji Jute Mills, which left millions of jute growers and jute mill workers in crisis and displaced 26 thousand workers and their family members. The Bangladesh Petroleum Corporation (BPC) has been under tremendous pressure to privatize, as well as the Chittagong Port, a move that would put the oil and gas sector of the country at the mercy of the large multinational companies.[2] Similarly, the small and medium enterprise of the country is on the verge of collapse due to the misguided policy decisions of the IFIs.

Overall the SAPs proved of no use in Bangladesh, leading the World Bank to introduce Poverty Reduction Strategy Papers (PRSPs). However, this was still prescribed by the WB and IMF and agreed to by other donor agencies including the ADB. It reiterated the free market, privatization and liberalization conditions of the SAPs and the country was forced to accept and implement this PRSP as a precondition for receiving money from the donors. Like other countries, Bangladesh is bound to prepare a PRSP every three years to qualify both for concessional lending from the World Bank and IMF and for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

The PRSP does not reflect the needs or the participation of the people but rather violates their fundamental right to development and a quality life. The strategies prescribed in the PRSP are not recognized by the people at large since these were imposed on the country. Civil society groups have had discussions and debate opposing the prescribed document and also criticizing the government for accepting this enforcement of policy. The major reasons for opposing it were because it neither represents people's aspirations and expectations, nor deals with the priority sectors.

The IFIs prevent democratic ownership by applying their strategies as conditional tools over the country. Furthermore, people are kept away from the whole process of the project formulation and implementation and there is no accountability of the donors for their actions. No democratic space is practiced either in policy formulation or project implementation processes.

Further issues arise. Not only is the PRSP a set of conditional lending policies imposed by the IFIs, but later other official donor agencies also agreed with the PRSP to be in place. In this way, the IFIs act as a gatekeeper putting strategies in place which other donors and recipient governments are only able to follow. The national government has little choice since it requires the aid and is forced to comply with this. However, it is noteworthy that it did this without even raising the issue in the national parliament. Clearly, the national development priorities have been undermined in the PRSP and the principles of Paris Declaration are totally ignored and sidelined by the IFIs and other donors.

[2] "Breaking the Cycle of Neo-liberal Hegemony : How World Bank and IMF Stand Against the People," Voice, January 2008

International Financial Institutions(IFIs)– The major barrier to change in the aid system

This dominant position has not changed in recent times. The World Bank, ADB, DFID and Japan have prepared a joint Country Assistance Strategy (CAS) for Bangladesh for 2005-09. The CAS is aligned with the PRSP and encourages other donor agencies to collaborate at the sector level through improved coordination of implementation. By these means, the IFIs continue to dominate the other agencies and get them to implement their strategies and policies.
Nor have the IFIs reduced their influence in the face of the emergence of Sector Wide Approaches (SWAPs) in the fields of health and primary education. They are yet to align themselves with these country procedures.

Impact of IFI policies

Many projects undertaken by the IFIs in Bangladesh ignored the opinions of local communities. For example, Khulna-Jessore Drainage Rehabilitation Project (KJDRP), which was funded by the ADB and was implemented in the Southwest area of Bangladesh. The lack of consideration of local communities resulted in a project with disastrous consequences for the environment and communities' livelihood. More than one million people have directly suffered in the area.

Though the project was not successful - as admitted by the ADB - there was no accountability for the cause of people's suffering. Even the victims have not been compensated though the communities have been calling for this for the past few years. Donor's supremacy and money-power nexus are imposed over the decision-making process and no accountability is practiced though there was a commitment by the donors to comply with the principles of Paris Declaration.

In June 2003, the IMF provided Bangladesh with a loan to be released in three years in three installments, with some of the conditions being the renovation of government banks and the privatization of the Rupali Bank. The reform of the banking sector of Bangladesh has already been initiated by the Government of Bangladesh, the name of the project being 'Industry Development and Bank Modernization', with another one called 'Central Bank Strengthening Project' already in hand. The privatization of banks could hamper the capital market as well as the economy as the government would be dependent on foreign capital for a longer period and would lose control over the economy.

Bangladesh has become a place of experimentation for trade liberalisation at the hands of international financial institutions (IFIs) who pressure the government into liberalizing trade policies within and beyond the WTO framework. Following conditionalities stressed by WB and IMF, the National Board of Revenue (NBR) decreased import taxes from 2% to 1.5% on 352 products. The IMF pushed for increasing revenue income and decreasing subsidies in the budget, and determined increases or decreases on product taxes. The government could not keep control over tax policies, and as a result, the price of essential commodities skyrocketed.

International Financial Institutions(IFIs)– The major barrier to change in the aid system

At the macro-economic level, the IMF has also played a major role in Bangladesh in fixing the national salary structure, reducing the interest rate of *Sanchay Patras* (savings scheme) and raising the exchange rate of the dollar against the local currency taka. These policies have significantly impacted upon people's livelihoods. When investment was much needed to accelerate growth and provide key services to reduce poverty, the IMF-imposed tightening of the credit supply brought strong protest from the country's business community. In the end, tightening the money supply and credit growth through raising interest rates failed to maintain macroeconomic stability; rather, it increased the cost of investment and thus had a negative impact on output and employment. The result, at the end of 2007, was that inflation was creeping up to double digits, but at the cost of investment, employment and GDP growth.

Also since conditionality relates not only to donor goals but also the process for achieving these goals, the people of the recipient countries are victimized in the process. For example, the de-industrialization programme and closure of the jute industry caused serious unemployment. Overall, people have had to bear the brunt of both higher inflation and reducing incomes due to IFIs policies and programmes.

Following IMF conditions, the developing countries' governments are forced to impose taxes on products to increases its revenue income. The Bangladeshi government had to commit to increase the price of oil and gas in order to obtain PRGF funding. The price of fuel has increased by 60%-75% in the past two years in Bangladesh. The price of petrol and octane has increased in the local market by just under 30%. The price of kerosene and diesel has increased by 50%-76%.[3]

The IMF is pushing to increase the price even further, which they believe is good for economic stability and GDP growth. But does that growth really help people? The price hikes of oil and gas have directly affected the livelihood of the people. Farmers and manufacturers, in particular, have been severely hit by the price hike of these core business costs. Even in the recent substantial food price increases, the IFIs are pushing to increase the prices of gas, electricity and fuels, whilst simultaneously prescribing reduced subsidies to agriculture and basic services. This 'double whammy' leaves farmers and people in general in desperate situations.

The goal of increased revenue is not achieved through tax control, a process detrimental to the livelihoods of the people. The IMF conditions are plunging people into misery. Revenue experts suggest that the government should take measures to protect local industries. However, Bangladesh has only experienced trouble with respect to industry and overall economy by following IMF conditions.

The Asian Development Bank in Bangladesh

International Financial Institutions stress quite explicitly the necessity of cost

[3] Global Capital vs Local Economy : Conditionalities of the IMF and Fiscal Reform, Voice, January 2008

International Financial Institutions(IFIs)– The major barrier to change in the aid system

recovery and commercial profitability of water services. They also promote 'reforms' of the water sector and introduce 'public-private participation' or 'increased private sector involvement' that essentially results in the gradual withdrawal of the state from the domain of the utility sector. To make things a little more complicated, the market for water is highly subsidised and especially so in crowded cities, which offer the most potentially lucrative markets, the policy regime is not favourable to commodify or commercialise water and there is a fundamental question of whether the poor should pay for their water.

'Bangladesh has cumulatively received over US$ 8 billion in aid from the Asian Development Bank (ADB), ostensibly earmarked for the 'public sector'. Unfortunately, much of this money is used to finance projects supporting private sector growth and trade liberalization. In fact, one of the ADB's key operational objectives in its South Asia regional Cooperation Strategy is explicitly stated as "promoting private sector cooperation." In other words, by "addressing policy constraints," the ADB proposes to open up Bangladesh's industries and expose them to the vagaries of the global corporate economy.

The ADB's Dhaka Water Supply and Sewerage Authority (DWASA) Project envisages eventual privatisation of the water distribution system. The ADB's massive $838 million Dhaka Water Supply Project is also underway, which it notes will require substantial private investment.

The World Bank has also confirmed it's commitment to support the water sector in Bangladesh and noted that the sector requires about $8 billion dollars' worth of investment over the next 20 years. An obvious means, and presumably the one preferred by both agencies, to finance the water projects would be private investment gradually pushing the water sector towards privatisation.[4]

The ADB's recommendations for the future operational strategy are set out in its water sector 'Roadmap' of November 2003. It notes that Bangladesh had prepared a 'sound' National Water Policy, which was in fact funded by the World Bank and conformed to the set of prescriptions that lending agency must have provided, as well as a draft 25-year National Water Management Plan. Implementation of this draft management plan 'also needs to be initiated with continuous strengthening for strategic sector development', notes the roadmap.

The Asian Development Bank hails two specific initiatives regarding Bangladesh and both involve non-state actors. Its publications highlight a particular initiative of organisations that have established 126 locations where they buy water at the subsidised rates and sell it to the slum dwellers at four times the government rate making a neat 300% profit. This can only be seen as a precursor to wholesale water privatisation since the private operators would find it easier to increase water tariffs.

ADB has also tagged a lot of prescriptions onto its aid, providing a policy prescription

[3] Water for Sale, Dhaka WASA Privatization, Tanim Ahmed, Voice 2008

to restructure and downsize public sector organizations in order to create space for foreign private sector. It encourages Foreign Direct Investment as a means to provide an inflow of foreign currency, arguing that this would ensure remarkable development of the energy sector and would contribute to develop other sectors as well. At their behest, blocks of the gas sector were awarded to Multinational Corporations. As a result of these contracts, Bangladesh became obliged to purchase its own gas at triple the price of local companies and in foreign currency. The national exploration agency has been kept idle. The budget deficit and negative effect on foreign exchange reserves increased due to the obligations to foreign companies.

The results of these steps have been disastrous for the economy and the people:

1. the price of gas and power has continuously increased;
2. the cost of production at every level has increased, resulting in a fall in competitiveness of Bangladeshi products;
3. hard-earned foreign currency is being used to purchase gas and electricity which could be bought with local currency at a much cheaper rate;
4. dismantling of local production skill and exploration establishment;
5. huge financial losses of state agencies;
6. common property becomes private property being used to maximize corporate profit; and
7. public non-renewable resources like natural gas becomes huge liability.

Conclusion

The International Financial Institutions represent a significant barrier to the achievement of the Paris Declaration principles and the achievement of development goals more generally. They play a very significant role in shaping the policies, strategies and priorities of the developing countries that they work with. They continue to impose policy conditions, particularly related to the liberalization of markets and the privatization of national companies along neo-liberal economic lines. They also impose rules on macro-economic stability, interfering in monetary policy in a way that does not allow countries to invest in their own development.

Not only do the IFIs have a direct impact on developing countries through the conditions they impose on their own aid, but they are also able to exert tremendous influence over other donors who accept their assessments and criteria for the allocation of aid. This reduces the room for manoeuvre available to recipient countries because it reduces the competition between donors and prevents them from being able to seek out alternative funding sources.

The result of this reality is that developing countries are being not just held back, but pushed back into situations of poverty and deprivation. The policies imposed have resulted in job losses, inflation, higher costs of key goods and services and reduced competitiveness on international markets. These have all impacted directly on the lives of everyday people and particularly the poorest.

International Financial Institutions(IFIs)– The major barrier to change in the aid system

Overall, the various positive noises coming from initiatives such as the Paris Declaration and IFIs own commitments can be seen to be more rhetoric than reality. The gatekeeper role of the IFIs needs to be challenged along with their undemocratic approaches to policy-making. Rather than a mere reform agenda in the current aid system, a change of paradigm is needed based on democratic ownership, full engagement of civil society, transparency, openness and accountability. Only then will the right policies come about to deliver the best opportunities out of poverty for the poorest countries and the poorest communities.

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