

# Kicking the Habit:

## How the World Bank and the IMF are still addicted to attaching economic policy conditions to aid

Despite numerous commitments to reform, The World Bank and the International Monetary Fund (IMF) are still using their aid to make developing countries implement inappropriate economic policies, with the tacit approval of rich-country governments. These economic policy conditions undermine national policy-making, delay aid flows, and often fail to deliver for poor people. If the world is to make poverty history, this practice must be stopped. Aid must be conditional on being spent transparently and on reducing poverty, and nothing more.

## Summary

If the world is to make poverty history, governments in poor countries have to have anti-poverty plans. And these plans must be supported by aid from rich countries.

Of course, this aid should come with some terms attached. Rich countries have the right to expect their aid to be clearly accounted for. They – and citizens of poor countries – are also entitled to expect this aid to be used to fight poverty.

What rich countries are not entitled to do is use their aid to push economic policy reforms such as privatisation and liberalisation on poor countries. But this is exactly what the World Bank and the IMF continue to do, with the tacit support of their rich-country shareholders. Economic policy conditionality stops aid working. It undermines national decision-making, vital for successful development. It can lead to unpredictable 'stop-start' aid flows. And it can mean poor countries have to implement policies based on dogma and ideology rather than on evidence.

Over the last five years there has been a growing international consensus that economic policy conditionality does not work. *'Policy conditionality...is both an infringement on sovereignty and ineffective'* noted the Africa Commission in 2005. The European Commission and the British and Norwegian governments have developed policies to end the tying of their aid to privatisation and liberalisation conditions.

Even the World Bank and the IMF, historically the chief proponents of economic policy conditionality, agreed to use it far more sparingly and only when two important safeguards were met. Economic policy conditions had firstly to be 'country-owned', and secondly to be based on analysis of the impact of the policy on poor people prior to their application.

However, the evidence to date shows that the World Bank and the IMF have failed to kick the habit. A recent World Bank report assessing its own progress on reforming conditionality reveals that one in four of World Bank policy conditions in 2006 push economic reforms. A 2006 study by the Norwegian government of IMF conditionality revealed that 26 out of 40 poor countries still have privatisation and liberalisation conditions attached to their IMF loans. There have been some improvements in enhancing country ownership of reform with the advent of nationally-created poverty plans. But, when the World Bank surveyed poor-country government staff in 2005, 50 per cent still felt that *'the Bank introduced elements that were not part of the country program'*. Finally, both institutions are not systematically assessing the impact of economic policy reforms on the poor.

This paper shows just how conditionality hurts. It looks at Mali, where far from leading to economic growth and poverty reduction, conditions have hiked electricity prices and are likely to hurt cotton farmers as well as delaying aid flows and undermining country ownership of policies.

The World Bank and the IMF made their budget aid conditional on the privatisation of Malian electricity and on the liberalisation and privatisation of

the Malian cotton sector. Cotton privatisation continues to be a condition of their lending today.

In 2005, President Amadou Toumani Touré of the Republic of Mali noted at an opening speech of a Development Cooperation Forum in Washington: *'True partnership supposes autonomy of beneficiary countries in requesting aid and in determining its objectives... Often programmes are imposed on us, and we are told it is our programme... People who have never seen cotton come to give us lessons on cotton... No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student.'*

Mali is extremely poor and chronically under-aided. 90 per cent of Mali's population lives on less than two dollars a day (this country has the highest percentage of such people in the world), yet it receives less than half the amount of aid per person than its neighbour, Senegal, which is less poor. Despite this, the World Bank has deliberately prevented the Malian government from accessing more aid on the grounds of its failure to privatise its cotton industry. Mali currently receives at least \$72m less than it could. This money could be used to pay the salaries of 5,000 teachers for the next ten years, in a country where only 17 per cent of women between 15 and 24 are literate.

Such conditions have at best failed to deliver for the poor and at worst have destroyed poor peoples' livelihoods. Private ownership of the Malian electricity company has only provided a minimal expansion in coverage and instead has resulted in dramatic price increases. Liberalisation of the cotton sector has exposed Malian cotton farmers to the heavily distorted world cotton market price. Prices have been in severe decline as a result of huge rich-country subsidies to their own farmers. The result: three million Malian farmers saw a 20 per cent drop in the price they received for their cotton in 2005. According to an unpublished study by the World Bank, seen by Oxfam, this is likely to increase poverty by 4.6 per cent across the country.

Donors should stop attaching detailed economic policy conditions to their aid. They are entitled to require financial accountability and progress towards mutually agreed broad poverty reduction goals or outcomes as conditions of their aid - but nothing more. Moving to linking aid to broad poverty reduction goals or as it is more commonly referred to, 'outcome-based conditionality', would stop donors from pushing specific policies and unnecessarily involving themselves in the internal affairs of developing countries.

In addition, government progress would be assessed according to results on the ground and there would be ongoing opportunities to change policies according to what has worked. Finally, ensuring that outcome-based conditions are transparently produced and reviewed means that parliamentarians and citizen in recipient countries can better hold their own governments to account.

# Recommendations

## World Bank

The World Bank should:

- Stop attaching any economic policy conditions (prior actions and benchmarks) to its aid
- Move to outcome-based conditionality, linking aid to a few mutually agreed poverty reduction targets, based on the Millennium Development Goals or national poverty targets
- Ensure that all country analytical work is driven by recipient governments' agendas, is made public, and examines a wide range of policy options, assessing each in the light of its poverty impact.

## IMF

The IMF should:

- In countries where macro-economic stability is still an issue, limit its quantitative targets (e.g. fiscal deficit, sector wage bill and inflation targets) to a minimum, and ensure they are backed up by independent analysis and broad agreement that this is the best option for poverty reduction. Analysis should be based around different economic scenarios and should be vocal about the need for increased aid volume and predictability.

## Donors

Donors should:

- Invest at least 50 per cent of their aid in long-term (five years and more) predictable budget and sector support
- Move to using outcome-based conditionality, linking aid to a few mutually agreed Millennium Development Goals or national poverty reduction targets
- Ensure that aid and debt cancellation are formally de-linked from IMF and World Bank programmes and rather based on the implementation of mutually agreed poverty reduction goals co-ordinated across the major donors
- Assist Southern governments in developing their own capacity to analyse policy-reform options.

## Developing-country governments

Developing-country governments should:

- Ensure transparent and accountable budget and expenditure processes and involve parliaments and civil society in all national decision-making and setting of poverty reduction goals
- Increase capacity to collect poverty data and analyse the impact of different policy options on poor people

# Why Conditionality Matters

## More and better aid is needed

If the world is to make poverty history, governments in poor countries need to have comprehensive plans to tackle poverty, drawn up in consultation with their citizens. These plans should include clear goals such as getting every child into school, or eliminating fees for basic healthcare.

The main source of finance for these plans should be poor-country governments themselves. In Ghana, for example, 85 per cent of spending on health is financed by domestic resources.<sup>1</sup> However, the poorest countries on earth are not able to implement their anti-poverty plans by themselves. They need support from rich countries, in the form of long-term commitments of financial aid and cancellation of debts.

Given this need, and under pressure from campaigners worldwide, commitments were made by rich-country leaders in 2005 to significantly increase both the quality and quantity of foreign aid. The European Union took the lead, agreeing to increase its aid by \$38bn annually by 2010 and to improve its quality significantly.<sup>2</sup> Although these commitments fall short of what is needed to get the 100 million children currently out of education into school, for instance, or to pay for the 3.8 million extra health workers needed, if they are acted upon they could make a massive difference to millions of lives.

## Specific economic policy conditions undermine development

But if this aid and debt relief comes with large numbers of inappropriate strings attached, or what are known as conditions, its utility can be seriously undermined. Aid should of course come with some terms attached. Donor countries, which after all are spending the taxes of their own citizens, have a right to expect their money to be spent in a transparent way and to be clearly accounted for. They – and poor people around the world – are also entitled to expect the aid to be used to contribute to goals to eliminate the unacceptable suffering which exists in so many countries.

What donor countries are not entitled to do is to use their aid or debt relief to dictate poor countries' economic policies. There are three reasons for this.

Firstly, it is clear that countries will only develop if their governments take full responsibility for devising their own plans, with commitment from their political leaders and under the scrutiny of their citizens. As the United Nations Conference on Financing for Development recognised, *'Each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasised'*.<sup>3</sup> In the jargon of development this is called country ownership; policies must be fully owned by poor-country governments themselves. If the policies are foisted on them as the price of accessing aid, this vital ownership will be undermined. The Africa Commission in 2005 concluded, *'History has shown us that development cannot and does not work if policies are shaped and forced by outsiders'*.<sup>4</sup>

The second major problem with attaching economic policy conditions to aid is that it can lead to unpredictable aid flows that stop and start. This is because when a country fails to implement a condition, say for example to privatise an industry, donor countries often suspend or even cancel aid. To tackle poverty, countries need to make long-term plans, and to do this they need to have long-term predictable aid commitments. If aid is being used, for example, to give anti-retroviral treatment to those with HIV, this treatment has to be continuous, and cannot be suspended or delayed. The same is true for paying the salaries of health workers and teachers. Aid that is unpredictable or delayed because of the link to economic policy conditions cannot be used for these vital purposes.

In 2003 the Strategic Partnership for Africa (SPA), a donor forum for development agencies working in low-income countries in Africa, conducted a survey among donors and governments in 18 African states. The survey showed that 48 per cent of delayed or lost disbursements were due to unmet policy conditions.<sup>5</sup> Another recent study of countries eligible for debt cancellation showed that failure to fulfil World Bank and IMF conditions was one of the major causes of delay in countries actually receiving their cancellation. Importantly, the research showed that the problem was not with poor countries failing to meet those conditions that called for an increase in social spending, but instead was due to a failure to implement economic policy conditions, such as privatisation.<sup>6</sup>

The third problem with attaching economic policy conditions to aid is that it means poor countries have to implement policies often based on dogma and ideology rather than on evidence of what will work in

a particular country. Donors have a tendency to use a one-size-fits-all approach when it comes to economic reform in developing countries. Commonly known as the 'Washington Consensus', donors often prescribe cuts in public spending, affecting countries' ability to hire nurses, for instance, while at the same time encouraging governments to liberalise trade and reducing the role of the state in economic affairs, primarily through privatisation of state-owned enterprises.

These policies are the right ones in some cases. For a particular country it might be beneficial to liberalise trade in some of its sectors, allowing cheaper imports of vital agricultural inputs such as fertiliser, for instance. Similarly, at times the privatisation of non-essential services such as the insurance industry may be a good move. At other times the correct policy may be to protect markets or keep a company in public ownership. However, what is clear is that the necessary analysis of the specific country situation and the needs of poor people can only be undertaken at the national level, and not in Washington by the World Bank or the IMF. Making vital aid and debt relief conditional on a one-size-fits-all set of economic reforms has now been widely discredited as failing to lead to a reduction in poverty. Many studies have in fact shown that it has led to an increase in poverty levels.<sup>7</sup>

Given these three reasons, over the last five years there has been a growing international consensus that tying aid to economic policy conditions does not work. '*Policy conditionality...is both an infringement on sovereignty and ineffective*'<sup>8</sup> noted the Africa Commission in 2005. In the same year the leaders of the G8 announced: '*It is up to developing countries...to decide, plan and sequence their economic policies*'.<sup>9</sup> The European Commission and the British and Norwegian governments have all recognised the harmful impacts of economic policy conditionality and developed policies to end the tying of their aid to privatisation and trade-liberalisation conditions.

## **Conditionality Still A Problem**

Despite this growing consensus, aid and debt relief is still tied to economic policy reforms. The main culprits are the World Bank and the IMF, who continue to use their aid to push inappropriate economic policies on developing countries. Their conditions have a significant impact, given the large volume of aid that the World Bank gives. Moreover, nearly all other rich-country donors (for example the French or British governments) use the presence of an IMF programme - and compliance to its conditions - as a signal to give their own bilateral aid to support poor-country budgets. They also

often tie their aid to the framework of conditions developed by the World Bank.

## World Bank and IMF: the Walmarts of the development sector

The World Bank is the largest provider of long-term development finance for poor countries. Last year, its concessional lending arm, the International Development Association, provided \$8.7bn in aid to developing countries. This is about one-tenth of all aid worldwide. World Bank aid is mostly made up of low-interest loans, but also of grant aid. In addition to being a large-volume aid donor, the World Bank dominates international development policy research and analysis. The Bank has been dubbed the 'Walmart' of the aid world, referring to the US supermarket giant, in recognition of its unrivalled influence over developing thinking.<sup>10</sup>

The IMF, on the other hand, is not a development institution by origin, mandated instead to provide economic surveillance and lending on a short-term basis only to countries facing a balance of payment crisis or exogenous shocks (i.e. shocks caused by external forces or factors). However, since 1980 the IMF has become a permanent fixture in many developing countries and has converged with the World Bank to push an integrated set of economic policies on poor countries. Part of the reason for the IMF's continued presence in developing countries is that nearly all official development donors, bilateral as well as multilateral (including the World Bank), tie their aid and debt relief to the presence of an IMF lending programme. This gatekeeper role means the economic policy conditions the IMF attaches to its lending are hugely potent. If a poor country does not fulfill IMF conditions it risks losing both IMF finance and all other sources of aid and debt relief tied to the IMF programme.

## Looking Back In Anger: a history of World Bank and IMF conditionality

The World Bank and the IMF have historically led the way in economic-policy conditionality, with the advent of 'structural adjustment lending' in the 1980s.<sup>11</sup> This lending, which went straight to governments' budgets, was meant not only to help poor countries with balance of payments difficulties, but also to lay the groundwork for sustained growth.<sup>12</sup> To achieve this, the lending came attached to Washington Consensus economic reforms, which both institutions fervently believed to be the answer for economic growth in developing countries. In order to receive funding, countries had to

implement these reforms. Intended as a short-term instrument, structural adjustment lending and its accompanying economic policy conditionality remained in place for over two decades and in the words of the Bank became *'an important developmental instrument for supporting social, structural and sectoral reforms over the medium term'*.<sup>13</sup>

But far from delivering growth in developing countries, structural adjustment with its specific economic reform agenda in many cases actually made poverty worse, increasing unemployment, reducing wages, and raising the costs of basic services.

In its own evaluation of structural adjustment lending, the IMF admits that its impact on growth has been barely discernible.<sup>14</sup> And an United Nations Conference on Trade and Development (UNCTAD) assessment of IMF and World Bank structural adjustment programmes revealed that the proportion of the population living below one dollar a day rose soon after the adoption of the programmes. This was the case even in countries recognised as best Washington Consensus Performers by the World Bank.<sup>15</sup>

**Table 1: The economic and poverty impact of IMF Structural Adjustment Programs (SAF/ESAF) before and after in LDCs**

	3 years before	1 <sup>st</sup> 3 years after	2 <sup>nd</sup> 3 years after
GDP per capita (%)	-1.4	0.5	-1.4
% of population living on less than \$1 a day (1985 PPP)	51.3	52	53.3
% of the population living on less than \$2 a day (1985 PPP)	83.1	83.7	84.1

Source: UNCTAD (2002) 'Least Developed Countries Report, Escaping the Poverty Trap'.

Perhaps the loudest critics of structural adjustment lending came from civil society in the developing countries. The social costs of structural adjustment are well-documented in a civil-society assessment of structural adjustment in 2002, which noted that *'Poverty and inequality are now far more intense and pervasive than they were 20 years ago, wealth is more highly concentrated, and opportunities are far fewer for the many who have been left behind by adjustment'*.<sup>16</sup>

## IMF and World Bank conditionality reform

*'Policy reform has had a mixed track record...Adjustment has been a much slower, more difficult and more painful process than the Bank recognized at the outset... What I am looking for...is a different way of doing business in the future...'*

Jim Wolfensohn, then President of the World Bank, letter to the Structural Adjustment Lending Civil Society Network, 9 April 1996 17

In 1999, in recognition of the failure of structural adjustment to deliver, and in the face of growing international criticism of their undue interference, the World Bank and the IMF announced a new way of delivering aid to developing countries; the Poverty Reduction Strategy (PRS) approach.

The PRS approach was based around three key principles: poverty reduction, country ownership, and evidence-based policy-making. Poverty reduction was made a central objective of World Bank and IMF lending, in recognition that growth, though important, is in no way sufficient to ensure poverty reduction. Developing countries were to be put in the driving seat, with development policies to be domestically formulated and implemented, rather than devised by the IMF or the World Bank. Finally, it was made explicit that evidence-based policy-making was vital, in order to move away from ideologically driven policy design and take greater account of national economic, social, and political realities.

While never completely renouncing the use of economic policy conditionality under this new approach, the World Bank and IMF did both agree to use it far more sparingly and only when two important safeguards were met. Economic policy conditions had firstly to be country-owned, and secondly to be based on analysis of the impact of different policy choices on poor people prior to their application. In 2002, two years after the initial announcement of the supposed change of course, the IMF announced that it was going to streamline the number of conditions it attached to its lending, in recognition that there had been a proliferation of conditions during the 1990s.<sup>18</sup>

In 2004 the World Bank followed suit, initiating a new conditionality policy that stipulated that only those policies critical to ensuring programme success were to be set as conditions for lending, and these were to be drawn from policy and institutional frameworks agreed by the country.<sup>19</sup> Importantly, the World Bank removed reference to specific economic policy reforms within its lending directive, in recognition that generalised policy prescriptions often fail, and that there is no single model of development.<sup>20</sup> The directive also recognised the importance of assessing the social and poverty

impacts of significant reforms prior to their being set as conditions. Even more recently, the World Bank has issued new staff guidelines on conditionality to help ensure the implementation of this new approach.

However, despite these reforms, seven years on from the announcement of a new poverty reduction approach, the World Bank and the IMF have failed sufficiently to change the way they do business. If 'policy benchmarks' are included, World Bank conditions have increased not decreased since 2000. Both institutions still have an unacceptable number of economic policy conditions attached to their aid. Ownership of conditions is inadequate. And too often analysis of the social impact of policies is too thin, or skipped altogether.

## Failure to reduce the numbers of conditions

World Bank analysis shows a dramatic decline in policy conditions from 32 per loan on average in 1999 to 11 per loan in 2006.<sup>21</sup> However, this figure is deceptive, as it does not account for a massive rise in the number of policy benchmarks attached to World Bank aid since 2000. According to World Bank data, policy benchmarks rose from eight per loan in 2001 to 27 per loan in 2006, an increase of over 300 per cent.<sup>22</sup> The World Bank does not categorise policy benchmarks as full conditions. This is because if recipient countries fail to implement policy benchmarks aid cannot be stopped or delayed. The World Bank only counts 'prior actions', 'tranche release' and 'triggers' as full conditions, as these have the potential to stop aid if recipient countries do not implement them.

But while policy benchmarks may not be as powerful as full conditions, they are very influential and as such constitute a form of conditionality. Before a loan is released, in addition to fulfilling prior actions and other measures, the Bank's Executive Board must be assured that there has been satisfactory progress in implementing these benchmarks.<sup>23</sup> Benchmarks are also perceived as conditions by recipient governments. In a survey undertaken by the World Bank in 2005, 75 per cent thought that their country had to comply with prior action, trigger and policy benchmarks to access funding.<sup>24</sup> If policy benchmarks are taken into account then World Bank policy conditions have risen since 2000 from 20 per loan to 38 per loan in 2006.<sup>25</sup>

In the case of the IMF, conditions were reduced substantially in the late 1990s, but new research in 20 countries by the European Network on Debt and Development (Eurodad) shows that they have started to slightly increase since 2002.<sup>26</sup>

There can be no doubt that progress has been made on economic policy conditionality, with a reduction in the number of prior actions and triggers that specify economic policy reforms attached to World Bank lending. However, around a quarter of all conditions still push specific economic policies. In the recent World Bank conditionality progress report, just under a third of the loans (32 per cent or six out of the 19 loans surveyed) contained prior actions or trigger conditions on privatisation, price liberalisation or trade reform. When benchmarks are added, ten out of the 19 loans sampled (52 per cent) have conditionality in one or other of those areas.<sup>27</sup>

The IMF does not do any better. A recent study by the Norwegian government reveals that privatisation and liberalisation still feature as important elements in IMF lending to poor countries. Of the 40 loans made to poor countries in 2006, 26 had privatisation and liberalisation conditions attached to them.<sup>28</sup>

## Country-owned?

In addition, the World Bank and the IMF have failed to ensure that their policy conditions are truly country-owned. As a marker of ownership, both institutions look at whether policies are already contained within a national poverty reduction strategy.

However, there are serious questions as to whether national poverty strategies are adequate proof of country ownership. Despite the fact that the development of national poverty strategies has undoubtedly opened up space for country policy-making, participation of civil society and parliamentarians is often extremely weak and sporadic. In addition, the strategies have been very broad making it easy for the Bank and the Fund to claim alignment.

Moreover, national poverty strategies are hardly immune from World Bank and IMF influence, either directly or indirectly. The Bank and the Fund are important sources of advice to governments in the preparation of a Poverty Reduction Strategy Paper (PRSP), and they jointly assess the adequacy of the PRSP as the basis for their support.<sup>29</sup> A World Bank conditionality survey, for example, showed that 50 per cent of governments surveyed felt that *'the Bank introduced elements that were not part of the country's program'*.<sup>30</sup> In addition, *'37 per cent of respondents said that negotiations with the World Bank significantly modified their original policy program'*.<sup>31</sup>

Even in the absence of direct influence, the strategies are open to a high degree of self-censorship, as they are essentially business plans for donor funding, meaning governments have an incentive to tell donors what they are likely to want to hear.

Finally, even against this dubious proxy for ownership the two institutions often fail. The Eurodad study found, for example, that four countries with specific privatisation conditions attached to their World Bank loans do not mention the reform in their national poverty strategies. By their own admission, in evaluations of their new PRS lending approach the World Bank and the IMF noted limited progress in ensuring their lending was aligned to national strategies.<sup>32</sup>

## Missing poverty analysis

The World Bank and the IMF have also been weak in ensuring that the policy conditions they attach to their lending are sufficiently poverty road-tested. An IMF report notes that the PRSP approach *'has so far not contributed significantly to understanding the linkages between growth, poverty incidence and macroeconomic policies at the individual country level'*.<sup>33</sup> The World Bank, more so than the IMF, has made a significant effort to ensure more of its analytical work looks at the impact of given reforms on poor people. The problem is that this analytical work rarely appears to feed in to policy conditionality design, something the World Bank itself acknowledges: *'in many cases a direct linkage is not made between such existing analytic work and the impacts of specific policy reforms'*.<sup>34</sup> In addition most analytical work focuses on how to implement new economic policies rather than which economic policy would be best for fighting poverty. As a recent Norwegian government study notes: *'The International Financial Institutions exert considerable influence through providing policy advice, and have not generally elaborated alternative policies to those involving privatisation and liberalisation'*.<sup>35</sup>

Policies with a high likelihood of a distributional impact are supposed to be subject to Poverty and Social Impact Analysis (PSIA). PSIA is meant to explore alternative policy options and be carried out in a participatory manner: recipient countries are supposed to both set the agenda and be involved in managing the analysis. Independent research on PSIA carried out by several non-governmental organisations found that many such analyses were actually conducted *after* the policy was implemented, failed to look at alternative policies, and in the main were not sufficiently country-owned or transparent.<sup>36</sup> In 2005, only ten of over 100 PSIAs funded by the World Bank were publicly available on their website.

## The Case of Mali

Mali is an extremely poor country. It has the highest percentage of people living below the poverty line of any country in the world. Ninety per cent of Malians survive on less than two dollars a day.<sup>37</sup> Twenty per cent of children will not live beyond five years old<sup>38</sup> and one in eight cannot read or write.<sup>39</sup>

The challenges facing Mali in fighting poverty are daunting. Yet, Mali has a democratically elected government which cares about poverty and has developed a national poverty plan. It also has good systems of financial accountability relative to other low-income countries and is macro-economically stable. In an assessment carried out by the World Bank and the IMF, Mali scored the highest out of all the Heavily Indebted Poor Countries (HIPC) on the soundness of its public financial management systems.<sup>40</sup>

If aid were given on the basis of need and financial accountability and governance alone, then Mali should be near the top of the list in terms of aid flows to developing countries. It is not. Mali is actually under-aided. According to the last figures available from the OECD's Development Assistance Committee (DAC), it receives \$48 per person, in comparison to Senegal, which receives \$100 per person. Although both countries have democratic governance structures and macro-economic stability, Senegal is less poor and scores lower on public finance management than Mali.<sup>41</sup>

**Table 2: Under-aided: Senegal versus Mali aid flows**

	<b>Senegal</b>	<b>Mali</b>
Population in millions*	11	13
Aid Flows/ Net overseas development assistance** in \$ millions 2004	1052	567
Percentage of population living on less than \$1 a day	26%	72%
Under Five Mortality Rate (per 1,000 live births)	137	220
UNDP Human Development Index Ranking out of 177 countries (177 being the least developed country)***	157	174
Public Expenditure Management / number of the 14 benchmarks met**** 2004	7	11

\* World Bank 2006

\*\* OECD DAC

\*\*\* UNDP, 2005, Human development report

\*\*\*\*IDA, IMF, April 2005, Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPC's to Track Poverty-Reducing Public Spending

## World Bank conditionality in Mali

Given the above climate, donors should be fighting amongst each other to provide aid for Mali. But before providing the much-needed funds, the World Bank and the IMF (and other donors) have required Mali to implement a number of controversial and counter-productive economic conditions: privatisation of the electricity supply, ending government support to cotton farmers by privatising the sector, and liberalising the price of cotton. These conditions have undermined country ownership, actively delayed Mali from receiving greater aid flows, and generally worsened poverty rather than making the situation better.

Electricity privatisation was undertaken between 1998 and 2000, during the period when the World Bank and the IMF were in the process of reforming their lending practices. The privatisation and price liberalisation of the cotton sector have been pushed from 1998 to today, with privatisation a continued condition for finance from the World Bank and the IMF.

It is bad enough that the World Bank and the IMF should have pushed approaches that they had already acknowledged as problematic and needing to be changed, but it is even more worrying that they continue to do so long after they are supposed to have stopped the practice.

## The case of electricity privatisation

Access to basic services like electricity, which the developed world takes for granted, is rare in Mali. Less than one per cent of rural Mali has access to electricity. In 1998 the World Bank and the IMF made the privatisation of the Malian electricity company a condition for Mali to reach 'decision point' and therefore be entitled to receive debt relief under the HIPC initiative.<sup>42</sup> Energie du Mali (EdM) was in financial trouble and needed massive maintenance and extension works. However, the World Bank and the IMF only proposed one solution and pushed it through at breakneck speed: privatisation of the company. The adoption of a privatisation law for EdM had to be made by October 1998 and EdM was privatised in November 2000. The state retained 40 per cent control and 60 per cent went into private hands, with the largest slice going to a French company, SAUR. In 2005 however, SAUR pulled out, following disputes with the government and a failure to meet the terms of its contract, leaving the state to renationalise the company.

This brief period of private ownership was characterised by some increased coverage in relatively affluent areas but no increase in much of the country, particularly in rural areas, and also by substantial price increases in spite of continued state subsidies to the company in the form of tax rebates.

## Country-owned?

The privatisation of the electricity company took place when the World Bank and the IMF were in the process of re-thinking the way they delivered aid. Although there had been no formal acknowledgement of the need for country ownership, the World Bank and the IMF were clearly aware of the problem. However, even with their supposed change of heart imminent, privatisation was pushed through even though ownership of the reform was clearly lacking. This is openly acknowledged in a World Bank study of 2001: '*Malian authorities were strongly opposed to privatisation of the EdM*'.<sup>43</sup> The World Bank and the IMF in their negotiations with the Malian government asked for the '*expansion of the privatisation programme to include...the power and water utility (EdM), and the airport authority (AdM)*'<sup>44</sup> in order to ensure the programme of privatisation continued.

## Impact on poverty?

The World Bank and the IMF pushed these reforms in the belief that private ownership would not only enhance efficiency of the sector,

but that it would also ensure vital expansion of electricity coverage through investment. It was envisaged that the state would also be released from providing finance to the sector. However, the results could not have been more different.

The privatised electricity company failed to expand the coverage of electricity into new areas sufficiently, despite a contractual obligation to hook up an agreed number of new localities, investing 141.2bn CFA Francs between 2001 and 2005. Not only did the company fail to achieve these contractual obligations, but there were also delays in the investment programme.<sup>45</sup> Although an OECD study shows that the customer base of the EdM electricity branch grew from 80,000 in 2000 to 131,000 in 2003, this occurred predominately in the area around the capital, Bamako, and did not result in a significant expansion into new areas. Two years after the date of privatisation, electricity coverage in Mali remained extremely low at 13 per cent.<sup>46</sup>

Privatisation also resulted in massive price increases to the point that Malian electricity became the most expensive in the region.<sup>47</sup> A study by CAD Mali (a Malian civil society organisation) examined the impact of price increases on poor people and showed how those few Malians who had been able to access electricity in the first place (for example teachers in urban areas) either had to stop using electricity or had to reduce other basic consumptions to meet the price increases.<sup>48</sup>

**Box 1: Impact of electricity price rises in Mali**

I am living in a council flat in Bamako with my wife and my two kids. People are really poor around but I have a good job and I cannot complain. Work brings me around 60,000 CFA Francs. Nevertheless I have to pay 25,000 CFA for my flat and can only put by 6,000 CFA for electricity and water. Energy prices increased so much with privatisation, that we now often use gaslight. I am one of the better off in Mali, if I cannot pay, who can? This situation is distressing, especially for the majority of the population who simply cannot afford access to water and electricity.

Boubacar, Bamako, October 2006

Even when the company was in private hands, the state also continued to subsidise the company in an attempt to curb price increases, providing tax breaks and subsidising fuel used by the company. For example, in 2001 the company would have increased water rates by 16 per cent and electricity rates by 27 per cent, had the state not intervened, providing subsidies in the region of 10.7bn CFA Francs to the company. In 2003 the electricity and water regulatory authority, the Commission de Régulation de l'Électricité et de l'Eau (CREE), created in 2000 at the time of the privatisation to regulate prices according to the contract, accused SAUR of falsifying its books.

SAUR was claiming a 7.2bn CFA Francs deficit, while the CREE calculated a 3bn surplus.<sup>49</sup> In 2005, following this disagreement between the company and the state, the company departed and the water and electricity were renationalised.

Aid money to help Mali fight poverty should never have been tied to this inappropriate, non-country-owned, and ideologically-driven reform. The fact that it failed to deliver just adds insult to injury. Sadly, far from learning from this experience, the World Bank and the IMF have gone on to pursue exactly the same tactics in relation to the production of cotton.

## Cotton conditionality

Since 1998 the World Bank and the IMF have also made all their budget aid and debt relief to Mali conditional on the country privatising its cotton sector and liberalising the price of cotton so that it better reflects world market prices. These conditions have been attached to all subsequent lending from the World Bank and the IMF and remain in place today, demonstrating that they have not really changed their ways on conditionality.

Cotton production is integral to the economic and social fabric of Mali. It is the second biggest cotton producer in sub-Saharan Africa and a quarter of all Malians earn their living through cotton. Up until 2004 cotton was Mali's leading export. The sector was part state-owned and part privately owned, and provided farmers not only with a minimum guaranteed price for their cotton at the beginning of the season, but access to credit, fertilizers, tools, and services like rural health and education facilities.

## Cotton crises

Since 1998, Malian cotton has faced several severe financial crises. Though there are other factors that have contributed to these,<sup>50</sup> the main one behind them all has been a sharp decline in world cotton prices; a direct result of the trade-distorting subsidies paid by rich countries to their own cotton farmers.<sup>51</sup> According to the World Bank's Country Assistance Strategy in 2003, *'Subsidies to agricultural producers in the United States and Europe are the single biggest force driving down world prices and sub-Saharan Africa is most deeply affected.'*<sup>52</sup>

If rich countries did not subsidise their own farmers so heavily, Mali would be reaping far greater developmental rewards from its cotton production than it currently does. Cotton farmers of western and central Africa are among the lowest-cost producers in the world. Mali

has increased the amount of cotton it cultivates from 5000 tons in the 1960s to over 500,000 tons today.<sup>53</sup> Yet, despite these comparative advantages, the cotton industry in Mali and Africa as a whole has suffered, missing out on returns in recent years in the face of unfair subsidies. According to analysis conducted jointly by the World Bank, the IMF and the International Cotton Advisory Committee, cotton producers in developing countries face annual losses of about \$9.5bn as a result of such subsidies.<sup>54</sup>

It is against this backdrop that the World Bank and the IMF attached conditions to their aid, that would prevent Mali from supporting its own farmers, thus exposing them to the low world market price distorted by subsidies to farmers in rich nations.

In 1998 reform of the cotton sector become a condition for Mali receiving debt relief. In 2001, unhappy with progress, the World Bank made a further \$70m of its aid conditional on the Malian government agreeing to the privatisation and liberalisation of the cotton sector.<sup>55</sup> The IMF also took part, making the privatisation and liberalisation of cotton prices a prior action condition for gaining access to its 2002 Poverty Reduction and Growth Facility (PRGF) loan.<sup>56</sup> This is the strongest form of conditionality possible. The government agreed to the conditions, and approved a Cotton Sector Development Policy, drafted in consultation with the World Bank and the National Assembly. The plan focused on reform, over a three to four year period, with privatisation and liberalisation. However, due in part to the politically contentious nature of the reforms and the difficulties the government had in finding buyers for the cotton company and its subsidiaries, the government delayed implementation.

In 2004, the Malian government postponed privatisation of the cotton sector until 2008. The World Bank resorted to strong-arm tactics, forcing the Malian government to adjust the producer price of its cotton so that it was in line with artificially low market prices. It did this by withholding \$50m in aid until the Malian government agreed to an official new pricing mechanism in January 2005. The World Bank loan, initially scheduled for December 2004, was released shortly afterwards in February 2005.<sup>57</sup>

The price of cotton was adjusted in 2005. The immediate impact was a 20 per cent drop in the cotton price that three million Malians receive for cotton farming.

## Country-owned?

The President of Mali has spoken on record about the problems of ownership of cotton reform. At an opening speech of the Carter Centre's Development Cooperation Forum in 2005, President Amadou Toumani Touré noted: *'True partnership supposes autonomy of beneficiary countries in requesting aid and in determining its objectives... Often programmes are imposed on us, and we are told it is our programme... People who have never seen cotton come to give us lessons on cotton... No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student'*.<sup>58</sup>

The case of cotton reform has dragged on for over eight years, perhaps itself a useful indicator of just how country-owned the reforms really were. In 1998, an HIPC condition called for implementation of what appeared to be a government-owned rehabilitation plan for the cotton sector, which sets the sector up for private participation. However, the plan was written in consultation with the World Bank and was heavily influenced by a World Bank financed technical audit, which rather than looking at alternative policies, was commissioned by the World Bank to *'help the government define its position on private sector participation in the industry'*.<sup>59</sup>

There is no doubt that since 2000 there have been several dialogues between the government and other stakeholders including farmer groups, on how to move forward with cotton reform. This is an improvement on past World Bank and IMF behaviour and these discussions have produced some agreements in favour of privatisation and liberalisation. The PRSP clearly expresses a desire to privatise and liberalise the cotton sector<sup>60</sup> but there are questions about the participative nature of the PRSP, as in many other countries (see Box 2).

It would also be naïve to expect that the government of Mali would not be influenced by the millions of dollars of World Bank and IMF (and de facto other donors') finance, dangled in front of them ahead of the two key national dialogues on cotton in Mali in 2001 and between 2004 and 2005. On both occasions the donor finance was conditional on the government coming to a specific set of policy outcomes in the dialogues, limiting their national policy space.<sup>61</sup>

In 2005 the World Bank openly acknowledged that government ownership of the reform was weak: *'Government's current commitment to the continued reforms, including privatisation and liberalisation program (banking, cotton, transport, telecommunications) could be insufficient'*.<sup>62</sup> The IMF, which is still lending to Mali despite acknowledging that the country is macro-economically stable, also identified *'waning*

*commitment to privatisation*<sup>63</sup> in its analysis at the time. Both bodies continue to make privatisation of the cotton sector a condition of their lending to Mali today.<sup>64</sup>

#### **Box 2: Manufacturing ownership? Mali's PRSP process**

Mali's first PRSP was produced in 2002, itself a condition of receiving debt relief.

Donors and civil-society groups in Mali recognise that the first PRSP in Mali was not very participatory. *'Civil society participation in the production of the first PRSP was extremely weak. It was limited to the government giving civil society information rather than any genuine two-way participative process, with civil society inputting into the strategy'* said Sekou Sangarem from the Conseil National de la Soci t  Civile du Mali.

Questions are also emerging around the second PRSP. Written this year by a private consulting firm CEPIA, (Centre d'Expertises Politiques et Institutionnelles en Afrique)<sup>65</sup> it has yet to be made public. More problematic is the intervention of donors at each stage of the process. In early 2006, six thematic groups were created by the government to give inputs to the PRSP but already at this stage the World Bank and the IMF have intervened: *'The donors should not interfere at this point'* admits a senior UNDP official. Even, parliamentarians have not yet had the opportunity to read the new PRSP 2, despite it being approved by the government in October 2006. According to MP Boubacar Tour , *'the Parliament hasn't been involved in the elaboration of the PRSP 2 in any way so far'*.

The PRSP process in Mali, as in other countries, has opened up some space for civil society in national policy-making, but it can in no way be seen as proof of ownership, given the undue donor influence and inadequate national consultation.

## Delaying aid

Mali's faltering steps to liberalise and privatise its cotton sector have come at a price. The World Bank deliberately withheld its fourth structural adjustment loan of \$50m in 2004 in order to push through cotton liberalisation, and when in 2005 it finally did release it to the Malian government, only half that amount was lent. The loan agreement notes that *'due to slow progress in the cotton sector...SAC IV has been reduced to a US\$25 million, single-tranche operation, potentially to be followed by another US\$25 million single'*.<sup>66</sup>

Interestingly, in 2005 the European Commission and the Dutch government *increased* their budgetary aid to Mali, in recognition that the government was facing a larger deficit than normal due to the cotton crisis.<sup>67</sup> The Commission, unlike the World Bank, did not punish the government for supporting the cotton sector and instead tried to help. However, the Commission, along with most other

donors, continues to tie its budget support for Mali to the IMF programme and its conditions.

In addition and despite Mali's severe poverty, the World Bank has prevented the Malian government from accessing a greater volume of aid to date, on the grounds of its failure to privatise cotton. Every three years the World Bank determines an overall assistance strategy for a low-income country. This strategy places that country into a lending category, which permits access to a maximum volume of lending based on performance. Mali is currently in a base-case lending scenario, which means it is only entitled to \$390m. It should be in a high-case lending scenario where it would be entitled to \$462m (this does not just apply to budgetary aid but also project or investment aid). The reason it is not in the high-case scenario is its failure to reform its cotton sector. The World Bank's Fourth Structural Adjustment Credit states '*slow progress with cotton sector reform has held the country from accessing[a] larger volume of Bank support*'.<sup>68</sup> This is a difference of \$72m. This could have paid the salaries of 5,000 teachers for the next ten years in Mali, helping them towards ensuring that every child gets access to education.

The Malian government has tried to privatise Mali's cotton sector, but has faced a number of obstacles. In 2005, it managed to sell its cottonseed processing plant, HUICOMA, but to date has not managed to sell the main cotton company, the CMDT. One of the reasons behind the failure to privatise the sector fully has been limited interest from companies. Back in 2002, only two international bidders came forward, and later one pulled out, leaving only the US company Dunavant S.A. The bid received was considered too low, and when the government asked for a new bid, the company withdrew.<sup>69</sup>

## Reducing poverty?

*'The World Bank and the IMF never realised when they pushed these reforms that three million Malian lives depended on cotton.'*<sup>70</sup>

Mr. Djibrina Barry, Senior Economist, UNDP, Mali

The immediate impact of the new liberalised pricing mechanism signed in 2005 has been a 20 per cent drop in the price of cotton for three million Malians who depend directly on cotton production for their livelihoods. Even the World Bank's own study, a copy of which was seen by Oxfam, showed that the likely impact of a 20 per cent price drop is an increase in overall poverty of 4.6 per cent in Mali.<sup>71</sup>

Initial observations on the immediate impact of this price drop support this finding, showing growing food insecurity, rising debts

and poverty amongst cotton farmers. A field study of cotton farms in the Kita and Fana regions of Mali showed that declining household incomes, due to the fall in cotton prices, means that farmers do not have sufficient income to feed their families. Household purchasing power is declining, making it difficult for households to meet expenses such as school fees and health-related expenditures.<sup>72</sup>

The difficulties faced in the last two seasons are confirmed by women such as Niama Foumba and Many Mariko, at Kola Bamanan, a village in the District of Djoila, who have difficulty accessing funds for their trading activities: *'When our husbands' incomes increase, the whole household benefits. Previously our husbands used to ask us to help with the cotton harvest. And they gave us funds during the dry season to enable us to cover household expenses. Today, we are forced to sell our goats to repay the credit on input for the cotton and in order to feed ourselves'*.<sup>73</sup>

The new pricing mechanism significantly lowers the price farmers will receive for their cotton. It also puts into question the existence of a guaranteed minimum price, as it allows for downward adjustment during the growing season, in what it terms extreme cases. This means not just lower prices but more uncertainty and increased risk.

The impact on the overall economy does not look any better, according to local research.<sup>74</sup> The lower price for cotton means a reduction in household income, and as a result a reduction in consumer spending, which could add up to a loss of 1.9 per cent of GDP. And if farmers produce less – which is likely when prices are falling – the loss to GDP could be as big as four per cent.

The World Bank and the IMF's rationale for prescribing these reforms is that in the face of trade distortions and resulting falling world prices, liberalisation and privatisation of the sector would enhance the competitiveness and efficiency of the sector.<sup>75</sup> More importantly, they would also reduce the risks to finite state resources, freeing up finance which could be used either to invest in future productive areas or be spent on health and education. But as this paper shows, the purported benefits to Mali's economy have not materialised.

This is because these prescriptions were made without prior analysis of the impact of these policies on poor people in Mali, or on the Malian economy overall. The World Bank finally initiated a PSIA on cotton reform in 2004, despite talking about undertaking one as far back as 2002. The analysis fails to look at alternative policy options around price liberalisation and to date, the full final PSIA has not been made publicly available despite many requests for its publication.

**BOX 3: Neglecting alternative policies: the case for support fund in Mali**

In the World Bank and IMF's rush for cotton privatisation and liberalisation, other possibilities for reforming the cotton sector have been overlooked, to poor peoples' cost. In particular, the idea of a cotton Support Fund, which would ensure a minimum guaranteed price for farmers and reduce their exposure to price fluctuations, has not been fully considered. Support Funds are used in other West African countries like Burkina Faso and Cameroon and essentially redistribute revenue between surplus and deficit years. Since 2004, due to the ongoing sharp decline in prices, these countries have had to rely on additional financing from their own governments to maintain the Support Funds. As a result, many west and central African states are requesting external donor support to replenish or constitute Support Funds, especially in light of the fact that their financial hardships are a result of rich-country trade distortions.

Since June 2005, the Malian government has been undertaking a process of national consultation on setting up a similar Support Fund. At a recent workshop, Malian farmer representatives declared their support. The World Bank and the IMF, however, have never been interested in Support Funds: they see global market distortions as a given and fear Support Funds would be an unsustainable drain on the state.

Despite this, other donors are coming round to the idea of Support Funds as an important element of poverty-reduction strategies. In Burkina Faso the French government, via Agence Française de Développement (AFD) has agreed to pilot a price-smoothing fund. In Mali itself, the European Union has also declared its willingness to help finance a Support Fund. *'The European Commission is ready to support a stabilisation fund. The only condition is that an independent system of control and administration of the Support Fund is first implemented'* said Franco Tranquilli, Conseiller Principal, European Commission, Mali in 2006.<sup>76</sup>

For a full analysis of the potential benefits of a Support Fund in Mali see Oxfam International's forthcoming briefing paper *Pricing Farmers out of Cotton*.

The case of cotton conditionality in Mali shows, despite claiming to have changed, that the World Bank and the IMF are continuing to use their aid to leverage economic policy reform, thereby undermining country ownership. They are also pushing controversial reforms, in this case one that affects the livelihoods of a quarter of all Malians, without sufficient prior analysis of the ramifications of these reforms on poor people or the overall economy. Finally, these conditions are holding up much needed aid to Mali, which could be used in the fight against poverty. Given this, it is not at all clear that the IMF should continue to play a role in low-income countries that are macro-economically stable, such as Mali.

## Conclusion and Recommendations

If the promises to increase the quality and quantity of aid by \$50bn worldwide are met in the next four years, this will be the most

important and rapid expansion of overseas development assistance since its inception. It is vitally important that this new money delivers results for poor people, helping to give more people in developing countries access to education, health care, food security, and water.

Aid should not be used as an opportunity for donors to push specific economic policies on developing countries, engaging unnecessarily in internal affairs and micro-managing reform from the outside. This is not only beyond the mandate and expertise of donors, but undermines country ownership, resulting in often inappropriate and unsustainable reforms. In addition, attaching reforms to aid can delay aid flows and make aid more unpredictable.

The World Bank and the IMF, despite several attempts at reforming their conditionality, are still attaching inappropriate economic policy conditions to their lending. In the case of Mali, the World Bank and the IMF's predictable reaction to privatise the Malian water and electricity company in the face of problems in the sector, failed to deliver results. Electricity coverage did not expand and prices increased to the highest in the region.

The World Bank and IMF's insistence on cotton sector liberalisation and a new price setting mechanism has resulted in a 20 per cent drop in the price of cotton – a crop that sustains the livelihoods of three million Malians. According to the World Bank, it is estimated that in the long run this drop will result in a 4.6 per cent increase in poverty across the country.

## A new approach to conditionality

As the case studies demonstrate, there is a need for a new approach to aid conditionality. Donors should be able to expect transparent accounts of how their aid money has been spent. This should not be labelled as a condition, but rather a contractual obligation, as this is a core element of the contract between the donor and recipient country, just as it would be the case with a loan made in the private sector.

Beyond such contractual obligations donors should stop prescribing detailed economic policies and instead move to a simple set of broad poverty-reduction goals or outcomes. These goals would be mutually agreed with the country government; goals such as 20 per cent more mothers will have access to a trained midwife, for example. Donors can be one player involved in the discussions of the range of policy alternatives that may reach these goals, but they should stop the practice of making their aid conditional on specific policy paths.

Such outcome-based conditionality would stop donors from imposing specific policies and engaging unnecessarily in the internal

affairs of developing countries, instead allowing them the space and freedom to decide on their own reform paths. It would also ensure a focus on poverty-reduction results. Government progress would be assessed according to what policies have actually delivered on the ground, rather than on whether or not they have matched up to an ideological framework, and there would be an ongoing opportunity for modification of policies according to what has worked. In addition, ensuring that outcome-based conditions are transparently produced and reviewed means that parliamentarians and citizens in recipient countries can better hold their own governments to account, reducing the opportunity for corruption and inefficiency.

Although there are a number of concerns about the use of outcome-based conditionality (see Box 4), the European Commission has witnessed some positive results when using this mechanism. The findings from a pilot study in Burkina Faso showed that outcome indicators have shifted the focus to results. For example, despite ten years of increasing sectoral budget allocations and donor support to the health sector, attendance rates at health centres had steadily decreased. Only when outcome-based conditionality was commenced, did it become clear that just a small percentage of the allocated budget had been reaching the decentralised level, causing a major problem. The pilot also found that outcome-based conditionality enhanced country ownership.<sup>77</sup>

**Box 4: Outcome-based conditionality: some concerns**

There are a number of concerns about the use of outcome-based conditionality around issues of attribution, timing, and data. Firstly, there are concerns about the difficulty of assigning responsibility for a given outcome to a government's actions or lack of action. For example, it could be that a government fails to achieve a ten per cent increase in rural poor peoples' access to water because of a drought, rather than lack of investment in expanding water infrastructure. However, independent assessments of progress could be established, which would clearly show to what extent the government was responsible, and the extent to which unforeseen factors were the reason for either success or failure.

Another concern is that current conditions will simply be replaced by short-term indicators of progress towards an agreed poverty outcome. These indicators could undermine policy space by being overly prescriptive; effectively economic conditionality by another name. Donors must avoid this by agreeing to a simple set of interim targets, which do not push specific policies. An example of this would be: 50 per cent more girls enroll in primary school by 2009 as a staging post to every girl completing primary education by 2015.

Lastly there are concerns that the data does not exist to measure progress toward outcomes. However, there are increasing numbers of national household surveys being carried out, and a constantly improving data set. Much more needs to be invested in this, but it is quite feasible, and

potential data problems should not be used as an excuse for continued economic policy conditionality.

## Specific recommendations

### World Bank

The World Bank should:

- Stop attaching any economic policy conditions (prior actions and benchmarks) to its aid
- Move to outcome-based conditionality, linking aid to a few mutually agreed poverty reduction targets, based on the Millennium Development Goals or national poverty reduction targets
- Ensure that all country analytical work is driven by recipient governments' agendas, is made public, and examines a wide range of policy options, assessing each in the light of its poverty impact.

### IMF

The IMF should:

- In countries where macro-economic stability is still an issue, limit its quantitative targets (e.g. fiscal deficit, sector wage bill and inflation targets) to a minimum and ensure they are backed up by independent analysis and broad agreement that this is the best option for poverty reduction. Analysis should be based around different economic scenarios and should be vocal about the need for increased aid volume and predictability.

### Donors

Donors should:

- Invest at least 50 per cent of their aid in long-term (five years and more) predictable budget and sector support
- Move to using outcome-based conditionality, linking aid to a few mutually agreed Millennium Development Goals or national poverty reduction targets
- Ensure that aid and debt cancellation are formally de-linked from IMF and World Bank programmes and rather based on the implementation of mutually agreed poverty reduction goals co-ordinated across the major donors

- Assist Southern governments in developing their own capacity to analyse policy-reform options.

### **Developing-country governments**

Developing-country governments should:

- Ensure transparent and accountable budget and expenditure processes and involve parliaments and civil society in all national decision-making and setting of poverty reduction goals
- Increase capacity to collect poverty data and analyse the impact of different policy options on poor people.

## Notes

<sup>1</sup> Government of Ghana (2005) 'Ghana: Poverty Reduction Strategy Paper Annual Progress Report 2005'.

<sup>2</sup> OECD Development Cooperation Directorate (2005) 'Scaling up for Results: Issues Paper'.

<sup>3</sup> United Nations (2002) 'Final Outcome of the International Conference on Financing for Development'.

<sup>4</sup> Commission for Africa (2005) 'Our Common Interest', report of the Commission for Africa.

<sup>5</sup> SPA-6 Budget Support Working Group (2004) 'Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes', report by the BSWG co-chairs, 9 January.

<sup>6</sup> A. Wood (2006) 'Tightening the leash or loosening the strings? The status of HIPC conditionality in 2006', for the Jubilee Debt Campaign.

<sup>7</sup> See for example UNCTAD (2002) 'Least Developed Countries Report, Escaping the Poverty Trap'; International Network/World Bank (2002) 'Structural Adjustment Participatory Review'.

<sup>8</sup> Commission for Africa (2005) *op.cit.*

<sup>9</sup> G8 Summit Documents (2005) 'The Gleneagles Communique'.

<sup>10</sup> S. Maxwell (2006) 'Where Europe stands in the new aid architecture and why we need a new \$5bn European MDG Fund', article for OneWorld.Net, Finland.

<sup>11</sup> The World Bank joined the IMF for the first time in providing balance of payment support to governments, as opposed to project finance in 1980. This was largely driven by capital account crises facing many low-income countries as a result of the second oil shock in 1979.

<sup>12</sup> W. Easterly (2002) 'What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans', Centre for Global Development, Institute for Global Economics.

<sup>13</sup> World Bank (2001) 'Adjustment Lending Retrospective, Final Report, Operations Policy And Country'.

<sup>14</sup> K. Kochar and S. Coorey (1999) 'Economic growth: what has been achieved and how', in H. Bredenkamp and S. Schadler (eds.), *Economic Adjustment and Reform in Low-income Countries*, studies by the staff of the International Monetary Fund.

<sup>15</sup> UNCTAD (2002), *op.cit.*

<sup>16</sup> Structural Adjustment Participatory Review International Network/World Bank (2002) 'The Policy Roots Of Economic Crisis And Poverty: A Multi-Country Participatory Assessment of Structural Adjustment Based on

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Results of the Joint World Bank/Civil Society/Government Structural Adjustment Participatory Review Initiative (SAPRI) and the Citizens' Assessment of Structural Adjustment (CASA)'.

<sup>17</sup> *Ibid.*

<sup>18</sup> IMF (2005) 'Evaluation of Structural Conditionality in IMF-Supported Programs'.

<sup>19</sup> World Bank (2004) 'Development Policy Lending', OP 8.60.

<sup>20</sup> World Bank (2005) 'Economic Growth in the 1990s: Learning from a Decade of Reform'.

<sup>21</sup> World Bank (2006) 'Good Practice Principles for the Application of Conditionality: A Progress Report' OPCS November 2006.

<sup>22</sup> World Bank (2006)

<sup>23</sup> Wood (2005) World Bank's Poverty Reduction Support Credit Continuity or Change? Debt and Development Coalition Ireland.

<sup>24</sup> *World Bank (2005)*

<sup>25</sup> World Bank (2006)

<sup>26</sup> Eurodad (2006) 'A Development Injustice: World Bank and IMF Conditionality'.

<sup>27</sup> World Bank (2006)

<sup>28</sup> Norwegian Ministry of Foreign Affairs (2006) 'The World Bank's and the IMF's use of Conditionality to Encourage Privatisation and Liberalisation: Current Issues and Practices', November 2006.

<sup>29</sup> IMF, World Bank (2001) 'Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality', prepared by PDR (IMF) and OPCS and PREM (World Bank), 23 August.

<sup>30</sup> World Bank (2005), *op.cit.*

<sup>31</sup> World Bank (2005), *op.cit.*

<sup>32</sup> IMF, Independent Evaluation Office (2004) 'Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction Growth Facility (PRGF)'; World Bank OED (2004) 'The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003'

<sup>33</sup> IMF Independent Evaluation Office (2004), *ibid.*

<sup>34</sup> World Bank (2006) 'Development Policy Retrospective', Operations and Country Services, 7 July.

<sup>35</sup> Norwegian Ministry of Foreign Affairs (2006) 'The World Bank's and the IMF's use of Conditionality to Encourage Privatisation and Liberalisation: Current Issues and Practices', November 2006.

<sup>36</sup> L. Hayes (2005) 'Open on Impact? Slow Progress in World Bank and IMF Poverty Analysis', Eurodad, Christian Aid, Save the Children Fund UK and Trócaire.

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<sup>37</sup> UNDP (2005) World Human Development Report.

<sup>38</sup> UNDP (2005), *ibid.*

<sup>39</sup> World Bank (2006) 'Mali at a Glance'.

<sup>40</sup> World Bank, IMF (2006) 'Comparaison des resultants du suivi-evaluation des depenses en faveur des PPTE en 2001 et 2004'.

<sup>41</sup> *Ibid*

<sup>42</sup> The Bretton Woods institutions and other main donors provide debt relief to low-income countries through the Debt Relief Initiative for Heavily Indebted Poor Countries (the HIPC Initiative), created in 1996. In order for a country to be eligible to receive debt relief under this initiative, they have to meet certain conditions. Once they have fulfilled these initial conditions, they reach decision-point and are entitled to some debt relief. However, in order to receive full debt relief and reach completion point, a country must also meet another set of conditions. Once completion point is reached, debt relief becomes irrevocable and is granted in full. To date, 40 countries are eligible for HIPC debt relief and 20 have reached the completion point.

<sup>43</sup> P. Guillaumont et al (2001) 'Mali', in *Aid and Reform in Africa: Lessons from Ten Case Studies*, pp. 227–86, World Bank.

<sup>44</sup> IMF and IDA (1998) 'Final Decision Point Document on the Initiative for Heavily Indebted Poor Countries (HIPC)'.

<sup>45</sup> Cheick Ahmed Sanogo (2005/2006) 'Énergie et écodéveloppement en Mali', Helio International, Observatoire de la viabilité énergétique.

<sup>46</sup> OCDE (2005) 'Perspectives économiques en Afrique 2004/2005, Mali'.

<sup>47</sup> UNDP (2004) 'Etat de la Gouvernance au Mali, Rapport Final', February 2004.

<sup>48</sup> CAD MALI (2006) 'Etude d'Impact sur l'Acces a l'Eau et a l'Electricite en milieu Urbain (Bamako) suite a la Privatisation de l'Eau et de l'Electricite'.

<sup>49</sup> CREE (2004) 'Rapport d'activité de la CREE pour l'année 2004'.

<sup>50</sup> Including mismanagement of funds within one of the cotton companies, Compagnie Malienne pour le Développement des Textiles (CMDT), and natural disasters.

<sup>51</sup> Since 2003, as part of a group of cotton-producing countries in West Africa (C-4), the Malian government, along with the governments of Benin, Burkina Faso, and Chad, have been battling at the World Trade Organization to end trade-distorting cotton subsidies paid to industrialised countries.

<sup>52</sup> World Bank (2003) Mali Country Assistance Strategy

<sup>53</sup> World Bank (2005) 'International Development Association Program Document for a Proposed Economic Policy and Public Finance Management Credit'.

<sup>54</sup> *World Bank (2003), ibid.*

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<sup>55</sup> World Bank (2001) 'Report and Recommendations of the President of the International Development Association to the Executive Directors on Proposed Third Structural Adjustment Credit (SAC III)'. The credit was split into three tranches. The binding, prior actions, for release of the first tranche of the credit, which happened in January 2002 called for, amongst other conditions, the implementation of an updated cotton sector recovery and reform programme and action plan. The prior actions for release of the second tranche (which happened in December 2002) called, amongst other conditions, to bring to the point of sale 84 per cent of HUICOMA (the cotton seed oil factory) and bring to the point of sale the ginning mills and all other assets belonging to the CMDT in the OHVN zone. Finally, the prior actions for release of the third tranche (which happened in August 2003) called for the sale of 84 per cent of HUICOMA and the sale of ginning mills in the OHVN zone, at least.

<sup>56</sup> IMF (2002) 'Mali's Fourth Review under the Poverty Reduction and Growth Facility Arrangement'. The paper clearly notes that as a prior action for continued IMF funding in 2002, the Malian government must establish a negotiated base price for the purchase of seed cotton that reflects movements in world market price.

<sup>57</sup> World Bank (2005) 'International Development Association Program Document for a Proposed Fourth Structural Adjustment Credit (SAC IV)'.

<sup>58</sup> Amadou Toumani Touré, President of the Republic of Mali, opening remarks the Fourth Development Cooperation Forum, Washington Carter Centre Discussion 2005.

<sup>59</sup> World Bank, IMF (1998) 'Final Decision Point Document on the Initiative for Heavily Indebted Poor Countries (HIPC)'.

<sup>60</sup> Government of Mali (2002) 'One People - One Aim - One Faith'.

<sup>61</sup> See endnotes 55 and 56 for proof of 2001 World Bank and IMF conditions pushing privatisation and liberalisation. The World Bank's 'International Development Association Program Document for a Proposed Fourth Structural Adjustment Credit (SAC IV) (2005)' does not stipulate as a prior action a new pricing mechanism, just noting as a structural benchmark that a protocol agreement between State/CMDT/Producers on the cotton purchase price mechanism has been signed. However, for a trigger for the future SAC V loan, implementation of the new pricing mechanisms for the 2005–06 campaign according to the Protocol is a prior action; the IMF's 'First Review Under the Three Year Poverty Reduction and Growth Facility Arrangement' (April 2006) clearly notes that as a prior action of the first review, the Malian government must adopt a producer price mechanism for the cotton sector that minimises budgetary risks by periodically channelling market price signals to the producers and CMDT.

<sup>62</sup> World Bank (2005) 'International Development Association Program Document for a proposed fourth structural adjustment credit (SAC IV)'.

<sup>63</sup> World Bank (2005) 'International Development Association Program Document for a Proposed Economic Policy and Public Finance Management Credit (EPPFMC)'.

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<sup>64</sup> The World Bank's current loan document, the 'International Development Association Program Document for a Proposed Economic Policy and Public Finance Management Credit (EPPFMC)' (2005), clearly has as a prior action implementation of the pricing agreement. It also has this as a prior action or trigger for future lending, post the EPPFMC. Privatisation of the CMDT is a structural benchmark of the EPPFMC, but a prior action of a future loan post EPPFMC. The IMF's current loan, the 'Fourth Review Under the Three Year Arrangement Under the Poverty Reduction and Growth Facility' (2006) clearly has as a structural benchmark the approval by the Malian Council of Ministers of an operational plan for privatisation of the CMDT to be implemented in September 2006 and the employment of an advisor for the sale in March 2007. It no longer has as a condition (prior action or benchmark) liberalisation of the price.

<sup>65</sup> The director of the CEPIA is Ousmane Sy, Former Minister of Administration Territoriale et des Collectivités Locales under Alpha Oumar Konaré's presidency.

<sup>66</sup> World Bank (2005) 'International Development Association Program Document for a Proposed Fourth Structural Adjustment Credit' (SAC IV)

<sup>67</sup> World Bank (2005) *Ibid.*

<sup>68</sup> World Bank(2005) *Ibid.*

<sup>69</sup> World Bank (2003) 'Mali Structural Adjustment Credit III'

<sup>70</sup> Interview with UNDP's senior economist in Mali, September 2006.

<sup>71</sup> Wodon et al (2006) 'Cotton and Poverty in Mali', World Bank Draft Report.

<sup>72</sup> Traore, A (2006) 'Effets preliminaires de la baisse du prix du coton sur le revenu et les conditions de vie des exploitations cotonnieres au Mali', Study commissioned by Oxfam America, October 2006, cited in Oxfam International (2006) 'Pricing Farmers out of Cotton'

<sup>73</sup> *Ibid*

<sup>74</sup> Keita, Manda Sadio and Nubupko, K (2005) 'L'impact du nouveau mechanisms de determination du prix de coton grain sur l'economie Malienne', CIRAD/OXFAM, October cited in forthcoming Oxfam International (2006) 'Pricing Farmers out of cotton'.

<sup>75</sup> There is no doubt that Mali's cotton sector could be more efficient. Analysis within the World Bank's Proposed Economic Policy and Public Finance Management Credit (2005) shows that the production costs of the CMDT are far higher than in its neighbouring country, Burkina Faso. However, the question is whether private ownership is the only solution to enhancing efficiency (as the World Bank and IMF assume). Burkina Faso's cotton industry, for example, is not fully privately owned and has managed to increase efficiency partly as a result of allowing farmers to own part of the cotton company.

<sup>76</sup> Based on an interview with Franco Tranquilli in October 2006.

<sup>77</sup> European Commission (2002) 'Conditionality revisited – a new approach to support for economic reforms in Burkina Faso'.

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