

Denying democracy

How the IMF and World Bank take power from people



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1. Introduction

1.1 Democracy

“Democracy is not intended to be efficient, linear, logical, cheap, the source of absolute truth, manned by angels, saints or virgins, profitable, the justification for any particular economic system, a simple matter of majority rule or for that matter a simple matter of majorities. Nor is it an administrative procedure, patriotic, a reflection of tribalism, a passive servant of either law or regulation, elegant or particularly charming ... the key to its secret is the involvement of the citizen.”¹

John Ralston Saul

This report is concerned with democracy; a complex issue at the best of times, made even more complex not only by the many local, regional and national struggles for self-determination across the globe but also by the development of supra-national decision-making bodies that are many times removed from individual citizens. It is this latter complexity, and in particular the actions of the two principal International Financial Institutions (IFIs) – the World Bank and International Monetary Fund (IMF) – that provides the focus for this report.

While on the one hand it could be argued that during the 20th Century several key advances were made in terms of citizen participation in politics (eg, universal suffrage in many countries), on the other it could be argued that the same period also saw the creation of a range of international institutions that reduced the ability of individuals to participate in decisions affecting their daily lives; from the United Nations and its many sub-sections to the World Bank, IMF and World Trade Organisation (WTO). It is the latter three that have been the subject of the fiercest public protest and, although much recent attention has been focused on the WTO, it is the World Bank and IMF that have been the target of the most sustained criticism over the past two to three decades.

In response to this criticism, the IMF and World Bank have, in recent years, adopted new ways of working and new rhetoric on ‘country ownership’ and ‘participation’. This report is therefore intended as an update; a fresh look, in light of these developments, at how the IFIs impact on democracy.

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1.2 Conditionality – the basics

Conditionality is a term used to describe what a poor country must do in return for receiving loans, aid or debt relief. The Articles of Agreement of the IFIs say nothing specific about conditionality and do not require the IFIs to impose free market economic policies on the countries to which they lend/grant money. It is a practice that has steadily become a standard feature of Bank and Fund lending as they have increased their role in the developing world since the 1970s.

For many years, the policy conditions attached to loans were called ‘structural adjustment’ with World Bank loans being called ‘Structural Adjustment Credits’ and IMF loans being called its ‘Structural Adjustment Facility’. But after over a decade of protest and criticism, the term ‘structural adjustment’ became synonymous with failed policies and undermining democracy, leading the World Bank to rename its various structural adjustment credits as ‘Poverty Reduction Support Credits (PRSC)’ and the IMF to rename its ‘Enhanced Structural Adjustment Facility’ (ESAF) as its ‘Poverty Reduction and Growth Facility (PRGF)’. Despite the name change, these lending mechanisms have continued to operate in the same way as previous lending instruments; loans are given on the condition that certain policies are implemented by the recipient country.

More recently, donor governments, with the IMF and World Bank, created the Heavily Indebted Poor Countries (HIPC) initiative designed to relieve a proportion of the debts of the poorest and most indebted countries in the world. This also comes with strings attached; one of which is to draw-up and implement a Poverty Reduction Strategy Paper (PRSP) (see Chapter 2).

Poor countries are now faced with an international financial landscape where loans, debt relief and aid are all subject to meeting economic policy conditions determined by the IMF and World Bank and their political masters in the developed world

So poor countries are now faced with an international financial landscape where loans, debt relief and aid are all subject to meeting economic policy conditions determined by the IMF and World Bank and their political masters in the developed world (see Chapter 6). To obtain concessional loans from the Bank and Fund, a country has to agree a programme with economic conditions attached. To receive debt relief through the HIPC initiative, countries must have an IMF programme in place, implement further conditions contained in their ‘decision point document’ (agreed with the Bank and Fund) and create and implement a PRSP (see Chapter 2). And many donors often require a country to be ‘on-track’ with an IMF programme before they will disburse aid.

The UK's Department for International Development (DfID) states, "Donors, including the UK, have traditionally relied on an IMF programme to indicate that a country's macroeconomic policy stance and strategy are satisfactory before granting aid."² However, in March 2005, the UK's DfID signalled it is departing from this approach, announcing that, "an IMF or World Bank programme going 'off track' will not automatically lead DfID to suspend its assistance".³ It is yet to be seen to what extent this de-links UK aid from Bank and Fund conditions.

Economic policy conditionality can also be more subtle. The International Development Association (IDA) – the World Bank's most concessional lending arm – allocates its lending on the basis of Country Policy and Institutional Assessments (CPIA's). This scorecard ranks countries on the basis of the policies a country follows. 'Good' policies that give a high rating include: an average trade tariff of 10 per cent or less; no foreign exchange restrictions on long-term capital inflows; equal treatment of foreign and domestic investors; and the bulk of Government revenues coming from 'low-distortion' taxes such as VAT and property tax.⁴ By allocating money on the basis of already implemented economic policy reforms, policy scorecards are a form of conditionality in disguise.

Ultimately, what all of this means is that because many of the poorest countries are dependent on external finance they have little option but to submit themselves to IMF and World Bank economic policy conditions, whether overt or more subtle. And this is where the Bank and Fund impact on the ability of citizens, parliamentarians and governments to participate in the political process.

1.3 The structure and focus of this report

In view of the fact that PRSPs have formed the centre-piece of IFI and donor government thinking on policy development and implementation in poor countries over the past few years, this report uses the PRSP process to define the scope of its investigation. In other words, this report looks into how democracy has been undermined by the IFIs in those countries that have to develop a PRSP to obtain debt relief and/or new loans. A list of these countries can be found in the Appendix.

Chapter 2 examines the PRSP process and how, despite the fine words surrounding participation and 'country-ownership', the evidence demonstrates that PRSPs have become a rubber-stamping exercise for conventional Bank and Fund policies.

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Using the same group of countries involved in the PRSP process:

- Chapter 3 looks at popular protest against World Bank and IMF policies, demonstrating that all over the developing world individual citizens are being ignored by the decisions imposed by these institutions and are compelled to take action.
- Chapter 4 shows how parliaments have been routinely ignored, bypassed and, ultimately undermined.
- Chapter 5 exposes how even central governments have tried and often failed to oppose IFI policy impositions and pursue a different path.

And finally, Chapter 6 demonstrates the gaping democratic deficit in the internal decision-making structures of the World Bank and IMF.

While this report focuses on the poorest countries in the world (ie, those classed by the World Bank as 'low income' and therefore eligible for concessional loans from the World Bank and IMF), this is not to imply that 'middle income' countries are immune from IFI influence. These countries can also be forced to implement economic policy conditions by the IFIs, as has been seen most dramatically in recent years in Argentina and countries affected by the East Asian Financial Crisis, such as Thailand and Indonesia. However, the need for a more limited focus meant that it was not possible to include all developing countries within the scope of this report.

2. Poverty Reduction Strategy Papers

“The legitimate political institutions of the country should determine the nation’s economic structure and the nature of its institutions. A nation’s desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation’s political process.”⁵

Martin Feldstein, Harvard University

“The right to pursue nationally-determined policies is not something to be granted to developing countries on the condition that they use it in a certain way. Such treatment of policy space is undemocratic.”⁶

UK House of Commons International Development Committee

2.1 Introduction

In 1999, the World Bank and IMF created the concept of PRSPs as a new condition for access to debt relief and their concessional loan programmes (through IDA and the IMF’s PRGF). This was a response to the criticism that policies were being forced upon countries.

PRSPs supposedly set out a government’s strategy for reducing poverty over a three-year period, and are developed in consultation with civil society in a country. The IFIs and donor governments, such as the UK DfID, suggest that PRSPs are ‘country-owned’ documents developed between governments, civil society and the private sector in countries, which donors then decide to fund. Hilary Benn, UK Secretary of State for International Development, says, “we have no doubt that Poverty Reduction Strategies (PRS) are a major step forward in the relationship between donors and poor counties ... They ... promote a more equal approach, in which conditions are genuinely agreed by all parties.”⁷

However, in practice it has been extremely difficult, if not impossible, for the poorest countries to truly determine their own development strategies for several key reasons. First, the content of PRSPs is influenced by already existing World Bank and IMF programme conditions. Rather than start afresh, these IFI determined policies are generally ‘cut-and-paste’ into the PRSP with no further analysis or scrutiny. For example, in the Gambia, Ghana, Guinea, Malawi, Mali, Mozambique, Nicaragua and Yemen, water privatisation was already a condition of a Bank and/or Fund

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programme before being included in the PRSP. These countries had little choice but to include water privatisation within the document. In theory then, IMF and World Bank policy conditions are determined by the content of PRSPs, but in practice, in many cases the PRSP content is determined by already existing IMF and World Bank conditions.

Second, even in the absence of previous conditions, representatives of the World Bank and IMF tend to have significant influence over the content of the PRSP. There are numerous examples of IFI staff telling country officials of policies that need to be included, and changes that need to be made, in the final PRSP document. Third, and perhaps most tellingly, the final PRSPs are signed-off by the Boards of both the IMF and World Bank. If country directors on the Board do not like the content of a PRSP, they can just reject it. The PRSP will then need to be redrafted to meet the Board's expectations, and debt relief, aid and new loans will be withheld until it is.

“We don’t wish to second guess the Fund. We prefer to give them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – ie, we believe in structural adjustment.”

However, the IFI boards may not need to take such drastic steps. The requirement for sign-off already ensures the government produces a document likely to be acceptable to the Bank and Fund, and after a decade or more of structural adjustment in most countries, governments are fully aware of what the IMF and World Bank expect. As one Finance Minister has revealed, “We don’t wish to second guess the Fund. We prefer to give them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – ie, we believe in structural adjustment.”⁸ The World Bank’s Operations Evaluation Department (OED) has itself concluded, “The Bank management’s process for presenting a PRSP to the Board undermines ownership. Stakeholders perceive this practice as ‘Washington signing off’ on a supposedly country owned strategy.”⁹ This problem is compounded by the structure and functioning of the IMF and World Bank boards (see Chapter 6).

2.2 Homogenous policies

*“The Washington consensus is dead.”*¹⁰

James Wolfensohn, World Bank President, 2003

*“The fact that the content of PRSPs is very similar to previous adjustment packages suggest that little real change has occurred through this process.”*¹¹

Frances Stewart and Michael Wang, University of Oxford, 2003

WDM has analysed the 42 PRSPs signed-off by the IMF and World Bank and made publicly available by March 2005, 24 of which are in HIPC countries and 18 in non-HIPCs. Looking at nine fairly standard policy prescriptions* that have comprised a major part of the so-called 'Washington Consensus' imposed on poor countries by the IFIs during the 1980s and 1990s, WDM assessed whether each policy was clearly mentioned in the PRSP, not mentioned in the PRSP or whether what could be considered an 'unorthodox policy' or a review of the policy had been included in the PRSP. While not intended as an exact guide to all the economic policies of PRSP countries, this exercise has yielded some striking results.

In contrast to the above claims of the outgoing World Bank President, the policies contained within PRSPs bear striking similarity both to each other and to the standard prescriptions of the supposedly defunct 'Washington Consensus'. Out of the nine standard IMF and World Bank policies, PRSPs contain an average of six. Furthermore, there are very few instances of unorthodox policies being mentioned. It is also worth bearing in mind that most of the standard policies are reforms – in other words once enacted, they will continue until another reform takes place – meaning that if a policy area is not mentioned in a PRSP, then the same policy will continue as before. Given that many of these countries have been liberalising their economies under IFI adjustment programmes for the last 15–25 years, it is likely that liberalising reforms have already taken place and continue unmentioned in the PRSP.

The results of this research are presented in Tables 1 and 2 below which can be summarised as follows.

- There are further trade liberalisation measures in 30 of the 42 PRSPs on top of the significant trade liberalisation that has already happened in many of these countries. According to the United Nations Conference on Trade and Development (UNCTAD), trade liberalisation undertaken by the Least Developed Countries (LDCs) during the 1990s was associated with rising poverty, rising unemployment, increased wage inequality and reductions in average wages, with the countries worst affected being those that had liberalised most.^{12,13}

* Strict monetary policy, strict fiscal policy, trade liberalisation, privatisation, water privatisation/ greater private sector involvement in water supply, investment deregulation, capital account/financial liberalisation, agricultural liberalisation, increased labour market flexibility.

Despite such compelling evidence, in only two cases is what might be considered an 'alternative trade policy' included in the PRSP; Ghana mentions holding a review of trade liberalisation policy,¹⁴ whilst Laos recognises a need for protection of certain sectors.¹⁵

- 38 of the 42 PRSPs include privatisation, and 27 of these specifically include water privatisation/greater private sector involvement in water supply services. The persistent failure of the private sector to deliver better water and sanitation to the poor has led UN-Habitat – international experts on urban development – to conclude, “[Increasing private sector involvement] is not a ‘solution’ that should be promoted internationally in the name of those who currently lack adequate water and sanitation.”¹⁶ Again, despite this evidence, none of the PRSPs include a review of any privatisation policies or a specific goal to keep water and sanitation under public management.
- 26 PRSPs include investment deregulation and none mention the possible need to regulate investors to ensure re-investment of profits in the country, joint ventures with local companies, technology transfer or employment of local people; policies recognised by development policy analysts as potentially useful in creating spill-over benefits for domestic economies from Foreign Direct Investment (FDI).¹⁷
- 40 out of 42 PRSPs include fiscal stringency; normally that the government should not resort to borrowing from the domestic economy. Vietnam’s PRSP does not have detail on its fiscal policy,¹⁸ whilst Tanzania’s is the only one that explicitly says a fiscal deficit is allowed, stating it should be maintained “at a modest level”.¹⁹ This stands in stark contrast to developed countries such as the UK and the USA which consistently maintain fiscal deficits. The UK has had a yearly fiscal deficit since 2002, which in 2004 stood at 3.1 per cent of GDP, £35.8 billion (US\$68.8 billion).²⁰ In 2004, the US had a deficit of 4.4 per cent of GDP, US\$513 billion.²¹ These countries recognise that borrowing from the domestic economy is a vital tool for governments to smooth expenditure from year-to-year, rather than being limited to spending only what is received through taxation. As Cambridge economist Ha-Joon Chang argues, “Historically, periods of rapid economic growth in Continental Europe, the USA and Japan were associated with large programmes of public expenditure and even large budget deficits.”²² Denying governments the ability to borrow domestically seriously hinders their ability to manage the economy.

- The specific mention of trade liberalisation, investment deregulation and agricultural liberalisation policies is higher in non-HIPC country PRSPs than in HIPC country PRSPs. This is likely to be because 9 of the 18 non-HIPC countries are in Eastern Europe and Central Asia and are relative newcomers to IMF and World Bank programmes so there is 'more to do'. Many of the HIPC countries have already implemented significant changes to their trade, investment and agriculture policies as conditions for receiving aid, loans or debt relief over the past few decades, often to the detriment of their people.²³

The homogeneity across PRSPs in widely differing countries, and the dearth of alternative policy approaches on these key economic issues, suggests that ownership of the economic policies in such countries is still a pipedream. The rest of this chapter looks in more detail at the problems with the PRSP process and concept.

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Table 1. Policies in HIPC country PRSPs:²⁴

	Strict monetary policy	Strict fiscal policy	Trade liberalisation	Privatisation	Water privatisation/ greater private involvement	Investment deregulation	Capital account/ financial liberalisation	Agricultural liberalisation	Increased labour market flexibility	Total (out of 9)
Benin	●	●	●	●	○	●	●	●	●	8
Bolivia	●	●	●	○	○	●	○	○	●	5
Burkina Faso	○	●	●	●	●	●	○	●	●	7
Cameroon	●	●	●	●	●	●	●	○	○	7
Chad	●	●	○	●	○	○	○	●	●	5
Ethiopia	●	●	●	●	○	○	○	○	○	4
Gambia	●	●	●	●	●	○	○	●	○	6
Ghana	●	●	□	●	●	○	●	●	○	6
Guinea	●	●	○	●	●	○	●	○	○	5
Guyana	●	●	●	●	○	●	●	○	○	6
Honduras	●	●	●	●	○	●	○	○	○	5
Laos	●	●	●/□	○	○	●	○	●	○	5
Madagascar	○	●	●	●	●	●	○	●	○	6
Malawi	●	●	○	●	●	○	●	●	○	6
Mali	●	●	●	●	●	●	○	●	○	7
Mauritania	●	●	○	●	●	○	○	○	●	5
Mozambique	●	●	●	●	●	○	○	○	○	5
Nicaragua	●	●	●	●	●	○	○	●	○	6
Niger	○	●	○	●	●	○	●	○	○	4
Rwanda	●	●	●	●	●	○	○	○	○	5
Senegal	●	●	○	●	●	○	●	○	○	5
Tanzania	●	□	○	○	○	●	○	●	○	3
Uganda	●	●	○	●	○	○	●	○	○	4
Zambia	●	●	○	●	●	●	○	○	○	5
Total (from 24)	21	23	14	21	15	11	9	11	5	
Total (%)	88	96	58	88	63	46	38	46	21	Ave. country total 5.42

● = policy is in the PRSP ○ = policy is not mentioned in the PRSP □ = unorthodox policy or review of policy is in the PRSP

Table 2. Policies in non-HIPC country PRSPs:²⁵

	Strict monetary policy	Strict fiscal policy	Trade liberalisation	Privatisation	Water privatisation/ greater private involvement	Investment deregulation	Capital account/ financial liberalisation	Agricultural liberalisation	Increased labour market flexibility	Total (out of 9)
Albania	●	●	●	●	●	●	○	○	○	6
Armenia	○	●	●	●	○	○	●	○	○	4
Azerbaijan	●	●	●	●	○	●	●	●	□	7
Bosnia Herzegovina	●	●	●	●	●	●	○	○	●	7
Cambodia	●	●	●	●	●	●	○	●	○	7
Djibouti	●	●	●	●	●	●	○	○	○	6
Georgia	●	●	●	●	●	●	○	●	●	8
Kenya	●	●	●	●	●	●	●	●	●/□	9
Kyrgyzstan	●	●	●	●	○	●	○	●	○	6
Moldova	●	●	●	●	●	●	○	●	●	8
Mongolia	□	●	○	●	○	●	●	○	○	4
Nepal	●	●	●	●	●	●	●	●	●/□	9
Pakistan	●	●	●	●	○	●	●	●/□	●	8
Serbia and Montenegro	●	●	●	●	●	●	●	○	○	7
Sri Lanka	●	●	●	●	●	●	●	●	●	9
Tajikistan	●	●	○	●	●	○	○	●	□	5
Vietnam	●	○	●	○	○	○	●	○	○	3
Yemen	●	●	●	●	●	○	●	○	○	6
Total (from 18)	16	17	16	17	12	14	10	10	7	
Total (%)	89	94	89	94	67	78	56	56	39	Ave. country total 6.61

● = policy is in the PRSP ○ = policy is not mentioned in the PRSP □ = unorthodox policy or review of policy is in the PRSP

2.3 The faults in the process

*"[PRSPs] are imported rather than home grown and are accepted under pressure as a means to obtain debt relief and as a result, often they do not succeed."*²⁶

G24 group of developing countries secretariat

Since PRSPs were launched in 1999, much research has been undertaken into the process followed in individual countries. After reviewing the 42 PRSPs so far developed since 1999, six commonly recurring limitations on 'country-ownership' of PRSPs have been identified: lack of input on economic policy; lack of parliamentary involvement; the speed of the process; the quality of citizen involvement; donor imposition of the process; and donor imposition of policies. What follows is a brief description of each limitation and a list of countries in which the limitation is known to have occurred and known not to have occurred. A full list of more detailed country-by-country examples of these PRSP 'country ownership' problems can be found on WDM's web site at www.wdm.org.uk/democracy/prsp

i) Lack of input on economic policy

In consultations with civil society on the content of PRSPs, it has been extremely rare for there to be discussion on economic policies. Consultations have focussed on the structure of poverty within a country, and debates over how limited public spending should be used. Economic policies, such as fiscal policy, privatisation and trade liberalisation, have not been up for public debate. In Honduras, a World Bank official even went so far as to defend the lack of involvement of civil society in economic policy in the Honduras PRSP on the basis that this has been the case in most other countries.²⁷

In Nicaragua, when an IMF representative was asked why civil society had been unable to participate in economic discussions, he said representatives of civil society are not trained economists. However, civil society groups coordinated an alternative process, creating a document which included economic policies and issues that had not been allowed in discussions as part of the formal PRSP process, such as: land reform and redistribution; labour law, including a minimum wage and health and safety standards; gender inequality; volatility of the global market; and export competition amongst developing countries leading to lower prices.²⁸

“the critical views of the national advocacy groups were buried under a blanket of silence”

In Tanzania, a joint civil society input paper argued that standard macro-policy measures, “liberalisation of trade, privatisation, fiscal austerity, retrenchment and cost sharing” should not be accepted as given.²⁹

However, the paper is not mentioned as part of the consultations creating the PRSP. Researchers from the University of Helsinki state, “the critical views of the national advocacy groups were buried under a blanket of silence”.³⁰

Known lack of input on economic policy in: Bolivia, Ethiopia, Ghana, Guinea, Honduras, Malawi, Mali, Mozambique, Nicaragua, Rwanda, Senegal, Tanzania, Uganda, Zambia, Cambodia, Georgia, Kyrgyzstan, Pakistan, Sri Lanka, Tajikistan, Vietnam (21 countries)
Known input on economic policy in: (0 countries)

ii) Parliamentary involvement

Elected parliaments are notably absent from influencing the content of PRSPs. Whilst PRSPs are meant to direct a country’s policies for three years, in most countries, parliamentary involvement has been limited to a few individual MPs participating in workshops. Parliaments have not been involved in debating or drafting the strategies, and in only five countries have they had a vote on the final document. Even when there is a formal vote, if this is the first official involvement of the parliament, they are left purely with the role of ratifying the document. With external aid being dependent on passing the document, parliaments are unable to insist on major changes at the end of the process. In Ethiopia, despite the fact that the constitution stipulates that any national development plan needs to be passed by Parliament, Parliament had no role in the PRSP process or any vote on the final document.³¹

The bypassing of parliaments in the PRSP process can be contrasted with the role of the IFIs. Parliaments rarely have a say on the content of the PRSP, while the IFIs have influence during the process as well as final sign-off. For a national development plan to be country owned, it is the national parliament, not international institutions, that should be intimately involved in debating and scrutinising the content during the process and who should have final approval.

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Known lack of parliamentary involvement in: Benin, Bolivia, Cameroon, Chad, Ethiopia, Gambia, Ghana, Guinea, Honduras, Laos, Madagascar, Malawi, Mauritania, Mozambique, Rwanda, Senegal, Tanzania, Uganda, Zambia, Albania, Cambodia, Georgia, Kenya, Kyrgyzstan, Mongolia, Pakistan (26 countries)

Formal parliamentary vote in: Burkina Faso, Mali, Niger, Senegal, Moldova (5 countries)

iii) Speed of the process

By making the creation of a PRSP a condition for receiving finance – particularly debt relief – the process has often been rushed in order to access the money as soon as possible. Shortcuts have been taken on the process, and consequently the ability of groups to participate has been cut.

In Benin, for example, national elections led to a delay in starting the PRSP process. When it did begin, completing a PRSP was the one remaining condition to reach completion point in the HIPC initiative. Consequently, pressure was raised to get the document completed as quickly as possible. In interviews with one set of researchers, “the majority of stakeholders ... believed that the haste with which it had been prepared had a negative impact on the quality of the participatory process”.³² Benin reached completion point on the same day the IMF and World Bank accepted its PRSP.

Speed of the process known to be a problem in: Benin, Burkina Faso, Ghana, Mozambique, Nicaragua, Rwanda, Senegal, Tanzania (8 countries, all HIPCs)

Process known not to be limited by time in: Georgia (1 country)
(It is worth noting that Georgia, not being a HIPC country, was not under time pressure to get the PRSP finished in order to qualify for debt relief)

iv) Quality of citizen involvement

As well as the absence of discussion on economic policies, lack of parliamentary involvement and speed of the process, many other factors have influenced the level of participation in the process. One common complaint from civil society groups has been that the consultations have

“The Dialogue process was a show. It did not permit real participation. The outcomes of this show have simply been the imposition of more conditions on Bolivia.”

consisted primarily of publicising and explaining policies, rather than allowing the process to influence what is contained in the PRSP. Other common problems include a lack of involvement of poor people and a failure to use indigenous languages.

In Zambia, for example, concerns have been expressed that the workshops did not allow for genuine participation. The Catholic Commission for Justice and Peace have commented, “The PRSP consultation process needs to go further than the formal ‘workshop’ type of consultation to more participatory ones.”³³ In Bolivia, Pablo Solon of the organisation Fundación Solon, states, “The Dialogue process was a show. It did not permit real participation. The outcomes of this show have simply been the imposition of more conditions on Bolivia.”³⁴

Known problems with the quality of citizen involvement in:

Benin, Bolivia, Burkina Faso, Ghana, Guyana, Honduras, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Zambia, Cambodia, Georgia, Kyrgyzstan, Sri Lanka (16 countries)

Quality of citizen participation known to be good in: (0 countries)

v) Donor imposition of the process followed

In some countries, processes to develop national development plans already existed prior to the introduction of PRSPs. In most of these cases, the IFIs insisted on a new process, rather than working with the existing national strategy. For example, working with the United Nations Development Programme (UNDP), Mali prepared a National Poverty Alleviation Strategy (SNLP) through national and regional consultations in the late-1990s. The document was adopted by the cabinet in 1998. When the PRSP framework was launched in 1999, the World Bank stated that the SNLP would not be adequate, and the process would need to start again from scratch. The World Bank gave four reasons for this, including the lack of macro and structural adjustment elements in the SNLP.³⁵

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Known donor imposition of the process followed in:

Cameroon, Ghana, Honduras, Mali, Mozambique, Tanzania, Zambia, Cambodia, Kenya, Kyrgyzstan, Vietnam (11 countries)

Existing strategy/policy processes known to be respected in:

Burkina Faso, Uganda (In both of these the document respected had been previously produced with large World Bank involvement) (2 countries)

vi) Donor imposition of policies

There are many examples of specific policies being imposed on countries by the Bank and Fund. This has either been through the direct involvement of staff members in the process; the involvement of the joint Boards in indicating that the document will be rejected without changes; or simply inserting existing IFI conditions into the PRSP. Most commonly, it has been the case that the existing PRGF has been used for much of the economic section of the PRSP.

In Malawi, for example, when a first version of the PRSP was circulated, donors submitted substantial written comments; particularly the IMF, World Bank and DfID. The major criticism was the absence of a 'sound' macroeconomic framework. This left the drafting team with little option but to include the policies already set out in the PRGF.³⁶ In Tajikistan, the IMF's Independent Evaluation Office (IEO) conclude, "the authorities have gone along with important aspects of the PRGF-supported program that they do not fully agree with, mainly because they perceive that to do otherwise would reduce development assistance to the country".³⁷

In Malawi, passing of a draft Land Law was a condition for reaching completion point. Civil society asked for this policy to be discussed in the PRSP process, as they thought changes were required, including enshrining the right to land in the final document.³⁸ Discussion of the Land Law was rejected by donors; a representative of one donor agency argued that the land policy was 'quite solid' so there was no need for it to be discussed in the PRSP.³⁹

When Benin submitted a draft PRSP to Bank and Fund staff in Washington, they were told only '50 per cent of the job' had been done so far, and it could be rejected by the Executive Directors if presented as

it currently stood. And in Ghana, IDA staff demanded changes to the PRSP before it could be submitted.⁴⁰

Known donor imposition of policies in: Benin, Bolivia, Burkina Faso, Ghana, Guinea, Honduras, Malawi, Mali, Mozambique, Nicaragua, Senegal, Tanzania, Zambia, Kenya, Pakistan, Sri Lanka, Tajikistan, Vietnam (18 countries)

Known freedom over all policies: (0 countries)

2.4 PRSPs – the basic contradiction

The preceding parts of this chapter have demonstrated that the PRSP process has been specifically designed to deny real country ownership and the result has been no change to the standard ‘structural adjustment’ policy model that has failed so miserably across many parts of the developing world for the past two decades.

Such findings are supported by the conclusions of other studies into the level of country ownership of PRSPs. For instance, two Oxford academics state, “as far as civil society is concerned, the PRSPs currently permit little significant contribution to programme design. Governments appear to take a bigger role, but are also heavily constrained, especially with respect to macro-policy ... PRSPs do not significantly empower poor countries.”⁴¹ The World Bank’s OED concludes, “The involvement of parliaments has been a particularly weak aspect of the process in the [10] case study countries”,⁴² while the IMF’s Independent Evaluation Office (IEO) states, “The PRS process has had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms.”⁴³

The PRSP rhetoric on ‘country ownership’ exposes a central contradiction at the heart of the whole idea. If a strategy has truly been developed in a participatory way and the outcome is truly ‘country-owned’ and is viewed by citizens as the outcome of a democratic process, there is simply no need to make loans, aid and debt relief conditional on its implementation.

The fact that the big stick of IFI conditionality underlies the implementation of PRSPs demonstrates that the IFIs and their political

The IMF’s Independent Evaluation Office states, “The PRS process has had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms.”

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masters in developed countries are 'scared' that unpopular policies imposed from above will be overturned through legitimate domestic democratic processes.

While the IFIs cannot be blamed directly for all of the problems with the way PRSPs have been developed in particular countries, the fact that creating and implementing a PRSP has become a key mechanism for securing IFI finance means that these failures in the PRSP process take on an importance way beyond the problems with citizen participation in policy-making in countries not subject to conditionality (eg, the UK). The use of conditionality to enforce PRSPs makes the normal democratic process – whereby policies, once put in a plan by government, are subsequently scrutinised, changed and sometimes reversed – difficult if not impossible and is therefore fundamentally anti-democratic.

3. Popular protest against Bank/Fund policies

Active citizen participation in the political process provides the foundations for democratic decision-making. In much of the industrialised world, forms of political activism and public protest are a central feature of the democratic process and are taken for granted as being mechanisms to hold governments to account and demand policy change. While in some parts of the world such political activism is not even permitted, in many of the poorest countries, although citizens do have the right to protest, this is rendered more difficult because the target of their activism is, ultimately, the World Bank and IMF; institutions that are unaccountable to citizens of poor countries and unaffected by their protest.

Between late 1999 and the end of 2002, WDM documented widespread and continuing resistance to World Bank and IMF imposed economic policies all over the developing world. This research provided examples of 238 separate incidents of civil unrest involving millions of people across 34 countries. Many of these incidents ended with the deployment of riot police or the army, resulting in almost 100 documented fatalities, with arrests and injuries running into thousands.⁴⁴

Since then, the civil unrest has persisted with people continuing to protest at policies imposed on their countries by the IFIs.

In Honduras, for example, protests erupted in the capital Tegucigalpa at the end of August 2003 in opposition to Government negotiations with the IMF over a PRGF loan. The IMF were demanding that the Government make further cuts in public spending, in order to cut the budget deficit. A PRGF was required to get to completion point in the HIPC initiative. 12,000 people joined the protests, blocking entrances to Tegucigalpa and waving banners saying 'No to the IMF'. Protest leader Carlos Reyes said, "This is a protest against President Ricardo Maduro's economic policy, aimed only at pleasing international credit organizations."⁴⁵ Twenty people were injured in the protests.⁴⁶

As already mentioned, maintaining a budget deficit can be a useful tool to smooth public expenditure. When an economy is performing below average, governments either have to borrow, raise taxes or cut expenditure. The latter two options take finance out of the economy

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which can exacerbate a country's economic problems while borrowing can provide money for investment and can be paid back when the economy is performing better. In his management of the UK economy, the Chancellor of the Exchequer Gordon Brown is well aware of the role public borrowing can play, but the IMF – who's governing board Gordon Brown chairs – is telling poor countries to do the opposite.

In Malawi, in September 2004, riot police fired live bullets and tear gas to disperse a crowd of 600 former tea pickers protesting against their redundancies, implemented ahead of the privatisation of tea plantations.⁴⁷ Tea plantations are part of the Agricultural Development and Marketing Corporation (ADMARC). Privatising subsidiaries of ADMARC has been a continuing condition of IMF and World Bank programmes. In early 2004, the World Bank made the, "Complete divestiture of non-core assets of ADMARC" a key condition of an adjustment credit.⁴⁸ The privatisation of the merged Malawi Tea Factory Co. Ltd and Smallholder Tea Authority is one such privatisation.

Agricultural liberalisation has been a disaster in many parts of the developing world, leading the UK's DfID to the conclusion that, "Liberalisation of [agricultural] markets has not delivered the expected results because markets don't function smoothly or, in some cases, even exist."⁴⁹ Yet, despite such evidence, the World Bank and IMF still seem intent on pursuing the policy. Faced with such intransigence, it is no surprise that people see little option but to demonstrate their displeasure publicly.

In the last four years, in the countries investigated in this report, WDM has recorded public protest against Bank and Fund policy in: Angola, Bangladesh, Benin, Bolivia, Cambodia, Ghana, Honduras, Kenya, Malawi, Mali, Mozambique, Nepal, Nicaragua, Niger, Pakistan, Senegal, Sri Lanka, Uganda and Zambia. These examples of public opposition to IFI policies can be found on WDM's web site at www.wdm.org.uk/democracy/protest

The fact that public protest occurs is not, in itself, a problem. The tragedy for people in the poorest parts of the world is that those who ultimately decide their country's economic policies – the target of their protest – are not elected by them, are not accountable to them and thus have a kind of 'immunity from public disaffection'.

4. Ignoring parliaments in poor countries

“Parliament is the connection between government and the people. And parliamentarians are the representatives of the people, and you cannot purport to be doing development to help the people they represent without their involvement. The only way to oversight government, to stop corruption, to have accountability, is to involve parliament.”⁵⁰

Jakayo Midiwo, Kenyan MP

Parliaments are a critical part of the democratic process. They form a link in the chain between citizens and the executive and thus perform the vital function of holding the executive to account on behalf of the electorate. Parliaments are where policies are debated, scrutinised, refined and sometimes reversed. If democracy is to flourish, the participation of parliamentarians in this process is essential.

Chapter 2 demonstrated that parliaments have been ignored in the creation of most PRSPs. In fact the very process of setting in stone a policy plan and using IFI conditionality to ensure that it is implemented to the letter strips parliaments in poor countries of their core function and is therefore fundamentally undemocratic.

Sadly, this is nothing new. In IMF and World Bank programmes, whether SAPs and ESAF in the past, or the current PRGF, PRSC and HIPC, parliaments are continually ignored. The programmes are created in untransparent meetings between the IFIs and Finance Ministries and Central Banks (See Section 6.3), and once they have been decided, parliaments are told to pass legislation or risk donor funding being withdrawn. On occasions when parliaments do resist the legislative agenda that originates with the IFIs, they are often made to back-down due to the need to stay on-track with IFI programmes and secure further development finance.

For example, in the 2003 Ghanaian budget, the import duty on poultry products was raised by 20 per cent to 40 per cent, well within the WTO Agreement on Agriculture which allows for a tariff of up to 100 per cent. The budget was subsequently passed by Parliament. However, in discussions over a new PRGF programme, the IMF insisted that the new

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tariff should not be enforced by the Government during the lifetime of the PRGF. After a phone call from the IMF to the government, the legislated increase was removed after just two weeks. Johnson Asiedu Nketiah MP complained that the tax had been removed, “under pressure from multi-lateral institutions like the International Monetary Fund and the effect on the poultry industry was very negative because it led to more than a 100% increase in the volume of poultry imported into the market.”⁵¹

Godfrey Akorli, secretary of the Northern Poultry Farmers Association said, “The IMF are dictating to us instead of helping us to develop our national economy. The proposed tariff increase on imported chicken would have been just what we needed to help us develop and grow.”⁵² On 23 August 2004, the Poultry Farmers Association began Court proceedings against the Government for not introducing the tariff. They argued that as it is a law passed by Parliament, not administering the tax increase is illegal and in contravention of the constitution of Ghana.⁵³ On the 11 March 2005, the court ruled that the Government’s overturning of the tariff was illegal, and that as this decision had not been returned to Parliament, the Government had a public duty to implement the tariff.

Another recent example of parliaments being usurped by the IFIs is in Uganda. In December 1999, the World Bank announced it would continue funding Uganda’s privatisation programme, despite its suspension by a Parliamentary committee due to alleged corruption. The programme was originally funded for seven years starting in 1992, but the World Bank agreed to extend this for a further two years. MPs had singled out impropriety in the attempted sale of, amongst others, the Uganda Commercial Bank (UCB).⁵⁴ The first attempts to privatise this bank had been made in 1997.⁵⁵

Despite the ongoing problems, privatising UCB became the key criterion for the ‘Increase financial sector competition’ benchmark of the World Bank’s Country Assistance Strategy (CAS).⁵⁶ The Ugandan government duly began the process of privatising UCB again.

On 28 September 2001, Parliament, concerned about corruption, passed a resolution that the Bank of Uganda should not sell UCB, stating that it should be sold through the Privatisation Unit instead. On 30 September, President Museveni wrote to the Bank of Uganda, telling them to proceed with the sale. The next day, over 50 MPs signed a petition to censure the Minister of Finance, Planning and Economic Development, Gerald

Ssendaula, for contempt of Parliament in continuing the sale of UCB. MPs were believed to be angered by the lack of respect shown to Parliament for proceeding with the sale, despite a public outcry against the sale of the bank.⁵⁷

Generally, Parliament was in agreement that UCB should be sold, but was concerned over the manner and speed of the sale and thus the potential for corruption.⁵⁸ UCB was eventually sold to South Africa's Standard Bank Investments Corporation (Stanbic) in February 2002.⁵⁹ The IMF welcomed the sale as "the commencement of lending operations by the privatised Uganda Commercial Bank should provide an important source of credit to private sector clients".⁶⁰

MPs set up an inquiry to investigate the sale, which reported in March 2003. Parliament adopted a resolution to 'express displeasure' against the government for ignoring their recommendations to halt the privatisation of the Bank.⁶¹

This case supports recent findings that donor governments and institutions are prepared to ignore corruption as long as the government is pursuing free market policies.⁶²

Box 1. World Bank 'toolkits' on overcoming parliamentary opposition⁶³

The World Bank has even gone as far as to develop 'toolkits' to help World Bank Team Leaders in developing countries overcome parliamentary opposition to IFI policies. For example, the World Bank has produced explicit strategies to help its staff get the approval of parliamentarians for privatisation. This 'privatisation toolkit' states that Parliamentarians main concerns on privatisation are:

- *Lack of a clear economic policy on the part of the government to foster long-term growth;*
- *Privatization is detrimental to the poor and to service delivery in rural areas.*

The objective of communications with Parliamentarians should be:

- *Build understanding and support for privatization;*
- *Ensure the timely approval [of] privatization transactions;*
- *Solicit legislature's input, while managing expectations on the role they have to play.*

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If this is 'successful', the messages Parliamentarians take away are:

- *I will support the privatization program with my vote;*
- *Privatization will benefit my constituents and happy constituents are likely to return me to office.*

All of this amounts to clear evidence that the IFIs – and their political masters in the industrialised world – have little or no interest in promoting parliamentary scrutiny and choice on economic policies in poor countries and every interest in trying to bypass democratic processes.

WDM has recorded examples of parliamentary opposition to IFI policies in: Bangladesh, Cameroon, Georgia, Ghana, Honduras, Kenya, Kyrgyzstan, Malawi, Moldova, Mozambique, Tanzania, Uganda and Zambia. These can be found on WDM's web site at www.wdm.org.uk/democracy/parliament

5. Ignoring governments in poor countries

“I have no desire to be some kind of puppet doing someone’s bidding ... The IMF is somehow trying to keep us in the same condition we are currently in.”⁶⁵

Kakha Bendukidze, Georgian Finance Minister

In theory at least, governments are elected by citizens on the basis of a broad policy mandate and, subject to the further checks and balances of the democratic process, are accountable to the public for delivering on this mandate. However, the involvement of the IFIs in creating and enforcing policies has undermined this relationship between governments and the electorate.

The result is that the activities of the IFIs have not only come under fire from the public and parliamentarians. The governments of affected countries – who are normally seen as at best compliant and at worst complicit in the process – have also voiced their opposition.

For example, in October 2004, after a series of clashes over privatisation, trade and investment policy, President Museveni of Uganda hit out at the IMF and World Bank, claiming the policies they foist on countries are not compatible with the needs of poor African countries. President Museveni said, “These people are forcing their policies on us that cannot work in poor African countries but for me I have reached a point where I can tell them off because they are misleading our country.”⁶⁵

“These people are forcing their policies on us that cannot work in poor African countries but for me I have reached a point where I can tell them off because they are misleading our country.”

In Angola, the Government spoke out against the IMF in November 2004 for blocking their efforts to secure access to debt reduction and aid. After gaining independence in 1975, the southern African country suffered from a long-running civil war initially fuelled by cold war politics. But the conflict ended in 2002, since when Angola has been attempting to agree reductions in its international debt and increases in aid. However, Angola requires a programme with the IMF before additional debt reduction and aid programmes can be negotiated with donor governments.

Now, over two years on since the end of the war, this is being withheld due to IMF demands to reduce public expenditure and lower inflation. The Angolan Finance Minister, Jose Pedro de Morais, stated, “Angola is

being requested to have economic management that is almost comparable to first world countries so that it can re-negotiate its debt with creditors, valued at US\$9 billion. Meanwhile, decisions are made in the international community for countries which do not have even a third of the quality of management that we have, do not have peace, and are not a potential for investment, for example Iraq. This is double standards.”⁶⁶ A month later, the UN General Assembly adopted a resolution which noted with concern the, “inadequate level of assistance” received by Angola for its economic recovery.⁶⁷

In February 2005, Mr de Morais confirmed that additional aid and debt reduction could not be negotiated until an agreement with the IMF had been reached. “We finished the war and we have embarked on a new era, and the least Angolans had hoped from the international community is to receive the basic support for that. We are doing our part; we are doing our best and we expect the international community to do theirs.”⁶⁸

This government disaffection with IFI policies has even reached the international arena. For example, at a conference in August 2004, Presidents Yoweri Museveni of Uganda, Mwai Kibaki of Kenya and Bingu wa’Mutharika of Malawi complained that they are dictated to by the IMF, yet the IMF pass on blame for programme failures to the recipient countries. The Presidents called for greater flexibility from the IMF, and stated; “when programmes fail or do not work out as expected, countries have, in the past, taken all the blame. However, the IMF, of course, also makes mistakes”.⁶⁹ They also called for greater transparency in decision making at the IMF and a redistribution of quotas to give Africa more votes in the institution (see Chapter 6).⁷⁰

In June 2003, at the thirty-sixth Conference of African Ministers of Finance, Planning and Economic Development, the Prime Minister of Ethiopia, Meles Zenawi, and South Africa’s finance minister, Trevor Manuel, condemned the IMF’s treatment of Africa.

Meles Zenawi spoke of the struggle Ethiopia had experienced in its efforts to reject liberalisation in the face of IMF advice. He said, “Ethiopia is one of the few countries that have not liberalized the capital account, despite the fact that the IMF repeatedly advised us to do so, which we refused ... our economies are structurally susceptible to external advice, because we cannot survive without external resource flows”.⁷¹ Meles Zenawi also underlined the need to review the HIPC initiative to ensure

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that it does promote development. Both Meles Zenawi and Trevor Manuel urged the IMF to provide Africa with the ability to participate more equitably. Manuel said, “it is time for decisions in the IMF no longer to be imposed on us, but to derive from consultation with us.”⁷²

WDM has recorded examples where government representatives have spoken out against IFI policies in: Angola, Bangladesh, Bosnia Herzegovina, Ethiopia, Georgia, Ghana, Honduras, Kenya, Kyrgyzstan, Malawi, Mozambique, Tanzania, Uganda and Zambia. These can be found on WDM’s web site at www.wdm.org.uk/democracy/government

6. The internal democratic deficit: A barrier to change

6.1 Introduction

Beyond citizen, parliamentary and government participation in and control over decisions at the national level, key democracy issues relate to the internal decision-making processes of the World Bank and IMF.

The creation of international institutions, such as the World Bank and IMF, during the 20th Century has presented new challenges for democracy because such institutions are a long way, physically, politically and legally, from those whose lives they affect. The governance of these institutions relies on the participation of member government representatives who are then accountable to the citizens of their home country for their actions. In the World Bank and IMF, this governance takes place through their respective Boards.

Critical elements to facilitate democratic decision-making in this international context are therefore: fair representation on the Boards of the IFIs for those countries affected by IFI decisions; transparent decision-making so that the citizens of affected countries can know how their government has acted (and how other governments have acted) so that politicians can be held to account; and transparent ways of working so that the bureaucracy functions in the public interest and legal accountability so that citizens have some form of recourse if the actions of IFIs infringe their rights. Sadly, as this Chapter explains, both the World Bank and IMF largely fail on all of these issues.

6.2 The rich control the IFIs ...

As Table 3 (across) highlights, industrialised countries effectively control the IMF and World Bank through their voting shares on the Executive Boards of the two institutions. The G8 states hold 48 per cent of votes in the IMF, whilst industrialised countries as a whole hold 64 per cent. When the IMF was created, each member state was allocated 250 basic votes plus one vote for every US\$100,000 of quota subscribed to the institution (later changed to the equivalent in Special Drawing Rights). Basic votes accounted for 11 per cent of votes in 1945, but with the 37 fold increase in quotas since then, basic votes now make-up just 2 per cent of total votes.⁷³

Table 3. IMF and World Bank voting shares

<i>Region</i>	<i>IMF and IBRD voting share, averaged (%)</i>	<i>World population (%)</i>	<i>Voting share to population difference</i>
EU states	29.9	7.1	+ 22.8
North America	19.7	5.2	+ 14.5
Middle East and North Africa	8.6	4.9	+ 3.7
Latin America and Caribbean	7.7	8.5	- 0.8
East Asia (ex. Japan)	7.1	30.9	- 23.8
Japan	7.0	2.0	+ 5.0
Eastern Europe and Central Asia	6.5	6.7	- 0.2
Sub-Saharan Africa	5.5	10.3	- 4.8
South Asia	3.5	23.8	- 20.3
Non-EU Western Europe	2.5	0.2	+ 2.3
Australasia	2.0	0.4	+ 1.6
Developed	61.2	20.7	+ 40.5
Developing and transition	38.8	79.3	- 40.5

Looking at the difference between various regions' percentage share of IFI votes and percentage share of the world's population (see Table 3), EU states, the US, Canada and Japan are most overrepresented within the IFIs, with the Middle East and North Africa, non-EU Western Europe and Australasia also overrepresented. East Asia and South Asia are most underrepresented, whilst sub-Saharan Africa, Latin America and Eastern Europe and Central Asia also receive less than their fair share of votes.

In 1944, quotas were allocated to ensure a certain power distribution in the IMF. As Ariel Buira, Director of the G24 Secretariat, outlines:

“The formula developed by R. Mikesell in 1943 had the political objective of attaining the relative quota shares that the US President and Secretary of State had agreed to give the “big four” wartime allies, with a ranking which they had decided: Thus, the US was to have the largest quota, approximately \$2.9 billion, the UK including colonies an amount about half the US quota, the Soviet Union a quota just under that of the UK; and China somewhat less.”⁷⁴

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This was achieved through a confusing formula using various economic indicators. Mikesell states that when he was questioned on how the distribution of quotas had been reached;

“I ... gave a rambling twenty-minute seminar on the factors taken into account in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific.”⁷⁵

It is clear then that the inequality of voting power that exists today is the result of a 60 year-old carve-out based on post-war politics and a world dominated by colonialism.

The World Bank is made up of five different institutions, the IBRD, IDA, International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID). The IBRD is the central institution of the World Bank, and lends to middle-income countries. IDA lends to low income countries. IFC lends to private companies in Bank borrower countries. MIGA provides political risk insurance for companies undertaking projects in poor countries and ICSID is a tribunal overseeing international investment disputes where companies can seek redress if they believe a government is not complying with a bilateral investment treaty. In the World Bank group, votes are also determined by the quotas and initial subscriptions to the two institutions. This means the general pattern of rich country dominance is maintained, although there are variances between the five institutions (ICSID does not have a voting method of governance).

Table 4. Voting power within the World Bank Group

	<i>IBRD</i>	<i>IDA</i>	<i>IFC</i>	<i>MIGA</i>
EU states	27.98	32.09	30.18	27.40
US	16.39	14.04	23.67	15.02
Sub-Saharan Africa	5.49	8.43	3.57	9.79
Developed	62.13	65.14	69.77	55.84
Developing and transition	37.87	34.86	30.23	44.16

The voting rights in the Fund and Bank determine the make-up of the 24-member group of Executive Directors, the day-to-day decision making body of the two institutions. By having over 2.5 per cent of votes in the IMF, the US, Japan, Germany, France, the UK, China, Saudi Arabia and Russia are able to have one Executive Director each. Other states have to band together and share an Executive Director. A group of 24, primarily Francophone, African countries share one Executive Director; a group of 19 primarily Anglophone African countries share another. In the World Bank, again the US, Japan, Germany, France, the UK, China, Saudi Arabia and Russia all have one Executive Director. 46 countries, on the other hand, have to share two Executive Directors between them.

6.3 ... And the poor pay for them

It is often stated that at the IMF and World Bank, money buys votes. Rich countries have high voting quotas because they supposedly pay for the two institutions. Yet the situation has changed dramatically over the past 20 years. Increasingly, it is actually the debtor nations – developing countries and economies in transition – who pay for the running of the IFIs. As the IMF itself states, “administrative expenses and target net income are effectively financed by debtors”.⁷⁶ Since the start of the 1980s, debtor nations have been covering an increasing proportion of the costs of the IMF (see Table 4 below).

Table 5. Relative contributions to the IMF⁷⁷

	<i>Debtors</i>	<i>Creditors</i>
1982	27.7	72.3
1992	44.9	55.1
2002	75.0	25.0

In 2003, interest and charges received from borrowing countries and other income totaled US\$3.3 billion. Of this US\$800 million was used for administration, including staff salaries, travel expenses and supplies.⁷⁸ In effect, the poor pay for an institution they have little say in controlling.

The increase in debtor contributions to the running of the IMF has come in a period when there has been a large increase in overall costs. For instance, between Financial Year 2001 and Financial Year 2003, costs increased by 30.6 per cent. One reason for this is the new mandates the

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IMF has been given in areas such as increased financial surveillance, anti-money laundering schemes and controlling the financing of terrorism.

Another is the decision to increase the IMF's reserves because of increased risks. These risks have come from the various financial crises (due in part to IMF-imposed capital account liberalisation), resulting in a few countries owing a large amount of money. Argentina, Brazil and Turkey account for two-thirds of debt owed to the General Resources Account. As one commentator has noted, "Much of the increase in costs results from an increasing number and variety of mandates imposed upon the institution by the IMF's major shareholders by virtue of their dominant majority voting power."⁷⁹ In other words, rich creditor countries have given the IMF a greater role, but passed on the bill to poor debtor states.

The cost to creditor countries may in effect actually be lower than that indicated in Table 5. The UK Government calculates the cost of its membership of the IMF assuming that a portfolio of conventional reserves would be needed to be held outside the IMF if it were not a member. Holding reserves, either in the IMF or individually as a nation, incurs costs through income foregone. The difference between these two reserve costs comes from currency fluctuations and interest rate differences. Therefore, the net cost of membership actually fluctuates around 0 from year to year. For instance in 2001-02, the UK gained £56 million pounds from being an IMF member (see Table 6). The net cost of the IMF to creditor countries is therefore negligible.

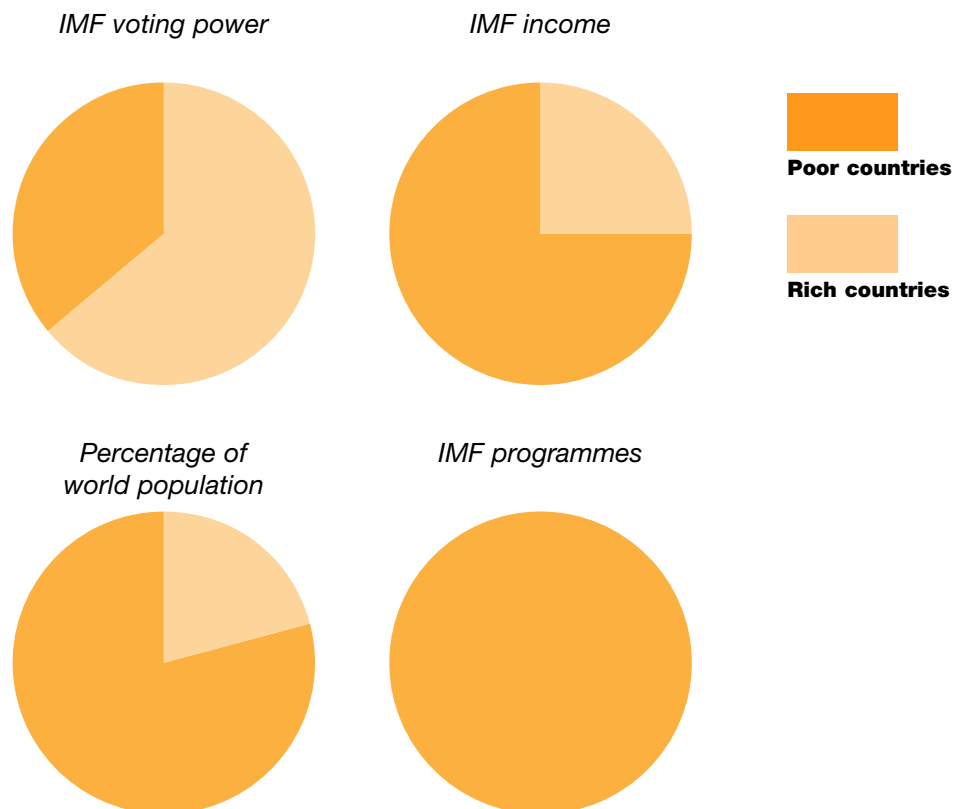
Developing and transition countries have almost 80 per cent of the World's population, provide 75 per cent of IMF income, are subject to 100 per cent of IMF programmes yet only have 36 per cent of the votes on the IMF board.

Table 6. Cost to the UK of IMF membership⁸⁰

<i>Financial Year</i>	<i>Gain/loss from membership (£m)</i>	<i>Gain/loss from non-membership (£m)</i>	<i>Net cost of membership (£m)</i>
2002-03	-94.27	-61.31	-32.96
2001-02	-119.99	-175.94	55.95
2000-01	67.48	133.06	-65.58

Figure 1 summarises the basic facts on the IMF and democracy. Developing and transition countries have almost 80 per cent of the World's population, provide 75 per cent of IMF income, are subject to 100 per cent of IMF programmes yet only have 36 per cent of the votes on the IMF board.

Figure 1. The IMF and democracy



In a similar way to the IMF, costs in the World Bank are also largely borne by developing countries. The Bank's main income is from issuing bonds on international capital markets. It sells these bonds at a low interest rate given its AAA credit rating, which is achieved due to initial quotas of members that do not need to be replenished.

In giving loans from the IBRD, interest rates charged are at close to market rates. In 2003, the IBRD's net income from loans was US\$5.7 billion. Of this US\$1 billion was spent on covering the institution's administrative expenses.⁸¹ IBRD borrowers, mainly middle-income countries, bear the costs of running the institution.

Other parts of the World Bank Group are also self-financing. Subscriptions of capital are made to the IFC by member countries in accordance with their shares in the institution; the current subscribed capital is US\$2.45 billion.⁸² The IFC then lends money to private

companies on a commercial basis. Indeed, it has made a profit in every year since its inception.⁸³ MIGA has a capital base of US\$1.8 billion, of which US\$1.65 billion comes from subscriptions from members, and US\$150 million from the IBRD.⁸⁴ This capital is then able to cover its operations and financing; since its inception, only one insurance claim has been filed with MIGA, which was paid.⁸⁵

The concessional loans of IDA are different as not all their costs are met by debtor countries. Typically, IDA loans carry no interest, do not require any repayments for 10 years, and are fully paid off after 40 years. Taking into account a discount rate to convert future repayments into today's prices, the World Bank estimate IDA borrowers repay 40 per cent of the costs of an IDA loan.⁸⁶ Therefore, the money available to IDA needs to be replenished by donors; IDA does require additional financing from rich countries. IDA financing, in addition to the money received back from loans to IDA countries and grants from donors, is also supplemented by transfers from the IBRD. Overall, over the three years July 2002–July 2005, IDA will spend US\$23 billion, of which US\$13 billion (57 per cent) will come from donor countries, US\$9 billion (39 per cent) from within IDA – repayments from debtor countries – and US\$900 million (4 per cent) from the IBRD.⁸⁷ Donor countries, IDA borrowers, and IBRD borrowers all contribute to the costs of IDA, yet it is the donor countries which hold a majority of the votes.

The overall picture, in terms of the government-to-government lending arms of the World Bank (IBRD and IDA), is that donor countries contribute about 20 per cent of World Bank annual income and debtor countries contribute about 80 per cent.

6.4 Citizens kept in the dark

One of the fundamental requirements of modern democracy is transparency in what decisions have been taken, how those decisions have been made, and for what reasons. If such information is unavailable, the IFIs and countries running them, cannot be held to account for their actions.

In recent years, the World Bank and IMF have begun to make programme documents for most countries publicly available. After battling through pages of technical language, and occasionally reading between the lines, it is now possible to know what conditions are being set, and to which IFI programme they are attached. But still beyond the reach of the public is

any knowledge of how such decisions have been reached, and what the process and reasoning was behind the decisions.

For example at the IMF, Executive Board documents are published after five years, Executive Board minutes are released after ten years, and other archived material is available after twenty years. The time lag means no decisions can be scrutinised until well-after they have been implemented. Even when documents are released, they are only available at the IMF's offices in Washington DC.⁸⁸ This effectively makes even the archives inaccessible to most politicians, groups and individuals outside of the United States; an appalling situation for a global institution.

Normally there is no formal vote on decisions taken by Executive Directors. The UK Treasury states that instead they "are taken on the basis of consensus".⁸⁹ In practice this does not mean that all Executive Directors come to agree on the decision to be taken. In reality, once the chair of the board meeting informally senses a majority of votes has been found on an issue, Executive Directors in opposition to the informal majority have little choice but to 'join the consensus'. Those countries with dominant voting positions on the Board can collectively impose decisions, whilst claiming a 'consensus' had been reached on the issue. Individual Executive Directors cannot be made accountable for their role in decisions that are taken.

Formal votes are held by the IMF Board of Governors, but only on a small number of organizational and administrative decisions. The UK Treasury proudly states that it publishes the UK position on these votes. However, this adds little to knowledge on the UK's role in IMF decision making and its input on IMF policy toward specific countries. In 2003, the five issues voted on were: i) Closure of the Twelfth General Review of Quotas; ii) Direct Remuneration of Executive Directors and their Alternates; iii) Financial Statements, Report on Audit, and Administrative Capital Budgets; iv) Amendments of the Rules and Regulations; v) 2004 Annual Meetings Change in Date.⁹⁰ The fact that the UK is only willing to publish the UK's position on decisions of little significance is clearly no great boost to democratic scrutiny of the IFIs. It is possible to discover whether the UK Government supported or opposed a shift in the date of a meeting, but not whether they supported the examples of democracy being undermined in debtor countries outlined in this report.

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One key way the UK Government could immediately act to improve its own accountability would be to publish copies of all its submissions and statements to the Boards of the IMF and World Bank, and press other countries to do the same. There is already a UK precedent for this. At a meeting with UK NGOs on 14 September 2004, UK Executive Director Tom Scholar confirmed that the UK Government submission on the Extractive Industries Review to the World Bank Board meeting of 3 August 2004 had been released to the public. The confidentiality 'convention' of the World Bank was bypassed by simply printing it on UK Government headed paper. Tom Scholar also confirmed his opposition to keeping Board papers secret.

A further problem for citizens and their political representatives at the national level is the fact that the IFIs circumscribe who, within national governments, can have contact with them. The IMF and World Bank Articles of Agreement state;

“Each member shall deal with the Bank only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies.”⁹¹

World Bank

“Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.”⁹²

IMF

As has been shown in Chapters 3, 4 and 5, the remit of IFI programmes affects many government departments, such as education, health and trade, as well as the legislation passed by national parliaments. Yet the Articles of Agreement of the Bank and Fund explicitly state that only Finance Ministries and Central Banks can have direct dealings with the IFIs. Other ministries and parliament are not able to hold IMF and World Bank staff directly to account for their actions in a country because they are not allowed 'dealings' with the two institutions.

The Articles of Association of the IMF also grant it legal immunity at both the national and global level. The Articles of Association state:

“The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial

process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.”⁹³

Legal actions may be brought against the IBRD “in a court of competent jurisdiction” but, “No actions shall, however, be brought by members acting for or deriving claims from members.”⁹⁴ The same provisions are also found in the Articles of Agreement of IDA, IFC and MIGA. Furthermore, as has been seen with the recent example of Bangladesh (see the further examples of parliamentary opposition to IFI policies on WDM’s web site at www.wdm.org.uk/democracy/parliament), the Bank often insists on further extensions of immunity within a country’s national laws.⁹⁵

All this amounts to a gaping hole in the ability of citizens and parliamentarians in all IFI member countries to hold their representatives to account.

6.5 President/Managing Director selection process

“The puff of white smoke has appeared from the conclave of European finance ministers ... Despite the attempts of some European ministers to portray their deliberations as a broad and transparent consultation among the Fund’s member countries, in reality it was barely changed from the same old closed-door stitch-up that has disfigured past appointments.”⁹⁶

Financial Times

For their entire history, Managing Directors of the Fund and Presidents of the Bank have been selected through an agreement between the US and European states; a US national has always been President of the World Bank, a European has always been Managing Director of the IMF. Their respective voting powers have allowed the rich western states to maintain a stranglehold over the nationality of the top positions in the two institutions.

This process was repeated in 2004, with the selection of Rodrigo Rato as the new head of the IMF. In the spring of 2004, a recruitment process for Managing Director of the IMF was unexpectedly initiated when Horst Kohler resigned in order to stand for the German Presidency. The G24 group of developing countries called for a “democratic and participatory process based on merit regardless of nationality”.⁹⁷ The G-11 group of countries in Asia, Africa, Latin America, and the Middle East issued a joint statement with Russia, Australia and Switzerland saying that the process for selecting a new managing director should be open and transparent.⁹⁸ IMF staff

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“The Fund cannot preach transparency, good governance and other virtues to the membership and to the international community more broadly unless it is willing to apply those virtues in its own decision making.”

even expressed concern over the process. Jack Boorman, Head of Policy Development and Review wrote an email to other staff members stating, “The Fund cannot preach transparency, good governance and other virtues to the membership and to the international community more broadly unless it is willing to apply those virtues in its own decision making.”⁹⁹

Despite all these concerns, EU governments took it upon themselves to select the Managing Director from Europe. In its 2000 White Paper on Globalisation the UK Government had stated, “the UK favours open and competitive processes for the selection of top management [of the IMF and other international financial institutions]. This could include a definition of the competencies for the post, selection and search committees and a clear process for taking the final decision, in which competence would be put above consideration of nationality.”¹⁰⁰

However, when it came to the actual recruitment process, the UK supported the continuation of appointing a candidate from the EU, and engaged in horse-trading between EU governments to ensure it was the European that they wanted. Reports throughout the process indicated that the UK Treasury, led by Gordon Brown, was backing Spanish Finance Minister Rodrigo Rato for the post.¹⁰¹ Mr Rato did duly win the EU nomination after UK support helped see off candidates from Italy and France. With the EU agreed on one candidate between themselves, the US maintained the quid pro quo, leaving the rest of the world unable to influence the decision. The process was far from transparent, open or democratic.

The unwillingness of European countries to abandon this anachronistic charade in 2004 returned to haunt them in 2005 with the ‘appointment’ of Paul Wolfowitz – well known ‘hawk’ of the Bush administration – as the President of the World Bank. Although many European governments were reported to be unhappy with the nomination of Wolfowitz as James Wolfensohn’s replacement, they were in no position to demand an open and transparent selection process given US support for Rodrigo Rato in 2004.

While the selection process for the heads of these institutions is not as important as the make up and operation of the Boards, the fact that it remains a political carve-up rather than an open and transparent process is symbolic of EU and US hypocrisy in preaching good governance and democracy to the rest of the world but refusing to practice it themselves.

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As for the UK Government, despite the five year old commitment to an open and transparent selection processes, and despite a similar recommendation being made by Tony Blair's Africa Commission, it has remained unwilling or unable to influence either Europe or the USA on this matter.

7. Conclusions

Many of the countries investigated in this report – primarily from Africa, Eastern Europe and Central Asia, Latin America and South Asia – are fledgling democracies. For instance, a wave of democratisation spread across sub-Saharan Africa through the early 1990s, beginning with Benin in 1989. Now, all African nations have a parliament,¹⁰² and most elect both their parliament and government.

However, this report has demonstrated that this hard won democracy is being undermined. Although current world politics is dominated by far-reaching foreign policy decisions sold to the public on the basis of rhetoric around freedom and democracy, the same governments that claim to be ‘defenders’ of freedom and democracy are responsible for systematically denying it to most developing countries through the World Bank and IMF.

Despite the rhetoric on ‘country-owned’ PRSPs, the process has been characterised by a series of flaws that reduce, rather than increase, the influence people in developing countries have over the policies implemented by their governments. From the insertion into PRSPs of pre-determined economic policies resulting from previous IMF/World Bank programmes to the fact that the Boards of the IMF and World Bank have the final say on whether or not a PRSP is ‘acceptable’, developing countries and their citizens are far from able to claim ownership over their development strategies. And perhaps most damning of all is the fact that making provision of development finance conditional on implementing the policies contained within PRSPs denies parliaments their essential role in scrutinising, changing and even reversing proposals made by the executive branch of government.

The gaping democratic deficit in the World Bank and IMF has been exposed time and again by the public and by parliamentary resistance to the policies imposed by these institutions. Yet such opposition – which in the industrialised world forms an integral part of the political process and can lead to policy change – is routinely ignored by the Bank and Fund which have no real accountability to the citizens of poor countries.

This leaves the IMF and World Bank as the de-facto government – but a government that has no parliament to scrutinise its policies and no electorate to whom it is ultimately accountable.

This report has demonstrated that even some governments, despite the enormous pressures under which they are placed, are voicing their opposition to Bank and Fund imposed policies. On critical issues, this leaves the IMF and World Bank as the de-facto government – but a government that has no parliament to scrutinise its policies and no electorate to whom it is ultimately accountable. In other words, the IFIs are like an autocratic regime, albeit one based in Washington DC rather than in the country concerned.

This report has also exposed the lack of democracy within World Bank and IMF decision-making. Despite the fact that developing countries and countries in transition are home to most of the world's population, provide most of the IFI's income and are subject to all IFI programmes they still have less than 40 per cent of the votes in these institutions.

Similarly lacking is the transparency in decision-making of the IFIs, with citizens and parliamentarians across the world unable to hold their governments to account effectively because there is no public record of what their government representatives have done in IFI board meetings. And the selection of the heads of these two institutions continues to be based on a sixty year old political stitch-up rather than an open, transparent and competitive recruitment process.

The extent of this ongoing denial of basic democratic rights for the poorest countries and their people means that it cannot be regarded as accidental or an unintentional by-product of history. It is intentional and systematic; from the very top decision-making bodies of the IMF and the World Bank down to the imposition of policies on the ground. And it is ultimately the responsibility of governments in the industrialised world to practice what they preach.

If the US, the UK and the rest of Europe were really concerned about 'freedom' and 'democracy' they would fundamentally change the way the IFIs work. No war would have to be fought. Tens of billions of dollars would not have to be spent on soldiers and armaments. Thousands of innocent people would not have to lose their lives. 'Freedom' and 'democracy' could be secured through often relatively simple, but fundamental, changes to the way the World Bank and IMF operate.

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WDM believes such changes should include:

- An end to all economic policy conditionality (including an end to the implementation of economic policies in PRSPs being a condition for loans, aid and debt relief).
- Board voting shares based on a combination of one-member one-vote and population weighted votes.
- Ensuring no single country has a veto on any IFI decision.
- Publishing the minutes of IFI board meetings including votes cast by members.
- Creating open, transparent and competitive recruitment processes for the heads of IFIs.

Democracy is hard to define and even harder to put into practice, but key to democratic decision-making is effective and active participation by citizens and their elected representatives in the decisions that impact on their lives. It is high time the World Bank and IMF – and their political masters in the industrialised world – made good on this principle.

Appendix. Country groups included in this report

HIPC countries (38) (*Italics* have a PRSP)

Benin, Bolivia, Burkina Faso, Burundi, Burma, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Cote d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Laos, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia.

Non-HIPC countries with a PRSP (18)

Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Cambodia, Djibouti, Georgia, Kenya, Kyrgyzstan, Moldova, Mongolia, Nepal, Pakistan, Serbia and Montenegro, Sri Lanka, Tajikistan, Vietnam, Yemen.

Potential PRSP countries (7, attempting to get concessional funding from IMF/IDA and/or develop a PRSP)

Angola, Bangladesh, Bhutan, Cape Verde, Dominica, Lesotho, Macedonia

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