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NEUE INTERNATIONALE ARMUTSPROGRAMME:
Neoliberalismus mit menschlichem Gesicht?
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Inhaltsübersicht

4 Editorial
Dieter Senghaas

7 Die Auswege aus der Armut sind bekannt
Alte Wahrheiten angesichts neuer Konzepte
Michael Hofmann, Ralf Schröder

12 On Process and Content of Poverty Reduction Strategies:
Main Challenges for Countries and Donors
Jenina Joy Chavez, Shalmali Guttal

27 PRSP: A poor Package for Poverty Reduction
A Basic Policy Statement of Focus on the Global South
Robert Kappel

42 Die Grenzen des (Post)Washington-Konsens überwinden:
Armutsrückverteilung und Beschäftigung durch strukturelle
Wettbewerbsfähigkeit
Hans-Jürgen Burchardt

56 Neoliberalismus mit menschlichem Gesicht?
Die neue Armutsbekämpfungspolitik auf dem Prüfstand
Irene Knore

77 Politische Partizipation als Allheilmittel?
Theorie und Wirklichkeit der neuen Armutsbekämpfungspolitik
Monika Vögel, Michael Obrovsky

90 Nationale Armutsbekämpfungsstrategien –
Fall oder Falle für NGOs?

105 Glossar
107 Links
108 Rezensionen
111 Autoren und Autorinnen
113 Informationen für Autoren und Autorinnen
Jenina Joy Chavez, Shalmali Guttal
PRSP: A poor Package for Poverty Reduction
A Basic Policy Statement of Focus on the Global South

1. Introduction

In theory, a Poverty Reduction Paper (PRSP) is intended to be a document prepared by a country government – under the supervision of World Bank-IMF teams – that identifies the incidence and causes of poverty, who the poor are, and strategies for overcoming poverty, including policy and expenditure targets. It is supposed to be «locally generated and owned», developed through «wider participatory dialogue», and focused at both the micro and macro policy-making levels. Further, the PRSP framework is expected to «encourage the accountability of governments to their own people and domestic constituencies rather than to external funders», where «the poor become active participants not just passive recipients» (Edgerton et al. 2000).

Experiences thus far from Asia, Africa and Latin America indicate, however, that in reality, country governments have little control over the structure, content and policy prescriptions in their respective PRSPs, thus making a mockery of Bank-Fund claims of national ownership, public accountability and broad based participation. Despite the rhetoric of «nationally driven» development, the PRSP framework continue to conflict with local and national priorities of reducing poverty, fostering domestically meaningful economic development, promoting equality and equity, and encouraging popular participation in the design of national development policies (see, for example: Jubilee South et al. 2001; Walther 2002).

Because of the central roles that the Bank and Fund have in global policymaking and governance, PRSPs have a leveraging role beyond debt relief and concessional credits. The United States, the European Union and other OECD members have fully endorsed the PRSP framework and agreed to base their respective official aid programmes to low income and crisis-ridden countries on the PRSP. Without a Bank-Fund approved PRSP, a low-income country can be virtually cut off from international aid, trade and finance.

As in previous Structural Adjustment Programmes (SAPs), PRSPs bind borrowing governments to implement Bank-Fund directed policies as conditions for receiving credits and other support from the Bank, Fund and bilateral donors. Experience shows that Bank-Fund conditions often prove to be more powerful than national laws since deeply indebted and cash strapped governments do not usually have access to alternative sources of development finance. Crucial national po-

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1 In 1997 African countries received, on average, $26 aid per capita, compared to $3 in South Asia and $13 in Latin America (see: World Bank 2000a: 30).
2 We will not discuss here the various linkages between the development of a PRS and HIPC debt relief which, inter alia, have given rise to the concept of interim PRS, or details of PRS discussion procedures in the Boards of the World Bank and the IMF. Interested readers may obtain this information from the relevant web sites.
3 Donors have given IDA, the concessional fund managed by the World Bank, a firm orientation for IDA’s role in the PRS framework in the negotiations leading to the latest replenishment (see: IDA 2002).
Bank-Fund missions come prepared with their perspectives on the country’s poverty situation, their analysis of the country’s obstacles to economic growth, their menu of policy options, and their views on how to mobilise resources for the PRSP. Despite claims that, “causes and solutions of poverty are country-specific” (IMF/World Bank 1999), all PRSPs are expected to contain “core elements” that the Bank and the Fund consider essential to poverty reduction. These include: rapid economic growth, private sector development and expansion, good governance (largely oriented towards facilitating privatisation regimes), deregulation, trade and investment liberalisation, fiscal stability, macroeconomic management, public expenditure management and consultations with selected NGOs.

Claims of national ownership and alignment with national plans are further confounded by the involvement of Bank-Fund staff in various stages of the preparation of a PRSP. In addition to providing “policy advice” on fiscal management, structural, institutional and sectoral reforms, budgetary targets and expenditure priorities, Bank-Fund staff are also involved in joint staff assessments to ensure that the final product can be presented to their Boards for approval. Staff is instructed to consider whether the document provides a “credible framework within which the Bank and Fund are prepared to design their programmes of concessional assistance” (IMF/World Bank 2001), and to “(...) discuss with the Authorities any modifications to the strategy that might be considered necessary to allow managements to recommend to the Boards that the PRSP be endorsed.” (IMF/World Bank 1999)

The primary criteria for judging the quality and acceptability of a PRSP relate to a government’s macroeconomic framework, structural reform policies and strategies for rapid economic growth. Whether this formula reduces poverty in any qualitative and sustained sense appears to be relatively unimportant. Apparently, IMF lawyers have advised Fund staff that their documents must talk about economic growth whenever poverty reduction is mentioned, since the Fund’s mandate does not include poverty reduction as a goal (EURODAD 2000).

Given the high degree of involvement of Bank-Fund staff in the formulation of most PRSPs, it is difficult to believe that the papers would be significantly different if they were written entirely by the staff themselves. Also, senior government officials in Ministries of Finance—who usually lead the PRSP process—are often groomed by the Bank and Fund, and have little trouble in reproducing the policies related to trade, investment, assets ownership, natural resources, fiscal management, banking, public administration, social development and even judicial systems are determined more by Bank, Fund and donor pressures than by domestic priorities and aspirations. In a number of countries, Bank-Fund policy requirements for debt relief and credits have resulted in deep cleavages among civil society, government institutions and national parliaments, and have deepened social unrest and conflict.

In Zambia, the IMF has informed the government that unless it sells the State owned Zambia National Commercial Bank (ZNCB), Zambia will not be eligible for US $ 1 billion in debt relief under the HIPC programme (see articles in The Times of Zambia and The Post). In Nicaragua, the Bank and Fund have demanded that the country privatize all its water resources as a condition to further loans, directly contradicting national legislation that forbids further privatization without national debate (Mekay 2002). In the Solomon Islands, the IMF, supported by bilateral donors, refused to provide funds for the country’s National Economic Recovery Plan unless the country first agreed to reduce government spending and implement severe job cuts (Byrne 2002). In Pakistan, a coalition of actors including Non Government Organizations (NGOs), research institutes, unions, peasants, political parties, journalists and the Pakistan Human Rights Commission have formally rejected the content and process of the PRSP (Sustainable Development Policy Institute 2002).

Evidently, not much has changed in the modus operandi of the Bank and Fund, despite their promises that borrowing countries will have greater say in determining economic programmes under the PRSP framework. The Bank-Fund use of the carrot-stick tactic continues to undermine publicly accountable systems of governance and weakens the position of national policy making bodies that have to face the Bank and Fund.

2. An Unstable Structure
The PRSP framework is supposed to result in a long term, comprehensive, results-oriented, country-driven and participatory strategy to reduce poverty. However, experience to date shows that the “quality” of a national poverty reduction strategy acceptable to the World Bank and the IMF is incongruous with the main pillars of the PRSP framework: national ownership, participation and public accountability.

2.1. National Ownership
For the World Bank and the IMF, country ownership of a PRSP means the commitment of a country to implement a strategy that the Bank and Fund approve, come what may. When advising governments on how to prepare a PRSP, Bank-Fund missions come prepared with their perspectives on the country’s poverty situation, their analysis of the country’s obstacles to economic growth, their menu of policy options, and their views on how to mobilise resources for the PRSP. Despite claims that, “causes and solutions of poverty are country-specific” (IMF/World Bank 1999), all PRSPs are expected to contain “core elements” that the Bank and the Fund consider essential to poverty reduction. These include: rapid economic growth, private sector development and expansion, good governance (largely oriented towards facilitating privatisation regimes), deregulation, trade and investment liberalisation, fiscal stability, macroeconomic management, public expenditure management and consultations with selected NGOs.

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According to a senior Fund official, three dimensions that the Fund considers essential in order to approve a PRSP are: broad-based consultation; faster, pro-poor growth; and, maintaining macroeconomic stability – i.e. keeping inflation and exchange rate volatility down. In practice, however, broad-based consultation does not appear to apply to the latter two dimensions (for example, see Abugre 2000; Nyamugasira/Rowden 2002).

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A PRSP is already pre-conditioned towards structural adjustment by the Bank’s own lending criteria. The Bank determines how much money it will lend to its low income clients based on three types of ratings: 1) The Country Policy and Institutional Assessment (CPIA); 2) The portfolio performance rating, and 3) Governance rating including rapid government procurement. Of these, the CPIA counts for 80 percent of a country’s overall rating and describes in Bank terms how the country has performed in twenty criteria grouped in four categories: Economic Management, Structural Policies, Policies for Social Inclusion and Public Sector Management and Institutions. The higher a country’s overall rating, the more money the IDA is authorized to lend to it.

The CPIA score militates against genuine public participation and national ownership in the formulation of poverty reduction strategies. CPIA rating criteria direct the nature of a country’s relationship with the Bank and Fund. If the country rates poorly on key criteria, the Bank offers the country an adjustment loan to ‘correct’ the problems. At the same time, borrowing governments find themselves in a bind if their citizens choose a path towards poverty reduction that does not correspond to the Bank-Fund roster of preferred ‘good’ policies (Citizens’ Network on Essential Services 2002).

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The nature of civil society participation in PRSP processes also allows for the manipulation of civil society by the Bank, Fund and bilateral donors. Bank staff claims that they are helping to open up space for civil society by the Bank, Fund and bilateral donors. Bank staff claims that they are helping to open up space for civil society by the Bank, Fund and bilateral donors. While it is true that civil society participation in the formulation of national development policies is limited in many countries, the Bank’s self-assumed mediating role in the national arena has serious implications for national and local democratisation. The insertion of foreign donors and creditors between civil society and capital deficit governments weakens the influence of national-local civil society in setting national priorities. Governments thus become less accountable to their own citizens than to international creditors and donors.
Capacity and political space are indeed major concerns in countries where modern civil society formations have not taken root as rapidly as modern development structures and practices. The presence of active civic bodies and the existence of sufficient political space provide the ground for meaningful public participation, and serve as checks to possible abuse by creditors, governments, donors, investors and other international institutions. The Bank’s response to domestic capacity constraints has usually been to design ‘capacity building’ programs for governments in order to facilitate dialogue between civil society and government. However, past experience shows that the involvement of the Bank and Fund in countries with vibrant and active civil societies has usually hindered meaningful civil society-government relationships. Where civil society formations have achieved a certain degree of maturity, their advocacy traverses a wide spectrum of issues, including the advocacy of policies that directly challenge those prescribed by the Bank and the Fund. And where governments must comply with policy conditions – as in SAPs and PRSPs – the combined political and economic power of the International Financial Institutions (IFIs) pre-empts the ability of civil society to negotiate nationally relevant policies with their governments.

As yet, the Bank and Fund do not have clear standards to evaluate the quality of participation in the PRSPs. They have yet to comprehend that genuine participation is a deeply political process of representation, negotiation and accountability. Instead, by focusing on ‘capacity building’ and ‘institutional strengthening,’ the Bank, Fund and international donors are attempting to reform decision-making processes in their low-income clients. The wider the gap between policy-making structures and processes and ordinary people, the easier it is for the IFIs to push their programmes.

3. Coordination and Governance

In the name of ‘untying aid’ and ‘donor coordination’, the G-7 and other OECD members are linking much of their respective Official Development Assistance (ODA) through the PRSP-PRGF. Aid Coordination through the PRSP framework resembles the formation of a massive, powerful and unaccountable aid cartel, whose house rules are based on a development model already proven to be destructive to recipient countries. By channeling their resources through the PRSP, donors ensure that recipient governments are unable to find alternative policy advice and financing for national development. A PRSP dominated cartel will close off much-needed debate about and support for alternatives to the Washington Consensus.

Donor coordination, while important, also raises questions of responsibility and accountability among aid providers. If bilateral donors put all their eggs in the PRSP basket, they must then take equal responsibility for the impacts of bad policy advice, faulty assessments and failed programmes. Experience thus far shows that international donors are unwilling to take such responsibility. More likely, the continued failure of PRSPs in alleviating poverty will once again be attributed to weak capacity, poor governance and ‘entrenched structural weaknesses’ among recipient countries.

Given their track record, the Bank and Fund cannot claim competence in alleviating poverty, promoting sustainable development or even fostering economic growth. If donors are genuinely committed to poverty reduction, they must critically assess the Bank-Fund development model and challenge the policy advice they push on low-income countries. Equally important, donors must ensure that there is a publicly accountable system of checks and balances in the international aid industry, with sufficient avenues for redress for harmful policies and faulty programmes. Without a wider system of accountability, donor coordination will become akin to countries with money ganging up against countries without money.

Similar flaws are evident in Bank-Fund definitions of good governance, which have become the newest conditions to be imposed on client countries through PRSPs. Their framework for good governance is focused on creating an enabling environment for the private sector and for protecting the rights of corporate, usually foreign, investors. While corruption, collusion, and misuse of public funds are rampant in many low-income countries, they are not absent in donor and creditor agencies, multinational investors and consulting companies that win lucrative contracts from the Bank and donors. However, the Bank-Fund governance framework provides no legally binding regulations by which foreign investors, financiers, consultants and aid providers can be held accountable for wrongdoing.

The Bank-Fund governance framework does not promote the rights of local and national populations to development and self-determination. Instead, the Bank and the Fund generally bypass international human rights covenants altogether. During the deliberations of the 25th meeting of the UN Sub-Commission on the Promotion and Protection of Human Rights, the IMF claimed that it did not have to abide by human rights standards and is not bound to human rights declarations and conventions and since human rights are not mentioned in its Articles of Agreement.

Studies commissioned by the Sub-Commission show, however, that in both the HIPC and PRSP programmes, the lack of borrower country participation amounts to a breach of human rights of self-determination and public participation. They criticize the Bank and Fund’s emphasis on free market reforms and conditionality, saying that it deprives communities of the rights to health, educ-
The growth focus is an inadequate response to poverty. Achieving the highest possible growth is not necessarily the same as achieving the highest possible poverty reduction. If a purely income-based definition of poverty were used, poverty indicators would have a high sensitivity to economic growth. Yet while economic growth can make possible palpable improvements in social indicators, it does not automatically address the issue of equity. Growth data do not say anything about distribution, i.e., who benefit or do not benefit from growth. The fixation on growth is based on belief in the trickle down effect, or the belief that if an economy grows fast enough and for a long enough period of time, economic activity will be so stimulated that even the farthest detached will be brought into economic activity to benefit from the creation of income. Such reliance on the trickle down effect reduces the direct role of socio-economic institutions in reaching the poor, and renders the poor passive participants in the growth process.

A deeper understanding of the nature of poverty and deprivation is required to appreciate the need for more directed interventions on the part of the state and other institutions to effectively address specific problems associated with poverty. More than by safety nets and social insurance, growth must be managed alongside the strengthening of economic institutions and governance structures. The East Asian crisis revealed the vulnerabilities of economies that relied on rapid liberalisation to achieve high growth rates throughout the decade before their financial collapse. As a result, much of the poverty alleviation gains of past rapid growth were eroded due to the economic shock. A more sensible poverty reduction strategy would prioritize policies that foster equity and address social, economic and political imbalances over growth targets. It is important to formulate anti-poverty and equity enhancing programs first and ensure that they are appropriately funded and implemented. And for whatever growth that is produced in this period to be accepted as the limit for this stage of the overall poverty reduction program.

4.2. Liberalizing Trade and Foreign Investment

Without fail, the PRSP approach calls for trade programs that focus on market access and liberalization. There is heavy reliance on exports, especially of cash crops and minerals, as means of increasing incomes. The optimism with trade is evident in the lack of discussion of the two-way character of trade. Being able to export also means that these countries will be compelled to allow imports from other countries. Past experience shows that this is likely to have negative consequences for countries with weak domestic markets, negligible support for domestic producers and where a significant portion of the population is engaged in subsistence production. The PRSPs do not outline po-
licies by which these countries can better deal with the influx of imports because of liberalization. There is also little mention of the challenge faced by these countries in terms of market access. Developing country exports, especially of agriculture, fisheries and light manufactures, will face obstacles in developed countries that have yet to shed their protectionist tendencies. The excessive use of sanitary and phytosanitary standards, for instance, will limit developing countries’ access to the markets of rich nations. At the same time, producers in low-income countries will find it difficult to compete with rich country producers in their own and other markets. Rich country producers enjoy a range of subsidies and domestic support from their governments, allowing them essentially to dump in developing country markets.

4.3. Rolling Back the State Sector

PRSP policy matrices list a range of privatization processes. These include: corporatisation, or the transformation of a state-owned enterprise (SOE) in line with a corporate set-up; equitisation, or the transformation of government ownership into «shares» that can be sold to the private sector; liquidation, or the abolition of an SOE, and; sale, lease, divestiture and contracting out.

Concerns about the restructuring of state sectors are not limited to employment, although impacts on employment are particularly visible. The motivations behind such restructuring are to recast the state’s role in the economy and reconfigure control over national resources. This is also always accompanied by other policies that seek to prioritize the functioning of ‘markets’ above all else.

The main drawback of privatization processes is not only that public assets will be turned over to private hands. It is the unnecessary abandonment of the state as an ‘inefficient’ allocator of resources and implementor of plans. However, a number of examples (most notable are the East Asian dragon economies of South Korea, Hong Kong, Taiwan and Singapore, and more recently, Malaysia and Thailand) point to the promise of the state as an efficient and necessary mover in industrial and development policy, and in ensuring equitable access to crucial assets and opportunities.

4.4. Private Sector Fundamentalism

«Creating a level playing field» is the buzz-phrase for the private sector development part of the policy matrix. The target is to enact, revise or implement a code of commerce or business laws. Changes to Foreign Investment Laws are also targeted, along with new mechanisms to allow private sector participation in the financing of public infrastructure.

Bank-Fund led reforms are geared towards creating hospitable environments for foreign private investment, and not necessarily towards expanding a responsi-ble and publicly accountable domestic private sector. However, since much of this foreign investment is in public utilities in which a number of corporations from donor countries are interested, and given the fact that privatization is a de facto condition of PRSPs; the true motivations behind such reforms are questionable. The bottom-line in privatization programmes is clearly for the private sector to take over from government, no matter what.

4.5. Deregulation: Setting Free Key Economic Sectors

Policy matrices for Asian, African and Latin American client countries, dictate varying levels of wide-ranging reforms in the regulatory set-up of key economic sectors. From agriculture to finance, water to power, transport to telecommunications, all the major sectors are covered.

While some reforms in the governance of economic sectors are necessary to do away with problems of corruption and abuse of privilege, poor countries are often unable to oversee economic reforms since they have relatively weak regulatory and institutional mechanisms that can address emerging problems. A more serious concern, however, is the abrogation of preferential access or treatment for unprotected domestic constituencies, as in the case of small domestic producers and users of credit when development banking is recast in favour of financial sector reform.

4.6. Social Policies via the Market

Land and water are perhaps two types of resources that income-poor people have the strongest affinity with. Land and water represent multiple values for local populations, and larger national and commercial interests.

The PRSP tackles the controversial issues of land rights and access to natural resources through changes in the legal framework for access, use, ownership and transfer of lands and water. Specifically, land titling, tradability and marketability are made possible with the view towards ostensibly reducing uncertainty in land markets and increasing incentives for investments on land. This is the focus for the land resource management in Cambodia and the Lao PDR. In Benin, Ethiopia, Madagascar, Mali, and Uganda, the policy matrices opt for «appropriate pricing policy» for water use either through «cost sharing», «cost recovery» or «significant users’ financial participation». User fees and cost recovery – reminiscent of SAPs – are also resurrected in other social services. In health services, they are being reintroduced in Burkina Faso, Ethiopia, Guyana, Madagascar, Malawi, Mauritania, Chad, Tanzania, and Uganda (Marshall/Woodroffe 2001).
were made vulnerable to newer types of financial crises that hit even the more prosperous countries.

The strong reaction against the policy mistakes of the past was perhaps the biggest motivation for the neo-liberal establishment to reinvent itself. Now, «poverty reduction» has become a shield to dodge fundamental criticisms about the economic model that the establishment is unable to move away from. And in their desperation to latch on to a new paradigm, the rest of the development world has also bought into the poverty reduction rhetoric.

But no amount of makeover can hide the imminent collapse of a system that will not survive another decade. Studies conducted by NGOs, independent researchers, and the UN Commission on Human Rights find that PRSP-PRGF policy frameworks mirror SAPs, and that the Bank and Fund are unable to show conclusively how these policies will reduce poverty. Particularly egregious is the PRGF, which is so steeped in fiscal reforms, privatization, austerity measures and restricting the welfare role of the State, that its connection with poverty reduction is not even illusory: It is this inflexibility; this blind attempt to cling on to a model that did not and will not work, that makes the PRSP a losing proposition.

Bibliography


4.7. Conditionality, Flexibility and the Legislative Route

The policy matrix enumerates wide-ranging reforms a PRSP country must implement within a given timeline. Many of these reforms require legislative action and a few would even require tinkering with national Constitutions.

Policy conditions that require use of the legislative process are highly inappropriate, especially in light of broader advocacy for stronger national institutions and the principle of sovereignty. When a senior IMF staff was asked in a forum in Manila about this, he responded that this is indeed not an easy task, and that «dictatorships are easier to deal with (...)» but people and institutions must be part of the policy-formulation process. (quoted from Jack Boorman, Special Advisor to the Managing Director of the IMF, during an open session in forum The IMF’s Role in the Asia Pacific Region, July 11-12, 2002, Asian Institute of Management, Makati City, Philippines).

The Fund staff’s comment may be seen as over-eagerness, or it may be seen as arrogance. What is clear, however, is that the Fund has missed the point. There are only so many roles any institution can appropriate for itself. The IMF, for instance, should at the very least, stick to its core expertise. Structural reforms, for e.g. trade and investment liberalization measures, should not be within its jurisdiction. The Fund’s views on micro and structural issues should at best be regarded as recommendatory.

The cross-conditionality aspect of the IMF-World Bank relationship is well documented. The IMF is supposed to take on the macroeconomic and short-term stabilization measures, while the Bank takes care of the longer-term structural measures, all within a twin package supported by both institutions. Over the years, the Bank and Fund have consolidated their policy advice towards a market orientation, to the exclusion of alternative policies. They have thus failed to consider varied options for structural reforms. For instance, the fiscal burden of public utilities (at once a macro and a micro concern) can be addressed in many ways. Yet it is only privatization in one form or another that is always promoted.

5. A Time for New Imaginations

Structural adjustment was supposed to be the answer to the woes of a developing world that was crippled by a debilitating debt crisis. It was the start of the systematic rollback of what used to be ‘state’ or ‘public,’ and was the start of market openness, private sector development and deregulation of key economic sectors. Yet after two decades, SAPs had little to show for them. The Third World was more indebted, and in more ways, than before. Yet unlike the start of the debt crisis, Third World states lost most of their assets to the private sector and relinquished governance and control over crucial sectors to the market. Worse, they
Despite the rhetoric of poverty reduction, the authors contend that little has changed in the substance, form and process of the International Monetary Fund/World Bank programmes. The Poverty Reduction Strategy Paper (PRSP) approach still implies stringent policy conditionalities, outlined in the mandatory policy matrices attached to PRSP documents. The direction of impact of these operational documents promoting open trade, investment and financial regimes, are severely criticized as well as the main pillars of the PRSP framework (national ownership, participation and public accountability). The authors arrive at the conclusion that it upholds the same neo-liberal market-oriented policies that were peddled to the developing world as Structural Adjustment Programmes (SAPs) in the eighties and early nineties. The failure of SAPs, and the general failure of IMF/World Bank intervention, begs for more political space and opportunity for new imaginations and alternatives to be articulated.


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Abstracts

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PRSP: A poor Package for Poverty Reduction