GLOBAL NETWORK FOR JUSTICE

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Poverty Reduction Strategy Papers

Challenging Sovereignty

Because of the central roles that the Bank and Fund have in global policy making and governance, PRSPs have a leveraging role beyond debt relief and concessional credits. They have become the key policy instruments through which the world's major donors relate with low-income counties, countries undergoing economic crises and those emerging from protracted periods of conflict. Without a Bank-Fund approved PRSP, a low-income country can be virtually cut off from international aid, trade and finance. The United States, European Union (EU) and other OECD (Organization for Economic Cooperation and Development) 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. Many have also agreed to co-finance poverty reduction credits, grants, and technical assistance in conjunction with Poverty Reduction Growth Facility (PRGF) and Country Assistance Strategy (CAS) loans packages. The Netherlands and Japan have contributed US $20 million towards the establishment of a special multi-donor trust fund to build the capacity of countries to prepare PRSPs in accordance with World Bank (WB) principles. Additional contributions are expected from other donors as well. The Bank administers the trust fund and final approval for country proposals rests in the hands of Bank, UN and external donors.

Twinned with the Heavily Indebted Poor Countries (HIPC) initiative, PRSP prescriptions have grave implications for the economic sovereignty of low income and crisis-ridden countries. As in previous 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 policies related to trade, investment, assets ownership, natural resources, fiscal mangement, banking, public administration, social development and even judicial systems are determined by the 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 one billion US dollars in debt relief under the HIPC programme. To obtain relief under the HIPC initiative, Zambia public must comply with a number of requirements, including the sale of state assets. The Zambian public, the parliament and President Mwanasawa have vehemently opposed the sale of the ZNCB on the grounds that the ZNCB is a successful enterprise and one of the few sources of credit for Zambian people. Selling the ZNCB would result in the loss of thousands of jobs and compromise the interests of the Zambian people, as has already been the case with past Bank-Fund led privatization programmes in the country.

In Nicaragua, the Bank and Fund have demanded that the country privatize its water resources - including its hydroelectric dams - as a condition to further loans. The condition comes in the wake of legislation passed by the Nicaraguan National Assembly in August 2002, suspending all water privatization plans until a national debate on the issue takes place. By insisting on such conditionality, the Fund, is disregarding and undermining national democratic process in Nicaragua.

In Pakistan, a range of actors which includes Non Governmental Organizations (NGOs) consumer rights groups, research institutes, unions, peasant and fisher-folk organizations, political parties, journalists, and the Pakistan Human Rights Commission have formally rejected the structure, content, and process of the PRSP in Pakistan. In an open letter to the Ministry of Finance, they have pointed out that the PRSP reinforces a previously tied and failed paradigm of development, undermines democratic processes and threatens the sovereignty of the state. They object to the imposition of privatization, liberalization, deregulation and regressive taxation through the PRSP and the undue influence of International Financial Institution (IFIs) - the World Bank, IMF and the Asian Development Bank - on the Pakistani state.

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. The retrenchment will result in 1300 job losses - about 30% of an already downsized public sector work force - and along with other IMF prescribed austerity measures, will compound the country's already severe economic and social crisis.

Evidently, not much has changed in the `modus operandi` of the Bank and the 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 undermines publicly accountable institutions of governance such as Parliaments and popular public debate, and weakens the position of national policy making bodies that have to face the Bank and the Fund. Nor have the Bretton Woods Twins moved away from the Washington Consensus. In country after country, they continue to withold crucial financial resources unless their deadlocked clients agree to impose their pet policies: trade and investment liberalization, privatization, deregulation, reducing government expenditure, restructuring of public services, and sectors, low inflation, rapid economic growth, and so on.

(To be continued in June Issue)

Article was prepared by Jenina Chavez Malaluan and Shalmali Guttal from **Focus on the Global South**, January 2003, http://www.focusweb.org

JUBILEE USA Campaign, www.jubileeusa.org

Take action on legislation for deeper debt relief; Debt relief is saving lives - don't stop **NOW**!!!

Your representatives and senators need to hear from YOU right away in support of debt cancellation. Please fax or write a letter asking him or her to get active on saving lives through debt relief.

Every second a child is born into massive debt in the world's poorest countries. No matter how much they pay back, the debt just keeps growing. Debt payments to rich creditors are made at the cost of health, education and the environment.

In the House: Bill number HR 1376 for deeper debt relief has been introduced by Rep. Christopher Smith (R-NJ) and Rep. Barney Frank (D-MA). The legislation would:

- provide an additional $1 billion in debt relief annually to countries that currently qualify;
- this would nearly double the current debt relief on offer to the poorest countries;
- it would also require that debt relief not be conditioned on some of the most harmful IMF conditions like charging fees for school and health care and threatening labor rights.

In the Senate: Ask your senators to support the Santorum-Biden proposal for deeper debt relief as a part of an effective strategy to fight global AIDS.

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