

## **IFIs' Conditionalities, Poverty Reduction, and Employment**

SABUR GHAYUR

### **1. IFIs—AN ACKNOWLEDGEMENT**

Rising from the debris of the World War-II and also the devastations caused by the great depression of 1930s, the Bretton Woods twins—international monetary fund (IMF) and the world bank; rather the world bank group<sup>1</sup>—have over the years emerged as important players of the international financial arena. They are the major component of international financial architecture in addressing global macro and financial stability. The Bank together with the regional multi-lateral development banks (MDBs), such as the Asian Development Bank (ADB) for the Asian and the Pacific region, is making its contribution in building necessary infrastructure needed to initiate and support the development process, the recent reduced emphasis on such projects notwithstanding.

Their—the Bank and Fund—role is also important to the over 80 developing member countries in terms of the provider of long-term concessional assistance, capacity building and other related technical assistance. The Bank and the regional MDBs are mainly responsible for providing loans to help reduce poverty and finance investment that contribute to the economic development. The Fund and Bank are also important in terms of reforming the international financial architecture, bringing transparency; such as: in the monetary and financial policies of member countries, ensuring good corporate practices including also greater disclosure as well as good governance. Importantly, they are building and strengthening the crisis-prevention mechanism by developing early warning system (EWS), early warning (external) and

Sabur Ghayur is Director, Institutional and External Relations, International Confederation of Free Trade Unions, Asian and Pacific Regional Organisation, Singapore.

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<sup>1</sup>The world bank group consists of: (1) international bank for reconstruction and development (IBRD), (2) international development association (IDA), (3) international finance corporation (IFC), (4) multilateral investment guarantee agency (MIGA), and (5) international centre for settlement of investment disputes (ICSID).

vulnerability indicators, and management and adequacy of the foreign exchange reserves as well as the foreign debts. And should the crisis—financial—occur, then its management. Lately, the twins have been involving the private sector in the debt workouts.<sup>2</sup>

The opening up, particularly to the civil society is an important development in the overall functioning of IFIs.<sup>3</sup> The annual assemblage of the ADB, for example, in May 2001 in Hawaii saw the participation of the civil society representatives from Asian and the Pacific countries. The presentations by the ADB staff to the participating civil society ranged from its policies and programmes to good governance including corruption and involvement of the civil society in programmes/planning and in the programme cycles at the country level.

### **1.1 The “Overarching” Goal—Poverty Reduction and the Related Progress**

The annual meeting of the Fund/Bank in September 1999 resulted into a focus on poverty reduction. The Bretton Woods twins have declared the eradication of poverty as the “overarching” goal. The joint position paper prepared latter by the staff of the two institutions, it is important to highlight, clearly recognises the increasing evidence that “entrenched poverty and lack of economic opportunities and asset endowments can themselves be the impediments to growth”.

The Fund replaced its enhanced structural adjustment facility (ESAF) with the poverty reduction and growth strategy (PRGF). The Bank, on the other hand, created poverty reduction support credit (PRSC) by directing its IDA credit to it.<sup>4</sup>

The ADB in Asia and the Pacific region also joined the race. It declared poverty eradication as the “overarching” goal in 1999. The heads of the MDBs receive annual briefings from the “twins” through the mechanism of an informal WG that is coordinated by the ADB. Many multi- and bi-lateral donors have also indicated their willingness to join and pick up some parts of the programme.

The Fund/Bank has prepared a source book for the country participants and staff counter parts likely to be engaged in developing poverty reduction strategy papers (PRSPs). It is documenting best practices, core techniques of PRSPs development, macro and sectoral approaches, and the cross-country issues, such as: governance, gender and environment. The emphasis is on country ownership, the

<sup>2</sup>The recent example of the private sector involvement in the debt workouts relate to that of Turkey and Argentine.

<sup>3</sup>The Fund/Bank management, for example, is now regularly having meetings with the global labour movement. The latest of such interactions being the delegation of over 60 led by the General Secretary of the ICFTU in October 2000 to the Bank/Fund and meetings with the respective heads as well as the Executive Directors and the concerned staff members. Further to look into the follow up, sort of a working group (WG) comprising representatives of the ICFTU, IMF and WB has been established. This WG had its first meeting, 11-12 July 2001, Washington, D.C.

<sup>4</sup>For eligibility of countries and conditions under PRGF, see IMF (2001).

bottom-up approach with ensured community participation with people to lead emphasis, and poverty reduction and growth targets to be identified and prioritised during participatory process. The Bank and Fund will jointly assess the PRSPs. In this regard, a joint implementation committee (JIC) has been set up. Further, pre-mission clinics are being organised for the staff on areas as diverse as: transparency, accountability, performance indicators for PRSP implementation, tracking poverty reducing spending, streamlining conditionality, and environmental management in PRSPs have been prepared.<sup>5</sup>

## **2. THE FUNDAMENTAL ECONOMIC RIGHT, ITS DIMENSIONS, AND THE FREE MARKET ECONOMY**

The fundamental economic right is none else than the availability of a “decent” work to all the able and willing to work adults. This visualises a productive employment, an employment that is contributing to the value addition. Further, this employment is not only decent but it coexists with certain level of social safety nets (SSNs) to the working population, and a participatory working and policy-making environment i.e. a functioning bi- and tri-partism. The IFIs have been arguing—rather forcefully—that this right and the accompanied benefits would be more accessible if their prescriptions to pursue globalisation and free market economy are vigorously pursued.

A necessary motivation, no doubt, has also been the demonstrateable failure of the inward-looking policies in terms of addressing the overall development and particularly the social dimensions of it. Many linked the growing unemployment and rising inequalities to failure of the global economy to offer productive employment opportunities to the work force. Thus, it was advocated rather vigorously, and quite oftenly prescribed by IFIs, that by this course—the opening up, we would be able to ensure also the integration of the neglected together with social development, thus implying an existing “decent” work.

The lack or inadequacy of social dimension of development can be gauged by the fact that, out of the global population, as many as were found to be: (1) malnourished –840 million, (2) not able to spend more than a dollar a day –1.3 billion, while the number increases to 2.6 billion if the measure is spending two dollar a day, (3) lacking sanitation –2.4 billion, (4) deprived of potable water –1.2 billion, (5) children out of schools in developing countries –140 million, (6) children dying annually from preventable diseases –11 million, (7) lacking shelter—over a billion, and the list unfortunately does not end here.<sup>6</sup>

The labour movement together with many concerned had expected that the process of globalisation and free trade regime would essentially address these dimensions of development. Thus, resulting into significant improvement in the

<sup>5</sup>For details on the related matters, see IMF (2001a, 2001b) and WB (2001, 2001a).

<sup>6</sup>For details on this deprivation, see HDR (1999).

working and living conditions of workers across the globe by way of sharing gains equitably and promoting social development. Further, the workers and people at large would be able to enjoy the old age benefits and pensions, health facilities, childcare and maternity leave, training and retraining facilities, unemployment allowance and retrenchment allowance. There will also be provisions to provide support to the “by-passed” and marginalised segments of the population especially in the form of social assistance.

The overall beneficiaries were expected to be the consumers. They would have the sovereignty over determining the type and volume of goods and services to be produced. Besides having the opportunity of accessing better quality goods and services, they would be paying prices truly reflecting the scarcity value as well as the balance between the cost of production and marketing. The rent seeking thus would be a thing of the past.

The developing countries were identified as deriving significant benefits. Of particular importance for them were the perceived benefits from the increasing capital inflows, transfer of technical know-how and the possibilities of installing modern technology in their production structures. In the absence “quotas” and tariff restrictions, they were expected to be entering into global market on merit and with the increased production enjoy the economies of scale.

### **2.1. The Virtues of Private Sector**

The virtues of the private sector in initiating and sustaining the growth were, and still being, trumpeted. Increasingly, it was argued (and continued to be argued) that the role of the state should remain confined to the provider of enabling environments including level playing fields, ensuring law and order, and, may be, the social development. Rest of the activities be left to the private sector. Hence, state should withdraw from the economic and commercial activities. The state, it was—and is—being argued has no role in these areas, seldom realising the needs and ground realities in many of the developing countries.

It was also argued that moving in these directions would contribute towards better regulations, good corporate governance, participation, transparency, and accountability as well as consumer sovereignty. These were, thus the major considerations leading unto the Marrakech Agreement in April 1994 and the subsequent birth of the World Trade Organisation (WTO) in January 1995. And since then the ongoing process of opening of economies, free trade regime and globalisation—a hot pursuit of the “neo-classical” model—fully endorsed, supported and even enforced by the IFIs.

### **2.2. The Phenomenon Overlooked**

These hopes and expectations, however, were not based on the objective assessment of ground realities. The mismatch between countries and regions in terms

of the size of economies, financial markets and financial institutions has been neither found nor being attended to adequately either. The stock market capitalisation, for instance, of the USA, EU and Japan estimated respectively at over US\$15 Trillion, about \$9 Trillion and about \$5 Trillion were not considered as meriting attention in terms of their comparisons with those prevailing even in the emerging markets of Asia. One percent asset allocation in the US stock market, for instance, standing at \$150 billion alone is well over stock market capitalisation of many of the emerging economies except Korea and Malaysia. And this relocation can create sizeable ripples in any of the emerging market did not receive any significant consideration. No wonder, the daily currency trading of over \$1.5 trillion did not receive any attention in terms of the vulnerabilities it is confronting many recipient countries.<sup>7</sup>

The drive to open up economies also did not pay heed to the giants in the global markets and the manipulating strength of the multinational corporations (MNCs). The market capitalisation of the Micro Soft, GE and Intel, for instance, estimated to be respectively at \$500 billion, \$360 billion and \$230 billion received no consideration.<sup>8</sup> This was also true for many other MNCs. The top telecommunication and pesticides MNCs respectively controlling 86 percent of the \$262 billion and \$31 billion global market, thus leaving no room for the new entrants found no attention.<sup>9</sup>

Thus, the ground realities had demanded standards, regulations and good corporate governance. It also needed attention on making available greater information on nature and direction of capital flows. Greater information was needed on the borrowers, lenders and the investors. Reform was needed in the global financial architecture. Further, of great importance was the adequacy of preparatory work—but found grossly overlooked.

### **2.3. Poverty, Unemployment, and Casualisation**

The speed and sequencing of structural adjustment, and transformations taking place in the industrial and service sectors in the Asian Pacific region as well as in other parts of the globe have a bearing on employability, working conditions, and proper development, training and retraining of the workers. Workers are waking up to a whole new world. This is a world where demand for skills and the availability of job opportunities are shifting. This is a world where the nature and form of work are constantly changing with introduction of new business practices and new organisational structures, the application of new technologies, and the design, production and delivery of new products and services. Already, work is being redefined—from permanent to flexible employment, from stationary to distance work, etc. In this scheme of things, under threat particularly are: traditional jobs, and

<sup>7</sup>For the related information, see HDR (1999).

<sup>8</sup>See, IHT (2000).

<sup>9</sup>See, HDR (1999).

unskilled and semi-skilled labour. Those with only enterprise- and task-specific skills are also at risk. Incidentally, these are traits of workers in majority of cases and more so in the developing countries.

Thus, casualisation and informalisation of jobs are fast emerging, not only in the developing but industrialised countries as the new labour market realities. And this phenomenon has raised concerns and heightened interest. The labour market flexibility is the “buzzword” of the governments’ economic, trade and employment policies, amply suiting many employers’ desire to maximise profits—IFIs duly supporting rather promoting it—no matter how they accrue. Seldom realising the fact that growing irregular forms of employment and informal sector as well as increasing vulnerable forms of employment and income erosion in the formal sector—all essentially putting at stake the whole development process.<sup>10</sup>

The picture thus emerging in respect of availability of the fundamental economic right is that globally, there are: (1) 160 million unemployed, most of them first job seekers, (2) 60 million unemployed in the age group of 15–24 years, (3) 500 million unable to earn enough to keep their family members above the poverty line of a dollar daily, and (4) an estimated 250 million children are active in the labour market. Yet another dimension of this picture relates to the fact that in a decade i.e. unto 2010, there would be an additional 460 million fresh entrants into the job market. Only, 3 percent would be in the European and Northern American countries, rest in developing countries. Two-thirds of them will be in the Asian region.<sup>11</sup>

### 3. THE IFIs’ CONDITIONALITIES: INSTANCES AND CONCERNS

#### 3.1. Traditional Areas

In the fiscal policy area, some important elements of conditionalities are: (1) withdrawal of subsidies even on essential items/inputs, (2) introduction of tax/GST on agricultural inputs and the concern here relates to the adverse impact on small/subsistence farmers in developing countries where the agricultural sector acts as the main source of livelihood, (3) curtailing fiscal deficit—unduly emphasised and zealously pursued no matter if it is suffocating growth. Ideally, the IFIs and especially the Fund should have not fixed the budget deficits targets unilaterally—country-specific (economic) conditions and ground realities should have been used as the basis.

In the area of financial sector, the “buzzword” is opening up/liberalisation of the capital market. It has seldom been realised that the wide differentials between the capital and stock markets and financial institutors of the America/Europe/Japan and even of the emerging economies, as indicated in Section 2.2 above, basically make

<sup>10</sup>For details on the labour market flexibility, unemployment, casualisation, training and related issues, see ILO (2001), ICFTU-APRO (2000a) and Ghayur (1998).

<sup>11</sup>For details, see ILO (2001).

them extremely vulnerable. This has not only promoted the “hot money cycle” i.e. money moving in and out but also in the process dismantling the domestic enterprises, stock markets and even the real estates. Generation of easy money with focus on real estates and the speculations are the main pursuits of the foreign investors—the locals not trailing far behind! And this coexisting with extreme inadequacy of preparations, institutions, regulations and enforcements in majority of the emerging and developing economies. The East Asian crisis of 1997–99 is a case in point.

This liberalisation is complemented by prescribing an interest rate regime that chokes the many viable enterprises and specially the small and medium enterprises (SMEs). Further, in case of SMEs and other vulnerables, it is the removal of development/special consideration clause and the consequent “emphasis” on elimination of allocation of credit! The SMEs, it is important to point out, are the important source of employment and value addition especially in the developing and emerging economies, and quite often need support and assistance, even access to favourable lending.

Further, in the exchange regime, floating exchange rate—harming developing countries with lesser levels of foreign exchange reserves—is the overly emphasised phenomenon.

In case of Pakistan, for example, this floating exchange rate policy in 2000-01 has been responsible for adding roughly Rupees 250 billion or US\$4 billion to the public debt while it helped only to the tune of about \$500 million in enhanced export earnings.<sup>12</sup> Further, in case of Argentine, the fund has been adamant in seeing country to maintain the currency peg with dollar despite a-three year recession.

Under article IV consultation in Poland, the staff report informed the country’s authorities that any delays in abolishing remaining controls on capital flows were unwarranted, government’s fears of speculative pressures on the national currency, notwithstanding.<sup>13</sup> The Philippines is reported to be losing annually about US\$5 billion in the shape of Filipinos transferring their savings in foreign currencies to other countries. People are attracted to convert their savings in foreign currencies, hence draw the benefits of continued depreciating local currencies. Dollarisation is thus on the rise. No wonder, such a policy is also not supported even by some of the IMF staff.<sup>14</sup>

Yet another related issue is that of the opening up of the economy especially the speed, the capability and the lack of preparatory work. A January 2001 article IV report for Haiti has nothing but praise for the government’s open trade policy despite the hardship that unrestricted agricultural imports created for small farmers in this

<sup>12</sup>For an understanding of the dimensions of the issue, see Pakistan (2001).

<sup>13</sup>For details, see Howard and Bakvis (2000).

<sup>14</sup>See for example, Mason (2000). In this article, Mason has advocated managed floating rate as the best suited for the developing countries.

poorest country of Americas. The article IV consultation report for Mozambique in January 2001 criticises the government's measures of support for the sugar industry that it finds to be "troubling evidence of an inward-oriented industrial policy"!

Thus, the widely practiced—one-size-fits-all prescription having: containment, liberalisation, privatisation and market based pricing even for the essential food items/inputs ignores ground realities and even some important elements of 1979 guidelines.<sup>15</sup> These guidelines, it is important to point out: (1) underscores the principle of parsimony, (2) asks for the maximum leverage to the countries, (3) due regard to the local conditions, etc.

### 3.2. Areas Added

In the area of public enterprise reforms, the concerns are raised on the sequencing aspects and that too with out evolving and/or attending to the building and strengthening of social safety nets (SSNs). The overly emphasised privatisation and sale of state owned enterprises (SOEs) has been another area being prescribed without looking properly at the ground realities and especially the adverse impact. The concerns are raised further while noticing, the proposals (better conditionality) to sell the profit making units and services and that too with out looking into the national and even regional market sentiments and development—mainly creating "buyers' market".

Further concerns relate to the mode of privatisation, the pre and post privatisation employment level and working conditions and the existence (absence) of bi-partism/sound industrial relations. It is strange to find such an emphasis on privatisation despite the fact that even Bank's studies of privatisation and financial sector reforms in transition countries of Central and Eastern European Countries, and the Common Wealth of Independent States (CIS) having accepted that privatisation has led to disastrous consequences in many countries. Unfortunately, the push to privatisation is strong particularly in the social protection field—the Bank in 60 countries is working for the scaling back.

The article IV consultation report in Mali berates the government for "slippage" and "inefficient" progress in privatising key sectors, such as: cotton, energy, telecommunication, and transport. Rumania is also asked under article IV consultation report of December 2000 to proceed "expeditiously" with the wide scale privatisation. The Bank is found deploring Uganda in its CAS report of December 2000 that many privatisation schemes remain incomplete and warns that bank's financing for a new hydroelectric project is tied up to milestones in the sector reforms including progress towards the privatisation of Uganda Electricity Board, etc.

Then there is the issue of a clear bias in favour of private market-based social protection systems (SPSs). The bank's "from safety net to springboard"—the new

<sup>15</sup>For details, see IMF (1979).



SP launched—explicitly recommends against the publicly owned programmes, such as: comprehensive old age pensions, unemployment insurance and vocational training. The Bank provided financial support for pension reforms in which public-pillar was entirely eliminated, notably in some Republics of former Soviet Union. In November 2000, the Fund endorsed a plan of Argentine government to entirely dismantle the publicly funded and administered pension scheme (a proposal though withdrawn latter by government on strong opposition). The article IV consultation report of IMF for Panama of February 2001 asked the government to reduce the pensions provided by the social security system.

The latest addition—good governance. The focus on good governance ideally should have caused no problem. However, the concern here relates to the “guidelines” to staff. In fact, it encourages the staff to bring any thing under the sun under “review”!<sup>16</sup>

The evolution and expansion of the Fund’s assistance from stand by arrangements (SBAs) and extended fund facility (EFF) to structural adjustment facility (SAF) and enhanced structural facility (ESAF) encompassing a wide variety of the economic and financial activities and the Bank following suit and adding similar dimensions should have been welcome. The problem, however, has been accompanying conditionalities covering almost any decision making process of significance of the recipient countries. The performance criteria, performance reviews, structural benchmarks, prior actions, post programme monitoring (PPM), etc and the speed as well as sequencing has been raising concerns. It is important to point out that it all happened without adequate preparation and building the twin “C” – capability and capacity. Such an evolution and expansion in the nature and extent of conditionality is certainly characterised as stretching too far and overstepping mandate that also put into question the very realism of designed programmes.<sup>17</sup>

Moreover, whatever has been prescribed by IFIs and even accepted by the authorities, the “package” largely lacked political support and the “ownership” has been conspicuous with its absence. The effectiveness of the programmes has been yet another area of concerns that being aggravating further by the noticeable absence of the stakeholders in the IFIs’ interactions with the policy-makers.

#### **4. POVERTY REDUCTION, EMPLOYMENT, AND THE IFIs**

Let us have a look at the nature and extent of the challenge confronting us globally. The current stage of global poverty, mass deprivation of the people and the consequent challenge can be described by assuming the global village comprising 1,000 inhabitants. The villagers of this global village found to be: (1) living in

<sup>16</sup>For details, see IMF (1997).

<sup>17</sup>Even the IMF, MD realising such omissions and commissions when he emphasised that “...must be carefully sequenced, in terms of degree, with the development of sound domestic financial sector including regulatory and monitoring frameworks”. For details, see IMF (2001b).

absolute poverty, in transition and in affluence respectively are: 780, 70 and 150, (2) disposing of 86 percent of their wealth are 200, (3) living on less than two dollars a day are nearly half, (4) illiterates are 220-two-thirds of them being women, (5) owning a computer are fewer than 60, while only 24 have internet connections, and (6) more than half of them have neither made nor received a telephone call!<sup>18</sup>

These ground realities demand centrality of all economic and financial activities especially the multi- and bi-lateral assistance to the generation of “decent” employment and the “overarching” goal—poverty reduction. Despite the references to the social development, the programmes of IFIs have been predominantly economic and financial in nature. This can be gauged by recapitulation, in the following, of the main features of the IFIs’ prescriptions identified in the preceding:

- Lowering tariff and non-tariff measures—eliminating significant domestic manufacturing/production;
- Removal of public policy preferences in the form of reservations for the public sector, small and medium enterprises (SMEs) sector, etc.;
- Withdrawal of restriction on entry of foreign capital and regulation of foreign exchange—leading to more stock market manipulation and dollarisation;
- Structural reforms in manufacturing and service sectors;
- Downsizing;
- Raising of utility charges and at times cost of money;
- Drastic reduction in subsidies even their withdrawal from the food items and essential agricultural inputs;
- The withdrawal of subsidies on agricultural inputs followed by the imposition of GST;
- Reducing fiscal deficits through government expenditure, thus reducing the development component of the national budgets/public sector expenditure; and
- Privatisation, corporatisation and sale of state owned enterprises (SOEs).

To them is added yet another set of conditionalities to the 1997–99 crisis-hit countries of East and South East Asia. These were: forced entry of: (a) foreign denominated banks in the local market, (b) participation of foreigners, in certain cases majority participation, in the equity and capital market, (c) foreign ownership of the domestic production facility (ies), and (d) opening up of the domestic market for the goods of foreign origin, especially the automobiles in case of Korea.

The oft-quoted justification of reducing liabilities by shedding off the loss-making units itself is questionable. The major issue, confronting the sick enterprises, however, has been the lack of professional management and absence of transparency and accountability in the corporate governance—and this should have received due consideration while proposing reforms.

<sup>18</sup>Source, Dhanapala (2001).

It is indeed puzzling that even this rationale for the privatisation has not been found practiced. The profit-making enterprises invariably have been the first to be sold out. The under valuation of assets of the/to be sold and the use of proceeds of the privatisation has been yet another area of concerns exacerbating further by noticing that new owners in number of cases happened to be linked with the politicians in power. No wonder, a number of privatised units have been dismantled and turned into real estates! The study of pre- and post-privatised levels of employment and working conditions reveals significant losses for the workers in terms of employment and working conditions.<sup>19</sup>

#### 4.1. Some Instances

This thrust of IFIs', thus has been in the direction of: spending cuts, restructuring, institutional reforms, enterprise closures, corporate governance, privatisation, and reforming the banking and financial sector. In an environment of a liquidity crunch—quite oftenly confronting the countries approaching IFIs—such an emphasis is uncalled for. Moreover, the overall policies prescribed lacked a balance between a consideration on economic stabilisation and social development.

One is justified to ask the need and rationality of such conditionalities. Are they really necessary? This is owing to the fact that many of the conditionalities are prescribed and enforced by an institution—the IMF—whose one of the purpose indicated in Article-I is none other than stabilisation. Further, of particular concern has been the unduly large emphasis on drastically reducing the fiscal deficit and raising the cost of money in an environment of liquidity crunch. No wonder, the prescription led and leading into the demise of many viable undertakings, the small and medium enterprises (SMEs) being the major casualty.<sup>20</sup>

In India, the major impact—of the opening up and liberalisation since early nineties—has been on the labour market and employability of the workforce. The rate and number of unemployed swelled, work pattern changed from regular to irregular jobs, and from secured to insecure jobs. This happened despite the Indian economy posting an impressive growth rate of over 5 percent for a decade. And of the job security, out of a population of one billion, only 26 million workers have a semblance of a job security.<sup>21</sup>

The FDI flows occurred mainly to acquire controlling interests in the existing enterprises, edge out domestic manufacturing and even joint venture partners or expand businesses in non-core, junk foods areas, etc. In Korea, out of 35.496 billion dollars of FDIs during 1962–1999, 60 percent of them flowed in just two and half years (1997–99). The plummeting stock prices, Korea's financial crisis and weaknesses of the businesses were fully exploited in spreading and consolidating the foreign ownership base!<sup>22</sup>

<sup>19</sup>For details, see ICFTU-APRO (2000a).

<sup>20</sup>For details on the situation in ten Asian countries, see *ibid.*

<sup>21</sup>See *ibid.*

<sup>22</sup>See *ibid.*

In Thailand, the percentage of poor was reduced from 32.6 percent (17.9 million) in 1988 to 11.4 percent (6.8 million) in 1996. However, due to crisis and the reforms package of IFIs, the percentage jumped to 12.9 (7.9 million) in 1998, thus implying that more than a million people were added to the poor households in two years. The crisis has also led to an increase in the proportion of ultra poor amongst the poor households.

It is interesting to point out that in 1996, a year preceding the Asian crisis, ten professional organisations in Thailand requested the government to approve their proposal to legally employ the one million foreign workers. As they reported severe shortage of workers in industries considered non-attractive by the Thai workers. As a result of the crisis and the implementation of tough conditionalities, the unemployment jumped to 4.79 percent or 1.48 million by February 1998 and latter crossed the two million mark.<sup>23</sup>

In the Philippines, major international cement producers spent at least US\$1.35 billion in acquiring 15 out of 19 cement plants and now control 90 percent of the local market. Similarly, San Miguel had to sell 40 percent of its shares in Nestle Philippines to Nestle Int.<sup>24</sup> Such instances abound.

## 5. THE CONCERNS OF THE LABOUR MOVEMENT

The labour movement has been raising its concerns on the deteriorating employment, working and living conditions emerging in the wake of globalisation and free trade regime, and certainly due to the policies of IFIs. The investors, taking advantage, were found too fond of relocation of their industries and work-sites to the greener pasture, and initiated a process of mergers and acquisitions. The competition, instead of raising productivity and efficiency, has been increasingly in the direction of cost cutting and there too by reducing the size of workforce and labour costs. This process, of globalisation, also led into a change in the nature of capital flows and foreign direct investment (FDIs). The liberalisation of the financial sector did not accompany the efforts to put in place the international standards for prudential regulation of financial markets. The areas failing to receive appropriate attention in this regard were: capital reserve standards, limits to short-term foreign currency exposure, and banking standards; controls and certification on derivatives trading as well as the leveraged investment built on credit. Lack of attention on ensuring such standards changed the very nature of capital flows and investment. The FDIs gave way to the speculative investment in the stock and capital market.

The East and South East Asian financial of 1997–99, and subsequent economic and social crises unfolded the true nature of free market and unregulated economy. Massive currency devaluation, nose-diving of stock market prices and dramatic change in the nature of capital flows changed the whole spectrum. The

<sup>23</sup>For details, see *ibid.*

<sup>24</sup>See *ibid.*

region witnessed bankruptcies and enterprise closures to the extent unknown earlier with the consequent retrenchments, lay offs and redundancies. Tens of millions of workers, as a consequence, lost their jobs and were confronted with a massive decline in their living and working conditions.<sup>25</sup>

The social consequences of the Asian meltdown continue to remain a matter of serious concerns. Tens of millions losing jobs due to the crisis are still out of the work. And many of them have no social security cover. Children of a significant proportion of the workers made unemployed are still out of schools, many even active in the labour market. The women continue to be the worst sufferer of the crisis.<sup>26</sup>

The situation in the countries not directly affected by the crisis, incidentally, is not dissimilar either. Opening up of the economies in a large number of Asian and the Pacific countries soon found crumbling of a significant proportion of the indigenous industrial and service sector. Further, on the behest of the erstwhile donors particularly the twins, many countries underwent and are undergoing stabilisation and structural adjustment programmes (SASPs). The SASPs have the divestiture of state owned enterprises, downsizing, dismantling tariff and non-tariff barriers, and containment as the major components.<sup>27</sup>

It is worth mentioning that this emphasis continues despite the focus on the “overarching” goal!

The recent downward trend in the US economy, the continued recession in Japan, the crisis in Turkey and some of the Latin American countries, and many formerly crisis-hit countries demonstrating recession—ranging from technical to real - are all signifying a disturbing scenario, in the near future at least. Thus indicating a not-all-well with the pursuit of free market policy regime. Such a policy has serious implications on poverty and employment levels.

## 6. CONCLUSIONS AND RECOMMENDATIONS

The Bretton woods’ institutions should not forget the conditions underlying their birth. Their policies over the years have been contrary to their founding principles of stabilisation, sustainable development, etc. They together with the regional multilateral development banks are at the crossroads. There are important components of civil society who having felt totally disappointed with their policies are lobbying rather vociferously for their winding up. While still there is some significant element of the civil society including the global labour movement who do visualise the importance but nonetheless want a reformation of the structure of the IFIs. Hence, IFIs need to wake up to the surrounding realities.

<sup>25</sup>For details on the nature and extent of crisis, see ICFTU-APRO (1998, 1998a and 2000, 2000a)

<sup>26</sup>For details on the consequences and impact of crisis, see ICFTU-APRO (1998b, 1999, 2000).

<sup>27</sup>A detailed account is available in ICFTU-APRO (2000a).

One important yardstick of their reformation and waking up would be the responsiveness of their policies to the “overarching” goal—poverty eradication and that coexisting with generation of “decent” employment. The twin “poverty and unemployment” should be the central point of their policies.<sup>28</sup> However, the varieties of their conditionalities are certainly incompatible with these goals. An ex-ante assessment of their programmes and continuous monitoring of the social impact would be a step in the right direction. And this should coincide with developing sound industrial relations system, and a functioning bi- and tri-partism.

The IFIs also need to ensure an effective involvement of the civil society in their programme designing and monitoring implementation. The participation of civil society in fact needs to be made an integral part of the whole of the IFIs’ programme/project cycle as well as review missions and staff consultations.

Some other areas needing attention would be: (1) striking a balance between result-based and programme-based funding/assistance, (2) focusing on core areas only but addressing the issue of governance comprehensively, (3) obligatory standstill arrangements in case of financial crisis, whereby a temporary moratorium is placed on debt repayment to all creditors, (4) financial market liberalisation synchronised with building prudential supervisory framework and institutions, (5) drastically reduced emphasis on privatisation and sale of state owned enterprises, (6) greater focus on technical assistance and capacity building, (7) recognising the right of governments to control foreign capital in- and out-flows in the interest of domestic macro-economic and social stability, and (8) pursuing an active labour market policy that besides education, training, information, counselling and guidance also focuses on building and strengthening social safety nets.

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## Comments

In a thought-provoking paper, Dr Ghayur describes how the IMF, the World Bank, and the Asian Development Bank have recently elevated poverty reduction as the guiding goal of their lending to developing countries. The paper's main thesis, however, holds that the policy measures which the IMF requires countries to implement as a condition for its financial support are incompatible with attaining the stated goals of poverty alleviation and employment creation.

In building his central proposition, Dr Ghayur sets out to illustrate how each of several policy measures that are often found in IMF-supported programmes diminish economic well-being: "the narrowing of fiscal deficits causes economic contraction and income loss; a currency depreciation raises the burden of a country's foreign debt; and privatisation of public enterprises leads to labour redundancies". Adding up the list, the author declares the policy programmes counterproductive.

I take issue with this position, because the existence of adverse side effects, which do indeed occur, need not condemn the recommended policies.

The paper disregards the beneficial effects of these various policy measures. Reducing the fiscal deficit helps lower inflation which protects the purchasing power of the poor. A currency depreciation that restores international competitiveness contributes to export-led growth. Privatisation of loss-making public enterprises stems budgetary bleeding and creates fiscal space for priority social spending. Combined, the various policy steps that constitute a typical IMF-supported programme help restore confidence in a country's economic management and re-open external financing thereby allowing higher consumption and investment.

The paper also ignores the negative consequences of past policies which IMF-supported programmes seek to alter. True, these policies may have boosted income and employment, but often in an unsustainable manner. Prolonged protection of import substituting industries and overvalued exchange rates have impeded the development of diversified export sectors. High fiscal deficits may have reduced poverty for some time but at the expense of rising public debt. Directed lending by commercial banks at subsidised interest rates has led to bank insolvency. The end-result of past policies was often a temporary boom followed by inflation and even a balance of payments crisis. Once the scope for further external debt relief or foreign assistance is exhausted, existing policies often inevitably resulted in downward expenditure adjustment, having become unsustainable.

The performance of economic policies should be judged against achievable standards. The paper, by contrast, upholds highly ambitious goals: "all workers are entitled to secure and participatory employment that is value-creating and to a range of adequate social security provisions, all this within a macro-economic setting that



is free from business cycle setbacks or stock market excesses". These lofty goals are indeed the right beacon that should guide our efforts. But the impossibility of reaching the final destination during the limited period of an IMF-supported programme, particularly in the face of deep-seated adverse attitudes and institutions, need not imply that policies have failed.

Pakistan's current three-year poverty reduction strategy which receives financial support from the IMF, the World Bank and the Asian Development Bank addresses the concerns voiced in Dr Ghayur's paper. Increased budget outlays for empowering the poor through basic education and preventive health care, even if resulting in a larger fiscal deficit during the first year, is a hallmark of this programme. The emphasis on tax reform, as opposed to expenditure cuts, is tailored to Pakistan's specific circumstances. Severance compensation helps cushion the blow of lay-offs associated with privatisation of commercial banks. The IFI's contribute substantially to building capability in banking, public expenditure and taxation, and toward improved governance.

The most promising way now to reduce poverty and create sustainable employment in Pakistan is for civil society, including the labour movement, to work intently toward the implementation and further refinement of the Government's current three-year economic programme.

**Henri Ghesquiere**

International Monetary Fund,  
Islamabad.