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WTO members differ on next step for Doha Round

WTO member states voiced differing views over the way forward for the Doha Round trade talks when they met at the Trade Negotiations Committee on 7 April. While the likes of the US, the EU and the WTO Director-General appeared to favour a move away from the 2008 draft modalities on agricultural and industrial trade reform, many developing countries wanted these texts to be the basis of the negotiations.

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Diverging views on work programme to conclude Doha agenda

Divisions over how the Doha Round trade talks are to proceed were in evidence at a 7 April WTO meeting, where member states and the WTO head differed on the usage of 2008 draft modalities texts as the basis for the negotiations.

by Kanaga Raja

GENEVA: The Director-General of the World Trade Organization (WTO), Roberto Azevedo, and key developing countries and their groupings seemed to differ sharply on 7 April on the post-Bali work programme and how to move forward and conclude the Doha Round negotiations as mandated by the Ministerial Conference held in Bali last December.

A formal meeting of the WTO's Trade Negotiations Committee (TNC) heard some differing views from members on developing a post-Bali work programme aimed at concluding the remaining so-called Doha Development Agenda (DDA) issues.

The views came in the statements of delegations at the day-long TNC meeting on 7 April following a report by Azevedo in his capacity as Chair of the TNC.

At the meeting, Azevedo, in his capacity as TNC Chair, seemed to be favouring a move away from the 2008 draft modalities texts in agriculture and non-agricultural market access (NAMA), and finding solutions around the texts to conclude the Round.

A large number of developing countries, perhaps the majority of the WTO membership, did not seem to agree, but rather insisted on resuming work from the 2008 texts as a basis for concluding the negotiations as a single undertaking.

Brazil (for the G20 grouping), China, India, the least developed countries (LDCs) and other developing-country groupings, with various nuances, did not favour the course advocated by the DG (as also the US and the EU), but reiterated the need for balance in agriculture and reform of its three pillars (domestic support, export competition and market access), NAMA and services, with agriculture setting the level of ambition in other areas.

While the US and other industrialized countries, and some developing countries, spoke of the new realities, developing countries did not seem impressed. "We cannot go without the past," said China, while India accused the industrial countries of raising new issues in order to resile from past commitments. Brazil said members had to deal with 20th-century issues before tackling 21st-century ones, and focus on agriculture and agriculture subsidies.

The US said work in agriculture must be based on current data and who is subsidizing today and how. It said that this data must include an accurate picture of agricultural subsidies as they exist today. "We can't make progress if we are still looking to the past – sometimes decades in the past – to provide the factual basis for our negotiations," the US added.

[According to data from the rich-country Organization for Economic Cooperation and Development, total agricultural support in OECD countries as a whole has nearly doubled since 1994, when the Marrakesh Agreement establishing the WTO was concluded. In 2011, the Total Support Estimate was $406,748.81 million (1994: $358,719.02 million), of which $124,166.94 million was transfers from consumers to producers (1994: $211,212.24 million) and $310,790.47 million was transfers from taxpayers (1994: $180,900.68 million). Through box-shifting and fudged data reports, the increases in support have been classified as non-actionable "Green Box" support programmes.

[French agronomist and civil society activist Jacques Berthelot has several papers at Solidarite.org detailing the actual support to agricultural producers in OECD countries, with particular reference to the US and the EU, in various commodities, and has been advocating the need for looking at such support in terms of total support.

[Developing-country trade diplomats noted that while the US at the TNC on 7 April called for work in agriculture based on the latest data, it was insisting, on the food security issue with regard to developing countries providing subsidized food/grains to their poor, that the difference between the price of public procurement from producers and the external reference prices of 1986-88 should be treated as a subsidy, resulting in countries like India hitting their allowed subsidy ceilings. This US stance at Bali brought that meeting almost to a collapse, with India refusing to agree to a consensus unless its programme on food security for its poor was freed from any WTO challenge. – *SUNS*]

At the Bali Ministerial Conference last December, ministers had instructed the TNC to prepare within the next 12 months a clearly defined work programme on the remaining DDA issues.

At the TNC meeting on 7 April, many developing countries reiterated that development, agriculture and the LDC issues must be a priority for the work programme, and that the rest of the Doha Round negotiations should be concluded as a single undertaking. They also underscored that there should be no new issues injected into the DDA until the current negotiations are concluded.

They also considered the December 2008 draft modalities texts for agriculture (Rev.4 text) and NAMA (Rev.3 text) to be stabilized and that these should be the basis for the negotiations.

China, for instance, said: "All that [was] achieved [is] embodied in the Doha Mandate, Single Undertaking, Modalities and consensus reached in 2008 and relevant Ministerial Declarations and Decisions. We cannot simply ignore or skip them."

On the other hand, the US was of the view that while members have been negotiating the Doha Round, time has passed and the world has changed. "Any impulse to return to previous ways of working, with a rigid focus on the same negotiating texts that failed in the past, will doom our efforts now," the US added.

The EU also said that the world has changed and evolved, and that the discussions "must reflect the problems and questions we face today, and not those we faced five or ten years ago. The overall balance and the level of ambition that we seek must reflect today's world and what each one of us can deliver today".

"Although the approaches set out in the 2008 modalities did not work and did not gain the acceptance of Members, this does not mean that we have to start from scratch. To start with, the development objectives of the Round remain as valid as ever; the EU stands ready to explore with developing countries the most appropriate way of getting there," the EU further said.

"The art of the possible"

In his opening statement earlier at the TNC meeting, DG Azevedo said that everything that he has heard in recent days and weeks suggests that "we need to be deepening our discussions, and engaging in a more direct, purposeful manner in order to identify the best way forward".

"Rather than restating old positions and aiming for our perfect outcomes, we have to accept that there are no perfect outcomes. Instead, we have to focus on the art of the possible," he said.

For example, he said, "some have been saying that we need to conclude our negotiations using the 2008 texts as they are. Of course, these texts are an important – indeed fundamental – part of how to assess the situation. They are the result of a genuine attempt by the respective Chairs to strike a balance and to move towards a zone of convergence acceptable to all Members."

However, he added, despite their obvious contribution to the negotiations, members could not agree on those texts when they were issued in 2008. "Members could not agree on them at that time. Members cannot agree on them now."

The DG further said: "If any of you insists that those texts are cast in stone and unalterable, then you have made a choice; a choice that irreparably condemns our efforts to failure. We therefore must resume our task of finding the balance and the convergence that would enable progress towards the conclusion of the Round."

The DG stressed however that while it is true that the 2008 texts are not agreed, he firmly believed that they can offer "very useful parameters" to frame "our efforts in shaping a work programme to conclude the DDA".

"We must build on the insights and recommendations contained in those texts. We cannot disregard all the work that was put into them. So let's use these texts as an important input to our work, but we have to look for solutions that can lead to convergence today," he said.

"Again, it is my view that we need to be creative in this exercise – rather than repeating well-known positions. I don't think that kind of discussion is conducive to where we need to go. Instead, we need to test what options we have to find new solutions," he added.

Taking the lead

A number of delegations spoke following the report by the TNC Chair.

According to trade officials, Myanmar (on behalf of the Association of South-East Asian Nations – ASEAN) said that it is very important to implement the Bali decisions. It is firmly committed to developing a work programme for the DDA, and said that the major players must take the lead.

Uganda, on behalf of the LDCs, said that while there has been some progress in terms of increasing the LDCs' share of world trade, it has not seen this translate into enough progress to help these countries achieve their development objectives. It said that the group is in the process of holding internal consultations to develop its Doha strategies for the rest of this year.

Uganda said that the priority should be to focus on the implementation of those agreements from Bali that are not legally binding. The LDC issues that are part of this Bali package should be addressed with the same vigour as the Trade Facilitation Agreement has been. An outcome on the LDC issues will go a very long way towards ensuring an ambitious outcome across the board. It also wants to see the LDC services waiver operationalized.

On agriculture, Uganda said that the Rev.4 text should be the basis for the negotiations, and that the elimination of all forms of export competition in agriculture is very important. On NAMA, it said that it sees the need to go beyond the issue of tariff cuts, and that the issue of duty-free quota-free market access, as important as it is, is not sufficient. Non-tariff measures have to be dealt with as well, particularly to ensure more simplified rules of origin.

On the issue of special and differential treatment (S&D), Uganda said that what is important is to make these S&D elements more operational and more precise. On trade facilitation, it is important to make sure that Section II of the Trade Facilitation Agreement, which pertains to technical assistance and capacity-building, be handled in the right way.

The LDCs also want to see the rest of the Doha negotiations handled as a single undertaking, in a process that is transparent and inclusive, and with the development dimension at the heart of these discussions.

Australia, on behalf of the Cairns Group of agricultural exporters, said that the Group is prepared to work on an ambitious work programme across the three pillars in agriculture.

On its own behalf, Australia said that it agreed with what Myanmar had said in that there must be leadership by the major players, but that every country must make a contribution.

Kenya, on behalf of the African, Caribbean and Pacific (ACP) Group of countries, said that the implementation of the Bali Ministerial Declaration is of the greatest importance. It agreed on the interconnectedness of the issues of agriculture, NAMA and services. It also said that the ACP Group is engaged in internal consultations on how to move forward, but the responsibility lies with the key players. The ACP Group is not the cause of the impasse, it added.

On NAMA, it wants the Rev.3 text to be the basis for the negotiations, and on agriculture, it wants the Rev.4 text to be the basis. It wants this supplemented with the Chairs' 2011 statements. It wants these to be the starting point for the negotiations in these areas.

Development, agriculture and LDC issues must be the priority for the work programme, it further said, adding that with respect to the post-Bali work programme, it is very interested in implementing those Bali issues that were not legally binding.

Burkina Faso, on behalf of the Cotton-4 countries, supported what the LDC and ACP groups had said. It said that the post-Bali process on cotton must be followed through, and that the mandate is to follow up on the 2004 framework agreement and the 2005 Hong Kong Ministerial Declaration, as well as the Rev.4 agriculture text. Cotton should be a priority of the post-Bali work programme. The conclusion of an agreement in cotton depends on contributions from all WTO members. It wants the Rev.4 text to be the starting point.

Brazil, on behalf of the G20, underlined the need for an agreement in agriculture that has balance internally and across the three pillars. It was of the view that the Rev.4 text is the basis for the negotiations. Agriculture is the benchmark that will determine the landing zones arrived at in the other areas. It is the determinant for the overall level of ambition in the Doha Round.

On behalf of itself, Brazil said that it is committed to full implementation of the Bali package. Pointing to the need to shift to specifics, it also said that the Bali process cannot be repeated. There is a need to dedicate attention to the issues of agriculture, NAMA and services.

If a concrete result in agriculture cannot be achieved and trade-distorting support dealt with, an agreement cannot be obtained elsewhere, Brazil cautioned, adding that the inability to address the distortions in agriculture is at the core of the questions about the WTO's credibility.

If the wrongs of agricultural trade from the 20th century cannot be set right, focus should not be shifted to the so-called "21st-century issues", stressed Brazil, which added that agriculture and development need to be at the centre of the negotiations.

No meaningful agreement can be achieved in the Doha context without getting a meaningful agreement in agriculture, and the core level of ambition in other areas can in no way exceed the level of ambition in agriculture, it said.

Starting point

Lesotho, on behalf of the African Group, supported the LDC and ACP group statements. It said that the Group is also conducting a review of the DDA but it has clearly diagnosed that the Rev.3 NAMA text and the Rev.4 agriculture text should be the starting point for re-entry into the negotiations. It expressed worry that a departure from the Rev.3 and Rev.4 texts may in some way mean a departure from the Doha mandate itself, noting that some of the Bali decisions were in fact based on the Rev.4 text.

It said that the issues of cotton and export competition which were dealt with in the Bali agreements should be a priority in the post-Bali process. There is a need to have negotiations covering all three pillars in agriculture, and the need to be able to make sure that there is S&D in this area, as in all areas of the DDA.

Pointing to those that have taken initiatives outside the multilateral negotiations on services and those that have proposed a plurilateral agreement for environmental goods, Lesotho said that these two approaches may cut Africa off from opportunities, especially if they are not implemented in a most-favoured-nation (MFN) manner.

On trade facilitation, the African Group noted that implementation is underway but that it is critically important that there are available resources for trade-related technical assistance. Without this, it will compromise the overall quality of commitments made by developing countries. It also stressed that the principle of the single undertaking must be preserved and no new issues must be injected into the Doha negotiations.

Chinese Taipei, on behalf of the recently acceded members (RAMs), said that there is a need for a transparent and inclusive process, and that the development dimension must be central. There is a common view emerging on the interconnectivity and balance required across the issues of agriculture, NAMA and services.

There are less than nine months to go to fulfil the mandate from ministers at Bali to the TNC to complete the Doha roadmap, it said, adding that there is a need to build on the foundations of before and the December 2008 modalities texts should be the basis. It needs to be acknowledged that the RAMs have already made a substantial contribution and that there should be some S&D for that, it added.

Switzerland, on behalf of the G10, said that there is a lot of support for what the DG has outlined in respect of the interconnectivity of the issues. There are three pillars of agriculture and they must be balanced internally, and the agriculture pillar itself must be balanced against the issues of NAMA and services.

On behalf of itself, Switzerland said that there needs to be a parallel process in the three areas of agriculture, NAMA and services. The implementation of the Bali decisions is very important, and there is a need for up-to-date data in terms of the latest trading landscape. There is also a need to shift to a more substantive work programme. People may be tempted to go back to previous positions, but there can't simply be a restart from where they left off in 2008 because things are very different now. The level of ambition across the areas of agriculture, NAMA and services needs to be calibrated, it added.

Indonesia, on behalf of the G33, said that it is extremely important that those issues coming from the Bali outcomes that are not now legally binding are implemented in accordance with the mandate from ministers. And those who believe that the draft modalities texts from 2008 are not the basis for negotiations have the responsibility to come up with alternatives.

Dominica, on behalf of the Caribbean Community (CARICOM), said that it is not feasible to have another "early harvest" or staggered approach. There is a need to develop a work programme that is "doable" but also follows the single-undertaking approach. There is also a need to ensure that the development dimension remains the core objective of the Doha Round. It considers the draft modalities texts for agriculture and NAMA to be stabilized, and that these should be the basis for the negotiations.

On services, CARICOM said it puts primacy on the multilateral framework. Some members think that two approaches – a multilateral and a plurilateral process – can work in parallel, but CARICOM is not convinced.

Jordan, on behalf of the Arab Group, said that the single undertaking is the only principle that will allow for the right outcome, and that there should be no new issues for the DDA until these negotiations are completed. Agriculture has a central role and the Rev.4 text should be the basis for the negotiations.

Guatemala, on behalf of the small and vulnerable economies (SVEs), said that there must be a transparent, inclusive and bottom-up approach. The development dimension must remain as the main objective and the Rev.4 agriculture text should be the basis for the negotiations. The flexibilities for SVEs in the Rev.4 text must be preserved, just as the flexibilities in the Rev. 3 NAMA text must be preserved for the SVEs. It prefers a multilateral approach on services and wants to make sure that the GATS flexibilities including targeted technical assistance will be preserved for the SVEs.

Pakistan said that priority should be given to the non-legally binding Bali issues. Members generally acknowledge that the Rev.3 and Rev.4 texts are a good basis for the negotiations.

Learning from past experience

The EU (represented by Ambassador Angelos Pangratis) said that it remains strongly attached to the objective of concluding the DDA and is ready to engage in preparing a balanced and reasonable outcome.

"It is important for the next steps to draw lessons from the past and avoid getting bogged down in unhelpful discussions. We all know the reasons for previous failures and should steer well away from them. The world has changed and evolved; our discussions must reflect the problems and questions we face today, and not those we faced five or ten years ago. The overall balance and the level of ambition that we seek must reflect today's world and what each one of us can deliver today," said the EU.

"In order to move forward, we need to confront the question of how to achieve a balanced and satisfactory outcome on agriculture, NAMA and services. This is not an easy question, but we have a wealth of experience from previous years to inspire us in this task. What I take from our previous attempts is that, first, we need to simplify our approach, second, we need to adjust our expectations and, third, we need to address the issues with a genuinely open mind," the EU added.

"Although the approaches set out in the 2008 modalities did not work and did not gain the acceptance of Members, this does not mean that we have to start from scratch. To start with, the development objectives of the Round remain as valid as ever; the EU stands ready to explore with developing countries the most appropriate way of getting there," the EU further said.

It is important to bear in mind that the biggest development benefits will come from an agreement on the core negotiating areas, the EU emphasized, adding that on these, all members will have to contribute according to their level of development, with special attention given to the interests of the LDCs.

The EU ambassador said that his impression from the discussions "we've had over the last three months is that the only way to move forward is to aim for an outcome that is ambitious but realistic, reflecting both a clear balance between the core areas and reflecting developments in global trade, while being doable and agreeable to Members".

"In this context, we need to ensure work advances with appropriate parallelism and with a similar level of ambition on all of the key issues: agriculture, NAMA, services and rules. Striking the right balance within and between these issues will require [us] to evaluate and calibrate our expectations: the EU is ready to do this as long as others are ready as well and this is done across the board. Conversely, maintaining high ambition in one area while decreasing the ambition in others would not bring results," said the EU.

On agriculture issues, the EU said that members will need to work on export competition and domestic support, and that the questionnaire on export competition is an important first step.

"Market access for agricultural and non-agricultural products are two sides of the same coin and should be handled as such, in a balanced manner, together with services. They will be challenging, but if we calibrate our ambitions and look at approaches that have worked in the past, then we can move forward, provided that we all engage and seek solutions."

The EU said that services will need to reflect the overall level of ambition and members should try to identify areas of common interest where progress could be achieved. Finally, any DDA package will need to contain a rules component: traders and industry around the world are looking to the WTO to address such issues as horizontal subsidies, in addition to agriculture subsidies, and members need to be in a position to deliver. TRIPS issues, in particular geographical indications of origin, are also an important element of this component, it added.

On trade facilitation, the EU said that good progress is being made to meet the deadlines set by ministers. It added that it will, together with other donor countries, organize a conference in Geneva in June to showcase successful arrangements and concrete examples of cooperation in the area of trade facilitation.

Agriculture priority

According to trade officials, Nigeria said that the Rev.4 text is the basis for discussions on agriculture. It noted that trade-distorting domestic support continues to undermine development prospects in many developing countries. Referring to the Hong Kong Ministerial Declaration objective of eliminating export competition by 2013, Nigeria said that it is a shame that this deadline was not achieved. It stressed on a transparent and inclusive process, as well as a bottom-up approach.

Colombia said that many developing countries believe that agriculture is the priority and it believes this to be the case too. There is a need for a balanced outcome acceptable to all and there is sufficient value on the table for everyone if they keep an open mind, it added.

Japan said that members should not feel obliged to fully adhere to the modalities texts. There is a need for more flexibility and to take a step back from these texts and to look at them with hindsight and reflection based on the world of today.

Ecuador said that the single undertaking and the existing modalities texts are crucial. The post-Bali work programme must focus on the implementation of those Bali issues that are not legally binding. On services, it said that it is very important that there be sufficient flexibilities so that developing countries can preserve their regulatory objectives. And there must be specific flexibilities for LDCs and SVEs.

Lessons from Bali

The US (represented by Ambassador Michael Punke) said that as "we move forward, it will help all of us to remember the significance and lessons of the Bali Ministerial. We can't rest on past accomplishments. But we can draw practical inspiration from what we accomplished."

"In Bali, we achieved the first new multilateral agreement in the WTO since its creation. The Bali outcome is substantial, but the credibility of the WTO will depend upon our ability to finish what we started, completing the steps necessary to implement the Trade Facilitation Agreement, and indeed all elements of our Bali outcomes, so that all can benefit."

The US said that targeted, practical technical assistance is a key part of the equation of successful implementation of the Trade Facilitation Agreement. In this context, it was pleased with the successful engagement it has already undertaken with members such as Tanzania, Sierra Leone, Namibia, Macedonia, Tunisia, Morocco, the Philippines and a number of Central American countries.

According to the US, the parameters that the DG laid out in the first post-Bali TNC meeting – development, doability, balance, creativity, inclusiveness and transparency, and urgency – "reflect exactly the factors that led us to success in Bali. If we abandon these tenets and return to the stale debates and impasse that prevailed prior to MC8 [eighth Ministerial Conference], we certainly will fail."

"The inescapable reality is that, while we have been negotiating the Doha Round, time has passed, and the world has changed. The term 'recently acceded', for example, had a different context in 2001 – or even 2008 – than it has today, years later. We can pretend otherwise, but it won't help us to solve problems," said the US.

"What we need most are new ideas and an ability to break away from engagement modes that have simply not been successful. Rather than opportunities to repeat rehearsed narratives, we need creativity and a spirit of pragmatism. We will welcome and give our closest attention to any new idea, from any quarter, that is genuinely motivated by a desire to take us forward," the US added.

On the key areas of agriculture, NAMA and services, the US said that as it noted in each of these negotiating groups, "it is essential that our work in these areas is well-informed by the latest data on trends in trade and barriers to trade".

According to the US, this data must include an accurate picture of agricultural subsidies as they exist today.

"Agricultural subsidies may be a 20th century issue, but to address this issue in the 21st century, we must understand who is subsidizing today and how. In a global commodities market, no other approach can be effective. We can't make progress if we're still looking to the past – sometimes decades in the past – to provide the factual basis for our negotiations. This starts with required and in many cases long-overdue notifications. Members who clamour for progress in Doha but fail to meet this basic obligation will have little credibility."

Furthermore, said the US, "any impulse to return to previous ways of working, with a rigid focus on the same negotiating texts that failed in the past, will doom our efforts now. This shouldn't mean that we can't draw on ideas that may have been circulating at earlier stages of the Doha negotiations. But nor should it mean that we can't draw on new ideas. Again, pragmatism represents the key."

Balance will be the key to finding a successful path forward, the US said, adding that any deal must be balanced among agriculture, NAMA and services, and that it must be balanced within individual pillars and with regard to individual issues.

"As many have reiterated today, this remains a round of negotiations with development at its core. We made deliveries on that at Bali, and we need to follow through. A post-Bali work programme that is broad-based and increases global trade will surely deliver additional development results," it said.

According to trade officials, Argentina said that there is a need for balance among the three areas of agriculture, NAMA and services, but that agriculture will determine the level of ambition in the other areas. In agriculture, members have lagged behind the other two issues in terms of the process of reform.

The high level of trade-distorting domestic support today in industrial countries, especially the large countries, through Amber and Blue Box subsidies, is a source of great trade distortion today. The elimination of export competition and all forms of export subsidies is the first priority that must be addressed and this was the mandate coming from ministers from Bali, it said.

This is a very important contribution to achieving the development dimension, it said, adding that the key issue for development overall is agreement in agriculture and that the Bali agreements that were reached, while important, must be implemented to become more legally binding.

On NAMA, it said that S&D and the principle of "less than full reciprocity" are central and that there is no possibility that there could be more ambition in NAMA than in agriculture.

Faithful implementation

China (represented by Ambassador Yu Jianhua) supported the G33 and G20 statements. It said that faithful implementation of all the decisions of the Bali Ministerial Conference remains the top priority for all members, and that the Trade Facilitation Agreement represents an important outcome achieved with the joint efforts of all members.

"We should ensure that all the implementation work be completed comprehensively before the end of July this year as set out in the Bali Ministerial Decision," said China. In the meantime, the rights of developing and least developed country members under the Trade Facilitation Agreement should be fully guaranteed, and special and differential treatment, including the provision of assistance and support for capacity-building, should be materialized in order to ensure due implementation of the Agreement.

Sharing some of its observations and reflections, China said that first, "we have to put things in perspective. We cannot go without the past. Where did we come from? Where are we going? What are we working for?"

China said that the DDA is not a short journey, and that from its start back in 2001 in Doha, until before Bali, "we were at the other side of the river. The Bali Ministerial was a bridge, which helped us get across the river and reach this side. But we are still on the same road, following the same traffic rules and road signs. Now we are still searching the way out to the destination. We know that we are not far from it. Our greatest assets are our experiences and lessons gained from the past, which would surely shine on our way forward."

"All that [was] achieved [is] embodied in the Doha Mandate, Single Undertaking, Modalities and consensus reached in 2008 and relevant Ministerial Declarations and Decisions. We cannot simply ignore or skip them," stressed China.

Second, said China, the DDA stands for development, which should be the centrepiece for the discussion in the coming second stage. It said that development is about materialization of special and differential treatment and technical assistance and capacity building, and it also means how much help and assistance the post-Bali package can offer to the developing and least developed country members to narrow the development gap.

"The existing S&D clauses are evidently not enough, and some core concerns of the developing and least developed Members are not fully addressed. Something more needs to be done. In this spirit, any Member or anyone should not raise any new request or new concept which is at odds with the DDA mandate and detrimental to the completion of the work programme."

Third, China said that "time is not on our side and we only have nine months to work out the post-Bali work programme. For the second stage, we need to have a sense of urgency, which calls for frankness and trust among our Members, who are actually in the same boat. How to strike a balance between 'the doable' and managing the level of ambition? The lesson we have learnt from the failures in the past is that 'too many' and 'too much' were requested in the negotiations. We made it in Bali because we succeeded in managing the level of ambition in terms of 'too many'. If we want to repeat the success in post-Bali, we must bend 'too much' to a doable and realistic level. We must not challenge each other's red lines."

Mexico said that there is a need to change gears and move to a new phase. There is an interconnectivity of the issues, it added.

Honduras supported the G33 and the SVEs, while Saudi Arabia supported the Arab Group and the RAMs.

Egypt endorsed the G20, Arab Group and African Group statements. It said that there is a need to be guided by the single undertaking, both in letter and in spirit. It is concerned about the tendency to try and reopen the 2008 modalities texts on agriculture and NAMA, saying this could in fact undermine the development objective of the DDA.

On NAMA, it said that it is important that the principle of less than full reciprocity and S&D are preserved and that the formulas and flexibilities accorded to developing countries must also be preserved. *(SUNS7782)* ❐

CEOs at big companies paid 331 times average worker

Figures showing the yawning pay gap between CEOs and the average worker are set to stoke the growing debate surrounding rising inequality in the US.

by Jim Lobe

WASHINGTON: In new data certain to fuel the growing public debate over economic inequality, a survey released on 15 April by the biggest US trade-union federation found that the CEOs of top US corporations were paid 331 times more money than the average US worker in 2013.

According to the AFL-CIO's 2014 Executive Pay Watch database, US CEOs of 350 companies made an average of $11.7 million last year compared to the average worker who earned $35,293.

The same CEOs averaged an income 774 times greater than US workers who earned the federal hourly minimum wage of $7.25 in 2013, or just over $15,000 a year, according to the database.

A separate survey of the top 100 US corporations released by the *New York Times* on 13 April found that the median compensation of CEOs of those companies last year was yet higher – $13.9 million.

That survey, the Equilar 100 CEO Pay Study, found that those CEOs took home a combined $1.5 billion in 2013, slightly higher than their haul the previous year. As in past years, the biggest earner was Lawrence Ellison, CEO of Oracle, who landed $78.4 million in a combination of cash, stocks and options.

Public debate

The two surveys, both released as tens of millions of people filed their annual tax returns, are certain to add to the growing public debate about rising income and wealth inequality.

It is a theme that came to the fore during the 2011 Occupy Wall Street movement and that President Barack Obama has described as the "defining challenge of our time" as the 2014 midterm election campaign gets underway. He has sought to address it by, among other measures, seeking an increase in the minimum wage, extending unemployment benefits and expanding overtime pay for federal workers.

Obama's focus on inequality – and the dangers it poses – has gained some important intellectual and even theological backing in recent months.

In a major revision of its traditional neoliberal orthodoxy, the International Monetary Fund (IMF) released a study in March raising the alarm about the negative impacts of inequality on both economic growth and political stability, with IMF Managing Director Christine Lagarde warning that it created "an economy of exclusion, and a wasteland of discarded potential" and threatens "the precious fabric that holds our society together".

Pope Francis has also spoken repeatedly – including in a private meeting with Obama at the Vatican in March – about the dangers posed by economic inequality, while the World Economic Forum's Global Risks Report, published in January, identified severe income disparity as the biggest risk to global stability over the next decade.

Meanwhile, an epic new study by French economist Thomas Piketty, *Capital in the Twenty-First Century*, that compares today's levels of inequality to those of the Gilded Age of the late 19th century, is gaining favourable reviews in virtually every mainstream publication.

Piketty, whose work is based on data from dozens of Western countries dating back two centuries and argues that radical redistribution measures, including a "global tax on capital", are needed to reverse current trends toward greater inequality, spoke to standing-room-only audiences in think-tanks here in the week of 14 April.

In addition, the US Supreme Court's ruling earlier in April lifting the aggregate limits that wealthy individuals can contribute to political campaigns and parties has added to fears that, in the words of a number of civic organizations, the US political system is moving increasingly towards a "plutocracy".

Of all Western countries, income inequality is greatest in the United States, according to a variety of measures. In his book, Piketty shows that inequality of both wealth and income in the US exceeds that of Europe in 1900.

"Insane" level of CEO pay

The 331:1 ratio between the income of the 350 corporate CEOs in the Pay Watch survey and average workers is generally consistent with the pay gap that has prevailed over the past decade.

That ratio contrasts dramatically with the average that prevailed after World War II. In 1950, for example, the differential between the top corporate earners and the average workers was only around 20:1.

As recently as 1980 – just before the Reagan administration began implementing its "magic of the marketplace" economic policies – the ratio had climbed only to 42:1, according to Sarah Anderson, a veteran compensation watcher at the Institute for Policy Studies here.

"I don't think that anyone, except maybe Larry Ellison, would claim that today's managers are somehow an evolved form of homo sapiens compared to their predecessors 30 or 60 years ago," said Bart Naylor, Financial Policy Advocate at Public Citizen, a civic accountability group.

"Those who built the pharmaceutical industry and the hi-tech industry ... were fine senior executives, and they didn't drain the economy the way today's senior executives insist on doing," he told Inter Press Service (IPS). "The machinery of awarding senior executive pay is clearly broken."

What is particularly galling to unions and their allies is that many top companies argue that they can't afford to raise wages at the same time that they are earning higher profits per employee than they did five years ago.

While the average worker earned $35,293 last year, the S&P 500 Index companies earned an average of $41,249 in profits per employee – a 38% increase.

"Pay Watch calls attention to the insane level of compensation for CEOs, while the workers who create those corporate profits struggle for enough money to take care of the basics," said AFL-CIO President Richard Trumka.

"Consider that the CEO of Yum Brands, which owns KFC, Taco Bell, and Pizza Hut, has benefits of over $232 million in his company retirement fund, all of which is tax deferred," said Anderson. "It's quite obscene when you know it's a corporation that relies on very low-paid labour."

The US Congress is currently considering several measures to address the issue, although most of them are opposed by Republicans who enjoy a majority in the House of Representatives.

Nonetheless, a tax package introduced by the Republican chairman of the powerful House Ways and Means Committee would close one large loophole that permits CEOs to deduct so-called "performance pay" – what they earn when they achieve certain benchmarks set by their board of directors – from their taxes.

"It's pretty outrageous when the CEOs of some of the biggest companies of the National Restaurant Association are essentially getting heavily subsidized when so many of their workers are relying on public assistance and fighting for an increase in the minimum wage," Anderson told IPS.

In addition, the Securities and Exchange Commission (SEC) is expected to formally adopt a long-pending rule that would require publicly held corporations to disclose how the pay received by their CEO compares to that of their employees, including full-time, part-time, temporary, seasonal and non-US staff. *(IPS)* ❐

World Bank, IMF urged to act on new inequality focus

Anti-poverty groups are calling on the IMF and the World Bank to back up their professed concern over inequality with concrete action.

by Farangis Abdurazokzoda

WASHINGTON: Global income inequality threatens economic and social viability, according to a World Bank report released on 10 April, reiterating a new but increasingly forceful narrative from both the Bank and the International Monetary Fund (IMF).

Yet as the two Washington-based institutions gathered here for their spring meetings on 11-13 April, anti-poverty campaigners were calling on the Bank and IMF to translate such rhetoric into practice.

"World Bank President Jim Kim and IMF Managing Director Christine Lagarde have been vocal about the dangers of skyrocketing inequality, but there is still a long way to go," Max Lawson, the head of policy and advocacy for Oxfam GB, a humanitarian and advocacy group, told Inter Press Service (IPS).

"There's no trade-off between growth and inequality," concurred his colleague Nicolas Mombrial of Oxfam America. "There will be no inclusive growth if economic inequality remains out of control."

Oxfam and other groups are now calling on the World Bank and IMF to take concrete action to address issues associated with wealth inequality worldwide. IMF policies in particular have been criticized in the past for particularly negative impacts on poor and marginalized communities.

"We are pleased to see the IMF recognize that drastic fiscal consolidation policies have been a drag on growth, something that unions have been saying since the inappropriate shift to austerity made in 2010," Sharan Burrow, general secretary of the International Trade Union Confederation (ITUC), said on 10 April.

"The IMF's undermining of labour standards and collective bargaining institutions in several European countries, for example, has already had important impacts on income distribution that are likely to intensify in the future. We urgently call for a review and major changes in the Fund's labour market policies."

Oxfam's Lawson lists at least three areas that he would like to see receive serious consideration by the IMF and the World Bank.

"First of all, it is necessary to develop a more adequate measurement of income inequality," he says. "This needs to look at not only the income of the bottom 40% of the world's income earners … but also the income flows of the world's top 10%."

Lawson suggested that the IMF, given its constant and influential interaction with the world's governments, would be particularly well placed to advance a stronger measurement of inequality.

"Secondly, it is necessary to reform taxation schemes," Lawson continued. "It is not fair that a billionaire pays a lower percentage in tax than a bus driver. And thirdly, it is essential to provide access to universal health care and education."

Oxfam is also calling on governments to address inequality by focusing more robustly on tax dodging and related financial secrecy. Along with others, the group is calling for a global goal to end extreme inequality as part of the discussion around the post-2015 international development goals.

"We cannot hope to win the fight against poverty without tackling inequality," Oxfam says. "Widening inequality is creating a vicious circle where wealth and power are increasingly concentrated in the hands of a few, leaving the rest of us to fight over crumbs from the top table."

Inequality and poverty

Inequality has become a particularly prominent topic in international policy discussions over the past two years. In part this is because, in the aftermath of the global economic downturn of 2008, the rich have bounced back much more quickly than the poor – thus widening the inequality gap.

A recent list of global billionaires published by *Forbes* underscored the scope of the problem. According to that data, just 67 people have as much wealth as the poorest 3.5 billion people.

"Fewer than 100 people control as much of the world's wealth as the poorest 3.5 billion combined," World Bank Group President Jim Yong Kim said at the start of the World Bank-IMF spring meetings. At similar meetings last year, Kim announced a new Bank goal of eliminating extreme poverty by 2030.

Yet on 10 April he warned that economic growth is not enough to reach that goal. "Even if all countries grow at the same rates as over the past 20 years, and if the income distribution remains unchanged, world poverty will only fall by 10% by 2030, from 17.7% in 2010," he said. "We need a laser-like focus on making growth more inclusive and targeting more programmes to assist the poor directly if we're going to end extreme poverty."

Kim's warning is underscored in a press release published on 10 April by the Bank.

"Rising inequality of income can dampen the impact of growth on poverty," the paper says. "In countries where inequality was falling, the decline in poverty for a given growth rate was greater. Even if there is no change in inequality, the 'poverty-reducing power' of economic growth is less in countries that are initially more unequal."

The paper emphasizes that governments and donors can't aim only to lift people out of extreme poverty, but also have to ensure that people aren't "stuck just above the extreme poverty line due to a lack of opportunities that might impede progress toward better livelihoods".

"Persistent inequality, where the rich are continuously advantaged and the rest struggle to catch up, makes people frustrated with the system," Carol Graham, a scholar at the Brookings Institution, a Washington think-tank, told IPS. "Such inequality preprogrammes the public perception downward."

In a blog post, Graham and another researcher tie recent protests in Chile, Brazil, Russia, Turkey, Venezuela, Ukraine and even the Arab Spring to widening income differential or inequality.

"The protesters are not a nothing-to-lose risk taker, but middle-aged, middle income, and more educated than average people who are unhappy about an unfair advantage of the rich and a lack of opportunities for the poor," they write, calling the "prototypical" protestors "frustrated achievers".

"Extreme inequality is particularly dangerous in countries in political and economic transition," they note. *(IPS)* ❐

US blasted on failure to ratify IMF reforms

The US has come under fire from fellow IMF member states for effectively blocking reforms that would give developing countries more say in the running of the multilateral lending body.

by Jim Lobe

WASHINGTON: While Republicans complain relentlessly about US President Barack Obama's alleged failure to exert global leadership on geopolitical issues like Syria and Ukraine, they are clearly undermining Washington's leadership of the world economy.

That conclusion became inescapable during the 11-13 April in-gathering of the world's finance ministers and central bankers at the annual spring meetings here of the International Monetary Fund (IMF) and the World Bank.

In the various caucuses which they attended before the formal meeting began, they made clear that they were quickly running out of patience with the US Congress's – specifically, the Republican-led House of Representatives – refusal to ratify a 2010 agreement by the Group of 20 (G20) to modestly democratize the IMF and expand its lending resources.

"The implementation of the 2010 reforms remains our highest priority, and we urge the US to ratify these reforms at the earliest opportunity," exhorted the G20, which represents the world's biggest economies, in an eight-point communique issued here on 11 April.

"If the 2010 reforms are not ratified by year-end, we will call on the IMF to build on its existing work and develop options for next steps...," the statement asserted in what observers here called an unprecedented warning against the Bretton Woods agencies' most powerful shareholder.

The message was echoed by the Group of 24 (G24) caucus, which represents developing countries, although, unlike the G20, its communique didn't mention the US by name.

"We are deeply disappointed that the IMF quota and governance reforms agreed to in 2010 have not yet come into effect due to non-ratification by its major shareholder," the G24 said.

"This represents a significant impediment to the credibility, legitimacy and effectiveness of the Fund and inhibits the ability to undertake further, necessary reforms and meet forward-looking commitments."

Quota reallocation

The reform package, the culmination of a process that began under Obama's notoriously unilateralist Republican predecessor, George W. Bush, would double contributions to the IMF's general fund to $733 billion and reallocate quotas – which determine member states' voting power and how much they can borrow – in a way that better reflects the relative size of emerging markets in the global economy.

In addition to enhancing the IMF's lending resources, the main result of the pending changes would increase the quotas of China, Brazil, Russia, India and Turkey, for example, at the expense of European members whose collective representation on the Fund's board is far greater than the relative size of their economies.

Spain, for instance, currently has voting shares similar in size to Brazil's, despite the fact that the Spanish economy is less than two-thirds the size of Brazil's. And of the 24 seats on the IMF's executive board, eight to 10 of them are occupied by European governments at any one time.

The reforms would change the status quo only modestly. While the European Union (EU) members currently hold a 30.2% quota collectively, that would be reduced only to 28.5%.

The biggest gains would be made by the so-called BRICS (Brazil, Russia, India, China and South Africa) – from 11% to 14.1% – although almost all of the increase would go to Beijing.

Washington's quota would be marginally reduced – from 16.7% to 16.5%, preserving its veto power over major institutional changes (which require 85% of all quotas).

Low-income countries' share would remain the same at a mere 7.5% collectively, although their hope – shared by civil society groups, such as Jubilee USA and the New Rules for Global Finance Coalition – is that this reform will make future changes in their favour easier.

Thus far, 144 of the IMF's 188 member states, including Britain, France and Germany and other European countries that stand to lose voting share, have ratified the package. But, without the 16.7% US quota, the reforms can't take effect.

The Obama administration has been criticized for not pressing Congress for ratification with sufficient urgency. But, realizing that its allies' patience was running thin, it pushed hard in March to attach the reform package to legislation providing a $1 billion bilateral aid package for Ukraine during the crisis with Russia over Crimea.

While the Democratic-led Senate approved the attachment, the House Republican leadership rejected it, despite the fact that Kiev would have been able to increase its borrowing from the IMF by about 50% under the pending reforms.

House Republicans – who, under the Tea Party's influence, have moved everrightwards and become more unilateralist on foreign policy since the Bush administration – have shown great distrust for multilateral institutions of any kind.

Both the far-right Heritage Foundation and the neo-conservative *Wall Street Journal* have railed against the reforms, arguing variously that they could cost the US taxpayer anywhere from $1 billion to far more if IMF clients default on loans, and that the changes would reduce Washington's ability to veto specific loans.

They say the IMF's standard advice to its borrowers to raise taxes and devalue their currency is counterproductive and could become worse given the Fund's new emphasis on reducing income inequalities; and that, according to the *Journal*, the reforms "will increase the clout of countries with different economic and geo-political interests than America's".

Encouraged by, among others, the US Chamber of Commerce and their Wall Street contributors, some House Republicans have indicated they could support the reforms. But thus far they have insisted that they would only do so in exchange for Obama's easing new regulations restricting political activities by tax-exempt right-wing groups.

"Plan B"

Meanwhile, however, the delays were clearly damaging Washington's global economic and geopolitical agenda – persuading other G20 countries to adopt expansionary policies and punish Moscow for its moves against Ukraine – during the meetings here.

"The proposed IMF reforms are a no-brainer," according to Molly Elgin-Cossart, a senior fellow for national security and international policy at the Center for American Progress. "They modernize the IMF and restore American leadership on the global stage at a time when the world desperately needs it, without additional cost for American taxpayers."

Further delay, especially now that the G20 appear to have set a deadline, could in fact reduce Washington's influence.

While she stressed that she was not prepared to give up on Congress, IMF Managing Director Christine Lagarde told reporters on 10 April the Fund may soon have to resort to a "Plan B" to implement the reforms without Washington's consent.

While she did not provide details of what are now backroom discussions, two highly respected former senior US Treasury secretaries suggested in a letter published on 10 April by the *Financial Times* that "the Fund should move ahead without the US ... by raising funds from others while depriving the US of some or all of its longstanding power to block major Fund actions".

C. Fred Bergsten and Edwin Truman, who served under Jimmy Carter and Bill Clinton, respectively, suggested that the IMF could make permanent an initiative to arrange temporary bilateral credit lines of nearly $500 billion from 38 countries who could decide on their disposition without the US.

More radically, they wrote, the Fund could increase total country quota subscriptions that would remove Washington's veto power over institutional changes.

"The US deserves to lose influence if it continues to fail to lead," the two former officials wrote. *(IPS)* ❐

A matter of condition

In the light of a boom in lending by the International Monetary Fund following the global financial crisis, the policy change conditions attached to IMF loans are once again in the spotlight. In a new study published by the European Network on Debt and Development (Eurodad) and extracted here, *Jesse Griffiths* and *Konstantinos Todoulos* find an increase in the number of conditions per loan and in the imposition of politically sensitive conditions.

What is conditionality?

IMF loans, provided through a variety of facilities, largely come with policy change conditions attached – conditions that the IMF has had a significant role in developing. Criticisms of the excessive burden and politically sensitive nature of these conditions led to significant reviews at the IMF and the introduction of some conditionality-free facilities, although these are limited in scope. The latest IMF review was undertaken in 2011, and the IMF claims to have made its conditions limited in scope to critical reforms agreed by recipient governments. This study by Eurodad aims to put this claim to the test.

IMF loans are provided through a variety of concessional and non-concessional facilities that have changed over time. The current available facilities are summarized in the table on the next page. These include a number of new facilities introduced after the tripling of IMF funds from $250 billion to $750 billion in 2009, sanctioned by the G20 (although not yet formally approved) to enable the Fund to come to terms with the increased demand in the number and size of new loans to countries affected by the global economic crisis. For years, the main IMF funding instrument for low-income countries (LICs) was the Poverty Reduction and Growth Facility (PRGF), successor to the Enhanced Structural Adjustment Facility. Now, the IMF has three different lending facilities for LICs, which are listed on the next page.

The rationale behind IMF conditionality is that countries in fiscal crisis should only receive loans from the IMF if they reform their policies – the precise agreed reforms and macroeconomic targets are set out in the conditions attached to the loans. The IMF argues that these reforms are necessary for the borrowing country to restore macroeconomic stability and growth. In practice, the precise conditions have often been controversial, and cover a wide range of policy areas that are not always linked to the IMF's core competencies, as previous conditionality reviews have noted. In most cases, an IMF loan deal is sealed with the presentation of a letter of intent, which is usually accompanied by a Memorandum of Economic and Financial Policies (MEFP). The initiative for drafting and sending this lies, in theory, with the government of the borrowing country.

In practice, the IMF is heavily involved in drafting programme documents and the design of the conditions attached. The IMF claims it stresses the issue of programme ownership by borrowing governments. However, the IMF's own Independent Evaluation Office (IEO) review in 2007 found that 84% of Fund staff surveyed recognize that the first draft of the MEFP was prepared by IMF staff, and there is no evidence that this has changed significantly since 2008. As we have argued before, real democratic ownership should come from more than the acceptance by a government facing dire economic circumstances of a set of economic reforms: it should be the result of a process that involves parliaments and civil society organizations (CSOs). However, the reality of the situation was pithily expressed by the Ukrainian Prime Minister Arseniy Yatseniuk, who recently said he "will meet all IMF conditions … for a simple reason … we don't have any other options."

The IMF attaches two different types of conditions to its loans – quantitative conditions and structural conditions. We will focus on structural conditions, as they are the ones that set out specific policy changes required under the IMF programme.

- *Quantitative conditions*, known as Quantitative Performance Criteria (QPC), are a set of macroeconomic targets that governments must meet, including, for example, the level of fiscal deficit a government is allowed. In this research, we do not examine QPCs as they do not directly prescribe policy changes. However, we look at the outcomes of those policies, although these will also be important and are likely to be highly political.
- *Structural conditions*, which tie IMF lending to the achievement of institutional and legislative policy reforms within countries, come in two different forms: (i) prior actions – binding conditions which have to be fulfilled before the loan is granted; (ii) structural benchmarks – not binding, but influential in the reviews of government performance carried out by the IMF at least every six months, which give clearance for the release of a subsequent loan tranche.

Increases in structural conditionality during the 1990s and criticisms from civil society groups and borrowing governments over the years about the amount and intrusiveness of conditionality led to a series of reviews of IMF conditionality, aiming to "streamline" practices. Based on these reviews, the IMF initiated lending reforms and changes in conditionality in its programmes. The first conditionality guidelines were laid out in 2002 and set the template for future reviews by attempting to streamline processes and focus on areas of core competence and expertise.

However, previous Eurodad research, published in 2008, found that change in IMF conditionality was slow and it even backtracked on some issues. Our research found that:

- The number of conditions per loan had actually increased after the Fund's 2005 review of its conditionality.
- A third of all conditions were in sensitive economic areas, including privatization and liberalization.

Conditionality has become a hot topic again, after a boom in IMF lending following the global financial crisis. IMF lending had dwindled to very low levels by 2007, but the latest international crisis – beginning in 2007-08 – gave the Fund the opportunity to expand to new countries and to lend to old recipients. This was to be expected as IMF lending has historically been linked to periods of debt distress during or after acute international crises – for example, the 1970s oil crisis,

IMF facilities

Programme/concessionality	Type of country	Description	Programme used during study period?	Included in this research?
Extended Credit Facility (ECF) *Concessional*	Low-income country (LIC)	Main tool for providing medium-term lending to LICs. Currently zero interest rate through 2014, 5½-year grace period, maturity of 10 years.	Afghanistan, Bangladesh, Burundi, Central African Republic, Côte d'Ivoire, Gambia, Guinea, Liberia, Malawi, Mali, Niger, São Tomé and Príncipe, Solomon Islands	Yes
Standby Credit Facility (SCF) *Concessional*	LIC	For short-term lending to LICs. Can be used on a precautionary basis. Currently zero interest rate through 2014, grace period of 4 years, and a final maturity of 8 years.	Georgia (also SBA), Solomon Islands, Tanzania	Yes (2)
Rapid Credit Facility (RCF) *Not concessional*	LIC	Emergency lending. Currently zero interest rate through 2014, grace period of 5½ years, final maturity of 10 years. No programme-based conditionality.	No	No – not used during study period
Stand-By Arrangements (SBA) *Not concessional*	All	For short-term lending. Length typically 12-24 months, and repayment within 3¼-5 years of disbursement. May be provided on a precautionary basis.	Bosnia and Herzegovina, Georgia (also SCF), Jordan, Kosovo, Tunisia	Yes
Extended Fund Facility (EFF) *Not concessional*	All	For medium- and longer-term lending. Use has increased substantially in the recent crisis period. Typically longer than SBAs – up to a maximum 4 years. Repayment due within 4½-10 years.	Cyprus, Greece, Jamaica	Yes
Policy Support Instrument (PSI)	LIC	Fund programme without a borrowing arrangement.	Mozambique, Uganda	No – no lending
Flexible Credit Line (FCL) *Not concessional*	All	For countries meeting preset qualification criteria. Not subject to the normal access limits. Single up-front disbursement rather than phased. Same terms as SBA.	Poland, Colombia, Mexico	No – no conditionality
Precautionary and Liquidity Line (PLL) *Not concessional*	All	For countries with "sound fundamentals and policies". 6 months or 1-2 years. Same terms as SBA. Limited conditionality.	Morocco	No – limited conditionality
Rapid Financing Instrument (RFI) *Not concessional*	All	Emergency lending. Repayment within 3.5-5 years. Same terms as SBA.	No	No – not used

Source: Based on description by IMF

1980s debt crisis, 1990s Eastern European crisis and the 1997 East Asian crisis. During the sovereign debt crises after 2008, there was a sharp increase in demand for credit, and the IMF responded by doubling quotas and access limits, allowing bigger loans.

The IMF has introduced a new facility without conditionality for countries judged to be good performers, showing that it can lend without requiring changes in government policies in return. Unfortunately, the Flexible Credit Line (FCL – see table) is only for countries the IMF considers to have "very strong economic fundamentals and policy track records". The Precautionary and Liquidity Line (PLL) is for countries with "sound fundamentals and policy frameworks". This means that it is really used as a form of pre-conditionality – only countries with "policy track records" or "frameworks" that the IMF considers "strong" can be admitted. A recent IMF review confirmed the subjective nature of this exercise, noting that "a membership survey points to countries' desire for more transparency and predictability in qualification" for the FCL and PLL. So far the FCL has only been used by Poland, Mexico and Colombia and the PLL has only been used by Morocco. This means that the overwhelming majority of countries borrow from the IMF with conditions attached.

The Fund claims it has learned lessons from previous crises and programmes, and that there has been real change in how it designs and implements conditionality. According to the IMF, the changes were made to make the conditions "macro-critical" – meaning that they have to be either deemed important for reaching the goals of the programme or necessary for the provision of funds. In addition, the Fund claimed to gear conditionality towards core areas of IMF expertise. Finally, in recent years the IMF has claimed it is moving away from strict conditionality-based assessments for the disbursement of loans to countries, to review-based assessments. These are conducted more regularly and include both assessments against conditionality and also a broader analysis of the overall performance of the economy.

The IMF's latest review of conditionality, published in 2011, recognized that work still needed to be done, calling for conditionality that is more appropriate to the needs of each country, increasing ownership of the country, and better clarity of and parsimony in conditions. At the time, Eurodad produced a briefing ("Progress on conditionality?", http://eurodad.org/files/pdf/528e3326ba624.pdf) that analyzed this review.

In this study, Eurodad assesses whether there really has been any change in IMF conditionality by focusing on two critical issues: the overall numbers of conditions; and whether the IMF is including less conditionality in the most politically controversial areas – economic policy reform on sensitive topics.

Study parameters

We assessed all loans with structural conditionality approved since the last IMF review, up to 31 August 2013. We examined the documents that were agreed at the time of approval, and counted all conditions – separating those that were several conditions wrapped into one. Finally we identified all conditions that were in two key examples of highly sensitive and controversial economic policy – those affecting fiscal policies and the role of the state in the economy.

To monitor the evolution and trends in IMF conditionality, Eurodad assessed all loans with structural conditionality approved by the IMF since the period assessed by the IMF's last conditionality review. We examined the following:

- Loans approved from 1 October 2011 until 31 August 2013.
- A total of 23 operations in 22 countries.
- Only the structural benchmarks, as these are the conditions that mandate policy change.
- Seven non-concessional loans and 16 concessional loans. The last Eurodad review examined only concessional loans, but after the financial crisis, the size and conditionality of non-concessional loans have been highly significant in changing the balance and the landscape of IMF lending. For the loans studied, non-concessional loans (EFF and SBA) totalled \$34 billion – 92% of the total – dwarfing concessional loans (ECF and SCF), which are more numerous but generally smaller in size.

We examined all IMF lending programmes that have structural conditionality. This means we have excluded those with no lending attached (PSI) and those that do not contain structural conditionality (FCL, RFI and PLL). We also excluded countries that already had ongoing programmes on 1 October 2011, including those that had programme reviews during our study period, as these would not give us such a clear test of the impact of the last conditionality review.

The research is based on the analysis of data from all of the relevant IMF documents agreed at the time of programme inception. We decided not to use the IMF's conditionality database, the Monitoring of Fund Arrangements (MONA), as this is updated as programme conditions evolve, and so provides a less stable evidence base than looking at the conditions agreed at the start of the programme.

We have focused on two key issues: the number of structural conditions per loan, and the degree to which IMF conditionality interferes in highly sensitive political issues. We count both binding structural conditions and non-binding structural conditions. Although failing to meet non-binding conditions does not imply suspension of finance, they influence recipient countries' decisions and are used as a guide to assess the performance of a loan. We have also "unbundled" conditions that are really several conditions wrapped into one. The IMF often counts several policy actions "bundled" together as a single condition. In some cases there was insufficient supporting information to do this properly so we did not unbundle, meaning in reality there are likely to be a higher number of conditions than we counted.

To assess politically sensitive conditions, we selected two key areas – fiscal policy and reducing the role of the state in the economy through liberalization and privatization. These issues are politically sensitive within all countries, meaning their inclusion inevitably implies that the IMF is interfering in the domestic politics of the country. Recently leaked documents relating to the Greek loan have shown that these kinds of conditions caused controversy not just in the country, but also at the IMF board level. This is not to suggest that conditions in other areas are not potentially extremely controversial, but we selected two areas that are unquestionably linked to major political choices about which different groups within society have widely differing viewpoints:

Fiscal policy space

We identified conditions that heavily interfere with the making of taxation and expenditure decisions, normally by imposing restrictions on public spending and borrowing. This also includes austerity measures such as reducing wage bills, restrictions on social spending, increased contributions by taxpayers and removal of exemptions. We identified a key subcategory of regressive taxation, typically linked to VAT tax increases, which can potentially impose a higher burden, relative to resources, on the poorest.

Liberalization and privatization

Here we identified three critical subcategories:

- Liberalization – based on the World Bank's 2006 definition of sensitive conditions, including price, trade and exchange rate liberalization, with the addition of the items included in a 2006 report commissioned by the Norwegian government, including the lifting of monopolies and opening up private sector participation in production of goods and services.
- Privatization – drawing on the definition of privatization used in the report commissioned by the Norwegian government. We did not consider general efforts to improve the business climate or to encourage private sector development as privatization unless these efforts included the transfer of property or responsibility from the public to the private sector.
- Public enterprise restructuring – conditions that call for the exploration of restructuring a sector or call for a study to be undertaken to look at the profitability of a certain sector, or call for a management review and change to the regulatory environment.

Number of conditions

The number of structural conditions per IMF loan is an important indicator of the extent of IMF influence over a country's economic policies. This research finds that the number of conditions per loan has risen in recent years, despite the IMF's efforts to "streamline" its conditionality. This rise is driven by exceptionally high numbers of conditions in a few countries, and much-higher-than-average numbers in the IMF's main lending facilities. We also find that almost all the countries were repeat borrowers from the IMF, showing the need for proper debt workout mechanisms to deal with unsustainable debt levels.

Eurodad's analysis shows that the average number of conditions per loan has actually risen since the last conditionality review. After unbundling, Eurodad counted 448 structural conditions – the focus of this research – an average of 19.5 per programme. This is a sharp increase compared to previous Eurodad research, which found an average of 13.7 structural conditions per programme in 2005-07 and 14 per programme in 2003-04. It is higher than the 17 structural conditions per programme that the IMF's Independent Evaluation Office found between 1997 and 2004, which included programmes before attempts were made to "streamline" conditionality. However, the IEO only counted bundled conditions, so the true average may have been higher. Our numbers may be an underestimate of the current situation, because we only examined the original programme document. We did not look at any changes made in subsequent programme reviews, which may have increased the total conditions.

The biggest IMF facilities in terms of loan totals have the heaviest conditionality. Two facilities come with particularly heavy structural conditionality attached: the ECF (21.5 conditions per programme on average) and the EFF (35.5 conditions per programme). Given that these account for 87% of the volume of loans examined in this study, this suggests that overall IMF conditionality is becoming less parsimonious rather than more. However, it is worth noting that some facilities have far less conditionality than others, even though these account for a small amount of IMF lending during the period studied.

Certain countries with large numbers of conditions significantly push up the average. Although a number of programmes have cautiously chosen and limited conditionality, we noted that some countries' programmes – especially those under the ECF and EFF – receive a disproportionate number of conditions. Examples include: Côte d'Ivoire with a stunning 82 structural conditions; Greece with 41; and Cyprus with 37. Previous Eurodad studies identified the phenomenon of "good" performers (according to the IMF) having fewer conditions in comparison with countries that deviated from the economic orthodoxy championed by the IMF.

The IMF claims that countries turn to it for funding in times when they face "unusual difficulties". However, these claims do not match the fact that the overwhelming majority of programme countries were no strangers to IMF programmes. Twenty of the 22 countries studied had previous arrangements within the last 10 years, and the majority within the last three years. The repeated need to provide IMF loans suggests that the IMF often lends into situations of actual sovereign insolvency, rather than limiting its assistance to situations of temporary sovereign illiquidity, as its mandate would suggest. The consequence is that unavoidable sovereign debt restructurings are being delayed due to the availability of IMF loans.

An IMF staff paper released in spring 2013 confirmed that this happens and triggered a process to reform the IMF's sovereign debt restructuring framework. A far better approach, supported by Eurodad, would be to establish fair, independent and transparent debt workout mechanisms that could decide on the sustainability and legitimacy of countries' debts in a timely and orderly fashion. Eurodad suggested the principles these mechanisms should follow in our paper, "A fair and transparent debt work-out procedure" (http://www.eurodad.org/files/Eurodad_debt_workout_principles_FINAL.pdf).

Politically sensitive conditions

This research found widespread and increasing use of controversial conditions in politically sensitive economic policy areas, particularly those that affect tax and spending policies. Use of these types of conditions tends to be lower in low-income countries, but is very high in some of the largest programmes. Sensitive topics include requirements to increase VAT and other taxes, freeze or cut public sector wages, cut welfare programmes including pensions, increase the price of basic products, reduce trade union rights, restructure and privatize public enterprises, and reduce minimum wage levels.

Eurodad identified 174 structural conditions in sensitive areas, in 20 of 22 countries studied. This is an average of 7.6 per programme, a significant increase from previous Eurodad research undertaken before the economic crisis, which found an average of 4.4 sensitive conditions per loan. This reflects the increasing scope of the programmes approved during the crisis years. The majority of these were related to limiting the fiscal space of governments to make tax and spending decisions.

The burden of sensitive conditions is much heavier in the three countries under EFF programmes: Cyprus, Greece and Jamaica. This is also the facility with the largest loans, suggesting that the IMF's re-emergence as a major lender to crisis-stricken countries has been accompanied by increased IMF involvement in highly sensitive economic policy areas. Although Eurodad believes the IMF should stay out of economically sensitive policy areas, we note that the average number of sensitive conditions per loan was lower in facilities directed at low-income countries (the ECF and SCF).

Fiscal space

The most common types of sensitive economic policy conditions are those related to limiting fiscal space, which account for over 60% of all sensitive conditions. These conditions limit the fiscal space available for governments to take tax and spending decisions. They routinely include ceilings for public expenditure: limiting money for investment in vital public services including health, education and social security. Limits to government spending on salaries are also included, ranging from calls for regulation, to direct calls to reduce the wage bill by salary reductions for civil servants and state-employed professionals. This heavy IMF focus on tax and spending is confirmed by its own classification of conditions. According to IMF classifications, all the countries studied have conditions linked to fiscal revenue and public expenditure.

We found structural conditions linked to regressive taxes in 11 conditions in five countries. The conditionality review of 2011 admits that there has been an increase in tax policy conditionality – "between 2006 and 2010, the number of tax policy conditions in Fund programmes increased tenfold". This has been mainly focused on introducing or strengthening VAT and other indirect taxes, and streamlining tax expenditures related to incentives and exemptions for business.

The controversial nature of IMF advice in this area was underlined by the IMF's admission in its 2012 *World Economic Outlook* that it had been consistently underestimating the "negative short term effects of fiscal cutbacks" with "large, negative and significant" impacts. This was because the "fiscal multipliers were underestimated" – in other words, they had significantly underestimated the impact on growth from changes in government spending and taxation.

Liberalization and privatization

The majority of liberalization conditions refer to lifting social protection measures or reducing government regulation of key markets. These include price liberalization for sensitive products such as petroleum and electricity, and tariff adjustment programmes.

Privatization and public enterprise restructuring are the two categories of sensitive economic policy that have the fewest conditions. These are complementary categories that have shown some decline in the number of conditions compared to previous periods, but still continue to be on the agenda, often in conjunction with other types of sensitive policies. One of the possible reasons for the low number of conditions in these categories is that countries that have followed IMF programmes over a number of years are likely to have followed public sector restructuring and privatization prescriptions during earlier years.

One final remark is that the IMF has a tradition of promoting policies in tandem with the World Bank and other development institutions, and there continues to be evidence of this practice. For example, in the case of Burundi, the country officials were asked to turn to the Bank for "assistance to undertake an assessment of debt management […] and develop an action plan to improve capacity." In Guinea's MEFP, there is a more abstract call to "Adopt a medium-term public investment programme, based on advice provided by the development partners."

In recent loans to European countries, the IMF has, unusually, taken the junior role in the Troika, which includes the European Central Bank and the European Union.

Eurodad's research confirms the findings of other studies, which shows that the IMF promotes controversial austerity and liberalization measures, with potentially severe impacts on the poorest people around the world:

- A report published by Development Finance International (DFI) on IMF programmes in low-income countries found that "the IMF to a limited degree adopted a policy of counter-cyclical measures to combat the global crisis in 2009, but then returned to a path of fiscal conservatism and reduced spending levels from 2010 onwards".
- Examining the "soft influence" of the IMF through their regular consultations with European Union member governments between 2008 and 2011, the Center for Economic and Policy Research (CEPR) found "a consistent pattern of policy recommendations, which indicates a macroeconomic policy that focuses on reducing spending and shrinking the size of government" and "a focus on other policy issues that would tend to reduce social protections for broad sectors of the population (including public pensions, health care, and employment protections), reduce labour's share of national income, and possibly increase poverty, social exclusion, and economic and social inequality as a result".

Conclusion and recommendations

This research confirms the findings of other studies, which shows that the IMF uses its significant influence in countries wracked by crisis to promote controversial austerity and liberalization measures, with potentially severe impacts on the poor.

This is particularly worrying for developing-country borrowers, who have a limited voice and a minority vote at the IMF. Agreements made in 2010 to increase – by a small amount – the votes of emerging market economies have been blocked by the failure of the US to ratify them.

A fundamental change in approach is needed from the IMF, based on three key proposals:

First, the IMF should focus on its true mandate as lender of last resort to countries that are facing temporary balance-of-payments crises. Such countries need rapid support to shore up their public finances, not lengthy programmes that require major policy changes.

A far more sensible approach would be to extend the example of the Flexible Credit Line to all IMF facilities – requiring no conditionality other than the repayment of the loans on the terms agreed.

Second, if countries are genuinely facing protracted and serious debt problems, then IMF lending only makes the situation worse.

The development of fair and transparent debt workout procedures should be prioritized by the international community, and at regional and national levels, to assess and cancel unpayable and illegitimate debt.

It is clear that the IMF should not be the venue for such debt workout mechanisms, as it is likely to be a major creditor and so would face a severe conflict of interest.

Finally, the IMF must address its crisis of legitimacy as a matter of urgency, and radically overhaul its governance structure to give developing countries a fair voice and vote, and to radically improve its transparency and accountability.

A vital first step would be to introduce double-majority voting, so that approval is needed from a majority of IMF member countries in addition to a majority of IMF voting shares. ❐

The above is extracted from "Conditionally yours: An analysis of the policy conditions attached to IMF loans", written by Jesse Griffiths and Konstantinos Todoulos and published by Eurodad (April 2014). The complete report, including illustrations and endnotes, is available at www.eurodad.org.