IS DEVELOPMENT A FUNDAMENTAL RIGHT? A CRITICAL ANALYSIS OF STRUCTURAL REFORM STRATEGIES BY IFIs IN PAKISTAN

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ABSTRACT

In the post 9/11 era, Pakistan as a non-National Arms Treaty Organisation (NATO) ally has attained a considerable importance in the United States (U.S.)-led war on terror. Yet Pakistan is facing severe threats of growing terrorism, while also confronted with economic crisis. The U.S. and International Financial Institutions (IFIs) have shown interest in helping salvage Pakistan's ailing economy. Pakistan has been involved in a series of Structural Adjustment lendings with the World Bank and International Monetary Fund (IMF) but the economy is still unable to achieve the desired outcomes. However, there are a number of factors responsible for the failure of Structural Reforms of the World Bank and IMF in Pakistan. This article examines the Structural Reform Strategies of the World Bank and IMF, which were introduced in Pakistan during the military and post-military regimes. The central argument of this article is that the geo-strategic position of Pakistan has often served as a site for contestation, which mostly serves the interest of bigger powers such as the U.S. However, it is key question here whether the people living in the member states of IFIs are entitled to an equitable share of development, or not, as their fundamental right?

Key Words: Development, IMF, World Bank, Pakistan, IFIs, SAPs, Structural Reforms, Poverty Reduction.

1. INTRODUCTION

In 1944, a year before the end of Second World War, the Bretton Woods institutions[1] were set up at the Conference in New Hampshire (IMF, homepage). According to Abouharb and Cingranelli, the IMF was set up because of the belief that the international world had been unable to address the financial problems that confronted "Germany during the late 1920s and early 1930s" (Abouharb and Cingranelli, 2007: 57). The major focus of the IMF policies was to ensure global economic stability through balance of payments methods to member countries. However, the World Bank was set up to cope with the economic instability of post-World War II Europe and subsequently, the financial well-being of the developing world. The bank first focused on project lending[2] until the late 1970s and then shifted from 'project to structural adjustment lending' in the 1980s (Abouharb and Cingranelli, 2007: 58). These lendings were attached with policy conditions proposed to encourage financial development

[1] The term is commonly used for the World Bank and IMF.
[2] The World Bank focused on the support of building public services such as dams and power plants.

emphasizing macro-economic factors as well as structural factors (Abouharb and Cingranelli, 2007: 57-58).

The Structural Adjustment Programmes (SAPs) have their origins in the 1980s in the aftermath of the debt crisis of the early 1970s and this was the period when the Organization of Petroleum Exporting Countries (OPEC) enhanced the petroleum rates and deposited their profit in western banks. These banks were intended to disburse loans to the developing countries with the understanding that these countries will buy the commodities of industrialised states. The industrialised countries introduced a chain circle to generate more money from these loans as well as to explore markets for their industrial products. George (1995: 21) notes that developing countries borrowed money from these banks for development, sometimes at low interest rates. However, studies have indicated that most of the money has been wasted on useless projects or looted by corrupt elites (Jauch, 1999; Ng'ambi, 2009: 48-49).

In the early 1980s, the U.S. Federal Reserve increased interest rates considerably to reduce inflation and, as a result, the developing countries which borrowed money at cheapest interest rates were compelled to pay back at higher interest rates. The situation led to the debt crisis and pushed these countries to sign up new loans for the payment of old ones. Many paid back monies borrowed but still remained highly indebted. A classic example is Mexico which announced in 1982 that it was unable to pay its debts. This situation created an opportunity for the World Bank and IMF to step in by offering new loans in the shape of SAPs attached with certain conditionalities (Jauch, 1999; Ng'ambi, 2009: 48-49; Bond, 2003: 21-22).

The SAPs[3] were introduced by the World Bank and IMF for the improvement of financial stability and speedy economic growth of developing countries. The main purpose of the SAPs was to decrease the monetary inconsistency of the loan receiving countries and ensure that money lent would be utilized for fulfilling the specific purpose of the loan. The proposal for SAPs had its origin in 1981 "when the administration in the U.S. and Thatcher administration in the UK" and their coalition partners suggested that further conditionalities be attached to loans to the developing countries (Abouharb and Cingranelli, 2007: 63). The IFIs insisted on 'neoliberal economic reforms' when providing funding for Structural Adjustment Agreements (SAAs) to the developing countries (Ibid). Some of the economists, international experts and scholars from "Caribbean and Latin America" such as Abugre (2000: 5) and Ikejiaku (2008: 2-3) acknowledge ten financial reforms known as "Washington Consensus", enforced in 1990 after the debt crisis of early 1980s. These financial improvements for SAAs,

[3] The World Bank and IMF designed SAPs for developing countries with a special focus on "macro-economic conditions" which were declared mandatory before applying for lendings to these financial institutions. The main characteristics of the SAPs were "Privatisation, Liberalisation and Economic Stabilisation measures". Unfortunately, the SAPs failed to achieve the targets and aggravated poverty rather than alleviate it (Abugre, 2000: 5-6).

included “fiscal discipline, financial liberalization, unified and competitive exchange rates, tax reforms, trade and investment liberalization, deregulation, privatization, macroeconomic stability, and protection of property rights” (Abouharb and Cingranelli, 2007: 63). According to a number of critics, the SAPs have had little success although the World Bank and IMF have claimed a few success stories. Most of the Structural Adjustment Programmes failed to reduce impoverishment and were unable to provide the basic facilities of life especially to the third world (Jauch, 1999; Ikejiaku, 2008: 2-3; Gelinas, 1998: 75; Jones, 2001: 14).

Rittich (2005: 200) suggests that the Comprehensive Development Framework (CDF) is known as the beginning of ‘Second Generation Reforms’ in the World Bank presented by the Bank’s President for discussion (Wolfensohn, 1999). The CDF takes into consideration issues of “social, structural and human” factors. The key areas such as education, health, human rights, rule of law and good governance are highlighted as issues of prime importance in CDF for sustainable development. The World Bank endorsed in a statement that CDF was to be now regarded as a base in development policy for the achievement of sustainable development (World Bank, 1999).

In 1989, following a report on the Sub-Saharan African Crisis, the World Bank concluded that the absence of good governance was central to the African Development Crisis (World Bank, 1989: 60-61). It is pertinent to note that the World Bank was the leading financial institution to realise the importance of good governance. The World Bank replaced its SAPs with Poverty Reduction Strategy Papers (PRSPs), with good governance as a basic condition for the loan receiving countries (Curtin and Wessel, 2005: 81).

The Economic Commission for Africa (ECA) in its report strongly condemned the SAP in Africa (Dibua, 2006: 41). The World Bank administration tried to refute the impression of negative impacts of the SAPs in most of the Sub-Saharan African countries through different speeches and successive reports from time to time. They observes:

> Neo-liberal policies, championed by the World Bank and International Monetary Fund (IMF) …have not secured ‘economic take-off’. Rather there has been growing immiseration through livelihood displacement, physical infrastructural decay, and social service breakdown. In a bid to deflect criticism, the World Bank has co-opted a post-modernist perspective …documenting the ‘voices of the poor’
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> (Bryceson and Bank ,2001:5; Dibua, 2006: 41).

In September 1999, the Poverty Reduction and Growth Facility (PRGF) was introduced for the reduction of poverty and enhancement of growth level in low income and highly indebted poor countries (HIPC) by IMF lendings. The IMF introduced PRGF by substituting its Enhanced Structural Adjustment Facility (ESAF) on the same terms and conditions, which correlated to PRSPs. The PRGF programmes were modelled in such a way that they became the sole responsibility of the IMF. These programs were designed with the help of World Bank Staff and the mechanism of conditionalities attached with loans was the joint effort of the IFIs (IMF, 2007). The PRGF Programmes were intended to focus on three fundamental objectives as explained by the IMF:

> First, the principles of broad public participation and country ownership are central to the PRGF"… Second, PRGF-supported programs reflect closely each country's poverty reduction and growth priorities and, as long as macroeconomic stability is maintained, seek to respond flexibly to changes in country circumstances and pro-poor priorities….Third, PRGF-supported programs focus on strengthening governance, in order to assist countries' efforts to design targeted and well-prioritized spending…
>
> (IMF, 2009a).

The IMF and the Independent Evaluation Office (IEO) received in 2002 and 2004 respectively satisfactory reports about the PRGF noting that it is helpful "to higher public expenditure and Pro-Poor Spending" (IMF, 2007). Although the IMF claimed some success stories there were failures as well. Rustomjee (2004: 21-22) attributes this to the "inadequate level of voice and representation in the IMF" and focussing on "the traditional stabilization objectives of the IMF" as one of the major factors for the failure of the PRGF in the Sub-Saharan African countries.

The late 1990s attracted considerable debate for change in the old international developmental approach of economic governance. The IFI's policies were strongly criticised in the wake of the East Asian Crisis of 1997 and the failure of SAPs in developing countries. As a result, "the 1999 review of the HIPC forced the IFIs to seek a solution to link debt relief to poverty reduction" (UNDP, 2009: 3). All these factors contributed and, in September 1999, the World Bank and IMF in their joint meeting initiated a Poverty Reduction Strategy Paper (PRSP), a new framework for better relations with poor countries, which "centred on the development and implementation of Poverty Reduction Strategies (PRSs) by recipient countries as a precondition to accessing debt relief and concessional financing" (Christiansen and Hovland, 2003: 4). In 2001, the World Bank initiated Poverty Reduction Strategy Credits (PRSCs) as new framework of funds from the International Development Association (IDA) for recipient countries also related to PRSPs. The PRSPS approach was adopted by these financial institutions with a view to enabling the borrower countries to set their objectives for poverty reduction, as well as to persuade donors to lend according to the circumstances and feasibility of the borrowers. (UNDP, 2009: 3 & 5; Christiansen and Hovland, 2003: 4).

This article is structured in three parts. Part II examines the Structural Adjustment Reforms of the World Bank and IMF, introduced in Pakistan in 1980s and onwards. The aim of this section is to provide a critical analysis of the various policies introduced in Pakistan by the IFIs. Part III provides the conclusion of this article that a substantial share in development outcomes must be provided to the people of Pakistan as they are the real wealth of nation and hence it must be considered as a fundamental right. The inquiry of this article is confined to the time period from the 1980s to 2009 because during these three decades the democratic governments in Pakistan had almost a decade in which to nurture democracy. Prior to this the two martial law regimes of General Zia (1977-1988) and General Musharraf (1999-2008) derailed democracy as well as destabilizing the economy and indebting the country enormously. The expansion after this period tells another long story of democratic development which may be covered later in another article.

2. STRUCTURAL REFORMS IN PAKISTAN UNDER THE WORLD BANK AND IMF

Pakistan obtained membership of the World Bank/IMF in 1950. The World Bank has been providing financial assistance to Pakistan since 1952. The IMF has also played a decisive role in providing economic stability and structural adjustment lending to Pakistan since 1988. Thus the Bretton Woods institutions are deeply involved in the SAPs and the Structural Reform Strategies (SRSs) adopted by Pakistan after 1988 (Cheema, 2004: 17).

The World Bank's strong support to Pakistan has played a significant role in its economy for the last 57 years. The World Bank has provided about 15% of financing to Pakistan for public investment programs during the past decades. The World Bank sanctioned 242 loans worth 13 billion dollars including 146 interest free IDA[4] credits[5] for this period. For example, in 2002 the Bank disbursed up to 860 million U.S. dollars.[6] The major portion of the World Bank's funds (about 85%) has been spent in some mega projects[7] for the rehabilitation and expansion of physical infrastructure. The rest "has been used for the balance of payment adjustment loans in support of structural reforms" (World Bank, 2002: 5).

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[4] The International Development Association (IDA), established in 1960, is a part of the World Bank and helps the world's poorest countries. The main object of the IDA is to reduce poverty by granting interest free loans and funding for projects that enhance monetary development, decrease inequalities and increase living standards of the peoples. The 78 poorest countries, including 50% of African countries, are receiving funding for primary community welfare from IDA (World Bank, 2009).

[5] For example less than 1% service charges and 35 years maturity time.

[6] It was the maximum amount ever sanctioned in the history of World Bank-Pakistan economic relationship on very flexible terms and conditions.

[7] The major portion of the amount has been invested in major projects such as the Indus Basin Irrigation and Drainage System, Telecommunications network and WAPDA what is this?, basic education and health services all over the country, national highways system and provincial roads, water and sanitation system in major cities, towns and rural areas, Karachi Port, gas production, transmission and supplies, and oil production and refining etc. (World Bank, 2002:5).

2.1 INITIAL STRUCTURAL ADJUSTMENT LOANS (SALs)

The Structural Adjustment Programme (SAP) was first introduced in Pakistan in 1982 during General Zia-ul-Haq Regime. At that time, Pakistan was one of the major loan recipients of the World Bank and IMF. The military government discontinued further instalments[8] after receiving the first SAP loan. As mentioned earlier, the Soviet invasion of Afghanistan changed the entire situation and, on becoming a frontline ally, Pakistan received financial assistance of 3.2 billion U.S. dollars in 1981. Pakistan's foreign loan liabilities had doubled after the Zia period (GOP, 1996).

Baxter (2004: 137) suggests that due to a crisis in the textile industry, which was a major source of income, "the continued twin fiscal and foreign exchange deficits" coupled with decrease in external aid forced the government of Pakistan to look for the support of Bretton Wood Institutions in the late 1980s. It was the beginning of SAPs and "conditionalities that have accompanied the programmes have included target levels for deficits". The World Bank and IMF emphasised that the government of Pakistan should increase the tax income and decrease monetary discrepancy by way of public spending. However, the government of Pakistan was unable to decrease expenses "on defence and debt servicing" but ultimately extended cuts to certain development projects.

After the first formal lending under the SAP to Pakistan in 1988, a series of continuous lendings were maintained during the successive democratic governments of Benazir Bhutto and Nawaz Sharif. The major emphasis was on "financial & trade liberalization, deregulation, reliance on free market and privatization". Nawaz Sharif launched a policy of privatisation of national assets, deregulation of business and industry and lifted the control over foreign exchange. In more than three years of Sharif's rule, the World Bank and IMF having being satisfied with his economic policies disbursed four hundred million dollars of SAP loans to Pakistan (Gardezi, 2004: 430). However, these 'First Generation Structural Adjustment Reforms' showed poor results in attracting foreign investment in Pakistan (Naseem, 2008: 25).

The World Bank with the help of IFIs started the Social Action Program Project[9] (SAPP-I) in 1992/1993 for getting better results in basic health care, primary education, building girls schools, family planning, sanitation and availability of safe and clean water to remote areas of Pakistan. In many respects, this was a precursor to the 'Second Generation Reform' discussed below. The education sector, which was a primary focus of the project, produced

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[8] Actually, the Economic Advisors of the military government advised the government to discontinue further instalments after receiving the first of SAP loan instalment, on the basis that the public did not accept these adjustment policies and the government would become unpopular among the masses (Gardezi, 2004).

[9] SAPPs were planned into two parts with the collective efforts of IFIs and the government of Pakistan to increase expenditure on social services and to decrease poverty. The total amount allocated for SAPP-I was US$ 4.02 billion comprising 76% share by the GOP what is this? and the remainder by the IFIs. The overall cost for SAPP-II was US$ 10.561 billion for which GOP had to provide almost 80 % of the total amount (Ali, 2008: 25).

disappointing results. The project failed to achieve the required objectives and the major reasons for its failure were "to fully identify and address the institutional constraints, lack of a widely agreed methodology and format for monitoring and evaluation," poor quality of education and absence of teachers from the schools (Paul, 2000: 4-5; Easterly, 2001: 15).

In 1996, SAPP-II was started after the failure of SAPP-I. The primary focus of the SAPP-II was also on social reforms like SAPP-I but especially to provide the essential services to women and girls and "generally for the poor" (World Bank, 1999a). The IFIs and Pakistan under the management of the World Bank invested about $8 billion, inclusive of 25% foreign support, on the Social Action Program Project during 1993-1998. The project turned out to be a failure. Although, there are certain reasons for its failure, a major one could be attributed to the decision by the government of Pakistan to downsize the SAPP especially in the last two years of the programme (Anwar, 2006: 4; Easterly, 2001:15) which is apparent in the table given below:

Table 1.1. Social Action Program Project (SAPP)

Social Action Program Project spending as percent of GDP	
1992/93	1.70
1993/94	1.72
1994/95	1.88
1995/96	2.05
1996/97	2.35
1997/98	1.69
1998/99	1.60

Source: "The Political Economy of Growth without Development: A Case Study of Pakistan", Easterly, 2001: 16, http://www.nyu.edu/fas/institute/dri/Easterly/File/Pakistan.pdf

In 1993, Moeen Qureshi, a senior World Bank official, was invited and appointed as interim Prime Minister of Pakistan. He enforced Structural Adjustment Policies, in the process devaluing the Rupee by 10%. The people of Pakistan faced rises in the prices of consumer goods and high inflation because of Mr Qureshi's economic reforms. He was succeeded by a democratically elected Prime Minister, Benazir Bhutto, who during her second tenure negotiated with the World Bank/IMF through the Enhanced Structural Adjustment Facility (ESAF).[10] Under these new arrangements, a loan of one and half billion dollars was provided in instalments. As a pre-condition, Pakistan's currency was to be devalued again by seven percent, duties on imported items were reduced and the scope of General Sales Tax was extended on more than two hundred and fifty items to fulfil the criterion for getting more instalments of the ESAF loan. In spite of these initiatives the Benazir government was

[10] The IMF provided economic support to the poor countries through the ESAF programme from December 1987 to 1999.

unsuccessful in attaining the conditionality targets set by the donor institutions as more than 80% of the revenue collection was consumed on 'debt servicing and defence expenditure'(Gardezi, 2004: 431). After the first instalment, further disbursements of ESAF were ceased because the Benazir government failed to fulfil the other important conditions of the ESAF loan including the cutting of budget deficit by 5.6% of the Gross National Product to 4.0%. The World Bank/IMF management after having detailed discussions with the representatives of Pakistan's government at their Headquarters decided to replace the ESAF with standby loan of six hundred million dollars at the interest rate of 5% (Gardezi, 2004: 431).

On November 5, 1996, when the people of Pakistan were experiencing Structural Adjustments, the Benazir government was dissolved a second time by a Presidential Order.[11] In 1997, Mr. Sharif of the Pakistan Muslim League won the elections after defeating Benazir Bhutto of the Pakistan People's Party (PPP).[12] After taking over the office of Prime Minister, he followed the same policies as the previous government and proceeded further with Structural Reforms. The people of Pakistan were forced to rely on Structural Reforms for economic survival during deteriorating economic conditions. At that moment, Pakistan faced a very hard time when sanctions were imposed because of nuclear explosions. The Sharif government announced a state of emergency in Pakistan by freezing foreign currency accounts worth $11 billion. The economy of Pakistan was jolted by the threat of default and even the U.S.think tanks portrayed Pakistan as "a failed state" (Haass and Rose, 1997).

On December 1998, a meeting was arranged in Washington DC between the Prime Minister of Pakistan and the U.S. President by which the fate of Pakistan's economy was decided with certain conditions, in other words, 'to observe nuclear non-proliferation' and peace dialogue with India. The IMF promised to provide financial assistance to Pakistan provided these conditions were fulfilled. For this, they had to overcome a reluctance based on the feeling that the democratic governments would find it uncomfortable to comply with conditionalities attached with loans (Gardezi, 2004: 431-432).

In 1997, the World Bank supplied a credit of 250 million U.S. dollars to improve the banking system of Pakistan, which was in a state of crisis. The main purpose of this lending was to make solid efforts for state-owned commercial banks in the achievement of further skills, profitable policies and excellence. (Cheema, 2004: 23). The IMF released about 1.31 billion dollars for Pakistan in its three year period under PRGF from December 6, 2001 to December 2004. In return, the government of Pakistan had to implement the IMF-led policies. The government followed the process of privatisation and reorganisation of public assets and

[11] In 1996, President Farooq Leghari dissolved the government of Benazir Bhutto on the charges of corruption and mismanagement under Article 58(2)b of the Constitution of Pakistan 1973.

[12] It is a common perception that the working class and peasants of PPP had not shown any whole-hearted involvement because of the introduction of unacceptable conditionalities attached with 'Structural Adjustments' by the Benazir Government, which adversely affected the domestic budgets of low-income and poor people of Pakistan.

banking sector reforms under the conditions of the IMF (IMF, 2004). In June 1999, the World Bank agreed to disburse 90 million U.S. dollars to sustain the Pakistan Poverty Alleviation Fund (PPAF). The main aspiration of the program was to provide access to various facilities and means of communication to the deprived classes of Pakistan (Cheema, 2004: 23).

2.2 SECOND GENERATION REFORMS

On October 12, 1999, General Pervez Musharaf took over the control of government and declared himself Chief Executive of Pakistan. As a result, the international community immediately suspended Pakistan's economic and military assistance programs. The International Community and Financial Institutions demanded the restoration of democratic rule. The military government requested economic assistance with an assurance to fulfil all conditions of the IMF and World Bank attached with loans (Craig and Porter, 2006: 197, Cheema, 2004: 20).

The World Bank considered good governance as an important element in the achievement of sustainable development especially following the publication of the United Nation's Economic Commission for Africa (ECA) in 1989 (World Bank, 1989: 60-61). The Bank has since advocated for and adopted "accountability, government efficiency in terms of planning and social services to the public, the rule of law culture, an independent judicial system, a system of checks and balances, separation of powers and control of corruption" as key new conditionalities (Santiso, 2001: 5; Kaufmann, Kraay and Zoido-Lobaton 1999: 11).

As noted above, the failure of the First Generation Reforms under successive SAPs required a new strategy. Some independent regulatory authorities were set up such as the Print and Electronic Media Regulatory Authority (PEMRA), Oil and Gas Regulatory Authority (OGRA), National Electric Power Regulatory Authority (NEPRA) and Pakistan Telecommunication Authority (PTA) to attract foreign investment in these areas. In August 2000, the 'Second Generation Reforms' were introduced by President General Pervez Musharaf with a slogan of "empower the impoverished" (ICG, 2004: i). The main purpose of the 'Second Generation Reforms' was "high growth and sustainability, building the institutional and governance capacity" and to create a business friendly atmosphere in Pakistan. The major focus of these reforms was on the civil services, decentralization and devolution of local government, the judiciary, and the police, with the belief they could improve good governance. For the promotion of good governance the public and private enterprises in the financial sector, cooperation of the public, a system of checks and balances, accountability, poverty reduction, equality and the culture of rule of law and "World Class" institutions were the issues of prime importance (GOP, 2010).

Naseem (2008: 26) acknowledges that the 'Second Generation Reforms' had impact for a few years but were largely unable to achieve their set objectives. Some of the important reasons were misuse of power, appointments of non-technical persons to technical posts especially army officials and political persecution by the different institutions. For example, Husain is of the opinion that the National Accountability Bureau (NAB) a strong and effective institution to curb corruption was established soon after assumption of power by General Musharraf to promote accountability but appears to have been used for political victimization (Husain, 2007: 7).

On November 1999, Mr. Shaukat Aziz, a Citibank Executive, was appointed as Finance Minister with a team of forty financial professionals. He offered his services free of cost to breathe life into the economy of Pakistan. He was asked to take charge of the Economic Affairs, Finance, Statistics, Planning and Revenue Divisions. He was later offered the seat of Prime Minister of the hybrid government[13] after the resignation of Mir Zafarullah Khan Jamali in 2004. On August 28, 2004, Mr. Aziz took over as a Prime Minister of Pakistan and retained the functions of Finance Minister (BBC, 2004).

The military government, after a year's efforts, succeeded in getting a stand-by-credit of 596 million U.S. dollars from the IMF. In addition, it had been decided between the IMF and Pakistan that this program would run up to the end of 2001. At that time, Pakistan was on the brink of default. There was an essential need of IMF assistance for rescheduling the Paris Club[14] debt. It demanded some urgent and solid steps to cope with the issue of economic disturbances and to restore reliability before the IFIs. General Musharraf had no alternative but to accept all conditions set out by the IMF to qualify for financial backing. Consequently, the relationship between the IMF and the government of Pakistan improved and it agreed to disburse a PRGF loan to Pakistan for the period of three years. The PRGF was a package of 1.3 billion U.S. dollars that performed well and Pakistan had obtained half of twelve instalments up to September 2003 (Cheema, 2004: 20).

In the meantime, the World Bank's first disbursement of 350 million U.S. dollars was approved for tax reforms and for boosting the confidence of foreign investment. The Bank financed Pakistan under the Structural Adjustment Credit (SAC) scheme. After the end of SAC-I, SAC-II was started in 2002. The World Bank attached some mandatory supplementary conditions to the government with SAC programs, with a focus on monetary improvements and reformation of the government. In December 2003, after the successful completion of SAC programs, the World Bank pledged further lendings to the tune of 368 million U.S. dollars. Moreover, the World Bank supported Pakistan in literacy and health sectors. As a

[13] A blend of democratic government set up with military dominance.

[14] The Paris Club consists on the United States as its significant member to decide the fate of loan as well as debt relief of loan recipient countries. It includes Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, and the United Kingdom as its permanent members (Weiss, 2013:1).

result, for the last few years, the interference of World Bank in the internal affairs of Pakistan has been frequent.

In 2003, the World Bank distributed around 1.226 billion U.S. dollars, which was the biggest amount ever sanctioned for Pakistan. The main aim of the Country Assistance Strategy (CAS) 2003-05 was to restructure the local institutions in the course of programs consisting of a review of critical packages, construction of departmental capability and demand-focused lending.[15] Generally, funding by the World Bank was aimed at structural reforms and improvement of institutions, as well as creating a congenial environment for financial activities. For the last three years, Pakistan made it possible to absorb the monetary shocks due to its organisational, structural, economic and tax restructuring modifications (Cheema, 2004: 23-24). Cheema is of the view that the critics argue that sometimes the conditionalities of the World Bank and IMF are unsympathetic to the borrower countries but in the case of Pakistan, this was not the case as they brought "about macroeconomic stability in the country in the 1990s" (ibid, 24-25).

It is plausible to suggest that the conditionalities worked for a short time in the case of Pakistan but I disagree with this assumption as the problems of Pakistan, as well as other borrower countries, have increased after the introduction of World Bank and IMF-led reform programmes. As indicated in Part I, a number of scholars have observed the remarkable political involvement of the U.S. in the IFIs (Swedberg, 1986; Leaver, 1996; Smit, 2004; Faini and Grilli, 2004; Eldar, 2005: 509, Parenti, 1989 cited in Abouharb and Cingranelli, 2007: 116).

2.3 POVERTY REDUCTION STRATEGY PAPERS (PRSPs)

Pakistan is one of sixty developing countries who took up the Interim Poverty Reduction Strategy Paper (IPRSP) in November 2000 and then PRSP-I in December 31, 2003. As indicated above, the PRSP was intended to signal a shift in the lending relationship with an emphasis on poverty reduction. The nature of PRSP was 'National Ownership' or public and private partnership in collaboration with the IFIs or country-driven strategies for poverty reduction in the member states (IMF, 2009). In 2004, an amount of 300 million U.S. dollars was released for Pakistan in its initial phase of three years. It was set up under the supervision of the Ministry of Finance, which was responsible for its smooth running and monitoring. It was decided to initiate PRSP-II after the completion of PRSP-I. According to the Ministry of Finance of the government of Pakistan, the PRSP-II has to be completed in

[15] 'Demand focused loaning' means loaning for the achievement of specific developmental targets in the economy.

the period of three years from 2007-09[16] with a possibility of extension in the period (UNDP, 2009: 7).

UNDP has pointed out that the Pakistan government failed to reduce poverty because of unequal distribution of wealth, absence of land reforms, direct taxation, heavy defence budgets, the corruption of ruling class and powerful "feudal industrial interests". Bad governance, which affects the poor badly, is one of the reasons for deepening poverty in the country (UNDP, 2009: 9-10; Haq, 1997: 69, 244). In one of its poverty assessment reports, the World Bank (2002) pointed out that:

> Issues of governance for instance in the form of the lack of accountability, are at the heart of many of the difficulties encountered in mitigating poverty and broadening access to social services in Pakistan. Neither debt reform nor the mere availability of donor funds is likely to dispel these problems (World Bank, 2002c).

However, it is pertinent to note that accountability mechanisms are available in these International financial institutions, but lack of proper implementation is responsible for the failure of structural reform strategies in the loan receiving countries. The Asian Development Bank notes that:

> A number of factors explain the existence of an increase in poverty in the last decade. However, poor governance is the key underlying cause of poverty in Pakistan… Governance problems have also resulted in inefficiency in provision of social services, which has had serious implications for human development in the country" (ADB, 2002: 2; UNDP, 2009: 9).

The poor people have never been the priority of the government of Pakistan and this is one of the reasons for the rapidly increasing gap between the poor and the rich. Ishrat Husain, Governor of the State Bank of Pakistan points out that:

> Pakistan is facing many difficult challenges. One third of the population still lives below the poverty line. Human Development indicators remain low as almost half of the population is illiterate, infant and maternal mortality rates are high, access to quality education and health care particularly by the poor is limited, income and regional inequalities are widespread, infrastructure shortages and deficiencies persist, skill shortages are taking a toll in the economy's productivity while at the same time, there is high unemployment and underemployment (Husain, 2005:12; Kiesow et al, 2008: 10).

In the PRSPs of Pakistan, the important and basic issues such as education, health care, food items, living facilities, social security, law and order and good governance have not been

[16] In this report, it was acknowledged that due to non-availability of the final copy of PRSP-II, the entire assessment had been made on the basis of PRSP-I, although the draft summary of PRSP-II was available from April 2007 (UNDP, 2009: 7).

addressed properly. The UNDP concludes that the government of Pakistan has been unable to reduce poverty in both the PRSP-I and PRSP-II. It has been said that the major cause of the ineffective poverty reduction plans is the failure in the delivery system and permanent features of disparity which clearly indicates the deficiency of governance structures in Pakistan (UNDP, 2009: 32). Pakistan is a signatory to the International Covenant on Economic, Social and Cultural Rights as well as the International Covenant on Civil and Political Rights. Moreover, the Constitution of Pakistan guarantees Civil, Political, Economic, Social and Cultural Rights to all citizens. It has been suggested that the issue of poverty should be considered as a rejection of rights and not just a lack of structural inability in the distribution of social services (UNDP, 2009: 25).

In 2004, the economy of Pakistan achieved self-reliance by decreasing its budget deficit, the collection of foreign exchange reserves, sufficient food as per the necessity, mounting manufacturing construction and maintained annual growth of more than five percent. The country attained primary macroeconomic strength accompanied by wide range of development in economic measures. At the same time, the country was fighting with problems of recovering investment, eradication of public sector deficits, better infrastructure and growing public sector improvements. Creation of new jobs and the responsibility for poverty reduction were two major issues before the military government requiring some urgent and solid steps for planning. No doubt, at that time, the economy of Pakistan had achieved self-reliance (Cheema, 2004: 1).

In May 2005, Pakistan received a package of four and a half billion U.S. dollars from the World Bank for a period of three years. Moreover, the World Bank promised to add about 900 million to 1.5 billion U.S. dollars in this package in coming years. The lendings were primarily for restructuring public spending, income tax structure, economic regions and public services in a way to decrease the budget and trade discrepancy (Anwar, 2006: 3-4).

According to the IMF, in 2005-06, the economy of Pakistan had gone through numerous shocks triggered by the disastrous earthquake of October 8, 2005, a considerable increase in the worldwide prices of oil and less favourable climatic conditions, which badly affected the crops. Nevertheless, inflation dropped from 9% to 7.6% by the end of June 2006 (MoF, 2006: 1).

The World Bank disbursed a total amount of 1.5 billion U.S. dollars in its financial year 2006, which meant Pakistan ranked as the fourth largest loan receiving country in the world. Subsequently, in 2006, the Board of Directors of the World Bank approved Country Assistance Strategy (CAS) for Pakistan for a period of three years. It was to help Pakistan to attain the targets of growth for upcoming years. An amount of around one billion U.S. dollars was disbursed to deal with the unpleasant after-effects of the October 2005 earthquake. The money was handed to the government to help with the rebuilding and repairing of houses. The World Bank decided to disburse the total amount of 6.5 billion U.S. dollars in its CAS

2006-09 for Pakistan. In 2006, the economy of Pakistan showed some positive indicators for prosperity. However, one of the biggest challenges was to decrease the poverty level with the help of rapid growth projects so that the poor would be benefited by this progress. The main emphasis of these lendings was on 'SME[17]', to improve infrastructure and economic segments (Buckley, 2006; 39-40). Unfortunately, the financial year of 2007-08 came up with some unexpected circumstances for Pakistan which not only left negative impacts on the economy but also gave birth to political instability as well (Chandran, 2008: 1).

The power rivalry[18] among different organs of the state has ruined Pakistan's economy. The people of Pakistan are faced with recurrent problems such as repeated de-valuation of currency, rises in inflation rate of up to 25% per annum, rapid increases in the prices of commodities, a wheat crisis, energy crisis, leadership crisis and the recent crash of Pakistani Stock Markets (The Economist, 2008). In fact, the so-called stable economy was a 'bubble economy[19]' based merely on the numbers game, as the ordinary and poor people did not benefit from economic growth Below are some of the tables showing statistical figures about Pakistan foreign debt liabilities.

Table 1.2 Trends in External Debt and Foreign Exchange Liabilities (US$ billion)

Year	Total External Debt	Foreign Exchange Liabilities	Total External Debt And Foreign Exchange Liabilities
1989-90	19.2	2.7	21.9
1990–91	20.0	3.2	23.2
1991–92	21.9	4.5	26.4
1992–93	23.9	5.7	29.6
1993–94	26.9	7.1	34.0
1994–95	28.7	7.3	36.0
1995–96	29.8	9.1	38.9

[17] The term Small and Medium Enterprises (SME) is commonly used in IFIs and its basic function is to promote small businesses.

[18] A clash of power between the different organs of the state and among politicians has been evident and obvious in Pakistan since its creation. There are several examples of the executive's interference in the affairs of judiciary and legislature through a misuse of its powers (Sattar, 2008).

[19] The term 'bubble economy' means the economy, achieved stability for a very short period and then collapsed. It was presumed that in the Musharaf period the economy acquired strength but actually it was based on wrong footing (GoP, 2010: 12)

1996–97	29.5	11.0	40.5
1997–98	30.3	12.4	42.7
1998–99	33.5	4.1	37.6
1999–2000	32.2	5.7	37.9
2000–01	32.1	5.0	37.1
2001–02	33.4	3.1	36.5

Source: "Macroeconomic Stability of Pakistan: The Role of World Bank and IMF (1997–2003)", Cheema, 2004:7, http://www.acdis.uiuc.edu/Research/OPs/Cheema/CheemaOP.pdf

Table 1.3 External Debt and Foreign Exchange Liabilities End June (US$ billion)

Year	Total External Debt	Foreign Exchange Liabilities	Total External Debt And Foreign Exchange Liabilities
2003	33.3	2.1	35.4
2004	33.4	2.0	35.4
2005	34.0	1.4	35.4
2006	35.9	1.3	37.2
2007	39.0	1.3	40.3
2008	44.5	1.7	46.2
2009	50.7	1.3	52.0

Source "Pakistan Economic Survey 2007-08 and 2009-10- EXTERNAL DEBT AND LIABILITIES", Ministry of Finance, Government of Pakistan, http://www.finance.gov.pk/survey/chapter_10/08_Public_Debt.pdf

Table 1.4 Structure of External Debt and Liabilities (EDL) (End March 08)

COMPONENT	% SHARE
Paris Club	31.6
Multilateral	46.9
Other Bilateral	2.6
Short-Term	1.3
Private Non-Guaranteed	5.4
IMF	3.1
Other	6.2

Forex Liabilities	2.9

Source "Pakistan Economic Survey 2007-2008- EXTERNAL DEBT AND LIABILITIES", Ministry of Finance, Government of Pakistan, http://www.finance.gov.pk/admin/images/survey/chapters/09-External%20debt08.pdf

Given below is the recent inflation rate, which is not showing any positive indicator in the economy of Pakistan.

Table 1.5 Inflation Situation in Pakistan (July 2008-February 2009)

Month	Consumer Price Index (CPI)	Wholesale Price Index (WPI)	Sensitive Price Indicator (SPI)	Core Inflation (%)
July	24.3	34.0	33.9	14.7
August	25.3	35.7	33.0	16.4
September	23.9	33.2	31.1	17.3
October	25.0	28.4	32.7	18.3
November	24.7	19.9	29.8	18.9
December	23.3	17.6	25.8	18.8
January	20.5	15.7	20.8	18.91
February	21.1	15.0	23.4	18.85

Source: "Review of Economic Survey of Situation: (July-February 2008-09)", (Economic Advisor Wing) Finance Division, Government of Pakistan, http://www.finance.gov.pk/admin/images/ecoSituation/ReviewEconomy-Jul-Feb.pdf

The World Bank has recently informed the government of Pakistan that almost half of the Pakistani population will be unable to buy food if the situation remains the same in the coming years. In the same report, it is further advised to withdraw the subsidies immediately on food items. The World Bank further warned that the prices of wheat in Pakistan are relatively low compared to the international market, which is one of the basic reasons of wheat smuggling to the neighbouring states (Iqbal, 2008). Goncalves (1996: 6) argues that SAPs causes ruthless sufferings to the peoples of Zimbabwe and Zambia. According to Goncalves the word ESAP, which means "Economic Structural Adjustment Programmes" has now been changed with "Ever Suffering African People". The people protested against the unsympathetic conditionalities imposed by the IMF under which certain subsidies were withdrawn by the government of Pakistan on basic food items after food insurrection started. (Jauch, 1999: 6).

In the case of Pakistan, however, it is the responsibility of the Pakistan government to control smuggling rather than to withdraw subsidies on food items in these circumstances. At present, Pakistan is facing a serious food crisis but withdrawal of subsidies is not the only solution to this problem, as the poor are already unable to buy food easily due to the growing rise in the prices of food items. For Pakistan, the "fight against terrorism" is also a big challenge that the government of Pakistan accepted after becoming a major ally of the U.S. President John F. Kennedy observed many years ago that "the only thing worse than being an enemy of the United States is being an ally" (The Atlantic Council, 2009: 1). The economic condition of the so-called emerging 'Asian Tiger' is vulnerable and needs some urgent cooperation from the 'Friends of Pakistan' for its deteriorating economy as well as to combat the growing dangers of terrorism. Below are some statistical data about the World Bank lendings to Pakistan from 1999 to 2006.

Table 1.6 Pakistan: World Bank Lending FY1999–2005

(In millions of U.S. dollar, as of September 30, 2004)

Project Name	Fiscal year Approved	Amount	Disbursed
Structural Adjustment Loan	1999	350.0	350.0
Poverty Alleviation Fund	1999	90.0	90.0
Trade & Transport	2001	3.0	2.3
NWFP On-Farm Water Management Project	2001	21.4	3.7
Structural Adjustment Credit	2001	350.0	343.9
Banking Sector Restructuring and Privatization Project	2002	300.0	211.2
Structural Adjustment Credit II	2002	500.0	510.3
Community Infrastructure & Services	2003	20.0	8.2
Banking Sector Technical Assistance	2003	26.5	14.2
Sindh Structural Adjustment Credit	2003	100.0	106.4
NWFP Structural Adjustment Credit	2003	90.0	95.8
Partnership for Polio Eradication	2003	20.0	20.0
HIV/AIDS Prevention Project	2003	37.1	8.2
National Education Assessment System	2003	3.6	0.5
Highways Rehabilitation	2004	200.0	25.2
Poverty Alleviation Fund II'	2004	238.0	84.1
Punjab Education Reform Program	2004	100.0	100.6
Sindh On-Farm Water Management Project	2004	61.1	2.9
NWFP Community Infrastructure II (CIP2)	2004	37.1	2.1
PK Public Sector Capacity Building Project	2004	55.0	10.5
NWFP SAC II	2004	90.0	90.0

Poverty Reduction Support Credit I	2005	300.0	300.0
Tax Administration Reform Project	2005	102.9	3.1
Banking Sector Development Policy Credit	2005	300.0	300.0

Source: "IMF Country Report No. 04/411-Pakistan: 2004 Article IV Consultation,…". IMF, 2004:51, http://www.imf.org/external/pubs/ft/scr/2004/cr04411.pdf

Table 1.7 Pakistan: World Bank Lending FY 2003–05

(In millions of U.S. dollar, as of Sep 30, 2005)

Project Name	Fiscal year Approved	Amount	Disbursed
Taunsa Barrage Emergency Rehabilitation	2005	123.0	3.1
Punjab Education Reform II	2006	100.0	100.0
Improving Financial Reporting and Auditing II	2006	84.0	0.0

Source : "Pakistan : 2005 Article IV Consultation… IMF Country Report No. 05/409", IMF, 2005:51, http://www.imf.org/external/pubs/ft/scr/2005/cr05409.pdf

These programs have been started by the World Bank to facilitate economic stabilization, reduce literacy, alleviate poverty etc. Funds were therefore provided for better infrastructure and good governance. According to critics, the World Bank programs in some of the cases caused inconvenience rather than support to the economy of Pakistan. The attachment of tough conditionalities with loans by the World Bank and IMF places political pressure on the loan recipient countries (Cheema, 2004: 23-24; Swedberg, 1986: 383-384).

Currently, the newly appointed Government of President Zardari is facing one of the toughest times in Pakistan's history. On the one hand, they are fighting against terrorism as a frontline ally of the U.S. and on the other hand, there exists a very poor economic condition which is aggravating the situation of unemployment and poverty in Pakistan. However, the government of Pakistan has shown some interest in dealing with these issues whilst also being desirous of closer collaboration with the U.S.

3. CONCLUSION

This article set out to argue that the geo-strategic position of Pakistan has largely been used for the advancement of U.S. interests in the region. It has demonstrated that the World Bank and the International Monetary Fund were created by the Bretton Woods Agreements and the purpose of their creation was to provide financial and economic support to war-torn Europe after World War II. The focus of the Bretton Wood institutions later shifted towards developing countries to help with balance of payment adjustments, poverty related programmes, structural reforms, reconstruction and growth plans in the developing countries.

The experience of developing countries with World Bank and IMF participation in their economies has been mixed. Supporters of these institutions argue that their assistance is necessary in solving the economic problems of the member countries. However, opponents of the World Bank and IMF roles in the economies of developing countries make a case that these institutions have created myriad problems for the member countries. They argue that these institutions are highly politicised and in turn make decisions based on political considerations, rather than being mindful of the economic realities of a particular member country. The major criticism is on "conditionalities" attached to the loans, which cause complications for the achievement of sustainable economic development in the member countries. It is evident that internal factors are also responsible for the failure of Structural Reform Strategies but most of the policies of IFIs are aggravating the situation because of the political involvement of the U.S in their decisions.

As far as Pakistan is concerned, poverty reduction has been the major focus of both IFIs. There is a contradiction in the policy framework of the programmes introduced by the World Bank and IMF as, on the one hand, these institutions are interested in the efforts to reduce poverty and are ready to provide funding but, on the other hand, emphasise the privatization of public institutions, withdrawal of subsidies and deep cuts in public expenditure. Pakistan is facing serious problems of increasing poverty, heavy burden of external debts and the soaring inflation rate since the introduction of World Bank and IMF Structural Reforms in its economy. Therefore, there is a notable question here whether the people of Pakistan are part of the development introduced by the IFIs? The above discussion showed that the people living in member states of IFIs are far away from the outcomes or benefits of these structural reform strategies for which they are legally entitle. A Nobel laureate Amartya Sen suggests in Human Development Report 2010 (HDR) that the people are the real wealth of nations and must be provided a substantial share in the development of a country. Therefore, it is fundamental right of the people to share benefits of the development projects introduced by the IFIs, which are often compromised by the vested interests of the U.S as well as policies introduced by the government of Pakistan.

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