

# ACP-EU JOINT PARLIAMENTARY ASSEMBLY

*Session Document*

ACP-EU/100.202/08/A

15.03.2008

## REPORT

on the social and environmental consequences of structural adjustment programmes

Committee on Social Affairs and the Environment

Co-rapporteurs: Mr Alma Oumarou (Niger) and Gay Mitchell

### **PART A: MOTION FOR A RESOLUTION**

## CONTENTS

	<b>Page</b>
PROCEDURAL PAGE.....	3
MOTION FOR A RESOLUTION .....	4
EXPLANATORY STATEMENT (Published separately)	

## PROCEDURAL PAGE

At its meeting of 24 June 2007, the Bureau of the ACP-EU Joint Parliamentary Assembly authorised the Committee on Social Affairs and the Environment to draw up a report, pursuant to Rule 2(8) of its Rules of Procedure, on the social and environmental consequences of structural adjustment programmes.

At its meetings of 23 June 2007, the Committee on Social Affairs and the Environment appointed Mr Alma Oumarou (Niger) and Mr Gay Mitchell, as co-rapporteurs.

The Committee on Social Affairs and the Environment considered the draft report at its meetings of 12 September, 17 November 2007, 23 January and 15 March 2008.

At the latter meeting, it adopted the draft motion for a resolution unanimously.

The following were present for the vote: Karin Scheele (Co-Chair), Sithole (Mozambique) (Vice-Chair, acting Co-Chair and Co-rapporteur), Ljudmila Novak (Vice-Chair), Anne Van Lancker (for Kader Arif) (Vice-Chair), Oumarou (Niger) (Co-rapporteur), Astrid Lulling (for Gay Mitchell), (Co-rapporteur), Liam Aylward (Co-rapporteur), Marie-Hélène Aubert, Baldeh (Gambia), Josep Borrell Fontelles, John Bowis, Michael Cashman, Chan (Solomon Islands), Danata (Cameroon), Deerpalsing (Mauritius), Emanuel Jardim Fernandes, Fiona Hall, Jutta Haug, Jiménez (Dominican Republic), Madeleine Jouye de Grandmaison, Kabore (Burkina Faso), Maria Martens, Matola (Malawi), Rathipal (Suriname), Said (Djibouti), Horst Schnellhardt, Jürgen Schröder, Thwala (Swaziland), Tosul (Vanuatu) and Armando Veneto.

The report was tabled on 15 March 2008.

## MOTION FOR A RESOLUTION

### on the social and environmental consequences of structural adjustment programmes

*The ACP-EU Joint Parliamentary Assembly,*

- meeting in Ljubljana (Slovenia) from 17 to 20 March 2008,
- having regard to Article 17(1) of its Rules of Procedure,
- having regard to Articles 177-181a of the Treaty establishing the European Community,
- having regard to the European Parliament resolution on more and better cooperation: the 2006 EU aid effectiveness package (2006/2208(INI))<sup>1</sup>,
- having regard to European Parliament resolution on the strategic review of the International Monetary Fund (IMF) (2005/2121(INI))<sup>2</sup>,
- having regard to the Poverty Reduction Strategy Paper (PRSP) approach, initiated by the IMF and the World Bank in 1999,
- having regard to the Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals (MDGs) as criteria established jointly by the international community for the elimination of poverty,
- having regard to the Monterrey Consensus on Development Finance of 22 March 2002,
- having regard to the Washington Consensus,
- having regard to the Rome Declaration on Harmonisation, adopted on 25 February 2003, and the Paris Declaration on Aid Effectiveness, adopted on 2 March 2005 following the High Level Forum on Harmonisation and Alignment for Aid Effectiveness (hereinafter 'Paris Declaration'),
- having regard to the Heavily Indebted Poor Country (HIPC) Initiative launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage,
- having regard to the Multilateral Debt Relief Initiative (MDRI) launched in June 2005 by G-8,
- having regard to Debt Sustainability Framework of the World Bank and the IMF (2005),
- having regard to the Independent Evaluation Office of the IMF report on the IMF and aid to Sub-Saharan Africa (2007)<sup>3</sup>,
- having regard to the 2005 World Bank Review of Conditionality<sup>4</sup>,
- having regard to the IMF Guide on Resource Revenue Transparency adopted in June

---

<sup>1</sup> OJ C 306 E/373, 15.12.2006, pp.373-380.

<sup>2</sup> OJ C 291 E/0, 30.11.2006, pp. 118-122.

<sup>3</sup> <http://www.imf.org/external/np/ieo/2007/ssa/eng/pdf/report.pdf>

<sup>4</sup> [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651860/DC2005-0013\(E\)-Conditionality.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651860/DC2005-0013(E)-Conditionality.pdf)

2005<sup>1</sup>,

- having regard to the World Bank Extractive Industries Review of 2004,
  - having regard to Performance Measurement Framework of the Public Expenditure and Financial Accountability Programme (PEFA) of June 2005,
  - having regard to the report of the Committee on social Affairs and the Environment (ACP-EU/100.202/08),
- A. whereas the main objective of a structural adjustment programme (SAP) is the promotion of sustainable economic growth, structural adjustment programmes broadly cover the set of conditions, technical assistance and policy advice for a developing country, usually as part of their lending programme,
- B. whereas SAPs have often failed in the countries in which they have been implemented, because of overly restrictive conditions imposed by the creditor, whereas in 2004, the World Bank replaced its SAPs by a new Development Policy Lending instrument (DPL),
- C. whereas stable macro economic conditions, improved public expenditure, sound fiscal planning and debt management, effective public financial management and budgetary systems, market based interest rates and exchange rates are fundamental to growth and development,
- D. whereas the SAPs have had disastrous social and environmental consequences for the ACP countries, including, in particular, the stagnation of school enrolment rates, the abandonment of higher education and research, continuing very high child and maternal mortality rates, failure to meet the drinking water needs of the inhabitants of ACP countries, and a reduction in civil servants' salaries and hence in their purchasing power,
- E. whereas SAP have been aiming at reducing the budget deficits of governments, in many cases leading to a reduction in the budget aimed for the social sectors, despite the fact that social investments such as in the areas of education and health care are needed for sustainable economic growth,
- F. whereas Bretton Woods institutions have often implemented SAP without taking the specific conditions of recipient countries into due consideration; whereas such programmes should be tailored-made in order to address the specific needs of the countries concerned,
- G. whereas after implementing SAP, countries are often worse off than before, and in cases where there has been macro-economic improvement, the negative consequences in the micro-economic field are often not been mentioned,
- H. whereas the Bretton Woods Institutions have played the leading role in structural adjustment over the past three decades; whereas the Bretton Woods Institutions possess a major influence over lending and development aid as most donors and financial institutions rely on their eligibility criteria,

---

<sup>1</sup> <http://www.imf.org/external/pubs/ft/grrrt/eng/060705.pdf>

- I. whereas the cuts in civil service staff and salaries in ACP countries and the scaling down of administrations' operating resources have led to under-administration in those countries and to a decrease in the effectiveness of their administrative machinery,
- J. whereas donors and lenders rely on conditionality given their duty and legitimate interest to ensure that money provided is managed correctly and used for its intended purposes,
- K. whereas economic policy conditionality has often resulted in blocking loans and grants from the IMF and the World Bank and which can lead to policies that are inappropriate to national conditions or even contradictory to achieving the MDGs,
- L. whereas the abolition of agricultural subsidies in ACP countries has led to a decrease in yields and agricultural production, resulting to an increase in the importation of food products and a decrease in the exportation of cash crops, and hence in the erosion of the balances of trade of ACP countries,
- M. whereas the IMF and World Bank have different priorities,
- N. whereas the austerity required under the SAPs has affected the social climate, at times led to political instability, and nurtured corruption and the embezzlement of public monies,
- O. whereas privatisations and the liberalisation of economies have been effected by the IMF and the World Bank in an ideological manner; whereas regarding Development Policy Lending, the World Bank states that "reflecting the mixed record of adjustment lending, the policy no longer contains any policy prescriptions - such as directives for privatisation and trade liberalisation policies",<sup>1</sup>
- P. whereas the austerity policy pursued within the framework of the SAPs has reduced demand, restrained growth and increased unemployment, particularly among young graduates,
- Q. whereas the increase in unemployment has fuelled the rural exodus and the migration flows from ACP countries to wealthy countries,
- R. whereas the SAPs have tackled the symptoms of under-development and not its deep-seated causes, with these being unequal trade, debt and the domination of multinationals, and the persistence of these, despite the increase in official development assistance, has resulted in negative net flows for the ACP countries,
- S. whereas poor political (democratic deficit) and economic governance is an obstacle to economic and social development,
- T. whereas the declared aims of the IMF are "to promote international monetary cooperation, facilitate the expansion and balanced growth of international trade, to contribute to the promotion and maintenance of high levels of employment and real income, promote exchange stability, improve the degree of disequilibrium in international balances of payments and provide financial assistance to ease balance of payments adjustments",

---

<sup>1</sup> "Development Policy Lending Retrospective", World Bank, 7 July, 2006, p. 5

- U. whereas the declared aims of the World Bank are to reduce global poverty and improve living standards through two development institutions: the International Bank for Reconstruction and Development (IBRD), which is focused on middle income and credit worthy low income countries and the International Development Association (IDA) which works with low income countries,
- V. whereas international financial institutions can play a positive role in favour of a more equitable globalisation, but this requires developing differentiated and non-conditional approaches, based on ownership and tailored to specific country circumstances, on issues such as trade liberalisation, privatisation and labour market deregulation,
- W. whereas there is marginal ACP representation on the Executive Boards of the IMF and the World Bank,
- X. whereas sustainable development meets the needs of the present without compromising the ability of future generations to meet their needs,
- Y. whereas an increase in poverty, massive unemployment, diminishing productivity and falling export earnings could be among the consequences of development strategies that fail to take into account the social reality of the country concerned and the situation of its natural resources, which are fundamental for their economy,
- Z. whereas implementation of the SAPs has had detrimental effects on public investment in social services, particularly in the field of health and education, on the growth of family salaries and incomes, on employment and on living conditions; and whereas governments have also been encouraged or forced to scale down their intervention in many sectors of the economy through the privatisation of public enterprises and the liberalisation and opening-up of the markets to foreign competition, including in the field of health and education,
- BA. whereas the adverse impact of the SAPs is recognised in the post-Washington Consensus approach, under which facilitating increased investment in the social sphere is also recommended,
  - 1. Recommends that the IMF and the World Bank scrap the negative conditions of SAPs and tackle the issues of unequal trade in connection with the World Trade Organisation (WTO), debt and limiting multinational intervention in ACP countries; considers that, in accordance with the Millennium Development Goals (MDGs), education (including higher education and research), health, water, agriculture (with a view to eradicating hunger) and the environment must be among the priorities of all the programmes;
  - 2. Calls in this context on the World Bank Group and the IMF to refrain from economic policy conditionality in their lending, to increase their transparency of conditionality, to give a true meaning to the principle of ownership by ensuring policies are country selected, and to focus on outcome-based, anti-poverty conditionality in their programmes;
  - 3. Considers there should be fairer trade between the ACP countries and the wealthy countries, and that liberalisation of the markets must not leave the weakest economies at

the mercy of the strongest economies;

4. Considers that the endeavours to cancel or alleviate debt should not be limited solely to low-income countries, but should apply to all the ACP countries in a situation of overindebtedness;
5. Considers that interventions by multinationals in ACP countries must be limited; in particular, that the setting-up of semi-public companies can enable states to increase their control over the exploitation of their national resources;
6. Welcomes, in this context, the support given by the World Bank Group, the IMF as well as the Africa Development Bank to the Extractive Industries Transparency Initiative (EITI), which "sets a global standard for companies to publish what they pay and for governments to disclose what they receive"; Calls for their continued support and calls on extractive industry public as well as private companies to comply with the EITI;
7. Considers that the IMF must help the ACP countries to develop and implement economic growth policies in line with its initial mandate; considers that the World Bank, for its part, should revert to its initial mandate, which is to help create the right conditions for development and hence to eradicate poverty; the IMF and the World Bank must, in particular, put aside all ideological considerations when addressing the issues of privatisation, liberalisation and agricultural subsidies in the ACP countries;
8. Welcomes the move by the IMF to make poverty reduction a priority in their programmes, and that poverty reduction is the overarching goal of the World Bank;
9. Considers that unsustainable debt levels, bad macro economic planning and poor policies seriously harm a country's development and that financial instability can have repercussions on the economy, affecting growth, jobs and economic and social well-being;
10. Noting that Poverty Reduction Strategy Papers (PRSP) are intended to be country-owned strategies specifically adapted to their development needs, is adamant that national ownership creates important responsibilities for governments in terms of the proper use of aid, good governance and a firm commitment to a development agenda;
11. Welcomes the recent positive economic performance of many developing countries including those in Sub-Saharan Africa, which has resulted from a number of factors, namely; debt relief, multilateral development assistance, improvements made by donors and most importantly the policies carried out by developing countries;
12. Welcomes the World Bank finding that countries receiving debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) have, between 1999 and 2005, more than doubled their expenditure on poverty reduction plans; recalls that at least 60 countries need all of their debts to be cancelled if they are to have any chance of achieving the MDGs and that there are yet more countries that require further debt relief;
13. Stresses that whereas economic growth is extremely important it does not automatically lead to poverty reduction and underlines the importance of equitable development

- policies and pro-poor growth strategies resulting in social and economic benefits for society at large and in particular ones focused on the achievement of the MDGs;
14. Stresses the need of fully political and operational cooperation with UN institutions, especially ILO in order to assess the real consequences of structural adjustment programmes and possible solution;
  15. Believes that sustainable development should be a central priority of reforms and considers sustainable development to include good governance and human rights and environmental aspects; recalls that macro-economic reforms can have a sustainable effect only when they fully embrace the objectives of human and social development;
  16. Recognises the need for immediate action to deal with environmental problems; underlines that the burden of responsibility for fighting climate change cannot be shifted to the developing world. Especially, the growing demand for bio-fuel in the developed world has to be balanced not to jeopardise food security and increased deforestation in the developing world;
  17. Notes that the IMF has strict macroeconomic rules in terms of reserve thresholds and inflation targeting that determine its guidelines over the use of aid, regrets that the IMF has blocked the use of available aid to Sub-Saharan Africa in some cases; encourages the IMF to be less restrictive in situations that permit a more ambitious development strategy and to take into account all available resources, particularly aid; notes that fiscal policy restrictions on these programmes might lead to difficulties in engaging health and education personnel;
  18. Regrets that the potential of aid has not been fully realised in the internationally supported national reform programmes;
  19. Recognises the considerable assistance provided by the EU to the ACP Countries to mitigate the harmful effects of the transitional phase and negative conditions of SAPs, as proof of its commitment to helping those countries; Europe, and rich countries generally, must nevertheless endeavour to increase their aid to 0.71% of their GDP; the ACP countries and the EU must frame a sound partnership agreement with a view to promoting genuine development in the ACP countries;
  20. Welcomes the IMF and the World Bank's Heavily Indebted Poor Countries Initiative (HIPC); and considers that onerous debt obligations have prevented countries developing, but calls on the IMF and the World Bank along with developing countries to prevent the recurrence of unsustainable debt situations, underlines that debt reduction will have significant effect only if the indebted country carries out policies that prevent a situation of unsustainable debts to reoccur;
  21. Considers sound public financial management to be indispensable to the reform agenda and calls for greater support to be given to supreme audit institutions; welcomes PEFA the international performance measurement framework in assessing a country's public financial management and calls on the Bretton Woods Institutions and other donors to apply it rigorously;

22. Is worried about the situation of fragile, conflict and post conflict states and underscores the necessity of the rule of law, a democratic political system, especially respecting the outcome of elections, and a peaceful and stable political climate for a country to embark on a positive development path;
23. Is concerned by the finding of the IMF's Independent Evaluation Office that there are differences of views among members of the Executive Board about the IMF's role and policies in low-income countries; considers therefore that the IMF should be reformed with a view to making it more democratic, not least through better representation of the ACP countries on its Executive Board;
24. Is disappointed by the finding that the IMF's aspirations with regard the Poverty Reduction Growth Facility have not materialised in practice, and that there is a disconnect between poverty reduction initiatives and actual policies implemented;
25. Is concerned by the IMF's operational shortcomings and in particular the diffusion and implementation of policy and institutional cohesion;
26. Encourages the World Bank, the IMF and the WTO, along with the UN and other multi-national and bi-lateral donors to cooperate to the greatest extent possible; so as to better understand and assist the ACP countries undergoing SAPs and to achieving the MDGs;
27. Considers that maximum country ownership over, and commitment to, the policy reforms are fundamental to their success; stresses the need for an integrated approach on decent work (employment, social protection, social dialogue, rights at work and gender mainstreaming) for the effective uptake of employment and social policy at national level;
28. Calls on the relevant international bodies to create mechanisms for the exchange of experiences which can serve as tools for those countries in which the process of economic restructuring has failed, or in which it is due to be launched;
29. Urges those countries with economic restructuring programmes to submit regular reports to the Assembly on the functioning and development of those programmes and the relevant agreements, so that best practices can be acquired for the benefit of the other members;
30. Considers it essential that governments are held accountable to their citizens with regard to the management of public revenue and expenditure, and in particular over revenues earned from extractive industries, and calls on the World Bank, *the* IMF, the EU and other donors to demand that public revenues are managed in a transparent fashion; for this, it is essential that democracy and the rule of law be strengthened in the ACP countries; it is also vital to strengthen the machinery of State by equipping it with substantial human and operating resources; stresses the importance of creating a culture of accountability which fully involves parliaments and the audit institutions;
31. Considers that the funds embezzled by dictators must be repatriated to the ACP countries; the EU must, to this end, bring all its influence to bear on the banks in which those funds have been deposited; welcomes in this context the launch, on 17 September 2007, of the

- joint UN-World Bank Stolen Asset Recovery Initiative, which aims to stop asset theft by strengthening accountability institutions in developing countries;
32. Regrets that the IMF's Independent Evaluation Office has found that IMF representatives in operation countries are stretched and do not adequately engage with local players;
  33. Considers that the elaboration and implementation of reform programmes should seek to increase democratic legitimacy through the involvement of *parliaments*, as well as consulting with other actors, namely the social partners and civil society, in particular organisations of employers and workers;
  34. Underlines that policies that encourage private sectors growth, including the promotion of foreign direct investment, open and well-functioning financial services, economic diversification, encouraging a spirit of enterprise and private land ownership are prerequisites for economic development and should therefore be reflected in the programme; encourages in this context public-private partnership;
  35. Considers that the State has a role to play, not least in managing the economy and in all the sectors where private initiative is wanting;
  36. Is worried about the dependence of some ACP countries on one main export, which is usually a basic commodity, and in this regard considers that the encouragement of industrial development and economic diversification strategies are essential for sustainable growth;
  37. Considers that for there to be sustainable development, it is necessary to promote, at international level (including via the WTO), the laying down of rules on fair trade, to set prices for products from developing countries which afford those countries sufficient revenue to guarantee workers there fair and decent pay, to guarantee the right to food security for all, and to cancel developing countries' debts where it is shown that such cancellation is likely to enhance significantly the living conditions of the inhabitants of those countries and not just of their leaders;
  38. Considers that prior to any privatisation in sectors of the economy, it is imperative to assess objectively and impartially the economic and social effects this will engender, that privatisation can therefore only be undertaken when the living conditions of the whole population stand to improve, and that it is essential to have binding international rules in this field, particularly in order to monitor the activities of local and foreign companies as regards compliance with acceptable social and environmental standards;
  39. Considers that privatisation as a borrowing condition is not an effective way to implement change and that countries should possess maximum ownership of these crucial policy decisions;
  40. Welcomes that the World Bank's narrow focus on privatization and liberalization has been replaced by a broader view regarding institutional reform and complementary policies;
  41. Welcomes the more targeted and pragmatic policy focus of the World Bank that allows for greater flexibility focused on medium-term reforms;

42. Welcomes the IMF's review of conditionality and calls for the immediate implementation of its conclusions that place a greater focus on country ownership, harmonisation of policies across sectors, stakeholder consultation, implementing the essential, tailored policies, predictability and transparency; stresses that conditionality should not undermine national autonomy and independence in policy-making, conditions should be limited to ensuring that assistance is used for its intended purposes, such as control against corruption, and to prevent giving assistance to governments that do not respect human and democratic rights and undermine countries' efforts to achieve the MDGs;
43. Welcomes the increased sense of national ownership over programmes, however reiterates that a strong commitment to necessary development reforms is a prerequisite;
44. Calls on donors to increase the coordination of their activities, but is concerned about the impact this may have on country ownership, and considers it crucial that national policy ownership is upheld at all times and that developing countries can decide on their development strategies;
45. Stresses that environmental conservation and protection tasks cannot be undertaken by the government alone; calls to develop partnerships with local and foreign agencies (WB/IMF, UN Agencies, WWF and Universities);
46. Calls on the EU and ACP representatives to coordinate their positions better on the boards of the World Bank and the IMF in line with development objectives of the European Union and ACP countries and to ensure that EU funds are solely used for these objectives;
47. Welcomes the recent adjustments of the voting quotas in favour of some countries but calls on the IMF and the World Bank, in the interest of their own legitimacy, to make further improvements in the decision making mechanisms to be more transparent and give appropriate weight to developing countries;
48. Instructs its Co-Presidents to forward this resolution to the ACP-EU Council, the European Commission, the African Union, the World Bank and the IMF.