

The World Bank and Trade Reform in Africa:

The WTO is not alone

Introduction

While the World Trade Organization (WTO) attracts most of the attention regarding trade in Africa, it is by no means the only institution that affects trade liberalization in African countries. International Financial Institutions (IFIs) like the World Bank (WB) and International Monetary Fund (IMF) play a critical role in advancing a free trade agenda on the continent. IFIs have a particularly strong influence in sub-Saharan Africa, where excessive debt burdens have forced most countries to take out loans from the IFIs frequently with harsh conditions. For indebted countries, IMF approval of the economic program is necessary in order to access any other aid or investment, giving it tremendous leverage.

Since the early 1980s, the IFIs have used their influence to encourage countries to adopt trade liberalization measures. In large part, IFI conditions have contributed to today's "corporate globalization" by requiring countries to re-orient their economies toward export production, to drop tariffs and other trade regulations, and to rely on international trade for provision of a great range of products, including food. It is little exaggeration to say that the "structural adjustment" policies imposed by the IFIs paved the way for the creation of the World Trade Organization (WTO) in 1995. Today, trade-related conditions in IFI programs in Africa still routinely carry stricter constraints than the WTO agreements to which the countries are party. By pushing countries to unilaterally adopt policies that are still hotly contested at the WTO, the IMF and the WB are indirectly influencing the outcome of WTO negotiations and promoting measures that may be counter to the interests of their client countries.

While African trade ministers debate trade policies at the WTO, finance ministers from the same countries are often holding discussions with the World Bank and IMF, behind closed doors. The confidential negotiations between staff of the Bank and Fund and the finance ministers of client countries may cover trade-related reforms that have been stalled at the WTO. Because these negotiations are subject to less public scrutiny than those held at the WTO, the significance of IFI trade conditions is frequently overlooked. However, not only might these trade reforms contradict or surpass what African countries have conceded within the WTO, but the IMF and World Bank's trade work may be aggravating the already imbalanced world trading system.

Despite its stated commitment to encouraging both developed and developing countries to liberalize, the IMF and WB only has leverage over borrowing countries. In fact, the donor countries control the IFIs, through their Boards of Directors, where they possess a majority of the vote. By encouraging further liberalization in developing countries without ensuring concomitant reforms in developed countries, the IFIs may exacerbate existing inequalities or worsen the already disadvantaged position of African countries facing barriers to entry into the world market. Because of the disproportionate power of IFIs over borrowers, *institutions like the World Bank and the IMF can insist on trade reform measures that may run counter to the development goals of impoverished countries in Africa and other regions.*

World Bank Trade Objectives in Africa

According to the World Bank, trade accounts for an increasingly important part of its work in Africa. While this emphasis represents a greater investment of staff and resources in various trade-related activities, it is a continuation of a long-standing effort to encourage export-oriented growth on the continent. However, the World Bank's efforts to increase trade in Africa are no longer confined to lowering tariffs and subsidies. Reforms of the 'trade enabling environment' – including measures concerning regulatory institutions, investment policies (such as taxes, incentives for private sector investors and rules regarding competition between local and foreign companies) and infrastructure – are being pursued with the objective of increasing countries' export potential. Trade has become the organizing principle around which development strategies in various sectors (from agriculture to private sector development to extractive industries) are framed.

How does the Bank influence trade liberalization?

I. Bank as knowledge broker

The World Bank has "cornered the market" on development literature, publishing numerous books and reports that frame the debate on development issues, not least among which is trade. In absence of alternative sources of information, many African countries get their information about trade policies and their impacts, as well as negotiating strategies, from the World Bank. At a general level, the Bank is setting the agenda for trade reform in many African countries and in the process, crowding out alternative views on development strategy. The Development Research Group and trade specialists within the Africa region vice presidency at the Bank provide analytical models and informal advice to borrowing country governments, researchers, think tanks, and regional trade organizations within Africa.

II. The Bank as Gatekeeper

A. Overview

Financing from the Bank and IMF available to a given country is dependent upon how that country measures up in terms of a variety of indicators. Furthermore, other donor institutions take their lead from the Bank and the Fund, so their decisions around allocation of financing and their evaluation of country development strategies affect a borrowing country's access to funds from a broad spectrum of donors.

The Bank and IMF use various tools to assess trade infrastructure in borrowing countries. The degree to which a country is deemed to be following 'sound trade policies' as defined by the Bank, may impact its access to much-needed debt relief, concessionary loans or grants (through the International Development Association), or budgetary support from the IMF. Furthermore, assessments of countries' investment climates inform lending strategies, which in turn guide the selection of development projects. Thus the evaluation of a country's trade infrastructure may prescribe those projects which will receive funding from various donors.

Structure of the World Bank Group

The WBG is made up of four lending institutions:

- **IBRD:** International Bank for Reconstruction and Development
- **IDA:** International Development Association
- **IFC:** International Finance Corporation
- **MIGA:** Multilateral Investment Guarantee Agency

Together IBRD and IDA are known as the “World Bank.” They both lend to governments, but at different rates; IBRD lends to middle-income countries at market rates while IDA provides the least-developed countries (LDC) with loans on concessionary terms and grants. With 32 of its 49 countries ranked as LDCs, reliance on IDA funds is common in sub-Saharan Africa.

IFC and MIGA provide financing to the private sector. Their (indirect) role in promoting trade liberalization is discussed in another BIC paper. (forthcoming on <http://www.bicusa.org>)

Because these evaluations are biased in favor of liberalized trade regimes, countries seeking to perform well and thereby increase their access to IFI funding have an incentive to adopt trade liberalization measures. The targets and conditions outlined in lending strategy documents and initiatives build upon this foundation to present a program of binding trade reforms required of a country throughout its relationship with international donors. Together, evaluations and strategies effectively serve as carrots and sticks in influencing trade liberalization reform. Following are descriptions of several key assessments and evaluations, lending strategies and frameworks that the Bank and Fund use to describe countries’ reform needs and prescribe which activities will receive financing.

B. Assessments and Evaluations

Country Policy and Institutional Assessments (CPIA)

The World Bank conducts an annual evaluation of each borrowing country, called the CPIA, to determine the amount of funding it can access from IDA in the coming year. Most countries in sub-Saharan Africa are IDA countries and depend heavily on its concessionary loans and grants. The CPIA evaluates a country in terms of twenty criteria among which are trade related indicators, like tariff levels, the existence of quantitative restrictions on exports, etc. A country receives a more favorable rating the lower its tariff levels, the fewer its quantitative restrictions, and the lower its export taxes – to name but a few of the trade-related measures reflected in the assessment. Because the allocation of all IDA funding is based upon CPIA ratings, CPIA imbeds a bias toward open markets and trade liberalization at the very foundation of a borrowing country’s relationship with the Bank. In other words, the degree of market openness is a critical factor in determining how much money a country may get from the Bank; with so many governments relying on IDA as an important source of capital, this creates an incentive for countries to liberalize markets and adopt trade reforms.

Investment Climate Assessments (ICA)

As part of its “economic and sector work” in a country, the World Bank frequently undertakes an evaluation of the prevailing investment conditions, from the regulatory environment, to the quality of infrastructure and utility services, and a range of other factors linked to the ease of doing business in the country. These “Investment Climate Assessments” set targets for an export-oriented trade

reform agenda, by identifying the barriers to investment that a country needs to overcome. ICAs inform the Bank's assessment of a country's poverty reduction plan and the degree to which a country is implementing an export-oriented growth strategy, as well as the Bank's own lending strategy for a given country, laid out in the Country Assistance Strategy (CAS). The CAS is discussed more fully below.

IMF Article IV Consultations

The IMF conducts annual evaluations of all its member countries' economies, known as "Article IV Consultations." Industrialized countries routinely ignore the IMF's recommendations, but developing countries cannot afford to do so since, as with the Bank, the conclusions determine their access to future IMF funding and can result in the suspension of current loans. For borrowing countries, IMF Article IV reports clearly articulate which trade reforms (and other macroeconomic measures) the IMF requires a country to pursue as a condition of its lending program, and evaluate the extent to which the borrowing country has met them.

The Integrated Framework

The IFIs are involved in a multi-institution initiative called the Integrated Framework for trade-related technical assistance (IF). The IF produces research that is designed to provide recommendations regarding trade-related reforms in the Least Developed Countries (LDCs). This research is used to inform the development strategies of the LDCs and guide aid programs in their countries. Since many of the world's LDCs are in Africa, the IF helps push trade to the forefront of African development strategies and influences donor assistance to the continent. The World Bank has primary responsibility for arranging the research carried out under the IF and, as a result, has a substantial influence on the design of the trade diagnostic studies. The Bank's influence on these diagnostic studies helps to entrench trade liberalization in the foundation of LDCs' development strategies. (See BIC's paper "The Integrated Framework: An Introduction.")

C. Country Strategies and Lending Frameworks

Poverty Reduction Strategy Papers

In order to access funds from the WB or the IMF, or to be eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, LDCs in Africa are required to draft a strategy that charts out their development priorities and describes the government's policies and programs to promote growth and reduce poverty. This document, called the Poverty Reduction Strategy Paper (PRSP), is supposed to guide all financing provided to the country by donor institutions. While in theory the document is 'country-driven,' it is subject to endorsement by the Boards of Directors of the World Bank and IMF. Furthermore, critics note that many key macroeconomic issues, like trade reforms, are not among those aspects of PRSPs which are subject to public comment and debate. These trade-related provisions are often nearly identical from one PRSP to the next and very similar to the prescriptions contained previously in the structural adjustment loan documents used before the launch of the PRSP process.

Trade facilitation measures and trade policy reforms are becoming increasingly prominent within PRSPs, due largely to pressure from the World Bank and IMF. In the past, the WB has expressed its trade policy preferences in the *PRSP Sourcebook*, a guide for PRSP preparation which has been widely

adhered to by borrowers when drafting their PRSPs. Today, analytical work like the IF studies and ICAs have a substantial influence over trade measures within the PRSPs.

Country Assistance Strategies

Country Assistance Strategies (CAS) chart out the Bank's prospective financing portfolio in a given country for a three-year period. Perhaps more importantly, CASs describe the "triggers and key conditions", including trade-related reforms, that must be met by borrowers in order for the country to access the lending scenarios outlined in the Bank's strategy. CAS triggers may include trade-related reform measures that remain highly contested within the WTO or continue to pose challenges to African countries in their implementation, such as changes in rules about preferential treatment for local companies or privatization of services. For example, triggers in the 2004 CAS for Zambia include the reform of rules regarding competition between national and foreign investors.

HIPC

The Heavily Indebted Poor Countries (HIPC) debt initiative serves as another vehicle through which 'free trade' objectives are advanced. Many African countries require urgent debt relief under HIPC but in order to attain that debt relief, they must satisfy the conditions identified during HIPC negotiations (see a country's HIPC "starting point" and "completion point" documents for details on these requirements). These conditions often include key structural reforms such as providing tax waivers and incentives to facilitate export-oriented investments, elimination of preferential treatment for domestic companies and regulations regarding private sector access to markets.

III. *The Bank as a Financier: Lending Activities* Policy-Based Lending

A large portion of lending by the World Bank in Africa supports governments to reform their policies and institutions. In the 1980s and 1990s, these loans took the form of controversial "structural adjustment programs" that required countries to implement trade liberalization reforms in order to access funding for budgetary support and specific programs. After "SAPs" became a public-relations liability for the IFIs, these adjustment programs, including their trade reform objectives, were re-packaged in new policy and program lending instruments, such as the World Bank's Poverty Reduction Strategy Credits (PRSC) and the IMF's Poverty Reduction and Growth Facility (PRGF). Trade-related reforms are often included among the objectives of these and other adjustment loans (or "development policy" credits). The disbursement of these loans is conditioned upon a government's adoption or implementation of explicit reforms outlined in the credit documents and agreements. These requirements, which may include trade-related measures, are often listed as "prior actions," "tranche release conditions" or "triggers for future adjustment credits."

Trade Liberalization: an expanding suite of reforms

In addition to "traditional" trade liberalization reforms, like the elimination or reduction of tariffs and subsidies, many trade-related reforms emphasized today address institutional and regulatory issues regarding the trade-enabling environment. This expanded suite of reforms, many of which are called "behind-the-border" issues, remains highly contested by developing countries within the WTO largely because of their perceived adverse impacts on local producers and consumers, and the challenges they pose to countries' sovereign control. These reforms include: liberalization of government procurement, investment, trade facilitation, and competition policies; and further liberalization of the service sector.

Project Lending

In Africa, chief among the sectors in which Bank financing is concentrated are agriculture, infrastructure, energy and private sector development. While trade is rarely mentioned in the titles or explicit objectives of projects in these sectors, loans, credits and grants are often aimed at supporting an export-led growth strategy and increasing trade activity within the sector. Many critics worry that an emphasis on market openness and product specialization may strip local producers of much-needed protections, putting them at a serious disadvantage in their own national markets as well as in the context of the world market, and keep African economies vulnerable to the volatility of market prices and external shocks.

Technical Assistance and “Capacity-Building”

“Capacity-building” is one of the current buzz-words for lending in Africa and a key part of the IDA lending strategy. Capacity building and technical assistance loans provide a less visible, “behind-the-scenes” means of advancing a free trade agenda in Africa. Loans addressing technical assistance and trade capacity may be issued on a stand-alone basis or may be incorporated into other types of loans. While the precise content of technical assistance and capacity-building (TACB) credits varies greatly and is often vague, they often support the hiring of external consultants to advise on policy reforms, the revision of legislation, the training of staff, the reorganization of institutions, and research or analytical studies. Through country program staff and its research arm, the World Bank Institute, the Bank provides advice to borrowing country governments about their strategies for negotiation in multilateral trade talks (like the WTO) and other regional and bi-lateral trade agreements (like the Economic Partnership Agreements growing in prevalence across Africa).

Conclusion

Through the various instruments and mechanisms outlined in this paper, the Bank and Fund use their control of the development research agenda and countries’ access to external finances to advance trade liberalization in Africa. Both the IFIs and the WTO exert pressure on African countries to implement further trade liberalization measures even when, at times, they run contrary to a country’s development priorities. While civil society has focused its critique of the impacts of trade liberalization primarily on the WTO and the trade ministers who represent member countries during WTO negotiations, far less attention has been directed at the IFIs and the finance ministers with whom they negotiate. As a result, liberalization reforms that have been resisted at the WTO are being advanced through deals made between finance ministers and the IFIs. Given the inequity in bargaining power between the IFIs and the individual African countries that depend on their funding, the in-built biases towards trade liberalization in IFI country-assistance activities place tremendous pressure on those countries to undertake further trade liberalization. The success of the IFIs’ efforts to ensure trade liberalization in individual countries in Africa challenges the ability of African states to continue collective resistance to ‘free trade’ measures that go against their development priorities and objectives. To be effective, challenges to trade liberalization in Africa must address the IFIs as well as the WTO.

Resources

For additional information about the availability of documents related to the World Bank assessments, strategies, initiatives and loans mentioned in this paper, please refer to:

- Bank Information Center's Toolkit for Activists on "Getting Access To Information From The World Bank: The Fundamentals"
http://www.bicusa.org/bicusa/issues/misc_resources/293.php
- Bank Information Center's webpage on transparency at the WB:
http://www.bicusa.org/bicusa/issues/transparency_at_the_world_bank/index.php
- World Bank documents catalogue
<http://web.worldbank.org/servlets/ECR?contentMDK=20117466&sitePK=222993>
- World Bank webpage on Africa and trade <http://www.worldbank.org/afr/trade/>