

Invisible Hands

Tracing the Connections Between the Policies of International Financial Institutions and Country Budget Policies

A Conference Report

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EXECUTIVE SUMMARY

In April 2005, two international civil society networks – one that seeks to influence government budget policies and one that seeks to influence the policies of international financial institutions (IFIs) – came together for a global meeting titled: *International Financial Institutions, Budget Policy, and Social Justice: An Opportunity for Civil Society*. The meeting was convened by the International Budget Project (IBP), with its partner, The Democracy Center, and the Bank Information Center (BIC). This is the report of the information shared by each community, and the new thinking that emerged as these groups came together.

It includes reports from the IBP and the BIC on how each community does its work, a set of case studies that illustrates each field's work in action, a look at the cross-cutting issues of concern in both fields, and strategies for potential collaborations.

I. Civil Society Budget Work – An Overview

Warren Krafchik of the International Budget Project (IBP) provided an overview of the importance of civil society work on budgets and the essential strategies involved.

Budget Work's Core Values

According to Krafchik, applied budget work is guided by five important core values: the public has a right to budget information; the public has a right to participate in public budget making; inclusive budgeting can help to reduce poverty and improve governance; meeting the basic needs of the poor should be the highest budget priority; and fiscal sustainability is also crucial.

Types of Civil Society Budget Work

Krafchik outlined some of the main types of civil society budget work. They included: participatory budgeting (in which governments set aside a percentage of the overall budget to be allocated by citizens); advancing budget literacy among citizens; undertaking budget process and system studies; analyzing budget policies; and tracking budgets and assessing their impact.

Factors in Achieving Success in Civil Society Budget Work

The IBP also identified eight factors that it said were critical to the success of applied budget work: dedicated capacity, which meets a minimum threshold of competence; working on budgets through the whole budget process; an obsession for accuracy; analysis timed to have an impact on policy; making budget information understandable to the public; forming strategic alliances with the broader civil society; working effectively with the media; and forming oversight partnerships with institutions, such as auditors general.

Challenges to Effective Budget Work

Krafchik also identified five main challenges common among groups doing budget work: increasing public knowledge and participation in budget issues; building the needed analytical and advocacy skills; building relationships with government; building civil society relationships; and working with donor agencies and IFIs.

II. Civil Society Work on IFIs – An Overview

Manish Bapna of the Bank Information Center (BIC) offered an overview of civil society work on IFI issues.

Operating Principles of the Civil Society Groups that Work on IFI Issues

Bapna explained that civil society groups working on IFI issues are guided by five major principles: a fundamental commitment to social and economic justice; a human rights-based approach to development; environmental sustainability; IFI transparency and accountability; and a commitment to democratic governance.

Key Trends in IFI Policy and Politics

Bapna also shared three important trends that are changing both internal IFI policymaking and the ways in which civil society groups are addressing IFI policies: the fracturing of the Washington Consensus approach to policy; changing dynamics within the IFIs that are broadening power beyond the G-8; and a shift in lending priorities that claims to focus on poverty reduction.

Civil Society's Strategy and Approach to IFI Issues

Bapna described the different strategies that civil society organizations employ to influence IFI policy. These included efforts to increase the formal accountability of IFIs to the communities affected by their policies and focusing on specific IFI projects and specific IFI mechanisms like Poverty Reduction Strategy Papers (PRSPs) and Poverty Reduction Support Grants (PRSGs).

III. Key Themes from the Meeting

As meeting participants moved deeper into their discussions about the connections between budget policy and the role of international financial institutions, four important themes emerged:

The Mechanisms through which IFIs Influence Country Budgets

Participants identified the formal and informal mechanisms that IFIs use to influence budget policy, including: loan and aid conditions; the World Bank's PRSPs; the IMF's

Poverty Reduction and Growth Facility (PRGFs); other written agreements and communications between governments and IFIs; and technical assistance.

The Hidden Dance of IFI/Government Negotiations and the Loss of Democratic Space

Beyond the formal mechanisms described above, participants shared their knowledge of how hidden IFI/government negotiations function and expressed concern about the resulting loss of democratic space.

The Major Budget-Related Policy Areas Affected by IFIs

Participants in the meeting identified and discussed five major policy areas where IFI influences and conditionalities directly overlapped with issues related to public budgets: deficits; tax policy; budget spending and priorities; privatization; and trade policy.

Common Challenges for Civil Society Groups Working on Both Issues

Participants in the meeting identified a series of challenges common to civil society work on budgets and civil society work on IFI issues. These challenges included: transparency and access to information; access to the decision-making process; public corruption; building civil society capacity; and connecting the issues involved to issues of direct citizen concern.

Strategies for Intervention: Lessons of Success in Achieving Influence

A good portion of the discussion at the meeting centered on what specific strategies and actions civil society groups concerned with both issues can employ that will make them more powerful vis-à-vis governments and IFIs. Participants, looking at their actual experiences in advocacy, identified six key strategies: mapping the whole process from IFI policy development to country implementation; effectively using analysis and information; working with the legislative branch; linking with larger political movements; focusing on local level work; and engaging IFIs to pressure governments.

IV. Building Bridges: How IFI and Budget Groups Could Help One Another

An important focus of the Washington meeting was to identify some concrete ways in which the two networks could begin to collaborate and assist one another. Participants agreed on four main strategies that would be beneficial to both budget work and IFI work.

Combining Knowledge about the Policymaking Process and Advocating Reform of that Process

Knowing the details of how IFI policy is initiated and adopted and how it follows through all the way to countries' budget-making processes was identified as a critical priority and an effort that requires involvement by both networks. Building on this analysis civil

society groups can begin to identify the most viable points for intervention at a local, national, and international level. Additionally, based on the knowledge of what this whole process looks like, civil society groups can begin to develop proposals for how that process should be reformed.

Combining Knowledge about the Impacts of IFI and Budgetary Policy and Advocating Reform of those Policies

One of the most important products that could come from collaboration between budget work and IFI work would be a new ability to document the real world impact of IFI policies. What, for example, are the budget constraints and poverty effects that arise out of demands for deficit reduction? There are many areas of analysis in which IFI work and budget work can combine to tell, in well-documented terms, the whole story of IFI policies and their on-the-ground impacts.

Combining Knowledge about Strategies for Intervention

The foundation for joint policy advocacy between budget and IFI groups is a solid joint assessment of what works and what does not work in terms of intervening with IFIs, national governments, and other key actors. Such an assessment requires an evaluation of the strategies that have worked in the past (to obtain information and to affect policy) and also the kinds of civil society capacities necessary to get the job done.

Building Relationships Internationally, Nationally, and Locally

That process of relationship building between the two networks could begin with some simple information transfers, through projects such as cross-trainings, material exchanges, and other activities aimed at helping each network understand better the work of the other. Participants also encouraged the idea of budget and IFI groups taking on joint research projects, nationally and internationally, on some of the various issues that cut across both issue areas – debt, privatization, project financing, service delivery, extractive industries, tax policy, and others.

V. A Concrete Proposal for Moving Forward

As the Washington meeting reached its conclusion participants developed a proposal to begin collaboration on an important area for research and follow-up.

A Multi-Country Case Study Mapping the Process by which IFI Policy Influences Country Budget Policy, Including Key Points for Civil Society Intervention

An initial joint research project would involve picking three to five countries and mapping, in a very concrete way, the full policy process of each case beginning with how IFIs influenced national level governments to take policy decisions that affected the budget and ending with how those policies then got implemented as national budget policy. The purpose of such research is to create a very vivid understanding of the

policymaking dance from one end to the other and, specifically, to evaluate the various opportunities and strategies for civil society influence at each step.

Surveying Users of the Research Beforehand

Participants also emphasized the importance of making this research as relevant as possible to potential audiences, by consulting beforehand with them regarding the design of the research. This consultation would include civil society groups that work on IFIs and on budgets, journalists who cover each policy area, government officials, and officials at the IFIs themselves.

I. INTRODUCTION

Across the globe two vital civil society networks are pursuing parallel efforts on behalf of economic and social justice. In the field of public budgets, a diverse array of civil society organizations is involved in the work of understanding the revenue and spending policies of their governments. These groups use analysis to demystify those policies for the public, the media, and lawmakers, and they use advocacy to make public budgets more responsive to the needs of the poor.

Similarly, a related network of civil society organizations is working locally and globally to understand and influence the policies of international financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF). These groups aim as well to redirect and refine these policies to protect and advance the interests of the world's poor.

In April 2005, two international groups that play a key networking role in each of these policy communities – the International Budget Project (IBP), with its partner, The Democracy Center, and the Bank Information Center (BIC) – brought their respective networks together for a global meeting titled: *International Financial Institutions, Budget Policy, and Social Justice: An Opportunity for Civil Society*. The report is a documentation of that meeting, of the information shared by each community, and the new thinking that emerged as these groups came together.

Participants in the meeting came from nearly every region of the world, from Asia, Africa, Latin America, Europe, and the US. They heard overviews from the IBP and the BIC on how each community does its work. They heard and commented on a set of case studies that illustrated each field's work in action. They also looked at the cross-cutting issues of concern in both fields and strategized together about potential collaborations.

The two networks found much in common. Both deal with the problems of access to information and the challenge of analyzing and translating that information into understandable forms. Both networks deal with issues of chronic poverty and strategies for national development. Both groups interact with powerful institutions that often have their doors closed to genuine citizen involvement.

The meeting in Washington was one of people and organizations with a rooted understanding of what it means for citizens to try to intervene in these issues in an effective way. It was an encounter among people who get their hands dirty every day in the practical work of taking issues that are hidden and making them visible and making the public institutions involved accountable to those whose lives they affect.

The report begins with a synopsis of the overview presentations about citizen budget work and citizen work on IFI issues. It then examines four key themes that guided the groups' discussions:

- How do IFIs and their policies influence country budgets?

- What are the major budget-related policy areas affected by IFIs?
- What are the common challenges for civil society groups working on both issues?
- What are some demonstrated effective strategies that civil society groups have developed for influencing the policies and institutions involved?

The report then concludes with a look at potential ways in which budget groups and IFI groups could begin to help one another and offers a concrete proposal for moving forward. Sprinkled throughout are case studies and examples that root the discussion in the real world experiences of the groups that participated. As much as possible we have also allowed the meeting’s participants to speak here in their own words.

II. CIVIL SOCIETY BUDGET WORK – AN OVERVIEW

Few public decisions have a greater impact on people’s everyday lives than public budget issues. It is through public budgets that governments determine everything from the quality of public schools to access to public health care. Warren Krafchik of the International Budget Project (IBP) provided an overview of the importance of civil society work on budgets and the essential strategies involved.

1) Budget Work is Key to Consolidating Democracy

“Working on budgets,” Krafchik said, “is central not only to fighting poverty but also to consolidating democracy.” How a government raises and spends its funds is a pivotal question facing any country and, in too many countries, especially poorer ones, those remain decisions largely carried out behind closed doors in the executive branch far from public view and scrutiny. However, Krafchik said, while budget processes remain traditionally closed, there is an emerging international consensus favoring more transparent and inclusive budgeting, a democratic keystone.

A growing number of civil society organizations, some governments (especially their legislative and auditing branches), and international financial institutions (IFIs), such as the World Bank and IMF, are all calling for and working toward greater budget transparency and openness. These calls have stepped up even more so in recent months as new initiatives for foreign debt relief from the world’s wealthier nations add to the pressure for more transparency in poorer ones. “*Applied budget work*,” as the IBP describes it, is the mechanics of making that transparency and engagement real, something that requires strengthening independent oversight and especially the role of civil society.

2) Budget Work’s Core Values

According to Krafchik, applied budget work, as practiced by civil society groups in the IBP network, is guided by five important core values:

The Public Has a Right to Budget Information

Civil society budget groups believe that citizens have a right to information about the government's management of public funds. They champion the idea, often neglected in many countries, that public funds are the people's funds and that the people have a right to know how those funds are raised, spent, and administered. Establishing that right – and the formal transparency and access mechanisms that go with it – is often the first political battle that civil society budget groups must wage in a country. The IBP recently released an important new international study, *Opening Budgets to Public Understanding and Debate*, in which researchers in 36 different countries evaluated their national governments' provision of access to public budget information.

The Public Has a Right to Participate in Public Budget Making

Following on the right to have access to budget information is the right of citizens to actively participate in the budget-making process. This right includes participation at every stage: elaboration within the executive branch; approval by the legislative branch; execution of the budget; and the auditing of it afterward. Here as well, civil society budget groups run into serious challenges. Budget development often takes place strictly behind closed doors and the process of legislative branch approval, a key window for civil society involvement, is often so brief (as little as two weeks in Croatia, for example) as to make participation impossible. Again, working to open up political space for participating in public budget issues is often the first work that budget groups do.

Inclusive Budgeting Can Help to Reduce Poverty and Improve Governance

Civil society groups, said Krafchik, also believe in the intrinsic value of budget making that is inclusive of all parts of society. Budget groups advocate that inclusiveness out of a belief that public spending policies will be more honest and more responsive to people's needs if the people affected are actually engaged in the decision-making process. To a large degree public budget making is a process of evaluating tradeoffs and setting priorities (money for the military versus money for schools, etc.). At its core, civil society budget work is about engaging the people who bear the costs and benefits of those tradeoffs.

Meeting the Basic Needs of the Poor Should Be the Highest Budget Priority

While civil society budget work is independent in terms of being largely free of links to political parties and the like, it is not neutral. Most civil society budget work is based on the conviction that meeting the needs of the poor ought to be the highest priority when developing budget allocations. Often budget groups focus their work on specific areas of spending that are the most key in terms of meeting the basic needs of the poor: access to health care, food security, public education, income support, and housing. These groups also work to help the poor to be active participants in budget issues and not just subjects of it.

The International Budget Project

The International Budget Project was formed within the Washington-based Center on Budget and Policy Priorities in 1997 to nurture the growth of civil society capacity to analyze and influence government budget processes, institutions, and outcomes. The IBP places a particular priority on working with organizations that focus on the impact of the budget on poor and low-income people in developing countries and new democracies.

The IBP's overarching aim is to make budget systems more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public. It works toward this objective through a combination of activities:

Providing training and technical assistance: The IBP provides comprehensive introductory training for individuals and groups new to budget work and a range of learning opportunities, including technical assistance to more advanced groups.

Measuring and advancing budget transparency and participation in the budget process: Given the importance of access to budget information and opportunities for citizen participation in the budget process, the IBP has designed a comparative measurement tool to assess the public availability of budget information across countries.

Ensuring adequate funding for civil society budget work: From its inception the IBP has therefore made it a priority to build the case for and raise the profile and grant making to the sector among multilateral and bilateral donors.

Acting as a hub of information on civil society budget work: The IBP provides the most comprehensive and widely used sources of information on budget groups and budget work around the world.

Building international and regional budget networks: In addition to supporting individual organizations, the IBP works to build international and regional networks of budget organizations. For this purpose, the IBP has focused on building regional partnerships in Africa, Latin America, and Asia as regional nodes in the emerging international network. In addition, the IBP works through meetings, such as this one, to raise the potential for budget work with international civil society networks.

Fiscal Sustainability Is Also Crucial

Civil society budget groups concern themselves not only with budget priorities but also with the overall fiscal health of governments to finance those priorities. Groups doing budget work weigh in on a host of issues that affect this sustainability including budget systems, public debt, and, to an increasing degree, taxes and revenue. The latter issue is critical, and groups are beginning to understand that if they wish to see increases in

spending on the poor they also need to play a role in determining where the funds will come from to pay for that spending.

3) Types of Civil Society Budget Work

The IBP uses the term “applied budget work” to describe what groups in the network do. By that it means budget work that is directly tied to the policymaking process and seeks to have an impact on it. Within the field of civil society budget work there is a wide variety of tested and original approaches – each with its own strengths and weaknesses – that groups choose from as they get started and establish their programs. Krafchik outlined the following:

Participatory Budgeting

One approach to civil society budget work that has gotten a good deal of attention is known as “participatory budgeting.” This method, pioneered in the Brazilian municipality of Porto Alegre, involves governments setting aside a specific percentage of the overall budget to be allocated through a process controlled by participating citizens. The benefits to this approach are that it involves citizens directly in the decision making over budgets and in the process also educates them about the challenges of addressing competing calls on finite resources. However, this model also requires very strong support by government officials who have to not only forgo allocating those funds themselves but also must invest significant resources to staff and support the citizen process.

Advancing Budget Literacy

Another approach that some civil society groups take is to work on expanding budget literacy and understanding among the general public. Groups do this through many different kinds of strategies. In Mexico and Peru groups have published educational inserts in newspapers. In Brazil the group IBASE offers a distance-learning course on budget issues via the Internet. The goal of this approach is to make budget issues more transparent by expanding the base of people who can follow them and who, in time, will be able to actively engage in monitoring and influencing their public officials and public budget decisions or in supporting others who do this.

Undertaking Budget Process and System Studies

Krafchik observed that, where access to budget information and the budget process is a significant obstacle, civil society groups focus on those issues first. They might address this obstacle by studying the country’s budget process and highlighting its shortcomings and the need for reform. Groups might look at internal accounting or financial management systems that serve to hide or distort budget information and include suggestions for change and reform. Work of this sort is often a precursor to undertaking analytic work on specific issues as it helps to map out the priorities for reform in the budget system.

A Closer Look

India: Demystifying The Budget

Praveen Jha of the Centre for Budget and Governance Accountability (CBGA) in India presented an example of what he called the work of “demystifying the budget”.

For the fiscal year 2005-2006 India’s Finance Minister presented a proposed budget that promised increased revenues and programs. For most people, including highly educated Indians, the budget, as in most all countries, was indecipherable. Citizens and many policymakers faced the prospect, again common, of having to accept the implications of the budget at the face value of the government’s representations.

Indian budget advocates, including the CBGA, set out to understand the implications behind the complex pages of numbers. According to Jha, they found some important stories buried in the data, including:

Over-optimism in Tax Projections: Civil society budget analysts concluded that the government’s projections of national tax revenue were significantly overoptimistic. To reach this conclusion they looked at past revenue data and projections for economic growth in the country, and examined the revenues these various growth predictions would generate under India’s existing tax policy. Jha explained, “As a result, if the expectations of the government on the revenue side are not realized, the government will be forced to curtail its expenditure, and in that situation the most vulnerable to cuts would be social sector expenditures.”

Rural Employment and Poverty Alleviation Estimates High on Rhetoric: The CBGA compared the soaring promises of the government about combating poverty and generating rural employment with the actual allocations of funds for that purpose. That analysis allowed civil society groups to identify the broad gap between government promises and its budget realities.

Bearing the Burdens of Fiscal Conservatism: Over the past decade India’s national government has implemented a pro-market philosophy, said Jha, which has had a serious impact on the government’s ability to collect tax revenue. The CBGA and others found that in order to comply with the constraints of the conservative fiscal policy (deficit reduction, etc.) the government has reduced tax rates (causing drastic decline in the tax-GDP ratio) and limited spending on rural infrastructure, agriculture, health, and education while at the same time increasing expenditures on defense and public employee salaries.

Analysis like this lifts out from the pages and pages of numbers publicly accessible stories that allow citizens and civil society groups to see the tradeoffs at stake in budget policy and to begin to influence that debate.

Analyzing Budget Policies

A very important element of civil society budget work, according to Krafchik, is undertaking analytic work on specific budget issues. FUNDAR in Mexico, for example, focused in on the failure of the national government to adequately fund health services for expectant mothers. In South Africa, IDASA has evaluated national spending for children's services and weighed this against the country's constitutional requirements to provide such services. In many countries, studies such as these are the core of civil society budget work.

Tracking Budgets and Assessing Impact

Another area of budget work described by the IBP is looking at budgets during and after their execution. How did actual spending match with what was budgeted? In many countries the executive is free to spend funds quite differently than in the approved budget or fails to fully spend funds that are allocated for items such as infrastructure development. Did spending actually happen the way the government reports it? In Malawi, community volunteers literally count everything from school textbooks to teacher hours to see how what it says on paper matches up against reality. Groups also ask questions such as: What are we actually buying with budget funds and what impact is spending having on access to and the quality of health, education, and other public services. Budget groups might seek to answer all of these questions through applied budget work.

4) A Taste of Success

Civil society budget work is still, for the most part, a new undertaking in much of the world, making it too soon to judge its impact. However, Krafchik described some clear evidence of impact and success in groups where budget work has been undertaken the longest. In Mexico FUNDAR has succeeded in winning a dramatic increase in national budget allocations to prevent maternal mortality. In Uganda the Uganda Debt Network has used local budget monitoring to effectively reduce corruption and improve implementation of local programs. In India the group DISHA has used applied budget work to tighten local government accountability. In South Africa the work of IDASA has contributed to the strengthening of public financial management systems and legislative oversight.

5) Factors in Achieving Success in Civil Society Budget Work

The IBP identified seven factors that it said were critical to the success of applied budget work:

Dedicated Capacity

Applied budget work is a serious undertaking which requires dedicated organizational capacity to be competent and effective. While some groups find success by wholly

dedicating themselves to budget work, others accomplish their goals by adding a substantial budget work component to an organization that works on other issues as well (labor or economic analysis, etc.). In whatever form, however, the capacity for budget work must be substantial and dedicated to that specific purpose, not merely added on as an afterthought. Budget groups gain credibility by generating knowledge and expertise over time.

Year-Round Activity

Budget work, said the IBP, must also operate year round and not just during limited moments in the budget cycle (during legislative consideration, for example). The most effective civil society budget work attends to all elements in budget making: elaboration within the executive branch; approval by the legislative branch; execution of the budget; and auditing of it afterwards.

Accuracy

Getting the facts right is essential. One piece of bad data, one example of bad math, or one logically flawed analysis can destroy the value of a much larger body of analytic work and set back seriously the reputation of the group and analysis involved. The groups that are strongest in analytic work call accuracy an “obsession.”

Timeliness

To be effective, groups must make their budget analysis timely. It must be in the hands of policymakers, the media, and civil society groups when it is relevant to the decision making at hand, not three months after. Timeliness is a special challenge in countries where there are short legislative consideration periods and there is little public access to government budget information. Sometimes in such challenging contexts budget groups gain more by focusing their analytic efforts on other phases in the budget processes or on longer-term issues.

Accessibility

Groups doing effective budget work are always conscious of the need to make their information understandable and accessible. There is both a discipline and an art to this element of budget work. Making complex issues understandable is not always easy and takes a good deal of effort. People with great expertise need to be aware of how to communicate with people who have much less technical expertise and need to make that information compelling by linking it to issues people care about.

Linking with Broader Civil Society

Budget groups that do their work well also form strategic alliances with a broader section of civil society. Not all groups can combine under one tent the capacities of analysis, translation into common language, media skill, organizing and coalition building,

relationships with policymakers, and more. Budget groups have to link their analytic capacity to these others by collaborating with other groups who do possess these strengths. By forming broad partnerships within civil society, budget groups assure that they are asking the most relevant questions, they are focusing their analytic firepower on the right issues, and they are linking budget work to a base of political power that these groups would not otherwise have.

Effective Media Work

As budget issues are resolutely public issues, working effectively with the media is also an important feature of effective budget work. Budget groups make their information accessible to the media. They help reporters develop budget-related stories and in some cases offer formal trainings to journalists to help them cover budget issues over time. Strong media coverage of budget issues puts pressure on policymakers to respond to public demands and serves to educate citizens about budget issues in general.

Oversight Partnerships

Lastly, Krafchik observed that budget groups also earn a measure of effectiveness when they can join forces with institutions within the government on oversight and auditing. Budget group/government collaboration includes developing working relationships with the legislative branch and also with officials, such as national auditors general or the equivalent. Budget groups can find common cause with such officials in the goal of budget oversight.

6) Challenges to Effective Budget Work

Krafchik identified five main challenges that are common among groups engaged in civil society budget work:

Increasing Information and Participation

As noted earlier, key challenges in budget work are the obstacles planted by the government and inherent in the budget process itself, both in terms of access to information and opportunities for public participation. The extent of these obstacles varies a good deal by country but remain a challenge to some degree almost everywhere.

Building the Needed Analytical and Advocacy Skills

Effective budget work requires people skilled in analysis and in advocacy. In many developing countries the pool of people with such skills is limited and the competition is fierce for their services. Several conference participants noted that in smaller countries civil society is at a real disadvantage in terms of being able to offer people with such skills the same pay and status as they could receive from the World Bank or multinational corporations. Increasing the pool of people with these skills among civil society groups remains an important challenge.

Building Relationships with Government

Taking budget work into the arena of policy change requires that groups develop a variety of relationships with government actors. Some of these are relationships with analysts within the government who can provide access to information. Also key is building relationships with policy makers, some supportive, some antagonistic, and some in the middle. An important challenge for civil society groups is to develop each of these types of connections in the right way, to maximize each group's political effectiveness.

Building Civil Society Relationships

As noted earlier, building strategic alliances is an important part of budget work and often a challenge. Budget groups have to build interest in budget issues among groups concerned with other kinds of issues (children, human rights, anti-corruption, etc.) and they have to identify potential areas for collaboration and common action.

Working with Donors Agencies and IFIs

Finally, there is an opportunity for civil society groups to form strategic alliances with international donor agencies and IFIs, where they have an overlapping interest in issues of public finance transparency and action to combat poverty. The challenge is for groups to find the way to form such strategic alliances while taking note of the potential conflicts as well. For example, local World Bank officials might be potential allies on budget transparency while also being at odds with civil society groups on other issues, such as privatization of basic services. In some cases civil society groups have been able to use IFI pressure to move governments in the direction they desire (such as in pushing for transparency on oil revenues in Chad), but in doing so run the risk of being an instrument of IFI heavy handedness over national policies. Figuring out how to use these relationships strategically and appropriately is an important challenge.

III. CIVIL SOCIETY WORK ON IFIs – AN OVERVIEW

In developing and transition countries around the world, economic policies, including budgetary policy, are heavily influenced by a set of international financial institutions (IFIs), such as the International Monetary Fund (IMF), the World Bank, and regional development banks. As with domestic budget work, an important and diverse network of organizations operates worldwide to help citizens understand and influence the policies and actions of these institutions. Manish Bapna of the Bank Information Center (BIC) provided an overview of civil society work on IFI issues.

1) IFIs – A Brief History

The birth of institutions such as the IMF and the World Bank can be traced back to the 1944 international conference held at Bretton Woods, New Hampshire. With the end of

World War II out on the horizon, leaders from 44 countries gathered to construct a set of institutions through which they hoped to take collective action on global economics, akin

The Bank Information Center

The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. The BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and the IMF.

The above mission rests on the core premise that socially and environmentally sustainable development is not possible without the informed and active participation of local communities. All too often, powerful interests prevent local voices from shaping development policy and projects. Many of the current economic and social crises affecting the world's poor are in large part a result of their marginalization. By opening political space around development decision making, the BIC aims to ensure that local communities and civil society organizations have an important voice in decisions that affect them. The BIC assists these groups through the following activities:

Information Services and Capacity Building: The BIC provides specialized information and targeted capacity-building opportunities to place timely and accurate information in the hands of people affected by multilateral development bank (MDB) policies. The BIC conducts workshops and trainings with groups in developing and transition countries and participates in and supports NGO strategy forums related to the role of international development aid.

Project and Policy Monitoring: The BIC provides research services on the status, impacts, and parameters of proposed projects and policies; provides official documents and other information relating to the role of the MDBs; organizes and participates in workshops to explain the role of the MDBs and workshops to set strategies for trying to influence government and MDB decision making; conducts fact-finding missions and publishes fact sheets with partner groups on the impacts of the project; and helps arrange meetings between civil society groups and Bank officials.

Advocacy of Policy Reforms at the MDBs: The BIC promotes reforms at the MDBs that foster greater disclosure of information, increase citizen participation, strengthen accountability mechanisms, and promote stronger environmental and social safeguards. This policy work is carried out in coalition with environmental, development, and human rights organizations, particularly in North America and Europe, where NGOs can influence key decision makers at the MDBs and in donor governments.

to what they hoped to accomplish on issues of peace with the United Nations. The IMF was founded to serve the mission of promoting a stable international exchange of goods by providing countries with short-term loans. The World Bank was created with the mission of financing large-scale infrastructure projects, beginning with the post-WWII reconstruction of Europe.

In the six decades since, the mission of these two institutions and the others that followed has expanded considerably, especially into developing nations. The IMF now plays a significant (though declining) role in providing structural budget support to poor nations in Latin America, Africa, Asia, and the states of the former USSR. The World Bank has played a leading role in financing a wide variety of projects in those same countries, from dams to education reform.

This expansion of the role that IFIs play in countries' economic and development policies has been met with deep criticism, especially among groups representing the poor. Using aid conditions as a tool, IFIs have pressured some national governments to undertake a host of market-oriented reforms and development approaches (such as privatization of public services) that, in the view of many, have made the poor worse off and widened the gap between those who have and those who do not.

2) Operating Principles of the Civil Society Groups that Work on IFI Issues

Bapna explained that the community of civil society groups that works on IFI issues cuts across a wide spectrum of perspectives and points of view. Some groups are so deeply critical of IFI policy that they believe that most IFI institutions should be outright abolished. Others, while critical of IFI practices actively engage IFI staff and structures and seek to modify IFI policies. The BIC's network encompasses both of those perspectives and all the terrain in the middle. Bapna explained that the network is guided by five major principles:

Social and Economic Justice

The cornerstone principle that unites these groups is a fundamental commitment to social and economic justice, especially the rights of poor people to receive the basic services they need for a decent life and not to be left behind in the wake of market-oriented policies championed by the IFIs. Many of these groups are also directly concerned with the rights of indigenous people and their communities, which have been dramatically affected by IFI policies, such as the construction of dams and other major infrastructure projects.

A Human Rights-Based Approach to Development

Amidst criticisms that IFI economic policies are too often driven by market considerations, civil society groups are advocating that international development policies be guided instead by principles of international human rights. This rights-based approach uses a set of key international rights accords (on economic, social, and cultural

rights, in particular) as the guiding principle for how communities and people should be protected and supported by national-level economic policies.

Environmental Sustainability

Alongside the demand for more people-centered IFI policies, the groups are united in their concern that IFI policies have caused substantial environmental damage as well through deforestation, road building, mega-dam projects, and the like. Civil society groups are actively demanding that IFI policies be reformed to make environmental preservation and sustainability a key priority in IFI policymaking.

IFI Transparency and Accountability

As the BIC has noted, “It could be argued that the [World] Bank has more influence in developing country budgets and operations than most elected governments.” Civil society groups working on IFI issues are demanding increased transparency and accountability from the institutions themselves, including: public access to key documents; consultation with civil society groups globally and in the countries involved; and economic and social impact assessments of IFI policies. Groups such as the BIC are also directly focused on building up the capacity of civil society groups to effectively engage the World Bank and other international financial institutions as they develop their policies.

Democratic Governance

Finally, civil society groups that work on these issues are guided by a commitment to genuine democratic governance within countries, and especially the protection of minority rights. On the one hand, many civil society groups see IFI policies as a threat to such democratic governance by usurping national decision making over economic policy. However, some groups also see openings where IFIs are able to provide pressure on less-democratic governments to democratize their practices as a condition of aid and assistance.

3) Key Trends in IFI Policy and Politics

Bapna shared five important trends that are changing both internal IFI policymaking and the ways in which civil society groups are addressing IFI policies:

The Fracturing of the Washington Consensus

For much of the 1980s and 1990s the policies of major IFIs, such as the World Bank and the IMF, were guided by a set of market-oriented economic approaches known as the “Washington Consensus”. Patterned after the Reagan and Thatcher policies being pursued in the US and UK, this approach generally included privatization of public enterprises, relaxation of labor protections, and tax decreases combined with spending cuts to achieve low public deficits.

This so-called “consensus”, as Bapna noted, has become fractured and today suffers from a serious political backlash, particularly from civil society groups. The World Bank, the IMF, and the World Trade Organization have been the chief targets of this backlash, including major public protests worldwide. Regional banks such as the Inter-American Development Bank (which covers Latin America) and others have also felt this same backlash. According to Bapna, the result is an opening up of two important new opportunities for civil society groups concerned with these issues.

First, as the policies of IFIs have come under deeper and broader scrutiny, even within the IFIs themselves, a new political space has opened up in which civil society groups can propose and champion alternatives. Second, there is a general movement underway to reclaim the rights of national governments to set their own economic course rather than to adopt one as a condition of IFI financial assistance. For example, in Latin America, the governments of Argentina, Brazil, and Venezuela have each paid off all their remaining debt to the IMF and have ended their economic and policy dependency on the Fund. Changes such as these have created new opportunities for civil society groups to influence economic and development policies with the governments in their own countries.

A Major Shift in Policy and in Lending Priorities

Bapna also described the shifts in IFI policies and lending practices that have emerged recently. On the one hand, at a rhetorical level, IFIs are talking more directly about poverty reduction in low and middle-income countries, especially through the Bank’s PRSP initiative and the IMF’s PRSG program, described in more detail later. At the same time, Bapna explained that IFI lending is shifting back toward large-scale, high-risk infrastructure projects and that IFIs are also increasing the emphasis on private sector involvement in those projects. Among civil society organizations this shift in lending policy is raising concerns about the pressures that private sector involvement will bring to weaken environmental and social justice standards. Civil society groups are watching this process closely, including engaging the International Finance Corporation (part of The World Bank Group) in its development of “performance standards” related to environmental and social concerns.

The Alphabet Soup of IFIs

The International Monetary Fund (IMF): Founded in 1944 at the Bretton Woods Conference the IMF was originally given the mission of fostering stable international commerce and currency exchange by making short-term loans to member governments. Over time that mission has evolved into the Fund making substantial and ongoing loans to poor countries for basic budget support, in exchange for controversial “structural adjustment” reforms to those nations’ economies.

The World Bank: Founded with the International Monetary Fund in 1944 at Bretton Woods, the World Bank is the single largest source of development finance in the world. Since 1948 the World Bank has lent over US\$500 billion to low and medium income countries. Today The World Bank Group is comprised of five separate entities: the original International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the International Centre for the Settlement of Investment Disputes (ICSID), and the Multilateral Investment Guarantee Agency (MIGA).

The African Development Bank (AfDB): Established in 1964 with a mandate to promote economic and social development in Africa, the AfDB had an annual lending portfolio of just over \$2 billion in 2002. The AfDB provides loans, equity, and technical assistance to regional member countries at competitive rates, financing both public and private sector activities.

The European Bank for Reconstruction and Development (EBRD): The EBRD was established in 1991 with the aim of assisting the countries of Central and Eastern Europe and the Commonwealth of Independent States with the transition to market-oriented economies and democracy. It provides loans, equity investments, and guarantees for private and public sector projects in the areas of finance, infrastructure, industry, and energy, and has invested more than 21.6 billion Euros in the region since its establishment.

Inter-American Development Bank (IDB): The IDB is the largest multilateral public lender for Latin America, providing the region’s governments and private sector entities with: loans and investments, technical cooperation (interest-free loans), and technical assistance for planning and implementing development projects, and policy and sector reform programs.

4) Civil Society’s Strategy and Approach to IFI Issues

Bapna described the different strategies that civil society organizations employ to influence IFI policy:

Civil Society Initiatives Aimed at Promoting External Accountability of IFIs

Bapna described how civil society groups are working to increase the formal accountability of IFIs to the citizens and communities affected by their policies. One such initiative is an ambitious effort to help organize members of national parliaments and legislatures to understand the IFI policies affecting their countries (deficit reduction, privatization, etc.) and to engage IFI officials on these issues. Groups are looking at how IFI policies comply, or fail to, with national laws and international human rights, and environmental and labor accords. Civil society organizations have also catalyzed local referendums and plebiscites as a strategy for educating and focusing public opinion on IFI-related issues.

A Closer Look

The Philippines: Assessing the Burden of Debt

The Philippines, said Ernesto Tomas from the Freedom from Debt Coalition, has been operating under IMF aid and conditions since 1962, longer than any other country. The World Bank became active in the Philippines starting in 1981 by providing structural adjustment loans tied to policy conditions. As a result, explained Tomas, the country now owes an accumulated public sector debt of US\$110 billion, an amount equal to 130% of the nation's annual GDP.

The annual cost of servicing that debt, including payments on interest and principal, now exceeds \$11.5 billion. The burden of servicing the nation's debt, translated into pressures to hold down public spending, falls heavily on social spending, especially health, education, and basic infrastructure.

To address these issues, civil society groups in the Philippines entered into a process known as the Structural Adjustment Review Initiative (SAPRI), a venue to engage in popular education on the effects of structural adjustment. With significant participation from broad society, but not the government, the review ran for more than a year.

The groups identified a list of ways in which structural adjustment had had a negative impact on health and education, including a hiring freeze; suspension of some programs; reduced levels of services; and a greater demand on citizens to self-finance those services. Through the process, participants also identified the ways in which people were coping with those spending impacts, by deferring schooling, skipping medical care, and engaging in self-treatment.

The result of this process was an increase in the knowledge of civil society groups and citizens about the implications of debt and structural adjustment conditionalities. It also

strengthened their shared commitment to press for changes in spending and budget policies.

A Focus on IFI Projects and Mechanisms

An important element of civil society strategy on IFI policies is to focus on specific projects and IFI policy mechanisms. Groups have analyzed and carried out advocacy work on investment projects such as road building (in Brazil), transmigration (in Indonesia), pipelines (in Chad) and dam construction (in India). It includes civil society vigilance over IFI initiatives such as debt relief and trade liberalization. It also comprises monitoring the new mechanisms by which “structural adjustment” agreements are made between governments and IFIs (e.g. the Bank’s PRSP process and the Fund’s PRSG). Civil society groups also make use of internal accountability mechanisms within the institutions, such as the World Bank’s inspection panel process (through which formal complaints can be made about Bank policies).

Through all of these strategies, the approach of civil society groups, including the BIC and its partners, is to analyze and draw public attention to IFI policies; help affected communities and local civil society understand what is at stake; strengthen the capacity of civil society to influence IFI policies in a socially and economically just manner; and lead collaborative advocacy efforts to directly engage IFIs on those issues.

III. KEY THEMES FROM THE MEETING

As meeting participants moved deeper into their discussions about the connections between budget policy and the role of international financial institutions, four important themes emerged: a) the mechanisms through which IFIs and their policies influence country budgets; b) the major budget-related policy areas affected by IFIs; c) common challenges faced by civil society groups working on both issues; and d) civil society strategies for intervention.

1) The Mechanisms through which IFIs Influence Country Budgets

IFIs such as the World Bank and the International Monetary Fund, participants agreed, have a substantial impact on the budget policies of countries where those institutions are involved. Presenters and participants outlined the structure of formal mechanisms that IFIs employ to wield that influence:

Loan and Aid Conditionality

For more than two decades a staple of IFI influence over economic and budget policy in developing countries has been making loans and aid *conditioned* upon governments taking certain policy actions. On the one hand, it is important to note that such assistance can play a significant role in helping poor countries weather fiscal crises, some of them of the country’s own making. On the other hand, however, as many participants noted, the

effects of these conditionalities can be quite damaging to a country – fiscally, politically, and socially.

The nature of these conditionalities has been wide ranging. At the macro level, these conditions have required broad economic *structural adjustment*, such as the privatization of public enterprises, major changes in education and health policy, and fiscal austerity, targeting in particular public deficits and inflation rates. Such conditionality can also take more micro forms, such as stipulating the number of people that can be employed by a public water company.

The effect that such loans, aid, and conditionality can have on public budgets is substantial. Aid can boost the amount that a government has available for spending. Requirements for deficit reduction, on the other hand, can substantially slash public spending. Loan and aid conditionality can also, as noted above, determine the overall shape of budget priorities and public expenditure.

IFI conditionality was the subject of deep criticism among meeting participants, both for its content and the process involved. Several participants noted that in their countries structural adjustment reforms had widened the gap between the wealthy and poor, increased unemployment, and put some public services beyond the reach of the poor.

In terms of process, loan and aid conditionalities are generally set behind closed doors, in negotiations between IFI and country officials. These agreements are then captured in formal documents such as “Policy Framework Papers” and “Memorandums of Understanding” that lay out the specific conditions that governments have agreed to. As Zie Gariyo of the Uganda Debt Network noted, not only do citizens and civil society groups have no voice or role in the development of these policies, neither do their representatives in the national legislative branch. “All world Bank loans come with a deadline for approval, which is most times very tight. Parliament has almost no option but to authorize the loan, as otherwise that may be interpreted as working against the country’s interests.”

Participants also noted the interconnectivity between the conditionalities of various IFIs and, in particular, the overarching authority that the IMF wields in this area. As Rick Rowden of ActionAid noted, “We’re concerned that the World Bank won’t give loans unless countries comply with the International Monetary Fund program and conditions. The International Monetary Fund thereby operates as a gatekeeper of the national budget process.”

The net effect of these conditionalities and the closed-door nature of their development is that some of the most basic budgetary and policy decisions a country can make are de-linked from the sphere of national democratic decision making, and put in the hand of senior bureaucrats and officials of governments and IFIs over which the people affected wield no real influence.

It should also be noted, however, that some countries have begun to challenge the IFIs directly on conditionality and loan repayment issues. Most recently Argentina took the step of repaying all of its loans in order to reduce future pressure from IFIs. As will be described in more detail later, identifying effective civil society strategies for intervening in the process of setting loan and aid conditionalities is an important priority for both budget groups and IFI groups.

Poverty Reduction Strategy Papers (PRSPs)

The World Bank initiated the PRSP process as part of the Highly Indebted Poor Countries (HIPC) debt relief initiative. PRSPs are plans that describe a given country's long-term strategy for combating poverty. According to the Bank, PRSPs "describe a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs." PRSPs are developed through an elaborate process involving the Bank, the IMF, and country governments, with a "consultation" process built in that is supposed to allow for citizen and civil society participation as well.

Seventy countries have either adopted national PRSPs or are in the process of doing so. These papers are now a requirement in order to receive certain kinds of development aid from the World Bank and IMF and are also a prerequisite for participation in HIPC. As John Loxley of the University of Manitoba in Canada observed, PRSPs are yet another form of structural adjustment, in which countries agree to certain economic reforms in exchange for foreign aid and assistance. PRSPs are still constrained by macro-restrictions on deficit reduction that have had serious consequences on the ability of governments to finance public services.

Speaking of PRSPs Loxley asked, "Whose document is it?" In theory, PRSPs are locally developed with democratic participation. However, many civil society groups that have participated in PRSP consultations complain that civil society suggestions and concerns are not adequately considered and do not get included in the final document. Tom Kruse, a researcher based in Bolivia, told participants, "Now many former PRSP participants are jaded and don't want to participate [in similar consultations]."

Participants also noted that it is often difficult to track the actual plans and results of PRSPs through the budget. Leyla Karimli from Azerbaijan noted that, "You have to be a genius to make the connection between the budget and the PRSP." A common analysis in studies of PRSPs is that they have failed to effectively link planning with budgeting, so even the most inclusive planning approaches do not feed through into budget change.

Poverty Reduction and Growth Facility (PRGF)

In 1999, the IMF established a similar process, the Poverty Reduction and Growth Facility (PRGF) to make, says the Fund, the objectives of poverty reduction and growth more central to its lending to poor countries. Lending under a long-term PRGF is more advantageous to poor countries than non-PRGF lending, both in terms of stability and

favorable interest rates. IMF approval of a country PRGF also sends a favorable signal to other foreign lenders.

As with PRSPs, the IMF's PRGF is supposed to be developed with popular consultation. Also like the case of PRSPs, some civil society groups complain that both PRGF consultation and development have not adequately reflected the views of civil society and that the PRGF risks becoming just another version of structural adjustment with the veneer of civil society involvement. As John Loxley noted in his keynote talk, "PRGFs are basically structural adjustment with poverty reduction added on."

Other Written Agreements and Communications between Governments and IFIs

While governments and IFI discussions take place behind closed doors, the results of those negotiations are captured in a wide variety of formal documents. Together they constitute the agreements that bind governments to IFI policies and they also constitute the only real paper trail that allows civil society groups and citizens to know the details of those agreements. Rick Rowden of ActionAid outlined some of the additional forms of government/IFI agreements and reports:

Letters of Intent (LOI): LOIs are the preliminary agreements between a government and institutions such as the IMF. They spell out the basic framework of a policy agreement between the two, often followed later by an agreement that goes into greater detail.

Memorandums: Memorandums of Economic and Financial Policies (MEFPs) and Memorandums of Technical Understanding (MTUs) are usually a more detailed layout of the government and IFI agreement. Generally MTUs are written and submitted to the IFI by the country's central bank head and chief finance minister. Though, as usually noted, these memorandums are "prepared" in consultation with IFI officials, they often end up looking strikingly similar across countries, suggesting that country officials have little say in determining their content.

PRGF Reviews and Staff Reports: As part of the IMF's multi-year PRGF lending program to poor countries, the IMF prepares a review and accompanying staff reports to evaluate the progress that the country is making in terms of the agreements (related to public spending, structural adjustment reforms, etc.) that were the basis of the PRGF. These reports may also include ongoing or new requirements on the government in order for that assistance to continue.

Generally, all of these agreements and documents are available on the Web sites of the IMF and/or World Bank, though often published only in English.

Technical Assistance

"Technical assistance" is another vehicle used by IFIs to exert a certain degree of influence over country policies through the provision of short- and long-term expertise and advice within government offices, thereby directly contributing to national

policymaking processes. IFIs provide technical assistance through their own staff and also through outside consultants to work along side government officials on a wide variety of projects. That technical assistance might evaluate alternative water development projects, design plans for how to privatize elements of the health care sector, or assist with budget planning, political reform, tax reform, education reform, and many other major areas of policy that a government decides.

While there are certainly cases where that technical assistance has proven of great value to governments, it is also through this technical assistance that IFIs are able to infuse their own philosophies and thinking into a nation's economic and public policy. Some of that influence may be simply the power of argument, but there is also a subtle coercive pressure at work as well. It is clearly not lost on governments that the consultant from the World Bank offering advice on a project is going to be much friendlier in his or her reporting to the Bank if the government follows the advisor's counsel than if the government does not. To be sure, governments can differ with those providing this technical assistance, but they know that they do so at some risk.

An additional complaint about the role of this technical assistance is that, in some cases, IFIs add the cost of providing it (at high-level US consulting rates) to the debt incurred by the country with the IFI.

2) The Hidden Dance of IFI/Government Negotiations and the Loss of Democratic Space

The mechanisms described above are the formal means through which IFIs influence countries' budget policies. More significant, however, may be the informal means of influence, the behind-closed-doors negotiations between IFI officials and governments in which the real debate and the real decisions are taken. Participants in the meeting shared their knowledge of how this hidden IFI/government dance really functions, expressed concern about the resulting loss of democratic space, and identified some important tasks in order to change the rules of the game.

In a case study of the IMF in Bolivia (see box), Jim Shultz of The Democracy Center revealed the how the IMF carried out its behind-the-scenes efforts to pressure the government there to adopt a deep deficit reduction program. "Bolivia's Vice President told me directly that the government had told Fund officials that what they were asking for was too drastic, that it would provoke social chaos. He also told me that the IMF just wouldn't listen," said Shultz. The social protest sparked by the IMF's deficit reduction demands resulted in the deaths of 34 people in February 2003.

A Closer Look

Bolivia: The Path from IMF Policy to Death on the Streets

Bolivia, like many poor countries and a good many rich ones, relies on borrowing to finance its annual public budget. In 2002 Bolivia was running an annual budget deficit of 8.7% of GDP. In negotiations between the government and the IMF over continued budget support, the Fund told Bolivian officials it had to reduce that figure in 2003 down to 5.5%, a cut totaling more than \$250 million.

For South America's poorest country this was a mammoth amount. The country's highest officials warned the Fund that such a deep cut could provoke social upheaval and the government suggested a more modest target of 6.5%. The IMF refused. At the Washington meeting, Jim Shultz of The Democracy Center presented a case study on the government's efforts to meet the target.

In January 2003, Bolivian government officials looked at the deficit-closing options, focusing on how they might increase revenue rather than cut public services. Budget analysts presented the President with a two-part plan. The majority of the gap would be closed with a new tax on foreign oil producers. From a policy point of view this recommendation made sense. It had been declining revenues due to gas privatization that had helped contribute to the deep deficit. They also suggested a modest experiment in which a new income tax would be imposed on people earning ten times the minimum wage and higher, a first step, the analysts hoped, toward replacing the country's regressive value-added tax with a progressive income tax. Together the two tax proposals would raise \$160 million annually, a large chunk of what the IMF was demanding.

Bolivia's President, however, rejected the tax on foreign oil producers, fearing that it could have a negative impact on negotiations taking place at the time to start shipping Bolivian gas to the US, a deal the Fund also supported. Instead, he told his budget staff to draw up plans for extending the proposed new income tax all the way down to people earning two times the minimum wage (the equivalent of \$110 per month), a group that included the working poor such as nurses, teachers, and police.

When unveiled, the proposal came under political attack from all quarters, including the national police. Public protests against the tax erupted throughout the country. For a day the national police and the army fought a shooting war with one another on the steps of the Presidential Palace. Thirty-four people were killed in two days of confrontation. The President was ultimately forced to withdraw his tax plan and the IMF abandoned its deficit reduction target.

Participants from other countries shared similar observations about the heavy pressure on national governments to adopt policies prescribed to them by institutions such as the World Bank and the IMF. “There’s this whole fear that the money won’t come or will go away, if the country does not maintain an atmosphere conducive to investment as prescribed by the IFIs,” said Praveen Jha of the Centre for Budget and Governance Accountability in India.

One serious effect of these behind-closed-doors pressures is the elimination of democratic space, the opportunity of whole sections of society to affect the budget and economic course of their country. Jha observed, “The political space for democratic economic policymaking is what has been eroded, or has been in the firing line, in the last few years.” He noted that it is not only civil society that gets frozen out of budget policymaking but others as well. “In a substantive sense you find that sub-national governments also have very little say,” an observation, he added that goes against calls from IFIs for greater government decentralization.

Paolo de Renzio of the Overseas Development Institute identified three challenges involved in opening up government/IFI discussions to public participation: identifying how IFIs engage in budget processes at a macro level; identifying the instruments that IFIs use in each country to wield influence; and identifying the potential entry points for civil society groups to be involved.

Christopher Mwakasege of the Tanzania Social and Economic Trust, among others, made the case that civil society groups need to engage IFI officials directly. “Currently, the IFIs are only officially required to engage with governments, not civil society.” Nikki Reisch of the Bank Information Center cautioned, however, that opening up the political space for influencing IFI/government negotiations is really only half the task. The other is developing the technical capacity required to participate. “We need to coordinate with people who can fill out this political space effectively.”

More on specific strategies for developing civil society participation in IFI/government negotiations is discussed later.

3) The Major Budget-Related Policy Areas Affected by IFIs

Participants in the meeting identified and discussed six major policy areas where IFI influences and conditionalities directly overlapped with issues related to public budgets: deficits; tax policy; budget spending and priorities; privatization; and trade policy. Within these policies, some are the territory of the IMF, others of the World Bank and regional lending banks. In some cases there is crossover.

Deficits and Debt

A central tenant of IMF doctrine toward developing countries is maintaining low deficits and low public debt. As the Fund writes “One of the central insights from past research on developing countries is that prudent fiscal policy—that is, low budget deficits and low

levels of public debt—is a key ingredient for economic growth, which in turn is essential for reducing poverty and improving social outcomes.”

In his Bolivia case study, Jim Shultz shared the analysis he heard from an IMF official he interviewed for the report. “Heavily indebted countries are like a family, the IMF says, that repeatedly borrows from the bank or the local store, until one day it is told that it is too far in debt to receive any more credit. Fiscal discipline, according to the Fund is about making tough choices now in order to avoid tougher choices down the road and, ultimately, about assuring long-term economic sustainability.”

John Loxley explained that this focus on deficit reduction is reflective of a “crisis management’ approach that IFIs take to poor country finances. Anti-poverty measures, he noted, often take a back seat to fiscal discipline, or “it is assumed that economic growth will suffice [to lift up the lot of the poorest].”

“In studying fiscal policy, one can look at the size of the pie, how the slices of the pie are cut, and how they are disbursed,” said Rick Rowden of Action Aid. “We’re looking at the size of the pie and in this case [a primary focus on deficits], the size of the pie becomes captive to the monetary policy decisions.”

That said, it is equally important to note that debt forgiveness has become an increasingly important part of the IFI approach to its poor country programs. The World Bank, the IMF, and wealthier country governments directly have all entered into debt reduction initiatives of one kind or another. While participants commented on the general value of debt relief, they also noted that this relief is often tied to some of the structural adjustment economic reforms that are so controversial, though this time with a focus on “ownership” and “partnership”. This conditionality has created significant hurdles to receive debt relief and raised once more, the question of who is writing the economic rules, IFIs or elected governments. New debt relief initiatives sponsored by the members of the G-8 assembly of wealthy nations raise that challenge anew. It could be the start of a new round of structural adjustment pressures or it could be an opportunity for poor governments and civil society to press for a more democratic approach that does not usurp local policymaking.

Tax Policy

Another area of overlap between IFI policies and budget matters is the issue of tax policy, an area of specific IMF concern. Even where IMF policies do not dictate tax policy directly, they can have a great effect. Deficit reduction can only be accomplished with either spending cuts or tax increases. Development projects, such as those involving gas and oil, raise important issues about how industries and foreign corporations should be taxed and how those revenues should be monitored and distributed. Privatization and other capital development policies pushed by IFIs have important implications, as participants noted, related to corporate subsidies, cross subsidies from one economic sector to another, and major impacts on public revenue.

One thing that budget groups can do, participants noted, is help analyze the practical implications of policy options related to taxes. If IMF pressure leads to a new income tax on the poor, how much will it cost an average nurse or teacher? If the World Bank presses for privatization in the oil and gas sector, what will be the actual effect on public revenues? If the IDB presses for a public water company to recover more costs from rates, what are the implications of that for water users of different incomes?

One area where participants noted an overlap of interest between IFIs and civil society is in the area of tax and revenue transparency. In the case of oil and gas revenues, for example, civil society groups and World Bank officials have cooperated in pressing for oil companies and the government in Chad to comply with stiffer revenue disclosure rules.

Budget Spending and Priorities

A critical area of overlap between IFI policy and budget work is a whole set of issues related to budget allocations. Here participants found both real concern about the role of IFIs and also some opportunities for collaboration with them.

Participants noted a host of budget-impact issues that could be ripe for analysis, including: the specific budget impact of IFI conditionalities; the impact of multilateral debt and debt payments on budgets; costing out what it would require in the budget to meet objectives like the Millennium Development Goals; and the spending impact of tax changes.

Participants in the meeting also noted that analyzing budgets needs to go beyond just asking, how much are we spending? It must also begin to ask, what are we getting for the money? Vitus Azeem, of the Integrated Social Development Centre in Ghana said, “There are really two questions. One is about budget allocation and the other is the quality of public expenditure. The second requires that we trace a dollar spent to the outcome achieved.”

It is in this area of accountability and oversight where participants saw some opportunity for collaboration with IFIs. Rhetorically and with some concrete programming, the World Bank, the IMF, and regional lending banks have begun to position themselves as advocates of accountability. Daniel Cotlear, an economist with the World Bank, made a presentation to the meeting regarding a Bank initiative to expand government accountability in the Andes by building the capacity of citizens to monitor government performance in areas such as education and health care.

Participants also identified a set of important strategies that civil society groups can use to advocate alternatives to the budget policies pressed on governments by IFIs. These strategies included the development of alternative budgets that show better ways of allocating the resources available; Brazil-style participatory budgeting; working closely with legislative branch officials; and other activities laid out earlier in this report.

In the end, people from both areas of work agreed that there was a compelling value to linking forces on the core task of budget monitoring. One shared goal is simply getting hold of basic fiscal information to help evaluate both government and IFI policies. Speaking of Chad, where a World Bank-financed oil pipeline is central to the country's development program, the BIC noted, "To this day we really don't know how much money the government is getting."

Development Projects

As described earlier, in many countries IFIs play a major role in promoting and funding specific development projects. One type of project that drew a good deal of attention at the meeting from Africa to Latin America is the development of oil and gas resources in poor countries. The issues raised by such projects are emblematic of development project issues in general.

Nikki Reisch of the BIC presented a case study on the Chad-Cameroon oil pipeline, a project with deep World Bank involvement (see box). Jim St. George of the IBP responded to the case study with a list of important questions for analysis: How much in profit are oil companies making and what share goes to Chad? Who is paying the taxes? What are the impacts on other business taxes? Is the project destroying existing businesses? How does corruption affect the revenue stream?

From dams to pipelines, development projects big and small remain an important part of the IFI policy portfolio in poor countries. Projects such as these have huge public finance implications, on both the cost side and the revenue side. Participants agreed that it is essential for civil society groups to develop the capacity to understand these implications and develop policy positions that serve the broad public interest.

Privatization

Another area that has been a centerpiece of IFI policy and which has enormous public finance implications is privatization. The World Bank, the IMF, and other IFIs have made privatization of public services, such as water and health, and of natural resources, such as gas and oil, a major condition of aid in developing countries across the world. As a policy, privatization has deep budget-related implications in two ways. First, it affects the access of the poor to basic services and second, it has a major effect on public revenue.

The Democracy Center shared one privatization example from Bolivia, in which the World Bank made privatization of the public water system in the city of Cochabamba a condition of aid in the 1990s. That privatization turned into a one-bidder process in which the US corporation that took over the water, Bechtel, raised rates so drastically that residents of the city rebelled and forced the company to leave.

At the heart of the pressure to privatize is a set of promises and assumptions about benefits and costs. Budget groups are in a position to help evaluate those promises and

assumptions before the policy is taken and to evaluate those against real results if the policies are implemented. The intersection of budgets and privatization also goes to the same question raised by development projects like the Chad-Cameroon oil pipeline. How much should corporations get, be it in profits or concession fees, from consumers? As Praveen Jha of India noted, “It is not a difficult policy question. It’s the political question that’s difficult.”

Trade Policy

Finally, while some civil society organizations might not consider trade policy an area where budget issues and IFI policies intersect, some participants in the meeting said that it is important that trade issues be added to the list. “Budget analysis should also contemplate the impacts on the budget of commitments and trade agreements,” said Aldo Caliari of the Center for Concern. Trade agreements include a variety of public policy choices that affect budgets – reductions in tariffs which need to be compensated with alternative revenue measures, rules allowing foreign corporations to run local public services with repercussions on their costs, and other issues. These choices make trade agreements another important piece of the budgets and IFIs puzzle. “Many trade negotiations are not discussed with the population,” said Caliari, noting that the population will ultimately bear the cost.

4) Common Challenges for Civil Society Groups Working on Both Issues

Participants in the meeting identified a series of challenges common to civil society work on budgets and civil society work on IFI issues, including transparency and access to information; access to the decision-making process; public corruption; building civil society capacity; and connecting the issues involved to regular people.

Transparency and Access to Information

Whether dealing with a national government on issues of its taxing and spending or dealing with the World Bank and IMF on the conditionalities they are demanding of governments, access to full information remains a major problem for civil society groups, what one participant referred to as “massive opaqueness”.

The lack of access to information can take many forms. It can mean literally no access to the information at all, a complete refusal by the institutions involved to put material in people’s hands. It can also mean only making that information available after it is too late for civil society groups and citizens to use it. In other situations substantial information might be made available but have little relationship to reality. One participant shared that civil society activists in Egypt use the expression, “the theoretical budget” to refer to the budget released by the government there. “The budget merely tells you what the government tries to do, or even worse, what it wants you believe it is going to do.”

Under public pressure, most IFIs have begun to make more and more of their own documents public and many host substantial and resource-rich Web sites, for example. However, that information still does not guarantee a clear glimpse into the negotiations between IFIs and governments during the time in which those negotiations are under way and when civil society groups need to be informed and active. By the time a document such as a Policy Framework Paper is published, the deals involved are all complete.

“I think the Bank is much more transparent than previously,” said Daniel Cotlear of the World Bank. He added, however, “We don’t share and I don’t think we should share incomplete drafts of documents.” As noted earlier, IFIs can sometimes be a civil society ally in demanding transparency from governments and other players such as international oil companies, yet the IFIs themselves are not always so forthcoming with their own information.

For both budget work and IFI work there are some similar strategies involved in getting information. One is the development of relationships with analysts within the institutions involved (IFIs and governments), creating sources that will pass along important information informally. Another is looking for other institutional allies – legislators, auditors general, the media, and IFIs in the case of transparency demands to governments – who can join in the effort to secure withheld information. Yet another is developing methodologies for community-level auditing, such as that carried out by the Uganda Debt Network, where community volunteers actually count what budgets buy on the ground, allowing comparisons against what it says in official documents.

Access to the Decision-Making Process

Participants in the meeting reported their concerns about a lack of citizen access to both national budget deliberations and IFI/government policy negotiations. The IBP transparency survey found that access to decision-making processes was a more significant problem than access to budget information.

In budget work this lack of access most often has to do with the centralization of budget-making authority in the executive branch and the weak role of legislatures (typically the forum where civil society groups would be able to wield the most influence).

Regarding IFI/government negotiations, there was universal complaint about the closed-door nature of the process. In many poor countries this dialogue has a substantial impact on budget and economic policy. Yet the citizens who must live with the results are frozen out of the process. Leyla Karimli from Azerbaijan noted that IFIs openly justify the secret nature of the process. “The World Bank says to civil society groups, ‘I understand your point that civil society needs a role in policy dialogue, but we have to work on an attitude change of the government, which must be done behind closed doors.’”

Some participants noted also that the mechanism that IFIs often employ to supposedly make room for public participation, “consultations”, often proves to be more window

...dressing than effective participation. Vitus Azeem of Ghana reported, “For us we saw it [consultations] as an opportunity for civil society to be involved in policymaking. We sat in the consultative meetings, but our participation was not used. For that reason the situation has not changed and has caused civil society to become more radical and more vocal.”

Public Corruption

Public corruption is another issue that cuts across both work areas, but in different ways. In budget work, corruption raises the question of whether the funds allocated for public services and programs actually get spent as promised. Budget analysis call this problem “leakage”, as in the funds leak out of the system and into officials’ pocket along the route to their program destination. In Uganda, the Uganda Debt Network reported that, when it first started looking at budgets, it found that 60-80% of the resources allocated for public hospitals, for example, got taken along the way there. That “leakage” figure has dropped significantly, partly in response to citizen budget-monitoring activities.

Another important area of concern about corruption in budget work is on the revenue side. The BIC noted that in Chad there is substantial concern that the government is not actually receiving all of the oil revenue funds it is due under contracts and revenue agreements with oil companies. Such problems of official corruption are often endemic in poor countries.

IFIs, for their part, have made anti-corruption a major goal in their dealings with developing nation governments. The World Bank, for example, has declared, “The Bank has identified corruption as the single greatest obstacle to economic and social development.” The Bank also reports that it has instituted more than six hundred anti-corruption measures, based on the principles of: increasing political accountability; strengthening civil society participation; creating a competitive private sector; institutional restraints on power; and improving public sector management.

However, another approach that IFIs take toward battling corruption is not always productive and can be quite harmful. As Jim Shultz of The Democracy Center reported from his research on Bolivia, “The IMF says that one reason to squeeze public budgets, through demanding deficit reduction, is to squeeze out corruption. However, if you squeeze public spending, more than likely the last thing to get squeezed out is corruption. It is exactly those officials engaged in corrupt acts that are best positioned to protect themselves. In reality the budget squeeze is most likely to impact those least able to protect themselves politically and that is the poorest.”

Getting Started

Advocates in both fields face a common challenge in the question of – how do we get started? Whether on budget issues or IFI issues, in a country where either kind of work is new, what do you do first to lay the foundation for civil society participation?

Speaking of this challenge with regard to budget work, Warren Krafchik of the IBP observed, “How do you start? In every country it depends on the capacity of civil society. Maybe the first step is to build a greater awareness of budget with simple budget materials. Then later you can decide on a strategic decision.” Budget groups build awareness by producing basic explanations of where public funds in a country come from and where they go. Ernesto Tomas from the Philippines added that helping the public understand the basics of the budget process itself is also a key starting point.

Groups attempting to jump-start civil society work on these issues also start by anchoring that work in specific projects and issues that are already of broad public concern in a country. Groups working on IFI issues often do this by putting the spotlight on specific projects and programs (pipelines, dams, etc.) pushed by IFIs. Civil society work on budgets has been launched from concern over issues such as human rights, anti-corruption, military spending, women’s health, anti-poverty efforts, oil and gas revenue, and others.

The IBP’s Jim St. George noted that for many groups the biggest stumbling block to getting started is not the lack of the right issue or the right starting capacity, but the simple fear of entering policy areas that seem expertise and information intensive. “One thing that freezes us from doing something new is the belief that you have to know everything about something before you begin. That is not true. We just need to be able to do work better than what is already being done.”

Other participants cautioned, however, that in some countries a barrier to working on these issues is also personal safety. Vitus Azeem of Ghana noted that there the government told ActionAid, a group doing rights-based policy analysis, that if it continued it would get kicked out of the country. John Loxley added, “Budget policymaking is very political. An alternative budget agenda could get you in jail in some countries.”

Building Civil Society Capacity

While it is important that civil society groups not let fear of the technical stop them from entering the debate over budget issues and IFI policies, participants also agreed that there is a certain threshold of capacity – particularly analytic capacity – that is essential to weigh in on these issues in an effective and strategic way.

Participants noted that the initial capacity for analytic work can be found in many different places in a country. One important source is academia, where faculty can often be persuaded to turn their academic research capacities toward more applied issues. In fact, many academics may be eager to do so, but need civil society alliances in order to make it possible for them to do so. Heike Mainhardt of the BIC told the story of a professor in Kyrgystan who put out a paper on economic issues and was dismissed from the university. “Creating strong civil society partnerships is sometimes necessary to preclude situations like this from happening.”

Participants also observed that in many poor countries building in-house analytic capacity is made more difficult by the fact that, in search of greater salaries, status, and security, the most skilled people work, not in civil society, but in the government, multinational corporations, and the IFIs themselves.

All these factors come together to make developing solid analytic capacity a major challenge. In some places it does not exist in any real way at all in civil society, in others that capacity is under pressure to do more than it can credibly do. Said Warren Krafchik of the IBP, “The danger is that you’ll rely on the small set of organizations that you already have, who risk overextending themselves. I’m not worried about finding the entry point in the debate as much as I’m worried about stretching existing groups thin.”

Connecting Budget and IFI Issues to the Broader Public

Finally, groups said that another challenge common to both policy areas, is taking complicated policy matters and making the issues involved both understandable and interesting to regular people.

One aspect of this challenge is the education gap between the people who analyze these issues and regular citizens. “How do you tell the budget story to people who are illiterate,” asked Nikki Reisch of the BIC. This gap makes economic literacy as important a priority for groups as analysis. As Rick Rowden of ActionAid explained with regard to influencing government/IFI negotiations, “Ultimately the way to get borrowing governments to have more backbone is for there to be a strong political constituency, which requires strong economic literacy.”

The other related challenge is how to draw the connections between budget policy and IFI policy with the issues that concern people in their everyday lives. This challenge especially applies to poor communities, which are simultaneously the chief concern of civil society groups in both areas and also some of the hardest communities to reach.

5) Strategies for Intervention: Lessons of Success in Achieving Influence

A good portion of the discussion at the meeting centered on what became known as “the power question” – what specific strategies and actions can civil society groups concerned with both issues employ that will make them more powerful vis-à-vis governments and IFIs. Participants, looking at their actual experiences in advocacy, identified six key strategies: mapping the whole process from IFI policy development to country implementation; effective use of analysis and information; working with the legislative branch; linking with larger political movements; focusing on local level work; and engaging IFIs to pressure governments.

Mapping the Whole Process

The beginning step in both budget work and IFI work, and in connecting the two, participants agreed, is to develop a clear map of the policymaking process. This map

needs to include both the formal aspects of that process (the exchanges of memorandums of understanding between IFIs and governments, etc.) and the many informal aspects of that process (off the record meetings, technical assistance, etc.).

Participants identified a list of questions that are key to mapping that process: How is policy developed within the IMF, the World Bank, and regional development banks? How does that IFI policy get discussed with governments? Who talks to whom and when? How is budget policy actually made in a country? What happens in the executive branch and when? What happens in the legislative branch and when? Most importantly in all of this – what are the potential entry points for civil society with all of these institutions and policies, from the global to the local?

Without such a map, civil society is flying blind and that blindness brings a host of implications.

“In civil society, budget groups tend to blame the government when things go bad saying they are not capable, corrupt, etc., while IFI monitoring groups tend to blame IFIs,” observed Paolo de Renzio of ODI. “Maybe if there were a better common understanding about the dance between IFIs and governments in making these policies, pointing fingers could be done a little better.”

Warren Krafchik agreed, “There seems to be space for work that traces the thread of a conditionality all the way through a particular sector to a service delivery point. In that case, you’ve got enough to make a point in an IFI briefing but also to get a good message to the citizens. It seems like it’s almost there, we’re just missing a few steps at the end.”

The Effective Use of Analysis and Information

In both areas of work a key instrument of power is information. That does not just mean access to the information that governments and IFIs provide, but analysis that looks at the whole of that information and lifts from it the real stories about what policies IFIs and governments are implementing and the impact of those policies on real people.

Participants outlined a whole set of questions that budget groups and IFI groups could look at together, joining disciplines and perspectives to create a much clearer picture of great value to both. Some of these ideas included: looking at the real impact of debt, debt repayment, and debt forgiveness on budgets and public services; the state of subsidies and cross-subsidies that result from IFI policies; and monitoring the progress toward targets set by governments and IFIs in health care and education, etc. Others noted the ongoing importance of looking not just at budget allocations but also at what really ends up getting delivered. “How do you measure if the government is effectively spending the money?” asked Jim St. George of the IBP.

On the revenue side participants identified other potential joint analytic work, looking at oil revenue, for example, related to projects like the World Bank-backed Chad oil pipeline. Roberto Fernandez from Bolivia noted, “The power is in the convergence of all

these policies. We can use budget analysis to see who would benefit from policies.” Other participants noted the value of being able to make cross-country comparisons on many of these issues, comparing oil revenue or spending on health care, for example.

Aldo Caliarì added that the ultimate goal of all this analytic work, be it on expenditures, revenue, or the impact of IFI conditionalities, is not just to critique but to make positive change. “Budget analysis could also help to open up alternative strategies for the government, which can help make IFI policy.”

Working with the Legislative Branch

In both areas of policy work, budgets and IFI issues, there was broad agreement that one critical actor that needs to play a much stronger role in each is the legislative branch in each country. In budget work the process of legislative approval is considered to be a key entry point for civil society groups. It is there that national budgets generally first come into public view. Legislators tend to be much less isolated from the public than members of the executive branch. Legislators also, regardless of ideology, generally share an institutional interest with civil society about opening up the budget process as a way of expanding their institutional power.

Similarly, the legislative branch in most countries is frozen out of negotiations with IFIs. As noted earlier, for example, lawmakers in Uganda are given a scant two weeks to evaluate and act on major World Bank loan programs. As Manish Bapna noted, there are about 60 countries that have legislation that give parliaments some kind of reviewing authority over IFI policies. The interest is there and there are some structural mechanisms in place to be worked with. For many reasons, legislatures are an important potential ally for civil society in the debate over IFI policies. As the BIC’s Heike Mainhardt observed, “Civil society cannot do it alone. We need to think about doing things like educating parliamentarians.”

Strengthening the role of the legislative branch, said the participants, requires a mix of strategies. One is the structural strengthening of the role of the legislative branch in both budgets and IFI issues – giving lawmakers a clearer oversight role, better access to information, powers of amendment, and more time to review and comment on both budget proposals and IFI agreements. Another is building up the ability of legislators to work on these issues. As the IBP observed, “Even if they have the power, they don’t have the capacity [to adequately analyze the implications of budget and IFI policy].”

Even if progress is made on both legislative authority and legislative capacity to understand the issues, the role of civil society analysis and engagement will remain critical. As Olivia McDonald of Christian Aid said, “If we’re looking at how parliaments can be more effective to challenge IFIs at country level, it is not just about the capacity building of parliamentarians but identifying the obstacles, which requires good [civil society] analysis of the budget.”

Linking with Larger Social Justice Movements

Both budget work and IFI work suffer from a political handicap. Both issue areas affect people's lives in deep and profound ways but each area of policy does so in a way that is indirect. People living in a poor community in a developing country do not generally give much thought to the country's budget or to the pressures that might be being brought to bear on their government by IFI officials from Washington. They worry about their children's schools. They think about getting access to clean water and decent health care. When people organize, they organize around issues of labor rights, human rights, indigenous rights, democracy, and justice.

Advocates working on both budget and IFI issues draw public support and interest when they forge the link between budget issues or IFI issues and those more direct concerns. They bring political clout to their efforts when they forge alliances with existing social justice movements that are already on the march – with women's groups, labor unions, anti-corruption crusades, and similar efforts.

Focusing on Local Level Efforts

Some civil society budget efforts, frustrated by the difficulty of effecting change at a national level, have found a measure of success by focusing their efforts at the municipal and local level. At the local level the issues are more direct in terms of citizen interest and the political processes are generally more open.

Leyla Karimli shared her experience doing budget-related work in Azerbaijan. "There is a significant difference between local and national level work," she said. "We spend a lot of time and money working at the municipality level, because that is where we can bring change."

What form this local work on budgets takes varies from country to country. In Brazil local groups work on the "participatory budgeting" model described earlier, in which a small portion of the budget is set aside for citizens to allocate. In Uganda local groups engage in local monitoring of actual expenditures. In Croatia citizens actively engage city leaders in commenting on budget proposals through community meetings. Daniel Cotlear of the World Bank shared an example of a local accountability process in Bolivia and Peru that the Bank has been involved in, in which citizens actually film local mayors making promises and use that footage later to hold officials accountable.

A Closer Look

The World Bank and Chad's Oil: Escaping the Resource Curse or Repeating Bad History?

Nikki Reisch shared a BIC case study looking at the Chad-Cameroon oil pipeline project, what the BIC calls “Africa’s first attempt at defying the ‘resource curse’” – the disturbing trend among poor but mineral-wealthy nations to end up worse off, not better, because of that mineral wealth.

The BIC reported that despite the support received from the World Bank and other donors to construct the project, the country remains largely unprepared to manage the complexities of an economy increasingly dominated by oil. “Critical loopholes hamstringing the fundamental principles of the Chad-Cameroon pipeline project,” reported Reisch, “those of revenue transparency, accountability, and management.”

The pipeline from Chad to the Atlantic coast of Cameroon has spurred the rapid growth of the Chad's petroleum sector, but regulations regarding oversight of oil activities and revenues do not apply to important oil fields operated by a consortium of ExxonMobil, ChevronTexaco, and Petronas. The revenues generated from these fields fall outside the revenue management system set up to assure that oil development truly benefits the poor. According to the BIC, revenues from those fields may soon far surpass the revenue covered by the country’s transparency and monitoring rules, undermining the system put in place to guarantee the country a fair share.

For all the attention given to the pipeline project’s transparency innovations, said the BIC, much remains hidden concerning the oil sector and revenues generated from production. Confidentiality clauses continue to shield key contracts between oil companies and the government, which are negotiated in secret by a handful of select officials.

The BIC also noted that the World Bank bears significant responsibility for the fate of the project, given its catalytic role in the project’s funding and implementation. Experience with the project to date confirms the danger of investing in the extractive industries before a country is shown to meet minimum conditions of respect for human rights, fiscal transparency, and demonstrated government capacity to implement pro-poor programs.

Concludes the BIC, “Unless urgent attention is given to close loopholes in the revenue management system, to support active public involvement in tracking oil spending, and to increase external pressure for adherence to the rule of law and democratic freedoms, there is little hope that Chad will escape the corruption, conflict, and poverty of its oil-rich African neighbors.”

Obviously, local work like this has serious limits. In most developing countries policy and budget decisions (not to mention government/IFI negotiations) are centralized at a national level. Local efforts, at best, can affect a small portion of overall public spending.

Allying with IFIs to Pressure Governments – Pros and Cons

Should civil society groups form alliances with IFIs to pressure governments to adopt certain policies, such as greater transparency, progressive taxation, budget reforms, etc.? Within the community of civil society groups that work on IFI issues there is a strategic debate on this question and it is an important one.

On the one hand, IFIs do share some agendas with civil society, particularly on government transparency (though it should be noted that IFIs can be criticized on their own transparency, as evidenced by the BIC's "Global Transparency Initiative"), anti-corruption measures, etc. IFIs also can sometimes wield substantial clout over governments as they decide what action to take on those issues. Reflecting on the World Bank-backed Chad oil pipeline, Nikki Reisch of the BIC noted, "This type of project does raise the issue of who has policy influence and how we can use this influence [i.e. the World Bank]." To be sure, there are some IFI alliances that could greatly strengthen the hand of civil society groups in their political efforts with national governments.

On the other hand, the encouragement of IFI pressure (including conditionalities) on governments is risky business, said a number of participants in the meeting. "Any use of conditionalities by civil society organizations is a very harmful strategy in the medium or long run, even if in the short run it appears to be promising," said Praveen Jha of India. "One has to think of these institutions in the broader sense of what they're doing."

IFIs often behave as if they are institutions with two heads. Their smaller programs that work on civil society strengthening and the like can often be allies. However, the real center of these institutions is the policymaking apparatus that deals with national fiscal and monetary policy and uses the tool of conditionality that is so controversial and resented among many civil society groups working on IFI issues. Allying with one part of an institution cannot be done without also considering how it strengthens the other part. As Lisa Jordon of the Ford Foundation cautioned, "It seems that isn't appropriate for an international group of advocates to make the decision to work with IFIs. That decision has to be made in the country."

V. BUILDING BRIDGES: HOW IFI AND BUDGET GROUPS COULD HELP ONE ANOTHER

Another important focus of the Washington meeting was for groups from both fields to identify some concrete ways in which they might directly collaborate and assist one another. Participants agreed on four main strategies that would be beneficial to both budget work and IFI work. A key basis for this collaboration is joining the capacity of

IFI-monitoring groups to analyze the macro affects of IFI policies and of budget groups to understand specific inputs.

1) Combining Knowledge about the Policymaking Process and Advocating Reform of that Process

It is clear, as many participants described, that there is a policymaking thread that begins in the policy shops of IFIs like the World Bank and IMF, travels into negotiations with national level officials in developing countries, and then winds its way into national policy and the lives of the people who live there. This is a policymaking process that encompasses the worlds of both IFI work and budget work. Knowing the details of this process is critical to both communities and it is a story that they can only fully document together.

As noted earlier, a key opportunity and priority for collaboration between these two civil society communities is first to document fully this process and second, to develop and advocate for a set of reforms that can make that process more open and accountable to the people whose lives are affected by it. What would this mapping look like?

It would begin by mapping out all the various institutions, and the elements within those institutions, that play a role in this process. Where in the IMF is it decided that steep deficit reduction is synonymous with economic growth? Where in the World Bank is it decided that aid for development should be conditional on privatization? Who are the officials that make those decisions and on what basis? How are those preferences and conditionalities transmitted to developing country governments? Which officials do the IFIs engage and how? What is the give and take between IFIs and governments as they discuss these policies? What freedom do governments have to reject advice and conditionality? What are the pressures that cause them to accept those policies? What is the policymaking dance within the government regarding the acceptance and implementation of those policies? How does the executive relate to the legislative branch? How do national level officials relate to local and regional officials?

Building on the answers to these questions, civil society groups can begin to identify the most viable points for intervention, at a local, national and international level. Additionally, based on the knowledge of what this whole process really looks like, civil society groups can begin to develop proposals for how that process should be reformed.

Christopher Mwakasege of Tanzania said, “One challenge we face is how to have ‘official’ engagement with the IFIs. Currently, the IFIs are only officially required to engage with governments, not civil society.” Establishing formal rights of participation with IFIs, making the process and paper exchange between IFIs and governments more transparent, opening up political space in national budget deliberations – these are just some of the reforms proposals that might come out of such a collaborative look at the policymaking process.

2) Combining Knowledge about the Impacts of IFI and Budgetary Policy and Advocating Reform of those Policies

One of the most important products that can come from collaboration between budget work and IFI work would be a new ability to actually document the real world impact of IFI policies. “The IFIs say that you can’t demonstrate that policy targets have direct on-the-ground effects,” observed the BIC. “The budget helps trace policies and shows that structural adjustment policies do have direct effects on the ground.”

What, for example, are the anti-poverty effects and budget constraints that arise out of demands for deficit reduction? What effect does IFI pressure for privatization have on the access of the poor to basic services like health care and clean water? What effect do IFI proposals for tax reform have on developing country revenue streams? These are all areas of analysis in which IFI work and budget work can combine to tell, in well-documented terms, the whole story of IFI policies and their on-the-ground impacts.

A merging of IFI work and budget work also opens up opportunities to bring concrete measures about the costs of large-scale targets, such as the Millennium Development Goals (MDGs). When the IMF or World Bank, for example, sign on to big objectives such as, “reduce by half the proportion of people who suffer from hunger” and “ensure that all boys and girls complete a full course of primary schooling” by the year 2015, what will that cost in Malawi, Bolivia, or Cambodia? How do IFI policies that constrain budgets and revenue affect the ability of governments to meet those goals?

As one participant observed, “IFI-monitoring groups look at overall macro policy concerns. What budget groups have done is take that as the starting point and go into the ‘nitty-gritty’.” Budget groups working on the ground are also in a position to come up with something else equally as valuable as numbers, real stories that capture, in a human way, the impact of IFI policies. What does it mean to be priced out of the local water system due to privatization? What does it mean to have declining schools due to new budget constraints? “We can take issues of IFIs and policies out of the abstract. We can connect the dots between conditionalities and outcomes and show what it means to people on the ground.” Heike Mainhardt added, “I think, for an IFI person, the budget work really helps us put the policy impact into understandable terms.”

Beyond documenting effects, policy collaboration between IFI groups and budget groups can also potentially contribute to developing policy alternatives. These alternatives can directly counter existing assumptions about issues such as debt and debt management. They can lift up poverty reduction as a priority equal to or more important than fiscal discipline. In his keynote address to the meeting John Loxley laid out a whole menu of potential policy alternatives for consideration, depending on local capacity. These alternatives included: less conditionality; deeper debt reduction; more immediate aid to meet the MDGs; international finance reforms such as the Tobin tax; anti-corruption measures; and a new emphasis on reducing unemployment.

Building the policy linkages between IFI groups and budget groups has the potential not only to bring greater understanding of these policies, but also to lay the groundwork for advocacy and joint action.

3) Combining Knowledge about Strategies for Intervention

The foundation for joint policy advocacy between budget and IFI groups is a solid joint assessment of what works and what does not work in terms of intervening with IFIs, national governments, and other key actors. As Paolo de Renzio asked, “How does decision making actually get made and what are the factors that influence it? Bringing the level of analysis deeper and getting a feel for the informal mechanisms and incentives at work would be very useful for furthering civil society work.”

Participants identified a list of important assessment questions: What works and what does not work in terms of securing information that IFIs and government prefer to keep secret? What works and does not work in terms of getting access to the decision makers and the decision-making processes involved? How have groups effectively engaged the media, legislators, and other actors that can become allies and help open up the process? Each community has important lessons to share on each of these questions.

There are also important lessons about capacity. What do we need to know in order to make effective interventions? What kind of people with what kind of backgrounds does civil society need to recruit into its ranks? What kind of analysts, organizers, public educators, and other kinds of talents can contribute towards a forceful civil society movement on these issues? What is the most effective role for local groups, national level groups and international civil society organizations? How can groups avoid the occupational hazard of spreading themselves too thin?

There are lessons that each network can share regarding how to engage IFIs and governments effectively. When is participation in “consultations” a genuine opportunity for civil society input and when is it an exercise in having your name used to justify policy initiatives that are already set in stone? What strategies should civil society groups use in their engagement with authorities, be they IFIs or governments? When is a confrontational style counterproductive and when it is essential? How can groups hold both IFIs and governments accountable for the goals that they set and the actual results of the policies they promote and adopt?

All of these are important strategic questions to design a practical way forward. Together civil society groups working on IFI issues and budgets have a wealth of knowledge about effective advocacy and when combined that knowledge can increase the strength of both.

4) Building Relationships Internationally, Nationally, and Locally

That process of relationship building, between the two networks, could begin with some simple information transfers, through projects such as cross-trainings, material

exchanges, and other activities aimed at helping each network understand better the work of the other.

Participants identified several areas where the specific expertise of one network could be of direct value to the other. One example cited was having IFI groups identify and analyze foreign contracts that have implications on national revenue. Participants also encouraged the idea of budget and IFI groups tasking on joint research projects, nationally and internationally, on some of the various issues that cut across both issue areas – debt, privatization, project financing, service delivery, extractive industries, tax policy, and others. Joint analytic efforts such as these, participants said, could also form the basis in the future for developing alternative policy proposals that can win substantial support from both communities.

The BIC noted that forging alliances between budget groups and IFI groups was especially important in order to assure that victories on IFI issues get turned into actual policy victories in the countries involved, “When IFI advocates push for more political space, what we have to be conscious of is that there are consequences on the national government side. We need to be able to coordinate with people who can make use of that political space [to influence policies at the national level] effectively.”

Similarly, IFI groups need advocacy support from local groups, in order to advance advocacy efforts internationally. Ivan Alhadar of the International NGO Forum on Indonesian Development said, “It is difficult to stop the undemocratic institutions from sticking their fingers into national policy. That is why we need local NGOs to make international noise.”

“In a sense, both groups have approached this issue from opposite sides of the same bridge, but they never get to cross the bridge either way,” said Zie Gariyo from the Uganda Debt Network. “That is where the problem lies. You can’t focus on macro policies if you don’t know the interplay of power relationships. To cross the bridge both groups have to establish a concrete partnership.”

VI. A CONCRETE PROPOSAL FOR MOVING FORWARD

As the Washington meeting reached its conclusion, participants worked in small groups on a variety of subjects and ultimately arrived at a proposal to begin collaboration an important area for research and follow-up.

1) A Multi-Country Case Study Mapping the Process by which IFI Policy Influences Country Budget Policy, Including Key Points for Civil Society Intervention

The first key area of joint research would involve picking three to five countries and mapping, in a very concrete way, the full process by which IFIs interact with regional and national governments. The purpose of such research is to create a very vivid understanding of the policymaking dance from one end to the other and, specifically, to evaluate the various opportunities and strategies for civil society influence at each step.

“The question for us to focus on,” said Warren Krafchik, “is what was the negotiation process between the government and the IFIs? Where could civil society have contributed? What role would civil society play if there were the political space to do so?”

This research should look at the existing consultation processes that several participants labeled as mere IFI window dressing. Are those consultations worth the effort that civil society groups put into them? Are there specific changes that could be made in those consultations that would make them a more authentic dialogue?

Participants identified a list of criteria that would be important for such a cross-country case study. The study, they said, should include a mix of regions, should look at both low and middle-income countries, and should include a mix of institutional settings (weak legislatures, strong legislatures, new democracies, established democracies, etc.). The study also needs to look at both the formal methods of influencing IFI and budget policy as well as the informal methods employed by civil society groups and others. Participants also suggested targeting countries with a vibrant civil society so that there would be a capacity on the ground to take advantage of what is learned.

Manish Bapna suggested that the studies look at countries where civil society has been effective. “Perhaps one of the criteria is to identify an issue in a country where there has been some success [in influencing IFI policy, budget policy, or both]. At least we would have some lessons from some success stories.”

Finally, it is important, participants agreed, to carefully study the comparisons of experiences between countries, to begin to identify why what works in one place may or may not work in another and ways in which civil society groups from different countries could collaborate with one another to strengthen their political hand. In the end, participants noted, the goal of such research is not intellectual curiosity but to become politically stronger. “I see the research as a tool to help advance the on-the-ground work further,” said Olivia McDonald of Christian Aid.

2) Surveying Users of the Research Beforehand

Participants also noted the importance of making this area of research as relevant as possible to potential audiences, by consulting beforehand with them regarding the design of the research. This consultation would include civil society groups working on IFIs and on budgets, journalists who cover each policy area, government officials, and officials at the IFIs themselves. In this way the research work can be designed to seek out answers to the questions of most interest to these respective audiences and the methodology for the research can benefit from the experience and insight each of these actors has to offer.

VII. CONCLUSION

As the organizers of the Budgets and IFIs meeting started planning for it, we did so still not certain that the connection between these two issues would be clear enough. Could the two communities of civil society groups that work on these respective issues find a genuine intersection of common experiences and agendas? Was there really a way in which these two communities could make common cause with one another?

It became quite evident during the course of the s meeting that the answer to all three of these questions was a very clear *yes*.

In fact, it became clear that collaboration between groups working in these two fields was not just valuable, but urgent. How can citizens and civil society groups in developing countries really start to influence the shape of their countries' budget policies if they are not also capable of understanding and influencing the IFI policies that shape the basic parameters that their governments must work within? How can groups working on IFI issues really evaluate the impact of IFI policies if they do not link up with a civil society capacity to trace the impact of those policies through the budget-making process? It is increasingly clear that each community is assembling one portion of a complex policy puzzle and each community needs the pieces that the other assembles to start to see the bigger picture.

That said, it is also clear that there is no magic wand here, in terms of assembling that whole picture. Tracing the path from IFI policy to on-the-ground impacts is not an exact science. Figuring out how to do that in a credible and useful way will require creativity and effort, trial and error.

The question then, is not *whether* to take on this task but *how to* most effectively begin. The initial joint research effort suggested here, looking both at the policymaking process as a whole and the policy implications that come from it, is the right start, we believe. The process of collaboration should start modestly, with carefully targeted research that looks at the real experiences of a set of countries where IFI policy and budget issues are clearly intertwined. From this initial research some solid working models can be created of how to examine those connections. Those models can then be expanded on and replicated. Methodically and with care, it is possible to begin assembling the puzzle of how IFI policies affect people's lives through the budget-making process. Assembling that puzzle is essential as a step toward letting citizens into the picture, empowering them to shape the policy choices that in turn have so much affect on their lives.