

THE IMPACT AND INFLUENCE OF INTERNATIONAL FINANCIAL INSTITUTIONS ON THE ECONOMIES OF THE MIDDLE EAST AND NORTH AFRICA

Edited by Tarek Radwan

A photograph of a brick wall at night, illuminated by a blue light. The wall has graffiti that reads 'UNTIL DEBT TEAR US APART'.

**UNTIL DEBT
TEAR US APART**

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Edited by Tarek Radwan

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Foreword

Thomas Claes

This book has been a long time in the making, but it has not lost any of its relevance. Work on this publication began in 2017, when the FES regional project asked some of the authors to submit articles on the impact of recent loan agreements with the IMF in their respective countries. Egypt had just concluded one of the largest loan agreements in its history and repercussions were soon felt and seen across the country. Tunisia was already in its second IMF agreement since the revolution of 2011. Jordan and Morocco have been in similar situations.

During discussions with colleagues and experts on the role of the IMF and other IFIs in the MENA region post-2011, especially in the light of the Egypt agreement, a central question emerged: have we not been there before? Egypt has lived through loans and their accompanying structural adjustment programs with impressive regularity: every decade or so another loan has been required to bail out its troubled state finances. Yet Egypt is hardly unique in this predicament: IFIs have been engaged in major projects and loans in almost all non-oil producing countries in the region, almost without interruption since the 1970s.

We felt that it might be an interesting endeavor to develop an academic project, providing a more holistic and long-term perspective, to aid understandings of the underlying history of IFIs in the region, and whether 2011 truly represents a break from perennial policy prescriptions, as has been often claimed by the IFIs themselves.

Writing this foreword as the Covid-19 pandemic unfolds and sends shockwaves through the global economy, particularly through the Middle East and North Africa, this publication feels even more urgent. Years of austerity policies have drained the region's social security and health care in particular. Such weaknesses are soon laid bare during crises. State finances have little capacity to absorb yet another shock, making further interventions by the IMF in the region very likely. A closer examination of past interventions and their consequences (especially for the region's social fabric and protection systems) is therefore urgently needed.

This book would not have been possible without the motivation and dedication of its editor, Tarek Radwan. I thank him for his immense contributions to shape this project from its early stages, maintaining close collaboration with all authors and finally stewarding the entire work over to the finishing line.

Of course, the book exists as a result of the quality and rich knowledge of all its contributors. I wish to thank them all for their great work, reactivity and patience throughout the publications' many turns and delays.

Two scientific consultants, Ferdinand Eibl and Max Gallien, helped shape the central ideas of the contributions and drew linkages between the different chapters.

Finally, I wish to thank Siba Said for unifying the format of the hundreds of footnotes and Usman Shah for the final copy editing.

Tunis, in March 2020

Introduction

Tarek Radwan

If the uprisings of 2011 in the Middle East and North Africa (MENA) countries signaled an 'Arab Awakening,' the renewed unrest in Algeria, Iraq, Lebanon, and Sudan only serves to remind us that the underlying factors that drove these countries to demand political and economic change remains firmly entrenched as the region and the world march into 2020. Indeed, protest and populist movements spanning the globe - from Latin America to Hong Kong - over the past decade appear to derive much of their anger from a shrinking middle class, an ever-growing wealth gap, and a sense of being left behind in a globalized world where economic systems appear to benefit business elites and the politically connected. Although this new wave of protests reflects country-specific cultural and political contexts, the latest demands in the MENA region share much in common with their predecessors: a call for social justice and accountability - and rooted within it, a strong economic dimension remains. Corruption, poor government services, and an inequitable redistribution of wealth feature just as prominently in many Arab countries today as in 2011, if referred to in slightly different terms. As architects of the globalized world, international financial institutions (IFIs) - particularly the International Monetary Fund (IMF) and the World Bank - exert varying degrees of influence over economic policy in the region. They continue to shape these historical trajectories at the nexus of macroeconomics, social justice, and political change.

IFIs have intervened to address economic crises in the MENA region as early as the 1960s, using conditionality to promote and propagate a deregulated, private sector-led, and integrated global market in exchange for technical assistance, projects, loans, or financial surveillance. Their long history of intervention and development programming has had mixed results, but ultimately contributed to a climate in which protesters now call for a complete overhaul of political and economic systems. After more than half a century of interventions in the MENA region and about a decade after the 2008 financial crisis and 2011 Arab uprisings, what have the IMF, the World Bank, and international donors accomplished? How have their recommendations shifted and shaped the current economic outlook in the region? And how have the years of IFI-inspired and induced policies contributed to the civil unrest witnessed in the Arab world?

As neoliberalism took hold as an economic ideology in the 1980s and 1990s - one with a focus on fiscal consolidation and austerity measures to tame government finances - an extensive history of criticism soon emerged that blamed IFIs with propagating a system that favored cronyism, corruption, and placed undue burdens on the most vulnerable populations. Prominent economics scholars such as Joseph Stiglitz, Dani Rodrik, David Harvey, and others have published studies that challenged the conventional notion that free, unregulated markets lead to economic efficiency and improved standards of living. Instead, they demonstrate the opposite: how IFI-backed neoliberal policies hinder development, strengthen state and private rentier behavior, and erode social safety nets. In the MENA region, this trend translates to policy shifts that broke away from the traditional state-led development model, but without the concurrent benefits expected from the private sector in terms of employment, pensions, and wages ever truly materializing. Rather, the neoliberal model initiated a process of wealth transfer from the lower to the upper class in a regional context where equal opportunity does not exist, absolving MENA governments of financial burdens while shifting the costs onto the public and increasing social resentment.

The 2008 global financial crisis and the outbreak of the 2011 Arab protests prompted a shift among IFIs toward a post-Washington Consensus approach that for the first time aimed to incorporate more holistic economic dynamics that consider investment in human development rather than strict national macroeconomic prescriptions into their analysis and policy demands. To their credit, the IMF and World Bank developed an increased awareness that at least nominal political stability was required to build healthier economies and that some government investment in health, education, employment, and poverty reduction was needed to counterbalance the burdens forced upon vulnerable social segments from macroeconomic readjustment. This evolution undoubtedly came with no small amount of discomfort, given the IFIs' view of themselves as apolitical entities. The paradigm shift led to the emergence of the "good governance agenda" that featured more prominently in IFI policy recommendations over the past two decades--one that emphasized improving state-society relations through inclusive growth, equitable redistribution, accountability, and transparency. The lack of experience with transparent and accountable institutions combined with a traditional modus operandi of power politics and power-centered social relations in the Arab world, however, would create significant obstacles to this approach.

In a region not known for its adherence to democratic principles, implementation of such holistic recommendations directly challenges the privileges and wealth of ruling bodies and elites in MENA countries. Even in Tunisia, often hailed as the birthplace and only success story to emerge from the 2011 Arab uprisings, such traditions remain in their infancy. As such, two patterns typically emerge: (1) a lack of rigor in developing recommendations geared toward addressing social imbalances and (2) a convenient scapegoating of national governments when policy changes do not produce their intended results. In the first pattern, the good governance agenda remains an idea under constant development and debates continually emerge around sequencing appropriate policies, identifying the suitable indicators, and monitoring. IFIs must also understandably partner with entrenched political interests and a lack of government capacity at a time when international bodies demand significant reform, thus resulting in a desire to provide some leeway for officials to maneuver. This lack of emphasis, however, results in officials prioritizing the traditional neoliberal policy prescriptions over vague social justice benchmarks while maintaining elite privileges. Such challenges are that much more pronounced in countries suffering from conflict and violence when considering the multitude of relevant variables outside of IFI or government control. IFIs may then blame the government's halfhearted and politically motivated efforts or conflict-related externalities as the primary reasons behind incomplete economic transformations, rather than inappropriate planning and implementation on their part. Blaming poor outcomes on poor governance also neglects country cases - such as in Far East Asia - where economic successes have been realized under less than ideal governance conditions.

In fairness, the IMF and World Bank's staff of world class economists and development professionals face incredibly complex and interconnected systems that at times either offer contradictory solutions or face competing priorities. While they may have to work closely with parochial government interests to navigate these various economic minefields, they also ultimately answer to their respective executive boards where wealthy nations wield a disproportionate share of voting power. Naturally, creditors pursue different interests than borrowing countries, often prioritizing loan repayment and their own economic and foreign policy objectives over social justice concerns. This system then also raises questions around how these wealthy (typically Western) nations use their voting power to shape IFI activities in the MENA region and the effectiveness of the resulting programs in supporting those objectives needed for the borrowers' long-term economic health. Serving many different masters wherein governing authorities get first consideration provides IFIs with plenty of opportunity to get things wrong.

Aims and Organization

The contributions in this volume gather country case studies across the region and juxtapose them to derive common themes and patterns to the strategies IFIs pursued over decades, the resulting structural changes to national economies, and the official and public reactions to these strategies that directly impact national politics. The collection in this work was partly inspired by another Friedrich-Ebert-Stiftung publication, *Towards Socially Just Development in the MENA Region* (Salam Said, 2017), that mapped the broad effects of neoliberalism on fiscal, trade, investment, and social welfare policy in the region at large. This volume aims to dive deeper into those topics at the country level, with the added dimension of how these policies shaped national politics and social responses. The contributors themselves have been carefully selected for their expertise in their respective country of interest while also hailing from or maintaining close ties to each country examined to reflect local, on-the-ground perspectives in their analysis. While each contribution takes a generalized ‘macro’ historical and political-economic view of MENA countries with a long record of IFI interventions and do not explicitly engage in a comparative analysis (apart from the examination of Arab youth in North Africa), recurring patterns readily emerge to the reader when compared to one another while simultaneously respecting each country’s unique cultural and political context.

The case studies have been grouped under overarching categories where local political and economic conditions overlap enough to yield useful observations and highlight similar themes under comparative scrutiny. Such themes include the evolution from state-led development to early interventions through structural adjustment (SAPs) or similar loans and programs to their subsequent effects social justice - an all-encompassing term that includes government spending on health, education, social welfare programs, basic needs provision, and employment, among other metrics that support social wellbeing, economic inclusion, and equal opportunity. The studies also track the pursuit of IFIs toward free market dominance and diminished government interference in the free flow of capital and raw materials, often to the benefit of narrow national interests and international trading partners, but also to the detriment of the various macroeconomic imbalances they aim to correct.

Section I: International Financial Institutions, Crisis Intervention, and Structural Adjustment

Chapter 1 sets the tone for this volume by examining Egypt’s latest Structural Adjustment Program, as emblematic of a systemic problem with the IMF’s approach to the country’s structural problems. While balancing Egypt’s macroeconomic indicators primarily, the chapter highlights the program’s inability to address recurring foreign exchange, productivity, and employment problems resulting from a focus on nontradable sectors and a debt-driven growth model. It also scrutinizes how the implementation of austerity measures drives repression and feeds a new crony dynamic that expands the government’s patronage networks, while fundamentally placing an unnecessary burden on the public to achieve those results. This chapter builds upon the previous FES publication, *Short Term Fixes for Long Lasting Troubles Why IMF Reforms Won’t Solve Egypt’s (Political) Economic Problems* (Adly, 2018) that demonstrated how IFIs’ and Egypt’s focus on liberalization subjugated development priorities and led to recurring fiscal crises.

Chapter 2 turns to Tunisia’s history of recurring financial crises and the more recent measures taken by the IMF and World Bank to address them. Here, the author traces IFI engagement through efforts

to promote Tunisia's industries and highlights how these efforts closely link to IFIs' focus on integrating the country into primarily European markets. Consequences of this series of interventions include marginalization, urbanization, and popular unrest. Ideational linkages between officials in the Tunisian government and IFIs setting policy highlight a disconnect between the ruling class and the public and explain the preference for socializing the costs of deficit reduction while privatizing the profits. The author offers evidence that IFI methodology through the decades contributed to instability and debt that has held back human development, contributing to resentment, unrest, and brain drain.

Chapter 3 examines IFI activities in Morocco, also through a long historical lens. This contribution painstakingly presents data that shows a systematic diversion of investment to nonproductive sectors and government cuts to public investment in the hopes of the private sector filling the gap. The author notes that IMF and World Bank disagreed in the decade prior to the 2011 uprisings over how much focus on social issues they should consider, particularly given the corruption and cronyism endemic in the country's political structure. The pursuit of neoliberal policies had wide-reaching effects on social security while encouraging rentierism.

Chapter 4 revisits Jordan's historical development and economic evolution as it contends with the effects on its migration toward capitalism. Cronyism among actors with ties to the monarchy has always presented a challenge since the earliest days of its engagement with IFIs, but with the added cultural complication that favored segments of Jordanian society now suffer under a neoliberal, private sector dominated economy. This dynamic combined with external pressures from regional conflicts broke the authoritarian bargain and increased competition over control for jobs and social services. The author contends that the logical approach to mitigate the worst effects of structural readjustment on social justice would include better operationalization of the good governance model.

Section II: IFIs and Nation-building

Chapter 5 shifts the spotlight to Palestine, the first country in this section experiencing protracted conflict and weak or nonexistent governance institutions. Palestine presents an interesting and unique case study, given the extent of international involvement in its political economy. The World Bank in particular saw Palestine as the perfect *carte blanche* in which to test its theories of development and economic reorientation. The author argues that the IFIs (institutions and donors alike) exhibited their worst tendencies in managing the occupied territory, with economic policy paying little mind to Palestinian growth and development. Rather, such policies showed either complete deference to international or Israeli political calculations or disregarded the severe distortions that occupation imposed.

Chapter 6 examines Yemen's complex evolution from its history of unification to the current civil war that has engulfed the country for the past five years. As a country arguably at war with itself since the 1990s and heavily dependent on oil revenue and remittances, the challenges of conflict, poor governance, and oil price shocks seem insurmountable in what is already one of the poorest places in the world. International interest in Yemen stems more from concerns over its potential threat as a haven for terrorists who recruited poor and disenfranchised citizens. The IMF and World Bank did try to alleviate poverty through helping to establish social welfare programs and debt rescheduling, but their inability to force the government to address deeply ingrained corrupt practices bled much of the resources needed for any real impact. Political interests such as the Friends of Yemen Group superseded any decision-making from IFIs, relegating their role to more of a managerial capacity.

Chapter 7 offers a surprising perspective on Iraq, one normally not associated with IFI intervention in the region. Lacking the same kind history with IFIs and with its considerable oil wealth, the author notes how the IMF and World Bank were particularly sensitive to post-conflict dynamics after the US invasion in 2003 and tread a fine line between liberalization and the protection of social services. Iraq's economy had seen its heyday in 1970s when its productive sectors had reached their prime, but years of intermittent conflict and a biting sanctions regime during Saddam Hussein's years of rule had decimated those foundations. The US-backed Coalition Provisional Authority (CPA), the governing authority imposed after the 2003 invasion, pursued a hypercapitalist policy that IFIs feared would threaten the fragile stability in the years that followed. Yet, international and domestic political interests would prove to overwhelm whatever influence the IMF and World Bank had over economic policy. Ultimately, they tamed the CPA's worst neoliberal impulses, protecting social welfare and facilitating debt forgiveness that otherwise would have strangled the public.

Section III: Questioning IFI Logic in the Region

Chapter 8 studies IFI structural adjustment in North Africa from the perspective of the region's youth, particularly when it comes to equal opportunity and employment. Examining specifically at how youth in Egypt, Tunisia, and Morocco experienced economic restructuring, the author maps the previously established tale of economic evolution but with a focus on the forfeiture of the "authoritarian bargain" that guaranteed a dignified life in exchange for civil liberty and personal freedom. The breakaway from this social contract revealed itself most spectacularly in the 2011 uprisings. Since then, youth and youth-led movements struggle to negotiate a new path forward that will determine their role either as factors for instability or drivers of growth. Despite IFI efforts toward promoting youth specific programming, the macroeconomic effects of neoliberal policies that have continued into the post-2011 era appear to overwhelm their benefits.

Chapter 9 presents a specific case study that highlights Germany's role as both a donor and member of the IMF's Executive Board as well as a player in Egypt's economic relations. Looking at Germany's role in the formulation of Egypt's 2016 economic reform program shows the degree to which foreign donors might push or withhold support to suit their own interests. Notably, Germany's business interests and role as leading provider of financial assistance to Egypt meant that it had considerably more at stake and was heavily invested in Egypt's economic success. Despite its influence, however, Germany did not concern itself with Egypt's development priorities and instead used it to ensure Egypt's cooperation with other Eurocentric priorities such as migration. While aspiring to be 'pragmatic,' Germany effectively gave its support to a government that relies on repression to ensure compliance with the IMF's reform program and in doing so prioritized its own short-term gains over sustainability and social justice.

SECTION 1 :

**INTERNATIONAL FINANCIAL
INSTITUTIONS, CRISIS
INTERVENTION, AND
STRUCTURAL ADJUSTMENT**

1. Unwarranted Suffering: The IMF and Egypt's Illusory Economic Recovery

Amr Adly

In November 2016, the Egyptian government signed a standby agreement with the International Monetary Fund (IMF), according to which Egypt would embark on a series of fiscal and monetary reforms in return for a \$12 billion loan.¹ Three years later, the Egyptian government has largely met its obligations.² Four rounds of reform that included slashing fuel subsidies and raising consumption taxes contributed to reducing the budget deficit. With the free-float of the Egyptian pound, the foreign currency black market was effectively eliminated. Foreign reserves held by the Central Bank of Egypt (CBE) increased from less than \$15 billion on the eve of signing the deal to \$45 billion by September 2019, mainly using money borrowed from abroad.³ The government tamed its current account deficit through significant cuts in imports, less impressive increases in exports, and a strong recovery in the tourism sector. Growth rates also show signs of recovery since 2017. By 2019, Egypt appeared among the best performing emerging markets.⁴ Overall, the IMF praised Egypt's commitment to reform and held it as a success story.⁵

Yet macroeconomic stabilization and economic recovery have come at a high social cost. Poverty rates increased by a massive 5 percent in three years, jumping from 27.8 percent in 2015 to 32.5 percent in 2018, per official statistics.⁶ Oft cited reasons include high inflation rates, unleashed by the massive depreciation of the pound and intensive austerity measures that shrank the ability of most Egyptians to make ends meet. The government and its IFI-sponsors claimed that such sociopolitical and economic costs were a necessary price to pay for correcting financial imbalances in the Egyptian economy. They also stressed the temporary nature of such difficulties, claiming them to be a "bitter medicine" for an economic recovery that would depend on increases in exports, foreign direct investment inflows (FDI), and stronger competitiveness that would allow the economy to stabilize while generating jobs and improving the living standards for the majority.⁷

Contrary to these claims, however, much of the economic and social suffering the IMF-sponsored program has inflicted on Egyptians was largely unjustified. Despite seeming macroeconomic stabilization and signs of economic recovery over the past few years, IMF-induced reforms in Egypt did not address the root causes of long-term and recurrent financial imbalances that lie in the structure of the real economy having to do with Egypt's insertion into the global division of labor and the sectoral components of growth and value production. This chapter contests the IMF intervention on its own economic grounds by underlining its inadequacy in tackling the factors behind recurrent financial imbalances that led to the Fund's involvement in the first place. Addressing Egypt's long-standing and

structural development constraints requires a concerted and coordinated strategic intervention from the state, its proponents, and its international sponsors to tackle the structural - rather than the mere financial - dimensions of Egypt's socioeconomic troubles. These interventions lie beyond the scope, scale, and content of intervention of the IMF and other neoliberal-oriented IFIs.

Critical views of the IMF role in Egypt and other countries in the Global South have focused either on its social adversarial impact or the Fund and other IFIs as agents of neoliberal globalization.⁸ Both critiques have attacked the IMF intervention in principle as inherently anti-developmental and responsible for the perpetuation of inequality, poverty, and exclusion on a global scale. Although some of the assumptions and findings of both scholarly traditions have merit, the critique here is less principled and more pragmatic. Egypt's chronic socioeconomic underdevelopment was a consequence of factors more complex than simple IFI interventionism involving post-independence state formation, state-business relations, and the country's positioning in regional and international structures and networks.⁹ Setting aside these causal factors, the IMF's frequent and near identical interventions in 1976, 1987, 1990-1993 and 2003 through conditionality, consultancy, and other ideational and policy linkages, offered no viable or long-term solutions to these ills.¹⁰ That Egypt has requested the IMF to step in recurrently for the past four decades to tackle the same financial imbalances gives a strong Sisyphean character to its role in Egypt (and other Global South economies, for that matter).¹¹

1.1 An Illusory Recovery

This chapter advances a two-pronged argument about the IMF-sponsored and-induced reforms in Egypt since 2016. First, the fixes in macroeconomic indicators addressed financial imbalances but came nowhere near the structural factors behind them in the real economy. Second, Egypt's recovery is highly illusory and does not promise medium-or long-term growth or development, rendering the high social cost paid by most Egyptians unwarranted and unlikely to be temporary.^{12, 13} Four main points support this argument:

1. The IMF reform deal suffers from serious internal contradictions that make macroeconomic stabilization incompatible with the resumption of economic growth in the medium-term due to Egypt's weak export base and structural dependency on imported inputs for its major productive sectors (i.e., manufacturing and agriculture that could only be improved through industrial deepening policies). Any future recovery of productive sectors would translate to larger trade and current account deficits, putting pressure on the national currency and foreign reserves and thus exacerbate the same financial imbalances the IMF intervention was meant to tackle. These longer-standing, structural aspects are largely absent from the IMF program, given its institutional mandate and traditional focus on short-term financial stabilization. The government does not prioritize these issues either, choosing instead to focus on growth through non-tradable sectors.

8 See for example Bush, R. (2004) 'Poverty and Neo-Liberal Bias in the Middle East and North Africa', *Development and Change*, 35(4), pp. 673-695; Harrigan, J. and El-Said, H. (2009) *Aid and power in the Arab World: IMF and World Bank policy-based lending in the Middle East and North Africa*. Springer; Hanieh, A. (2012). 'International financial institutions and Egypt', *African Awakening: The Emerging Revolutions*, pp. 238-51; and Soederberg, S. (2005) 'Recasting neoliberal dominance in the global south? A critique of the Monterrey Consensus', *Alternatives*, 30(3), pp. 325-364.

9 For more analysis of Egypt's development record since *infitah*, see Ikram, K. (2006) 'The Egyptian Economy (1952-2000) Performance', *Policies and Issues*. London and New York: Routledge Studies in Middle Eastern Economies; Richards, A. (1991) 'The political economy of dilatory reform: Egypt in the 1980s', *World development*, 19(12), pp. 1721-1730; Hansen, B. (1991) *The political economy of poverty, equity, and growth: Egypt and Turkey*. Oxford: Oxford University Press; and Adly, A. (2012) *State Reform and Development in the Middle East: Turkey and Egypt in the post-liberalization era*. Routledge.

10 Notably, the recent IMF program of 2016 is the first to have been implemented fully in Egypt's history of dealings with the Fund. The 1976 and 1987 programs were interrupted. In 1990, the IMF signed a standby agreement with Egypt, but the government left the funds untouched to selectively apply restructuring measures. In 2003, the IMF played an advisory role in managing the country's severe foreign currency shortages. Strong ideational linkages between IFI and Egyptian officials through the ideological hegemony of neoliberalism have also influenced policy. IFI approval and praising of Egypt's macroeconomic policies was also crucial for the country's access to foreign capital markets through investment and debt. Hence, their continuous influence in shaping Egypt's capitalist transformation since the mid-1970s should not be underestimated.

11 For a more detailed discussion of the IMF's historical role in Egypt's capitalist transformation since the mid-1970s, Adly, A. (2018) *Short Term Fixes for Long Lasting Troubles: Why IMF Reforms Won't Solve Egypt's (Political) Economic Problems*. Friedrich Ebert Stiftung, November [Online]. Available at: <http://library.fes.de/pdf-files/iez/14933.pdf>.

12 Productive sectors refer here to activities that belong to the real economy and that are engaged in the direct production of goods and services. Typical examples include the manufacturing, agriculture, construction, tourism among others. This distinguishes them from other economic activities that cater for these productive sectors - like commerce or financial services - but do not directly contribute to the creation of value in the real economy.

13 Medium-term refers to five-year intervals from the adoption of the IMF package while the long-term goes beyond five years.

2. Egypt's recent recovery has largely been debt-driven rather than based on increased FDI inflows. Foreign debt jumped from \$55 billion on the eve of adopting the deal to more than \$100 billion by the beginning of the third quarter of 2019.¹⁴ Accordingly, the Egyptian economy faces enormous pressure to generate the income necessary to service this debt. Per the CBE, the ratio of foreign debt service to exports has consistently risen from 7.7 percent in 2013 to 21.9 percent in 2016, skyrocketing to 37.7 percent in 2017-2018.¹⁵ This sum is significant for a country with total merchandise exports hovering at around \$25 billion. Although the government uses improving macroeconomic indicators - such as lower budget and current account deficits and inflation rates - to solicit more debt on international markets through issuing bonds, FDI remains below pre-2008 levels. Foreign investors also heavily concentrate their capital in Egypt's traditional extractive industries - a sector with few backward or forward linkages to the rest of the economy, resulting in lackluster job creation or technology transfer.

3. A sectoral breakdown of the apparent recovery since 2017 suggests that neither the government nor its IFI sponsors focused on tackling the root causes of the country's recurrent financial crises. The oil and gas sector and financial services, heavy investors in government debt, experienced the most growth since 2016. These were joined by non-tradable sectors - namely construction and real estate - characterized by speculation in non-productive assets (luxury villas and apartments) and rife with cronyism and corruption.¹⁶ Construction and real estate also received markedly disproportionate shares of public and private investments. Given their non-tradable nature, they will unlikely contribute to improving the country's balance of payments position in the medium- or long-term through export generation or by cutting the import bill. Tourism, a recovering tradable sector and an exception to the trend, remains notoriously vulnerable to ongoing security threats throughout MENA.

4. Lastly, the IMF and other IFIs involved in Egypt's economic stabilization and restructuring have kept to their dogmatic belief in driving growth via export increases and attracting FDI, completely disregarding the global context in which international trade continues to shrink and capital markets remain in turmoil. Unsurprisingly, Egypt's recently hard-won stability therefore relies on considerable foreign borrowing, cuts in imports that have crippled productive sectors, and suppressing consumption that has degraded the standard of living for most Egyptians. These policies neither encourage political stability nor do they promise a sustainable recovery.¹⁷

Understanding these fault lines requires a comprehension of the political context in which Egypt adopted the IMF deal in late 2016. The following sections demonstrate the high social cost inflicted on Egyptians since 2011 - due to political mismanagement and the subsequent adoption of the 2016 IMF deal. They highlight why such costs are unwarranted given the internal contradictions within the program that limit its longer-term capacity to deliver the economy from its structural ordeals. The second half of the chapter focuses on debt- versus FDI-driven recovery, the sectors that have exhibited recovery, and why the current trajectory is unsustainable.

14 Trading economics (2018) Egypt public debt rate 2002–2018 [Online]. Available at: <https://tradingeconomics.com/egypt/government-debt-to-gdp>.

15 Central Bank (2018, p. 25).

16 Tradable sectors refer to activities that produce goods or services that can be exported or imported. Conversely, non-tradables are usually geographically constrained. A typical example of non-tradables include construction where the built units can neither be economically exported nor imported.

17 For a theoretical critique of the export-led and FDI-driven models of growth, see Rodrik, D. (2007) 'Industrial development: Some stylized facts and policy directions', *Industrial development for the 21st century: Sustainable development perspectives*, pp. 7-28 and Stiglitz, J.E. (2017) 'Industrial Policy, Learning and Development', *The Practice of Industrial Policy: Government-Business Coordination in Africa and East Asia*, pp. 23-39.

1.2 Post-2011 Political and Economic Turmoil

IMF interventions have occurred about once every decade or so since Egypt embarked on its “opening” (or *infatih*, in Arabic) in 1974. In 1976, the IMF promised loans to Egypt in return for the adoption of austerity measures aimed at fixing its precarious fiscal and external positions. This occurred again in 1987 and yet again in 1991. In 2003, the IMF played an active role in the first major devaluation of the Egyptian pound. Throughout that period, the IMF also maintained strong formal and informal links with those responsible for Egypt’s fiscal and monetary policy, with the explicit aim of stabilizing macroeconomic indicators.¹⁸ Underpinning the IMF’s stabilization packages was neoclassical economic wisdom, wherein macroeconomic indicators (e.g. inflation, interest rates, the budget deficit, and exchange rates; in other words, price signals) would stimulate domestic and foreign investment and hence generate economic growth.

The IMF’s most recent involvement in November 2016, however, came amid a peculiar political and economic context, occurring almost immediately in the aftermath of Egypt’s 2011 January revolution. Sociopolitically, the revolution arose partly in opposition to the earlier rounds of neoliberal reforms.¹⁹ This namely applied to the corruption-ridden privatization of public assets, widely seen as unjustly favoring a few select, politically-connected businesses under former president Hosni Mubarak.²⁰

Economically, the years of political turmoil following the toppling of Mubarak took their toll on the economy and exacerbated many of the structural weaknesses from which it long suffered. The mismanagement of the political transition from 2011 through to 2016 raised uncertainty, encouraged capital flight, and led to a low overall GDP growth rate, high unemployment, and low investment. The average growth rate hovered at 2.5 percent between 2011 and 2015, down from 6.2 percent between 2006 and 2010.²¹ Unemployment increased from approximately 9 percent in 2010 to 12.6 percent in 2016.²² Net FDI as a percentage of GDP dropped from 2.9 percent in 2010 to 2.1 percent in 2015.²³ The tourism sector collapsed amid rising insecurity and terrorist attacks. Capital flight increased and foreign currency reserves decreased sharply. The CBE reported that foreign reserves fell by more than half after the uprising, declining from \$37 billion in 2010 to \$15.9 billion in 2015.²⁴ This depletion placed downward pressure on the national currency, leading to higher inflation rates combined with an economic slowdown.

These macroeconomic trends hit public finances as government revenues declined and expenses (i.e. public sector wages and subsidies) increased as a response to rising popular demands in the aftermath of the revolution. The budget deficit leapt from an already high rate of 8.1 percent of GDP in 2010 to 11.6 percent in 2015.²⁵ Egypt’s public debt, largely domestic, as a percentage of GDP rose sharply from

18 See Roll, S. (2013) *Egypt’s Business Elite After Mubarak: A Powerful Player Between Generals and Brotherhood*; and Roccu, R. (2013) *The Political Economy of the Egyptian Revolution: Mubarak, Economic Reforms and Failed Hegemony*. Springer.

19 See Joya, A. (2011) ‘The Egyptian revolution: crisis of neoliberalism and the potential for democratic politics’, *Review of African political economy*, 38(129), pp. 367–386; Achcar, G. (2013) *The People Want: A Radical Exploration of the Arab Uprising*. University of California Press; and Hanieh, A. (2013) *Lineages of revolt: Issues of Contemporary Capitalism in the Middle East*. Haymarket books.

20 See Sfakianakis, J. (2004) ‘The whales of the Nile: Networks, businessmen, and bureaucrats during the era of privatization in Egypt’, *Networks of Privilege in the Middle East: The politics of economic reform revisited*. New York: Palgrave Macmillan, pp. 77–100; Adly, A. I. (2009) ‘Politically-embedded cronyism: The case of post-liberalization Egypt’, *Business and Politics*, 11(4), pp. 1–26; Chekir, H. and Diwan, I. (2014) ‘Crony capitalism in Egypt’, *Journal of Globalization and Development*, 5(2), pp. 177–211 and El Tarouty, S. (2016) *Businessmen, clientelism, and authoritarianism in Egypt*. Springer.

21 The World Bank (2017) *GDP Growth (annual %) 1961–2017, Egypt and Tunisia* [Online]. Available at: shorturl.at/bHJQS.

22 Trading economics (2017) *Egypt unemployment rate 1993–2018* [Online]. Available at: <https://tradingeconomics.com/egypt/unemployment-rate>.

23 The World Bank (2017) *Foreign direct investment, net inflows (% of GDP) 1976–2017* [Online]. Available at: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=TN-EG&name_desc=true&view=chart.

24 BBC Arabic (2012) ‘البنك المركزي المصري: احتياطي النقد في مستوى حرج ، ومرسى يشيد بالنمو’ (Central Bank of Egypt. Foreign reserves reach a critical level and Mursi praises economic growth), BBC Arabic, 29 December [Online]. Available at: http://www.bbc.com/arabic/middleeast/2012/12/121229_egypt_bank_mursi.shtml.

25 Trading economics (2017) *Egypt government budget 2002–2018* [Online]. Available at: <https://tradingeconomics.com/egypt/government-budget>.

73.7 percent in 2010 to 85 percent in 2015, expanding to 92 percent of GDP in 2017.²⁶

Egypt received massive aid inflows from abroad - primarily from Gulf Cooperation Council (GCC) countries - in the form of cheap loans and financial assistance, but failed to address the source of the country's pressing financial problems. Under the Muslim Brotherhood's brief rule (2012-2013), Egypt began borrowing externally from political allies such as Qatar. Egypt received roughly \$10 billion during then-president Mohammed Morsi's year in office.²⁷ The pattern continued at almost the same pace following his ouster in July 2013, this time with loans from Saudi Arabia, the United Arab Emirates, and Kuwait. Between 2013 and 2015, Egypt received around \$23 billion in cheap credit, in-kind assistance (oil and liquefied gas cargos), and cash aid from Arab Gulf countries. This figure does not include, however, other aid streams estimated to exceed \$10 billion to finance arms deals from France and Russia by 2015.²⁸

None of these measures addressed the root causes of Egypt's financial trouble. The massive aid and cheap credit inflows partly filled an unfathomable annual financing gap, estimated by the IMF at \$10 billion.²⁹ This gap represented the difference between dollar inflows that the economy could generate and what Egypt needed to meet its external obligations - including paying for an import bill three times that of exports. The intense turmoil of 2013-2014 proved a much higher priority for an Egyptian government focused on stabilizing the political and security situations rather than tackling structural economic problems. The Morsi government's ouster in July 2013 and the repression of Islamists made it difficult for the new regime to immediately introduce unpopular austerity measures that might have risked alienating broader social constituencies. Egypt's Gulf sponsors greatly favored stabilizing the security and political situation inside the country between 2013 and 2014, even if this implied refraining from any unpopular austerity measures like slashing fuel subsidies or freezing public-sector wages.

Theoretically, Egypt could have made use of these large inflows of cheap credit and aid to fix its financial imbalances through managing a gradual devaluation of the pound and cutting public expenditure while using the GCC funds to shield the economy from the slowdown impact of these corrective measures. This approach might also have spared the Egyptian economy from incurring the enormous foreign debt it contracted in 2016, under the aegis of the IMF.

The regime began correcting financial imbalances after successfully crushing of the Islamist opposition and with Abdel Fattah al-Sisi's election as president in the summer of 2014. The first round of fuel subsidy cuts took place within days after his inauguration, interpreted by observers as an early sign of addressing Egypt's economic turmoil along IMF-inspired austerity. It also signaled an attempt to rein in the deficit and demonstrate to foreign investors that the new regime would impose fiscal and monetary discipline.

In the absence of any consistent reform program by the government and despite the large foreign aid inflows, Egypt's balance of payments position kept deteriorating. This dynamic placed considerable pressure on the Egyptian pound. Despite some countermeasures (namely the imposition of capital controls), the value of the pound relative to the dollar kept falling on the black market as the CBE

26 Trading economics (2018) Egypt public debt rate 2002–2018 [Online]. Available at: <https://tradingeconomics.com/egypt/government-debt-to-gdp>.

27 Daily News Egypt (2013) Following Morsi's ouster, Qatar's support to Egypt in question [Online]. Available at: shorturl.at/kopPR.

28 Colonna, J. (2018) 'SIPRI: Egypt's arms imports skyrocket amidst greater security threats', Egypt today, 12 March [Online]. Available at: <http://www.egypttoday.com/Article/1/45059/SIPRI-Egypt's-arms-imports-skyrocket-amidst-greater-security-threats>.

29 Ahram Online (2015) 'Egypt's financing gap will reach \$20 bln in coming two years: IMF official', Ahram Online, 9 October [Online]. Available at: <http://english.ahram.org.eg/NewsContent/3/12/152538/Business/Economy/Egypt's-financing-gap-will-reach-blm-in-coming-two.aspx>.

quickly drained its foreign reserves and had little left to defend the pound by injecting dollars into the banking system. In 2012, a bifurcated exchange rate system emerged and by late 2016 the unofficial exchange reached almost double that of the official rate amid a foreign exchange crisis.³⁰ Inflation accelerated, and considerable uncertainty discouraged potential foreign investors, exacerbating the situation further. The Egyptian regime's GCC sponsors knew they could not indefinitely support Egypt financially. The country was too big to fail, but also too heavy to float. They chose instead to support the country's recovery by underwriting its adoption of a wholesale financial restructuring under the auspices of the IMF. This policy materialized in November 2016. The shock from the overnight flotation of the Egyptian pound resulted in a 50 percent depreciation in its value relative to the dollar. This was the first measure in a dense stabilization package.

1.3 The Disproportionate Social Cost

The adoption of the IMF package resulted in a significant degradation in the living standards of a great majority of Egyptians. The free flotation of the Egyptian pound resulted in a 50 percent drop in value vis-à-vis the dollar. On the fiscal front, the package reduced the budget deficit by slashing subsidies, slowing the public-sector wage bill growth to below inflation rates, and introducing a host of direct and indirect taxes to increase state revenues.

This phenomenon is neither new to Egypt nor exceptional worldwide. Austerity programs, deemed necessary by the IMF for macroeconomic stabilization, often cause significant decline in the real income and consumption of the poor and middle classes. A UNICEF report maintained that the poverty rate in Egypt had already increased between 2000 and 2015 from 16.7 to 27.8 percent, indicating that 25 million Egyptian lived under the poverty line, a year before it adopted the IMF deal.³¹ In July 2019, CAPMAS finally released data regarding national poverty rates - data held from the public since 2015. The official statistics authority admitted to a rise in poverty rates from 27.8 to 32.5 percent between 2015 and 2018.³²

The massive depreciation of the Egyptian pound served to sharply cut the balance of trade deficit by discouraging imports and to a lesser degree encouraging exports. Given Egypt's position as a net food and fuel importer, however, the depreciation translated to significant inflation rates. "Egypt's core inflation rose to 31.95 percent year-on-year in June [2017] [...], the highest rate in decades, according to [C]entral [B]ank data."³³ High inflation intuitively means lower real wages. Compounded by the government's simultaneous fuel subsidy cuts and the rise in consumption taxes, Egyptians' purchasing power plummeted.

The government admitted to the mounting hardships on most Egyptians. The official discourse highlighted the necessity of these sacrifices in the name of patriotism and national necessity. Government officials promised a tradeoff: as macroeconomic indicators improved, the economy would eventually deliver growth and employment, a trope that aligned with IFI narratives rooted in neoclassical economics and the trickle-down supposition.

30 Madbouli, K. H. (2013) 'السوق السوداء للعملة' (The foreign currency black market), Al Borsa news, 21 April [Online]. Available at: <https://alborsanews.com/2013/04/21/397437>; and Hossam, H. (2017) '9-6-2016 'سعر الدولار في السوق السوداء يتعاملات اليوم الخميس' (The price of the dollar in the black market on Thursday 9-6-2016), Youm7, 9 June [Online]. Available at: <https://www.youm7.com/story/2016/6/9/-9-6/2754736>

31 Middle East Monitor (2018) 'UNICEF: 30% poverty rate in Egypt', Middle East Monitor, 10 January [Online]. Available at: shorturl.at/jqBNT.

32 Enterprise (2019) Egypt poverty rate stands at 32.5%, according to latest CAPMAS income report, 30 July [Online]. Available at: shorturl.at/dhlBG.

33 Egypt Today (2018) 'Egypt's poverty line to increase to LE 800 monthly per person', Egypt Today, 23 July [Online]. Available at: <http://www.egypttoday.com/Article/3/13326/Egypt-s-poverty-line-to-increase-to-LE-800-monthly>.

The conventional wisdom in imposing a high social cost in return for a highly uncertain recovery, however, demands scrutiny. The social cost of economic stabilization and restructuring is neither warranted nor does it make Egypt's economic recovery plan sustainable. Part of the problem involves its debt-driven, rather than FDI-driven nature. Repairing the trade deficit also depended on cutting imports more than increasing exports, causing a deep recession in the productive manufacturing and agricultural sectors. In short, the IMF-deal did not address the root causes of Egypt's deep imbalances and all but ignored the question of inclusive development, the absence of which propelled much of the social and political upheaval that Egypt faced in the recent decade.

1.4 Debt-driven Rather Than FDI-Driven Recovery

The IMF's neoclassical approach assumes that once macroeconomic indicators stabilize, investors would find the economy attractive, injecting cash into a favorable, predictable system that would further usher it into recovery. Correcting imbalances in Egypt's exchange rates to boost the purchasing power of foreign actors serves as a crucial means by which to attract FDI inflows. On one hand, this would ostensibly serve to regenerate growth, while improving the balance of payments situation on the other. However, Egypt's recent economic recovery has seen more debt than FDI.

Unsurprisingly, Egypt's foreign debt has skyrocketed since 2016 (Figure 1.1), jumping from \$48 billion to \$106 billion in three years. Correspondingly, the ratio of the public debt to GDP (including foreign and domestic debt) increased from 85 percent in 2015 to 92.3 percent in 2017 and further to 101.3 percent in 2018.³⁴ The increase also affected the ratio of foreign debt service to total export earnings - the indicator widely used to measure the capacity of the economy to meet its foreign obligations (denominated in foreign currency). The ratio increased from 6 percent in 2010 to around 19 percent in 2016 - the highest ratio since the early 1990s. The effect of massive borrowing will place considerable pressure on the economy to generate the necessary foreign currency to service a formidable

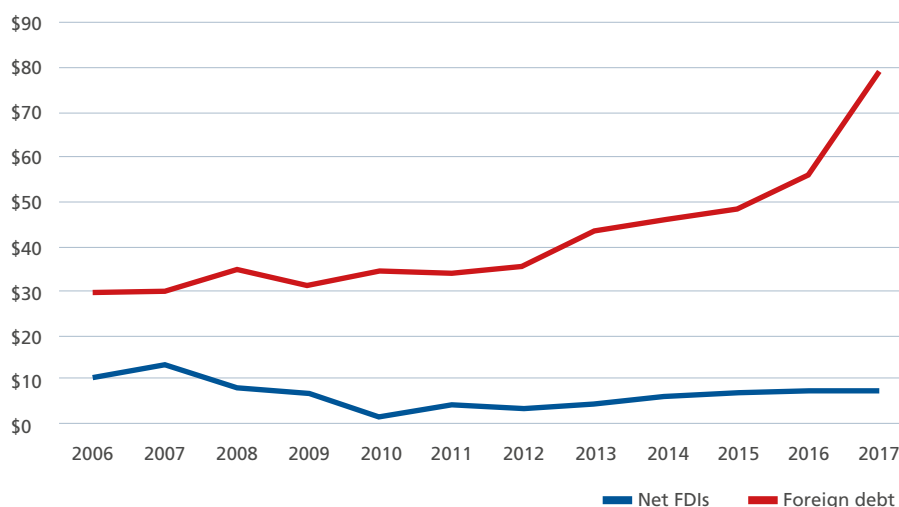
foreign debt stock. Conversely, net FDI has barely recovered to pre-2008 levels, before the global financial meltdown that levelled a blow to FDI inflows before circumstances worsened during the 2011 political and security turmoil.

The government used the massive foreign debt incurred since 2016 to rebuild its reserves, which increased from \$17 billion in 2015 to around \$45 billion by the end of 2018.³⁵ According to the plan, large foreign reserves should gradually enable free capital mobility and entice foreign investors to pour money into the economy without fear of possible exchange rate instability. The government's demonstrated commitment to IMF conditionality translated into a more favorable credit rating and more affordable access to credit on international markets. If Egypt rolls over its debt - using borrowing to service foreign debt - then the country would not risk bankruptcy. The debt spiral will, however, have negative repercussions for future development.

34 Trading Economics (2018) Egypt public debt rate 2002–2018 [Online]. Available at: <https://tradingeconomics.com/egypt/government-debt-to-gdp>.

35 Trading economics (2018) Egyptian foreign exchange reserves 2008-2017 [Online]. Available at: <https://tradingeconomics.com/egypt/foreign-exchange-reserves>.

Figure 1.1: Net FDI and External Debt in Egypt 2006-2017 (in billions USD)



Source: Central Bank of Egypt.

Egypt's strict commitment to the IMF program, however, remains closely linked to the authoritarian restitution imposed on the country since mid-2013. Macroeconomic economic discipline could be only sustained by the employment of sustained repression to pass unpopular austerity measures. Rounds of fuel and food subsidy cuts, increased prices of public services, and the imposition of consumption taxes could only be maintained through deploying an efficient, repressive machine against largely apolitical social constituencies. Egypt's government saw repression as a useful tool not only to control domestic politics and foreign policy (e.g. the cession of the two Red Sea Islands to Saudi Arabia in 2015), but also to subjugate newer, broader social groups to high-intensity state repression.

Thus far, the greatest impact of the IMF package has been greater ease of access for the government to ever more external borrowing. The World Bank's calculations note that net FDI as a percentage of GDP has grown at an annual average rate of 5.87 percent in the period 2016-2019 compared to an average growth of 34.87 percent for total foreign debt during the same period. In fact, net FDI shrank by 8.82 and 35.48 percent between 2017 and 2019.³⁶

Beyond the sheer volume of FDI, the sectoral breakdown (2016-2017 figures) suggests that the increase in investment has taken place in the oil and natural gas sector - the traditional FDI destination since the 1970s.³⁷ In 2016 and 2017, about 50 percent of total FDI inflows have gone to the oil and gas sector.³⁸ The share of the oil and gas sector in total FDIs was a staggering 84 percent during the first quarter of 2017.³⁹

Reflecting a rather long-standing situation, Egypt's oil and gas sector has been historically the largest single recipient of FDI. The CBE reports that extractive industries received a massive 64.6 percent of

³⁶ The World Bank (2019, p. 27).

³⁷ Hanafy, S. (2015) Sectoral FDI and economic growth: Evidence from Egyptian governorates (No. 37-2015). Joint Discussion Paper Series in Economics.

³⁸ Egypt today. (2017) 'Egypt's oil & gas sector acquires majority of FDI: report', Egypt today, 21 August [Online]. Available at: shorturl.at/afjql.

³⁹ Egypt Oil and Gas New Paper (2017) '84% of Q1 FDI Flows to Energy Sector', Egypt Oil and Gas News Paper, 11 December [Online]. Available at: <https://egyptoil-gas.com/news/84-of-1st-qtr-fdi-flows-to-energy-sector/>

net FDI inflows in 2017-2018.⁴⁰ Given its capital- and technology-intensive character, this sector lacks backward or forward linkages with the rest of the economy, meaning that it has barely contributed to job creation. The development of the energy sector in Egypt - namely the recent natural gas discoveries in the Mediterranean - will likely reflect positively on the Egyptian trade deficit by reducing the country's dependence on imported natural gas. While official estimates assert that the offshore field could save Egypt some \$1 billion annually in gas imports, it contends with a total import bill of around \$62 billion.⁴¹ Liquefied Natural Gas (LNG) imports accounted for 3.6 percent of the country's total import bill by the end of 2017.⁴² The savings are significant but do not alter this inherent structural flaw, given that other fossil fuels comprise nearly 15 percent of imports. Ultimately, the recent discoveries will not turn Egypt into a net-energy exporter. The country already planned to resume importing LNG from Israel as early as the first quarter of 2019 amid rising local consumption.⁴³

Conversely, the share of the productive sectors in FDI inflows has been historically marginal. The same CBE data for 2017/18 illustrates that FDI in manufacturing and agriculture only reached 10.4 and 0.1 percent, respectively. Construction received 5.7 percent whereas tourism, communications, and real estate received 0.3, 2.2, and 2.5 percent, respectively. The relatively meager share of total FDI in construction and real estate also highlights the Egyptian government's problematic strategy in basing a recovery on massive investment in real estate and housing. It highlights the government's false claim that large construction projects would attract correspondingly large FDI. Despite an expected boost to vertical supply chain industries (e.g. cement, iron, steel, and real estate services), the strategy is unlikely to contribute to improving Egypt's external position. Construction, financial, and non-financial services are largely non-tradable, resulting in minimal impact at best on improving Egypt's balance of payments position. A boost to these sectors neither compensates for the large import bill nor does it increase exports.

The focus on construction and real estate in Egypt's recovery corresponds to the country's current political economy. Not only did it follow an elite-chosen economic growth model, it also served to reconfigure the newly ruling coalition in the post-2013 period - one essentially comprised of a narrow coalition of coercive state apparatuses. The coalition's cohesion requires an economy of privilege for these relatively limited groups, namely in the form of an expanded military-civilian economy.⁴⁴ This strategy relies heavily on control over the planning, regulation, and development of desert land by the military for construction, housing, and infrastructure projects. The approach implies a significant expansion in the military's footprint in the formal economy - namely those military agencies conducting for-profit activities as well as military-affiliated companies and organizations on the market. It also incorporates an informal economy comprised primarily of new cronies and retired officers who would enlist their own networks and connections.⁴⁵

The underinvestment in Egypt's productive and tradable sectors (i.e. agriculture, manufacturing, and tourism) highlights the overall productivity shortcomings afflicting the Egyptian economy. It also

40 Central Bank (2018, p. 5).

41 Watchman, R. (2018) 'Zohr gas field fires up the Egyptian economy', Arab News, 17 January [Online]. Available at: <http://www.arabnews.com/node/1227561/business-economy>.

42 Khedr, M. (2017) 'A Look into the Immediate Impact of Zohr on Egypt's LNG Import Bill', Egypt Oil and Gas News Paper, 5 November [Online]. Available at: <https://egyptoil-gas.com/features/a-look-into-the-immediate-impact-of-zohr-on-egypts-lng-import-bill/>.

43 Reuters (2018) 'Egyptian company to start gas imports from Israel next year, sources say', Reuters, 5 August [Online]. Available at: <https://www.reuters.com/article/us-egypt-energy-israel/egyptian-company-to-start-gas-imports-from-israel-next-year-sources-say-idUSKBN1KQ05N>.

44 Marshall, S. (2015) *The Egyptian armed forces and the remaking of an economic empire*, Vol (15). Washington, D.C.: Carnegie Endowment for International Peace; Joya, A. (2018) 'The military and the state in Egypt: class formation in the post-Arab uprisings', *British Journal of Middle Eastern Studies*, pp. 1-21.

45 Yigih, Y. (2012) *Above the State: The Officers' Republic in Egypt*. Washington, D.C.: Carnegie Middle East Center, Carnegie Endowment for International Peace.

suggests that Egypt lacks the capacity to diversify its position in the global division of labor through upgrading into higher value-added products. The country remains dependent on crude oil and gas, either through exports or through an overconcentration of FDI in those sectors. This configuration then raises questions surrounding the sectoral composition of the Egyptian economy's recent recovery.

1.5 Which Sectors Really Recovered?

Egypt's apparent economic recovery since 2017 has not yet delivered it from its endemic and structural problems. The disconnect between the current economic strategy and the structural factors behind the macroeconomic imbalances undermines the long-term sustainability of such a recovery, especially when foreign debt has almost tripled since 2010.

World Bank calculations detailing sectoral growth since 2016 indicate that services (including banking and non-banking financial services, insurance and brokerage, and retail trade) contributed the most.⁴⁶ Ironically, this suggests that expanding domestic public debt has driven Egypt's economic recovery with the government as the largest borrower from the banking sector since 2011.⁴⁷ Despite mounting economic troubles, Egyptian banks have outperformed expectations in the years following the 2011 uprising. However, the argument that Egypt is experiencing a real recovery is undermined by the fact that Egyptian banks have received considerable benefits from extending credit to the government and high interest payments. Oil and gas saw the second largest contribution to growth thanks to the large gas discoveries in the Mediterranean, with tourism following in third. CBE data shows that tourism grew 3.9 percent in 2016/17 after contracting 25.5 percent in 2015/16 following the downing of the Russian plane.⁴⁸ The depreciation of the pound that made Egypt a cheap destination and measures to restore relative political and security stability at least partly explain such a recovery. Yet tourism remains a notoriously volatile source of foreign currency earnings in an inherently unstable region.⁴⁹

Notably, neither manufacturing nor agriculture contributed much to economic growth in a way that might correspond to their overall weight in the GDP and employment. Agriculture and manufacturing, traditional mainstays of Egypt's economy, posted gains of 3.2 percent and 2.1 percent - a relatively humble recovery. These numbers reflect the poor conditions of tradable sectors, despite their potential for addressing the structural sources of Egypt's balance of payments problems. The future recovery of these productive sectors will likely expose the internal contradictions that mar the IMF reform program.

Egypt lacks a 'deep' industrial sector. In other words, producers of finished goods primarily oriented toward domestic consumption dominate the Egyptian economy when compared to producers of intermediate and capital goods. As such, the manufacturing and agricultural sectors heavily depend on importing raw materials, intermediate, and capital (or investment) goods. Although raw material imports in themselves do not necessarily suggest structural deficiencies so long as raw materials industries process them further, capital goods often include machines and equipment that a low-middle income economy such as Egypt simply does not have the capacity to produce. The main problem lies with intermediate goods that are often semi-finished manufactured goods with low skill and low technology requirements - which comprise a massive 32 percent of total imports in 2017/18, per CBE figures.

⁴⁶ The World Bank (2019, p. 10).

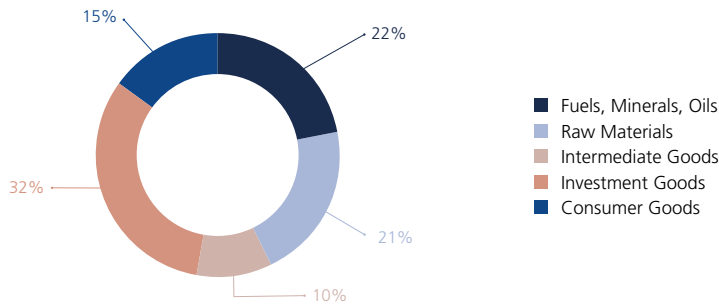
⁴⁷ Ibid, p. 22.

⁴⁸ Daoud, Z. (2018) 'Four tailwinds for economic growth in 2018', Bloomberg, 13 February [Online]. Available at: shorturl.at/biuH7.

⁴⁹ Trading Economics (2018) Egypt tourist arrivals [Online]. Available at: <https://tradingeconomics.com/egypt/tourist-arrivals>.

The general inability to deepen industrialization by enabling the rise of competitive domestic producers of intermediate goods can be traced to the lack of an industrial strategy and the state-business relations necessary to pursue it. Production inputs made up more than 50 percent of the import bill in 2017 (see Figure 1.2).

FIGURE 1.2: IMPORT COMPOSITION FOR EGYPT 2017/2018



Source: Central Bank (2018) External Position of the Egyptian Economy July/December 2017/18, Vol (60), p. 2.

Rising interest rates on bank credit until quite recently also increased the cost of production. The state’s expanding debt and attempts at fighting dollarization also contributed to raising domestic interest rates and crowded out the private sector.⁵⁰ Moreover, the sharp depreciation of the Egyptian pound also meant higher production costs and caused considerable inflation, which when combined with austerity compromised the purchasing power of many Egyptians.

Conversely, construction and real estate showed strong performance and a contribution in the growth of the economy that is incommensurable with their weight. Sisi’s government particularly prioritized construction as part of his push for mega projects, such as the new administrative capital city among other examples. Construction has traditionally served as Egypt’s growth engine, allowing for the knock-on growth of several feeding industries (e.g. iron and steel, aluminum, cement, bricks, and real-estate services). Despite its impact on growth, however, construction does not contribute to fixing Egypt’s balance of payments problems in the short or long term. As a non-tradable sector, it subsumes considerable upper and upper-middle class Egyptians’ savings into unproductive assets marked by significant speculation over the price of desert land and, as previously demonstrated, does not attract much foreign investment.⁵¹ Ultimately, this type of growth neither increases exports, raises foreign currency earnings, nor reduces imports.

The World Bank concludes that a handful of small sectors (in terms of their weight in GDP, like financial services, construction, and oil and gas) have been responsible for generating growth after 2016. This phenomenon indicates that the devaluation of the pound hit productive sectors hard and suffered from both higher costs of imported inputs as well as a punctuated purchasing power in the domestic markets. This handicap limited their exports due to structural restraints on their competitiveness abroad

⁵⁰ Bloomberg News (2018) ‘Pleasing investors is getting expensive for IMF-backed Egypt’, Bloomberg, 26 September [Online]. Available at: <https://www.bloomberg.com/news/articles/2018-09-26/pleasing-investors-is-getting-expensive-for-imf-backed-egypt>.
⁵¹ For an in-depth and thorough critique of Egypt’s policy on desert land uses, see Sims, D. (2015) *Egypt’s Desert Dreams: Development or Disaster?*. Oxford University Press and Dorman; and W. J. (2013) ‘Exclusion and Informality: The Praetorian Politics of Land Management in Cairo, Egypt’, *International Journal of Urban and Regional Research*, 37(5), pp. 1584-1610.

(discussed below in more detail). It also highlights the overrepresentation of non-tradable sectors in generating growth, which contribute little to improving Egypt's balance of payments position in the medium to long term.

With macroeconomic indicators stabilizing since late 2017, productive sectors in the manufacturing and agriculture are starting to show signs of life. Nonetheless, they will not exhibit a full recovery without increasing imports substantively. Hence, this latest growth increase comes at the cost of a ballooning trade deficit. One indication of this phenomenon is the CBE's recorded dip in foreign reserves - the first decrease in two years, by \$1.9 billion.

Earlier improvements in the current account deficit in 2016 and 2017 depended on reducing the trade deficit on the one hand, while enjoying an increase in workers' remittances and tourism revenues on the other. In 2015, despite the plunge in international oil prices, Egypt received \$19.2 billion in remittances, predominantly from the GCC countries. The figure reached \$16.7 billion in 2016 and \$18.3 billion in 2017. Projected remittance receipts stood at \$23.4 billion for 2018, making them almost four times that of Suez Canal revenues.⁵²

Yet as of 2018, both trade and current account deficits started widening once again. The current account deficit increased from \$493 million in the fourth quarter of 2017 to \$3.75 billion in the third quarter 2018-2019. "Egypt's current account deficit will continue to widen over the coming quarters as the country's trade balance deteriorates," said Fitch Solutions in a new report. The report forecasts a deficit increase to 2.8 percent of GDP in FY2019-2020 from 2.5 percent last year due to "stalling export growth and rising imports."⁵³

Given the structure of imports where almost 75 percent are production inputs in the form of raw materials, intermediate, or investment goods, one cannot divorce the recent rise in imports from the seeming recovery of the manufacturing and agricultural sectors. While such a recovery will positively impact growth and employment, their domestic and import-dependent orientation will put tremendous pressure on Egypt's national currency, foreign reserves, and ultimately on the balance of payments. This is a blunt reminder of the structural restraints to financial stabilization in the real economy and that have not been taken into consideration by the IMF team or the Egyptian government.

The Egyptian government's attempt to limit the hemorrhaging has relied in part on cutting imports more than increasing exports to reduce its trade deficit, demonstrating yet another structural flaw in the economy. The World Bank's Egypt Economic Monitor demonstrates how non-oil exports have not strengthened as much as was hoped in response to the depreciating Egyptian pound since November 2016 when compared to other countries of the same income level. "[A] significantly larger depreciation in the Egyptian pound was only followed by an export increase of 16 percent in about a year-time."⁵⁴ Much of the increase in overall exports was related to the large natural gas deposits discovered in the Mediterranean. Gas and oil exports increased by 29.9 percent in 2017-2018 (constituting 31.6 percent of total exports) whereas non-oil exports increased just at a rate of 9.7 percent (making up 68.4 percent of total mechanized exports).⁵⁵ This modest result reiterates the importance of productive

52 Abu Basha, M. (2018) 4Q17 BOP Chartbook: CAD stable at three-year low as remittances keep breaking record high. E.F.G. Hermes, p. 17.

53 Enterprise (2019) Egypt's current account deficit to continue to widen as trade balance deteriorates –Fitch, 29 July [Online]. Available at: <https://enterprise.press/stories/2019/07/29/egypts-current-account-deficit-to-continue-to-widen-as-trade-balance-deteriorates-fitch/>.

54 The World Bank (2019, p. 29).

55 Central Bank of Egypt (2018, pp. 1-2).

sectors in Egypt and their ability to contribute to redefining the country's position in the global division of labor.

By the same token, the above trends cast considerable doubt on the medium-term sustainability of the improvement in the value of the Egyptian pound against the dollar that marked the past three quarters 2018-2019. The relative value of the US dollar has declined consistently over the past 9 months, falling from 17.53 pounds in March 2019 to 16.38 pounds in October 2019, the equivalent of 7 percent.⁵⁶ The government highlighted this rebound as proof of the success of the IMF-sponsored program. However, this shift may not necessarily reflect general improvement in the performance of foreign currency earning sectors (especially in the light of the rising trade deficit during the same period) in a way that suggests that supports a sustained positive trend. One might also attribute the recent rise in the value of the pound to the continued expansion in foreign borrowing, which allowed an influx of dollars that artificially contributed to the strengthened position of the pound versus the dollar.

What makes this harder to explain in terms of economic recovery is the exchange rate system that Egypt has ended up with since the flotation of the pound in November 2016. Although the government claims to have freely floated the Egyptian pound, the exchange rate market is far from free. The government still employs prudent regulations to limit imports. Banks buy rather than sell dollars and the rates in such a stifled market setting are reportedly being decided informally between the Central Bank and the biggest five banks, two of which are state-owned. This exchange rate regime is essentially a continuation of the managed float system (albeit informally) that was used before the float decision that released the CBE from its obligation to defend an official exchange rate using its foreign reserves. Nowadays, exchange rates are decided informally through a limited consortium of banks at fixed intervals of time. Price signals hence can hardly mean much here.

1.6 Conclusion: Short-termism reigns

The Egyptian government has largely prioritized regenerating high growth rates, regardless of the sectoral sources of such growth and whether it serves longer term objectives of fixing the economy's balance of payments. The IMF shares this short-termism, celebrating Egypt's recovery despite the lack of structural solutions that would serve longer-term financial stabilization. After all, the IMF's central mandate involves the immediate financial stabilization of member countries. In holding Egypt's "reforms" as a success story with demonstrated economic growth, the IMF serves the country's access to more debt on the international markets. While guaranteeing the Egyptian economy's reentry into the global order, it does so based on debt rather than on investment-driven terms.

The sectors that have shown the strongest signs of recovery are either non-tradable or do not belong to the productive sectors of the economy. The recovery of these sectors will not likely contribute to correcting Egypt's balance of payments problems by either increasing exports or decreasing import dependency. The structural developmental impasse that has loomed over Egypt's recurrent and chronic financial crises remains out of reach and does not even seem to appear to lie within the government's scope or that of its IFI sponsors, debtors, and advisors.

⁵⁶ Central Bank of Egypt [Online]. Available at: <https://www.cbe.org/en/EconomicResearch/Statistics/Pages/ExchangeRateshistorical.aspx>.

This chapter raised one central question: whether the social suffering inflicted upon many Egyptians in the wake of the economic crisis and the subsequent adoption of the IMF deal is warranted. The answer is that it is not. The current strategy only promises short-term recovery that is heavily dependent on continued external borrowing and the growth of non-productive or non-tradable sectors - neither of which will contribute to addressing Egypt's external position ills and opens the door for more Sisyphean interventions in the future to fix the same problems.

2. Perpetual Periphery: IFIs and the Reproduction of Tunisia's Economic Dependence

Fadil Aliriza

The World Bank and the International Monetary Fund (IMF) have at key moments played important roles in radically restructuring the Tunisian economy while ignoring or perpetuating economic structures that favor the political and economic elite, often in parallel with and towards the same ends as conditional European Union loans and grants. The World Bank's lending programs to Tunisia predate the shift towards neoliberalism, including early support for the 1960s program of land cooperatives.⁵⁷ Since the emergence and subsequent development of neoliberalism as an ideological project, the World Bank and the IMF have used their lending to Tunisia as opportunities to promote standard policies of liberalization, deregulation, and privatization.

Tunisia turned toward the IMF during two key moments in history it perceived as crisis: the first covered a structural adjustment program (SAP) from 1986 to 1992; the second covered two additional IMF loan programs from 2013 to 2020. Both periods coincided with World Bank-funded programs that laid the ground for intense legislative, regulatory, and ultimately economic restructuring. They also coincided with an intensification of the size and scope of World Bank interventions in development policies. The profound economic impact on the public's overall wellbeing unsurprisingly prompted resistance to these neoliberal prescriptions. Tunisians witnessed their economic conditions deteriorate due to austerity and many felt particularly provoked by the ways in which the costs of such austerity were distributed.

While it is more manageable to understand the extent of IMF and WB influence within the scope of a nationally bounded intervention, the neoliberal reordering of Tunisian economic systems has always been conducted with a view to integrating it into a global economic system. The IMF makes this framework explicit in its consideration of Tunisia's balance of payments. Countless IMF statements over decades also specifically promoted Tunisia's trade opening to Europe.⁵⁸ The World Bank's focus on the development of industrial policy, agricultural policy, labor markets, infrastructure (among other areas) aimed to improve Tunisia's integration into global supply chains, attract foreign investors, exploit Tunisia's 'comparative advantage,' and balance its trade sheet - all with national economic policies in thrall to meet international (almost exclusively European) market demands. In this context, IFI policies have reproduced and exacerbated Tunisia's extreme dependence on Europe for trade. Its proponents have been unwilling or unable to reimagine the constellation of international trade and financial systems or their corresponding power dynamics.

57 The project of state-run land cooperatives was a policy associated with minister Ahmed Ben Salah that began in 1961 and accelerated after the nationalization of formerly colonial properties in 1964. Bourguiba's dismissal of Ben Salah in 1969 and the promulgation of a new Agrarian Reform Law promoting the private sector is generally acknowledged as marking the end of the project. See White, G. (2011) *A Comparative Political Economy of Tunisia and Morocco*. State University of New York Press, pp. 90-91.

58 The IMF has also seen Tunisia's liberalization of trade with Europe not only as a goal of neoliberal reform but as a driver of neoliberal reforms. "The Association Agreement with the European Union (AAEU) has served as an impetus to comprehensive reform," the IMF (2002) noted in its report *Tunisia: 2002 Article IV Consultation - Staff Report and Public Information Notice on the Executive Board Discussion*. Country Report No. 02/122, June, p. 6.

2.1 A Brief History of IFI interventions in Tunisia

The neoliberal⁵⁹ era most commonly refers to the 1980s economic ideology concerning market supremacy. However, some of the shifts that characterize the neoliberal era, such as the promotion of private sector development over public sector or state-led development schemes and the shift among poorer post-colonial Southern countries from import-substitution industrialization (ISI) to export-oriented development, began somewhat earlier. While the World Bank had supported Tunisia's "collectivization" project under super-minister Ahmed Ben Salah⁶⁰ - popularly associated with a socialist or state-led development model - the Bank signed a series of development financing loans with Tunisia that explicitly promoted private-sector development beginning in 1966 up to the early 1970s.⁶¹ By 1969, the World Bank "refused to provide aid for the [collectivization] program." Until that point, foreign sources had comprised a third of the project's funding, including the World Bank.⁶²

In 1969, a shift occurred in Tunisia's macroeconomic strategy. The World Bank celebrated this in 1972 as a "new strategy ... which aims at accelerating growth, exports and employment, mainly by reducing Government's direct intervention in the economy; relaxing administrative controls and strengthening indirect support to productive activities in the private sector."⁶³ While the Bank had already been arguing against ISI and state-led growth, a 1969 Association Agreement with the European Economic Community (EEC) allowing duty-free imports of Tunisian industrial products also "strengthened foreign as well as domestic industrial interests" that lobbied for Tunisia's shift in economic strategy.⁶⁴ Key investment laws in 1972 and 1974, banking reform in 1976, and a cooperation agreement with the EEC in 1976 all helped advance this change. While supported and promoted by the World Bank, this period of liberalization - though not yet privatization⁶⁵ - was underwritten largely with EEC development funds after 1976.⁶⁶

Bread Riots and the State's Violent Enforcement of Neoliberal Policies

The first perceived crisis linked to World Bank and IMF influence (and their subsequent social consequences) began with the 1983-1984 bread riots. For years before the riots, the World Bank had criticized Tunisia's subsidy system, including the politically sensitive bread subsidies. The World Bank commented in a 1981 report that Tunisia's "pricing system, however, has serious costs to the economy. The strictly budgetary costs have become quite heavy over the years."⁶⁷ The same report

59 Rather than offering a single definition of neoliberalism, I defer to Quinn Slobodian's taxonomy for clarity. Slobodian suggests there are three ways in which the term is used: as a historical period [i.e. "late capitalism", citing David Harvey's interpretation of the term]; as a restructuring or reordering of society and human relationships [citing Foucault's biopolitics and the work of Wendy Brown], and as a discrete intellectual tradition/political-economy philosophy linked to Friedrich Hayek, Milton Friedman and others. While Slobodian focuses his study on the latter of the three - and in a manner with which I have some disagreements that fall outside the bounds of this paper - I take the three approaches to be referring to a cohesive, historically-situated phenomenon that has practical implications in terms of correlating policies, i.e. neoliberal policies. See Slobodian, Q. (2019) Behind the News. interviewed by Doug Henwood, 10 January. Radio show and podcast, broadcast on KPFA. [Online]. Available at: http://shout.lbo-talk.org/lbo/RadioArchive/2019/19_01_10.mp3.

60 For nearly the entire decade of the 1960s Ben Salah held the posts of Minister of Economy, Minister of Finance, and Minister of Planning.

61 The first in this series was World Bank loan number 449 TUN, signed May 16, 1966.

62 Murphy, E. (1999) *Economic and Political Change in Tunisia: From Bourguiba to Ben Ali*. London: Macmillan Press LTD, p. 56.

63 The World Bank (1972) *Current Economic Position and Prospects of Tunisia*. EMA-51a, 14 August.

64 White, G. (2011, pp. 97-98.).

65 While this period saw liberalization in Tunisia's industrial sector and the opening up for private investment and promotion of private-sector industry, this did not yet coincide with the privatization of SOEs as the period from 1973 to 1984 actually saw 110 new state enterprises created as petroleum prices increased. Despite this increase, the share of the state sector in Tunisia's GDP nevertheless decreased slightly from 26% in 1970 to 25% in 1980, indicating the growing importance for the private sector in the economy. See Grissa, A. (1991) 'The Tunisian State Enterprises and Privatization Policy', in Zartman, I.W. (ed.) *Tunisia: The Political Economy of Reform*. SAIS African Studies Library, p. 112.

66 See Murphy, E. (1999, p. 59) and EC (1995) *Relations Between The European Union And Tunisia* [Online]. Available at: http://europa.eu/rapid/press-release_MEMO-95-106_en.htm?locale=en.

67 The World Bank (1981) *Tunisia Country Economic Memorandum*. Report No. 3399-TUN, 15 September, p. 26.

noted that “removing consumer subsidies quickly by raising the retail price of bread, obviously is a delicate issue, not only because of its inflationary potential but also because the most highly subsidized 670 gram bread is the basic staple of the urban poor, and thus may be important from a nutritional standpoint.”⁶⁸ While the same report noted the strength of Tunisia’s economic performance, it also framed the necessity of reducing subsidies as being linked to the slowdown in Tunisia’s oil production.

The World Bank’s 1982 review of Tunisia’s 6th Five-year Development Plan - covering 1982-1986 - raised the issue of bread subsidies once more. “The projected need for additional flour milling capacity assumes that the current bread subsidy remains. Reducing it (for which a strong case could be made) might appreciably reduce consumption - partly by cutting out some current wastage of bread,” the report noted.⁶⁹ In 1983, the Tunisian government raised the price of a 700-gram flat-loaf of bread from 80 millimes to 170 millimes, while the price of semolina used for couscous almost doubled and the price of flour more than doubled.⁷⁰ These changes came after almost 15 years of stable bread prices.⁷¹

The price increases prompted “spontaneous”⁷² mass protests that began in Tunisia’s marginalized interior regions and spread to the capital, prompting a deadly crackdown by Tunisia’s army. The military killed an estimated 100 civilians and imposed a strict several-week national curfew that limited public gatherings to three people.⁷³ When Bourguiba eventually reversed his decision, he justified the earlier price hike by arguing that bread was so cheap people had been feeding it to cats, echoing the World Bank’s earlier analysis of wastage. Seddon contextualizes Bourguiba’s comment, noting that “such profligacy would be unthinkable for most of the population, and this comment reveals the yawning gap between the lived experience of rich and poor in Tunisia.”⁷⁴

Many scholars have noted that the IMF and World Bank had directly pressured Tunisia to increase the bread prices.⁷⁵ Just before the price increase, Ismail Khelil was appointed Minister of Planning immediately after his role as an executive director at the World Bank. Khelil would later become Minister of Finance and then the Central Bank Governor, playing an important role in the neoliberal restructuring of Tunisia’s banking system during the structural adjustment program from 1986 to 1992. The movement of personnel from key decision-making posts in the World Bank to top Tunisian government posts at a moment when World Bank policy proposals and Tunisian government policies aligned would repeat itself in 2011 with the move of Mustapha Kamel Nabli as a high official at the World Bank to the head of Tunisia’s Central Bank. This permeability of staff across the IFI-Tunisian state “boundary” calls into question the popular assumption that Tunisian economic policymaking is nationally-bounded and sovereign. Rather than national decision-making taking place in a strictly national space with some degree of external influence from IFIs, it may be more useful to consider economic decision-making as not *merely* originating from within the domestic sphere, but as produced in concert between domestic and international institutions that lack the definite impermeability that analysts often assume.⁷⁶

68 Ibid, p. 29.

69 The World Bank (1983) Tunisia Review of the Vth Development Plan, Volume II: The Main Economic and Social Sectors. Report No. 4137-TUN, 29 June, p. 60.

70 Seddon, D. (1984) Winter of Discontent: Economic Crisis in Tunisia and Morocco. MERIP Reports No. 127, October 1984, p. 13.

71 Murphy, E. (1999, p. 66).

72 Seddon, D. (1984, p. 11).

73 Seddon, D. (1984, pp. 7-8).

74 Seddon, D. (1984, p. 13).

75 See Seddon, D. (1984, p. 65), White, G. (2011, p. 119).

76 It is also worth noting that when the ideological beliefs of IMF officials align with those of the officials in a country they are lending to, there is evidence of so-called “preferential treatment.” See Nelson, S.C. (2014) ‘Playing Favorites: How Shared Beliefs Shape the IMF’s Lending Decisions’, International Organization, Vol (68/2), March, pp. 297-398.

The state's repression of popular resistance to the bread price hike foreshadowed the kind of securitization and violence the Tunisian state would need to enact in order to implement neoliberal reforms over the protests of its citizenry. Former general Zine El Abidine Ben Ali's authoritarian political career can be traced to the state's response to the bread riots, when he was appointed State Secretary for National Security in 1984 in a house clearing of the state's security sector following the riots.⁷⁷ In the summer of 1986, Rachid Sfar replaced PM Mohammed Mzali in the lead up to the IMF loan and sham elections in November with a view to pleasing the IMF. "Censorship, arrests and reliance by the government on the security apparatus to maintain control had indicated that Sfar's priority was to restore international confidence rather than to reassure domestic voters," Murphy notes.⁷⁸ This trajectory of increasing repression would extend into President Ben Ali's reign, whose presidency began in 1987, neatly coinciding with the beginning of the adjustment program. "Neoliberal economic reforms also facilitated the rehabilitation of state corporatism in Tunisia ... Neo-corporatist policies have helped state elites reconfigure authoritarianism during market transitions,"⁷⁹ King concluded in his study published in the early 2000s, noting even more explicitly that "neoliberalism in Tunisia has been facilitated by a harsh restriction of political rights."⁸⁰

Structural Adjustment and Increasing Inequality

Subsidy reductions and subsequent "bread riots" were not limited to Tunisia alone but were part of structural adjustment programs across the MENA region from the 1980s until the early 2000s.⁸¹ In Tunisia, the IMF provided a Standby Arrangement of 104 million SDR that came into force in November 1986, one year before Ben Ali carried out his palace coup and assumed power. The IMF then offered an Extended Fund Facility of 207 million SDR which came into effect in July 1988 and would last until July 1992. These loans and their structural adjustment conditions deepened the neoliberal restructuring of Tunisia's economy towards privatization, deregulation, and liberalization. This restructuring not only meant to reproduce a neoliberal model within Tunisia, but also to reshape Tunisia to better fit into global economic structures, as "part of the broader historical trajectory of *infatih* development strategy ... to Europe."⁸²

While the IMF and the World Bank were "generally pleased with the tough austerity measures already imposed" before the 1986 loans and structural adjustment program,⁸³ SAP conditions obligated Tunisia to further liberalize its trade, reduce the public sector deficit by cutting subsidies, attract foreign investment,⁸⁴ liberalize prices more generally, raise interest rates, reduce import restrictions, and significantly - as it would later play an important role in the post-2011 environment - devalue the Tunisian dinar.⁸⁵ Interest rate deregulation and steps toward banking privatization were taken almost immediately.⁸⁶

⁷⁷ Murphy, E. (1999, p. 66).

⁷⁸ Murphy, E. (1999, p. 75).

⁷⁹ King, S.J. (2003) *Liberalization Against Democracy*. Indiana University Press, p. 138.

⁸⁰ King, S.J. (2003, p. 40), citing Mitchell, T. (1999) *Dreamland: The Neoliberalism of your Desires*. MERIP Report 210, 1999, 32; see also Hanieh, A. (2013) 'Lineages of Revolt', Haymarket Books, p. 64.

⁸¹ Hanieh, A. (2013, p. 69).

⁸² White, G. (2011, pp. 30-31); see also Radl, S. (2017) 'Structural Adjustment in Tunisia: The Crisis of Neoliberalism and the 'Gafsa Riots' of 2008', in Baumgratz, G., Chaabane, Kh., Werner Ruf, W. and Telkämper, W. (eds.) *Development by Free Trade? The Impact of the European Union's Neoliberal Agenda on the North African Countries*. PIE Peter Land.

⁸³ Murphy, E. (1999, p. 74).

⁸⁴ Murphy, E. (1999, pp. 74-75).

⁸⁵ Grissa, A. (1991, pp. 121-122).

⁸⁶ Moore, C.H. (1991) 'Tunisian Banking: Politics of Adjustment and the Adjustment of Politics' in Zartman, I.W. (ed.) *Tunisia: The Political Economy of Reform*. SAIS African Studies Library, pp. 70-71.

Tunisia signed two World Bank “sectoral adjustment” loans for \$150m in 1986 and 1987: the first for agricultural restructuring and the second for industrial restructuring. The agricultural component was particularly important as it aimed to privatize agricultural production. Ample evidence suggests that doing so contributed to disenfranchising small and poor farmers in favor of large landholders and conglomerates.⁸⁷ The World Bank’s own language about the program indicated that privatization aimed to improve land management, but “resulted in major asset losses for the poor ... there was almost no net job creation in agriculture during the structural adjustment period,” and “the World Bank also admits that the poorest farmers have received few benefits from improved producer prices.”⁸⁸ Many small farmers during this period were rendered landless and unemployed, contributing to urban migration, with the proportion of the population living in rural areas dropping by more than one third from 1970 to 2010.⁸⁹ Rural communities displaced to urban centers during this period would later play important roles as centers of mass mobilization against the regime in 2011.

A 1987 Tunisian law (law 87-47, amended in 1989) providing the framework for restructuring public enterprises was explicitly linked as a condition to the provision of a Public Enterprise Restructuring Loan (PERL) from the World Bank in July 1989. This law facilitated the sell-off of state enterprises in the most profitable sectors of hotels, textiles, and bank subsidiaries, with less profitable sectors kept for public management.⁹⁰ If the conditionality of the WB loan to legislative reform was not indicative enough of Tunisia’s limited sovereignty over its macroeconomic policy, the adviser to the ministerial committee formed to facilitate privatization (the Academic Resource Center for Priority Education or CAREP) “was recruited and funded through international donor agencies. He was established within the Prime Ministry to support policy determination and develop implementation procedures.”⁹¹ This embedding of foreign technocrats into the machinery of Tunisian economic policymaking would repeat itself after 2011, with a US Treasury Department official advising the Tunisian Central Bank (CBT) in 2016.⁹²

Meanwhile, Tunisia’s 1989 budget further laid out public enterprise reform in a way that incentivized public enterprises to devote resources to paying down debts.⁹³ Repayment would make them more attractive to purchase by private investors who would not have to take on the debt burdens upon purchase. Such a process aligns with a familiar neoliberal pattern: socializing the costs of deficit reduction while privatizing the profits.

What were some of the broader social and economic results of this structural adjustment program? The IMF assessment in 1993 was extremely positive: “Tunisia’s progress in its structural and macroeconomic adjustment efforts during 1986-1992 provides a prime example of the successful transformation of an economy from one heavily regulated by government to one based on market orientation and from an inward-looking one to an export-oriented one.”⁹⁴

87 See Hanieh, A. (2013, pp. 75-97).

88 King, S.J. (2003, pp. 116-117).

89 Hanieh, A. (2013, p. 80, 84).

90 Murphy, E. (1995, pp. 105-107); see also Pelletreau, P.D. (1991) ‘Private Sector Development Through Public Sector Restructuring? The Cases of the Gafsa Phosphate Company and the Chemical Group’ in Zartman, I.W. (ed.) Tunisia: The Political Economy of Reform. SAIS African Studies Library, p. 132.

91 Pelletreau, P.D. (1991, p. 132).

92 The embedding of treasury official Diane Maurice, formerly of the US Federal Reserve, in the Tunisian Central Bank was conducted through the US Department of the Treasury’s Office of Technical Assistance (OTA). See Agendas.tn (no date) The Role of Central Banks in Providing Stable Economies [Online]. Available at: shorturl.at/eigtO/; and U.S. Embassy in Tunisia (no date) FACT SHEET: Enduring U.S.-Tunisian Relations [Online]. Available at: shorturl.at/bpW59/.

93 Pelletreau, P.D. (1991, p. 130).

94 Gerwin Bell, G., Yücelik, M.Y., Duran, P.J., Nsouli, S.M. and Eken, S. (1993) The Path to Convertibility and Growth; The Tunisian Experience. IMF Occasional Papers 109. International Monetary Fund, p. 42, cited in Murphy, E. (1995, p. 130).

Tunisia's budget deficit was indeed reduced and inflation dropped from a peak of nearly 10 percent in 1987 to just over 3 percent in 1993.⁹⁵ However, inequality rose during this period, according to the limited indicators and measurements of inequality available. Average real wages declined 11 percent from 1983 to 1993.⁹⁶ In 1975, 20 percent of Tunisian households fell into the category of the middle quintile in income distribution. By 1990, this number had dropped to 15.3 percent.⁹⁷ The urban-rural divide also widened, with numbers from 2000 showing that the poverty rate in Tunisia's countryside was five times greater than in cities.⁹⁸ A Tunisian government report produced in 1992 indicated that relative poverty had increased as a result of structural adjustment.⁹⁹ Structural adjustment did not tackle unemployment, which remained around 16 percent until finally dropping slightly in the early 2000s.¹⁰⁰ "Unemployment, subsidy reductions, and the lifting of price controls were not offset by targeted social transfers," Murphy notes of the structural adjustment program.¹⁰¹

Some have argued that Tunisia managed to maintain or even expand its social spending during structural adjustment, particularly when compared to other countries in the region. One study of structural reform in Jordan, Egypt, Morocco, and Tunisia between 1983 and 2004 by El-Said and Harrigan argues that "Tunisia is an exception among the four countries examined, because it refused to compromise the social aspect of reform."¹⁰² However, El-Said and Harrigan's numbers are extremely dubious. They state that Tunisia's national poverty rate in 1985 was 7.7 percent, but later present another rate for the same year at 9.6 percent. The authors suggest that Tunisia's poverty rate fell to 4.1 percent by the year 2000,¹⁰³ but this number is cited as coming from a 2001 study in the *Swiss Journal of Economics and Statistics* where the 4.1 figure does not appear.¹⁰⁴ According to the World Bank, the poverty headcount ratio at national poverty lines was 25.4 percent in Tunisia in 2000¹⁰⁵ - a far higher number than the 4.1 offered by El-Said and Harrigan. Using another poverty line (i.e. not the *national* poverty line) of \$1.90 per day using 2011 PPP, World Bank data shows the poverty rate to be 5.9 percent in the year 2000, still significantly above the 4.1 figure.¹⁰⁶

El-Said and Harrigan's study falls into the same trap that many previous economic studies of Tunisia have of uncritically relying on official statistics. With relation to poverty rates specifically, Murphy, citing an April 2011 World Food Program study, notes that "when set at 400 [Tunisian dinars, TND] per person per year, only 3.8 percent of the population counted as poor. A more realistic rate of 585 [TND] per person per year raised this to 11.5 percent of the population."¹⁰⁷ El-Said and Harrigan also praise the success of social programs established by Ben Ali - the National Solidarity Fund and the National Employment Fund - without acknowledging these funds were generally seen as being corrupt, misappropriated for the personal use of Ben Ali's family and political allies.¹⁰⁸ In 2017 Ben Ali

95 Trading Economics (2019) Tunisia inflation rate (historical) [Online]. Available at: <https://tradingeconomics.com/tunisia/inflation-cpi> (Accessed: 28 June 2019 on TradingEconomics.com using National Institute of Statistics data).

96 King, S.J. (2003, p. 38).

97 King, S.J. (2003, p. 39).

98 Hanieh, A. (2013, pp. 83-84).

99 Cited in Murphy, E. (1995, p. 128).

100 IMF (2018) World Economic Outlook database. April, Tunisia [Online]. Available at: shorturl.at/teFKW

101 Murphy, E. (1995, p. 128).

102 El-Said, H. and Harrigan, J. (2014) 'Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco and Tunisia 1983-2004', *Middle East Journal*, 68(1), January, p. 100.

103 Ibid, p. 116.

104 Ayadi, M., Matoussi, M.S. and Feser, M.P.V. (2001) 'Putting Robust Statistical Methods into Practice: Poverty Analysis in Tunisia', *Swiss Journal of Economics and Statistics*. Vol (137/3), pp. 463-482.

105 See the World Bank (no date) 'World Development Indicators for Tunisia'. The World Bank's Databank [Online]. Available at: shorturl.at/aeekEV.

106 Ibid.

107 Murphy, E. (2013) 'Under the Emperor's Neoliberal Clothes! Why the International Financial Institutions Got it Wrong in Tunisia', in Gana, N. (ed.) *The Making of the Tunisian Revolution*. Edinburgh University Press, p. 41.

108 See Boukhars, A. (2016) 'Exclusion and Despair Make Tunisia's Border Regions a Powder Keg', *World Politics Review*, 19 July [Online]. Available at: shorturl.at/mnDU4

was sentenced in absentia to six years in prison for a corruption case relating to the National Solidarity Fund.¹⁰⁹

The IMF loan ended in 1992 and the IMF issued no further loans until 2013, but this did not end IFL influence over Tunisian economic policies. "The adjustment process is not over," a 1992 World Bank Program Completion Report noted. "Further progress is required in liberalizing trade margins, reducing non-tariff barriers and improving financial intermediation. These measures would facilitate the elimination of the remaining restrictions to the convertibility of the dinar, which in turn would help Tunisia in attracting more direct foreign investment and gaining access to international capital markets. The Bank has a role to play in assisting Tunisia in this further stage of the adjustment process."¹¹⁰

Tunisia introduced a new investment code in 1993, "one of the conditions attached to the \$250 million World Bank structural adjustment loan of 1992."¹¹¹ Meanwhile, President Ben Ali announced the acceleration of the full convertibility of the dinar during a speech to the National Assembly in December 1992. This coincided with the visit of the IMF's then-Managing Director Michel Camdessus, who was quoted as calling the announcement "the most beautiful present I have ever been given."¹¹² While a new investment code and fewer restrictions on the dinar's convertibility may have helped boost foreign direct investment (FDI), it disproportionately went to Tunisia's energy sector¹¹³ - a sector dominated by hydrocarbon extraction that does not employ significant numbers of people, is environmentally unsustainable, and is rife with corruption with the subsequent distribution of profits in favor of foreign investors over state partners.¹¹⁴

From 1992 to 1996, World Bank structural adjustment loans to Tunisia ranging from \$250 to \$400 million per year continued.¹¹⁵ World Bank pressure on Tunisia to maintain the pace of privatization resulted in a new phase of privatization in 1996 focusing on agribusiness, mechanical manufacturing, and transport businesses. In 1997, Tunisia's government announced the beginning of privatization of municipal services.¹¹⁶ In 1995, Tunisia signed an Association Agreement with the EU, which would gradually remove all tariffs for trade between Tunisia and the EU in industrial products and open trade in some agricultural products. The World Bank and the EU promised \$2.5 billion between 1996 and 2000 to upgrade Tunisia's industry and offset the potential negative effects.¹¹⁷ Nevertheless, from 1996 to 2013 Tunisia lost 55 percent of its industrial base, unemployment levels did not drop significantly, and "the free trade zone did not have a significant impact on exports to the EU but significantly increased imports," according to the Tunisian Forum for Economic and Social Rights (FTDES by its French acronym).¹¹⁸ The agreement aligned with the structural adjustment program strategy of boosting Tunisia's exports, but the increasing dependence on European capital imports helped widen

¹⁰⁹ AFP (2017) Tunisia convicts Ben Ali in 'Mariah Carey case', 4 March.

¹¹⁰ The World Bank (1992) Program Completion Report, Republic of Tunisia, Structural Adjustment Loan (SAL I), Loan 2962-TUN Report No. 11354, 16 November, p 17.

¹¹¹ Murphy, E. (1999, p. 138).

¹¹² Middle East Economic Digest (1993), 15 Jan, p 30, cited in Murphy, E. (1999, pp. 150-151).

¹¹³ From 1990 to 1994, 75% of all FDI attracted to Tunisia had been in the energy sector, while figures for 1994 show this increase to 87 percent. The first figure is attributed to then Minister of International Cooperation and Foreign Investment Mohamed Ghannouchi, quoted in *L'Economiste Maghrebin* of March 30-April 12, 1994, pp 16-17; the second is attributed to Tunisia: *Financial Times Survey*, November 28, 1995, p 4. Both are cited in Murphy, E. (1999, p. 140).

¹¹⁴ For an example of this see Aliriza, F. (2014) 'Keeping Tunisia in the Dark', *Foreign Policy*. 5 December [Online]. Available at: <https://foreignpolicy.com/2014/12/05/keeping-tunisia-in-the-dark/>.

¹¹⁵ Murphy, E. (1999, p.134).

¹¹⁶ Murphy, E. (1999, p.142).

¹¹⁷ Murphy, E. (1999, p.148).

¹¹⁸ Romdhani, M. (2018) 'Communiqué de presse: 10 ans après – L'échec du libre échange avec l'UE. Ne reproduisons pas les erreurs du passé!' (Press release: 10 years later - The failure of free trade with the EU. Let us not repeat the mistakes of the past!), FTDES, 18 January [Online]. Available at: <https://ftdes.net/10-ans-apres-lechec-du-libre-echange-avec-lue-ne-reproduisons-pas-les-erreurs-du-passe/>.

Tunisia's trade deficit while the loss of tariff revenues took its toll on the state's budget.¹¹⁹

From 1992 to 2000, the recapitalization of Tunisia's public banks and assistance to private banks amounted to \$6 billion, according to the Central Bank of Tunisia (CBT) estimates.¹²⁰ According to Hibou, "The various operations of bank restructuring have always taken place under the auspices of the donors - IMF, World Bank and European Union - who have given loans but only with several written conditionalities."¹²¹ Public money used to bailout banks or public repayments on loans to bailout banks once again represents another socialization of costs and privatization of profits, particularly as the bad loans on many bank books that prompted assistance were given to the country's elite. Hibou notes that "in 1986, 136 firms and individuals monopolized 50 percent of credits," while her conversations with bankers and international donors suggest that this level of concentration was maintained at least up until the mid-2000s.¹²²

2.2 Taming Tunisia's Economic Revolution

Tunisia's 2010-2011 mass national protests, demonstrations, and confrontations between citizens and state security officials and a subsequent series of political changes is often referred to as a single phenomenon: "revolution." Within the popular political science tradition that delineates in a binary way between "democratic" and "authoritarian" regimes and within the presumed boundaries of a discrete nation-state, the changes in the formal political system that followed Tunisia's 2010-2011 uprising indicate that indeed there was a "revolution" in the shift from authoritarianism to democracy. An authoritarian president with far-reaching executive - arguably dictatorial - powers, was unseated, a de facto single-party system was eradicated and multiparty politics blossomed, a series of free elections were held, and freedoms of assembly, association, expression, and press were enshrined in law and in a new constitution.

But this story of Tunisia post-2011 applies only to changes within the formal *political* sphere and according to the normative approach that institutional, parliamentary politics done right offers the best hope for peace, stability, prosperity, justice, freedom, and equality. The analysis, however, does not consider an assessment of the *economic* changes, or lack thereof, that have occurred since.

Analyses of post-2011 Tunisia fall into this pattern of separating politics and economics and in so doing distort the meaning and intention of Tunisians who led the uprising. The demands of protesters in 2010 and 2011 were not merely political but also explicitly economic. Those economic demands were arguably clearer and more identifiable than demands for political liberalization. Moreover, the conditions of popular economic disillusionment that culminated in the uprising date back decades and can be traced to specific sociopolitical policies, many of which continued or accelerated after 2011 due to economic reforms promoted by IFIs. The celebration of Tunisia's strictly *political* successes makes it difficult to appreciate the economic deterioration that occurred simultaneously - and the significant role IFI intervention has played in this economic story.

¹¹⁹ See Radl, S. (2017, p. 116).

¹²⁰ Hibou, B. (2011) 'The Force of Obedience: The Political Economy of Repression in Tunisia', Polity Press, p. 32.

¹²¹ Hibou, B. (2011, p. 32).

¹²² Hibou, B. (2011, p. 29) citing Henry, C.M. (1996) *The Mediterranean Debt Crescent*, p. 208.

Deauville instead of Debt Cancellation

The economic demands of Tunisia's uprising were impossible to ignore. "Work, Freedom, National Dignity" and "Work is a Right, You Band of Thieves" were two of the early slogans of the revolution before the refrain "the people want the fall of the regime" coalesced into the powerful symbol of change that resonated across the region. An earlier protest movement in 2008 in the Gafsa mining basin over work, corruption, and the role of the state in development and redistribution saw the local branch of the UGTT operate as a powerful vector (or at least platform) for social, economic, and political contestation in what was otherwise a highly authoritarian regime. Many scholars noted the importance of this earlier mobilization to the 2011 mobilization.¹²³ Later, both the regional level and national structures of the UGTT would also play significant roles in the 2011 mobilization. Meanwhile, the spark of the 2011 uprising - the self-immolation of informal trader Mohammed Bouazizi - had undeniably economic dimensions.

The economic distress that coursed through the 2010-2011 mobilization demanded a reckoning with the sunny narrative of Tunisia as a model student or "bon élève," that IFIs had been promoting. According to this narrative, Tunisia experienced high growth and poverty reduction after having closely followed the script of structural adjustment. The uprising forced the World Bank and IMF to acknowledge some of the pitfalls of relying on macroeconomic indicators. The World Bank's post-2011 Development Policy Review of Tunisia, "The Unfinished Revolution," noted that despite these positive indicators, "there were fundamental problems with the Tunisian economic development model, which set the stage for the January 2011 revolution."¹²⁴

The post-revolutionary period had seen protesters storm the properties of Ben Ali's family, who had plundered national wealth through the inevitably selective engineering and politicization of the privatization process. Post-uprising World Bank literature focused on this "crony capitalism" of Ben Ali's family, particularly with its 2014 publication of "All in the Family: state capture in Tunisia." However, this narrow focus on the family was framed in a way to discredit state regulation contained in the Investment Incentives Code - a code on which the World Bank had conditioned its \$250 million 1991 Economic and Financial Reforms Support Loan (EFRSL) to Tunisia.¹²⁵ The conditionality of the World Bank's loan on the passage of the investment code was made explicit in the Bank's own Implementation Completion Report, which stated, "The third tranche was released a year after the release of the second. It could have been released earlier but the promulgation of the Investment Code implementing legislation took longer than anticipated."¹²⁶ The same 1995 report drew the lesson from the successful implementation of the loan conditions that "a successful operation needs excellent inter-sectoral and inter-ministerial coordination. This was provided in Tunisia by the Ministry of Planning,"¹²⁷ who at the time was Mustapha Kamel Nabli. Nabli would subsequently join the World Bank in 1997 before returning to Tunisia as Central Bank governor three days after Ben Ali's departure, where he would play a key role in tamping down calls for a moratorium on odious debt.¹²⁸

123 See Chomiak, L. (2011) 'The Making of a Revolution in Tunisia', *Middle East Law and Governance* 3, pp. 68-83; Bein, J. (2016) *Workers and Thieves: Labor Movements and Popular Uprisings in Tunisia and Egypt*. Stanford California: Stanford University Press, pp. 164-183; and Gobe, E. (2010) *The Gafsa Mining Basin between Riots and a Social Movement: meaning and significance of a protest movement in Ben Ali's Tunisia*. Working paper.

124 The World Bank (2014) *The unfinished revolution: bringing opportunity, good jobs and greater wealth to all Tunisians*. Report No. 86179, p. 26.

125 Ben Rouine, Ch. (2015) 'All in World Bank: Manipulation in the Name of Deregulation', *Tunisian Observatory of Economy*. 30 November [Online]. Available at: http://www.economie-tunisie.org/sites/default/files/20151130_all_in_world_bank_0.pdf.

126 The World Bank (1995) *Implementation Completion Report*. Republic of Tunisia, Economic and Financial Reforms Support Loan, (Loan 3424-TUN), Report No. 14779, 25 May, p. 4.

127 The World Bank (1995, p. iii).

128 See Chokri, B.A. (2011) 'Le nouveau Gouverneur de la BCT tranquillise les milieux financiers internationaux sur la capacité de la Tunisie à rembourser toute sa dette, en temps et en heure!' (The new Governor of the BCT reassures the international financial community on Tunisia's ability to repay all its debt, on time!), *African Manager*. 21 January [Online]. Available at: shorturl.at/cJQ78; see also Nabli, M.M.K. (2011) 20 Mars 2011, lettre au gouverneur de la BCT (20 March 2011, letter to the Governor of the BCT) [Blog] the Dette Tunisie blog. Available at: shorturl.at/kgS5.

However, after the uprising other Tunisians went beyond blaming all the economic ills on Ben Ali's family and crony capitalism. They took a radical approach, one that challenged the World Bank, the IMF, and other creditors' role in perpetuating Tunisia's debt and ultimately its dependence on Europe and IFIs.¹²⁹ "Foreign debt is not a secondary question to the ongoing social struggles confronting the current Tunisian revolution, it is at the heart of the struggle," wrote Fathi Chamkhi. A Tunisian activist and leader in the Tunisia chapter of Rally for an Alternative Development International (RAID by its French acronym) before the uprising, Chamkhi later became an MP who played a role in introducing legislation to audit public debt. "It raises economical, political, and social questions that relate to popular sovereignty and foreign control, and how we divide the wealth of the country and achieve rights for all Tunisians," Chamkhi wrote.¹³⁰

In March 2011, the European civil society network Committee for the Abolition of Illegitimate Debt (CADTM) coordinated a letter calling for the "immediate suspension of EU debt repayment by Tunisia (with frozen interests) and an auditing of the debt."¹³¹ More than seventy members of European parliament and members of parliament in EU member-states signed the letter. Tunisian civil society groups like RAID, the Campaign to Audit Tunisia's Debt (ACET), and the UGTT took up the call before political parties also began lobbying for legislation to suspend debt repayments pending an audit of the debt.¹³² "Servicing debt in Tunisia is both a barrier to development and an instrument of plunder and submission inherent in the process of ensuring countries in the global south are indebted to countries in the north," wrote ACET member and president and cofounder of the Tunisia Observatory of Economy Chafik Ben Rouine in 2013.¹³³

Annual public debt-servicing repayments have steadily increased in recent years. In 2010, debt-servicing repayments constituted 3.3 billion TND (about \$2.3 billion at the time).¹³⁴ This number was set to reach 9.3 billion TND in 2019 (about \$3.2 billion at the time).¹³⁵ For 2020, the servicing was forecast to reach 11.6 billion TND.¹³⁶ As a percentage of the budget, this represents a shift from 18.1 percent of the annual budget going to servicing public debt in 2010, to 22.8 percent in 2019. Tunisia's public debt to GDP ratio has also increased from hovering near 40 percent in the years before the 2010-2011 uprising,¹³⁷ to 77 percent by the end of 2018.¹³⁸ Most of the new debt Tunisia has taken on has been external debt. In 2010, 61 percent of Tunisia's total public debt was external, while that number rose to 74 percent by 2018.¹³⁹

129 See SBolicina (2011) debt dictatorship [Online Video]. 28 May. Available at: shorturl.at/szBST.

130 Chamkhi, F. (2012) 'al maduneeya al-kharajeeeya wa al-thawra al-Tunisiyya' (Foreign Debt and the Tunisian Revolution), *al-thawra da'ima*, 2, Spring, pp. 143-146, translated and cited by Hanieh, A. (2013) *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East*, p. 168.

131 CADTM (2011) Call: For an audit of Tunisia's debts to the EU. 16 March [Online]. Available at: shorturl.at/hJLPT.

132 Fernández-Molina, I. (2018) 'Modelling for a living: two-level games and rhetorical action in the foreign debt negotiations of post-revolutionary Tunisia', *The Journal of North African Studies*, March, pp. 11-12.

133 Ben Rouine, Ch. (2013) 'How the IMF and global finance are trying to block a democratic examination of Tunisia's debt', CADTM, 17 July [Online]. Available at: <http://www.cadtm.org/How-the-IMF-and-global-finance-are>.

134 Banque Centrale de Tunisie (2011) *Dette Exterieur de La Tunisie 2010* (External Debt of Tunisia 2010), December, p. 17 [Online]. Available at: <https://www.bct.gov.tn/bct/siteprod/documents/dette2010.pdf>.

135 Reuters (2018) Tunisia's 2019 debt payments to hit record of more than \$3 bln. 17 September [Online]. Available at: <https://af.reuters.com/article/investingNews/idAFKCN1LX1C6-OZABS>; see also Marsad Budget [Online]. Available at: <https://budget.marsad.tn/ar/>.

136 TAP News Agency (2019) citing FTDES [Twitter]. 25 October, at 2:37 p.m. Available at: shorturl.at/vfJTX.

137 Banque Centrale de Tunisie (2011, p. 10).

138 Central Bank of Tunisia (2019) *Annual Report 2018*, June, p. 39 [Online]. Available at: https://www.bct.gov.tn/bct/siteprod/documents/RA_ang.pdf.

139 Author's calculations using Central Bank of Tunisia official reports.

Table 2.1: Tunisia's public debt composition and relation to GDP ,annual budget

	2010	2018
Public debt as a percentage of GDP	40.2	76.7
Public debt repayments as percentage of total annual budget	18.1	22.2
Percentage of Tunisia's public debt that is external	61.0	74.0

Source: Author's calculations using the finance laws of 2010 and 2018 and the Central Bank of Tunisia annual reports from 2010 and 2018.

A debt audit and forgiveness of odious debt might have unfettered Tunisia's budgetary commitments to invest in projects designed to respond to the social and economic demands of the 2011 uprising. Instead, the World Bank, IMF, and other Tunisian creditors decided to support Tunisia's political transition through commitment of more loans. In May 2011, international governments and institutions pledged up to \$40 billion¹⁴⁰ in macroeconomic aid to several Arab countries "in transition" under the so-called Deauville Partnership within the framework of a G8 summit "to provide political and financial support to Arab countries."¹⁴¹ In September 2011, the IMF, World Bank and several other IFIs released a statement pledging support for the Deauville Partnership "based on (i) a political process to support the democratic transition; and (ii) an economic framework for transparent, accountable government as well as sustainable and inclusive growth." That statement, signed by the heads of IFIs prioritized supporting "governance, transparency and accountability of economic activities" and "social and economic inclusion," asserting that "the aspirations of the people of the region deserve the international community's wholehearted support."¹⁴²

The "donor cartel" of the Deauville Partnership "has been a cornerstone of the economic policies adopted in Tunisia during the transition period," argues Jihen Chandoul, Head of Policy Research and Advocacy and cofounder of the Tunisian Observatory of Economy.¹⁴³ "It follows the same logic and historical patterns that had already been implemented with the IMF's last structural adjustment plan in 1986, and it aims to enhance and extend liberalization of the Tunisian economy. Since 2011, the foreign public debt increased substantially because of this partnership, expanding from 40.7% of the GDP in 2010 to 63.7% of the GDP in 2017. Successive governments have increasingly lost their ability to maneuver (e.g. "policy space") on political and economic decisions because of this spiraling debt," Chandoul writes.¹⁴⁴ By the end of 2018, Tunisia's debt to GDP percentage had risen further to 77percent.¹⁴⁵

The withdrawal of a bill from Tunisia's legislature calling for a debt audit occurred in a moment of crisis, with the assassination of popular leftist politician Chokri Belaid in February 2013 and a subsequent government reshuffle. The withdrawal of the bill coincided with the launch of talks between the

140 Moffett, S., Boschat, N. and Horobin, W. (2011) 'G-8 Pledges \$40 Billion for 'Arab Spring'', Wall Street Journal, 28 May [Online]. Available at: <https://www.wsj.com/articles/SB10001424052702304520804576348792147454956>.

141 "Encouraging transformation in North Africa and the Middle East: the Deauville Partnership," a summary available on a special website created to mark the German presidency of the G7 presidency in 2014 and 2015, created by the German Federal Ministry for Economic Cooperation and Development (BMZ) and last updated December 2015. See BMZ (2015) Encouraging transformation in North Africa and the Middle East: the Deauville Partnership [Online]. Available at: <https://www.bmz.de/g7/en/Entwicklungspolitik/Schwerpunkte/Deauville-Partnerschaft/index.html>.

142 IMF (2011) 'Deauville Partnership, International Financial Institutions (IFIs) statement', IMF News. 10 September [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/29/18/04/dm091011>.

143 Chandoul, J. (2015) 'Le Partenariat de Deauville, à l'origine des politiques économiques en Tunisie' (The Deauville Partnership, at the origins of economic policies in Tunisia), Tunisian Observatory of Economy. 17 September [Online]. Available at: http://www.economie-tunisie.org/sites/default/files/20150917_economie_politique_le_partenariat_de_deauville.pdf.

144 Chandoul, J. (2017) 'The IMF in Tunisia: Transitional Injustices', Tunisian Observatory of Economy. 20 April, p. 2 [Online]. Available at: https://www.economie-tunisie.org/sites/default/files/20180302-imf_in_tunisia-eng-bap.pdf.

145 Central Bank of Tunisia (2019) Annual Report 2018. June, p. 39 [Online]. Available at: https://www.bct.gov.tn/bct/siteprod/documents/RA_ang.pdf.

Tunisian government and the IMF on a standby agreement.¹⁴⁶ “It was the cabinet reshuffle that gave the green light for Tunisia’s post-revolutionary taboo on borrowing from this decried international financial institution to be overcome. Previously, the Jebali Government had been largely reluctant to accede to the IMF’s usual conditions involving structural reforms, austerity measures and public spending cuts,” Fernández-Molina argues.¹⁴⁷

The new IMF and World Bank Loan Programs

Tunisia signed a standby agreement with the IMF on June 7, 2013 lasting until December 31, 2015 for a 1.1 billion SDR loan. The Tunisian government signed the loan without a vote from Tunisia’s legislature, despite previous assurances that any law must go through the elected National Constituent Assembly. The loan also came despite a call from 72 MPs demanding a vote just two days beforehand.¹⁴⁸ On May 20, 2016, Tunisia signed an Extended Fund Facility loan agreement with the IMF for just over 2 billion SDR, lasting until May 19, 2020. Since 2011, Tunisia has also signed 16 loan agreements with the World Bank totaling 2.7 billion euros.¹⁴⁹ The largest, most politically significant, and most transformative of the World Bank loans have been the series of four Development Policy Loans each totaling around half a billion euros.

The conditionality attached to IMF and World Bank loans overlap significantly, strictly adhering to the traditional neoliberal policy strategy. This continuity comes despite a shift in IFI discourse. “IFIs have attempted to utilize the post-2011 moment to maintain the essential characteristics of past practice, while employing a language that professes a new course and sympathy with the social justice goals of the uprisings,” Hanieh concludes in a study examining IMF and World Bank policies towards Tunisia, Morocco, and Egypt from 2011 to 2014.¹⁵⁰

It is possible to discern some division of labor between the IMF and the World Bank conditionality. In terms of significant economic restructuring, the IMF has placed itself out front, calling for the devaluation of Tunisia’s currency the dinar, containing the public-sector wage bill, cutting subsidies, recapitalizing the banks, and strengthening CBT independence. Meanwhile, World Bank Development Policy Loans explicitly detail the “actions taken under the program” - those already taken leading up to the new loan tranche in a pre-agreed reform program. These loans celebrate the specific legislative and regulatory steps that Tunisia has taken.

Tunisia’s ARP passed law 2017-35 in April 2016, granting the CBT more “independence.” This independence is not specifically defined in the text, leaving to interpretation whether it means independence from the executive branch, the government, the state, corporations, international financial markets, or IFIs. The following month, the IMF’s executive board approved the Extended Fund Facility loan to Tunisia of \$2.9 billion (2 billion SDR), congratulating Tunisia on the central bank reform and noting “enhanced central bank independence will strengthen the effectiveness of monetary policy, while greater exchange rate flexibility will strengthen reserve buffers and facilitate external adjustment.”¹⁵¹

¹⁴⁶ Fernández-Molina, I. (2018, pp. 11-13).

¹⁴⁷ Fernández-Molina, I. (2018, p. 13).

¹⁴⁸ See Hammami, M.D. (2013) ‘Tunisie: Quand le gouvernement de la Troïka contourne l’ANC pour conclure l’accord avec le FMI’ (Tunisia: When the Troika government bypasses the ANC to conclude the agreement with the IMF), *Nawaat*. 1 August [Online]. Available at: <http://nawaat.org/portail/2013/08/01/tunisie-quand-le-gouvernement-de-la-troika-contourne-lanc-pour-conclure-laccord-avec-le-fmi/>.

¹⁴⁹ Author’s calculation using World Bank official loan documents publicly available at: <http://documents.worldbank.org/curated/en/docsearch/country/82575>.

¹⁵⁰ Hanieh, A. (2014) ‘Shifting Priorities or Business as Usual? Continuity and Change in the post-2011 IMF and World Bank Engagement with Tunisia, Morocco and Egypt’, *British Journal of Middle Eastern Studies*, p. 16.

¹⁵¹ IMF (2016) ‘IMF Executive Board Approves US\$2.9 billion Extended Arrangement under the Extended Fund Facility for Tunisia’, IMF Press Release No. 16/238, 20 May [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr16238>.

According to Chandoul, this independence amounts to privatization: a move “to transfer the management of exchange rate policies from the public sector (through the CBT’s management) to the private sector (through management by commercial banks and ‘market power’).”¹⁵² More importantly, Chandoul notes that the new law diverges from the legal definition of the CBT’s role according to Law 119 of 1988, which states in Article 33 that “the general purpose of the central bank is to defend the value of the national currency and to maintain its stability.”¹⁵³ In the new law, the CBT’s main objective is redefined in Article 7, relegated to “maintaining the stability of prices.”

Abandoning defense of the dinar opened the path to devaluation. The argument that the IMF made was that dinar “depreciation” (the depoliticized version of “devaluation”) would “allow the dinar to evolve in line with supply and demand on the foreign exchange market ... spurring job creation and supporting Tunisia’s export sector, which has already benefitted from improved price competitiveness.”¹⁵⁴

IMF documents remain unclear as to what “supporting Tunisia’s export sector” means in practice. As of 2017, 80 percent of Tunisia’s exports went to Europe while 63 percent of its imports came from Europe.¹⁵⁵ As the World Bank Development Policy Review of 2014, the Unfinished Revolution, recognized, “Tunisia’s trade integration has been largely limited to assembling and re-exporting products for France and Italy.”¹⁵⁶ International capital has found Tunisia attractive for its cheap labor in the production line of consumer products bound for the European markets. Furthermore, a weaker dinar often translates to higher costs for the import of the raw materials and capital goods needed to assemble the components for export. In the production of cabling beams, for example, the World Bank found that “raw materials alone account for more than 70 percent of total product costs.”¹⁵⁷ As a result, depreciation hurt Tunisia’s trade balance by 1.1 billion dinars in 2016 and a further 1 billion in the first half of 2017, according to CBT figures highlighted in an October 2017 report by the Tunisian Observatory of Economy (OTE). “Instead of alleviating trade deficits as expected by the IMF, the depreciation of the dinar has conversely increased it,” OTE found.¹⁵⁸

One of the key conditions of the recent IMF loan has targeted the reduction of the public sector wage bill through early retirement packages, wage freezes, and hiring freezes. Meanwhile, the World Bank has highlighted Tunisia’s “cheap” labor as an “advantage”¹⁵⁹ and called for reducing the minimum wage or allowing employers flexibility for the minimum wage.¹⁶⁰ The pressure to maintain low wages to reduce state funding while improving Tunisia’s attractiveness to investors, together with inflation caused by dinar depreciation indicates that real wages are decreasing in Tunisia once again.¹⁶¹

Meanwhile, the World Bank has with each development policy loan celebrated past actions in line with its neoliberal vision taken by Tunisia. In the November 2012 loan, the World Bank celebrated Tunisia’s

¹⁵² Chandoul, J. (2017, p. 8).

¹⁵³ Chandoul, J. (2017, p. 1).

¹⁵⁴ IMF (2018) IMF Frequently Asked Questions on Tunisia. Last updated: 28 September 2018 [Online]. Available at: <https://www.imf.org/en/Countries/TUN/tunisia-qandas#Q3>.

¹⁵⁵ See the Observatory of Economic Complexity (no date) Tunisia country profile [Online]. Available at: shorturl.at/dsA67.

¹⁵⁶ The World Bank (2014, p. 21).

¹⁵⁷ The World Bank (2014, p. 227).

¹⁵⁸ Ben Rouine, Ch. (2017) ‘The Negative Impact of the Tunisian Dinar drop on Trade Deficit’, Tunisia Observatory of Economy. Data Analysis No. 11, 26 October [Online]. Available at: https://www.economie-tunisie.org/sites/default/files/datanalysis_11_-_change_effect_-eng.pdf, cited in Aliriza, F. (2018) ‘Two Classes Left – Rich and Poor’: Sinking Tunisia’s currency’, Middle East Eye. 4 May [Online]. Available at: https://www.economie-tunisie.org/sites/default/files/datanalysis_11_-_change_effect_-eng.pdf.

¹⁵⁹ Angel-Urdinola, D.F., Nucifora, A. and Robalino, D. (eds.) (2015) Labor Policy to Promote Good Jobs in Tunisia: Revisiting Labor Regulation, Social Security, and Active Labor Market Programs. Report No. 92871. The World Bank, p. 24.

¹⁶⁰ Ibid, p. 2.

¹⁶¹ See Ben Rouine, Ch. (2018) ‘Inflation and Interest Rates: IMF’s failure’, Tunisia Observatory of Economy. Data Analysis No. 18, 14 June [Online]. Available at: https://www.economie-tunisie.org/sites/default/files/20180614-da18_inflation-bap-eng.pdf.

business reform decree, further liberalizing the telecom sector, auditing three public banks, and the CBT's issuing of a circular on regulations and further access to information on public institutions and mechanisms.¹⁶² In May 2014, the World Bank celebrated Tunisia's reforms of reducing tariffs and liberalizing fiber optic cable and cable stations, closer scrutiny of the three publicly owned banks, and steps towards reforming public procurement.¹⁶³ In October 2015, the World Bank congratulated Tunisia on regulatory "simplification," further liberalization of the telecom sector with decree 2014-4773, a restructuring of the state-owned telecom company, restructuring the public banks, publishing an official report on the finances of state-owned enterprises from 2010-2012, and submitting an access to information law to parliament.¹⁶⁴ In June 2017, a World Bank loan celebrated Tunisia's reforms including a new competition law, a new investment code, a new law on Public Private Partnerships (PPPs) and "supporting entrepreneurship and deepening access to finance."¹⁶⁵ In June 2018, the World Bank wrote approvingly of government steps "removing barriers to investment" (or deregulating investment procedures), reducing energy subsidies & promoting private sector renewable development, and social welfare targeting.¹⁶⁶

2.3 Socioeconomic Effects of Recent IFI Influence

A comprehensive accounting of the social effects of the latest round of neoliberal reforms coordinated and promoted by the IMF and the World Bank through conditional loans will require investment for research, coordination among researchers of different disciplines, and specializations, policy oriented institutional platforms, and time. However, some early evidence suggests recent neoliberal policy reforms are having negative effects on socioeconomic indicators. The dinar depreciation has already seen inflation rise to levels over 7 percent, not seen since 1991 during the last IMF structural adjustment period.¹⁶⁷ Moreover inflation rates have consistently risen even higher for food and transportation prices, both of which depend on imports and disproportionately affect poorer segments of society who spend more as a percentage of their personal budgets on these necessities.¹⁶⁸

UGTT chief Nouredine Taboubi said in May 2019 that salary raises for 2018 and 2019 were wiped out by increasing prices.¹⁶⁹ A December 2018 study by Tunisia's National Consumer Institute (INC by its French acronym) found that 1.8 million Tunisian families are living in debt and "cannot get by without all types ... of debts and cannot live without debts because of their difficult situation." The same study, citing CBT data, found that bad debts at Tunisian banks increased by 127 percent between 2010 and 2018.¹⁷⁰ Twelve percent of bank loans in 2017 and 2018 were for consumer debt and many Tunisians have resorted to informal debt with local grocers and merchants, which is difficult to measure systematically.¹⁷¹

¹⁶² The World Bank (2012) Loan 8210-TN, November, p. 6.

¹⁶³ The World Bank (2014) Loan 8358-TN, May, p. 5.

¹⁶⁴ The World Bank (2015) Loan 8536-TN, October, p. 6.

¹⁶⁵ The World Bank (2017) Loan 8761-TN, June, p. 6.

¹⁶⁶ The World Bank (2018) Loan 8885-TN, June, p. 4.

¹⁶⁷ Ben Rouine, Ch. (2018).

¹⁶⁸ For example, Tunisia imports about 60 percent of its cereals; See ITES (2017) *Revue stratégique de la sécurité alimentaire et nutritionnelle en Tunisie* (Strategic review of food and nutrition security in Tunisia). Institut Tunisien des Études Stratégiques (ITES) – Programme Alimentaire Mondial, July, p. 2 [Online]. Available at: shorturl.at/hlnq8.

¹⁶⁹ Mosaïque FM (2019) Taboubi: la hausse des prix a absorbé les majorations (Taboubi: the rise in prices has absorbed the increases). 1 May [Online]. Available at: shorturl.at/abzZ5.

¹⁷⁰ Institut National de la Consommation (2019) *Premiers résultats d'une enquête sur l'endettement des ménages tunisiens* (the first results of a survey on Tunisian household debt), 15 April [Online]. Available at: shorturl.at/FGHR9.

¹⁷¹ For reporting on this phenomenon, see Blaise, L. (2019) 'Toujours dans la rouge: en Tunisie, près de deux familles sur trois sont endettées' (Always in the red zone: almost two out of three families are in debt in Tunisia), Middle East Eye. French Edition, 13 May [Online]. Available at: shorturl.at/jqtCD.

The increasing costs of imports have also had knock-on effects for both consumers and businesses. Local businesses have seen their margins tighten as imported raw materials and capital goods have become more expensive while interest rates have increased under IMF pressure, the latter making short-term debt to cover business management costs more expensive.¹⁷² In one example of IMF-conditioned dinar depreciation and ensuing increasing costs of imported raw materials taking its toll, about 30,000 Tunisian dairy cows were sold to Algeria in late 2018 because dairy farmers were losing money due to the price of milk not keeping up with the increasing price of livestock feed.¹⁷³ A shortage of milk on the Tunisian domestic market ensued, with scalpers hiking up prices for consumers.

Brain drain also appears to be increasing as the currency sinks, unemployment remains stagnant, and state hiring of trained professionals has been put on hold in line with IMF conditions on public sector hiring and wage freezes.¹⁷⁴ Since 2016, around 10,000 Tunisian engineers have migrated abroad to work, according to the Tunisian Order of Engineers.¹⁷⁵ The president of Tunisia's National Council of Medical Order informed a different news outlet that in 2017, 47 percent of newly registered doctors - mostly young doctors - emigrated. This number contrasted with only 6 percent in 2013.¹⁷⁶

While Tunisia's educated have left in a pattern of increasing brain drain to Europe, many others both with and without education have attempted to migrate to Europe often on dangerous sea crafts and in the face of highly securitized border policing. Italy and Tunisia detained nearly 9,000 Tunisian migrants in 2017, reflecting a spike in the trend beginning in 2015.¹⁷⁷ Hundreds of other migrants have died leaving Tunisia's shores in recent years, many of them Tunisian nationals. This pattern reflects a growing desperation with the economic dynamic. Socioeconomic protests have also taken the form of suicides by self-immolation - between 250 and 300 every year since 2011.¹⁷⁸

Social unrest has expressed itself most directly against the austerity conditions that have come with the IMF loan in January 2018, when a new budget law with VAT increases and subsidy cuts sparked protests across the country. A hashtag movement *Fech Nstannew* (What are We Waiting For?) attempted to channel this spontaneous but fragmented resistance to neoliberal policies into a concrete position and a legislative alternative.¹⁷⁹ A movement to block ALECA - a new free trade deal between Tunisia and Europe which aims to liberalize services and agriculture and reshape Tunisian regulatory-making under EU guidelines¹⁸⁰ - has grown as negotiations have continued. Nonetheless, the World Bank has continued its support for ALECA under the framework of improving Tunisia's "conditions for tradefacilitation."¹⁸¹

172 For an example of IMF advocacy for higher interest rates, see Country Focus (2018) Tunisia's Outlook in 4 Charts. 22 October [Online]. Available at: shorturl.at/EIO07.

173 Blaise, L. (2018) 'Tunisie: les éleveurs pris à la gorge par la crise du lait' (Tunisia: Dairy Farmers Stretched to the Limit by Milk Crisis), Middle East Eye. French Edition, 20 December [Online]. Available at: shorturl.at/fxDFY.

174 For reporting on Tunisians who see a link between the currency depreciation and their own economic prospects, see Lakhal, M. (2019) 'Tunisia: Illegal migration and brain-drain, two sides of the same coin', Nawaat. 7 May [Online]. Available at: shorturl.at/bnoX2.

175 Ibid.

176 Samoud, W. (2018) 'Le nombre de médecins quittant le pays double d'une année à une autre', s'alarme le président du Conseil de l'Ordre de médecins' (The number of doctors leaving the country is doubling every year, warns the president of the Medical Board), Huffpost Tunisie, 14 January [Online]. Available at: https://www.huffpostmaghreb.com/2018/02/14/medecin-tunisie_n_19231322.html.

177 Herbert, M. and Gallien, M. (2017) 'Out of the Streets and Into the Boats: Tunisia's Irregular Migration Surge', MENASource. Atlantic Council, 27 November [Online]. Available at: <https://www.atlanticcouncil.org/blogs/menasource/out-of-the-streets-and-into-the-boats-tunisia-s-irregular-migration-surge>.

178 Ayebe, H. (2019) Suicide in Tunisia: acts of despair and protest [Blog] Critical Agrarian Studies blog. Review Of African Political Economy, trans. Max Aji, May [Online]. Available at: <https://roape.net/2019/05/14/suicide-in-tunisia-acts-of-despair-and-protest/>.

179 Aliriza, F. (2018) 'ANALYSIS: Tunisia tackles symptoms rather than cause of austerity riots', Middle East Eye. 15 January [Online]. Available at: <https://www.middleeasteye.net/news/analysis-tunisia-tackles-symptoms-rather-cause-austerity-riots>.

180 La rédaction de Barr al Aman and Aliriza, F. (2019) ALECA/Tunisie: L'agriculture à l'épreuve de la souveraineté alimentaire (ALECA/Tunisia: the agriculture tested by food sovereignty), 2 January [Online]. Available at: <https://news.barralaman.tv/aleca-tunisie-commerce-agricole-vs-souverainete-alimentaire/>.

181 The World Bank (2018) Performance and Learning Review of the Country Partnership Framework for the Republic of Tunisia for the Period FY16–21. Report No. 123957, 22 May, p. 24 [Online]. Available at: shorturl.at/jwEY1.

Despite the clearly negative socioeconomic effects and responses to IMF and World Bank influence on the neoliberal direction of Tunisia's economic reforms tied to loan conditionality, Tunisia's pursuit of the latest reform program will certainly have even more profound political, economic, and social effects in Tunisia going forward. Whether IFI loans were necessary in Tunisia during key moments also raises questions regarding the domestic policy-making process and will require further research. It will be for future historians and political economists to assess the extent of the current influence of IFIs and their role in continually reshaping Tunisia's economic integration into the world in a dependent relationship to European market demands.

3. Morocco and the International Monetary Fund: Elusive Development

Mohammed Said Saadi

The Arab revolutions that erupted in 2011 had political causes linked to the spread of tyranny, corruption, and the repression of human rights, but they also had a strong economic dimension. The neoliberal policies adopted by several Arab countries under the guise of economic reform sponsored by international institutions such as the World Bank and the International Monetary Fund (IMF) negatively affected citizens' standard of living. The unequal distribution of wealth fed the sense of injustice and civil unrest at different times in the history of the relationship. This trend invites us to reflect on the real outcomes of these policies and examine the reasons behind their failure. It also compels us to question the ability of these institutions to review their policies in the MENA region, more than eight years after the Arab Spring.

One can map Morocco's relations with the IMF and the World Bank over three phases, beginning in the mid-sixties when the Moroccan economy went through a severe financial crisis (1964-1965). The second phase most significantly affected Morocco's economic and social structures (1983 to 1993). The latest phase displayed a predominantly austere character that may lay the seeds for future unrest (2012-2018). Given their importance, this case study will focus on the second and third phases by discussing the content of each and analyzing their economic and social implications from a development and human rights perspective.

Contrary to the IMF's assumptions, the focus on macroeconomic stability and liberalization has led to the marginalization of citizens' needs and development priorities, while their presumed positive impact on the private sector has not materialized. Likewise, the IMF-inspired austerity policies adopted by Morocco in the aftermath of the Arab Spring have contributed to making the 2010s a "new lost decade" for development.

3.1 The Failure of Economic Reform (1983-1993)

Morocco struggled with recurrent financial crisis since the late seventies, thanks to both internal reasons tied to the imbalances in the growth model adopted during the 1960s and 1970s and external reasons involving fluctuations in the international oil market and the sudden rise in US interest rates in 1978 and 1979. In the prelude to its intervention in 1983, the IMF deemphasized the external constraints and focused on internal factors to diagnose the crisis, targeting state interventions in the economy that led to deep macroeconomic imbalances.

To overcome these imbalances, the IMF recommended a set of economic reforms to liberalize the Moroccan economy, privatize state-owned enterprises, and adopt restrictive fiscal and monetary policies.¹⁸² In this section, we assess these reforms based on the IMF's measures for success and examine their impact on Moroccans' economic priorities and development imperatives.

¹⁸² For a good critique of this emphasis on the domestic factors of the financial crisis, see Stiglitz, G. (2002) Whither Reform? Towards a New Agenda for Latin America. Santiago: ECLAC, August.

Economic Reforms from the IMF's Perspective

Morocco embarked on a structural adjustment program (SAP) with financial and technical support by the IMF and the World Bank over ten years (1983-1993). The program had two dimensions: (1) to stabilize macroeconomic indicators and (2) to introduce a package of medium-term reforms with IMF support. The SAP focused on tackling internal and external macroeconomic imbalances in the Moroccan economy over two periods.¹⁸³ The first period (1983-1988) aimed to stabilize the economy through fiscal and monetary policies and a significant devaluation of the national currency. The second period (1986-1993) focused on reinforcing the supply side of the SAP with the direct support of the World Bank. The reforms would “strengthen Morocco’s economy at the supply level while continuing to reduce macroeconomic imbalances.”¹⁸⁴

Notably, the IMF in 1986 focused its interventions on structural reforms, targeting fiscal and trade policies (gradual fiscal consolidation and a liberalized exchange rate based on a basket of foreign currencies for Morocco’s main trading partners).

The SAP’s contents can be summarized under five categories:¹⁸⁵

- **Economic liberalization:** liberalizing the prices of goods and services and eliminating non-tariff barriers to foreign trade with a significant reduction of customs rates (the highest percentage fell from 400 percent to 35 percent), which was established after joining the 1987 General Agreement on Tariffs and Trade. The subsidy system was also abandoned as it was deemed harmful to exports.
- **Exchange rate liberalization:** In 1993, it became possible to convert the dirham for current operations and for operations involving non-residents’ capital.
- **Tax reform:** The tax system was modernized and simplified into three basic taxes, including corporate tax, general income tax, and value added tax.
- **Monetary policy** liberalization and financial sector reform.
- **Public sector reform** and privatization.

The SAP resulted in a marked decline in macroeconomic imbalances during the 1980s at the level of balance of payments deficit (falling from 12.3 percent of GDP, in 1982 compared to only 2.3 percent in 1988), the fiscal deficit (from 9.7 percent to 4.5 percent during the same period), and inflation rate (from 10.5 percent to 2.3 percent).¹⁸⁶

¹⁸³ Hamdouch, B. (1998) ‘Adjustment Strategic Planning, and the Moroccan Economy’, in Shafik, N. Economic Challenges Facing Middle Eastern and North African Countries, Alternatives Futures. Cairo: ERF.

¹⁸⁴ Ibid.

¹⁸⁵ Ibid, pp. 14-16.

¹⁸⁶ Hamdouch, B. (1998).

Table 3.1: Structural Adjustment Policy Impact over Time

Fiscal Policy (as a % of GDP)	1975-77	1978-80	1981-85	1986-93	
Public Consumption	19.8	20.2	17.1	16	
Public Investment	10.2	6.6	6.2	3.4	
Domestic loans	6.1	4.4	4	2.8	
- bank loans	3.4	3.4	3.8	1	
External Loans	8.4	6	6.3	1.7	
Inflation (cost of living)	9.7	9.1	9.9	5.4	
Foreign currency reserves (as % of imports)	1.6	1.5	0.4	2.8	
Export market share	4.4	-6.1	1.5	-0.1	
Current account balance	-12.4	-8.9	-9.1	-1.3	
Employment	1970-79	1978-80	1981-85	1986-91	1986-93
Formal Urban Employment (annual change)	5.1	1.5	1.3	5.9	6.7
Formal Real Urban Wage	0.4	2.3	-2.4	1.4	1.4
Urban Unemployment			14.4	15.7	15.7
Growth	1972-77	1978-80	1981-85	1986-91	1986-93
GDP Growth	6.3	3.8	3.4	4.9	3
Capital	1972-77	1978-80	1981-85	1986-91	1986-93
Investment (% GDP)	22.9	22.9	21.8	18.2	18.5
- Government Investment	7.7	6.4	5.5	2.9	2.9
- Private Investment	9.5	11.8	11.3	11.4	11.5
- Public Enterprises Investment	5.7	4.8	5.1	3.9	4.1
National Saving	17.8	16.1	17.6	22.4	22.1

Source: Direction des Etudes et des Previsions Financieres (1996).

International financial institutions often praise Morocco as a leader among middle-income countries in terms of macroeconomic management and economic stability, but neglect the external factors that played the primary role in these improvements rather than the reform program itself.¹⁸⁷ While Morocco received significant financial support from the IMF and the World Bank between 1990 and 1993, it also benefited from rescheduling \$1.2-1.5 billion in foreign debt from the London and Paris clubs between 1983 and 1986, which strengthened its foreign exchange reserves. Yet, improved weather conditions led to a marked decline in Morocco's imported food products.¹⁸⁸ Other factors such as the decline in international oil prices and interest rates and the Moroccan government's imposition of a 15

¹⁸⁷ Harrigan, J. and El-Said, H. (2009) 'Economic Reform in Morocco: Stabilization versus Adjustment', Aid and Power in the Arab World. Palgrave Macmillan.

¹⁸⁸ Morocco recorded an exceptionally high harvest in 1985-86.

percent tax on imported oil also helped stabilize macroeconomic indicators.

The Moroccan economy registered only modest GDP growth during the period of structural adjustment, not exceeding 3.2 percent per annum and marking a significant decline compared to the 1970s (GDP averaged 5.2 percent through the 1970s). Growth fell to 2.29 percent between 1987 and 1993 during the last stage of the structural adjustment program. The fact that this rate almost equals the demographic growth rate (2.2 percent) led to near stagnation in GDP growth per capita (+0.09 percent). One can correlate this significant decline in growth to the lack of gross domestic investment compared to GDP (from 24 percent in 1980 to 21 percent in 1995). These figures suggest that public investment played a key role in pushing economic growth during the seventies.

The Impact of Reforms on Moroccans' Economic Needs

Given the IMF's focus on macroeconomic stability to ensure the repayment of foreign debt, citizens' priorities - including employment, improving standards of living, and human development - did not receive priority in policy formulation, as demonstrated by unemployment, purchasing power, poverty, and vulnerability indicators.

Rising Unemployment and Deteriorating Purchasing Power

The decline in government employment and the private sector's inability to compensate for the shortfall led to rising unemployment. Private sector employment opportunities reached only 10,000 per year during the period 1983-1993, far outstripped by the growth in the labor market.¹⁸⁹

The significant decline in public investment also resulted in a decline in economic activity in important sectors such as manufacturing and public works, as did the reliance on the private sector to advance the economy, which failed to occur. The rate of private investment to GDP fell from 11.8 percent (1978-1980) to an average 11.4 percent through the 1980s and early 1990s, contravening the conventional wisdom put forth by IFIs that reforms would boost these figures.¹⁹⁰

Urban unemployment rose from 9 percent in 1980 to 17.3 percent in 1991, then to 21.9 percent in 1999. Unemployment is considered more prevalent among youth (15 to 24 years old), representing 36 percent of those unemployed in 1984 and 41.3 percent in 1993. Young graduates and women are also more exposed to unemployment than others. The shift in employment in favor of the sectors dominated by trade, services, self-employment, and unregistered workers points to the growth of the informal economy. While the development of textile and clothing exports during the 1980s contributed to the entry of women into the labor market, they faced precarious and poor working conditions as unskilled workers.

¹⁸⁹ Alami, R.M. (2000) 'L'ajustement Structurel et la Dynamique de l'emploi Informel' (Structural adjustment and the dynamics of informal employment), Critique Economique, 2.

¹⁹⁰ Direction des Etudes et des Previsions financieres (1996) 'L' Impact du Programme d' Ajustement Structurel' (The Impact of the Structural Adjustment Program), Document de travail no 13. Rabat: Ministere de l' Economie et des Finances.

Poverty and Vulnerability

Per official statistics, the poverty rate declined in the 1980s (21 percent in 1984 to 13 percent in 1991) before rising again to 19 percent in 2000. Some of the available data, however, do not reflect the reality of poverty and vulnerability within Moroccan society. The declining rates of schooling during the 1980s and 1990s, the high illiteracy rates, and the persistence of rural migration suggests more pervasive poverty compared to official reporting.¹⁹¹

Short-term macroeconomic stabilization affects poverty rates via four main channels including: government spending, domestic demand, inflation, and the real exchange rate.¹⁹² With Morocco's weak social safety nets during the 1980s and 1990s, macroeconomic stabilization and structural adjustment policies increased poverty and social exclusion. Austerity measures in public spending manifested through a freeze on public service wages from 1981 to 1985 and the reduction of subsidies for essential goods such as bread, sugar, and oil by 30 percent, 52 percent, and 87 percent, respectively. The prices of 45 commodities were liberalized between 1983 and 1985, leading to costly fertilizer, electricity, water, and petroleum products. These price increases directly contributed to the outbreak of popular uprisings in which many civilians were killed and hundreds of protesters were arrested in cities across the country in 1981. In terms of aggregate demand, the significant decrease in public processing expenditures (10.2 percent between 1975 and 1977, compared to 6.2 percent between 1981 and 1985, and 3.4 percent between 1986 and 1993) reflected negatively on the development and exploitation of economic and social resources.

The decline in public investment and raised interest rates (Table 3.1), a key component of the IMF stabilization program, led to a decline in private investment. Public spending had produced positive effects on the Moroccan private sector through public procurement and infrastructure spending, particularly in rural areas where most of the population resided at the time. For rural economies that rely on public investment in infrastructure, services, fertilizers, and mechanization, this policy reduced output and rural purchasing power and resulted in degraded public infrastructure (transport, communication, services) and social services (education, health, vocational training, and housing). Expenditure on social sectors also declined during the 1980s, as evident in the decline of per capita spending.¹⁹³

Gender Effects

In Morocco, poverty as a form of exclusion affects women more than men due to many economic, social, and cultural factors.¹⁹⁴ The number of schooled females (8-13 years old) did not exceed 51.5 percent in 1997, although this figure did not exceed 25 percent in rural areas. Illiteracy was more prevalent among women aged 14 years or above (62.6 percent compared to 41 percent among men). Female illiteracy was concentrated in the rural areas at 87 percent and 43.7 percent in urban areas. This exclusion is due to several factors, the most important of which include the lack of financial resources, especially in the rural areas, the lack of appropriate infrastructure in the fields of education, transport, and communication, and cultural patriarchy that privileges males over females.¹⁹⁵

191 El-Said, H. and Harrigan, J. (2014) 'Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco and Tunisia', *Middle East Journal*, 68(1), Winter.

192 Ali Abdelkader Ali, undated.

193 Kydd, J. and Thoyer, S. (1992) *Structural Adjustment and Moroccan Agriculture: An Assessment of the Reforms in the Sugar and Cereal Sectors*. Paris: OECD.

194 Skalli, L.H. (2001) 'Women and Poverty in Morocco: The Many Faces of Exclusion', *Feminist Review*, 69.

195 Kydd, J. and Thoyer, S. (1992).

Impact of Economic Reform from a Development Perspective

Growth rates fell during structural adjustment in Morocco in comparison to the 1970s, but more worrying was the reduced quality of growth and the misplaced reliance on the private sector and exports as its key drivers.

Table 3.2: Growth of labor productivity, capital intensity, and TPF (in %)

	1960-2000	1960-1981	1981-1990	1991-2000
Labor Productivity	2.57	4.43	1.42	0.00
Capital Intensity	3.08	5.37	1.25	0.32
Total Factor Productivity - GA	1.49	2.54	1.00	-0.12
Total Factor Productivity - DEA	1.00	1.85	0.49	-0.19

Source: Chemingui, M.A. and Isaksson, A. (2007) (GA and DEA stand for growth accounting and data envelopment analysis, respectively).

Limited Growth and Weak Productivity

Morocco witnessed its largest increase in total factor productivity between 1960 and 1980 - before the structural adjustment (Table 3.2). Since then, growth fell to 1 percent between 1981 and 1990 before turning negative (-0.12 percent) between 1991 and 2000. The first reason for this downturn relates to the decline in the state's investments (the decline in investment rate from 24 percent in 1980 to 21 percent in 1995), which comprised most of the total investment during the 1970s and focused mainly on infrastructure, services, and state-owned enterprises. The second reason relates to the export boom from industries attempting to benefit from preferential access to the European market (mainly textiles and clothing, leather, shoes, and food industries) and the dirham's devaluation during the 1980s. These industries experienced a 30 percent decline in labor productivity between 1986 and 1990.¹⁹⁶ The third reason relates to the lack of technological progress due to the state's reluctance to play an active role in promoting research and development and its failure to stimulate public and private institutions to acquire technological capabilities through learning and accumulation.¹⁹⁷

A Private, Rentier, and Nonproductive Sector

Contrary to the expectations of neoliberal theory and IFI assertions, economic reforms did not spark a private-sector led impulse to spur growth, create jobs, and achieve structural transformation by promoting high-productivity activities. As noted above, the decline in public investment due to the austerity policies implemented between 1983 and 1993 resulted in a significant reduction in the total investment effort. The rate of private investment compared to GDP declined from 11.8 percent in 1978-80 to 11.4 percent before rising slightly to 11.7 percent in 1986-93 (Table 3.1).

¹⁹⁶ Leymarie, S. and Tripier, J. (1992) *Maroc: Le Prochain Dragon* (Morocco the next dragon). Rabat: Eddif.

¹⁹⁷ El Fakir, A. (2011) 'Two decades of liberalization reforms in Morocco: Successes and failures', in Harrigan, J. and El-Said, H. *Globalization, Democratisation and Radicalisation in the Arab World*. UK: Palgrave Macmillan.

- The neoliberal reforms initiated during the 1980s and the 1990s were enacted in such a manner that reinforced and extended the patronage and clientelist network of the “*Makhzen*” (synonymous with the country’s elite closely associated with the King and the central authority). The *Makhzen* channeled privatization to benefit specific Moroccan business groups, particularly those controlled by the royal family, while ignoring the entire institutional framework meant to monitor it.¹⁹⁸
- The dominant components of the Moroccan private sector (financial, commercial, and industrial groups) had a clear tendency to focus on banking, finance, services at the expense of productive sectors and to benefit from political connections and cronyism. Fearing foreign competition, some business groups retreated from the manufacturing sector in favor of “China-proof” sectors.¹⁹⁹ Small and medium-size enterprises, on the other hand, were confined to trade and services, with a small expansion in the clothing sector as subcontractors for European companies.²⁰⁰
- The pace of foreign direct investment (FDI) did improve toward the late 1990s and early 2000s, but most of that activity related to the privatization of state-owned enterprises (e.g. telecommunications sector and oil refining), characterized by a focus on assembly activities using low-cost labor with limited spillover effects, at the expense of green field investments.

The Politics of Economic Reform

While Morocco’s political regime was committed to meet external and domestic pressures to adopt neoliberal structural reforms, it had to deal with significant sociopolitical risks. External pressures from international financial institutions required the implementation of associated conditionality (via structural adjustment programs) in return for credit lending. However, the weight of these constraints softened to a certain extent thanks to the alignment of the Moroccan regime with Western donors’ interests. In fact, between 1982 and 2003, Morocco had six debt rescheduling agreements with the Paris club and three with private international banks, received 15 World Bank Structural and Sectoral Adjustment Loans, and seven Stand-By and Extended Facilities from the IMF.²⁰¹

- At the same time, the central power, dominated by the palace and its apparatus (the so-called *Makhzen*), was confronted with divergent domestic interests. While the wealthy capitalist class fervently supported privatization, industrialists struggled with a challenging divide between protection of import-substitution industries and liberalizers, more interested in exporting to the world market. The textile and apparel sectors where “the most visible disputes occurred between domestic textile manufacturers and an extreme pro-liberalization faction of apparel exporters,” exemplified this divide.²⁰²
- On the social front, neoliberal economic reforms directly threatened the livelihood of large segments of the population, notably the urban poor. As a result, these reforms were met with a wave of strikes and a rising trade union opposition. In June 1981, following a major price increase in basic products, the strike “developed into a more general demonstration against the effects of government economic policies as workers in both the private and public sectors were joined first by shopkeepers and then by students and unemployed...”²⁰³ Faced with such opposition, the government was forced to suspend an International Monetary Fund stabilization program negotiated in October 1980.²⁰⁴

198 Saadi, M.S. (2016) Moroccan Cronyism: Facts, Mechanisms and Impact, Economic Research Forum. Working Paper, Cairo.

199 Saadi, M.S. (2013) Neoliberal Reforms, Business Groups, and the Challenges of Moroccan Development. MRM 14th, Mersin (Turkey), March.

200 Saadi, M.S. (2006) ‘Secteur privé et développement humain au Maroc 1956-2005’ (Private sector and human development in Morocco 1956-2005), in Rapport du Cinquantenaire sur le développement humain au Maroc (50th Report on Human Development in Morocco). Rabat.

201 Paloni, A. and Zanardi, M. (eds.) (2012) World Bank and Policy Reform. IMF.

202 Cammett, M.C. (2007) Globalization and Business Politics in Arab North Africa, A Comparative Perspective. Cambridge: Cambridge University Press.

203 Walton, J. and Seddon, D. (1994) Free Markets and Food Riots, The Politics of Global Adjustment. Oxford: Blackwell.

204 White, G. (2001) A Comparative Political Economy of Tunisia and Morocco. New York: State University of New York Press.

3.2 The IMF's Surveillance Role (1994-2008)

IMF lending brought with it a monitoring function during the 1994-2008 period. Tensions rose between the IMF and the World Bank as the Bank amended its discourse in favor of tackling the social dimensions of public policy. By contrast, the IMF continued to neglect sensitive issues such as employment, poverty, vulnerability, and inequality, adhering to its policy of remaining apolitical.²⁰⁵

IMF Surveillance: A Cautious Critique of the “Government of Alternance” Guidelines

Although Morocco formally turned the page on structural adjustment in 1993, the commitment to so-called “permanent structural adjustment” remained in effect through implementation of Article IV of the IMF agreement. IMF surveillance typically consists of issuing economic policy recommendations to which governments then commit. Global financial markets take these recommendations into consideration when assessing investment and trade opportunities with those countries. The IMF's 2001 experts' report on Article IV consultations noted “agreement with the Moroccan authorities on economic policy priorities ... namely maintaining macroeconomic stability, controlling public finances, liberalizing foreign trade and strengthening the financial sector.”²⁰⁶ This commitment, however, did not preclude the Moroccan government's partial and selective approach to neoliberal reforms to lessen the blow to social welfare.

In this context, the Moroccan polity experienced a significant change in 1998 as the progressive and nationalist political forces that once fought against King Hassan II's authoritarianism ascended to power. This political coalition formed the so-called government of “consensual alternance” (1998-2002). This government did attempt to focus on the social impact of its programs while preserving neoliberal-leaning policies, but it had to face the IMF's harsh criticism. One example includes the IMF's dissatisfaction with public sector wage increases - up 12.2 percent of GDP in 2004, instead of the 9-9.5 percent target as stipulated in the 2000-2004 five-year plan. The IMF reasoned that the increase in the public wage bill “limits the fiscal space as wages and the payment of public debt account for 74% of tax revenues.” Yet, it neglected the fact that the wage bill increase was due in part to government efforts to promote schooling, especially in rural areas and among girls. Ultimately, the government bowed to IMF pressure, promising to review the pay and promotion system for civil servants and to adopt a public administration reform program with technical and financial assistance from the World Bank and the European Union.²⁰⁷

This policy resulted in a massive campaign for voluntary departure among civil servants in 2005, which contributed to a circumstantial reduction in the wage bill to 10 percent of GDP before rising to 11 percent in 2011, according to a 2017 report by the Supreme Council of Accounts. The government has since struggled with the resulting loss of technical expertise, especially in social sectors such as education and health.²⁰⁸

205 Harrigan, J. and El-Said, H. (2009).

206 IMF (2001) Morocco: 2001 Article IV Consultation-Staff Report; Public Information Notice; and Statement by the Executive Director for Morocco. IMF Country Report No. 01/205 [Online]. Available at: <https://www.imf.org/external/pubs/ft/scr/2001/cr01205.pdf>.

207 The World Bank (2005).

208 Cour des Comptes (2017) Systeme de la Fonction Publique (Civil Service System). Rabat, December.

Exclusive Growth Paves the Way for the 2011 Uprising

In contrast to the 1980s and 1990s, Morocco experienced reasonable growth rates between 2000 and 2009 due to favorable global conditions and domestic factors. But a number of negative phenomena accompanied this growth and limited its positive effects on the economy and society, particularly in light of the IMF’s continued marginalization of social issues.

Reasonable Growth Rate Without Structural Transformation

Economic growth in Morocco significantly improved between 2000 and 2009, reaching 5.1 percent (compared with 2.5 percent in the 1990s and 3.8 percent in the 1980s). Two main factors contributed to this development. The first involved favorable global economic conditions (e.g. rising commodity prices and financialization) that led to an increase in FDI and higher remittances from Moroccans living abroad. A significant increase in tourism revenues also boosted domestic demand through investment and consumption. The second factor concerns important state-sponsored public works and continued subsidies for food and fuel that maintained aggregate demand and moderated inflation rates.

Table 3.3: International comparisons of real growth rates (average year-on-year)

	1980-1989	1990-1999	2000-2009	2010-2013
World	3.4	3.1	3.5	3.3
Developing countries	3.5	3.7	6.1	5.8
Sub-Saharan Africa	2.4	2.2	5.7	5.1
Asia	6.8	7.6	8.5	6.8
Middle East	1.6	3.8	4.9	4.7
Morocco	3.8	2.5	5.1	4.3

Source: Vergne, C. (2014).

Nonetheless, this growth had weaknesses that made it unsustainable. A recovery in domestic demand - not the export of manufactured goods with medium- or high-technology content as promoted by international financial institutions - drove this prosperity. In other words, growth did not reflect a structural transformation in the Moroccan economy. A sectoral distribution of GDP illustrates the hypertrophy of low-productivity service sectors at the expense of manufacturing (up from 43 percent of GDP in 1980 to 51 percent in 2012).²⁰⁹ By contrast, manufacturing as a share of GDP continued to fall through the 2000s and the overall contribution of Total Factor Productivity to GDP growth remained weak (estimated at only 15 percent between 1980 and 2010²¹⁰), as opposed to any significant contribution from capital and labor.

209 Vergne, C. (2014) ‘Le Modèle de Croissance Marocain: Opportunités et Vulnérabilités’ (The Moroccan Growth Model: Opportunities and Vulnerabilities), Macroéconomie et Développement, 14. Tableau No 3.
210 Ibid.

Crony Capitalism on the Rise

Crony capitalism also emerged as a small group of businessmen - either themselves top politicians or close to them - dominated the most important privatization operations. They benefited from cheap state land transfers and discriminatory implementation of rules and regulations.²¹¹ These distortions in the economic structure and a dominant culture of influence contributed to the spread of corruption and nepotism, as reflected in Morocco's Corruption Perceptions Index score.²¹² Strangely, international institutions remained silent in the face of these practices and have not proposed any plan of action nor did they impose conditions on the Moroccan government to end them. Consequently, these developments encouraged rentier practices and monopolies at the expense of consumers and small- and medium-sized enterprises.

Increase in Unemployment, Underemployment, Social and Spatial Disparities

Before the Arab Spring, IFIs (particularly the IMF) disregarded problems of equity, equal opportunity, and social protection, borne out in a careful reading of reports and correspondence between the IMF, Egypt, Morocco, and Tunisia (2006-2013). The contents reveal that the IMF did not integrate these issues into the growth strategy for which it was advocating until after the uprisings (Table 3.4).

The IMF still considers macroeconomic growth to have a positive impact on inclusive growth and pushes North African countries to expand the economic pie before redistributing it. The Moroccan experience negates this argument, as only some social groups benefited from the improvement in growth during the 2000s. Despite the decline in the poverty rate from 15.3 percent to 9 percent between 2001 and 2007, the proportion of Moroccans living on less than \$2 a day remained relatively high (14 percent nationally and 14.4 percent in rural areas). In addition, statistics from the High Commissioner for Planning indicate that 18 percent of Moroccans also remained vulnerable in 2007.²¹³ In total, a quarter of Morocco's population was either poor or at risk of falling into poverty.

Morocco's ranking in the Human Development Index deteriorated from 112 in 2001 to 130 in 2013. Arab countries with a level of development similar to Morocco's ranked better (94, 100, and 112 for Tunisia, Jordan, and Egypt, respectively). The United Nations Development Program's (UNDP) multidimensional poverty index, which focuses on the level of deprivation in education, health, and the standard of living, reveals that 15.6 percent of the population (about 5 million citizens) suffered from this type of poverty in 2011, with 12.6 percent (4.1 million) close to the poverty line.

²¹¹ Saadi, M.S. (2016).

²¹² Trading Economics (2019) Morocco Corruption Index 1998-2019 Data [Online]. Available at: <https://tradingeconomics.com/morocco/corruption-index>.

²¹³ Vergne, C. (2014).

Table 3.4: Tracing IMF policy advice on the social dimensions of economic policy

Morocco	2006	2007	2008	2009	2010	2011	2012	2013
Inclusive growth	-	-	-	-	NA	X	X	X
Strengthen health care education	-	-	-	-	NA	X	X	X
Improve redistribution and inequality	-	-	-	-	NA	X	X	X
Tunisia	2006	2007	2008	2009	2010	2011	2012	2013
Inclusive growth	-	-	-	-	-	NA	X	X
Strengthen health care education	-	-	-	-	-	NA	-	X
Improve redistribution and inequality	-	-	-	-	X	NA	X	X
Egypt	2006	2007	2008	2009	2010	2011	2012	2013
Inclusive growth	-	-	-	NA	-	NA	NA	X
Strengthen health care education	-	-	-	NA	-	NA	NA	X
Improve redistribution and inequality	-	-	-	NA	X	NA	NA	X

Note : «X» denotes that IMF gave explicit recommendations to improve the stated policy objective «-» denotes that IMF did not give explicit recommendations to improve the stated policy objective. «NA» denotes that there no Article IVs or comparable data available.

Source: Momani, B. and Lanz, D. (2014).

Income inequality also grew, with the Gini coefficient moving from 39.2 percent in 1991 to 40.9 percent in 2007. The top quarter of affluent Moroccans accounted for 48 percent of the Gross National Income (GNI), compared with only 6.5 percent for the poorest quarter.²¹⁴

Unemployment reached 9.1 percent of the active population in 2013. Labor force participation shrunk to 48.5 percent for those aged between 15 and 64 years. The unemployment rate remained high in urban areas (14 percent), among youth (19.1 percent), and graduates (17 percent). In addition, 37 percent of non-agricultural workers were active in the informal sector, while the percentage of underemployment (unpaid family workers and independent workers) was estimated at 50 percent of total employment.

3.3 From the Global Financial Crisis to the Arab Spring

While the Arab Spring - and its Moroccan iteration, represented by the February 20 Movement - altered the IMF's rhetoric toward the Arab world, it did not change IMF policies and recommendations towards Morocco. The austerity measures imposed in return for providing a Precautionary and Liquidity Line had a negative impact on growth, employment, and social stability, prompting popular protests and triggering resistance from civil society and social movements. The absence of any significant transformation in the political system, however, helped to propel ongoing neoliberal reforms.

Another Decade of Structural Adjustment and Austerity (2012-2020)

With the eruption of the Arab revolutions in Tunisia and Egypt, Moroccans took to the streets on February 20, 2011 to challenge authoritarianism, end corruption and cronyism, and demand social justice. The King's response was to defuse the February 20 Movement and consisted of initiating a relatively advanced constitutional reform. While such reform did enhance the prerogatives of the

²¹⁴ Ibid.

head of government and of the parliament, it did not significantly alter the executive character of the monarchy. It also resulted in the embedding of “fiscal austerity as a guiding principle on the state’s finance and budgetary processes” in the constitution.²¹⁵

On the socioeconomic front, the government rushed to contain the situation and buy social peace by sacrificing financial balances. It committed to employing thousands of educated and unemployed youth and granted an unprecedented increase in civil servants’ wages. It also raised subsidies for basic goods to a record high of more than 8 percent of GDP.

Naturally, the policy created macroeconomic imbalances, exacerbated by the rise in world oil prices and the ongoing economic crisis in Europe. Against this backdrop, the Moroccan government decided to ask the IMF for a \$6.2 billion Precautionary and Liquidity Line for two years in anticipation of external shocks that could adversely affect the balance of payments and the exchange reserve. This line of credit was renewed in 2014 (\$5 billion) and 2016 (\$3.42 billion) and ended in July 2018. While the government drew nothing from the account, its commission was estimated at \$600 million by Morocco’s Minister of Economy and Finance.²¹⁶

More Austerity for Morocco

The Letter of Intent sent in July 2012 by the Moroccan government to the IMF regarding the Precautionary and Liquidity Line contained clear commitments to “continue the implementation of structural and sectoral strategic reforms” (primarily the Emergence Plan for manufacturing, the Green Morocco Plan for agriculture, and the Blue Plan for tourism) to promote growth and create employment opportunities.²¹⁷ It also promised “continuing to promote the sustainability of internal and external financial stability.” The letter’s signatories included a reminder that the preservation of macroeconomic stability had become a constitutional principle since the adoption of the 2011 constitution. To this end, government officials committed to:

- The steady reduction of fiscal deficit to 3 percent by the end of 2016 by increasing the efficiency of public spending and the improving revenue generation. Stipulated in this section is the prioritization of subsidy reform - through targeted subsidies and reducing the resources allocated to it to preserve public investment - and to reform the pension system to ensure its financial sustainability.
- The Central Bank of Morocco would continue its policy of ensuring medium-term price stability, supporting the banking sector, and providing it with the necessary liquidity when necessary.
- Maintaining a temporary fixed exchange rate, tied to the basket of currencies consisting of the euro and the dollar.
- Adhering to quantitative indicators attached to the letter of intent concerning the maintenance of foreign reserves and reducing the budget deficit.

These commitments were enhanced by a program note in 2013 (Box 3.1).

215 Hanieh, A. (2015) ‘Shifting Priorities or Business as Usual? Continuity and Change in the post-2011 IMF and World Bank Engagement with Tunisia, Morocco and Egypt’, *British Journal of Middle Eastern Studies*, 41(1).

216 جمعية أطاك المغرب (2018) خط الوفاقية والسيولة تعبير عن جيل جديد من سياسات التقويم الهيكلي العميق والشمال، 22 مارس 2016

(ATTAC Maroc (2018) Prevention and Liquidity Line is An Expression of a New Generation of In-Depth Structural Adjustment Policies and the North, 22 March).

217 IMF (2012) Morocco: Letter of Intent, 27 July [Online]. Available at: <https://www.imf.org/external/np/loi/2012/mar/072712.pdf>.

Box 3.1: Safeguard Agreement with the IMF²¹⁸

Problem: “The budget deficit is aggravated because of the increasing cost of subsidizing basic goods and the growing wage bill.”

Priorities:

- To pursue a process of recovery in order to rebuild the financial reserves and ensure the continuity of fiscal conditions in the medium term through the replacement of generalized high-cost support and pension reform with carefully targeted social programs.
- To rebuild preventive reserves in current accounts and enhance competitiveness through structural reforms and increased exchange rate flexibility.
- To support the achievement of higher and more inclusive growth through the promotion of economic governance and the improvement of the business climate.
- To maintain adequate monetary and financial conditions and maintain financial stability.

IMF recommendations arising from Article IV consultations also urged the adoption of a flexible labor market policy, a cap on the wage bill, and limits to public spending on goods and services “to provide fiscal space (or margin) for medium-term priority spending.”²¹⁹

Impact on Growth and Employment

Public spending patterns across the region revealed a clear downward trend that emerged after the eruption of the Arab revolutions and the involvement of the IMF (Table 3.5). This is particularly evident in the case of Morocco, where public expenditure as a portion of GDP consistently decreased since 2012 and the annual growth rate of this expenditure declined at current prices compared to the 2000s. The data shows that fiscal deficit reduction was achieved through pressure on public spending - not through an increase in revenue or the general budget.

Public expenses to GDP fell from 29.8 percent in 2012 to 24 percent in 2018. It is expected to continue its decline in the coming years to reach 22.4 percent by 2022. This decline is due largely to the decrease in wages, which fell from 11.4 percent of GDP in 2012 to 11.5 percent in 2018, expected to reach their lowest levels of 9.8 percent in 2022. Subsidies for basic goods also fell from 6.5 percent in 2012 to 1.2 percent in 2018 and will reach 0.7 percent by 2022. The fiscal space created by this reduction, however, did not benefit public investment. The proportion of investment in the public budget to GDP remained stagnant at a low 5.5 percent between 2012 and 2018, expected to reach 6.1 percent by 2022. By comparison, the ratio of generated revenue to GDP fell from 28.0 percent in 2012 to 26.5 percent in 2018 and are expected to reach 26.3 percent in 2022 (Table 3.7).

²¹⁸ Program Note, Morocco, 5 April, IMF website.

²¹⁹ E.g. Morocco, 2017 Article IV consultation.

Table 3.5: Changes in Total Government Expenditure in Morocco, Egypt, Jordan and Tunisia 2005-2020²²⁰

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Morocco	4.7	-3.1	0.7	1.8	-0.7	0.8	2.6	1.6	-2.2	-0.7	-1.9	-0.3	0.1	-0.3	-0.2	0
Egypt	-0.6	4.5	-2.5	0.7	-1.4	-1.2	-1.6	0.8	4.4	1.5	-3.4	-2.5	-0.9	-0.5	-0.5	-0.3
Jordan	1.1	-2.5	0.6	-2.6	0.6	-4.5	2.8	-1.7	4	2.4	-9.3	0.9	0.1	-0.1	0	0.3
Tunisia	-0.1	-0.4	0	1	-0.1	-0.2	4	0.9	0.5	-1.8	-0.9	0	-0.2	-0.1	-0.1	-0.1

Table 3.6: Year-on-year real growth, % (billions of local currency/average consumer prices)²²¹

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Morocco	21.1	-4.0	6.9	13.9	2.8	6.0	12.7	6.4	-2.4	2.4	-1.2	3.9	5.3	4.2	4.7	5.3
Egypt	0.1	25.1	1.5	9.9	-3.9	0.2	-2.7	8.6	18.2	7.6	-4.8	-3.2	1.7	3.1	3.4	4.0
Jordan	9.8	5.4	10.3	4.8	11.2	-7.9	14.4	-2.5	16.9	10.2	-20.3	7.9	5.1	4.5	4.9	6.0
Tunisia	4.8	4.1	5.9	10.7	2.3	2.8	15.1	7.1	3.9	-3.3	-0.3	3.4	3.7	4.4	4.6	

Table 3.7: Morocco Budgetary Central Government Finance, 2012-2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	28.0	27.8	28.0	26.5	26.1	26.1	26.5	26.0	26.0	26.2	26.3
Taxes	23.9	22.3	22.0	21.1	21.4	21.8	22.0	22.3	22.5	22.7	22.8
Taxes on income, profits, and capital gains	9.1	8.4	8.3	8.0	8.0	8.4	8.7	8.7	8.8	8.9	8.9
Taxes on goods and services	11.7	11.1	10.9	10.3	10.3	10.5	10.4	10.6	10.8	10.9	11.0
Expense	29.8	27.8	27.5	25.2	24.5	24.2	24.0	23.3	23.0	22.7	22.4
Employee Compensation	12.8	12.6	12.7	12.0	11.9	11.7	11.5	11.0	10.6	10.2	9.8
Wages and salaries	11.4	11.0	11.0	10.4	10.3	10.0	9.8	9.4	9.1	8.7	8.4
Use of goods and services	2.5	2.4	2.6	2.6	2.6	2.5	2.6	2.6	2.6	2.6	2.6
Subsidies	6.5	4.6	3.5	1.4	1.4	1.4	1.2	1.0	0.9	0.8	0.7
Net acquisition of nonfinancial assets	5.4	5.1	5.4	5.5	5.6	5.4	5.5	5.5	5.7	5.9	6.1

Source: Ministry of Economy and Finance and IMF staff estimations, cited in Morocco (2017), Article IV consultation.

220 Ortiz, I., Cummins, M., Capalds, J. and Karunane, K. (2017) The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries [Online]. Available at: <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53192>.

221 Ibid.

How did this evolution of the fiscal deficit affect growth and employment? As noted earlier, public spending affects private sector behavior, the decisions of financial market players, productivity, and private consumption, among other variables. Public investment drives the expansion of productive capacities and in turn increases incomes. It also contributes to the provision of services and facilities for all avenues of economic and social activity.²²²

Yet, the IMF's approach limited the influence of public spending to its likely impact on the operators' expectations in the financial market. Theoretically, restricting public expenditure would help improve the business climate for financial actors and the private sector in general. The reduction of state expenditure suggested an opening of space for the private sector. The decline in public debt also suggested that tax pressure would decrease in the medium term, which would push producers and consumers alike to raise the level of consumption and investment, positively affecting the economic cycle and contribute to job creation.

The optimism that characterized the IMF's approach regarding the positive effects of austerity measures on growth and employment through the interaction with financial markets can barely withstand robust analysis.²²³ Evaluating the effects of austerity policies promoted by the IMF requires an examination of their effect on aggregate demand. Researchers measured the impact of declining public spending from 2015 to 2020 on growth and employment in various regions of the world using the United Nations Global Policy Model.²²⁴ The results for countries in North Africa and the Middle East revealed a 3.67 percent drop in the GDP and the creation of only 710,000 jobs during this time.

In the absence of a similar quantitative study for Morocco, it is worth noting that the rate of growth has recently fallen to modest and fluctuating levels - reaching 4.5 percent at its height in 2013 and 2015, and 1.2 percent in 2016 - due to the continued dependence of the Moroccan economy on precipitation. According to the World Bank, the growth rate should remain in the vicinity of 3 percent between 2018 and 2020 due to the ongoing economic crisis in the euro zone and the impact of austerity policies adopted by Morocco since 2012. A 2013 study by the Moroccan High Commissioner for Planning anticipated that the increase in fuel prices adopted by the government in 2013 would decrease the growth rate by 0.15 percent in 2013, and 0.48 percent in 2014, due to the decrease in domestic demand. The prices of goods and services would also be expected to increase by 0.37 percent and 1.1 percent during the same period. On the other hand, the same study expected the budget deficit to fall by 0.18 percent in 2013 and 0.58 percent in 2014.²²⁵

Unemployment in Morocco rose from 8.9 percent in 2011 to 10.2 percent in 2017. Young people (aged 15-24) in urban areas were severely affected, with the rate reaching 41.5 percent in 2016 compared to 32.2 percent in 2011, and 16.9 percent for graduates in 2016.²²⁶

222 Ortiz, I., Cummins, M., and Capaldo, J. (2015) The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries. ESS Working Paper No. 53. The South Centre, Initiative for Policy Dialogue (IPD), Columbia University, International Labor Office.

223 Blyth, M. (2013) 'The Austerity Delusion', Foreign Affairs, Vol (92/3), May-June; and Krugman, P. (2013) 'The False Claims for Austerity', The New York Review of Books, June 6.

224 Ortiz, I. et al (2015).

225 Haut Commissariat au Plan (2013) Simulation de l'impact de l'indexation des prix de certains produits pétroliers sur l'économie nationale, Royaume du Maroc (Simulation of the impact of price indexation of certain petroleum products on the national economy, Kingdom of Morocco). Rabat.

226 وزارة الاقتصاد والمالية (2018) مشروع قانون المالية لسنة 2018. التقرير الاقتصادي والمالي، الرباط. Ministry of Economy and Finance (2018) Draft Finance Law of 2018. Economic (The High Commissioner for Planning (2018) The Status of) الرباط. وضع سوق الشغل خلال سنة 2017. Financial Report, Rabat) ; and (The Labor Market During 2017. Rabat

Subsidy removal and social safety nets

To mitigate the negative impact of subsidies removal on the poorest, the government implemented several social programs, most of which fell under the supervision of the Social Cohesion Fund (SCF) in 2012. The RAMED program offered medical assistance for needy families; the Tayssir project aimed at reducing school dropout rates by providing families with cash transfers; the One Million Wallets project encouraged the education of needy children and supported divorced women with school-aged children. The government also invested in public transportation improvements to mitigate the impact of rising fuel prices on commuters. In addition, the government is preparing a social register of the most vulnerable people to benefit from direct cash transfers after the liberalization of gas prices by 2021-2022.

A recent report by the Supreme Council of Accounts revealed the volatility of funds allocated to the SCF, which amounted to 2.2 billion dirhams in 2012, 1.4 billion in 2013, and 4.9 billion in 2015, before it fell to 3.1 billion in 2016 and 1.8 billion in 2017. The SCF's expenditures required to meet social needs have risen with each year, which threatens the sustainability and viability of these programs. These figures reveal that the financial support devoted to social safety nets falls short of the financial resources provided in 2015 following the liberalization of hydrocarbon prices, which amounted to 35 billion dirhams, or the tax concessions granted to real estate developers, which amounted to 8 billion dirhams.²²⁷

Aside from the inconsistent funding patterns, the RAMED project has not been able to improve the access of needy people to free health services for additional reasons, including the lack of medicine, medical supplies, recurrent malfunctions in medical equipment, and complicated administrative procedures in public hospitals.²²⁸

The data refutes claims by the IMF that Morocco has strengthened “social safety nets and improved the process of targeting needy groups.” Moroccan officials have acknowledged that dialogue with the IMF “revolves around macroeconomic stability rather than social stability and that the role of the IMF remains marginal when it comes to social protection, except for its call on the public authorities to improve the targeting process.”²²⁹ The price liberalization of basic goods like fuel, gas, sugar, and flour will affect the purchasing power of citizens (see Box 3.2) that demonstrates the negative effects of liberalization of the hydrocarbon sector on competition and purchasing power.

227 Le Fonds d' appui a la cohesion sociale (2017) 'la Cour des Comptes pointe "plusieurs dysfonctionnements"' (the Court of Auditors points out «several dysfunctions»), Medias24, 29 November; and Le Fonds d' appui a la cohesion sociale (2018) 'presente un deficit annuel de pres d' un milliard de dirhams' (It has an annual deficit of almost one billion dirhams), Le Matin, 31 Mai.

228 هذه أبرز اختلالات نظام المساعدة الطبية، هسبريس، 11 أبريل 2018. محمد الراجي (Al-Rajji, M. (2018) 'After seven years ... these are the most prominent imbalances in the medical aid system', Hespress, 11 April).

229 Tan, L.H. and Selowsky, M. (2017) The IMF and Social Protection: Seven Emerging Market Country Cases. Washington, D.C.: Independent Evaluation Office for the International Monetary Fund.

Box 3.2: Fuel price liberalization leads to stronger monopoly at the expense of purchasing power

The liberalization of the hydrocarbons sector, according to the Moroccan government, is part of the current strategic direction, which aspires to liberalize the economy and establish solid and sustainable bases for a capable economic system independent from interventionist policies.

Notably, the role of the state has declined in the hydrocarbons sector since the early 1990s, when the distribution of hydrocarbons and the SAMIR refinery were privatized. A fuel price index was established between 1995 and 2000. This system was reactivated in its second version, as part of the Compensation Fund reform system at the end of 2013. Fuel prices were fully liberalized on December, 2015 ,1.

A report by the Parliamentary Committee of Inquiry on the impact of fuel price liberalization issued on February 2018 ,28 revealed suspicions of collusion in the sector and the violation of fair competition, which led to a significant rise in prices immediately after the liberalization. This monopolistic behavior resulted in huge profits for hydrocarbon companies (four companies accounting for 70 percent of the hydrocarbon market) in Morocco.

The Chairman of the Parliamentary Committee, Mr. Abdullah Bouanou, revealed in a televised statement exciting facts that were ignored by the above-mentioned report: Companies approached the government during the period of determining the price structures in 2015 and requested price fixing, considering all costs and specifying a profit margin for wholesale and retail while accounting for all expenses ... [T]he difference in comparison with the price specified by the government, the customs departments, and the exchange office amounts to 1 dirham per liter of fuel. Knowing that there are 6.5 million tons, we reach 7 billion dirhams of additional profit in just one year... One of the companies tripled its profits in Morocco, while it suffered losses abroad. These profits grew from 300 million dirhams to 900 million between 2015 and 2016, as a result of the liberalization of fuel prices.» (News24, April ,16 2018).

This monopolistic margin helped companies achieve additional profits of 17 billion dirhams since the liberalization of the hydrocarbons sector. The significant increase in prices affected not only car owners, but also the cost of public transport and the prices of goods, which was detrimental to the purchasing power of vulnerable and middle-income classes.

The Payroll Freeze Harms Human Development

A public sector wage freeze or payroll reduction also carries negative repercussions on human development. Limiting this income creates a shortage of human resources available (teachers, doctors, nurses, and social workers) with obvious social and economic consequences. To meet the basic needs of the health sector and improve the services provided to citizens, especially in rural areas, Morocco

requires more than 6,000 doctors and 9,000 nurses..²³⁰ The freezing of wages and the lack of indexing to inflation harms the purchasing power of workers in the public sector, especially for vital social services, which contribute to the increase of absenteeism at work, more involvement in the informal sector, and an increased push factor for brain drain. A marked decline in public services, especially in popular urban areas and the countryside, is a natural consequence.

Flexibility of Labor and Greater Vulnerability for Workers

The application of labor flexibility is reflected in the facilitation of individual and collective layoffs of workers, the reduction of compensation, and the promotion of fixed-term contracts. It is uncertain that such actions would raise the competitiveness of productive units, as alleged by international financial institutions, as competitiveness is mainly influenced by productivity, efficiency and innovation, while it creates greater vulnerability for workers and lower wages in conditions of recession. It is expected that this vulnerability will reach the public sector after the adoption of the Moroccan government of contractual employment contracts as it began to employ young graduates in primary education for two years. This will negatively affect the quality of the educational system.

On the other hand, the increase in value added tax will have negative effects on consumption, as prices of goods and services will rise, which will lead to a decline in the purchasing power of large segments of society, especially vulnerable groups that allocate a large fraction of their income to consumption of basic goods. This reflects the unfair taxes on consumption compared to direct taxes on income, corporate profits or wealth.

3.4 Conclusion

The relationship between Morocco and the IMF has evolved over several phases, fundamentally grounded in the implementation of neoliberal reforms to transform Morocco into a country based on a competitive private sector-led market economy integrated into the global capitalist regime via export-led growth. After three decades of implementing these reforms, Morocco has demonstrated the failure of this model.

From an economic perspective, the increased growth rate volatility, dependence on agricultural production, and reliance on favorable trade conditions with the EU correlates with the decrease in Morocco's competitiveness and inability to improve overall productivity. Like many developing countries, Morocco has experienced premature deindustrialization despite the need for modern, industrialized production to spur structural transformation and development.²³¹ The rentier and unproductive private sector has rebounded, strengthening the links between financial and industrial groups to political power at the expense of consumers and small and medium capital.

From a social justice perspective, unemployment - especially among youth and women - and the manifestations of vulnerability, social exclusion, and social and spatial inequalities have also increased. Human development remains a major challenge that neoliberal reform policies failed to address. Growth sustainability is linked to improved human development as demonstrated by the East Asian experience.²³²

230 Finance News (2016) Le Maroc a besoin de 6000 médecins et 9000 infirmiers, 25 July.

231 Shafaeddin, S.M. (2005) Trade Liberalization and Economic Reform in Developing Countries: Structural Change or De-Industrialization. Discussion Paper no 179. UNCTAD.

232 Ghosh, J. (2012) 'Accumulation Strategies and Human Development in India', *Agrarian South*, 1(1).

On the political front, the negative social impact of structural adjustment programs has been met with strikes and riots, without shaking the foundations of Morocco's regime.

Despite these disappointing results, which helped to push Moroccans into the streets in 2011 as part of the February 20 Movement, the IMF has only rhetorically changed its recommendations and dictates, continuing its pursuit of austerity policies and neoliberal structural reforms to cope with the macroeconomic imbalances of 2012. It comes as no surprise that subsequent protests from social movements, especially in the north and east of Morocco, have gained momentum and sustain calls for freedom, dignity, and social justice. An impoverished middle class fuels this "new wave" of protests, suffering from heavy tax pressure compared to other countries and remain socially disadvantaged due to the decline in their purchasing power.²³³ The lack of jobs and social services, the lack of adequate housing, and the need to resort to private education and health services due to the failing public sector are all symptomatic of a failed economic strategy.

233 Nhaili, S. (2018) 'Au Maroc, le Grand Malaise des Couches Moyennes' (In Morocco, the great malaise of the middle class), Medias 24, 27 June.

4. Jordan, IFIs, and Social Justice

Bessma Momani

Jordan has often been heralded as a star reformer, having adopted IMF and World Bank conditions and slowly liberalizing its economy to embrace neoliberal economic policies. While Jordan's macroeconomic situation often appears positive and improving, especially its attraction of foreign investment, these macroeconomic indicators mask a great deal of social inequality. Despite IMF and World Bank attempts to incorporate more social dimensions into their conditions, the outcome remains increased inequities that adds to social frustrations. Symptoms of this dynamic reached a boiling point in summer of 2018 when masses took to Jordanian streets to protest increased sales and income taxes, at a time of rising corruption and rent-seeking behavior of its political and economic elite.

4.1 Liberalizing Jordan's Economy and Its Social Impact

As with several other Middle East and North African (MENA) countries, the Jordanian state played an interventionist role in guiding its economic development from the time of its independence in the 1940s up to the mid-1980s. Known as the statist development model, Jordan's economy included import substitution policies, protectionist barriers to liberal trade, the nationalization of key sectors of the economy, generous yet ineffective subsidies to energy and housing, and the provision of widespread employment by way of an overstretched and bloated public sector. This statist model effectively crowded out the private sector or only allowed crony capitalists close to the state to flourish, crowding out any real competition in the private sector.

The state emphasized the public sector as a key tool for employing a rapidly growing labor market and spurring economic development. Civil servants were charged with carrying out state-led development and other public services (such as the joining the security services, military, and state-owned enterprises). Jordanians regarded public sector employment as dignified, providing social security to a burgeoning middle class, with increased numbers of Jordanians attracted to working in the public sector. These public sector roles required a relatively educated and predominantly urban population, enticing many individuals to move from rural areas and away from the agricultural sector and into the professional class. Investment in education, urban infrastructure, and the state bureaucracy became intertwined with the improved quality of life of an increasingly urbanized population; average Jordanians in the urban middle class now enjoyed professional positions with respectable average incomes. High school graduates generally found decent employment in major cities, working in public agencies and government offices. An increased number of new universities built by both the state and then the private sector also helped educate new cadres of public sector workers. In the late 1990s, Jordan increased its number of public universities to ten, private universities to 21, and community colleges to 51.²³⁴

As witnessed in several other MENA countries, this statist development model resulted in relative success until the mid-1980s. Consequently, Jordan achieved measurable socioeconomic gains in addressing needs such as literacy, access to water and sanitation, and access to education and medical

²³⁴ Ministry of Higher Education & Scientific Research (2017) Brief on Higher Education Sector in Jordan, Mahafzah, Azmi [Online]. Available at: <http://www.mohe.gov.jo/en/pages/BriefMohe1.aspx>; and QS Asia News Network (2017) Higher education in Jordan: history, present status and future [Online]. Available at: <https://qsownews.com/higher-education-in-jordan/>.

services.²³⁵ Many middle-class Jordanians viewed this time as one of prosperity, with median incomes rising as living standards improved in urban areas (like Amman and Irbid).²³⁶ Even rural areas shared in this prosperity as many professionals remitted money home to families or reinjected funds into rural communities. By the mid-1980s, this statist development model had exhausted itself. Jordan faced increased food prices, inefficient production, a bloated public sector, and rising debt that weighed on GDP growth. The global increase in oil prices compounded these economic troubles. As an oil importer, Jordan was forced to contend with the same problem threatening many other developing countries: rising import costs of oil and transportation. Compounding these challenges, Jordan received a great deal of workers' remittances from the oil rich Arab Gulf region. The decline of this income negatively impacted the state coffers.

These factors impacted Jordan's current account balance severely, to such an extent that it turned to international creditors to finance its budget deficits.²³⁷ The situation was so problematic, that Jordan was unable to service its bilateral loans. By 1989, Jordan faced a severe debt crisis and sought the support of the IMF and World Bank, in addition to Western donors. To qualify for broader IFI and donor assistance, Jordan was forced to meet IMF conditions that included raising the costs of once-subsidized consumer goods, like food and energy, to cut down on government spending, and raising taxes on cigarettes and beverages. The resulting rise in food prices led to the 1989 'bread riots' in the heartland of Jordanian monarchy support in the south of the country. It was unusual to see protests in areas from where East Bank Jordanians hail, such as Ma'an, Kerak, and Tafila. Deploying the Jordanian army to quell these protests to the very areas where many of the same security forces originate was a shock to the Jordanian monarchy and tested the view that tribalism and support for the King's political order was invincible.²³⁸

Jordanians were not only frustrated with the rise in food prices, but also the perceived economic mismanagement and corruption under then-Prime Minister Abdelmunim al-Rifai's government.²³⁹ Under IMF austerity, public sector jobs that Jordanians had once regarded as relatively secure positions began fading away as the state reduced benefits, including subsidized housing, preferential prices at state-run markets, and generous health packages. Living standards, particularly in urban areas, suffered greatly as many Jordanians saw a decline in real wages and an increase in the price of basic goods.²⁴⁰ State bureaucracies either hired fewer workers or dismissed civil servants in some agencies.

Jordan took out several IMF loans throughout the 1990s to early 2000s (Table 1), all of which required meeting conditions aimed at macroeconomic stabilization through fiscal consolidation and deficit reduction. Jordanian income per capita dipped steeply in the late 1980s, only recovering by the late 2000s.

235 United Nations Development Programme (UNDP) (2015) Socio-economic Inequality in Jordan [Online]. Available at: shorturl.at/hGKL1

236 Wilson, R. (2012) *Economic development in the Middle East*. Routledge.

237 Ryan, C. R. (1998) 'Peace, bread and riots: Jordan and the International Monetary Fund', *Middle East Policy*, 6(2), pp. 54-66.

238 See Eilon, J. B. and Alon, Y. (2007) *The making of Jordan: Tribes, colonialism and the modern state*, Vol (61). IB Tauris.

239 Ryan, C. R. (1998).

240 The World Bank (2016). Hashemite Kingdom of Jordan: Promoting Poverty Reduction and Shared Prosperity. World Bank Group [Online]. Available at: shorturl.at/ptyAC

Table 4.1: IMF Loans to Jordan

Type of Loan*	Date	Amount
IMF EFF	2016-2020	\$723 million
IMF SBA	2012-2015	\$2.06 billion
IMF SBA	2002-2004	\$113 million
IMF EFF	1999-2002	\$127 million
IMF EFF	1996-1999	\$283 million
IMF EFF	1994-1996	\$189 million
IMF SBA	1992-1994	\$44 million
IMF SBA	1989-1991	\$60 million

Source: *SBA: Stand-by Agreement; EFF: Extended Fund Facility.

The conditions often sought by the IMF and the World Bank sought to have Jordan increase its revenue and decrease state expenses. These included liberalizing the exchange rate to promote exports and reduce imports; revising labor laws to favor employers and businesses; selling state-owned enterprises; liberalizing the banks to stimulate the private sector; decreasing interest rates to stimulate private borrowing and investment; liberalizing trade to improve its balance of payments and favor foreign reserves accumulation; and easing foreign investment regulations to relieve the burden on the government to provide jobs for the masses.²⁴¹ The shift away from trade taxes to consumption taxes not only upset the average Jordanian, but also Jordan's business elite who were primarily in the business of trading goods.

As Oliver Wils's 2004 study notes, when the IMF and the World Bank called for decreases in trade taxation, many of Jordan's business elite opposed IFI reforms, fearing the liberalization of import licenses would bring new businesses that would directly compete with them and that such competition would challenge exporters of low-quality and protected products.²⁴² The Jordanian business elite convinced the government to include a list of tax-exempt items that protected their businesses and reduced the rate of corporate income taxes to offset potential losses.²⁴³ Jordan's same business elite also pushed for a new investment law that granted them tax benefits to enter new investment projects that they then dominated.²⁴⁴ The same package of taxation policies, therefore, further empowered a small, politically well-connected group of business elite to then invest in Jordanian real estate development. Lax regulation, for instance, encouraged capital investment in real estate projects from skyscrapers to malls in Amman and resulted in poorly executed projects that remained either incomplete or failed to meet average Jordanian citizens' needs.²⁴⁵

Other IFI-imposed fiscal consolidation policies included restrictions on budget deficits to contain the public wage bill, lower government subsidies on food and energy, increase energy prices toward international market prices and reduce the public debt by alleviating subsidies, implement sales and income taxes to increase government revenue, and remove price controls on subsidized food and rent to increase agricultural production and promote private sector investment in housing development.

241 Harrigan, J., El-Said, H. and Wang, C. (2006) 'The IMF and the World Bank in Jordan: A case of over optimism and elusive growth', *Review of International Organizations*, 1(3), pp. 263-292 [Online]. Available at: <https://doi.org/10.1007/s11558-006-9490-8>.

242 Wils, O. (2004) 'From negotiation to rent seeking, and back? Patterns of state - business interaction and fiscal policy reform in Jordan', *Networks of privilege in the Middle East: The politics of economic reform revisited*. New York: Palgrave Macmillan, pp. 133-165.

243 Ibid.

244 Ibid.

245 Abu Hamdi, E. (2018) 'Amman', *Middle East Report* 287.

These reforms often increased the cost of living while public sector wages remained relatively steady, thus sharpening social inequalities among average Jordanian citizens.²⁴⁶

In return for liberalizing its economy, Jordan fostered stronger economic ties with Western countries. The kingdom signed free trade agreements (FTAs) with the United States in 2001, with Canada in 2012, and an economic association agreement with the European Union in 2002. The FTA with the United States brought more foreign investment to the country, but which often went into low-cost manufacturing of textile goods in Qualified Industrial Zones (QIZs) that had minimum positive spillover effects on Jordanians. Although the QIZs provided Jordan with more impressive export figures (and earned public praise from IFIs), they also created a contained enclave economy that experts deemed imprudent.²⁴⁷ The government had achieved some marked success in creating new jobs on paper, but non-nationals filled many of the positions in the QIZ-based industries. Foreign companies also employed foreign labor, bypassing most Jordanians. Jordanians themselves found that these jobs did not meet the preferences of the unemployed, jobs that offered wages far below that which relatives in oil-rich states could remit home.²⁴⁸ Unlike foreign migrant workers (from places such as the Philippines, Indonesia, and Egypt) and the recent refugee arrivals from Syria, Jordanians typically refuse low-paying jobs that often involve arduous working conditions. While the effect on the trade balance appeared positive, Jordanians saw few improvements to their standard of living as a result of the QIZs.

The economic reforms taking place during the 1990s and early 2000s also inadvertently hit an important subsection of the labor market. Until that point under the previous state-led economic paradigm, East Bank Jordanians (not of Palestinian origin) comprised the bulk of government-affiliated and public sector jobs. West Bank Palestinian-Jordanians, on the other hand, struggled with lower wages and fewer benefits in a relatively nascent private sector. As a tribal society, Jordan's local labor market falls victim to a "culture of shame" - one in which Jordanians face societal pressures against taking low paid jobs. This culture is more pronounced among East Bank Jordanians who constitute a minority of the population. Where public sector jobs do exist, the state tends to favor East Bank Jordanians over Palestinian-Jordanians (particularly in the security sector) and will hence have higher reserve wages than Palestinian-Jordanians who tend to live in the capital city Amman and work for the private sector.²⁴⁹ 'Wasta' networks - or favoritism by referral - abound in Jordan, resulting in nepotism that leads companies and sectors to hire within their own sub-communities. As such, East Bank Jordanians who disproportionately make up most public sector employment took a greater hit from IMF policy conditions that require diminishing the public wage bill than Palestinian-Jordanians who predominantly occupy private sector jobs.²⁵⁰ East Bankers saw their real wages and benefits in the public sector decline. Indeed, it was the East Bank Jordanians affected by fiscal consolidation who comprised the relatively small protests witnessed during the Arab Spring.²⁵¹ Nevertheless, the entire Jordanian population faced rising prices as liberalization swept the country.

At the height of the 2008 international financial crisis, Jordan had reached its highest per capita income where it had averaged 6.5 percent GDP growth per year, but it declined soon after the financial

246 UNDP (2015) Socio-economic Inequality in Jordan [Online]. Available at: <http://www.jo.undp.org/content/dam/jordan/docs/Poverty/UNDP%20Socio%20economic%20Inequality%20in%20Jordan%20English.pdf>.

247 Harrigan, J. et al (2006).

248 ILO (2008) Independent Evaluation of the ILO's Country Programme for the Hashemite Kingdom of Jordan: 2002-2007 [Online]. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_mas/---eval/documents/publication/wcms_099572.pdf.

249 Reiter, Y. (2004) 'The Palestinian-Transjordanian Rift: Economic Might and Political Power in Jordan', *The Middle East Journal*, 58(1), pp. 72-92.

250 Ibid.

251 Ianchovichina, E. (2018) Political Eruptions of Anger: The Economics of the Arab Spring and Its Aftermath. World Bank Group [Online]. Available at: <http://documents.worldbank.org/curated/en/251971512654536291/pdf/121942-REVISED-Eruptions-of-Popular-Anger-preliminary-rev.pdf>.

crisis to about 2.3 percent per year.²⁵² Since then, Jordanian income per capita suffered a continuous decline. While the financial crisis played a major role, regional instability during the Arab Spring also significantly affected economic activity throughout the country.

4.2 The Role of IFIs and Donors in Jordan's Liberalization After the Arab Spring

Economic factors played a substantial role in the causes and determinants of the political revolutions which swept the Arab world starting in 2011. The impoverished underclass of the Arab world did not instigate the Arab Spring; rather, it was the educated, unemployed, disenfranchised, and likely lower middle-class youth of the region that took to the internet and the streets to protest.²⁵³ In Jordan, the relatively small Arab Spring protests were similarly instigated by youth, called the Hirak movement, who come from tribal backgrounds and saw the neoliberal reforms as threats to their economic prospects.²⁵⁴ Quite cliché, some analysts had attempted to explain Jordan's relatively small protests to the inherent legitimacy of the monarchy as a reason for not having anti-regime protests. More convincing, Beck and Juser (2015) contend that Jordan's flow of external rent revenues far exceeded those found in Arab states that experienced a toppling of the regime. These rents were carefully and effectively managed by the monarchy to pacify opposition.²⁵⁵ Moreover, the lack of shared common goals by protestors, the absence of regime violence against protestors, and the negative impact that the Syrian and Egyptian revolutions had on protestors' fears of anarchy had effectively pacified the Jordanian protest movements.²⁵⁶

Protests aside, IFIs viewed Jordan as a lead reformer that successfully liberalized its economy. The macroeconomic adjustments allowed for positive GDP growth rates and increased foreign direct investment, but as the gains from growth could not keep pace with the rising expectations of its educated youth unrest and dissatisfaction gained traction. In other words, Jordan experienced non-inclusive economic growth under the watch of the IFIs.²⁵⁷ In response to the Arab Spring, the IMF and World Bank shifted their focus toward the social dimensions of its economic technical assistance. Specifically, the IMF changed its recommendations concerning growth, inequality, and health and education spending.²⁵⁸

Before the 2011 uprisings, IFIs promoted a simpler approach to growth that did not prioritize inclusiveness, viewing growth and socioeconomic inclusion as independent and dependent variables, respectively. IFI staff assumed that growth would foster inclusiveness, promoting unqualified fiscal consolidation, but soon became more sensitive to their potential to exacerbate inequality. The debate about the merits and costs of fiscal consolidation is one that continues to dominate the academic and policy space.²⁵⁹ Particularly after the 2008 international financial crisis, the IMF started to question

252 IMF (2014) Jordan Staff Report for the 2014 Article IV Consultation.

253 Momani, B. (2015) *Arab Dawn*. Toronto: University of Toronto Press.

254 Yom, S. L. (2014) 'Tribal politics in contemporary Jordan: the case of the Hirak movement', *The Middle East Journal*, 68(2), pp. 229-247.

255 Beck, M. & Hüser, S. (2015) 'Jordan and the 'Arab spring': No Challenge, No Change?', *Middle East Critique*, 24(1), pp. 83-97.

256 Yitzhak, R. (2018) 'Between reform and Islam: The Arab spring in Jordan 2011–2014', *Democracy and Security*, 14(1), pp. 24-44.

257 Inclusive growth, as defined by the World Bank, occurs when growth is sustained over the long-term and reaches a broad spectrum of the population across different sections of the economy. According to this definition, economic growth is regarded as successful when it is diversified across different industries, encompasses various segments of the labor force, manifests in the form of productive employment (rather than the collection of rents) and is primarily market directed.

258 Momani, B. and Lanz, R. (2014) 'Change in IMF Policy Advice to North Africa after the Arab Uprising', *Journal of International Organizational Studies*, 5(2), pp. 37-54.

259 See Dellepiane-Avellaneda, S. (2015) 'The Political Power of Economic Ideas: The Case of 'Expansionary Fiscal Contractions'', *The British Journal of Politics and International Relations*, 17(3), pp. 391-418.

its own orthodoxy on fiscal consolidation, but continued to purport it as conventional wisdom despite external challenges to the idea.²⁶⁰

The IMF emphasized the need to address inequality and redistribution, humbled by the notion that perhaps their dogmatic attachment to neoliberal ideology had added to the socioeconomic misery faced by the population.²⁶¹ For example, in the 2014 IMF staff review of Jordan's program, staff recommended replacing subsidies of flour used in bread with targeted transfers to the poorest Jordanians instead, suggesting this would save 0.5 percent of GDP.²⁶² IMF staff cautioned, however, that "recognizing the political sensitivities of such targeting, staff encouraged the authorities to continue with outreach" efforts to educate the public on the program.²⁶³ This shift to being mindful of the social dimensions of its policies became evident after the unrest witnessed during the Arab Spring.

Jordan faced its own domestic protests, but its economy was hit hard primarily due to turmoil surrounding it throughout the MENA region, adding another dimension to the reasons behind rising prices and invariably to social inequality. Oil and gas imports to Jordan from Egypt halted during the latter's revolutionary turmoil in 2012 and key trade routes through Syria and Iraq were blocked by the conflict with the Islamic State (ISIS) in 2016, all of which hurt the Jordanian economy. In 2012, Jordan returned to the IMF for a \$2 billion Stand-by Arrangement, just as unrest had already prompted major political shifts across the MENA region. Being a Middle East darling in the eyes of the liberal Western community for its moderate stance on several geopolitical issues, Jordan's many foreign government donors provided financial and technical assistance to help maintain its own stability and mitigate the fallout - particularly from neighboring Syria.

With the influx of perhaps as many as 1.2 million Syrians during the start of the Arab Spring and Syrian civil war until mid-2018 when Jordan closed its borders, Jordan had been among the frontline states dealing with the influx of refugees. Estimates of refugees range from 671,000 registered with UNHCR to 1.2 million by the Jordanian government's count. This influx occurred at a time when Jordan was already contending with a high refugee burden of both Palestinians and Iraqis, further diminishing economic prospects for the average Jordanian. Studies found that most Syrian refugees never plan on returning home. The Jordanian government provided only 100,000 official work permits to the near 361,000 working age Syrian refugees, with many of the remaining Syrians working illegally in the informal market.²⁶⁴

While international donors have committed up to \$6 billion to Jordan in response to the Syrian refugee crisis, Jordanian officials have consistently stated that this assistance would not cover the resources required to host the displaced population. Moreover, much of the pledged contributions were never realized. In 2016, Jordan only received 60 percent of the funding required to help create jobs for Syrian refugees.²⁶⁵ Both IFIs and foreign donors have attempted to assist the Jordanian government mitigate the costs, which according to the Jordanian government came with an approximate \$4.2 billion price tag between 2011 and 2016.²⁶⁶ Faced with increased pressure on public services and infrastructure - everything from electricity, schooling, and water to waste removal - the Jordanian government was

260 See Clift, B. (2018) *The IMF and the Politics of Austerity in the Wake of the Global Financial Crisis*. Oxford University Press.

261 Momani, B. and Lanz, R. (2014).

262 IMF (2014, p. 13).

263 Ibid.

264 Lockhart, D. (2019) *Executive Summary: The Syrian Refugee Crisis in Jordan and Its Impact on the Jordanian Economy*. West Asia-North Africa Institute.

265 IMF (2017) *Statement by Hazem Beblawi, Executive Director for Jordan [at IMF]*, p. 4.

266 Sharp, J. (2016) *Jordan: Background and U.S. relations*. Washington, D.C.: Congressional Research Service, 27 January.

forced to absorb additional economic and social costs. Jordan's public debt naturally increased sharply in a matter of a few short years thanks to the increased public expenses needed.²⁶⁷

The government could not cover its expenditures through revenue generation alone, continuing its accumulation of external debt, so Jordan turned to IMF loans in 2016 to meet its budget shortfall.²⁶⁸ The 2016 IMF agreement expected Jordan to decrease its spending so that some of the financing provided would be allocated to servicing its debt. The IMF's primary goal in the 2016 agreement was to reduce the public debt from 94 percent to 77 percent of GDP by 2021, which could only be achieved if government expenses were curtailed.²⁶⁹ Prime Minister Omar al-Razzaz noted that some of the increased tax revenue could be allocated to improving public services and healthcare, but this path seems unlikely as Jordan continues to far outspend its intake of revenue.²⁷⁰ Jordan continues to remain highly dependent on IFIs and foreign donors just to meet its yearly budget outlays.

The United States has provided aid to Jordan, despite general cuts to other regional allies and foreign governments.²⁷¹ The EU has also provided Jordan with extensive external financing. With the most recent Jordanian economic crisis, the EU provided a macro-financial assistance package to assist the government with its shortfalls. In March and June of 2016, the European Commission provided two packages of EUR 200 million of medium-term loans meant to complement both the 2016 IMF and the 2016 World Bank loans to Jordan. This aid came in addition to nearly EUR 1.13 billion to Jordan by the EU to assist with the influx of millions of refugees. EU funds were intended to fill the Jordanian government's budget deficit, while IMF and World Bank conditionality provided the EU with guarantees that Jordan would continue on track with expected reforms that would make it sustainable enough to repay these loans.²⁷² Nevertheless, the EU also expected some of the financing to assist in reforming public financial management (PFM) to support liberalization reforms in taxation, energy, water, trade, and investment - all in keeping with IMF and World Bank policies.²⁷³ On the controversial income tax issue, also included among IMF conditions, the EU recommended that the income tax law be broadened by lowering tax-exempted income and addressing noncompliance by enhancing the powers and reach of tax collectors.²⁷⁴ Indeed, Jordan's tax collection and tax base are too narrow to sustain its actual budget spending. EU and US financial aid came with implicit expectations that Jordan would continue its compliance with IMF conditionality, or risk Western donors' support for IFI assistance with respect to the country.

The Arab Gulf states have historically been strong financial beneficiaries of Jordan as well, often supporting the Central Bank of Jordan (CBJ) with grants or providing budget support in the forms of loans. To weather the storm of the Arab Spring, the Gulf states had committed \$6.1 billion in support between 2012 and 2017. They did not renew the funding package as expected, however, partly due to King Abdullah II bin Al-Hussein's refusal to sever ties with Qatar and the Muslim Brotherhood (which is technically legal and tolerated inside the Jordanian kingdom). Jumping in to rescue the embattled

267 Luck, T. (2016) Jordan's Syria refugee economic gamble. Middle East Institute [Online]. Available at: <http://www.mei.edu/content/article/jordan-syrian-refugee-economic-gamble>.

268 Sowell, K. H. (2016) 'Jordan is Sliding Toward Insolvency', Carnegie Endowment for International Peace [Online]. Available at: <http://carnegieendowment.org/sada/63061>.

269 IMF (2017) Jordan 2017 Article IV Consultation - Press Release, Staff Report; and Statement By the Executive Director for Jordan. IMF Country Report No. 17/231. Washington, D.C. [Online]. Available at: shorturl.at/fnr47.

270 Magid, A. (2018) Jordanians Fed up With More of the Same, 3 October [Online]. Available at: <https://carnegieendowment.org/sada/77401>.

271 Cole, B. E. (2018) 'Learning and Innovation: Jordan at the "Crossroads of Armageddon"', PRISM, 7(4), pp. 74-91.

272 EC (2016) Decision of the European Parliament and of the Council providing further macro-financial assistance to the Hashemite Kingdom of Jordan [Online]. Available at: [http://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2016/0431/COM_COM\(2016\)0431_EN.pdf](http://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2016/0431/COM_COM(2016)0431_EN.pdf).

273 Ibid.

274 Ibid.

monarchy, Saudi Arabia, UAE, and Kuwait committed \$2.5 billion in June 2018 in support of CBJ reserves. The Gulf states could, however, withdraw the cash injection at any time, providing Saudi Gulf allies some implicit influence over Jordanian foreign policy.²⁷⁵ While not opposed to IFI policies, the Gulf countries are not nearly as concerned with Jordanian compliance with IFI conditionality, thus limiting Gulf influence over the Jordanian government's economic policy choices. Nonetheless, it certainly maintains some influence over Jordan's foreign policy and regional political decision making.

4.3 The Contemporary State of Social Justice in Jordan

The IFI emphasis on the social dimensions of economic policy is a welcome transition, but it has not yet demonstrated the intended tangible results. While IMF policy advice now focuses on factors such as inclusive growth, inequality, and health and education spending - something not seen a decade earlier - the impact of fiscal consolidation on social dimensions remains vague compared to the traditional benchmarks they use to judge adherence to macroeconomic reform. In both the 2014 and 2017 IMF Article IV Staff reports, the IMF alludes to its concerns with high unemployment, poverty, and inequality, but remains fixated on the idea that the private sector is the primary agent to deliver social justice has failed to adequately articulate the desired outcomes or policy tools available to achieve them.²⁷⁶ The IMF does not identify specific targets in its agreements for achieving inclusive growth, such as improving health and education outcomes, and reducing inequality. Nor do they assess governments' performance in these areas against measurable indicators. These ambiguities leave room to doubt the IFIs' at least rhetorical commitment to improving the social aspects of economic policy formulation. Without proper guidance, it essentially leaves the Jordanian government to prioritize fiscal consolidation over social justice or improving living standards. The lack of balance risks upsetting the delicate equilibrium between the economic necessity of improving Jordan's growth rate and fiscal management while providing for its population. Jordanians have relied on the state to fairly distribute the cost of fiscal consolidation, but that responsibility has now become disproportionately placed on the citizen through increased consumption taxes and decreased public sector employment - a clearly disruptive process that increases political risk.

This risk would not hurt Jordan's long term prospects if the public could see tangible returns for the sacrifices of ordinary Jordanians. The government has yet to address the legacy of elite-linked privileges and *wasta* networks while imposing austerity measures. As perceptions of corruption rise in Jordan, average Jordanian citizens feel alienated from the ruling class and its steering of economic policies. Based on 2016 Arab Barometer surveys of Jordanians, "79 percent still believe that there is corruption within state agencies and institutions to a large (42 percent) or medium extent (37 percent)."²⁷⁷ With 68 percent of Jordanians believing that their economic situation had worsened with time, it is not difficult to see that Jordanians are frustrated with their economic lot and the policy directions taken by the government.²⁷⁸ Protests naturally erupted in response to declining socioeconomic standards, especially as perceptions of corruption increased.

Accordingly, average Jordanian citizens have struggled to cope. In addition to a deteriorating socioeconomic situation and rising state debt, citizens struggle with rising prices and declining wages,

275 Furlow, R. and Borgognone, S. (2018) 'Gulf Designs on Jordan's Foreign Policy', Carnegie Endowment For International Peace, 17 July [Online]. Available at: <https://carnegieendowment.org/sada/76854>.

276 IMF (2014, p. 18 and 2017, pp. 23-24).

277 Arab Barometer (2017) Jordan Five Years after the Uprisings [Online]. Available at: https://www.arabbarometer.org/wp-content/uploads/Jordan_Public_Opinion_Survey_2016.pdf.

278 Ibid, p. 2.

exacerbated by growing unemployment and the influx of refugees. Jordan needs to create 400,000 new jobs for labor market entrants in 2013-2020, yet optimistic growth estimates at best expect 275,000 new jobs.²⁷⁹ To add to the murkiness, officials do not map a comprehensive economic picture as many Syrians work in the black market for lower wages than Jordanians. As a result, wages are de facto depressed further in the formal market. To make matters worse, Jordan is one of the most expensive countries in the Middle East, where fuel costs approximately 50 percent more than in the United States despite having significantly less per capita income.²⁸⁰

Despite improved relative macroeconomic growth, the trend masks deeper problems in rising inequality, continued corruption, rent-seeking behavior of crony capitalists, and enormous disparities between rural and urban communities in provision of most services. Studies illustrate substantial inequality between Jordan's rural and urban governorates; widening and troublesome spatial inequality gaps also appear between the capital Amman and the tribal areas (such as Tafiela, Mafrqa, and Ma'an), the traditional stronghold of support for the Jordanian monarchy.²⁸¹ Job creation in MENA remains largely entrusted to the government. Despite liberalization, public sector employment remains disproportionately large, leading the IMF to refer to MENA governments as the "employer of first choice and last resort."²⁸² Jordan has not faced IFI pressure to reduce its military spending, which remains a large and discretionary budget item that continues to increase.²⁸³ Although official unemployment figures placed the number of job seekers at 18 percent in 2018, unemployment is likely much higher when accounting for those who have given up searching for work and are not calculated in official statistics. Unemployment is particularly problematic among Jordanian youth and women, who tend to be educated and have higher reserve wage ratios.²⁸⁴

Jordan's 2016 IMF loan continued much of the same neoliberal conditions of fiscal contraction as those in previous agreements. Prices on goods such as bread and other basic commodities continued to rise, causing great deal of hardship for people and hitting the rural and poor communities especially hard. Perhaps the most controversial policy was an income tax law that many Jordanians believed was not progressive and insulated members of parliament and other politicians from sharing the burden. The new tax laws would widen the tax base by lowering the threshold of taxable income from \$34,000 to \$22,500 for a family and \$17,000 to \$11,200 for individuals. Jordanians viewed rising taxes and a 16 percent sales tax on most goods and services as unfair, particularly as the government reduced subsidies on items like fuel and bread and provided no return in terms of social services.²⁸⁵ The increased and growing perception of corruption and rent-seeking behavior from crony capitalists added to Jordanians' social frustrations with the political class.²⁸⁶ These policies culminated with the 2018 summer protests across the country.

Led by youth and professional associations - notably, not by political parties in Parliament - Jordanians protested throughout late-summer of 2018. The demonstrations in 2011 and 2012 had included

279 IMF (2017, p. 18).

280 Morris, L. (2018) 'Jordan has weathered its worst protests since the Arab Spring. But the storm isn't over', The Washington Post [Online]. Available at: shorturl.at/isCTW.

281 Al Sharafat, A. (2019) 'Spatial inequality in Jordan', *Journal of Economics & Management*, 36, pp. 71-83.

282 IMF (2011) *Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity*. G8 Summit, 27 May, Deauville, France, p. 11.

283 Sowell, K.H. (2018) 'Jordan has managed to reduce budgetary deficits for 2018, but rising operational costs and stagnant sources of revenue will keep it reliant on foreign aid', *Carnegie Endowment for International Peace* [Online]. Available at: <http://carnegieendowment.org/sada/75865>.

284 MOPIC (2013) *Needs assessment review of the impact of the Syrian crisis on Jordan*. Amman, Jordan: The Ministry of Planning and International Cooperation.

285 Al-Jazeera (2018) *Jordan protests: What you should know* [Online]. Available at: <https://www.aljazeera.com/news/2018/06/jordan-protests-180604052840527.html>.

286 BTI (2016) *Jordan Country Report*. Gütersloh: Bertelsmann Stiftung [Online]. Available at: https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2016/pdf/BTI_2016_Jordan.pdf.

members of the Muslim Brotherhood, but the later protests appeared to consist of far more professionals and young people than Brotherhood supporters. The civil unrest sparked the government's use of elite army forces called the *badia* to break up the demonstrations and a markedly increased security presence on the streets of the capital Amman. Despite minor clashes, the protests were generally peaceful and Jordanian security services did not use disproportionate force. Nevertheless, Jordanians civilians continued to march against government policies, demanding a reversal of the new tax laws and an end to higher social strata corruption. Jordan instituted a number of anti-corruption laws and agreed to implement best practices in auditing and preventing graft, but these measures did little to curb public perceptions of corruption and doing business in Jordan still faces obstacles for investors.²⁸⁷

In a scene that often repeats itself, Prime Minister Hani al-Mulki resigned in June 2018, likely at the behest of the Jordanian monarchy. Omar al-Razzaz, a Harvard-trained former World Bank economist with strong technocratic credibility and former likeable education minister who initiated positive outreach with youth during his tenure, was asked to form a new government in the wake of al-Mulki's resignation. After months of civil society dialogue and town hall meetings, Razzaz returned to Parliament in September 2018 with essentially a similar package of reforms. Minor changes in the law included raising the threshold of taxable income for families and individuals and reintroducing some exemptions on medical and education expenses.²⁸⁸ While some parliamentarians resisted these IFI-inspired recommendations, Razzaz succeeded in getting the reforms passed through the parliament. While the Jordanian Parliament is partly elected by the public, there remain many parliamentarians appointed by the King who ensured passing of the same reforms. The approval demonstrates a recurring pattern in the relationship between the monarchy, parliament, and IFIs: political and economic elites, with close ties to the monarchy and royal court, rubber-stamp the will of the Prime Minister when they believe that the monarchy (under IFI pressure) endorses the policy. Conspicuously absent, however, is the public engagement and acceptance required for these policies to be sustainable, thereby preventing political unrest.

4.4 Conclusion

Jordan has been pressured by international financial institutions broadly, but most acutely by the IMF to widen its tax base, promote inclusive economic growth, and improve the targeting of social spending. But as Jordan's 2018 public protests demonstrate, the monarchy's attempts to continue seeking fiscal consolidation will face continued political challenges, considering the high public perception of corruption. Within this changing fiscal climate, civil society organizations and other stakeholders have an opportunity to demand greater transparency, real inclusive growth, and gender inclusion while pushing for fairer taxation and transparent budgeting. Furthermore, IFIs can do more to promote social inclusion in Jordan through an increased focus and explicit benchmarks for poverty alleviation and employment.

Social justice in the region involves producing outcomes of socioeconomic equity and an opportunity for citizens to have a voice in their government. Indeed, as al-Ajlouni and Hartnett note, "Although economic grievances often take pride of place in response to the tax law, protesters largely blame Jordan's broader economic crisis on the political establishment and its cozy relationship with elite

287 EU and OECD (2016) Corruption Risk Assessment of the Public Procurement System in Jordan [Online]. Available at: <http://www.sigmaweb.org/publications/Public-procurement-Jordan-SIGMA-300117.pdf>.

288 VOA (2018) Jordan Pushes New IMF-backed Tax Bill to Parliament [Online]. Available at: <https://www.voanews.com/a/jordan-pushes-new-imf-backed-tax-bill-to-parliament/4586931.html>.

economic interests.”²⁸⁹ Increased transparency in an effort to both combat graft and corruption while enhancing government accountability to citizens must become part of the solution to Jordan’s long-term challenges. While some IMF and World Bank shareholders argue that transparency and corruption are political issues and hence have no place in loan or grant conditionality, Western countries at the IMF and World Bank Executive Boards must use their political clout to pressure all debtors to accept that principles of good governance and transparency are fundamental to their success. The need for good governance, a concept often promoted in IFI policies, is indeed sorely needed to strengthen the rule of law, control corruption, and increase government transparency, but it is understandably not a panacea to all of Jordan’s woes.²⁹⁰

Fiscal consolidation without transparency and government accountability will not succeed. Citizens will reject fiscal consolidation if they believe their governments are corrupt and non-transparent. Again, as al-Ajlouni and Hartnett aptly note, “In the face of the [Jordanian] government’s weakness by design and an elite culture of cronyism and corruption, the Jordanian citizenry remain unwilling to pay more taxes.”²⁹¹ The IMF must take more responsibility for their relationship with Middle East countries by mandating good governance principles in their performance review of debtors. It is not enough to pay lip service to this issue. Furthermore, IFIs need to monitor appropriate benchmarks and targets for inclusive growth just as they do for other indicators such as inflation, public wage bill, and others. Good governance in Jordan serves the long-term interest of regional stability and to achieve it, social justice must be a part of the conversation.

289 Al-Ajlouni, L.F. and Hartnett, A.S. (2019) ‘Making the Economic Political in Jordan’s Tax Revolts’, Middle East Research and Information Project. 24 February [Online]. Available at: <https://merip.org/2019/02/making-the-economy-political-in-jordans-tax-revolts/>.

290 See Nanda, V. P. (2006) ‘The “good governance” concept revisited’, *The ANNALS of the American academy of political and social science*, 603(1), pp. 269-283.

291 Ibid.

SECTION 2 :

INTERNATIONAL FINANCIAL INSTITUTIONS AND NATION-BUILDING

5. Neoliberalism and the Legacy of IFIs in the Occupied Palestinian Territory

Toufic Haddad

Since the signing of the Oslo Accords in 1993, International Financial Institutions (IFIs) such as the World Bank and the International Monetary Fund have played a central yet largely unrecognized role in the Palestinian-Israeli peace process. These interventions have encompassed extensive efforts in research, policy design, oversight, evaluation, finance, coordination and mobilization of resources to the Occupied Palestinian Territory (OPT), primarily to the Palestinian National Authority (PNA or 'PA'), though also to the private sector and to international and local NGOs. While these interventions have sought to contribute to Israeli-Palestinian peacebuilding and Palestinian statebuilding, their legacy is fraught with complications owing to the failure to realize either Israeli-Palestinian peace or Palestinian statehood and independence.

This article explores the policies and practices of IFI interventions in the OPT; how these policies conformed or didn't conform to neoliberal frameworks; the extent to which IFI policies contributed to political, economic, and social outcomes; the failures and problems of IFI interventions overall; and the lessons that can be learned from the Palestine case study, including the desirability of these lessons being applied to other regional and international 'post conflict settings.'

5.1 IFI Engagement in Peace building and State building

Before exploring the specific case study of the OPT, it is relevant to appreciate that IFI engagement in peacebuilding and statebuilding activity is relatively new to IFI praxis overall. Namely, it does not emerge from a vacuum but is the product of a historical moment and the ideological bend of this moment, which arcs and transforms over time.

While space limitations prevent addressing the larger historical framework and ideological underpinnings, it remains important to highlight some of the theoretical understandings that irrigate the formulation of IFI policy in post-conflict settings overall.

The spiraling of what came to be known as 'intrastate' conflicts in the wake of the collapse of the Eastern bloc and the end of its bilateral aid provision led to the uncharacteristic insertion of the World Bank into 'war-to-peace' transitions, particularly the establishment of its Post-Conflict Unit in 1995 under then-President James Wolfensohn.

This unit would come to use quantitative analytic and comparative statistical approaches to explain conflict using econometric tools and modeling.²⁹² Then-director of the World Bank's Development Research Group Paul Collier would ascertain that "[c]onflicts are far more likely to be caused by economic opportunities than by grievance," as certain groups are said to benefit materially from conflict

292 Collier, P. and Hoeffler, A. (1998) 'On Economic Causes of Civil War', *Oxford Economic Papers*, 50(4), pp. 563–73; Collier, P. and Hoeffler, A. (2004) 'Greed and Grievance in Civil War', *Oxford Economic Papers*, 56(4), pp. 563–95; Collier, P. (1999) *Doing Well out of War*. Paper prepared for Conference on Economic Agendas in Civil Wars. London: The World Bank, April 26–27; Collier, P. (2004) *Development and Conflict*. Centre for the Study of African Economies, Department of Economics, Oxford University, 1 October [Online]. Available at: <http://www.un.org/esa/documents/Development.and.Conflict2.pdf> (Accessed: 20 September 2014); and The World Bank and Collier, P. (2003) *Breaking the conflict trap: Civil war and development policy*. A World Bank policy research report. Washington, D.C.: [New York]: World Bank, Oxford University Press.

in terms of status, power and wealth.²⁹³ This 'greed theory of conflict,' or 'greed over grievance,' combined with the contention that 'civil war powerfully retards development' would inform how the Bank would nominally go about its work in international peacebuilding praxis in the years to come. 'Greed over grievance' could be addressed by initiating policies that effectively "change the economic incentives for conflict," while "reduc[ing]... the economic power of the groups which tend to gain from the continuation of social disorder."²⁹⁴ The "conflict trap" could be redressed "by intelligent and vigorous deployment of economic, military and political assistance," including "governance templates, trade preferences, strategies which squeeze the finances of rebel groups, and military interventions," in addition to increased aid.²⁹⁵

Consistent with the larger ideological bias of the World Bank and IMF, economic liberalization and private sector-led growth models were commonly accepted central tenets to this transition, insofar as they were able to create and distribute a "peace dividend."²⁹⁶ Market promotion schemes and free trade were advocated to induce symbiotic relations that could address poverty and induce cooperation and stability, as new styles of politics and identity emerge as a function of peace and globalization processes.

This model was and remains based on a functionalist understanding of regional cooperation whereby relatively insignificant 'low political' issues can create patterns of mutual interest and trust that will eventually spill over into the 'high political' arena, nurturing both bilateral peace settlements and regional economic and political integration.²⁹⁷ When combined with efforts to politically liberalize - namely democratize - a mutually reinforcing dynamic is supposedly created. Liberal democracy and marketization - a "liberal peace model" - became viewed as providing the political, organizational, and economic foundations for addressing if not the roots of conflict, then at least its externalities.²⁹⁸ By irrigating political and economic dynamics around a new political economy of peace, international peacebuilders believed they could create the conditions whereby persistent conflicts could be ended on a more permanent basis.

Before examining how these principles were set in motion on the OPT stage, it should be noted that these models were essentially neoliberal versions of the development models promoted by these organizations, tailored to fit a conflict-ridden setting. Thus, the manner in which they regarded the motivations for what drives peace followed the presumptions found within the neoclassical economics tradition. Peace would be achieved through the rational choice process of utility self-maximization of agents, responding individually to market signals, with the private sector seen as the key driver of these processes overall. In this way, the complexity and stickiness of politics, questions of individual and collective rights, and civic notions of social, political, or historical justice are elided or discarded as incentives to personal wealth drive the process forward. The role of international peacebuilders within this model is to ensure that this takes place by organizing the provision of start-up costs, and the institutional, technical, and financial support needed to get these efforts off the ground.²⁹⁹

293 Collier, P. (1999, p. 1).

294 Collier, P. (1999).

295 *Ibid.*

296 See Bouillon, M. (2004) *The peace business: Money and power in the Palestine-Israel conflict*. London: I. B. Tauris.

297 Selby, J. (2008) 'The Political Economy of Peace Processes', In Pugh, M., Cooper, N. and Turner, M. (eds.) *Whose Peace?: Critical Perspectives On The Political Economy Of Peacebuilding*. Basingstoke: Palgrave Macmillan, pp. 11-29.

298 Paris, R. (2004) *At war's end: Building peace after civil conflict*. Cambridge: Cambridge University Press.

299 See Haddad, T. (2016) *Palestine Ltd: Neoliberalism and Nationalism in the Occupied Territory*. London: I.B Tauris.

5.2 Overview and Periodization of IFI engagement in the OPT

This overarching worldview to conflict, its motivations and its redressing, was carried over and tested in the OPT theater, particularly during the height of the peace process from 1993-2000. In fact, the OPT was one of the first theaters where these ideas were applied given that there was no Palestinian state or governance body that previously existed. The World Bank appeared to relish the fact that the PA created via the Oslo Accords was seen as a *tabula rasa* in which utopian ideas around peacebuilding could be applied.³⁰⁰ For this reason, it should not be surprising that according to its own admissions, the World Bank has described its role in the OPT as being “more central [...] than in any other major post-conflict situation before or since,” with these experiences playing a role in the formulation of the Bank’s own post-conflict reconstruction policy.³⁰¹

The IMF has equally played an indispensable role in embedding wide-reaching reforms in the PA across the West Bank as part of Palestinian statebuilding efforts - efforts described as being “among the most far-reaching of those implemented in the Middle East and North Africa (MENA) region during the last decade.”³⁰²

Yet despite the important role IFIs have played in the OPT and the precedent it has set for such activity in the Middle East and beyond, their experiences are not particularly known beyond a small group of academics and development practitioners. These organizations are seen as being neither capable nor mandated to intervene in political, intra-conflict affairs and restrict their activities to what they prefer to describe as apolitical, technical, and financial missions in alignment with their general goal to realize a world free of poverty.

Nonetheless, IFIs are directly and indirectly implicated in the violent outcomes of the Israeli-Palestinian peace process. Though the lack of peace and Palestinian statehood is self-evidently a poor outcome, at least 10,000 Israelis and Palestinians have died since the Oslo Accords were signed as a result of the political violence - the overwhelming majority of these Palestinian (roughly 9 to 1). Moreover, there is a broad consensus that Palestinian statehood in the 1967 OPT becomes less realistic by the day, while the overall Israel/Palestine context increasingly resembles a form of apartheid, which may even create the conditions for Israeli ethnic cleaning of Palestinians.

In this light, how are we to understand IFI interventions across the OPT?

5.3 Periodization

Since 1993, IFI interventions across the OPT can be grouped into four basic periods:

300 The World Bank (1997) Role of the World Bank in Post-Conflict Reconstruction. Note the World Bank’s language in this 1997 report: It is no longer just a theory that the private sector is the key to prosperity. It is a fact demonstrated during the past few decades by the ability of the private sector to achieve miracles in adapting to the demands of a globalizing world economy. However, success hinges on the ability of the state to define appropriately its role and actions within the process of development, allowing the private sector to realize its potential. For most countries, achieving this is not a straight forward. Governments spend years and considerable resources disentangling themselves from the legacies of the past. The Palestinians, though facing many hurdles, are fortunate in not having to deal with the legacy of a command economy, a welfare state, or an inflated public sector. By providing the right the right enabling environment, the public sector will pave the way for the private sector to lead the Palestinian economy into a better 21st century.

301 Schiavo-Campo, S. (2003) ‘Financing and Aid Management Arrangements In Post-Conflict Situations’, the World Bank, Social Development Department Environmentally and Socially Sustainable Development Network. CPR Working paper 6, p. 9.

302 The World Bank (2012) ‘The West Bank and Gaza Mark’, p. 165, In Beschel, R.P. and Ahern, M.Jr. Public Financial Management Reform in the Middle East and North Africa An Overview of Regional Experience. Washington, D.C., pp. 165-176.

I - Peacebuilding 1993-2000

The involvement of IFIs in the OPT during the 1993-2000 period fell beneath the broad rubric of self-described “peacebuilding” activity. This activity entailed extensive involvement in establishing the PA, coordinating donor finance, ensuring the PA enjoyed sufficient capacity, and aiding in the elaboration of multiple aspects of its legal regime and economic and social policies. The World Bank was tasked with activating Annex III and IV of the Declaration of Principles (the first Oslo Accord), which were described in the accords as embodying an Israel-Palestinian Marshal Plan.

Consistent with the neoliberal globalization narrative of the era and its ‘New Middle East’ zeitgeist, these annexes outline a series of major local and regional economic and development programs including Israeli-Palestinian cooperation in finance for the encouragement of international investment; cooperation to encourage local, regional and inter-regional trade; and feasibility studies for creating free trade zones in the Gaza Strip and in Israel, with mutual access to these zones and cooperation in other areas related to trade and commerce.

Several of the World Bank’s programs also explicitly focus on promoting the private sector, whether in terms of the Gaza Industrial Estate, major tourism development projects, or an investment guarantee scheme to provide guarantees against political risks. An important 1997 legal development program spent \$10 million to establish a legal framework adequate to support a modern market economy and encourage the growth of the private sector while increasing the efficiency, predictability, and transparency of the judicial process.³⁰³ According to the project’s justification, the existing legal frameworks in the West Bank and the Gaza Strip are generally recognized as not fully adequate to support a market economy, let alone a modern one. As such, the World Bank maintained that many of the laws in the West Bank and Gaza Strip are in need of modernization and would constrain the ability of domestic firms to achieve regional, let alone international, competitiveness.

A key role of the World Bank was seen in the coordination of Western donor finance provision to the PA, forging broad lines of policy once the specific political, security, and institutional parameters for PA operation was determined by the series of agreements forged between the Palestine Liberation Organization (PLO), and the Israeli government. Kanafani and Cobham described the World Bank as the donor community’s guiding policy compass, with the organization retaining this function from the beginning of its work in the OPT until the present.³⁰⁴

While the Oslo process would begin with these grandiose aspirations for the creation of a neoliberal peace that would usher in a New Middle East, Israel’s mid-1990s imposition of closure across the OPT would force the Bank to scale back its aim. Rather than pushing to activate a Marshal Plan for Israeli-Palestinian peacemaking, IFIs would redirect their focus upon short-term employment generation schemes, aiming simply to maintain the buoyancy of the political process and the PA. Expansion of the public sector - especially in Gaza - was encouraged by donors to absorb the costs of closure, particularly for Gaza’s de-developed economy, heavily dependent upon access to the Israeli labor market.

303 The World Bank (1997).

304 Kanafani, N. and Cobham, D. (2007) The economic Record of the World Bank and International Monetary Fund in the West Bank and Gaza, an assessment Paper presented in Proceedings of MAS’ Annual conference 2007 Palestinian Economy: Forty Years of Occupation... Forty years of Arrested Development, December, Ramallah, pp. 33-80.

II - Reform 2000-2004

IFI involvement in the OPT theater would significantly change between the 2000 and 2004, after the collapse of the formal peace process in the summer of 2000 and the outbreak of the Second Palestinian Intifada. During this period, IFIs played a lead role in attempting to structurally reorganize and reform the PA, de facto blaming the political process' poor outcomes on inadequate governance and corruption of the Palestinian Authority and PA President Arafat himself.³⁰⁵ The IMF in particular would lead the charge by: conducting extensive reviews of PA design, budgeting, and public expenditure; setting sights on implementing a good governance agenda for the PA; overseeing the delicate process of disclosing PLO private sector investment portfolios both locally and internationally; consolidating these funds in a newly created sovereign wealth fund (the Palestine Investment Fund); and consolidating all PA revenues within a single unified bank account under the Ministry of Finance, audited by the IMF. These efforts would complement a larger political push by Western donors to reduce the executive power of the PA Presidency (Arafat), which would also foresee the creation of the position of Prime Minister.³⁰⁶

During this period, both the Bank and the IMF would utilize conditionality measures against the PA for the first time since its creation. It would be these reforms that the IMF would later describe as being the most far reaching across MENA within the previous decade.³⁰⁷

III - Statebuilding 2004-2013

After the death of PLO Chairman Yasser Arafat in November 2004, IFI activity would focus on the international agenda of statebuilding. These efforts would entail the institutionalization of new, wide-reaching reforms, implementing these policies in concert with Palestinian Prime Minister and former IMF local representative Salam Fayyad's own national development and statebuilding agenda and programs. These reforms were seen as successfully having enabled the PA "to conduct the sound economic policies expected of a future well-functioning Palestinian state," even if political conditions are yet to arise allowing for its sovereign functioning.³⁰⁸

Yet despite previous IFI fixation on good governance both before and during this period, IFIs and the donor community overall de facto abandoned virtually all the major reforms they pushed upon the PA in the previous period. Namely, after the 2006 electoral victory of Hamas in the Palestinian Legislative Council (PLC) elections, IFIs and donors rushed to reestablish presidential accounts, fearing that the newly reformed PA Ministry of Finance would now fall within Hamas hands, effectively undermining the Oslo process overall.³⁰⁹ In so doing, donors and IFIs exposed themselves as loyal toward the principle of a Fatah-dominated PA, rather than to the establishment of an impartial, democratic Palestinian governance regime.

IV - Post-Statebuilding 2013 to present

Once IFIs acknowledged that the PA had successfully established the proper governance institutions for statehood, despite lacking sovereignty, the nature of their interventions focused on continued oversight

305 The World Bank and Japan (2000) *Aid Effectiveness in the West Bank and Gaza*, June.

306 Haddad, T. (2016, pp. 181-207).

307 IMF (2012) 'Overview Note', West Bank and Gaza, 27 April [Online]. Available at: <https://www.imf.org/external/np/>.

308 IMF (2011) *Program Note West Bank and Gaza*, October [Online]. Available at: [25/country/notes/pdf/WestBankGaza.pdf](https://www.imf.org/external/np/press/2011/10/25/country/notes/pdf/WestBankGaza.pdf).

309 Haddad, T. (2016, pp. 223-227).

of PA finance and donor coordination. It is important to emphasize that these policies were now taking place within a political environment where Israeli-Palestinian negotiations were in deep freeze, and where the geopolitical context upon which these policies were applied included only the West Bank Area A's and not the Gaza Strip. The geopolitical and division of Palestinian governance institutions between a Fatah-run West Bank and a Hamas-run Gaza strip effectively led to the consolidation of parallel governance institutions in both territories.

These developments took place within a broader regional context characterized by increased donor concern for the political instability generated by the post-2011 Arab revolutions, and donor fatigue towards Israel-Palestine, marginalizing this theater politically and financially. IFI interventions in this period are thus characterized by attempts to try and secure and consolidate their previous 'accomplishments' at the cheapest political and financial cost to donor states.³¹⁰ This consolidation would include efforts to explore ways in which the PA could benefit from increased austerity and privatization policies, as well as potential economic opportunities in Area C (currently beyond PA control).³¹¹

5.4 Evaluating IFI engagement in the OPT

Given the charged political environment in which IFIs were operating, it is particularly illusionary to assume that IFI engagement in the OPT arena could avoid blame for the political, financial, and governance outcomes of the situation on the ground. This section explores some of the main pitfalls of IFI intervention to see how their ideological weddedness to neoliberal policies and to the political agenda of the Oslo process itself, led by Western donors and the United States, was riven with contradictions.

Post-conflict?

The OPT theater in 1993 was not a post-conflict setting. The Declaration of Principles was only a framework outlining the interim restructuring of Israeli-Palestinian relations in preparation for negotiations on the substantive issues of the conflict itself known as 'Final Status' issues. The use of a model and policies that assumed a post-conflict reality, or that acted as though such a reality was inevitable, in a context where conflict was far from resolved, gave these interventions the character whereby they appeared to be preparing the ground for a future settlement based on particular principles and priorities. Namely, these interventions were seen as efforts aimed at gerrymandering or biasing certain political priorities and constellations of benefactors over others in the run up to an inevitable eventuality. Thus, international donor and IFI acceptance of the prioritization of Israeli 'security' over Palestinian security and wellbeing; their silence over continued Israeli settlement expansion and the confiscation it entailed of Palestinian resources; their acceptance of a secretly negotiated deal to begin with and the privileged partnership with the Fatah party; international efforts aimed at privileging expatriate capitalists and regional trade, instead of small and medium enterprises and protectionist policies; plans to reduce refugee entitlements in one form or another (See Haddad, 2016, 57-80) - all of these forms of activity, inactivity, and bias by donors and IFIs in the OPT during the Oslo years, carried out beneath the mantle of peacebuilding were effectively read as attempts to 'stack the deck' in favor of certain positions with respect to the final status negotiations they necessarily impacted.

310 See for example, Haddad, T. (2017) 'In Depth: Political Economy of a Salaries Massacre', Palestine Square, 4 May, pp. 15-35.

311 See for example, Niksic, O., Nasser Eddin, N. and Cali, M. (2014) *Area C and the Future of the Palestinian Economy*. Washington, D.C.: The World Bank.

Willful Blindness to Limitations of the Accords and Power Asymmetries

The political framework in which both the 1994 Interim Agreement was reached and in which final status issues were negotiated (ultimately in the 2000 Camp David summit), contained no independent enforceable arbitration mechanism that linked these negotiations to international law, viewed by the weaker Palestinian party as the necessary framework that protected their rights. Instead, the only means of arbitration that existed in the Accords and the various joint frameworks shared during the Oslo years, were those which were given to Israel's strategic ally, the United States, or entailed the creation of a committee that required Israeli approval, thus reproducing the existing power asymmetry between the parties.³¹² This fundamentally meant that the Palestinians had insignificant leverage when it came to negotiations or arbitration.

The combination of these aspects provided the overall process the semblance of Israel negotiating with itself regarding the extent of powers it sought to devolve to a future Palestinian governance body, in what way, how, and when. In fact, former Israeli Prime Minister Shimon Peres would describe negotiations around the Paris Economic Protocol precisely as such, stressing, "In some ways we are negotiating with ourselves."³¹³

The Paris Economic Protocol (PEP) is of significance to the issue of IFI involvement in the OPT, as the extent of powers finally agreed upon by the two parties severely restrained the economic tools available to the Palestinians when it came to organizing their economic affairs. In this way, the typical core policy recommendations of the Washington consensus (Williamson's 'Ten Point Plan') for which the World Bank and IMF might be expected to advocate, were in practice rendered inapplicable in the context of Israel's broader policies.³¹⁴ Five of the ten key policies comprising the Washington consensus - tax reform, financial liberalization, the exchange rate, tariffs and quotas, and foreign direct investment - "could not be applied to the WBG because the PA did not have control of the relevant instruments and/or because the key problems lay elsewhere."³¹⁵ Three others - privatization, competition, and property rights - were similarly inhibited, although to a lesser extent. Those policies that the PA could apply - fiscal control and public expenditure redirection - were indeed called for by the IFIs.

The fact that Israel determined the central mechanism of markets and market allocation created another serious contradiction with the utopian IFI peacebuilding and statebuilding models. Israel's enforcement of a system of closure on the OPT - a policy beginning in the early 1990s, before the Declaration of Principles and before suicide bombings began (and which became exceedingly stringent between 1995 and 1997) - meant that this too was an Israeli political and economic prerogative.³¹⁶ Israel was thus positioned to ensure that markets worked according to its strategic vision and not any hypothetical perfect market condition. This, in a context where the OPT economy has been characterized by scholars as being "de-developed."³¹⁷

312 See Savir, U. (1998) *The Process: 1,100 days that changed the Middle East* (1st edn). New York: Random House, p. 4.

313 Ha'aretz (14 February 1994) cited in Murphy, E. (1995) 'Stacking the Deck: The Economics of the Israeli-PLO Accords', p. 36, *Middle East Report*, 194/195, pp. 35-38.

314 Kanafani, N. and Cobham, D. (2007).

315 Ibid.

316 Berda, Y. (2018) *Living emergency: Israel's permit regime in the occupied West Bank*. Stanford, California: Stanford Briefs, an imprint of Stanford University Press.

317 Roy, S. (1995) *The Gaza Strip: The Political Economy Of De-Development*. Washington, D.C.: Institute for Palestinian Studies, pp. 129-130. Roy, S. (1995) describes development as: "[T]he negation of rational structural transformation, integration, and synthesis, where economic relations and linkage systems become, and then remain, unassembled (as opposed to disassembled as occurs in underdevelopment) and disparate, thereby obviating any organic, congruous, and logical arrangement of the economy or of its constituent parts.

Donor failure to mention let alone address this condition in their interventions effectively meant that Israel was freed to deepen the de-development of the OPT through closure. That donors did nothing to challenge it, despite the torpedoing of the basis of their entire economic approach, should be viewed suspiciously, especially because closure had more geopolitical and economic implications rather than being a particularly effective security measure.

Intrastate War or Settler Colonialism?

The Israeli-Palestinian context was not one of civil or intrastate war, but a case of protracted occupation and settler colonialism. Yet IFI peacebuilding models overwhelmingly focused on what could and should be done exclusively within Palestinian society and on its governance levels to ensure that a functioning Palestinian authority arose that could administer to basic (costly) civil affairs, while ensuring Israeli security. International donors consequently expended no resources or efforts on the ideological, organizational, institutional, or economic factors which helped perpetuate occupation and settler colonialism.

The almost exclusive focus by IFIs and other Western donors on attempting to induce transformations among Palestinians, together with the distinctly neoliberal nature to the approach overall, would have important repercussions on the nature of the development models and projects ultimately endorsed and implemented.

Precisely because the OPT context was conflict-ridden, private capital investment was regarded as central to overall peacebuilding, but was inevitably going to be exceedingly wary of intervention without forms of protection or significant returns. This meant that the economic opportunities created by the IFI peacebuilding activities - start up finance, direct rent provision, or the facilitation of rent allotment opportunities - were the product of politically determined calculations. Clear privileges were being allotted to a certain set of political and economic actors, including expatriate Palestinian capitalists at the expense of small and medium local enterprises or capital formations.³¹⁸ These concessions were also often allowed under conditions that were not transparent and that were exorbitantly extractive, even cynical. For example, the World Bank would provide various forms of technical assistance to aid in the establishment of the OPT's first telecom provider: Paltel. However, Paltel enjoyed monopolistic positioning within the Palestinian market for 15 years and was the propriety of Palestinian capital formations whose accumulation was diasporic in nature. A similar arrangement existed for the Gaza power plant.³¹⁹ In both cases, the nature of the deals cut between these capital formations and the PLO/PA leadership was never made public, while domestic OPT-centered capital was not allowed to share in these lucrative investments, and effective monopolies. Only with the creation of the Palestine stock exchange in 1997 did it become possible to purchase shares in these companies (albeit with only limited amounts floated), effectively ensuring the dominance of outside capital over that of the local.

Donor facilitation of these arrangements, in an economic context that was so politically and economically deformed, transformed the Palestinian context into an extreme manifestation of the overarching development model seen in other Arab states, characterized by a form of 'politically determined capitalism.'

318 Nasr, M. (2004) 'Monopolies and the PNA', In Khan, M. H. (2004) *State formation in Palestine: Viability and governance during a social transformation*. Routledge political economy of the Middle East and North Africa series, New York; London: RoutledgeCurzon, pp. 168-189.

319 See Haddad, T. (2016, pp. 135-138).

As Gilbert Achcar describes it,

The absence of any real rule of law in virtually all Arab countries [...] fetters the development of the type of capitalism led by entrepreneurs willing to take risks of the sort implied by investment in fixed capital with long-term amortization. In contrast, speculative or commercial capitalism motivated by the pursuit of short term profit thrives under such conditions. Such capitalism coexists and, often, combines with the state bourgeoisie's "politically determined capital."³²⁰

Some of the excesses and absurdities of what was in practice passed-off as private sector peacebuilding is illustrated in the case of the Gaza power plant, which reaped 7.5 million 7 percent annual profit the year in which Israel bombed it; industrial zones received millions of dollars of concessions in free land; legal reform measures and planning documents prepared by consultation; and in the case of Telecom, extensive bribery of Palestinian and Israeli officials to ensure monopoly control over telecom markets, etc.³²¹ While it would be easy to describe particularly egregious cases where these capitalists made substantial sums of money under the guise of companies registered in Caribbean tax havens where they stored their finances, and doubly enjoyed beneficial tax privileges with the PA economic regime, these examples must not allow us to lose sight of the more fundamental problem of how these arrangements fit into an overall political economy of peacebuilding as envisioned by the international donor community, the World Bank, and the IMF.

The rents and rent allotment opportunities facilitated by the donor community during the Oslo years (1993-2000), were supposed to lead to a peace dividend that created jobs and encouraged the 'rising of all boats' to consolidate a fragile peace. But aside from the fact that the entire closure regime negated this possibility a priori, rent provision proved to have led in practice to a situation in which capital investment went into sectors dominated by the constellation of PA preferred capital groups, who attempted to corner rent-seeking opportunities and sectors that would be profitable in contexts of either war or peace.³²² The case of the Gaza power plant is perhaps the most egregious example, with international donors essentially guaranteeing profits irrespective of electricity production. Investment in real estate, tourism, and construction projects catering to the upper-middle classes also demonstrate how these conditions encouraged lazy and speculative investment, with low value added. As a result, the net social benefits of these rents can hardly be argued to have advanced a peacebuilding mission, but rather one that opportunistically leveraged the situation to its advantage to reap a profit irrespective of the outcome overall.

³²⁰ Achcar, G. (2013, p. 62).

³²¹ Haddad, T. (2016, pp. 115-145).

³²² Haddad, T. (2016, pp. 159-177).

5.5 Post-2007 Reforms and Statebuilding

Despite the collapse of negotiations and the outbreak of the Second Intifada in September 2000, IFI organizations would also fail to reevaluate their approaches, presuppositions, and the policies derived therein. The World Bank would remarkably expunge Israel of international responsibility for the political and economic outcomes of the Oslo era. It instead argued as “the central finding of its aid effectiveness study” assessing the failures of Oslo, that it was the Palestinian leadership’s fault.³²³ An elaborate, moralistic campaign extolling the virtues of good governance would come to characterize the priorities of these organizations in the forthcoming era as donors began walking back their support for the Arafatist neopatrimonial regime.

In the wake of the new political circumstances created after Arafat’s rejection of the Camp David proposals and the outbreak of the Second Intifada, a markedly different tone, order, and velocity to reformist demands would arise. The World Bank and IMF would begin to demand and oversee the wholistic overhaul of the PA structure, particularly the power of its executive branch and discretionary powers led by Arafat.

In February 2003, Arafat agreed under IFI pressure to appoint a Prime Minister, and in March signed an amended version of the Palestinian Basic Law that introduced comprehensive changes to PA governance features. Article 21 of the latter explicitly outlined that “the economic system in Palestine shall be based on the principles of a free market economy.”³²⁴ By May 2003, Mahmoud Abbas would take up the Prime Minister post, the creation of which had been a condition for the US release of the Roadmap for Peace. The Roadmap, a “performance-based and goal driven” agenda, formalized internationally sanctioned conditionality for the resumption of a political process and not just for funding.³²⁵

The extensive reforms called for by IFIs and subsequently adopted by the Palestinian leadership continued up until the summer before Arafat’s death in November 2004. By this time, the entire clockwork of the PA’s public financial management system included: the tracking of all funds, the creation of a central treasury account, budget construction, accountancy, payroll, the PA’s commercial investments and ‘state’-owned enterprises, the role of public institutions, external and internal auditing, procurement, fiscal reporting, and the role of the PLC in these matters. The legal basis underpinning this entire arrangement had been thoroughly examined and reforms implemented in whole or in part.

This remarkable and unprecedented track record of reform should nonetheless not distract focus from the fact that this incessant barrage of reform conditionality leveraged over the PA between 2000 and 2004 also took place under conditions of existential threat to the Palestinian leadership. On more than one occasion, Israeli military tanks literally surrounded Arafat’s compound for days on end. This is the context which the World Bank would later take pride for its reforms being “among the most far-reaching of those implemented in the Middle East and North Africa (MENA) region during the last decade.”³²⁶

323 The World Bank and Japan (2000).

324 See The Palestinian Basic Law (2003) 2003 Amended Basic Law [Online]. Available at: <http://www.palestinianbasiclaw.org/basic-law/2003-amended-basic-law>.

325 See U.S. Department of State (2009) Roadmap for Peace in the Middle East: Israeli/Palestinian Reciprocal Action, Quartet Support [Online]. Available at: <https://2001-2009.state.gov/r/pa/ei/rls/22520.htm> (Accessed: 14 December 2019).

326 The World Bank (2012, p. 165).

By the time Arafat succumbed to his mysterious illness in Paris on November 11, 2004, the most significant financial and institutional elements to his power had been removed. While the inconclusive nature of the circumstances surrounding his death continue to fuel controversy, there should be no controversy over the fact that Western donors, with IFIs at the helm, eliminated at least on paper the bulk of Arafat's institutional and financial reach over Palestinian politics. In many ways, the question as to whether these events were sequenced with Israeli policies or not, is inconsequential to the final result.

5.6 IFIs Backtrack: The Reform Rollback

The irony of this inconvenient footnote to IFI intervention is found in the way reverence for the good governance agenda would be quickly repealed *de facto* in the wake of the resounding victory of Hamas in the PLC elections in January 2006. The Hamas victory was so large that the group would have been considerably empowered to implement wide-reaching changes in the priorities of the PA political, social, and economic agenda as it had promised in its electoral platform. Moreover, these changes would have been democratically sanctioned.

Israel and international donors would not accept the possibility of an anti-Oslo political agenda threatening their political, institutional and financial investment, irrespective of it being the result of a democratic process. The inevitable squashing of democratic Palestinian aspirations through the boycotting and sanctioning of the Hamas government, combined with the attempted US-sponsored coup against Hamas in July 2007, are a testament to how donors instrumentalized the reform, good governance, and democratization agendas to meet their undisclosed political agendas.³²⁷ Donors hypocritically reversed significant aspects of their 2000-2004 reforms to conform to the exigencies of the new reality. The Western donor community hurried to redirect funds away from the centralized treasury account they had fought so hard to create, given that the incoming Hamas Minister of Finance would take control of it. Donors would subsequently establish a direct assistance mechanism that still functions today and gives to the presidential office - a distinct feature of the Arafat arrangement, which these bodies had incessantly criticized previously. These funds effectively allowed Abu Mazen to reconstruct a second neopatrimonial regime in the West Bank, strengthening these patronage-clientelistic networks and this time under explicit IFI auditing, while deterring Palestinian democratic evolution.³²⁸

Perhaps without surprise, the hypocrisy of IFI activity exposed in the context of the Hamas election has done little to win these institutions any political favor amongst a Palestinian electorate. That this legacy is not more widely known or criticized outside of the local setting is remarkable only if one considers that these organizations are actively calling for democratization of the Arab world today.

5.7 Conclusion

As the MENA region convulses in deep structural, political and economic malaise, IFIs have scurried to try and formulate policies that can redress these ills.

327 Rose, D. (2008) 'The Gaza Bombshell', *Vanity Fair*, April.

328 Haddad, T. (2016, 227-236).

Speaking at a “Supporting Syria” conference held in London at the beginning of February 2016, World Bank Group President Jim Yong Kim announced that the World Bank Group will be tripling its commitment to the Middle East and North Africa (MENA) in the next five years to nearly \$20 billion.³²⁹ World Bank Chief Economist for the Middle East and North Africa region Shanta Devarajan would further note, “There’s a huge pay-off if we’re able to move from non-democracy to democracy, particularly in the MENA region,” estimating MENA’s growth rate would rise from “what is currently expected to be about 3.3% for the next four or five years to 7.3% as a result of democracy.”³³⁰

However, the payoff for democracy and free market economics in the OPT theater scarcely delivered on these promises. Instead, they brought a sense of cruel irony to these words while doing something far more damaging: they served to initiate policies that shattered the formerly unified political center of the Palestinian movement - arguably one of the main achievements of the modern Palestinian national movement in its post-1948 incarnation. Dual structures in the West Bank and Gaza would now lay claim to the mantle of national liberation representing two forms of legitimacy, linked to two sets of institutions, two political economies, two sets of elites, and two different political platforms. The envelope of each political division would now be patterned onto separate geographical territories, shattering the former unity between geography, politics and political institutions.

The emergence of this division continues to be exploited by Israel or Western donor states and IFIs in a manner that fundamentally reproduces the basic colonial tactic of ‘divide and rule,’ by design or by default. In this way, the discourse, policies, and practices of Western approaches to statebuilding implicitly perform a task akin to a colonial technology, while partially succeeding in displacing the primary contradictions between the Israeli occupation and the Palestinian national movement into intra-Palestinian class and political conflicts.

Policy wonks and analysts have much to learn from the experience of IFIs in the OPT theater. Sadly, these lessons speak more to what not to do.

The profundity of the transformations which have unfolded across the OPT as a consequence of IFI policies, in whole or in part throughout the Oslo process, are of no less significance than the profundity of those reaped by Israel’s military might and occupation. Rather than be seen in isolation from one another, it is more helpful to see them as coexisting and mutually constituting the fundamental contours of Palestinian predicament today. One is responsible for thousands of Palestinian prisoners, deep destruction during the First Intifada and the subsequent large-scale military operations against Gaza, the apparatus of closure and siege, and the policies of de-development. The other upholds crucial Israel political parameters while facilitating a specific Palestinian order, neopatrimonial and illiberal, denying Palestinian democratic aspirations.

These policies seem aimed at inducing political, economic and social transformations within Palestinian areas that can succeed at hanging incentives around a ‘negative peace’, displacing the larger contradiction between the Palestinian national movement and Israel into intra-Palestinian political and class conflicts. Between them, Palestinian institutional, political, social, and economic fabrics are fragmented and polarized as a heavily securitized regime arises, much more strictly enforced than previously on two fronts - Israeli and Palestinian. Inequality, fragmentation, and anomie spread as

329 The World Bank (2016a) ‘World Bank President: Support to the Middle East and North Africa Will Amount to US\$20 billion in the Next Five Years’, Press Release, 4 February [Online]. Available at: <http://www.worldbank.org/en/news/press-release/2016/02/04/world-bank-president-support-middle-east-north-africa-20-billion-five-years>

330 The World Bank (2016b) By the Numbers: The Cost of War & Peace in the Middle East, 4 February [Online]. Available at: <http://www.worldbank.org/en/news/feature/2016/02/03/by-the-numbers-the-cost-of-war-and-peace-in-mena>

the regime arising in the PA areas becomes de facto governed locally by Israeli military orders on the one hand, hundreds of presidential decrees on the other (Abbas's only remedy to govern after having sacked the elected parliament), while being tightly audited and advised by IFIs internationally.

What then can be learned from the legacy of the World Bank and IMF in the OPT, especially considering the World Bank's commitment to "to address the causes of instability" with the goal "to promote measures to rebuild the relationship between the state and its citizens, boost the resilience of countries coping with the consequences of conflict [...], strengthen mechanisms for regional cooperation and prepare for recovery and reconstruction"?³³¹

The experiences of the OPT provide a sense of perspective as to what these policies have meant in practice in the past - and could mean in the future in another regional setting - unless fundamental reassessments of approach are undertaken.

In this respect, and based on this record, it would be intellectually dishonest not to warn of the grave damage these institutions have caused and could cause if anything comparable to the OPT experience is attempted elsewhere. Given their current constitution, their ideological and political biases, their models, and the particularly deformed nature of politically determined capital they support that also pre-exists within the contemporary Arab world, there is a great likelihood that future IFI engagements will only add fuel to the fire in a region where there is already plenty of not just smoke, but both fire and pyromaniacs.

³³¹ The World Bank (2016a).

6. IFI interventionism and Yemen's Political Economy

Amal Nasser

The history of international financial institutions (IFIs) in Yemen predates the unification of North and South in 1990 but their most influential interventions coincided with major domestic conflicts that have shaped and still affect the lives of millions in the country. IFIs have not had a long history of interventions in the Republic of Yemen (RoY), given the unification of the republic in 1990. Nonetheless, they have influenced the course of the new republic's economic and institutional development. Although this influence predates unification, this work will focus primarily on IFI-supported programs and policies in unified Yemen until the breakout of the 2014 civil war, which took place right after the implementation of a highly unpopular IMF-supported cut to fuel subsidies. Notably, it will demonstrate the impact of IFI interventions, not only on Yemen's economy and its persistent poverty problem, but also on its political life.

The history of IFI interventions in Yemen contains both success and failure. Throughout the years, the consecutive governments of Yemen implemented economic reforms based on policies designed or inspired by them. During this time, the country witnessed political upheavals that render it difficult to clearly assess the exact role in shaping the country's economy. Although the IFI-supported programs in Yemen acknowledged the socioeconomic challenges in the country, mitigating the impact of austerity policies on the poor was not as successful as the IFIs and the government wished. Given the polarization in Yemeni politics and the timing of IFI-supported programs, one can fairly say that most economic reforms in Yemen's history were politically driven.

The first IMF-supported program in the new republic took place right after the civil war of 1994 and was designed to address the economic challenges that arose during the war. The last occurred after the 2011 wave of protests and its proposed 2014 subsidy cuts that ignited a new wave of unrest that different actors readily exploited and turned into a full-scale civil war. Yemen embodies a complex and near-constant emergency where politics, economics, and their concurrent challenges intertwine to the point that a direct causal relationship is difficult to identify. This state of perpetual emergency could be attributed to several reasons: the polarization of Yemeni politics and the consecutive resulting conflicts, the low capacity of the implementing government personnel, and the inability or unwillingness of IFIs and donor countries to take a hard line on corruption that consumed the state apparatus. Despite the many interconnected factors, IFI-supported economic programs acknowledged socioeconomic issues in principle, but ignored their impact on socially just development and arguably contributed to the politically unstable dynamic.

6.1 An Economic Tale of Two Yemens

In the decades prior to the unification of North and South Yemen, the southern socialist experience provided adequate public services such as education and healthcare for the population of the then-People's Democratic Republic of Yemen (PDY) in urban centers (such as Aden and Hadramout), but rural areas remained underdeveloped. These services came with a hefty price tag in the form public debt (see Table 1). The southern economy was characterized by state-ownership and public ventures accounting for 60-70 percent of industry after the south nationalized many colonial enterprises in 1968. Private ownership was comprised of small-scale enterprises, mostly in manufacturing and

agriculture.³³² The PYRD hoped to increase private ownership in the early 1980s³³³ to capitalize on the remittance-driven increase in private consumption in the late 1970s.³³⁴ By 1988, private capital owned 75 percent of enterprises in the Marxist PDRY, but the biggest employers - such as power, water, and the Aden oil refinery - remained state-owned.³³⁵

Table 6.1: Preunification government spending and fiscal deficit as percent of GDP

	1970s		1980s	
	YAR	PDRY	YAR	PDRY
Average government spending (% GDP)	16	49	35	77
Fiscal deficit (% of GDP)	3	20	13	36

Source: The World Bank (2002) *Economic Growth in the Republic of Yemen: Sources, Constraints, and Potentials*.

In the north, what began as a laissez-faire economic experience delivered similarly mixed results by the time of unification. In the 1970s, the Yemen Arab Republic (YAR) first toyed with a more liberal economic system after its post-revolution civil war.³³⁶ As with the PDRY, the economy relied on agriculture at its core. Industrial output (such as cotton or food production) was based on this agrarian output, but differed in that northerners owned most of the land on which these private enterprises took place. While both economies had ideologically different underpinnings, the similarities between their industries and the convergence of some of their key economic indicators by the end of the 1980s paved the way for their merger, rather than the dominance of one over the other.

Remittances

The increase in oil prices in the 1970s and the beginning of labor migration to oil-rich neighboring countries (such as Saudi Arabia, Kuwait, and the United Arab Emirates) marked a pivotal period that influenced the evolution of both economies. The north had relied on remittances to increase its consumption since 1972, while the south restricted its labor migration at the time.³³⁷ The inflow of remittances into the YAR reached 92 percent of GDP by 1976,³³⁸ the same year the PDRY lifted the restrictions on labor movement. By the early 1980s, both economies enjoyed remittances that comprised half of their GDP.³³⁹ These transfers allowed for high levels of consumption in both countries and increasing level of imports in the north. They also became a major source of private investment in the housing sector in the south,³⁴⁰ leading to increased private ownership and an increased share of private establishments in the country.³⁴¹

332 Carapico, Sh. (1993) *The Economic Dimension of Yemeni Unity*. Middle East Report 184, 23(5), pp. 9-14.

333 Ibid.

334 The World Bank (1982) *People's Democratic Republic of Yemen Economic Memorandum*.

335 Carapico, Sh. (1993).

336 Carapico, Sh. (1993).

337 The World Bank (1982).

338 Al-Iriani, M.A. (1987) 'Migration, remittances and economic development in Yemen Arab Republic', *Retrospective Theses and Dissertations*.

339 Carapico, Sh. (1993).

340 The World Bank (1982)

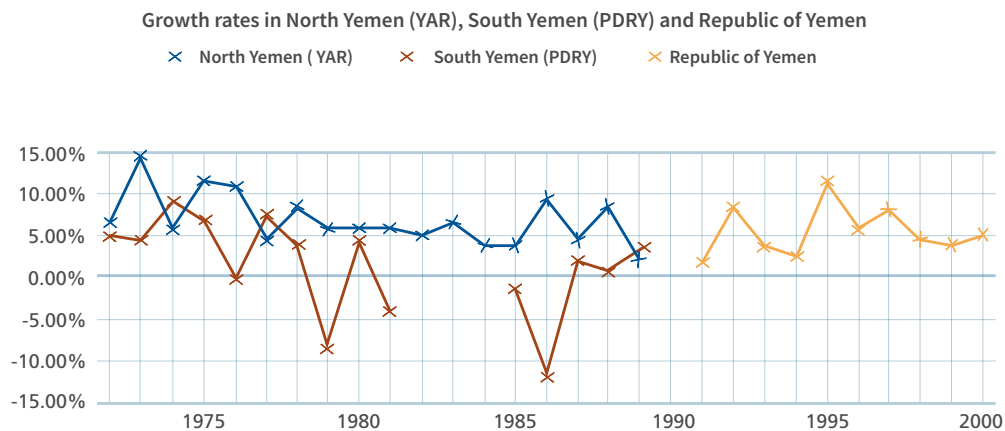
341 Carapico, Sh. (1993).

Oil

Oil discoveries in the 1980s also led to an increase in government revenue and subsequently became the main political rationale for unification. Oil was discovered in 1984 in Al-Jawf and Marib³⁴² areas in the north, in 1986 Shabwa in the south, and the area straddling the borderline of the two states.³⁴³ Combining the Aden refinery's professionals and resources with the north's entrepreneurs and transportation network allowed both countries to produce and distribute oil products efficiently and created a larger market for both states where economies of scale play a major role in production. Oil exports also provided a source of foreign currency to both states that compensated for the sharp decline in remittances in the late 1980s.³⁴⁴ The boost to state revenues led to increased public investment in the north after the oil boom.³⁴⁵

Both economies began converging toward similar mixed economies by the early 1980s. Although they began from ideologically different starting points, they experienced similar economic trends due to geography and vulnerability to external economic shifts in neighboring countries. By the time both countries were working toward unification, they witnessed fluctuations in growth rates and a trend of increasing government spending that was not exclusive to the PDRY government and a growing budget deficit over the years (Figure 1). Both states heavily relied on foreign aid to finance their development projects, with most foreign aid to the YAR coming from Saudi Arabia and Kuwait while the PDRY obtained most of its aid from the Soviet Union.

Figure 6.1: Yemen's Pre- and Post-Unification GDP Growth



Source: The World Bank (2002) Economic growth in the Republic of Yemen: sources, constraints, and potentials. World Bank Country Study.

342 Morton, M. Q. (2013) Oil Exploration in Yemen. GEO ExPro Magazine, Vol (10/2) [Online]. Available at: <http://www.geoexpro.com/articles/2013/08/oil-exploration-in-yemen>.

343 Brehony, N. (2013) Yemen Divided: The Story of a Failed State in South Arabia. Reprint edition, I.B.Tauris.

344 The World Bank (2002) 'Economic growth in the Republic of Yemen: sources, constraints, and potentials', World Bank Country Study. Washington, D.C.: The World Bank [Online]. Available at: <http://documents.worldbank.org/curated/en/2002/10/2035459/economic-growth-republic-yemen-sources-constraints-potentials>.

345 Carapico, Sh. (1993).

Universal subsidies, a bloated inefficient public sector, the absence of a vibrant private sector, and unsustainable levels of public debt were the key economic factors under which both states decided to form a unified state.³⁴⁶ In addition to the economic challenges, the new unified Yemen brought together old foes with histories of their own civil wars. Armed conflict would prove to be the greatest challenge of all.

The North-South Merger

By the end of the Cold War, the PDRY found itself on the verge of bankruptcy. Shortly after, Yemen's unification took place on May 22, 1990. Unification posed a challenge in terms of bringing two political systems together: a self-proclaimed open-market dominated economy in the north and a statist economy in the south. Given the southern economy's dilapidated state and the demise of the Soviet Union - its main political, military, and financial supporter - unification amounted to more an annexation of the south.

The YAR's first constitution, approved in a popular referendum in 1991 (unlike unification, which took place without any popular voting), included provisions that fostered social justice as a compromise between the two uniting parties. The 1991 constitution states that the country's economy is based on "Islamic social justice in production and social relations ... capable of owning the basic means of production," and guarantees the "preservation of private ownership."³⁴⁷ The somewhat contradictory economic vision of the new republic reflected the great tension between the north's self-proclaimed market-oriented polity and the south's self-defined socialism. It also created a perfect recipe for conflict in the years to come.

In the newborn Republic of Yemen (RoY), civil servants used government relocation allowances to migrate to the capital Sanaa in the three years after unification. Public sector salaries consumed 10-11 percent of GDP between 1990 and 1994.³⁴⁸ Ever increasing inflation during this time (up to 30 percent) dampened any spending power gained through a nominal increase in wages.³⁴⁹ Ongoing tensions throughout this period and during the lead up to the 1994 civil war drove up military spending, accounting for 33.4 percent of government expenses (8.4 percent of GDP).³⁵⁰

The new republic also assumed responsibility for the PDRY's and YAR's external debt. The PDRY's external debt alone consisted of two-thirds of the total \$9 billion debt.³⁵¹ Arab, European, and Soviet creditors provided loans for development programs that formed most of this debt.³⁵³ The slow recovery of oil prices in the 1990s - the primary source of Yemen's revenue - furthered this strain on government finances.

346 The World Bank (2002).

347 ILO (no date) The Constitution of the Republic of Yemen [Online]. Available at: [http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/29413/92347/F1217041537/YEM29413%20\(2001%20amendment\).pdf](http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/29413/92347/F1217041537/YEM29413%20(2001%20amendment).pdf).

348 Choueiri, N., Enders, K.S., Sobolev, Y.V., Walliser, J. and Sherwyn Williams, Sh. (2002) 'Yemen in the 1990s; From Unification to Economic Reform', IMF Occasional Papers 208, International Monetary Fund.

349 Ibid.

350 The World Bank (2018) World Development Indicators. Military expenditure (% of GDP) [Online]. Available at: <https://databank.worldbank.org/data/reports.aspx?source=2&country=YEM>.

351 Brehony, N. (2013).

352 Choueiri, N. et al (2002).

353 Carapico, Sh. (1993).

Table 6.2: Notable economic indicators from unification to the civil war

	1990	1991	1992	1993	1994
GDP growth rate*	n/a	6.30	8.20	4.00	6.70
Population growth rate*	5.20	4.89	5.11	5.06	4.70
Personal remittances, received (% of GDP)*	26.53	16.80	15.70	19.30	25.40
Oil rents (% of GDP)*	25.86	15.21	12.73	17.22	31.05
Inflation**	n/a	44.91	51.20	61.75	71.28
Military Spending (% of GDP)***	6.60	7.0	7.30	7.1	8.4
Military Spending (% of expenditures)***	24.60	28.30	29.50	27.40	33.40

Sources: *The World Bank, **IMF, ***SIPRI.

Yemen's rejection of UN Security Council Resolution 678 in 1990, which authorized UN member states to use "all necessary means" to remove Iraqi forces from Kuwait, led to the expulsion of 800,000 Yemeni workers from Arab Gulf states and caused a dramatic decline in remittances.³⁵⁴ The influx of workers returning home created added pressure on the Yemeni labor market.

Yemen's first civil war erupted in 1994. Military spending reached about 8.4 percent of GDP (~\$2.35 billion) as it abandoned investment in infrastructure, education, and healthcare.³⁵⁵ Inflation soared to an unprecedented 71 percent.³⁵⁶ The deteriorating economic situation in Yemen increased the urgency for policies to rapidly stabilize the economy. The emergency spurred Yemen to seek the help of the IFIs, namely the World Bank Group and the International Monetary Fund.

6.2 IFI interventions in Yemen

The reformulated post-war government pursued macroeconomic adjustment and structural reform with support from the World Bank and the IMF in 1995. This program entailed floating the exchange rate by dropping efforts to artificially prop up the Yemeni rial, introducing fiscal adjustment measures supported by subsidy cuts, and liberalizing interest rates.³⁵⁷ With socialist-leaning political figures excluded from the post-war political structure in Yemen, then-president Ali Abdullah Saleh took further political measures to support the liberalized economic foundation of the new republic. The regime amended the constitution in 1994, dropping the state's claim on "owning the basic means of production" as much of the southern leadership fled the country in the wake of defeat. The Saleh regime now had the political space to pursue liberal reforms that he could implement without any serious debate.

The IMF's 1995 Stand-By Arrangement was the first in a series of financial facilities after Yemen demonstrated the political will to liberalize the economy. With IMF cooperation, the Yemeni government worked closely with the World Bank and the IDA to develop a reform program to stabilize

354 Van Hear, N. (1994) 'The socio-economic impact of the involuntary mass return to Yemen in 1990', *Journal of Refugee Studies*, 7(1), pp. 18-38.

355 In current USD. Stockholm International Peace Research Institute (SIPRI), SIPRI estimate.

356 IMF (2019) 'Republic of Yemen', country webpage [Online]. Available at: <https://www.imf.org/en/Countries/YEM>.

357 Choueiri, N. et al (2002).

the country's post-civil war economy. These structural reforms included floating the rial to increase revenues, especially from oil exports. While the government had set the official exchange rate in 1995 at YR50 to the dollar, the black-market rate reached YR157.³⁵⁸ This disparity deprived the government treasury from two thirds of the market value of international trade. The government also simplified tariffs and reduced taxes on imported goods to increase state revenues. Investment restrictions were also relaxed and privatization encouraged.

After implementing the 1995 macroeconomic adjustment and structural reform policies, Yemen's economic vulnerabilities - such as the high levels of poverty and unemployment - persisted despite the reform's success in lowering the inflation rate to 4.6 percent by 1997. Consequently, cooperation between the Yemeni government and the IMF to design and implement more economic reform policies became more frequent. To pursue further implementation of these IFI-supported policies, Yemen obtained a Standby Arrangement in 1996, an Extended Fund Facility in 1997, and Extended Credit Facilities in 1997, 2010, and 2014. The IMF's conditionality attached to these facilities, however, meant that Yemen was forced to abide by an economic model that neither fit its fragile structure nor its volatile political landscape.

The IMF's apolitical stance prioritizes macroeconomic stabilization over the equitable distribution of resources and revenues in society. The World Bank tried to fill the void by implementing its own projects - such as the cash-transfer program of the Social Welfare Fund - geared toward helping the Yemeni government combat poverty. While IMF policies paid little attention to questions of equality and social justice, the World Bank and International Development Association (IDA) built their proposed reform program on three pillars: creating macroeconomic stabilization through structural reform, increasing development efforts, and providing a social safety net for the 19 percent of poverty-affected persons in Yemen in 1995.³⁵⁹

Yemen's privatization program was also first introduced in 1995, with more than 60 enterprises being privatized within three years after its introduction.³⁶⁰ Although privatization was intended to reduce inefficiencies and reduce state's monopoly in certain branches, many officials saw it as an opportunity for corruption and embezzlement of public money and property.³⁶¹ It also opened the door for an unholy alliance between politics and capital that led to staggering levels of corruption impacting the lives of millions in the country.

Meanwhile, the IMF compelled Yemen to address the exorbitant government wage bill, which accounted for more than 60 percent of the government's expenditure in 1994.³⁶² To further reduce expenditures, the IMF suggested eliminating fuel and food subsidies.³⁶³ The elimination or reduction of food and fuel subsidies - which consumed 10 percent of the country's GDP in 1994³⁶⁴ - further aimed to ease the strain on the state budget and balance the difference between domestic and international prices of imported food and fuel. Relaxing restrictions on the quantity of imports and number of traders would help in curbing the hikes in prices after cutting subsidies. Structural reform aimed at complementing stabilization measures focused on providing more space to the private sector to develop and address issues of unemployment, investment, and development in the country. The

358 Ibid, p. 3.

359 The World Bank (1995) Dimensions of Economic Adjustment and Structural Reform.

360 The World Bank (2002).

361 Alameer, A. (2012) Privatization in Yemen: Policy and performance. PhD dissertation. University of Malaya.

362 The World Bank (1995).

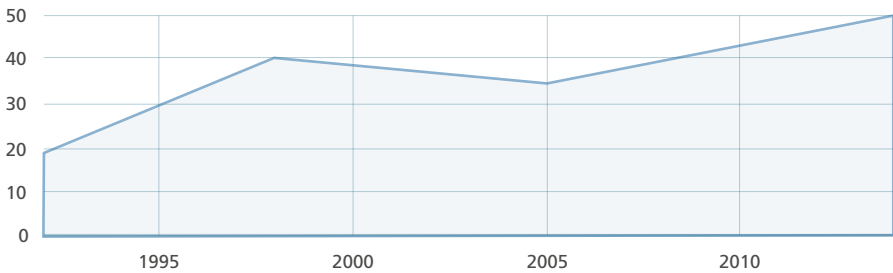
363 Choueiri, N. et al (2002).

364 Ibid, p. 4.

magnitude of those proposed policies created a climate of severe austerity that urgently required a safety net for the poor.

According to the World Bank, Yemenis living below the poverty line in 1996 reached an average of 19.1 percent, with poverty slightly higher in rural areas (Figure 2).³⁶⁵ By their estimations, the Yemeni government would need to transfer about 5 percent of GDP directly to the poor to mitigate the impact of austerity.³⁶⁶ The Yemeni government passed a law in 1996 to establish the Social Welfare Fund as its first cash-transfer program for families without income, creating a safety net for those negatively affected by economic reform.³⁶⁷ The following year saw the establishment of the Social Fund for Development that, according to its mandate, aligned its programs with the national, social, and economic development plans for poverty reduction.³⁶⁸

Figure 6.2: Poverty rate as a percent of the total population over time



Source: The World Bank.

Establishing the cash-transfer system crucially helped to curb the worst effects of austerity measures, but did not reduce the poverty level. The social impact of austerity and endemic corruption proved too heavy for simple welfare programs or development projects to overcome.³⁶⁹ Because the cash-transfer mechanism to fight poverty was not sustainable, the rate of poverty in the country kept growing and reached 34 percent a decade later.³⁷⁰

The years following the IMF loans to the RoY in the late 1990s saw relative improvement in key economic indicators. The inflation rate dampened from 71 percent in 1994 to 10.9 percent in 2000.³⁷¹ The government reduced oil rents as a share of GDP in an attempt to diversify the economy, going from 41 percent in 1995 to 28 percent in 1999.³⁷² While public spending as a share of GDP increased (1.3 percent in 1995, 2.24 percent in 2000),³⁷³ military spending fell from its all-time high (8.4 percent of GDP in 1994 during the civil war to 4.9 percent in 2000).³⁷⁴

365 The World Bank (1996) Republic of Yemen Poverty Assessment. Despite the outbreak of the war in 2015, the cash-transfer programs continue to function through World Bank and UN mechanisms. Although the Social Welfare Fund suspended its operation after the launch of the Saudi-led Coalition's operations in the country, it resumed disbursements under UNICEF's Emergency Cash Transfer Project in 2017 to reach 1,330,601 beneficiaries.

366 Ibid.

367 National Information Center (2014) نبذة تعريفية عن الرعاية الاجتماعية (Introduction to The Social Care). The National Information Center, the Presidency of the Republic [Online]. Available at: <https://www.yemen-nic.info/contents/popul/social/Social/brief/index.php>.

368 SFD- Yemen (2020) Background and Objectives [Online]. Available at: <http://www.sfd-yemen.org/content/1/42>.

369 Yemen was included in the Transparency International Corruption Perception Index in 2003 for the first time, scoring 88 out of 133. In every following index, Yemen has scored lower than the year before. By 2017 the Index placed Yemen at 175 out of 180 countries, see Transparency International (2018) Corruption Perceptions Index 2017 [Online]. Available at: https://www.transparency.org/news/feature/corruption_perceptions_index_2017.

370 The Government of Yemen, UNDP and the World Bank (2007) Yemen Poverty Assessment.

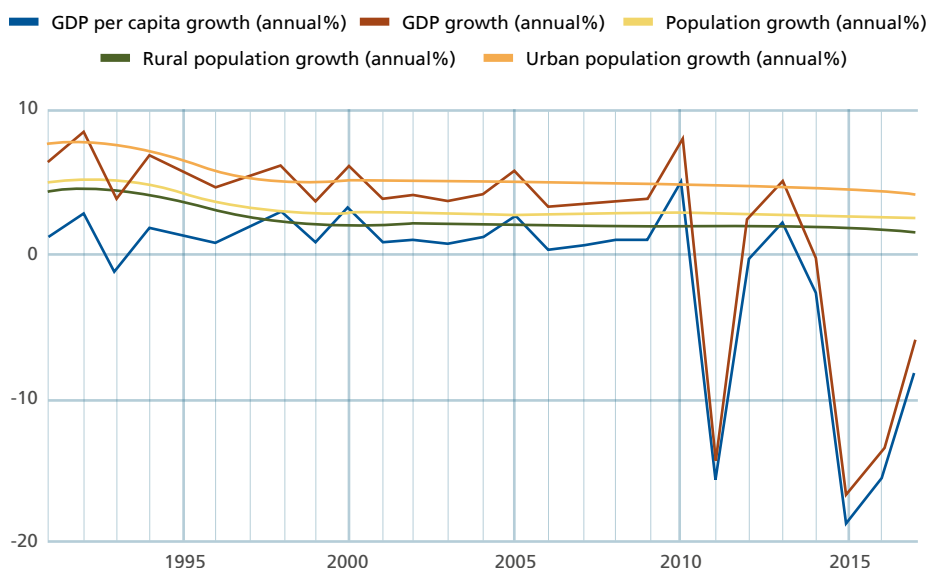
371 IMF data on Yemen.

372 The World Bank Data [Online]. Available at: <https://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS?locations=YE>.

373 Ibid.

374 SIPRI (no date) Data for all countries from 1988–2018 as a share of GDP [Online]. Available at: shorturl.at/gkh19.

Figure 6.3: GDP and population growth from 1991 to 2017



Source: The World Bank.

Despite the improvements that came with IMF-supported structural reforms, economic problems in Yemen persisted throughout the 2000s, including: a population high growth rate, GDP growth that could not keep up, endemic corruption, and a decline in crude oil output after the all-time high level of oil production in 2001 combined with the relative decline in international oil prices, upon which Yemen was still highly dependent. These factors led to a persistent increase in poverty rates.

The average population growth rate in Yemen reached 4.3 percent during the 1990s and 3.2 percent between 2000 and 2005.³⁷⁵ Meanwhile, the GDP per capita growth rate witnessed high fluctuations in the late 1990s (from 0.8 percent in 1996 to 3.2 percent in 2000,³⁷⁶ only to fall below 1 percent in 2001, then back to 2.6 percent in 2005). This mismatch between the growth of the population and GDP growth left more people at risk of falling below the poverty line.

Despite increased oil revenue in the 1990s, then-president Saleh siphoned off much of this income, depriving development projects of needed resources. The fragile post-civil war political system drove Saleh to use these funds to maintain a complex patronage system to consolidate control.³⁷⁷ Although this dynamic demonstrates how corruption undermines economic planning, it also highlights his lack of investment in and ownership over these reforms. The Saleh-led kleptocracy that ruled Yemen only saw IFIs as a source of income to sustain its grip on power after mismanaging the country's resources.

The agricultural sector was particularly vulnerable to liberalized economic policy. The sector's contribution to Yemen's GDP had already declined since the establishment of the new republic. A decade after implementing the 1995 reforms, the agricultural sector lost half of its contribution to GDP - falling from 20.5 percent in 1995 to 10.1 percent in 2005 due to rapid urbanization of the population

³⁷⁵ The World Bank (2007) Republic of Yemen Poverty Assessment.

³⁷⁶ In this year Yemen increased its crude oil output and there was a significant increase in international oil prices leading to a spike in the country's GDP and thereby the GDP per capita growth rate.

³⁷⁷ Haykel, B. (2013) 'The state of Yemen's oil and gas resources', The Norwegian Peacebuilding Resource Centre.

(Figure 3).³⁷⁸ In the same period, the oil industry's share of GDP jumped from 30 percent to 49 percent, while the services sector's contribution fell from 48 percent to 40.6 percent.³⁷⁹ Employment improved slightly from 24.5 percent in 1995 to 27.3 percent in 2005.³⁸⁰ The concentration of employment in services and rapid urbanization would later prove to have catastrophic effects on Yemen's food security and leave it dependent on food imports for 90 percent of its food consumption.³⁸¹ This critical state of vulnerability shut down Yemen's capacity to respond to external and internal shocks, helping to spark the world's worst man-made humanitarian crisis seen in the wake of the latest conflict.

The 2010 Reforms

Despite the fluctuating but generally increased global price of oil throughout the 2000s, Yemen's oil revenues declined due to reduced production. The rapid population growth and subsequent increase in unemployment, poverty, and most importantly debt sparked the need for another round of IFI intervention.

Once again, the IMF designed a program to provide sustainable growth. The program consisted of three components:

- i) Fiscal policy and structural reforms to tackle the increasing budget deficit and declining revenues,
- ii) monetary and exchange rate policies to safeguard foreign reserves while maintaining price stability, and
- iii) structural reforms to develop a better financial sector, promote growth, and improve the business climate.³⁸²

IMF conditionality imposed a prior action for the Yemen government to cut fuel subsidies and implement a new 5 percent General Sales Tax Law.³⁸³ The subsidy cuts saved the treasury 1 percent of GDP and the sales tax applied not only to retailers and wholesalers, but also to importers and manufacturers.³⁸⁴ Soon after, structural benchmarks involving further cuts in fuel subsidies, cuts to corporate income tax (from 35 to 20 percent), and establishing a cash management unit to oversee the government's spending policies were also implemented.³⁸⁵ The General Tax Authority reported an 18 percent increase in collected sales tax in 2010 compared to 2009.³⁸⁶ Although oil production continued its decline through 2010, oil revenues for the state's treasury increased due to a spike in oil prices on international markets. The price hikes with the increase in fuel costs drove the country's inflation rate from 3.7 percent in 2009 to 11 percent in 2010.³⁸⁷

378 The World Bank Data.

379 The World Bank Data.

380 Ibid.

381 Rageh, M., Nasser, A. and Al-Muslimi, F. (2016) Yemen without a functioning central bank: the loss of basic economic stabilization and accelerating famine.

382 IMF (2010) Country Report No. 10/300.

383 Ibid.

384 This law was first passed in 2001 with a sales tax of 10% but was suspended in January 2002 due to pressure from the business community that argued that the tax will hurt sales and curb consumption.

385 IMF (2010).

386 Nashwan News (2011) '2010 158' مليار ريال ضريبة المبيعات للعام billion riyals sales tax for the year 2010) Sahafanet [Online]. Available at: <http://sahafanet.net/news322847.html>.

387 IMF (2018) World Economic Database.

It is hard to measure the impact of the IMF-inspired policies implemented in 2010 due to the political turmoil the country witnessed since 2007 with emergence of the Southern Movement (or *Hirak*) - even prior to any signs of the 2011 Arab Spring. During preparations for general parliamentary elections in 2010, Saleh's announced his interest in pursuing another term after being in power since 1978. He did so despite strong opposition from Yemen's political parties to amending the presidential election law that would allow him to run for another term in 2011. The 2010 reforms came at a sensitive time, politically and economically. Previous economic reforms proved ineffective at combating poverty, corruption was on the rise, dependence on international aid was increasing - and to Saleh's dismay so was opposition to his reign.

6.3 Yemen in Free Fall

Myriad analysts have argued a mainstream narrative for the Yemeni revolt against the Saleh regime, contending that it followed Tunisia's footsteps in its quest for freedom. More likely, however, Yemen's uprising started earlier and was mostly economically driven. Civil unrest in 2005 and 2007 came in reaction to the government's cut to fuel subsidies at a time when poverty figures began to improve (from 40 percent in the 1990s to 35 percent in 2005). The government brutally quashed the 2005 protests, killing 22 people in the process.³⁸⁸

More organized dissent against Saleh's regime came in 2007 from the south, which had been marginalized since the 1994 war. Southerners viewed the unequal distribution of development projects between Sanaa and Aden as a sign of this political marginalization. Initially led by southern military figures forced into early retirement with a meager pension, the *Hirak* gained considerable traction as a social and arguably separatist movement. While ex-military personnel protested the loss of their privileges in an already poor society, the movement resonated with a public that had felt prolonged dissatisfaction over the economic situation in Yemen. The participation of a wide range of Yemenis fueled the momentum until its crescendo in 2011, when thousands took to the streets to express dissatisfaction with the lack of social justice and demand Saleh's ouster.³⁸⁹

The year since the outbreak of mass protests brought with it an economic standstill. Continuous civil unrest interrupted the already anemic economic activity in the country. The stunted level of oil production on which Yemen heavily relies saw further interruptions due to recurrent attacks on export pipelines. Oil revenues fell dramatically in the following two years (see Figure 4).³⁹⁰ Poverty rose to engulf about 54.4 percent of the population.³⁹¹ The impact of the protests of 2011 could be best illustrated by a 12.7 percent contraction of the economy in 2011.³⁹² The country became ever more dependent on external aid.

388 Aljazeera (2010). 'اليمن يرفع أسعار الوقود' (Yemen raises Fuel Prices), Aljazeera.net [Online]. Available at: shorturl.at/ceoxy.

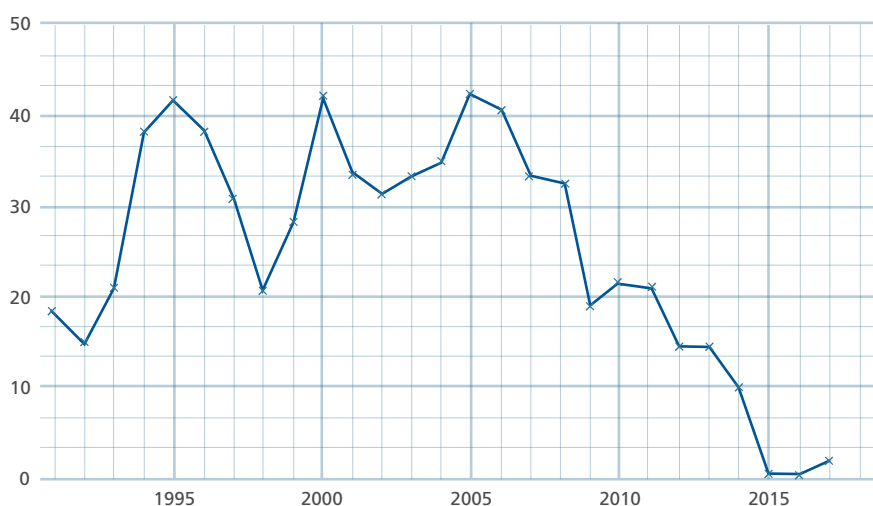
389 UNDP (2013) The ADCR 2011: Poverty Dynamics in Yemen as a Representative Arab LDC.

390 The World Bank Data.

391 The World Bank (2012) Republic of Yemen – Joint Social and Economic Assessment, Vol (1).

392 The World Bank (2018) World Development Indicators.

Figure 6.4: Yemen's Oil Production (in % GDP), 1991-2017



Source : World Bank

Despite the political instability, the IMF disbursed millions of dollars in loans to tackle the structural distortions in the country's economy - a mere two months after the election of Yemen's current President Abdrabbo Mansour Hadi in February 2012. The election arose from the GCC agreement that forced Saleh to step down in exchange for immunity from prosecution over crimes committed during his reign. The IMF disbursement reflected widespread international support for the new president and hope for Yemen's renewal after decades of deterioration. Despite positive GDP growth rates of 2.3 percent in 2012 and 4.8 percent in 2013 (Figure 3), this growth could not compensate for the economic losses incurred in 2011.

After Hadi's election as interim president, the UN-sponsored National Dialogue Conference began its efforts to rewrite Yemen's social contract and design the foundation for a new constitution. The new interim government led by the southern-born, then-Prime Minister Mohammed Basindawa assumed its duties, but paralysis was inevitable with a cabinet consisting of half pro-Saleh and half pro-uprising ministers. The conflicting interests of its members meant that ordinary Yemenis would continue struggling to make ends meet.

2014: Subsidies cost less than civil wars

The government made a good faith effort to provide minimum basic services to the public, but its coffers had suffered after three years of political unrest and a decline in oil revenues. By this point, government-subsidized fuel had created a black market wherein business tycoons hoarded and smuggled it outside the country to be sold at international prices.³⁹³ Severe fuel shortages became the new norm as Yemen's structural economic problems continued unabated. The government decided it could not afford to wait any longer to implement "bold" economic reform, in the words of the IMF.

³⁹³ IMF (2014) IMF Country Report No. 14/276.

Arguably the most important prior action to which the government agreed involved allowing the private sector for the first time to import fuel and reduce fuel subsidies by 50 percent to halve the gap between domestic and international prices.³⁹⁴ This policy broke with a decades-old government monopoly over fuel imports and meant that it no longer considered fuel a basic commodity that it was obliged to provide at an affordable price to its impoverished population. To contain the backlash from the resulting increase in fuel prices and curb the impact on the poor, the IMF agreed with the Yemeni government to increase financial grants through the Social Welfare Fund by 50 percent. The increase in the benefits would take place three months after the reduction in fuel subsidies³⁹⁵ and would reduce public expenses - saving up to 3.5 percent of GDP - annually, when implemented.³⁹⁶

Another major budgetary component of the reform program entailed the elimination of 'ghost workers.' Estimated at between 130,000 and 300,000 workers, ghost workers comprised those employees on the payroll of different public institutions and ministries, but who never actually showed up. Political leaders commonly used this system to shore up their informal patronage networks. The workers affiliated with the Ministry of Defense and Minister of the Interior - the largest source of registered ghost workers - would thus suffer the most. The IMF prioritized eliminating ghost workers since the first 1995 economic reform program, but the issue went unaddressed for more than 25 years due to the high level of corruption and the Saleh regime's need to maintain this network for political purposes.

Yemen's political groups rejected the government's decision to tackle the ghost workers issue as economic hardships mounted. The political fallout further increased tensions resulting from cutting fuel subsidies. The political volatility, extreme polarization, and widespread insecurity created an environment in which the policy would certainly be weaponized against the interim government. Sure enough, the protests accompanying the announcement of fuel subsidy cuts immediately paved the way for the Houthi rebel insurrection that followed.

The Houthi rebel group - hailing from the Saada province in Yemen's north - had rejected the outcomes of the National Dialogue Conference and the decision to transform the state into a federal republic. The Houthis took advantage of the popular backlash from cutting fuel subsidies as a pretext to overthrow the interim government and capture the capital, Sanaa. Rapid Houthi military operations moved south, quickly escalating into civil war. The war soon turned regional and sparked the humanitarian crisis in Yemen today, completely decimating the economy.

One cannot overstate how Yemen's devastating political events find root in its economics. Even the Houthi expansion southward since 2011 from the northern highlands of Saada to Sanaa (and later to Aden) has its economic roots. The scarcity of development projects in Saada has always been a feature of Houthi anti-government rhetoric.

IFI engagement with Yemen in 2014 came at a particularly sensitive time in its modern history. While complex externalities abound, one cannot help but question the logic of imposing even minor austerity measures without taking greater care to consider the poverty-related vulnerabilities and the political fragility in a country with such high-risk factors and rapidly shifting variables. Indeed, one size does not fit all.

394 Ibid.

395 The fuel cuts took place at the end of July of 2014 with the promise to increase the SWF allocation per beneficiary in October of the same year. The poorest segments of the population would have suffered the impact of the price hikes for two months without the means to make ends meet.

396 Ibid.

6.4 The Fallacy of Apolitical IFIs

IFIs have long established themselves as ‘apolitical’ lenders of last resort. However, cooperation with the IMF - and other financial institutions such as the World Bank and the IDA - both shapes and is shaped by politics. The IMF provides credit to countries in times of crisis with loans and/or technical assistance. Given that Yemen's economy has struggled since unification, its government sought (and still seeks) IMF technical assistance and loans due to its lack of access to international markets.

A closer examination of Yemen's economic reforms in the 1990s - supported by the first loans that Yemen received from the IMF after it experienced its first civil war - reveals that the IMF's intervention meant to fulfill the requirements needed to restructure Yemen's debt with the Paris Club. Yemen's debt with the Paris Club was partially canceled and rescheduled in 2001.³⁹⁷ Although this came months before the September 11 attack in New York, international interest in fighting Al-Qaeda in Yemen had grown and motivated foreign governments to provide economic assistance. They saw this aid as a part of a strategy aimed at combating poverty that would otherwise feed terrorist organizations with fighters.

The IMF also pursued the 2010 reforms as a precondition to Yemen accessing grants and loans from the Friends of Yemen Forum, with the Forum's emphasis on supporting an IMF program for Yemen in its first meeting that year.³⁹⁸ Donor assistance from the Friends of Yemen Forum that year played a significant role in shaping the reform program, making the IMF more of an intermediary and manager of the process. Despite the IMF's claim of apolitical interventions, this example clearly demonstrates a strong, if not overt, political nature of its role. If the IMF shares a political agenda, then its credibility as a trusted advisor falls into question.

Beyond its economic reform programs and prerequisite prior actions, the IMF's efforts provided access to grants and debt restructuring that would have otherwise been impossible. Nonetheless, it is widely believed that the 2014 economic reform program - which received the IMF and Friends of Yemen's full support - was a mistake. Fundamentally, the bureaucrats who tried their best to prevent Yemen's economic collapse looked more to international perspectives over how best to stabilize Yemen rather than fully understanding the complex domestic politics that would sustain any solution. Instead, foreign lenders only succeeded in enabling and supporting the ancien regime's corrupt political elite.

6.5 IFIs and Neoliberal Models of Development in Fragile Contexts

The case of the Yemeni economy and IFIs is one of a peculiar nature. The Yemeni government inherited the deep economic structural problems of two republics, with the former economies suffering from underdevelopment. The new republic did not have enough time to evolve into a stable economy before IFIs and donor countries began exerting their influence through foreign assistance. The international interest in helping Yemen and the government's quest for foreign assistance stemmed from the belief that domestic solutions were inherently inferior.

397 Paris Club (2001) Restructuring the Debt of Yemen [Online]. Available at: <http://www.clubdeparis.org/en/communications/press-release/restructuring-the-debt-of-yemen-14-06-2001>.

398 Foreign and Commonwealth Office (2014) Friends of Yemen: How has it performed and where is it going? [Online]. Available at: https://www.refworld.org/publisher,GBR_FCO,COUNTRYREP,YEM,55375d834,0.html.

One could argue that the policies and recommendations of IFIs in Yemen in fact helped the Yemeni economy have a coherent structure - albeit a distorted one. This argument might look valid on its face, yet it ignores the inequalities in the distribution of wealth and the encroaching poverty on Yemeni society. A direct causal relationship cannot definitively be placed on the implementation of IMF-supported programs and the rise of poverty in the country, but the correlation between them and the failure to either curb deteriorating economic conditions or shield it from external shocks that contributed to Yemen's instability should not be understated.

Yemen's pre-unification economic baggage - particularly the excessive public wages bill and military overspending - served political rather than economic or social objectives. The political context behind economic policymaking obstructed their ability to address these distortions. The lack of Yemeni leaders' political will to execute stabilizing policies made any planning for future stabilizing or development programs of no value.

Ownership over IFI-designed programs is an important measure of success in the IMF's literature.³⁹⁹ This criterion is widely interpreted as the willingness and commitment a government shows to implement internationally mandated economic reform programs. Another interpretation of ownership includes the inclusiveness and transparency in the design process - including civil society and local professional experts, not limiting the conversation to the corrupt political elite. The timeline of IMF facilities approved for Yemen suggests a period of relative prosperity between 1997 and 2010. But the prosperity the country witnessed on paper was not shared felt by Yemen's underclasses due to widespread corruption. The IMF programs would almost certainly have had better outcomes had they taken a hard line on corruption, much as they do on subsidies.

The ongoing civil war that began in 2014 and the Saudi-led coalition's military intervention since 2015 highlights the most relevant vulnerabilities in Yemen's economy. Oil production virtually ceased and remittances severely declined due to restrictions on financial transactions. Thus, Yemen depleted its hard currency reserves within a year. With the Yemeni rial rapidly depreciating more than 75 percent since the outbreak of hostilities, more than half of the population became food-insecure due to declining purchasing power and the scarcity of basic commodities. The freefall of the rial's value could only be halted with a Saudi deposit of \$2 billion. Yemen transformed from a country dependent on oil revenues and remittances to one that relied almost exclusively on humanitarian aid and the mercy of foreign donors.

As the years progressed and resources were disbursed to different corrupt governments of Yemen, the most notable growth has occurred in its accumulated debt. The focus on financial stability before development, on cutting subsidies before providing decent work, and on advocating for a free market before establishing that market makes experts and ordinary Yemenis question the feasibility of IFI interventions.

399 Khan, M.S. and Sharma, M.S. (2001) 'IMF conditionality and country ownership of programs (No. 1-142)', International Monetary Fund [Online]. Available at: <https://www.imf.org/external/pubs/ft/wp/2001/wp01142.pdf>.

7. The IMF in Iraq: Negotiating US Occupation, Debt Reduction, Conditionality, and Reconstruction

Bassam Yousif

Whereas IMF involvement in most other MENA countries may have followed more traditional models of neoliberal fiscal consolidation, the International Monetary Fund (IMF) in Iraq demonstrated a more realistic understanding of post-conflict dynamics and tread a delicate path between liberalization and the protection of social services. Nonetheless, its impact on the Iraqi economy and influence over its leaders paled in comparison to the impact of recurring cycles of conflict, Coalition Provisional Authority (CPA) policies, and Iraq's own political preferences.

Unlike most other countries in the Middle East, the IMF's contemporary engagement with Iraq occurred only recently in the aftermath of the 2003 conflict. While Iraq is a founding member of the IMF, it had no formal contact with the body since 1983.⁴⁰⁰ The IMF's engagement extends beyond the amounts of financing that it makes available, as it sends a positive signal to encourage lending from the larger donor community.⁴⁰¹ After the US invasion in 2003, Iraq sought technical assistance and emergency funding from the IMF to manage its post-conflict period. Later, the CPA made direct engagement with the IMF through Standby Agreements a condition for debt forgiveness.

For Iraq, the period following 2003 has generally been characterized by rising oil revenues, except for the downturn since 2014. In the same period, the IMF has been reassessing its own avowed positions and priorities, vis-à-vis increased concern over inequality,⁴⁰² greater emphasis on social welfare for the poor and vulnerable,⁴⁰³ increased concern over social spending,⁴⁰⁴ and a reevaluation of established positions.⁴⁰⁵ While the IMF has provided needed technical assistance, balancing new and old priorities has proved elusive with competing priorities getting in one another's way. As we shall see, repeated IMF calls for reform of the public distribution system (PDS) and insistence on paying international oil companies (IOCs) before state workers contradict the IMF's concern over the poor and nascent taste for more equality.

7.1 Iraq's Conditions in 2003

The IMF along with the post-2003 transitional Coalition Provisional Authority (CPA) tended to view Iraq's economic woes as largely associated with a failed statist development position.⁴⁰⁶ This perspective, however, ignores the toll that war and sanctions have had on Iraq's economy and society. While formally not at war for the entire period, Iraq has effectively remained in conflict since 1980.⁴⁰⁷ The Iran-Iraq

400 IMF (2004) Iraq: Use of Fund Resources - Request for Emergency Post-Conflict Assistance - Staff Report. IMF Country Report 04(325). Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq, p. 5 [Online]. Available at: shorturl.at/auDM0 (Accessed: 24 March 2019).

401 See IEO of the IMF (2018) The IMF and fragile states. Evaluation Report 2018, p. 16 [Online]. Available at: shorturl.at/fmpBN (Accessed: 1 May 2019).

402 See IMF (2013) A New Global Economy for a New Generation, by Managing Director Christine Lagarde. Davos, Switzerland, 23 October [Online]. Available at: shorturl.at/gyBD1; (Accessed: 28 March 2019), for example, the IMF (2013) Managing Director Lagarde's statement: I believe that the economics profession and the policy community have downplayed inequality for too long. Now all of us - including the IMF - have a better understanding that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust.

403 For Iraq see IMF (2004, p. 15).

404 For Egypt, Morocco and Tunisia, see Momani, B. and Lunz, D. (2014) Shifting IMF policies since the Arab uprisings, Policy Brief 34.

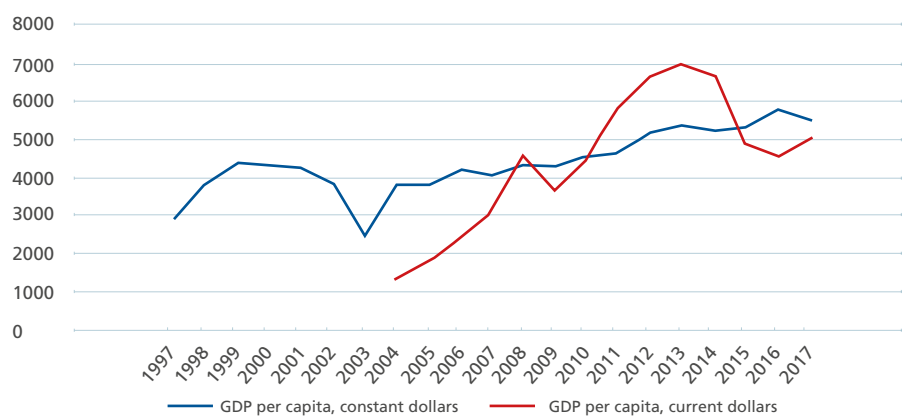
405 On capital controls see Rodrik, D. (2011) The Globalization Paradox: Democracy and the Future of the World Economy. New York: Norton, p. 95; and Stiglitz, J. (2018) Globalization and its Discontents Revisited: Anti-Globalization in the Era of Trump. New York: Norton, pp. 352-354.

406 See IMF (2004, p. 5). Interestingly, the Iraqi government (post 2003) makes a similar argument (ibid, p. 32).

407 Gordon, J. (2010) Invisible War: The United States and the Iraq Sanctions. Cambridge, MA: Harvard University Press; von Sponeck (2012). The title of the von Sponeck's (2012) book captures the argument made here in referring to economic sanctions, 1990 to 2003, as A Different Kind of War.

war (1980-1988) stymied Iraq’s ambitious development plans. After Iraq invaded Kuwait in 1990, it fell subject to comprehensive economic sanctions. The subsequent war in 1991 destroyed much of Iraq’s infrastructure; estimates placed the cost at \$232 billion, not counting reparations or lost income from oil exports.⁴⁰⁸ Sanctions from 1990 to 2003 prevented rebuilding with the UN-established oil-for-food program; the scale of the program was limited and insufficient to enable recovery to pre-war human capabilities let alone to undertake reconstruction. Gross fixed capital formation averaged 5.9 percent from 1991 to 2002 - a rate undoubtedly lower than the amount needed to replace exhausted capital. Iraq also lost much of its skilled labor through emigration, later complicating reconstruction efforts.⁴⁰⁹ Infant mortality surged during this period, not only because of the inability to pay for medicine but also because of the loss of skilled personnel.

Figure 7.1: Iraq’s GDP per capita (in constant and current in USD)



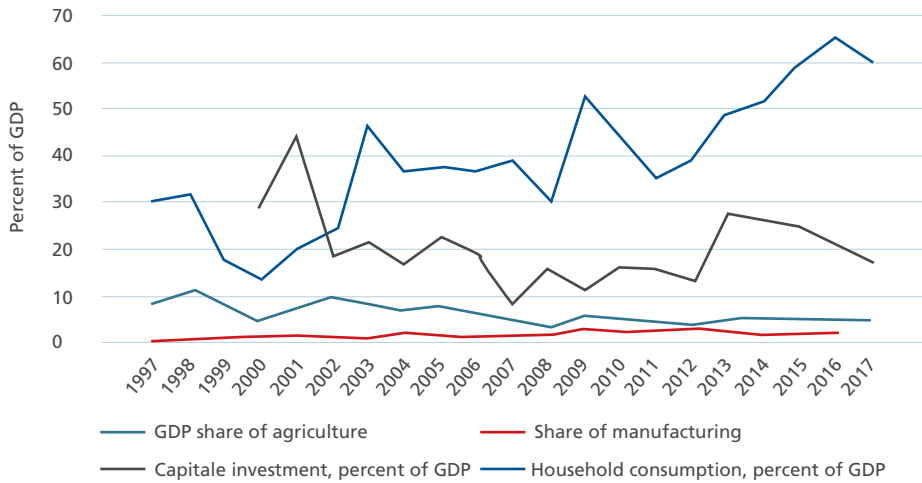
Source: theGlobalEconomy.com (2019).

GDP estimates underrate the extent of sanctions-induced deterioration in living standards, as GDP estimates include the value of oil output (Figure 7.1).⁴¹⁰ Iraq received only part of the oil revenues from the oil-for-food program with the rest remaining in UN accounts, funding UN operations, or paid as war reparations to entities harmed by Iraq’s invasion of Kuwait. Capital investment rose in response to the commencement of the program in 1998, but far below levels seen in preceding decades (Figure 7.2). GDP declined in 2003 due to the US-UK invasion but recovered the following year. Yet even in 2004, per capita GDP at current prices stood well below \$2,000.

One important economic aspect of this period includes a modest revival of Iraq’s agriculture sector during the 1990s. In fact, sanctions made the sector more profitable relative to manufacturing and other activities and idle and impoverished labor flowed into agriculture from these sectors, reversing a long-term trend.⁴¹¹ Overall, sanctions also brought about unemployment and steeply rising poverty as inflation wiped out middle-class savings.

408 Alnaswawi, A. (1994) *The Economy of Iraq: Oil, Wars, Destruction of Development and Prospects, 1950-2010*. London: Greenwood, p. 152.
 409 See Yousif, B. (2016). ‘Iraq’s stunted growth: human and economic development in perspective’, pp. 223-4, *Contemporary Arab Affairs*, 9(2), pp. 212-236.
 410 GDP per capita at current prices is economic activity valued at current prices while GDP at constant prices is economic activity valued at the prices of a set (base) year; the latter is typically a better indicator of living standards as it accounts for price inflation. In the case of Iraq, both tend to understate the effects of sanctions as oil output is factored into both, even though Iraq received only a fraction of the resulting revenues.
 411 Yousif, B. (2016, p. 211).

Figure 7.2: Key Macroeconomic Indicators in Iraq



Source: theGlobalEconomy.com (2019), accessed: 19 March 2019.

7.2 CPA Policies

Economies or regions emerging from conflict cannot respond to price signals and policy measures in the same way as economies at peace, as institutions may be defective or destroyed, or markets (including labor markets) may not be working properly.⁴¹² Thus, regulatory institutions are likely to be absent and prices may fail to reflect scarcities. Reconstruction policies are most likely to succeed when they reinforce rather than work against domestic political forces and established institutions, and when they mitigate (rather than widen) horizontal inequalities, which tend to be associated with internal conflict.⁴¹³ In practice, the CPA did the opposite.

The CPA viewed Iraq's economy as inefficient and bedeviled by excessive state control.⁴¹⁴ In reality, economic sanctions had forced the state to withdraw from most economic activities except for the PDS, which allocated food to the population at nominal prices and likely averted famine during sanctions.⁴¹⁵ To achieve allocative efficiency and attract investment - notably foreign direct investment (FDI) - the CPA enacted reforms that allowed for foreign ownership of assets within Iraq (except in the oil sector), applied a low and flat tariff on all imports, cut corporate taxes, and lifted foreign exchange controls (allowing multi-national corporations to repatriate profits). In conjunction with these reforms, the CPA disbanded the Iraqi army and pursued de-Baathification, laying-off about 500,000 people - roughly 8 to 10 percent of the labor force.⁴¹⁶

412 Stewart, F. and FitzGerald, V. (eds.) (2001a) 'Introduction: Assessing the Economic Costs of War', p. 11, War and Underdevelopment: Volume 1: The Economic and Social Consequences of Conflict. New York: Oxford; and Stewart, F. and FitzGerald, V. (eds.) (2001b) 'The Cost of War in Poor Countries: Conclusions and Policy Recommendations', War and Underdevelopment: Volume 1: The Economic and Social Consequences of Conflict. New York: Oxford.

413 Stewart, F. and FitzGerald, V. (2001b, p. 226, 228).

414 While a consideration of Iraq's economic development strategies falls outside the scope of the present analysis, it is important to note that Iraq achieved respectable gains in human development and capital formation during the 1970s, statist (centralized) developmental model notwithstanding (Yousif, B., 2016).

415 Gazdar, H. and Hussain, A. (2002) 'Crisis and Response: A Study of the Impact of Economic Sanctions in Iraq', In Mahdi, K.A. (ed.) Iraq's Economic Predicament. Reading: Ithaca Press, pp. 30-83.

416 See CPA (2003) CPA Official Documents [Online]. Available at: <https://govinfo.library.unt.edu/cpa-iraq/regulations/> (Accessed: 5 April 2019); and Yousif, B. (2007) 'Economic Restructuring in Iraq: Intended and Unintended Consequences', Journal of Economic Issues, 41(1), pp. 43-60.

These measures did little to promote investment and aggravated domestic conflicts and instability.⁴¹⁷ Capital formation only averaged 10 to 25 percent of GDP from 2004 to 2008 - a pittance for a country seeking to rebuild after decades of war and sanctions. Rising oil prices and public sector pay elevated household consumption, resulting in a steady but unspectacular rise in real GDP. The stagnation in capital expenditure during this period reflects not only the struggles of reconstruction in conditions of depleted physical infrastructure and skills, but also CPA policies that aggravated these constraints.⁴¹⁸ The United States allocated \$18.4 billion to rebuild Iraq, but so long as Iraq's outstanding debts remained unresolved, creditors could make claims on those investments.⁴¹⁹

7.3 The Return of the IMF

Former Finance Minister Ali Allawi, with unique insight into CPA and Iraqi government policy debates, noted CPA suspicion of international agencies at the beginning of the occupation in 2003, given that these agencies harbored doubts about legality and wisdom of the Iraq war.⁴²⁰ In fact, international organizations refused to engage with Iraq (even on the level of technical assistance) until an internationally recognized government in Baghdad was established.⁴²¹ The passage of UN Security Council Resolution 1483 in May 2003 eased these fears; the resolution effectively recognized the US-UK occupation of Iraq, lifted UN economic sanctions, and mandated an International Advisory and Monitoring Board (IAMB) to monitor CPA expenditures.⁴²² The resolution also allowed the CPA to access the Development Fund for Iraq (DFI), made up of Iraq's frozen and seized assets, and transferred Iraq's balance in the oil-for-food program to the DFI. The CPA preferred to use DFI funds rather than US-provided funds as US-funds were subject to congressional scrutiny.⁴²³ In contrast, the IAMB complained that the CPA refused its repeated requests for information about CPA spending on 'sole-sourced contracts' (originating from non-competitive bidding).⁴²⁴

As noted, Iraq had only limited contact with the IMF from 1983 to 2003.⁴²⁵ But with the return of international agencies to Iraq, the IMF sent a 'fact-finding mission' to Baghdad in June 2003, followed by a macroeconomic assessment in October 2003.⁴²⁶ To its credit, the IMF stressed the need to minimize the disruption to social safety nets (i.e. the PDS and hydrocarbon subsidies to a lesser extent), broaden central government revenues beyond the sale of oil, control inflation, and maintain a liberal trade regime. Over the longer term, the IMF advocated for reform of the PDS from an in-kind and comprehensive program to a targeted cash scheme, but wanted to avoid a collapse in entitlements (that could result in hunger or malnutrition) in the event of abrupt implementation.⁴²⁷ Likewise, the IMF advocated for the eventual privatization or even closing of some state-owned enterprises (SOEs,

417 See Yousif, B. (2016).

418 See Yousif, B. (2007).

419 This would eventually rise \$60 billion, a third of which was spent on rebuilding Iraq's security. While much of the \$60 billion was misspent, it is a small fraction of the total \$767 billion spent by the US in Iraq, according to CBS (2013) Much of the \$60B from U.S. to rebuild Iraq wasted, special auditor's final report to Congress shows [Online]. Available at: <https://www.cbsnews.com/news/much-of-60b-from-us-to-rebuild-iraq-wasted-special-auditors-final-report-to-congress-shows/> (Accessed: 7 April 2019).

420 Allawi, A. (2007) *The Occupation of Iraq: Winning the War, Losing the Peace*. New Haven: Yale UP, pp. 124-125.

421 Tran, M. (2003) 'UN crucial to rebuilding Iraq', *The Guardian*, 11 April [Online]. Available at: <https://www.theguardian.com/business/2003/apr/11/iraq.economicdispatch>, (Accessed: 8 April 2019).

422 See UN (2003a) Text of UN Security Council Resolution 1483. S/RES/1483 [Online]. Available at: [https://undocs.org/S/RES/1483\(2003\)](https://undocs.org/S/RES/1483(2003)) (Accessed: 7 April 2019).

423 Allawi, A. (2007, p. 123).

424 See IAMB (2004) Press release June 22 2004 [Online]. Available at: <http://www.iamb.info/pr/pr062204.htm> (Accessed: 7 April 2019).

425 IMF (2004, p. 5).

426 IMF (2003a) Transcript of Press Briefing by Thomas C. Dawson, IMF Director of External Relations [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/28/04/54/tr030612> (Accessed: 5 April 2019); and IMF (2003b) Iraq: Macroeconomic Assessment [Online]. Available at: <https://www.imf.org/external/np/oth/102103.pdf> (Accessed 24 March 2019).

427 IMF (2003b, pp. 20-21).

most of which were inefficient, overmanned, or simply idle)⁴²⁸ but recognized that the associated unemployment would create risk, in terms of loss of income, impoverishment, and social stability, echoing the UN-World Bank needs assessment.⁴²⁹

This approach contrasted with the CPA's program for SOEs, announced in September 2003, based on a 'shock therapy' model borrowed from Eastern Europe. The CPA drew up a plan of rapid privatization with no consultation from Iraqis. In fact, the Iraqi Governing Council condemned the plan, which ignored the reality that no one would purchase the SOEs (many of which were insolvent, had been looted, and needed restructuring or rehabilitation). These privatization plans were abandoned in November 2003. Yet the CPA made no effort to rehabilitate the SOEs or productively engage its workers, who continued to be paid. Instead the CPA denied many of the SOEs resources needed to rebuild. Thus, SOEs that produced cement and fertilizer were denied capital and forced Iraq to import cement and fertilizer at a high cost in its rebuilding.⁴³⁰

7.4 Debt Reduction

By April 2003, the United States began asking Iraq's creditors, including countries that had opposed the war, to forgive Iraq's debts or otherwise reduce them substantially. US Treasury Secretary Snow noted, "The people of Iraq shouldn't be saddled with those debts incurred through the regime of the dictator who's now gone."⁴³¹ This basically invoked an 'odious debt' argument, whereby it is considered immoral to compel a country to pay for unaccounted expenditures that benefitted its leaders but harmed its population.⁴³² Members of the Iraqi cabinet welcomed the full cancellation of Iraq's debts, but it was Snow's Treasury, according to Allawi, that opposed full debt cancellation.⁴³³

The IMF estimated Iraq's debt at approximately \$125 billion in late 2003, which was roughly seven times GDP and clearly unsustainable.⁴³⁴ Of this amount, Iraq owed roughly \$42 billion to sovereign Paris Club creditors, \$67.3 billion to non-Paris Club sovereign creditors, and \$15 billion to private lenders.⁴³⁵ The IMF recommended that 90 to 95 percent of Iraq's debt be written-off and the US cancelled all of Iraq's debt of \$4.1 billion in December 2004.⁴³⁶ However, it was agreed in November 2004 that Paris-Club lenders would write off only 80 percent of the total debt: 30 percent of the debt was cancelled immediately, with the remaining 50 percent in stages and over three years. By the end of 2004, after the 30 percent write-off, Iraq's stock of debt had declined to \$78 billion - still unsustainable, but nonetheless improved.⁴³⁷

428 In 2003, roughly 500,000 persons were employed in SOEs, in addition to 1,000,000 in the Iraqi civil service (IMF, 2003b, p. 9).

429 IMF (2003b, pp. 4-5); UN (2003b, pp. 11, 40-41).

430 Henderson, A.E. (2005) The Coalition Provisional Authority's Experience with Economic Reconstruction in Iraq. USIP report 138. United States Institute for Peace, pp. 11-12 [Online]. Available at: <https://www.usip.org/sites/default/files/sr138.pdf> (Accessed: 7 April 2019).

431 Tran, M. (2003).

432 For an application of 'odious debt' doctrine to Iraq, see Adams, P. (2004) Iraq's Odious Debt. Cato Institute Policy paper 526 [Online]. Available at: <https://object.cato.org/pubs/pas/pa526.pdf?referer=www.clickfind.com.au> (Accessed: 8 April 2019).

433 Allawi, A. (2007, pp. 427-429).

434 IMF (2004, p. 44); This external debt is separate from compensation for war damages caused to Kuwait in Iraq's 1990-1991 occupation of that country, which Iraq continues to pay, according to Reuters (2018) Iraq resumes payments of Gulf War reparations to Kuwait [Online]. Available at: <https://www.reuters.com/article/us-mideast-crisis-iraq-kuwait-un/iraq-resumes-payments-of-gulf-war-reparations-to-kuwait-idUSKBN1HR26Q> (Accessed: 7 March 2019).

435 Paris Club counties are an informal group of 22, mostly Western, nations, but also include Russia, Brazil and South Korea, see Paris Club (2019) Paris Club [Online]. Available at: <http://www.clubdeparis.org/> (Accessed: 6 April 2007). They are distinct from Iraq's non-Paris club creditors, such as China, Kuwait and Saudi-Arabia.

436 CNN (2004) US cancels Iraq's \$4.1 billion debt [Online]. Available at: <http://www.cnn.com/2004/WORLD/meast/12/17/iraq.main/> (Accessed 3 April 2019).

437 IMF (2005) Iraq: 2005 Article IV Consultation - Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Iraq, p. 13. [Online]. Available at <https://www.imf.org/external/pubs/ft/scr/2005/cr05294.pdf> (Accessed: 9 February 2020).

As a condition to receiving the remaining 50 percent reduction in external debt, Iraq was required to carry out some structural reforms embodied in Standby Agreements with the IMF. The deal with Paris Club creditors put pressure on non-Paris club members to reach similar accommodations; indeed, Saudi Arabia reached an agreement similar to the Paris Club's while Kuwait moved towards 100 percent cancellation of debt (distinct from war reparations).⁴³⁸ For the Iraqi government, the debt write-off was "one of the unalloyed successes of the entire post-war period."⁴³⁹

7.5 Conditionality and Lending Arrangements

Iraq obtained IMF Emergency Post-Conflict Assistance (EPCA) of 297 million SDR⁴⁴⁰ in 2004, an emergency lending arrangement with limited conditionality (see Table 1).⁴⁴¹ Iraq would obtain a similar Rapid Finance Agreement (RFI) loan later in 2015 in the context of declining oil prices and the conflict with the Islamic State (known as ISIS, ISIL, or Daesh). The Iraqi government indicated that it intended to use the EPCA to maintain macroeconomic stability - i.e. to control inflation through exchange rate management, modernize banking structures and their supervision, rehabilitate the crucial oil sector, and improve data collection.⁴⁴² The IMF also offered policy advice and technical assistance. On policy, the CPA had instituted new foreign trade, corporate governance, and foreign investment measures, so Iraq promised nothing more at this point. On technical assistance, the IMF had since 2003 offered advice on, among other things, how to improve collected statistics and recommendations about current accounting conventions, surveys, and censuses. Iraq had a dire need for this type of assistance, given the loss of much of its technical capacity over the past decade.

Table 7.1: Summary of IMF lending arrangements with Iraq (as of 1/31/2017)

Facility	Date of Arrangement	Expiration Date	Amount Agreed (SDR) ('000)	Amount Drawn (SDR) ('000)	Amount Outstanding (SDR) ('000)
EPCA	Sep 24, 2004	Dec 31, 2005	297,100	297,100	0
RFI	Jul 29,2015	NA	891,300	NA	NA
Standby Ar- rangement	Jul 07, 2016	Jul 06, 2019	3,831,000	910,000	910,000
Standby Ar- rangement	Feb 24, 2010	Feb 23, 2013	2,376,800	1,069,560	0
Standby Ar- rangement	Dec 19, 2007	Mar 18, 2009	475,360	0	0
Standby Ar- rangement	Dec 23, 2005	Dec 18, 2007	475,360	0	0
Standby Agree- ment Totals			7,158,520	1,979,560	910,000

Source: IMF (2004, p. 1, 45), IMF (2015) & IMF (2019).

438 Reuters (2007a) Paris Club prods Kuwait and Saudi over Iraqi debt [Online]. Available at: <https://www.reuters.com/article/us-debt-iraq-interview/paris-club-prods-kuwait-and-saudi-over-iraqi-debt-idUSL2548938920070927> (Accessed: 9 April 2019); Reuters (2007b) Saudi Arabia writes off most of Iraq's debt [Online]. Available at: shorturl.at/npmO7 (Accessed: 10 April 2019); and Reuters (2008) Kuwait to ask MPs to forgive Iraqi debt [Online]. Available at: shorturl.at/qrTtW.

439 Allawi, A. (2007, p. 428).

440 IMF Special Drawing Rights (SDR) is an IMF international reserve asset whose value is based on a weighted basket of five currencies: US dollar, Euro, Yen, Renminbi and GB Pound. In December 1, 2004, for example, one \$ US exchanged for 0.65 SDR. For historical exchange rates, see IMF (2019b) Exchange Rate Archives by Month [Online]. Available at: shorturl.at/bwKLT (Accessed: 10 April 2019).

441 IMF (2004, p. 2) and IMF (2011) Factsheet: IMF Emergency assistance: Supporting Recovery from Natural Disasters and Armed Conflict, p. 12 [Online]. Available at: <https://www.imf.org/external/np/exr/facts/pdf/conflict.pdf> (Accessed: 10 April 2019).

442 IMF (2004, pp. 10-22).

With the first Standby Agreement required for debt reduction, the IMF and Iraqi government agreed to tackle more wide-ranging reforms.⁴⁴³ These reforms were consistent with, and to some extent flow from, the IMF's initial evaluation in 2003. First, the IMF favored a near balanced budget and advocated strict control of public sector wages, salaries, and pensions. Related measures included IMF-advocated curbs on spending, including capital spending, and the diversification of revenue sources. Second, the IMF supported structural reforms, including reducing distortionary subsidies (such as petroleum product subsidies, which had actually been slated to be reduced earlier with the ECPA), reforming the PDS to a targeted and cash-based program, improving governance, and reducing corruption. To help combat corruption, the IMF called for an external audit of the Central Bank of Iraq (CBI) and census of public employees, among other measures. Third, the IMF appeared ever-concerned about price stability and hence supportive of the Iraqi dinar's effective peg to the US dollar.

For the Iraqi government, reducing oil product subsidies followed from both financial and political (or security) logic. From a financial point of view, the subsidies drained Iraq's budget. In 2005, the government had priced domestic regular gasoline sold by the state at less than one-twentieth the international price.⁴⁴⁴ Iraq had originally intended to tackle the subsidy issue in 2004 - part of what it planned to do with the EPCA - but this was a particularly sensitive issue that directly impacted national security and social stability. Neither the CPA nor the interim government wanted to touch it, instead passing it on to the new transitional government to handle.⁴⁴⁵ While a major oil producer, Iraq had to import some oil products (such as premium gasoline and diesel) due to its limited refining capacity, with the cost of the subsidy rising to nearly 20 percent of Iraq's budget in 2005.⁴⁴⁶ Criminal groups smuggled some of these oil products (including the imported products) out of Iraq and sold them for an enormous profit. The illicit oil trade wound up feeding Iraq's insurgency, which was connected to and often profited from smuggling networks.⁴⁴⁷ Thus, the transitional government raised petroleum prices in stages starting in late 2005, eventually increasing to twenty times their former amount by 2010.⁴⁴⁸ An unpopular measure, this approach induced exactly the type of popular protests for which previous administrations wanted no responsibility.⁴⁴⁹

Iraq did not need to draw on its first two Standby Agreements, which ran from late 2005 to early 2009, as it benefitted from rising oil prices and output from 2004 to about 2009. But oil price reversals - as occurred in 2008-2009, and more recently since 2014 - resulted in budgetary difficulties (see Figure 3). The oil price decline coincided with the conflict with the Islamic State in June 2014, further exacerbating budgetary pressures for increased war expenditures against Daesh, not to mention future reconstruction costs. Oil revenues made up the vast majority of government income (more than 90 percent in 2013 to 2015) and paid for public sector wages and capital investments.⁴⁵⁰ Not counting SOE employees, the number and cost of public workers exploded since the US occupation, rising from 900,000 (or 22 percent of all workers) in 2003 to more than 3 million in 2015 (or 42 percent) and corresponding to a rise from 7 percent of total government expenditure to 38 percent in 2015.⁴⁵¹ While the decline in oil prices put pressure on the Iraqi government to conduct mass layoffs, easing

443 IMF (2006) Iraq: Request for Stand-By Arrangement - Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq. IMF country report, 06(15) [Online]. Available at: shorturl.at/kDHLV (Accessed: 12 April 2019).

444 IMF (2005, p. 11).

445 Allawi, A. (2007, p. 359).

446 IMF (2005, p. 11); Allawi, A. (2007, p. 358).

447 Allawi, A. (2007, p. 359).

448 Energypedia (2019) Fuel price Data Iraq [Online]. Available at: https://energypedia.info/wiki/Fuel_Price_Data_Iraq (Accessed: 12 March 2019).

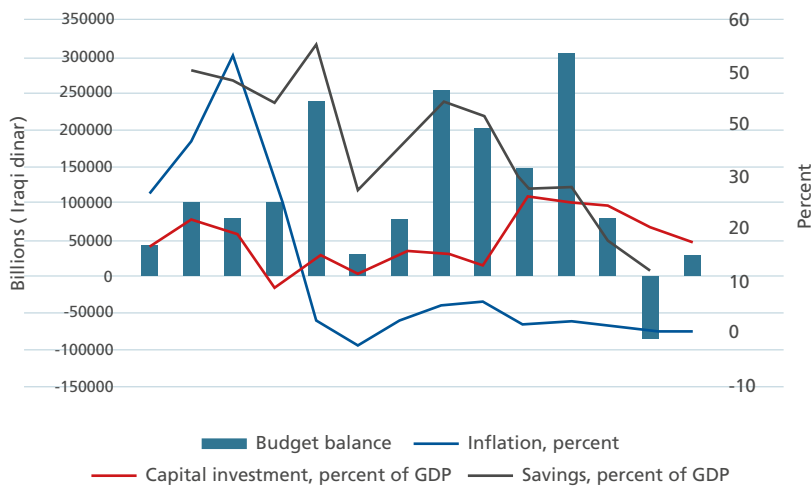
449 Daily Star (2006) Iraqi fuel hike leads to protests and four demonstrators dead [Online]. Available at: <http://www.dailystar.com.lb/ArticlePrint.aspx?id=68138&mode=print> (Accessed 1 April 2007).

450 The World Bank (2017) Iraq Systematic Country Diagnostic. Report N. 112333-IQ, p. 63.

451 The World Bank (2017, pp. 64-5).

costs and balancing the budget, this approach was politically infeasible. Hence, the Iraqi government exhausted accumulated surpluses from previous years and borrowed both domestically and from abroad. This spending created a renewed rise in public debt. After gaining debt sustainability from the Paris-club and non-Paris club debt write off, debt as percentage of GDP rose from 32 percent in 2014 to 65 percent in 2018.⁴⁵² Iraq financed most of this debt domestically and through international borrowing at concessional rates, due to its constrained ability to raise capital on its own in international capitalmarkets.⁴⁵³

Figure 7.3: Budget balance, savings, investment and inflation



Source: CBI (2019), theGlobalEconomy.com (2019).

The state reacted to budgetary pressures by delaying or cancelling public investment projects. Carrying out capital spending has been difficult since 2003, with conflict, instability, the loss of human capital through migration, and reduced state capacity all slowing capital formation and raising its costs.⁴⁵⁴ From 2005 to 2009, the Iraqi government spent only 50-60 percent of its planned capital spending, but more than 80 percent of its recurrent spending.⁴⁵⁵ The state conducted most capital spending, especially large-scale reconstruction projects, accounting for roughly two-thirds of Gross Domestic Investment in 2013-2015.⁴⁵⁶ Declining investment since 2014 (Figure 3) is mostly the result of reduced state investment. For only a brief period (2013-2015) did investment exceed 25 percent of GDP, as investment rates were too low to sustain recovery from sanctions and conflict at the time.

Price stability had mostly been maintained, except for the 2004 to 2007 interval when the country was effectively engaged in civil conflict accompanied by severe disruptions in the movement of goods and people. The adoption of a liberal trade policy since 2008 led to low inflation and a managed peg with the US dollar (roughly \$1 to 1,200 Iraqi Dinar, ID) effectively preserved Iraqi Dinar purchasing power

452 IMF (2017a) 'Iraq Staff Report for Article IV Consultation, second review under the three-year Stand-by Agreement, and requests for Waivers of nonobservance and applicability of performance criteria, and modification of performance criteria', press release; staff report; and statement by the executive director for Iraq, p. 13.

453 The rate of interest that Iraq pays on US government guaranteed debt is 2.1%, much lower than the 9% that lenders demand for unguaranteed debt Reuters (2017) Iraq announces sale of \$1bn in bonds guaranteed by US [Online]. Available at: [shorturl.at/vACi0](https://www.reuters.com/article/us-iraq-bonds/iraq-announces-sale-of-1-billion-in-bonds-guaranteed-by-us-idUSKBN170001) (Accessed: 8 April 2019).

454 Yousif, B. (2016) 'Iraq's stunted growth: human and economic development in perspective', *Contemporary Arab Affairs*, 9(2), pp. 212-236.

455 The World Bank (2014b) Republic of Iraq-Public expenditure review: towards more efficient spending for better service delivery. Washington, D.C., p. 36.

456 The World Bank (2017, p. 63).

for tradable goods. The IMF consistently encouraged the peg, arguing that it provides a 'nominal anchor' and reduced exchange rate uncertainty⁴⁵⁷ - this despite a rising real exchange rate due to the somewhat higher inflation rate in Iraq in comparison to the US.⁴⁵⁸ Thus the IMF likely understood Iraq's inability to respond to price changes in terms of exports or import substitution.⁴⁵⁹ Devaluing Iraq's currency would not rapidly make its agriculture or industry more competitive: manufacturing was largely obsolete, destroyed, or lacking in essential inputs such as electricity, while agriculture had been long neglected, hence their low contributions to GDP; devaluation would have fueled inflation as such. However, if the intent was to attract foreign investment by reducing exchange rate uncertainty, this factor appears to have been secondary: after rising steadily post-2004, FDI peaked at \$6 billion in 2013, only to decline precipitously thereafter.⁴⁶⁰ Security was a more important determinant of FDI than exchange rate risk.

On all three sets of IMF emphases - budgets, subsidy reform, and macroeconomic (price) stability - Iraq made some progress. While control over public sector employment and wage increases proved elusive, rising oil prices and output along with the inability to spend allocated capital expenditures meant fewer budgetary pressures. Iraq completed some structural reforms and promised more (such as the PDS reform). Price stability was also maintained as the IMF signed off on Iraq's debt reduction.

7.6 Limited IMF influence

IMF influence peaked during the period immediately corresponding with the start of its engagement in 2003 until Iraq obtained the full 80 percent reduction in Paris-club debt in 2008 and 2009. The period since 2010, however, has arguably been one of diminished impact. Since then, the IMF repeatedly criticized the Iraqi government for poor fiscal performance, weak financial management, the accumulation of arrears, and the lack of available and reliable economic data.⁴⁶¹ The IMF also complained of various subsidies and welfare programs, including energy and electricity subsidies, not to mention an unreformed PDS.⁴⁶²

The PDS has remained a sore point for the IMF with Iraq's reluctance to tackle the issue. Originally constructed to guarantee access to basic food items (e.g. wheat flour, rice, and sugar) during economic sanctions, the program continued after sanctions relief. The Iraqi government promised in 2003 to transform the program into a targeted and cash-based program, but successive administrations have shied away from making the change. The program is basically universal, reaching 99.4 percent of the poor and 98.6 percent of the non-poor in 2018 - equivalent to about 30 percent of the income of the poorest 10 percent (although coverage has receded more recently as a result of the conflict with the Islamic State).⁴⁶³ The program's price tag, however, reached 1.8 percent of GDP in 2014. As an in-kind program, it also requires procurement and distribution, which has led to corruption and mismanagement.⁴⁶⁴ Only marginal change to this program occurred, such as digitization of

457 See for example IMF (2017a, p. 19, 29).

458 See IMF (2017a, p. 47).

459 IMF (2017a, p. 19).

460 The World Bank (2017, pp. 58-9).

461 See for example IMF (2013) A New Global Economy for a New Generation, by Managing Director Christine Lagarde. Davos, Switzerland, 23 October, p. 8 [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp012313> (Accessed: 28 March 2019); IMF (2015) Iraq: 2015 Article IV Consultation and Request for Purchase under Rapid Financing Instruments, p. 13, 31 [Online]. Available at: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Iraq-Staff-Report-for-the-2015-Article-IV-Consultation-and-Request-for-Purchase-Under-the-43198> (Accessed: 6 April 2019); IMF (2017a, p. 8, 79).

462 IMF (2015, p. 23).

463 The World Bank (2018) Iraq Economic Monitor: Towards Reconstruction, Economic Recovery and Fostering Social Cohesion. Washington, D.C., p. 28.

464 The World Bank (2017, pp. 85-86).

the database and withdrawing eligibility for some highly paid civil servants.⁴⁶⁵ The popularity of the program, its universality, and critically the lack of any alternative targeted programs provided little incentive for the Iraqi government to follow IMF dictates against untargeted and in-kind programs.⁴⁶⁶

The Iraqi government generally proceeded with reform at its own pace, influenced more by domestic political considerations than IMF pressure. The IMF repeatedly stated the need to restructure and/or privatize SOEs.⁴⁶⁷ A total of 176 SOEs employ roughly 500,000 in a variety of activities; they enjoy privileged access to credit (provided by state-owned banks) and are estimated to have 30-50 percent more employees than they need; most SOEs are unprofitable.⁴⁶⁸ Nonetheless, the government refused to substantially address the thorny issue of SOE restructuring or sale, with SOE workers and civil servants forming a vital constituency for politicians. On the issue of trade liberalization, there has been some reversal. In September 2003, CPA Order 38 imposed a flat 5 percent import duty, with some exceptions depending on type of good; this rate increased to rates as high as 80 percent on some imported items by 2017, with the IMF recommending reductions and more standardization.⁴⁶⁹ On issues such as diversification of government revenue away from oil - especially important in the context of threats from Daesh and collapsing oil prices since 2014 - there was limited success.⁴⁷⁰

In the context of this 'double shock,' the IMF demanded that the Iraqi government privilege payments to international oil companies (IOCs) over domestic spending, as Iraq accessed both RFI and Standby funding. In the petroleum sector, Iraq avoided profit-sharing agreements and paid IOCs fees that partly depend on the volume of oil that companies can produce from the oil fields they develop. Amid the oil price collapse, Iraq delayed payments to IOCs and sought to renegotiate these fees, reaching agreement in 2016.⁴⁷¹ The fiscal crisis caused pay delays to some SOE workers and civil servants and suspended reparations payments to Kuwait.⁴⁷² The IMF's insistence on prioritizing payments to IOCs weakened Iraq's negotiating position with those companies and is impossible to justify in purely financial terms - i.e. why would defaulting on paying employees appear more credible than defaulting on paying contractors? Iraq's large oil reserves would have prevented IOC retaliation against Iraq for delayed payments, making the long-term cost hard to discern. IMF actions likely undermined support for its other proposals, beneficial or not. The move also reinforced criticism that IMF loans primarily provide bail-outs to Western multinational corporations rather than improve the wellbeing of the local population (similar criticisms of IMF measures emerged during the East Asian crisis in the 1990s and more recently with Greece.).⁴⁷³ Perversely, the IMF called for the protection of domestic social spending, even as it recommended favoring foreign multinationals.

465 World Food Program (WFP) (2019) WFP supports Iraq in modernizing its Public Distribution System [Online]. Available at: <https://www1.wfp.org/news/wfp-supports-iraq-modernising-its-public-distribution-system> (Accessed: 17 April 2019); The World Bank (2017, p. 86).

466 Iraq's Social Protection Net is a cash grant program but only 11% of the poor received benefits from the program in 2012, see Alkhoa, Gh., Neman, R. and Hariz, S. (2016) 'Social Safety Nets in Iraq: Reform in a Time of Fragility, Conflict and Violence', World Bank MENA Knowledge and Learning, No. 161, p. 1 [Online]. Available at: <http://documents.worldbank.org/curated/en/123131478838198082/Social-safety-nets-in-iraq-reform-in-a-time-of-fragility-conflict-and-violence> (Accessed: 12 April 2017).

467 See for example IMF (2015, p. 24).

468 The World Bank (2017, pp. 70-71). Profit is an inappropriate measure of the worth of public enterprises, as social and not purely private benefits and costs have to be considered. But the output, employment and income that SOEs generate has to be weighed against the cost (both direct and in terms of inhibiting private initiative that is not government subsidized in the sectors where SOEs operate). Nonperforming SOEs have been allocated annual funds in excess of those devoted to essential service-delivering sectors such as health, education, water, and sanitation (The World Bank, 2014b, pp. 30-31).

469 See CPA (2003) CPA Official Documents [Online]. Available at: <https://govinfo.library.unt.edu/cpa-iraq/regulations/> (Accessed: 5 April 2019); IMF (2017a, p. 26).

470 See IMF (2017c) Iraq: Selected Issues, pp. 16-25 [Online]. Available at: <https://www.imf.org/en/Publications/CR/Issues/2017/08/09/Iraq-Selected-Issues-45175> (Accessed: 1 May 2019).

471 Reuters (2016) Iraq to pay \$2 billion in arrears to foreign companies: deputy oil minister [Online]. Available at: <https://www.reuters.com/article/us-iraq-energy/iraq-to-pay-2-billion-in-arrears-to-foreign-companies-deputy-oil-minister-idUSKCN0W61FO> (Accessed: 1 April 2019).

472 Financial Times (2015) Iraq's cash crisis forces salary squeeze [Online]. Available at: <https://www.ft.com/content/23f1c6d0-b9e0-11e4-933f-00144feab7de> (Accessed: 25 April 2019).

473 See Stiglitz, J. (2015) 'How I would vote in the Greek referendum', The Guardian [Online]. Available at: <https://www.theguardian.com/business/2015/jun/29/joseph-stiglitz-how-i-would-vote-in-the-greek-referendum> (Accessed: 1 May 2019); and Stiglitz, J. (2018) Globalization and its Discontents Revisited: Anti-Globalization in the Era of Trump. New York: Norton, pp. 183-224.

Iraq ultimately delayed payments to both civil servants and workers at SOEs as well as IOCs.⁴⁷⁴ It also slashed its planned capital expenditures after 2014, with the support of the IMF.⁴⁷⁵ Iraq met only three out of six structural benchmarks (mostly audits and surveys) that the IMF required and argued successfully that one of the benchmarks - namely the IMF requirement to pay arrears to IOCs - be relaxed.⁴⁷⁶ The IMF also failed to impose its will in other areas: Iraq slashed its budget allocation to the Kurdistan Regional Government to 12.6 percent of the federal budget in 2017, well below the IMF's recommended 17 percent.⁴⁷⁷ The pattern of behavior clearly suggests that when the Iraqi state viewed IMF strictures as contrary to its own geopolitical or regional interests, it has not hesitated to do the opposite. This has been more evident since Iraq's debt write-off.

7.7 Employment, Poverty, and Human Development

The apparent insouciance towards IMF dictates lies primarily in the structure of Iraq's economy and the prominence of oil.⁴⁷⁸ The Iraqi government wields only partial control over oil output (subject to technical limitations and OPEC oil production quotas) and virtually no control over international oil prices. Price fluctuation can cause massive swings in revenue and relax restraints on Iraq's spending when oil prices are rising. Ultimately, rising oil prices since 2003 and to a lesser extent expanding output has allowed the Iraqi state to continue to expand the bureaucracy as it has - IMF advice notwithstanding.

Short to medium-term political calculations for Iraq's government also runs counter to efforts aimed at curbing the public payroll and restructuring SOEs. The 2019 budget passed by parliament in January inflated public salaries - a case in point.⁴⁷⁹ With economic fortunes rising and falling with international oil prices and revenues, Iraq's public sector employment cannot expand sufficiently to act as either an efficient or an equitable allocator of oil revenues, nor can private sector employment respond adequately to even robust GDP growth. GDP grew by 40 percent from 2007 to 2012, but only 750,000 jobs were created, 80 percent of which were in the public sector. In the same period, poverty rates declined only marginally and unevenly as the expansion in jobs and income only peripherally reached the poor.⁴⁸⁰ The conflict with ISIS and population displacement since 2014 reversed the small gains against poverty of prior years.⁴⁸¹

Sanctions, decades of conflict, deteriorating infrastructure and significant brain drain have contributed to stagnant development outcomes, regardless of the IMF's narrative about the need to protect social spending. In health, life expectancy at birth declined slightly between 2000 and 2007, but has increased since. Child and maternal mortality rates also declined from 2005 to 2011⁴⁸² despite limited spending as a portion of GDP on health vis-à-vis comparator countries.⁴⁸³ In education, a modest increase in net

474 Financial Times (2015).

475 IMF (2017, p. 29).

476 IMF (2016) Iraq: Letter of Intent [Online]. Available at: <https://www.imf.org/external/np/loi/2016/irq/12162016.pdf> (Accessed: 23 March 2019); and IMF (2017b) Iraq: Letter of Intent [Online]. Available at: <https://www.imf.org/external/np/loi/2017/irq/072317.pdf> (Accessed: 29 March 2019).

477 Middle East Eye (2018) Iraq adopts 2018 budget, slashing allocation for Kurds [Online]. Available at: <https://www.middleeasteye.net/news/iraq-adopts-2018-budget-slashing-allocations-kurds> (Accessed: 15 February 2019); see IMF (2017a: p. 8, 17).

478 One ought to be careful about casually attributing situations to oil, but in this instance the attribution appears justified.

479 See France24 (2019) Iraq parliament approves 2019 budget, one of largest ever [Online]. Available at: <https://www.france24.com/en/20190124-iraq-parliament-approves-2019-budget-one-largest-ever> (Accessed: 1 May 2019).

480 The World Bank (2014a) *The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq, 2007-2012*, 4 volumes. Washington, D.C., p. 19, 125.

481 The World Bank (2017, p. 27).

482 Federal Reserve Economic Data (FRED) (2019) *Fred Economic Data* [Online]. Available at: <https://fred.stlouisfed.org/> (Accessed: 23 April 2019); and The World Bank (2014b, p. 11).

483 The World Bank (2014b, pp. 96-97).

primary and secondary enrollment was seen between 2000 and 2007, with the former reaching 92 percent in 2007.⁴⁸⁴ In contrast to health, spending as a portion of GDP on education maintained pace with comparator countries and correspond with a rise in staffing and salaries, which has been easier to achieve than capital spending that relies on infrastructure and human skills or knowledge.⁴⁸⁵

7.8 Currency and Finance

The IMF has called for maintaining the ID effective peg to the US dollar, while acknowledging that fixed exchange rates make overcoming oil price shocks harder in principle.⁴⁸⁶ The CBI maintains the peg by using reserves of foreign currencies to purchase ID, reserves that declined by 15 percent from 2015 to 2016.⁴⁸⁷

The IMF repeatedly requested the restructuring of large state-owned banks.⁴⁸⁸ Lacking adequate capital, these banks remain in business largely through fees and other services, not through lending to the private sector. Private deposits in commercial banks increased from 2004 to 2014 but have declined since, undoubtedly to buttress household consumption in the context of conflict and instability.⁴⁸⁹ According to the World Bank, the central government encouraged state-owned banks to lend to SOEs to cover operating (as opposed to capital) expenditures and to finance government fiscal deficits, effectively limiting the private sector's access to credit.⁴⁹⁰ At the same time, state-owned banks receive special rights and privileges and thus have a competitive advantage with respect to private banks. Small and medium size business, thought to be important in employment creation, have consequently lacked capital, with credit to the private sector averaging 7 percent in 2015, compared to an average of 55 percent in the MENA region.⁴⁹¹

7.9 Conclusion

A program centered on human development would have been desirable after the removal of economic sanctions in 2003, but the circumstances of Iraq's invasion and occupation in 2003, CPA policy extremism, and the ensuing insurgency in Iraq all precluded that option. One must therefore evaluate IMF policies in relation to such constraints. Overall, IMF-inspired policies have had less of an impact on ordinary Iraqis relative to the effects of conflict (the civil war from 2006 to 2008, and the conflict with ISIS from 2014 to 2018), CPA policies, and the Iraqi government's political priorities.

In general, the IMF has shown more understanding and realism than the CPA did with regard to Iraq's conflict-ridden economy, recognizing that markets may not operate perfectly. It was reluctant to recommend immediate discontinuation of welfare programs or abrupt privatization. It played a moderating role to CPA policies, assisting with technical assistance and debt reduction. The IMF also facilitated macroeconomic stability, protecting Iraqis from price inflation. However, continued conflict and insecurity in Iraq dulled the benefits of price stability that normally would encourage investments,

484 The World Bank (2014b, p. 11)

485 The World Bank (2014b, pp. 43-47).

486 See for example IMF (2017, p. 19).

487 Properly viewed, international reserves act as buffer for shocks rather than an item of moral rectitude. (IMF 2017, p. 47).

488 For an earlier request see IMF (2006, p. 14); more recently, see IMF (2017, pp. 22-23).

489 Central Bank of Iraq (2019) [Online]. Available at: <https://cbi.iq/> (Accessed: 12 April 2019).

490 The World Bank (2017, p. 70).

491 The World Bank (2017, p. 76).

notably FDI. The IMF emphasized social spending, part of its own reevaluation of priorities, but policies such as its bias towards IOCs made the expansion of social spending more difficult.

IMF loans also enabled Iraq to access funds from other international organizations at below market rates, allowing for higher domestic consumption and investment than what otherwise would be possible. Nonetheless, the IMF has been frustrated with the slow pace of market-based reform, with little influence over the Iraqi government. One need not share the IMF's belief in markets to realize that the trend in public employment since 2003 is unsustainable, not to mention inequitable. As the World Bank notes with regard to SOEs, "Essential service-delivering sectors such as health, education, water, and sanitation have been allocated annual funds that were less than the amounts transferred for nonperforming SOEs."⁴⁹² It remains unclear if the redirection of funds from SOE current expenditures to investments, including in education and health, would have achieved substantially more capital formation, given the debilitating effects of conflict and loss of skills on Iraq's capacity to rebuild. Most importantly, neither the IMF nor Iraq have articulated a feasible reform process that adequately compensates losers of reform, which remains politically unworkable. In fact, the lack of appreciation for domestic 'political fragility' is a criticism that Iraqis have made of the IMF, an understanding hampered by limited IMF representation on the ground.⁴⁹³

The evolution in IMF doctrine has uncovered serious internal inconsistencies in IMF policies in Iraq.⁴⁹⁴ A bias for foreign over local budgetary obligations, for example, is inconsistent with protecting social welfare and equity and seems more like an ideological reflex than well-considered policy. Likewise, the reactive emphasis on budgetary balance reflects a stress on short-run pain as a necessary requirement for long-term prosperity.⁴⁹⁵ Over the longer run, no country, especially one that is emerging from conflict, can continue to sacrifice capital spending and future prosperity to balance its books today. The need for long-term capital budgeting in Iraq, as suggested by Alnasrawi, is as relevant today as ever.⁴⁹⁶

492 The World Bank (2014b, pp. 30-31).

493 IEO of the IMF (2018) The IMF and fragile states Evaluation Report 2018, p. 54 [Online]. Available at: <https://ieo.imf.org/en/our-work/evaluation-reports/Completed/2018-0403-the-imf-and-fragile-states> (Accessed: 1 May 2019).

494 For an exploration of IMF policy incoherence, even before the nascent concern over poverty and inequality, see Stiglitz (2018, pp. 284-302).

495 On this IMF stance, see Stiglitz (2018, pp. 213-215).

496 Alnasrawi, A. (1994, pp. 141-145).

SECTION 3 :

QUESTIONING INTERNATIONAL FINANCIAL INSTITUTION LOGIC IN THE REGION

8. The Impact of IFIs on Youth in Egypt, Morocco, and Tunisia

Adel Abdel Ghaffar

In October 1976, the Cairo representative of the World Bank Paul Dickey sent a secret memorandum to the Egyptian Minister of Economy Zaki al-Shafie. In the memo, he argued that Egypt needed to make some major economic decisions, including devaluing the Egyptian pound and gradually lifting subsidies to liberalize the economy, but did not propose any plans to offset the negative impacts of such measures.⁴⁹⁷ His proposal worried the minister and his economic team, who tried to explain to him that Egypt had become a net importer and that devaluing its currency would exponentially increase the price of imports. Moreover, they feared the political impact of cutting subsidies.^{498,499}

News of the proposed subsidy cuts was soon leaked. Once public, independents in Parliament attempted to oppose them, but to no avail. On the evening of January 17, 1977, then-Deputy Prime Minister Abdel-Moneim al-Qaissouny addressed Parliament, signaling that the next five-year plan would include cuts on subsidies to major commodities and foodstuffs.⁵⁰⁰ The next day's papers announced price increases for commodities such as rice, pasta, gas, oil, sugar, and even cigarettes.⁵⁰¹ News spread rapidly and protests erupted the next morning.

Demonstrations spread to factories and universities across Cairo, soon engulfing all of Egypt.⁵⁰² Crowds of students, workers, and the urban poor were among the demonstrators across major cities, attacking symbols of state power, conspicuous consumption, and Western influence. The targets reflected the widespread perception that international financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF), backed by the United States, had prompted the regime's decision to cut back on government spending in ways that struck the poor the hardest.⁵⁰³

The 1977 protests were the first act of protest against IFIs that included youth in North Africa, but they would not be the last. Protests against IFIs, austerity measures, and noninclusive growth continue to affect the region since, erupting in spectacular fashion from 2010 to 2011 during the Arab Uprisings. Although IFIs have since modified their approach, youth continue to challenge austerity-driven economic policies in North Africa, as demonstrated by the protests in Gafsa, Tunisia, and the Moroccan Rif.

This chapter focuses on the impact of the World Bank and the IMF on youth in Egypt, Tunisia and Morocco. In addition to the macroeconomic impact on society as a whole, education and employment are two key areas affecting youth. The chapter argues that while these IFI's have supported various educational and employment programs since 2011, the negative impact of austerity measures on youth overshadows any positive impact that these programs may have had.

497 Heikal, M.H. (1988) 'kharif al-ghadab' (The Autumn of Fury), Al-Ahram. Cairo, p. 185.

498 Ibid, p. 186.

499 Abdel Ghafar, A. (2016) *Egyptians in Revolt: The Political Economy of Labor and Student Mobilizations 1919–2011*. London: Routledge.

500 Abdel Raziq, H. (1979) مصر في 18 و 19 من يناير: دراسة سياسية وثائقية (Egypt on 18 and 19 January: A Documentary Political Study. Beirut: Dar al-Kalima, pp. 70-71.

501 Ibid, p. 72.

502 Saad, A.S. (1990) دراسات في الاشتراكية المصرية (Studies in Egyptian Socialism). Cairo: Dar al-Fikr al-Jadid, p. 340.

503 Baker, R.W. (1990) *Sadat and after: struggles for Egypt's political soul*. Cambridge: Harvard University Press, p. 18.

8.1 Historical Context

In the aftermath of the colonial era, Arab countries implemented a state-led developmental model to retool their economies. This shift entailed a focus on import substitution, attempts to develop an industrial base, massive investments in education, expansion of the public sector, and a large state role in overseeing the various dimensions of economic development. By the 1970s and 80s, the Arab World shifted from the state-led economic development to a neoliberal economic model.⁵⁰⁴

Increasingly, countries across the region took on high external debt to fund their trade deficits; to avoid defaulting, they acquiesced to structural adjustment policies backed by the World Bank and the IMF.⁵⁰⁵ These policies included austerity measures, reduced subsidies and social spending, constrained monetary policy, and dependency on exports and foreign direct investment (FDI).⁵⁰⁶ Egypt's *Infitah* (liberalization) would be the case study of this economic retooling. The policy was first publicly announced in the October Paper of 1974, which made the case for significantly reorienting Egypt's economy, based on the premise that the country faced a "construction battle" to modernize by 2000.⁵⁰⁷

Under this policy, the Egyptian government began to reform the public sector, liberalize the private sector, and establish free trade zones. It also worked to encourage FDI by implementing new laws that guaranteed against nationalization and confiscation, a five-year income tax exemption, customs duties exemptions on imported machinery and equipment, the right to deal in foreign currencies with no fiscal or monetary restrictions from the state, and the exemption of foreign-financed projects from the country's labor and economic laws and regulations.⁵⁰⁸

During the 1980s, Tunisia followed suit, shifting from state-led economic development toward a more neoliberal economic model.⁵⁰⁹ Having taken on high external debt to fund its trade deficits, Tunisia, led by Habib Bourguiba, avoided defaulting by implementing structural adjustment policies backed by the World Bank and the IMF.⁵¹⁰

When Zine El Abedine Ben Ali took power in 1987, he pushed the country further toward neoliberalism, implementing various reforms such as privatizing public assets, lifting regulations, reducing welfare (although to a lesser degree than in Egypt and Morocco), and overhauling tax and investment codes.⁵¹¹ Kaboub argues that the neoliberal reforms carried out since the 1980s have "not only weakened the economy, but have also caused severe socioeconomic dislocation, income inequality, rampant corruption, and political oppression."⁵¹²

Notably, Ben Ali's policies benefitted the North and Center-East instead of the South and Center, leading to a phenomenon coined by Larbi Sadiki as "multiple marginalization."⁵¹³ Tunisia's marginalized regions have much lower access to employment, natural resource wealth, income, education, and political participation.

504 Kaboub, F. (2013) 'The End of Neoliberalism? An Institutional Analysis of the Arab Uprisings', *Journal of Economic Issues*, 47(2), June [Online]. Available at: shorturl.at/abhk2

505 Ibid, p. 535

506 Ibid.

507 Anwar Sadat, "The October Paper," April 1974 as cited in Waterbury, J. (1983) *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*. Princeton: Princeton University Press, p. 123.

508 Nadim Lachine, N. (1978) *The Open Door Policy of Anwar Sadat* Association of Arab American. Information Paper 21, University Graduates, p. 13.

509 Kaboub, F. (2013, p. 534).

510 Ibid, p. 535.

511 Yahya, M. (2016) *Great Expectations in Tunisia*. Carnegie Middle East Center, March [Online]. Available at: <http://carnegie-mec.org/2016/03/31/great-expectations-in-tunisia-pub-63138>.

512 Kaboub, F. (2013, p. 540).

513 Sadiki, L. (2019) 'Regional Development in Tunisia: The Consequences of Multiple Marginalization', *Brookings Doha Center. Policy Briefing*, January [Online]. Available at: shorturl.at/dLQXY.

Facing high debt levels, Morocco also agreed to implement a structural adjustment program backed by the IMF and World Bank in 1983.⁵¹⁴ The program involved reducing tariffs, liberalizing the exchange rate, reducing subsidies, privatizing public sector firms, and promoting foreign investment.⁵¹⁵ These policies reduced external debt (from 12.3 percent of GDP in 1983 to 0.7 in 2003), increased exports, and reduced inflation.⁵¹⁶ However, they also led to rising unemployment rates and poverty throughout the 1990s.⁵¹⁷ The program resulted in “sluggish long-term GDP growth and wild fluctuations in short-term growth ... [that have been] exacerbated by the rising youth bulge.”⁵¹⁸

8.2 Economic Transformation and its Impact on Youth

This shift in economic direction across Egypt, Tunisia, and Morocco impacted all segments of society, most especially youth. During the 1950s and 60s, state-led development and the massive expansion of higher education led to an increase in the number of graduates. University education was important not only because students acquired new knowledge, but also because it provided one of the main opportunities for social mobility outside of the army. As such, youth aiming to raise their living standards began to enroll in higher numbers across the three countries and the Arab world.⁵¹⁹

Higher education was also connected to guarantees of employment in the public sector. This connection was firmly rooted in the colonial era, where colonial authorities in Egypt and Tunisia incentivized students to acquire a formal education to fill various administrative posts in the growing public sector. Higher education as a vehicle for social mobility became the goal of thousands of youth across the region, driving higher enrolment numbers across the three countries and the Arab world.⁵²⁰

Free education and the guarantee of employment were a key aspect of the “authoritarian bargain” between the regime and the youth.⁵²¹ By the late 1960s and early 70s, the state led model began to exhibit its limitations, with much of the industrial transformation envisioned failing to materialize. Governments continued to absorb excess labor capacity, but this was contributing to an ever-growing strain on public finances. In addition, as enrolment numbers rose, the quality of education itself decreased.

As Egypt, Tunisia, and Morocco entered agreements with IFIs, they were obliged to curb the increasingly unsustainable public sector by enacting reforms, including what amounted to a hiring freeze. The idea behind such an economic reorientation was that the private sector would be able to absorb the excess workers. However, this was not the case; rather, the private sector’s inability to accommodate these workers led to a sharp rise in youth unemployment.⁵²²

514 Catusse, M. (2009) ‘Morocco’s Political Economy’ in Guazzone, L. and Pioppi, D. (eds.) *The Arab State and Neo-liberal Globalization: The Restructuring of State Power in the Middle East*. Reading: Ithaca Press, pp. 185-216 [Online]. Available at: shorturl.at/FGLOV.

515 *Ibid*.

516 *Ibid* (p. 6) and Mossallem, M. (2015) *The IMF in the Arab World: Lessons Unlearned*, Bretton Woods Project. November, p. 8 [Online]. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2705927.

517 Mossallem, M. (2015, p. 8).

518 Ajbilou, A. and Boudarbat, B. (2007) ‘Youth exclusion in Morocco: Context, consequences and policies’, Middle East Youth Initiative. Working Paper 5, 2007.

519 Herrera, L. (2007a) ‘Higher education in the Arab world’ in Forest, J.J.F. and Altbach, P.G. (eds.) *International Handbook of Higher Education*. Dordrecht: Springer, 2007, pp. 409-421 see also Assaad, R. (2014) ‘Making sense of Arab labor markets: the enduring legacy of dualism’, *IZA J Labor Develop*, 3, 6.

520 Herrera, L. (2007b) ‘Higher education in the Arab world’, *International handbook of higher education*. Dordrecht: Springer, 2007, pp. 409-421.

521 Raj, D.M., Olofsgård, A. and Yousef, T.M. (2009) ‘The logic of authoritarian bargains’, *Economics & Politics* 21, 1, pp. 93-125.

522 See for example Ragui, A. and Krafft, C. (2015) ‘The evolution of labor supply and unemployment in the Egyptian economy: 1988-2012’, *The Egyptian labor market in an era of revolution*, pp. 1-26.

Overall, while IFI policies and programs promoted economic growth, they also facilitated the rise of youth unemployment, poverty rates, corruption, and inequality.⁵²³ At the beginning of the structural adjustment program, 20 percent of Egyptians were living on under \$2 per day; by 2009, that number more than doubled to 44 percent.⁵²⁴ Mohamadieh identifies the role of the IMF-driven policies in worsening these challenges, by promoting “a kind of growth that neglected sustainable and sustained development as well as economic and social rights.”⁵²⁵ Armbrust notes that even as the IMF lauded Egypt as “a beacon of free-market success,” its measurements “gave a grossly inadequate picture of the Egyptian economy.”⁵²⁶

Overall Labor Force Participation (LFP) rates have remained constant from 1998 to 2013. However, while men’s employment rose 3 percent from 2006 to 2012, women’s employment has fallen 4.2 percent over the same period.⁵²⁷ Interestingly in Egypt, the unemployment rate for less-educated workers (especially men) is lower than the unemployment rate among highly educated workers.⁵²⁸ This pattern highlights the ineffectiveness of the Egyptian education system and the education-occupation mismatch.⁵²⁹

Tunisia faced similar challenges. Kaboub argues that the neoliberal reforms carried out since the 1980s have “not only weakened the economy, but have also caused severe socioeconomic dislocation, income inequality, rampant corruption, and political oppression.”⁵³⁰ Although Structural Adjustment Programs phased Tunisia out of a centrally planned economy, SAP’s “had the cost of an exponential growth of unemployment ... [and an] increase of informal temporary and low-paid jobs, coupled with growing social and regional inequalities.”⁵³¹ After decades of economic readjustment policies, unemployment among university graduates began to increase dramatically, while the majority of less educated Tunisian youth, especially from poor regions, were forced to accept jobs in the informal sector.⁵³²

As the Tunisian labor market stagnated, the government attempted to minimize the problem of youth unemployment to bolster the reputation of the Ben Ali regime. For example, the government claimed that the unemployment rate had declined from 15.6 percent in 1994 to 14.3 percent in 2007 due to new employment policies. However, this statistic resulted from “dilatatory policies” that attempted to reduce the number of unemployed youth in official statistics by giving them unpaid internships and enrolling them in other programs that did not provide official work.⁵³³

As part of Morocco’s neoliberal reforms, public sector hiring was constrained and wages were kept static from 1983 to 1987. In turn, university graduates who had previously been hired for public sector

523 Momani, B. (2018) ‘Egypt’s IMF program: Assessing the political economy challenges’, Brookings Doha Center. Policy Briefing, January [Online]. Available at: <https://www.brookings.edu/research/egypts-imf-program-assessing-the-political-economy-challenges/>.

524 Shenker, J. (2009) ‘And the rich got richer’, *The Guardian*, 8 November [Online]. Available at: shorturl.at/fAHK1.

525 Mohamadieh, K. (2013) ‘Egypt & the IMF: Conditions as Usual’, Middle East Institute, June [Online]. Available at: shorturl.at/fknt5.

526 Armbrust, W. (2011) ‘Egypt: A Revolution Against Neoliberalism?’, *Al Jazeera English*, 24 February [Online]. Available at: shorturl.at/wBZ04; see also Harrigan, J., Wang, Ch. and El-Said, H. (2006) ‘The economic and political determinants of IMF and World Bank lending in the Middle East and North Africa’, *World development*, 34(2), pp. 247-270.

527 Said, M. (2015) ‘Policies and Interventions on Youth Employment in Egypt’, European Training Foundation, p. 6 [Online]. Available at: shorturl.at/fghnE.

528 Ibid.

529 Krafft, C. and Assaad, R. (2014) ‘Why the Unemployment Rate Is a Misleading Indicator of Labor Market Health in Egypt’, *Economic Research Forum Policy Perspective*, 14a.

530 Kaboub, F. (2013).

531 Ibid.

532 Ibid.

533 Paciello, M.C., Pepicelli, R. and Pioppi, D. (2016) ‘Youth in Tunisia: Trapped Between Public Control and the Neo-Liberal Economy’, *POWER YOUTH Working Paper* 6.

jobs faced rising levels of unemployment.⁵³⁴ Unemployed graduates founded the Moroccan National Association of Unemployed Graduates (ANDCM) in 1991, which pushed for public sector jobs and criticized the government's structural adjustment policies.⁵³⁵

Responding to the ANDCM, King Hassan II formed the *Conseil national de la jeunesse et de l'avenir* (CNJA), which was meant to conduct studies on graduate unemployment.⁵³⁶ The information gathered by the CNJA, however, did not shift public policy, but rather was employed to control the political activity of the unemployed graduates.⁵³⁷ Beginning in 2000, King Mohammed VI dissolved the CNJA and increased the number of public programs aimed at unemployed graduates. Over the next two decades, youth unemployment numbers seemed to reflect the impact of these policy shifts, spiking from 28.5 percent in 1991 to 38.4 in 1995, and falling again to 17.6 by 2010.⁵³⁸

While each country has its own unique characteristics, the combination of adverse socioeconomic conditions, corruption, and authoritarianism drove the historic youth led wave of protests in 2010-2011. In Egypt and Tunisia, civil unrest led to the ousting of their leaders, while in Morocco, the King promised sweeping constitutional reforms, including a more powerful parliament. Although the protests shook the politics of the three countries to the core, many of the same structural economic conditions remained in place, and, indeed, worsened. The three countries' international partners, including IFIs, pledged to support them as they transitioned post-2011.

8.3 A Modified IFI Approach Post-2011?

Following the 2010-2011 uprisings, the World Bank and IMF acknowledged that their focus on macroeconomic growth and structural adjustment at the expense of human development indicators may have been a contributing factor. Christine Lagarde stated in 2012, "One thing that the IMF has learned as a result of the Arab transition is that numbers do not tell the whole story and we have to really examine precisely what is behind the numbers. Who benefits from growth? Who benefits from subsidies? How are the fruits of growth allocated in a particular country?"⁵³⁹

In response to the 2011 uprisings, IFIs and the international community launched the Deauville Partnership, which pledged up to \$40 billion in loans and assistance programs for Arab countries in transition. The support focused on four key areas: (1) governance, transparency, and accountability of economic activities, (2) social and economic inclusion, (3) economic modernization and job creation, (4) private sector-led economic growth, and (5) regional and global integration.⁵⁴⁰

Since then, the World Bank and the IMF also consistently highlighted issues of social and economic inclusion as key priorities in their country-specific strategies.⁵⁴¹ Hanieh observed a noticeable shift in the content of IFI documents, with official representatives repeatedly insisting that they had broken with past practice and would now place much more emphasis on policies aimed at strengthening local

534 Paciello, M.C., Pepicelli, R. and Pioppi, D. (2016) 'Public Action towards Youth in Neo-Liberal Morocco: Fostering and Controlling the Unequal Inclusion of the New Generation', POWER2YOUTH Working Paper, p. 4.

535 Ibid.

536 Ibid.

537 Ibid, p. 5.

538 ILOSTAT Database (2019) Unemployment, youth total (% of total labor force ages 15-24) [Online]. Available at: shorturl.at/hjpA6.

539 Shapiro, A.A. (2012) 'IMF Amnesia in Egypt', Muftah, 7 September [Online]. Available at: <http://muftah.org/imf-amnesia-in-egypt/>.

540 IMF (2011) Deauville Partnership -- International Financial Institutions (IFIs) statement -- September 10, 2011 [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/29/18/04/dm091011> (Accessed: 13 May 2019).

541 Adam, H. (2015) 'Shifting priorities or business as usual? Continuity and change in the post-2011 IMF and World Bank engagement with Tunisia, Morocco and Egypt', *British Journal of Middle Eastern Studies*, 42(1), p. 120.

voices, transparency, consultation, and improving the living conditions of marginalized populations.⁵⁴² The question, then, is whether this shift was rhetorical or whether it represented a substantial change in policy. The answer lies somewhere in the middle. IFI's have indeed adapted their policies, especially with regards to socioeconomic disadvantaged segments of society. For example, the Takaful and Karama targeted welfare cards in Egypt have been lauded as a success.⁵⁴³ Yet, much of the macro policy prescriptions remain the same.

IFIs also developed an added focus on issues of education and employment in relation to youth since 2011. This emphasis resulted from their recognition of the youth's potential for promoting growth or as drivers of instability. In a 2015 study, the World Bank highlighted that despite macroeconomic progress in many Arab countries, the region's youth continue to feel frustrated over the falling standards of living, lack of government accountability, prevalence of corruption, and rising unemployment rates.⁵⁴⁴

Egypt

Since 2011, Egypt has continued to struggle with economic problems, including budget deficits, inflation, and rising unemployment.⁵⁴⁵ During the political transition - first under the rule of the Supreme Council of the Armed Forces (SCAF), then under President Mohammed Morsi - no long-term coherent economic policy took shape. Since Morsi's ouster in 2013, President Abdel Fattah al-Sisi and his economic team have attempted to stabilize the economy through a series of painful reforms.⁵⁴⁶

The IMF's \$12 billion Extended Fund Facility (EFF) arrangement, the largest agreement of its kind ever made in Egypt, was initiated in 2016 following several years of talks. It aimed to support the government's economic reform program, promote macroeconomic stability, and "return Egypt to strong and sustainable growth." Part of the program involved enacting measures to increase job opportunities for youth, including training programs and job search schemes.⁵⁴⁷

The World Bank initiated several projects to support Egypt in dealing with its economic challenges with a focus on youth. These include the "Supporting Egypt Education Reform Project," which aims to improve teaching and learning conditions in public schools. It focuses on five key parts: (1) improved early childhood education, (2) effective teachers and education leaders, (3) comprehensive assessment reform for improved student learning, (4) enhancing education service delivery through connected systems, and (5) project management, communication, monitoring, and evaluation.⁵⁴⁸

Another initiative was the "Emergency Employment Investment Project" (completed in 2018), which aimed to improve youth employability using short-term training. It also planned to generate short-term employment for unemployed and unskilled workers, create and maintain community infrastructure and services, and enhance access to them. Youth-specific components included providing grants to local nongovernmental organizations (NGOs), Community Development Agreements (CDAs), and piloting youth employment support activities for urban and rural communities.

542 Ibid.

543 Elleithy, A. (2019) Egypt plans single cash transfer system for combatting poverty, 17 July [Online]. Available at: <https://www.al-monitor.com/pulse/originals/2019/07/egypt-social-security-takaful-karama-poor.html>.

544 The World Bank (2015) Inequality, Uprisings and Conflict in the Arab World, October [Online]. Available at: <http://documents.worldbank.org/curated/en/303441467992017147/inequality-uprisings-and-conflict-in-the-Arab-World>.

545 Said, M. (2015, p. 5).

546 Abdel Ghafar, A. (2018) 'A Stable Egypt for a Stable Region: Socio Economic Challenges and Prospects', EU Parliament Report 2018 [Online]. Available at: http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU%282018%29603858.

547 IMF (2019) IMF and Egypt Frequently Asked Questions [Online]. Available at: <https://www.imf.org/en/Countries/EGY/Egypt-qandas#Q1> (Accessed: 13 May 2019).

548 The World Bank (2019) 'Supporting Egypt Education Reform Project', Projects and Operations [Online]. Available at: <http://projects.worldbank.org/P157809?lang=en> (Accessed: 13 May 2019).

Despite these initiatives, the economic reforms had the unfortunate consequence of increased hardship on much of Egypt's population. While floating the Egyptian pound did entice the return of some foreign investment, at the same time, the currency lost more than half its value, sharply driving up the cost of living as prices for fuel, food, and public utilities reached unprecedented levels.⁵⁴⁹ July 2017 saw the annual inflation rate rise to a record 34.2 percent, with transportation costs rising by 36.7 percent, healthcare by 24 percent, and food and beverage costs by 43 percent. The inflation rate has since dropped to 14 percent, but the combination of high inflation and the 14 percent value-added tax (VAT) - a policy strongly supported by the IMF - has led common goods to become increasingly unaffordable for poor Egyptians.^{550,551}

At a macroeconomic scale, the economic reform program has born some fruit. The economy is rebounding and it is estimated that GDP will grow at a rate of approximately 5.7 percent in 2020.⁵⁵² Despite the optimism, growing inequality continues to impact youth. In Egypt, inequality is reproduced through the perpetuation and intersection of different types of inequalities including in income, wealth, education, gender, employment, and health. As it replicates across generations, these types of inequality inhibit social mobility among Egyptian youth. Pettit argues that social mobility is limited in Egypt as young people from poor families have very few social connections and networking capabilities with capital, which limit their life chances, including their ability to access quality education and employment.⁵⁵³ IFI programs have not been successful in addressing these deeply rooted issues and suffer from issues of scalability to have any long-term sustainable impact.

While overall unemployment figures have considerably improved due to several mega projects, youth unemployment continues to be a persistent problem.⁵⁵⁴ According to the International Labour Organization (ILO), 31.3 percent of Egypt's youth (aged 15-24) remain unemployed.⁵⁵⁵ Demographic pressures mean that the Egyptian labor market is increasingly unable to cope with the number of new jobseekers. The largest group of unemployed youth are university educated graduates, pointing to a deficient education system. A recent study by the Economic Research Forum (ERF) that followed many recent graduates found that the inability of young men to find "respectable, permanent employment" led them to become frustrated, angry, and depressed as they realized they "had been sold an unrealizable dream."⁵⁵⁶

Youth unemployment only sheds light on one problematic aspect of the Egyptian labor market. Informality, underemployment and irregular employment continue to plague youth seeking entry into the job market. Adly argues that most work relations are not considered formal, regardless of whether the establishments are officially registered with the state or not. Informality affects unskilled labourers in the major formal establishments that attempt to circumvent fulfilling their obligations to their employees by treating workers unequally with regard to wages or capital contributions for their

549 Abdel Ghafar, A. (2018, p. 14).

550 CBE (2019) Inflation for Last Month: Apr 2019 [Online]. Available at: <https://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/InflationRates.aspx> (Accessed: 13 May 2019).

551 Charalambous, L. (2015) 'IMF Supports Introduction of VAT in Egypt', Tax-News.com, 12 February [Online]. Available at: https://www.tax-news.com/news/IMF_Supports_Introduction_Of_VAT_In_Egypt____67250.html.

552 Reuters (2019) 'Egypt's growth seen at 5.5% in fiscal year 2019/20, 5.7% next fiscal year: Reuters poll', Reuters: Business News [Online]. Available at: <https://www.reuters.com/article/us-egypt-economy-poll/egypts-growth-seen-at-5-5-in-fiscal-year-2019-20-5-7-next-fiscal-year-reuters-poll-idUSKBN1X20DG>.

553 Pettit, H. (2015) 'Ifatar in McDonald's': The Everyday Encroachment of Cairo's Subaltern Cosmopolitans' in Gerges, F. (ed.) *Contentious Politics in the Middle East. Popular Resistance and Marginalized Activism beyond the Arab Uprisings*. New York: Palgrave MacMillan, pp. 523-546.

554 Ahram Online (2019) Unemployment rate in Egypt went down in 2018 due to national mega-projects, minister says, 26 March [Online]. Available at: <http://english.ahram.org.eg/NewsContent/3/1/2328882/Business/Economy/Unemployment-rate-in-Egypt-went-down-in--due-to-na.aspx>.

555 ILO Statistics (2017) Egypt, 10 August.

556 Pettit, H. (2018) 'Selling hope without reward: youth unemployment in Egypt', Economic Research Forum, May [Online]. Available at: <https://theforum.erf.org.eg/2018/05/29/selling-hope-without-reward-youth-unemployment-egypt/>.

insurances.⁵⁵⁷ A recent study of the impact of neoliberalism on youth in Egypt has concluded that privatization and market liberalization processes with their associated nepotism, corruption and the regime's political interventions has marginalised a large segment of Egyptian youth.⁵⁵⁸

Tunisia

After the ouster of Ben Ali, the World Bank and the IMF reengaged with the new government. IMF First Deputy Managing Director David Lipton stated in 2012, "The time has come to implement reforms that can deliver higher and more inclusive growth and create new jobs for millions of people."⁵⁵⁹

The IMF engaged with Tunisia through its stand-by funding arrangement, first in 2012 with \$1.74 billion, then in 2016 with \$2.9 billion for the arrangement under the extended fund facility.⁵⁶⁰ The arrangement intended to support Tunisia's economic reform program, which aims to promote inclusive growth and job creation through four pillars: (1) consolidating macroeconomic stability, (2) reforming public institutions, (3) promoting financial intermediation, and (4) improving the business climate.⁵⁶¹

Meanwhile, the World Bank initiated several projects focused on youth. These included the Youth Economic Inclusion Project, which aimed to "improve economic opportunities for targeted disadvantaged youth." It includes three components: connecting youth to jobs, supporting job creation, and building effective and accountable program delivery.⁵⁶² Another project was the Tunisia Tertiary Education for Employability Project, which aims to "improve the employability of tertiary education graduates and to strengthen the management of higher education."⁵⁶³

Despite the shifts in rhetoric and the increased focus on youth and employment, many of the IMF and World Bank's policy prescriptions have remained similar to those pushed for under the Ben Ali regime. These included privatizing state resources, promoting open capital markets, devaluing currency, repressing wages, lifting subsidies, and cutting government spending for social programs.⁵⁶⁴ Despite multiple protests, the interim government (in line with the IMF agreement) increased prices of household electricity and gas by 10 percent in January 2014, and fuel prices were pegged to rise by a further 6 percent in July 2014. In addition, the 2014 budget contained policy measures for a 25 percent increase in taxes on vehicles, which would have a particularly adverse effect on taxi drivers and farmers.⁵⁶⁵

The devaluation of the Tunisian dinar also continues to be a contentious issue. In 2016, the IMF argued that the dinar had to be devalued to encourage tourism and exports.⁵⁶⁶ In 2018 and despite

557 Assafir Al-Arabi (2018) Informal Economy in Egypt: Realities of Marginalization and Illusions of Empowerment, 10 May [Online]. Available at: <http://assafirarabi.com/en/26784/2019/08/21/informal-economy-in-egypt-realities-of-marginalization-and-illusions-of-empowerment/> (Accessed: 21 August 2019).

558 Sika, N. (2019) 'Neoliberalism, marginalization and the uncertainties of being young: The case of Egypt', *Mediterranean Politics*, 24(5), pp. 545-567.

559 Associated Foreign Press (2012) Fragile recovery of Arab economies at risk IMF, 16 November [Online]. Available at: <http://english.alarabiya.net/en/business/2012/11/16/Fragile-recovery-of-Arab-economies-at-risk-IMF.html>.

560 IMF (2019) Press Release: IMF Executive Board Approves US\$2.9 billion Extended Arrangement under the Extended Fund Facility for Tunisia [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr16238> (Accessed: 13 May 2019).

561 Ibid.

562 The World Bank (2019) Youth Economic Inclusion Project [Online]. Available at: <http://projects.worldbank.org/P158138?lang=en> (Accessed: 13 May 2019).

563 The World Bank (2019) Tunisia Tertiary Education for Employability Project [Online]. Available at: <http://projects.worldbank.org/P151059?lang=en> (Accessed: 13 May 2019).

564 Prince, R. (2013) 'Structural Adjustment: Former President Ben Ali's Gift to Tunisia (Part One)', *Foreign Policy in Focus*, 15 April [Online]. Available at: https://fpif.org/structural_adjustment_former_president_ben_alis_gift_to_tunisia_part_one/.

565 Mossallem, M. (2015, p. 7).

566 IMF (2016) 'IMF Survey: Tunisia Gets \$2.9 billion IMF Loan to Strengthen Job Creation and Economic Growth', *IMF Country Focus*, 2 June [Online]. Available at: <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew060216a>.

growing hardship, the IMF argued that the dinar should be devalued further.⁵⁶⁷ It postulated that “the transition to a more market-based exchange rate regime has helped curb the current account deficit by promoting Tunisian exports and replenishing international reserves.”⁵⁶⁸

Although this may be true at a macroeconomic level, it has not resulted in gains in education and employment for Tunisian youth. The aspirations of Tunisian youth after the 2010-2011 uprisings were lofty, but as yet remain unmet. Almost a decade after the uprisings, the youth unemployment rate in Tunisia remains at roughly 36 percent.⁵⁶⁹ When youth do manage to find employment, they are often poor quality positions in the informal sector with little to no job security.⁵⁷⁰

The lack of adequate social protection exacerbates the youth unemployment issue. Despite Tunisia’s comprehensive social insurance system, “high unemployment and informality rates mean that a large portion of youth are not contributing to and therefore cannot benefit from such protection.”⁵⁷¹ Young people not covered by social insurance are often ineligible for unemployment benefits, given extremely narrow eligibility criteria. Additionally, most unconditional cash transfers and free health care programs are directed at poor families, leaving some unemployed youth outside of the available social safety nets.⁵⁷²

The Tunisian government also fails to provide youth with effective employment services. Tunisia’s state employment service, *Agence Nationale pour l’Emploi Travail Indépendant* (ANETI), includes many programs targeted at university graduates, but leaves less-educated young people without resources.⁵⁷³ ANETI also lacks the capacity to offer high-quality employment counseling, job-seeker coaching, or work placement assistance. Because private employment agencies are banned in Tunisia, it denies youth another avenue for seeking employment services.

The Tunisian government heavily invested in such Active Labour Market Programs (ALMPs) encouraged by IFI’s, but they have not been effective. The World Bank acknowledged that youth have little faith in the programs. They are considered ineffective and even as “a sham” and a panacea designed to artificially reduce the number of unemployed.⁵⁷⁴

Similar to Egypt, informality, underemployment and irregular employment continue to plague the Tunisian job market. According to some estimates, one third of the Tunisian economy can be described as informal and it employs a majority of Tunisian youth.⁵⁷⁵ According to the Economist Intelligence Unit, 60 percent of working men and 83 percent of working women under the age of 40 were employed in the informal sector in 2016.⁵⁷⁶

Regional disparity also impacts Tunisia’s youth; the divide between the poverty and desperation of the border regions and Tunisia’s cities is vast. According to Boukhars, “Youths in Tunisia’s marginalized

567 Feteiha, A. (2018) ‘Tunisia’s Dinar Must Weaken Further to Boost Economy, IMF Says’, Bloomberg, 4 April [Online]. Available at: <https://www.bloomberg.com/news/articles/2018-04-04/tunisia-s-dinar-must-weaken-further-to-boost-economy-imf-says>.

568 IMF (2019) ‘Key Questions on Tunisia’, Frequently Asked Questions On Tunisia, 18 July [Online]. Available at: <https://www.imf.org/en/Countries/TUN/tunisia-qandas#q3>.

569 The World Bank (2016) ‘Unemployment, youth total (% of total labor force ages 15-24)’, modelled ILO estimate 2016 [Online]. Available at: <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> (Accessed: 13 May 2019).

570 OECD (2015) Investing in Youth: Tunisia Strengthening the Employability of Youth during the Transition to a Green Economy. Paris: OECD Publishing.

571 Ibid.

572 Ibid, when it comes specifically to health insurance, coverage is higher among youth in the informal sector. See for example Ayadi, I. and Zouari, S. (2017) ‘Out-of-Pocket Health Spending and Equity Implications in Tunisia’, Middle East Development Journal 9, pp. 1-21 and CRES (2016) Protection Sociale et Économie Informelle En Tunisie: Défis de La Transition Vers l’économie Formelle. Tunis: Centre de Recherches et d’Etudes Sociales (CRES).

573 Ibid.

574 The World Bank (2014) Tunisia: Breaking the Barriers to Youth Inclusion. Washington, D.C.: The World Bank, p. 96.

575 Trabelssi, K. (2014) ‘Tunisia Informal Economy Report’, Solidarity Center [Online]. Available at: shorturl.at/biG03.

576 EIU (2016) Tunisia: Informal economy expands, 6 June [Online]. Available at: shorturl.at/gszOS.

border regions have lost confidence in the democratic transition that began after the uprising in 2010 and have developed feelings of deep frustration, anger, and hostility towards state authority.⁵⁷⁷ Overall, such inequalities perpetuate over time leaving Tunisian youth with limited pathways for social mobility.

Morocco

In 2012, the IMF approved a Precautionary and Liquidity Line (PLL) valued at \$6.2 billion. It then received PLL arrangements in July 2014 for \$5 billion, and in July 2016 for \$3.5 billion. In 2018, a new PLL was approved for \$2.97 billion.⁵⁷⁸ As Morocco did not face a balance of payments problem at the time of the loan agreement, the credit line for was precautionary in nature and was also designed to boost confidence in the Moroccan economy.⁵⁷⁹

Despite this, the facility does come with a set of conditions. The Letter of Intent pledges “rationalization and efficiency of public spending” through measures including subsidy and pension reform, with a targeted 1.6 percentage point drop in the fiscal deficit to GDP between 2011 and 2013. Other structural reforms included removing barriers to business entry, rationalizing tariffs, labor market deregulation, and preparing some public enterprises for privatization.⁵⁸⁰

Post-2011, the World Bank increased its programs in Morocco that focus on youth, education, and employment. These include the Morocco First and Second Skills and Employment Development Policy Loan (DPL), which aimed to “support the Government of Morocco to implement its program of improving skills, productivity, and quality of employment.”⁵⁸¹ Another program, titled “Strengthening micro-entrepreneurship for disadvantaged youth,” aims to provide disadvantaged youth with access to micro-financing, but is only funded with \$5.5 million.⁵⁸²

In addition to its programs, the World Bank influenced Moroccan policymaking in other ways. This is clear in the push towards constitutional reform that embedded fiscal austerity as a key principle of the state’s finance and budgetary processes. The new constitution adopted in 2011 contains a significant requirement that the “finances of the state” remain “in balance” (Article 77).⁵⁸³ This requirement underpinned the draft Organic Budgetary Law (OBL), prepared with the assistance of the World Bank, which aims primarily to reduce government spending on wages and subsidies.⁵⁸⁴

As with Egypt and Tunisia, Morocco’s economy has not grown fast enough to accommodate the country’s large population of working-age young people. Youth in Morocco contend with “persistent

577 Young, M. (2017) The Angry Periphery: Anouar Boukhars discusses his recent Carnegie paper on Tunisia’s marginalized border regions. Interview by Carnegie Middle East Center, 02 August [Online]. Available at: <https://carnegie-mec.org/diwan/72690> (Accessed: 13 May 2019).

578 Reuters (2018) IMF approves \$3 billion Precautionary and Liquidity Line for Morocco, 18 December [Online]. Available at: <https://www.reuters.com/article/us-morocco-imf/imf-approves-3-billion-precautionary-and-liquidity-line-for-morocco-idUSKBN1OH0WT>.

579 IMF (2012) IMF Country Report No. 12/239, August 2012, pp. 11-12 [Online]. Available at: <https://www.imf.org/external/pubs/ft/scr/2012/cr12239.pdf>; and Mossallem, M. (2015, p. 8).

580 Ibid.

581 The World Bank (2019) Morocco First Skills and Employment DPL [Online]. Available at: <http://projects.worldbank.org/P120566/morocco-first-skills-employment-dpl?lang=en&tab=overview> (Accessed: 13 May 2019), and Morocco – First and Second Skills and Employment Development Policy Loans Project [Online]. Available at: <http://documents.worldbank.org/curated/en/425831488822900365/Morocco-First-and-Second-Skills-and-Employment-Development-Policy-Loans-Project> (Accessed: 13 May 2019).

582 The World Bank (2019) Strengthening micro-entrepreneurship for disadvantaged youth [Online]. Available at: <http://projects.worldbank.org/P144134/strengthening-micro-entrepreneurship-disadvantaged-youth?lang=en&tab=overview> (Accessed: 13 May 2019).

583 Hanieh, A. (2015) ‘Shifting priorities or business as usual? Continuity and change in the post-2011 IMF and World Bank engagement with Tunisia, Morocco and Egypt’, *British Journal of Middle Eastern Studies*, 42(1), p.127.

584 Ibid.

socioeconomic exclusion even at a time when the economy is doing well.”⁵⁸⁵ A World Bank estimate argues that Morocco’s economy would need to grow at a rate of at least 6 percent each year to absorb the young working age population. Youth aged 15 to 29 comprise roughly one-third of Morocco’s population, and 20.6 percent of them were unemployed from 2016 to 2017.⁵⁸⁶

Two-thirds of unemployed people have been looking for work for at least a year.⁵⁸⁷ Polls reveal that only 15 percent of Moroccan women and 13 percent of men believe that now is a good time to find work. According to the World Bank,

Youth feel they have little control over their economic future. Better education and skills are considered insufficient to obtain a decent job without personal or family networks and connections, whether in the public, private, or informal sector, and even just to gain an internship.⁵⁸⁸

Rapid urbanization increased demand for work in an already saturated urban labor market. Additionally, rural migrants who moved to the cities in search of work have been subjected to poverty and life in slums. In these poor areas, “youth are exposed to poverty and its consequences, such as delinquency, drugs, prostitution, begging, suicide, crime, religious extremism, and emigration.”⁵⁸⁹ Poverty in rural areas is twice as common as poverty in urban areas, disproportionately affecting women and workers in the informal sector.⁵⁹⁰

Continued youth-led protests in Morocco, especially in rural areas, highlight ongoing inequalities, the impact of austerity policies, and urban-rural divides. The *Hirak* (protesters) in the Rif and other regions in rural Morocco, such as Jerada in the east, has focused on demands for job creation and the development of much needed infrastructure.⁵⁹¹ Many of the demands remain unmet and the government has responded with a wave of repression and arrests.⁵⁹²

8.4 Conclusion

Youth-led resistance against IFIs, austerity measures, and noninclusive growth that culminated in the so-called Arab Spring will likely continue affecting North Africa in the years to come. This is due in large part to the net negative impact of IFI-inspired policies on youth in Egypt, Tunisia, and Morocco. While IFI policies and programs have promoted economic growth in some ways, they have also facilitated the rise of youth unemployment, poverty rates, corruption, and inequality.

Since 2011, there has indeed been a shift in the rhetoric of the World Bank and the IMF in their approach towards inequality, social spending, and youth employment.⁵⁹³ However, in the case of

585 La Cava, G. (2012) ‘Kingdom of Morocco: Promoting Youth Opportunities and Participation’, the World Bank, Policy Note [Online]. Available at: <https://openknowledge.worldbank.org/handle/10986/11909?locale-attribute=es>.

586 The World Bank (2016) Unemployment, youth total (% of total labor force ages 15-24, 2016) (Accessed: 3 August 2017).

587 La Cava, G. (2012).

588 Ibid.

589 Ibid.

590 Ajbilou, A. and Boudarbat, B. (2007).

591 Masbah, M. (2018) ‘What Protest in Morocco Reveals about Public Trust in Political Parties’, Maghreb Country Profile, Mediterranean Yearbook 2018. European Institute of the Mediterranean [Online]. Available at: https://www.iemed.org/observatori/arees-danalisi/arxiu-adjunts/anuari/med.2018/IEMed_Morocco_Medyearbook2018_Mohamed_Masbah.pdf.

592 Amnesty International (2019) ‘Morocco: Prison Sentences Upheld Against Hirak el-Rif Protesters in Flawed Appeal Trial in Casablanca’, Public Statement, 26 April [Online]. Available at: <https://www.amnesty.org/download/Documents/MDE2902672019ENGLISH.pdf>.

593 Momani, B. and Lanz, D. (2014) ‘Shifting IMF Policies Since the Arab Uprisings’, The Centre for International Governance Innovation, Policy Brief no. 34, March [Online]. Available at: https://www.files.ethz.ch/isn/177904/CIGI_PB_34.pdf.

Morocco, Tunisia, and Egypt, IFI policies - despite some modifications - represent a continuation of the same pre-2011 approach. In the case of the IMF, although its policy advice now focuses on inclusive growth, health, and education, it remains vague on how to actually improve these social dimensions.⁵⁹⁴ Unless the IMF and World Bank make substantive changes to their approaches, youth will likely continue resisting IFI policies in North Africa.

⁵⁹⁴ Ibid.

9. A Missed Opportunity: Germany and the IMF-Agreement with Egypt

Stephan Roll

Criticism of the policies of international financial institutions in the Middle East and North African (MENA) region often overlooks the fact that these organizations do not act as independent actors. Rather they are ultimately committed to their member states - and here in particular to those that make the highest financial contributions. This is particularly clear in the case of the IMF. Important decisions are made by the Executive Board, in which the member countries are represented with a corresponding share of the votes according to their quota payments. Meanwhile, the IMF does not operate in a vacuum but is usually part of a wider donor community with which programs must be coordinated. This provides individual IMF member states with additional opportunities to influence the design of these programs.

Against this background, Germany's role in the conclusion of the IMF agreement with Egypt is to be investigated. Due to massive fiscal imbalances in summer 2016, Egypt was forced to send a formal request for assistance to the IMF. In the following months, details of an agreement were negotiated, approved by the IMF's Executive Board on November 11 that year. It comprised an arrangement under the Extended Fund Facility for a \$12 billion loan that would enable the Egyptian government to conduct a far-ranging economic and fiscal reform program within three years.⁵⁹⁵ The stated objective was to stabilize Egypt's macroeconomic situation and put the country back on track for inclusive economic growth.

Shuttle diplomacy between Berlin and Cairo and statements by German politicians and by the Egyptian President Abdel Fattah al-Sisi, suggest that Germany played an important role in the process of negotiating the IMF agreement. But why was Germany important at all in this process? Why did it support Egypt by securing the deal? And have the IMF-supported economic reforms in Egypt paid off for Germany?

In the following section, these questions shall be answered. After describing Germany's role in reaching the agreement between Egypt and the IMF in 2016, the German motivation in supporting the agreement will be analyzed by focusing on potential development, business, and security interests. On this basis, it will be discussed to what extent the program has contributed to achieving the goals of German policy on Egypt. Finally, the lessons learned for the future of German policy on Egypt are presented.

⁵⁹⁵ For the details of the program see IMF (2017) Arab Republic of Egypt: Request for Extended Arrangement under the Extended Fund Facility – Press Release; Staff Report; and Statement by the Executive Director for the Arab Republic of Egypt. Country Report No. 17/17, January [Online]. Available at: <https://www.imf.org/en/Publications/CR/Issues/2017/01/18/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-44534>.

9.1 Germany's Role in the IMF Agreement with Egypt

The Egyptian government under President Abdel Fattah al-Sisi officially requested support from the IMF against the backdrop of a disastrous economic situation. With a per capita GDP growth rate of a meagre 2.1 percent, inflation rates of up to 13.8 percent, and rising unemployment estimated at over 34.3 percent among young adults (ages 15-24), the situation for most of the population was precarious.⁵⁹⁶

In addition, the state's financial situation was not sustainable. The budget deficit in the 2015-16 fiscal year had risen yet again well above 10 percent, national debt had risen to almost 100 percent of GDP, and the central bank had to announce a further decline in foreign exchange reserves to around \$15 billion in July 2016. A continuation of this trend would have jeopardized the country's solvency on a monthly basis.⁵⁹⁷

This situation was by no means new. Even in the years before 2016, the economic situation was bleak. In the summer of 2013, for example, the country's foreign exchange reserves were almost exhausted. The fact that Egypt did not have to turn to the IMF at that time can be explained above all by the willingness of allied Arab states to support the country.

Immediately after the military coup in 2013, Saudi Arabia, the United Arab Emirates, and Kuwait had promised \$12 billion in the form of financial aid and oil supplies to support the consolidation of the Sisi regime.⁵⁹⁸ By autumn 2016, they had even made \$16.8 billion in deposits available to the Central Bank of Egypt (CBE). China also became a new and important lender. In addition, Egypt recorded a significant increase in World Bank loans between 2010 and 2016.⁵⁹⁹

However, in 2016, the Gulf monarchies were no longer prepared to provide Egypt with new loans. Even the World Bank, which had also massively expanded its commitment between 2011 and 2016, apparently saw no more room for maneuver in granting access to new funds.⁶⁰⁰ The top of the flagpole had thus been reached, especially as the precarious budgetary situation was increasingly affecting the supply situation for the Egyptian population.⁶⁰¹ The government under President Sisi had no choice but to ask the IMF for support.

This was the moment when the Paris Club States, Egypt's traditional donors (especially the G7), came into play. Their importance as creditors of Egypt had declined considerably between 2010 and 2016. At the end of 2010, according to Egyptian statistics, the Paris Club accounted for around 50 percent of Egypt's foreign outstanding debt, compared with less than 16 percent in 2016 (see Figure 9.1).

⁵⁹⁶ The World Bank (2016) World Development Indicators [Online]. Available at: <https://databank.worldbank.org/source/world-development-indicators>.

⁵⁹⁷ Cook, S.A. (2016) 'Egypt's Nightmare Sisi's Dangerous War on Terror', Foreign Affairs [Online]. Available at: <https://www.foreignaffairs.com/articles/middle-east/egypt-s-nightmare>.

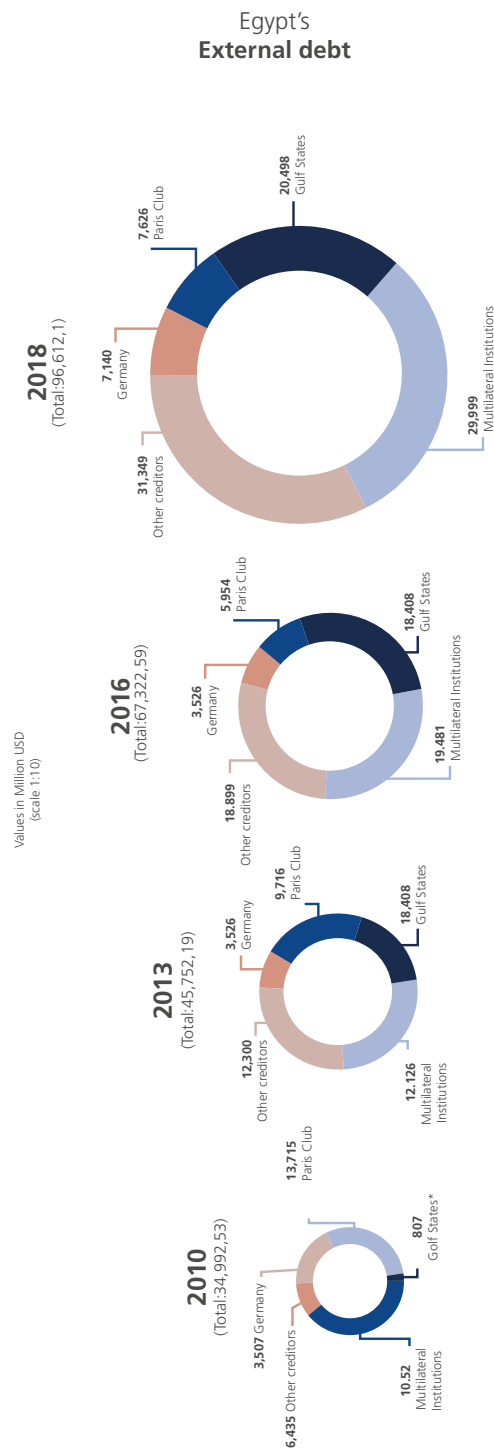
⁵⁹⁸ Reuters (2013) 'Egypt received \$7 billion of promised \$12 billion in Gulf aid - central bank', Reuters: Business News, 29 September [Online]. Available at: <https://uk.reuters.com/article/uk-egypt-finances/egypt-received-7-billion-of-promised-12-billion-in-gulf-aid-central-bank-idUKBRE98S05N20130929>.

⁵⁹⁹ CBE (no date) External Position of the Egyptian Economy. Various issuers [Online]. Available at: <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx>.

⁶⁰⁰ Egypt's liabilities to the World Bank doubled between December 2010 and June 2016 (to USD 5.1 billion) (ibid).

⁶⁰¹ For example, sugar stocks had to be confiscated from companies, otherwise sugar subsidies to the Egyptian population would no longer be available, according to Elyan, T. (2016) 'Egypt Authorities Seize Sugar at Edita Plant Amid Shortage', Bloomberg, Business, 24. October [Online]. Available at: <https://www.bloomberg.com/news/articles/2016-10-24/egypt-authorities-seize-sugar-at-edita-plant-amid-shortage>.

Figure 9.1: The German Government's Outstanding Risk for Egypt



Source: Euler Hermes, Export Credit Guarantees of the Federal Republic of Germany, Annual Reports 2015, 2016, 2017, 2018.

In the absence of alternatives for the Egyptian government to find other sources of financing, these states occupied a position of particular importance. On one hand, they hold more than 50 percent of voting rights on the IMF board and represent the ultimate say on lending decisions.⁶⁰² On the other hand and even more importantly, Egypt needed more lenders in addition to the IMF. In their projections, the IMF staff had estimated Egypt's financing gap for the proposed three-year reform program to be as high as \$35 billion. Because the IMF was able to cover only \$12 billion through the disbursement of special drawing rights, additional funding became indispensable.⁶⁰³

Germany held a special position within the Paris Club as the largest donor, accounting for 30 percent of Egypt's debt to the Paris Club countries in July 2016. This position and its role as an important member of other donor institutions like the European Investment Bank (EIB) or the African Development Bank (ADB) put Germany in the driver's seat during the negotiations between Egypt and the IMF. Several reciprocal visits took place in 2016 between German and Egyptian officials, including a trip by the Chancellor's chief advisor accompanied by the President of the Bundesbank, who also acts as the German Governor on the IMF's Board of Governors, indicating intensive background negotiations between the two governments.⁶⁰⁴ Germany ultimately agreed to provide additional funds in the amount of \$250 million to fill the financial gap in 2017-2018.⁶⁰⁵ Later, another \$250 million in loans was made available for the financial year 2018-2019.⁶⁰⁶ Germany thus provided significantly more aid than the other Paris Club countries in supporting the agreement.⁶⁰⁷

9.2 Germany's Interests in the Agreement

In view of Egypt's importance for German development, support for the IMF reform program seems self-evident. Since the 1950s, Egypt has been a priority country for German development cooperation. In the past ten years alone, an average of over EUR 178 million per year in official development assistance has been committed, mostly in the form of low-interest loans.⁶⁰⁸ However, there are indications that development policy interests were not the driving force behind German support for the IMF program in 2016.

From the outset, it seems questionable whether the objectives of the reform program could have been brought into line with German development objectives for Egypt at all. On the surface, development does appear as a main priority. The program itself states that it aimed to "restore macroeconomic stability and promote inclusive growth." Inclusive growth corresponded with the most important aim of Egyptian-German development cooperation proclaimed by the Federal Ministry of Economic Cooperation and Development (or BMZ, by its German acronym), that is "to help improve the living conditions of the general population."⁶⁰⁹

602 See for the allocation of voting rights IMF (2020) IMF Executive Directors and Voting Power [Online]. Available at: shorturl.at/aqLY1. Paris Club States control 56.5 pct of the voting rights.

603 IMF (2017, p. 62) (see Note 595).

604 This trip took place on 21 June, before Egypt officially asked the IMF for assistance. However, it can be assumed that negotiations on the IMF agreement had already taken place before the official request for assistance was made.

605 IMF (2017, p. 62) (see Note 595).

606 IMF (2019b) Arab Republic of Egypt, Fourth Review under the Extended Arrangement under the Extended Fund facility –Press Release; Staff Report; and Statement by the Executive Director for the Arab Republic of Egypt. IMF Country Report No. 19/98, April 2019, p. 61 [Online]. Available at: shorturl.at/joHUB.

607 U.K. and France contributed USD 150 million each, Japan USD 50 million.

608 Own calculations based on Furness, M. (2019) 'Donorship' and Strategic Policymaking: Germany's MENA Aid Programme since the Arab Uprisings', Development Policy Review, Annex 1 [Online]. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12461>; and Auswärtiges Amt (2019) Egypt: Bilateral Relations, 28 June [Online]. Available at: https://www.auswaertiges-amt.de/en/ausussenpolitik/laenderinformationen/aegypten-node/egypt/227486#content_1.

609 See BMZ (no date) Egypt – Situation and Cooperation [Online]. Available at: https://www.bmz.de/en/countries_regions/naher_osten_mittelmeer/aegypten/zusammenarbeit/index.html.

However, a closer look reveals that the link between macroeconomic stabilization and inclusive growth is not truly explained in the program. On the contrary, the nature of the program suggests that the reforms envisaged would have an extremely negative impact on the living conditions of the general population. Bassma Momani points out that parallels to past IMF policies in Egypt are evident: “They emphasize the pursuit of economic growth while overlooking (and hence exacerbating) the pressing political economy challenges involved in its pursuit.”⁶¹⁰ The mere fact that the program does not address the Egyptian military’s influence on the economy and society, which is seen by many observers as a central obstacle to inclusive growth, supports this assertion.

The neglect of political economic conditions contradicts the proclaimed German development approach for MENA countries, which has been gradually revised since 2011.⁶¹¹ In an internal position paper of August 2014, the BMZ highlighted deficits in democracy, political participation, and justice as key issues for future development cooperation. These findings were also incorporated into the ministry’s “Special Initiative for Stabilization and Development in North Africa and the Middle East,” which includes Egypt. In addition to the traditional priority areas of cooperation (namely water, energy, and education), the German government launched special programs in recent years to promote good governance and to empower civil society.⁶¹² However, in the design of the IMF program, these findings apparently played no role at all.

This observation also fits with the fact that the BMZ had limited involvement in the negotiations on German support for the IMF program in Egypt. In principle, the BMZ takes the lead on government consultations with Egypt over development cooperation (including technical and financial cooperation) and coordinates its activities with other state actors important for German development cooperation.

In the summer of 2016, however, the BMZ was confronted with a *fait accompli*. This was partly because Germany’s relations with the IMF are not controlled by the BMZ but by the Ministry of Finance (BMF) and the German central bank, the Bundesbank. Both actors have no political position regarding German development cooperation with a specific country, but only act as custodians of Germany’s financial interests. It remains unclear to what extent the BMZ and the Foreign Ministry had the opportunity to conduct their own assessments on the content of the IMF program within an inter-ministerial coordination process. Given the time pressure under which the negotiations between the IMF and Egypt were held, it is unlikely that the ministries had a chance to carry out a thorough assessment.

Above all, the loans for Egypt were granted in the form of so-called Untied Financial Loans (Ungebundene Finanzkredite, or UFK). This type of credit can in principle be used by various ministries, but in the case of Egypt the initiative came directly from the Chancellery. The Chancellery used a special provision, which states that such loans may be granted in case of a “special national interest of Germany” on the “personal initiative of the Federal Chancellor.”⁶¹³ In the Chancellery’s deliberations, development considerations seem to have played a subordinate role - if they played a role at all. Otherwise, there would have been close coordination with the BMZ about the UFKs, which was obviously not the case.

610 Momani, B. (2018) ‘Egypt’s IMF program: Assessing the political economy challenges’, Bookings Report, 30 January [online]. Available at: <https://www.brookings.edu/research/egypts-imf-program-assessing-the-political-economy-challenges/>.

611 For a comprehensive overview see Furness, M. (2019) (see Note 610).

612 See BMZ (no date).

613 Bundesministerium der Finanzen (2019) Die Auslandsgewährleistungen des Bundes (The federal guarantees abroad) [Online]. Available at: https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Internationales_Finanzmarkt/Internationale_Finanzpolitik/Auslandsgewahrleistungen_des_Bundes/2012-06-18-auslandsgewahrleistungen-des-bundes.html.

Instead, economic considerations may have been more relevant. Traditionally, Germany did not consider Egypt a country of vital economic significance. In 2015, for example, only EUR 1.7 billion worth of goods were exported to Egypt - placing the country at forty-sixth among German export destinations.⁶¹⁴ However, in 2015 and 2016, the German government provided massive support for German companies operating in Egypt.

The groundbreaking contract with the German Siemens Group was particularly important in this context. In June 2015, Siemens signed an EUR 8 billion deal with Egypt to supply gas and wind power plants to increase Egypt’s electricity generation by 50 percent.⁶¹⁵ For the company’s loss-generating power plant division, this order - the largest in the company’s history - was vital to maintaining German jobs and company profits. Siemens CEO Joe Kaeser called for support from the German government, which ultimately was granted.⁶¹⁶ Through the deal, Egypt ranked third and second in international comparison in terms of newly issued German export credit guarantees in 2015 and 2016, respectively.⁶¹⁷

Table 9.1: Federal Export Credit Guarantees and Outstanding Risk 2014-2018

Year	Sum (in billion EUR)	Share of total outstanding risk
2014	0.9	1%
2015	3.0	3.3%
2016	6.8	7.6%
2017	6.5	7.6%
2018	6.6	7.6%

Accordingly, the federal government’s outstanding risk toward Egypt increased dramatically from \$900 million in 2014 to \$6.8 billion in 2016, bringing Egypt’s share of total outstanding risk to 7.5 percent (Figure 2). This development is also reflected in debt statistics reported by the Central Bank of Egypt (CBE), which on their own should, however, be read with caution. According to these statistics, Egypt’s public and publicly guaranteed debt to Germany rose by around 130 percent between 2015 and 2017, increasing Germany’s share of Egypt’s liabilities to Paris Club member states to almost 50 percent (in 2010, the share was less than 30 percent). Egypt’s impending insolvency would have a much higher impact on Germany’s state budget than was the case before 2015, making the federal government’s support for the IMF deal more crucial than it was for other Paris Club members.

The Chancellery’s main motivation in facilitating new loans to Egypt, however, can be found in security policy considerations. Even before 2016, a frequent saying of German diplomats and politicians was that “Egypt is too big to fail,” which expresses a fundamental fear of the consequences of Egypt’s

614 See Germany Trade & Invest (2015) Wirtschaftsdaten kompakt: Ägypten, October [Online]. Available at: https://www.bak.de/aw/files/netzwerk-architektur-export/07laenderinformationen/afrika/aegypten-11.2015_wirtschaftsdaten-kompakt-aegypten-november-2015.pdf.
615 See Reuters (2015) UPDATE 2-Siemens signs 8 billion euro power deal with Egypt, 3 June [Online]. Available at: <https://www.reuters.com/article/siemens-egypt-power/update-1-siemens-signs-8-billion-euro-power-deal-with-egypt-idUSL5N0YP41Z20150603>.
616 Siemens CEO Joe Kaeser did not act in a subtle way. In a letter to the then Vice Chancellor and Federal Minister of Economics Sigmar Gabriel (Social Democratic Party), he emphasized the importance of building gas-fired power plants for Egypt. At the end of the letter, he pointed out that thousands of jobs in Germany depended on this business. The letter is available to the author.
617 See Euler Hermes (2016) Export Credit Guarantees of the Federal Republic of Germany. Annual Report, p. 60 [Online]. Available at: https://www.agaportal.de/_Resources/Persistent/7b5ec850811238194a3276cb707b9e18f4fb3782/JB_2016_EH_E_F.pdf.

collapse for Europe. This anxiety had massively increased after the European migrant crisis in 2015. Decision-makers in European capitals worried that a new route for irregular migration to Europe might emerge through Egypt. In fact, the numbers of migrants embarking from Egypt had increased noticeably since 2013. Between 2015 and 2016 alone, there was an increase of around 96 percent. Although this migration pattern meant that less than 10 percent of the 180,000 migrants arriving to Italy came from or through Egypt, the European Border and Coast Guard Agency Frontex nevertheless warned that it could emerge as a “main alternative route to Italy.”⁶¹⁸

In Berlin, the government (especially the Chancellor’s Office) considered the refugee issue to be its highest foreign policy priority.⁶¹⁹ The Egyptian government was keenly aware of this fact and knew how to take advantage of it. Egyptian diplomats were forthright in demanding more financial aid from their German counterparts, with the threat that more refugees would embark from the Egyptian Mediterranean coast. Securing Egypt’s maritime border became the main subject of bilateral negotiations between Germany and Egypt.

Although at no time were the negotiations on the migration issue officially linked to the those on the IMF loan, the timing of parallel negotiations and remarks from German politicians at the time strongly suggest it. In fact, upon conclusion of the IMF loan negotiations, Egypt hermetically closed its sea border and halted almost all irregular migration. Since then only a few dozen migrants have embarked from Egypt to Europe. Two years later, on a state visit in Cairo, German Chancellor Angela Merkel thanked Egypt for its “excellent maritime border security,” stating that “in this context” Germany would support Egypt’s economic reforms with an untied financial loan worth EUR 500 million.⁶²⁰

9.3 Outcome of Program from a German Perspective

From a German perspective, the IMF agreement with Egypt could be seen as a success story. Macroeconomic stabilization measures restored the country’s solvency, with reforms restoring economic growth, reducing external and fiscal deficits, and resulting in a remarkable increase in foreign exchange reserves.⁶²¹ More importantly, Egypt delivered on its promise to stop irregular migration. Egyptian security forces surgically sealed the country’s Mediterranean coast so that no refugees could cross over to Europe. Such an assessment, however, overlooks the fact that these are initial short-term effects. In the medium- and long-term, the agreement could have considerable negative consequences for Germany.

On the one hand, Egypt’s macroeconomic stabilization has come at a high price, namely a sharp increase in public debt. The IMF has irresponsibly downplayed the reform program’s shortcomings. The Fund speaks of success and refers to the total debt-to-GDP ratio, which according to official statistics

618 See Roll, S. (2018) ‘Egypt: Migration Policy and Power Consolidation’, p. 62, in Koch, A., Weber, A. and Werenfels, I. (eds.) *Profiteers of Migration? Authoritarian States in Africa and European Migration Management*. Research Papers 2018/RP (04), July, pp. 56-65 [Online]. Available at: https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2018RP04_koh_et_al.pdf.

619 In 2015 a special coordination staff for refugee policy was set up in the Chancellery, headed by Jan Hecker, who became the Chancellor’s foreign policy advisor in 2017.

620 The Chancellor probably meant 500 USD. See Die Bundeskanzlerin (2018) *Pressekonferenz von Bundeskanzlerin Merkel und dem ägyptischen Präsidenten Abdelattah Al-Sisi* (Press conference by Chancellor Merkel and Egyptian President Abdelattah Al-Sisi), 30 October [Online]. Available at: <https://www.bundeskanzlerin.de/bkin-de/aktuelles/pressekonferenz-von-bundeskanzlerin-merkel-und-dem-aegyptischen-praesidenten-abdelfattah-al-sisi-1543870>.

621 At the end of 2018 foreign exchange reserves amounted to over 44 billion US dollars, three times more than it was in summer 2016 and enough to cover about nine months of imports, according to Reuters (2018) *UPDATE 3-Traders say Egypt delays wheat payment guarantees, ministry dismisses criticism*, 5 December [Online]. Available at: <https://www.reuters.com/article/egypt-wheat/update-3-traders-say-egypt-delays-wheat-payment-guarantees-ministry-dismisses-criticism-idUSL8N1YA1UO>.

has dropped from 96.9 percent of GDP in 2015-16 to 85.2 percent in 2018-19.⁶²² However, it is dubious that all government debt incurred in recent years is reported in the official statistics. One example of this includes a loan of \$25 billion, allegedly granted to Egypt by Russia to finance the country's first nuclear power plant.⁶²³ Furthermore, Egyptian statistics strain credibility especially regarding domestic debt, which are far less verifiable for outsiders (including IMF staff) than the external debt figures. Remarkably, the decrease in total debt is nearly exclusively due to a decrease in domestic debt (from 89 percent of GDP in 2015/16 to 67.5 percent in 2018/19). Since the start of the IMF program, foreign debt has not only risen sharply in total, but also as a percentage of GDP (from 7.8 percent to 17.7 percent of the GDP during this time, excluding the CBE's international reserves).⁶²⁴

IMF forecasts that suggest a reversal of this trend from 2019 onward are extremely questionable given the underlying assumptions, such as a significant increase in foreign direct and portfolio investment. Even if total debt shows a slight decrease in relation to GDP during the last three years, this is mainly due to increased economic growth and not a decrease in the total public debt burden. In other words, economic growth has been higher than debt growth since 2016. However, as Amr Adly explains in his contribution in this volume, it remains to be seen whether economic growth rates will remain this high in the years to come given the lack of structural reforms.

Consequently, one can expect that the Egyptian state budget will continue to be burdened to an unsustainable degree by high debt service. Between 2015/16 and 2018/19 alone, the share of debt service in government expenditure rose from 29.9 to 38.8 percent despite the alleged decline in overall debt.⁶²⁵ This trend will likely continue, forcing the Egyptian government to take on new debt on the international capital market, which will become much harder without an IMF agreement to back it up. Egypt could very soon become dependent on new financial aid - not a good prospect for Germany, which will once again be under pressure to participate in such assistance.

On the other hand, the IMF agreement has had dramatic impacts on the living conditions of the population. The IMF downplayed this development by pointing to the sharp drop in unemployment since the beginning of the program, a fact emphasized repeatedly by the Egyptian government. As in the case of Egyptian debt statistics, however, official labor market statistics should be viewed with the utmost caution.⁶²⁶ They do not provide an adequate picture of the social situation in the country, because much unemployment, underemployment, and the quality of working conditions are not reflected.⁶²⁷

Unsurprisingly, another trend contradicts the supposedly improved employment situation: the nationwide increase in poverty. As Adly points out, the official poverty rate increased significantly between 2015 and 2018 from 27.8 to 32.5 percent.⁶²⁸ In fact, the situation could be even worse, given

622 IMF (2019b) and IMF (2019c) Arab Republic of Egypt, Fifth Review under the Extended Arrangement under the Extended Fund facility –Press Release; Staff Report; and Statement by the Executive Director for the Arab Republic of Egypt. IMF Country Report No. 19/311, October 2019 [Online]. Available at: shorturl.at/qwDP7.

623 Reuters (2016) Russia to lend Egypt \$25 billion to build nuclear power plant, 19 May [Online]. Available at: shorturl.at/FQW57.

624 See IMF 2019b and 2019c. Note that the IMF presents consolidated debt figures, which means that it subtracts international reserves from external debt, which lowers the debt-to-GDP-ratio significantly.

625 Own calculations, IMF (2019b, c).

626 Traditionally the head of the Egyptian statistic agency CAPMAS comes from the military, which makes the political independence of the agency very questionable. See: Paris 21 (2015) 'Partnership in Statistics for Development in the 21st Century', National Statistical System Assessment Egypt. September [Online]. Available at: https://paris21.org/sites/default/files/NSS-Assessment-Egypt_2015.pdf.

627 See KfW (2018) 'Unemployment in North Africa – men without jobs are not the only problem', KfW Research, 24 September, p. 2 [Online]. Available at: <https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-Fokus-Volkswirtschaft/Fokus-englische-Dateien/Fokus-2018-EN/Fokus-Nr.-224-September-2018-Youth-unemployment-North-Africa.pdf>.

628 See Ahram Online (2019) 32.5 percent of Egyptians live below poverty line: CAPMAS, 30 July [Online]. Available at: <http://english.ahram.org.eg/NewsContent/3/12/341838/Business/Economy/-percent-of-Egyptians-live-below-poverty-line-CAPM.aspx>.

that the Egyptian government defines the official poverty line at just \$45 a month - hardly enough to survive. The World Bank stated in April 2016 that "some 60 percent of Egypt's population is either poor or vulnerable, and inequality is on the rise."⁶²⁹

The social consequences of the IMF program are by no means merely a temporary, 'normal' adjustment process resulting from long overdue austerity measures. Rather this development also relates to the Egyptian government's completely inappropriate spending policy that at received no official scrutiny from the IMF. This policy includes public spending on questionable megaprojects (such as the country's new administrative capital) without conducting adequate feasibility studies or public tenders and, more importantly, the excessive expansion of the Egyptian security apparatus.

Egypt's military has grown dramatically in recent years, which is not reflected in official budget figures.⁶³⁰ Independent analyses - for example, on Egypt's arms procurement - make this clear. Between 2014 and 2018 and during massively rising poverty, Egypt became the third largest importer of major weapon systems with procurements in the amount of \$7.5 billion.⁶³¹ Additionally, market observers note that the military also vastly expanded its activities in the civil business sector in recent years. Contrary to the government figure claiming only 1.5 percent, the army's share of the economy may have reached up to 40 percent.⁶³² Structural reforms aimed at greater competition and market transparency are doomed to fail in the face of the military's vested interests.

The expansion of the security apparatus reveals a dangerous vicious circle: the more the living conditions deteriorate due to the austerity measures concentrated on social expenditure, the more the democratically illegitimate regime must invest in the country's security apparatus to strengthen loyalties and protect itself against the growing dissatisfaction of the population. Since the implementation of the IMF program, the human rights situation in Egypt has deteriorated considerably. Evidence includes an increase in death penalty sentences, extrajudicial killings, the systematic use of torture in prisons where up to 60,000 political prisoners are held, the lack of press freedom, and the repressive nature of laws related to civil society.⁶³³

The IMF has ignored this vicious circle of macroeconomic 'stabilization' and the expansion of the police state with all its severe consequences. It once again illustrates the general weakness of the Fund's policy: the pure focus on macroeconomic stabilization by avoiding anything which would touch the political framework conditions of the respective program country.

Germany cannot afford to ignore this vicious circle, not only because the German government has declared the protection of human rights as a cornerstone of its foreign and development policy, but also because of Germany's main interests in the containment of irregular migration. Doing so creates significant risk to Egypt's medium- and long-term recovery, as seen by the dramatic deterioration in

629 The World Bank (2019) World Bank Group to Extend Current Strategy in Egypt to Maintain Momentum on Reforms, Press Release, 30 April [Online]. Available at: <https://www.worldbank.org/en/news/press-release/2019/04/30/world-bank-group-to-extend-current-strategy-in-egypt-to-maintain-momentum-on-reforms>.

630 Officially Egyptian military expenditure in 2018 was 20 percent lower than in 2009. However, as SIPRI points out, "it remains unclear how Egyptian military spending can be declining while the country is involved in major military operations in the Sinai Peninsula and is implementing major arms procurement programmes." SIPRI (2019) 'Trends In World Military Expenditure', SIPRI Fact Sheet, April [Online]. Available at: https://www.sipri.org/sites/default/files/2019-04/fs_1904_milex_2018.pdf.

631 See SIPRI [Online]. Available at: http://armstrade.sipri.org/armstrade/html/export_values.php.

632 Hamama, M. (2019) 'Sisi says military economy is 1.5% of Egypt's GDP, but how accurate is this?', Mada Masr, 2 November 2016 [Online]. Available at: <https://madamasr.com/en/2016/11/02/feature/economy/sisi-says-military-economy-is-1-5-of-egypts-gdp-but-how-accurate-is-this/>; own interviews with European diplomats and financial experts, Berlin 2019.

633 For more see Amnesty International (2019) Egypt: Series of draconian laws 'legalizes' unprecedented repression six years since fall of Morsi, 3 July [Online]. Available at: <https://www.amnesty.org/en/latest/news/2019/07/egypt-series-of-draconian-laws-legalizes-unprecedented-repression-six-years-fall-of-morsi/>; and Human Rights Watch (2017) Egypt: Torture Epidemic May Be Crime Against Humanity, 6 September [Online]. Available at: <https://www.hrw.org/news/2017/09/06/egypt-torture-epidemic-may-be-crime-against-humanity>.

living conditions from socioeconomic decline and political repression. In this context, one can safely presume an increase in migration pressure in the coming years. Germany, like its European partners, will increasingly depend on the willingness of the military-backed government in Cairo to secure Egypt's maritime frontier, which is by no means a sustainable solution.

9.4 Conclusion

This analysis posed questions on the role Germany played in reaching the IMF agreement with Egypt, the motives for German action, and the consequences that the agreement and the related economic reform program would have for Germany itself. These questions can be answered as follows:

First, Germany had a much greater influence on the conclusion of the agreement than is generally known - more than the German share of the IMF board's vote suggests. This is evident in the additional financial requirements for implementing the reform program, which were defined by the IMF. Whether Egypt would have been able to organize the additional financial resources required by the IMF to implement the program without the support of one of Egypt's most important creditor countries is extremely unlikely.

Second, Germany did not appear to use its influence on the conclusion of the IMF agreement to influence the design of the underlying reform program. Instead of using the opportunity to implement its own development policy objectives, the conceptual design and monitoring of the economic reform program were de facto left to the IMF, which did not incorporate German development policy objectives. Although the federal government had the opportunity to comment on IMF staff reports and thusly influence the disbursement of IMF aid to Egypt, these reviews referred to the agreed program, the conditions of which Egypt implemented quite well.

The fact that almost no influence was exerted on the program design in the sense of German development policy could be attributed, on the surface, to coordination problems between various governmental actors. The BMZ apparently played no role in the negotiations on the IMF program, so development policy objectives could not be introduced. Yet, support for the IMF agreement could also be seen as an indication that security policy considerations have an increasing influence on German development cooperation. The decisive factor for German participation in the program was ultimately the immediate closure of the Egyptian sea border to prevent irregular migration to Europe over development policy considerations with a long-term orientation.

Third, German support for the IMF agreement has paid off, but only in the short term. In the medium- and long-term, however, the agreement could become expensive due to Egypt's increased national debt and the dramatic deterioration of its socioeconomic and human rights situation. Germany could soon be faced with a situation similar to that in 2016 when Egypt faced near insolvency and the number of irregular migrants to Europe increased significantly.

If future negotiations arise between the IMF and Egypt on a new aid program, Germany should act on two priorities. Germany should exert much more influence on the design of the program through its seat on the IMF Executive Board. In doing so, it could ensure that the link between macroeconomic stabilization and sustainable economic development is formulated more clearly. Critical developments that have a direct impact on economic development, such as the expansion of the Egyptian military's

economic activities, should be named by the IMF and, if necessary, sanctioned by withholding instalments.

Germany should also attach clear conditions to its own financial support for a new economic reform program. Unlike the approach in 2016, such conditions should not focus on short-term solutions, such as the closure of the Egyptian maritime border. In accordance with the guidelines for German development policy and in the mutual strategic and economic interest, the German government should make human rights considerations a much stronger condition for any new financial assistance.

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