

The IMF in the Arab world: Lessons unlearnt

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Introduction

The IMF has a track record in enforcing aggressive liberalisation in trade and investment alongside contractionary policies such as austerity measures and regressive taxation with negative impacts on growth, employment and inequality. However, documents released by the IMF since the 2008 Financial Crisis have indicated that the organisation was revising its stance by depicting itself as a more flexible lending institution (Gabel 2011; Gallagher 2011 Vernengo & Ford 2013). This alleged policy shift became more evident after the 2011 Arab uprisings, which many have attributed to the failure of the economic and social policies promoted by international financial institutions (IFIs). Post 2011, country-specific strategies produced by the IMF for Arab countries consistently highlighted issues of social and economic inclusion as key priorities of IMF policy, indicating that they had broken with past practice and would now place more emphasis on policies aimed at inclusive growth (Hanieh 2014).

The post-Arab uprisings moment provides an opportunity to evaluate the potential change of IMF policies in response to its accusation of being responsible for the series of financial crises that plagued the global economy (Ban & Gallagher 2015). In May 2011, a group of international institutions and governments gathered under the umbrella of the Deauville Partnership and pledged up to \$40 billion in loans and other assistance towards what they termed the “Arab Countries in Transition” (ACT)¹. By 2012, the IMF had signed four loan agreements in the region: two year loan packages with Morocco and Jordan, an emergency credit line with Yemen and

a precautionary financing arrangement with Tunisia. Egypt has gone through two controversial rounds of negotiations with the IMF on a potential loan program, neither of which ultimately resulted in a loan.

This report surveys the IMF’s impact on post revolutionary Arab states by documenting the history of IMF involvement in the region. It then traces the change in IMF rhetoric and practice before and after 2011 in four Arab countries: Tunisia, Morocco, Jordan, and Egypt. These countries were selected in particular because they have adopted extensive structural reforms under the auspices of the IMF and were often put forward by IFIs as successful reformers (Harrigan & El Said 2014). It will be demonstrated that in practice IMF interventions post-Arab uprisings replicated the same policies that had proven to be unsuccessful pre 2011. As illustrated in the case studies, these policies include: (i) the focus on fiscal austerity and subsidy reduction; (ii) aggressive privatisation as well as trade and investment liberalisation; and (iii) the failure to adequately promote employment-intensive investment by persisting with the export growth model.

In light of these case studies, the implications of the IMF’s experience in the region are considered, concluding with recommendations for the future role of the IMF in the developing world, including Arab states.

The IMF's impact on Arab States

History from 1980-mid 2000

Macroeconomic reforms formulated under the auspices of the Bretton Woods Institutions (BWIs), the World Bank and the IMF, have been implemented in the Arab region since the 1980s (Sika 2012). These measures have focused on ten major areas: fiscal discipline, priorities of public expenditures, tax reforms, financial liberalisation, floating of exchange rates, trade liberalisations, foreign direct investments, privatisation, deregulation and property rights (Krogstad 2007). Between the mid-1980s and the 1990s, with the support of the BWIs, most of the countries of the region had adopted many of the Washington Consensus policies. Measures to liberalize foreign trade, lifting of import restrictions, changing the tariff protection and removing barriers against exports were enforced by governments in the Arab region (Sika 2012). Also, public spending was reduced to limit the budget deficits in the Arab economies by the late 1980s (Sika 2012). This led to the Arab governments prioritizing the private sector, mainly through liberalizing the economy and through privatizing state-owned enterprises (Joya 2011).

The introduction of structural adjustment policies to the region, imposed by the BWIs, started with the global downturn of the 1970s and the international debt crisis in the 1980s. Morocco was the first Arab state to sign a lending program with the IMF in 1984, followed by Tunisia in 1986, Jordan in 1989 and Egypt in 1991. Through these lending programs and the ones that followed the IMF imposed their standard structural adjustment packages (SAPs) that focused on liberalisation of ownership laws, particularly in the real estate, financial and telecommunication sectors; reduction of subsidies on food and energy; opening up to foreign investment flows; restructuring of tax regimes; deepening of financial markets; labour market deregulation; and the relaxation of trade barriers (Hanieh 2014). The available empirical evidence suggests that the social implications of reform in the Arab world from the 1980s until mid-2000 have been disappointing (Harrigan & El Said 2014). Despite improvements in macroeconomic indicators, the social situation in each reforming country has deteriorated. Not only did unemployment and poverty increase, but income inequality also worsened for the majority of these countries (El Ghonemy 1998). As Harrigan & El Said (2014) point out in their report, the negative social impact of reform was more severe in countries that were subject to international pressure to globalise rapidly, known as the 'good pupils' of the IMF like Morocco, Jordan, and Egypt. In those states, unemployment, poverty, and inequality were much worse in the late 1990s than earlier in the decade.²

While the purpose behind the SAPs was to make these economies more competitive by promoting export-led growth (Richards & Waterbury 1998), the liberalisation process and the transition to free market economies proved ultimately unsuccessful (Meijer 2015). Furthermore, privatisation policies which were meant to increase productivity resulted instead in a strong concentration of economic wealth in the hands of the ruling elite, increased corruption, impoverishment of the working class and middle

classes, and a deepening of inequality in the Arab societies, giving rise to a deep sense of injustice (Achcar 2013).

Comparing IMF policies pre and post 2011

In the wake of the 2011 uprisings, the marginalised and discontented populations contested the IMF sponsored policies adopted by Arab regimes. While the IMF, in its report to the G8 summit at Deauville, would continue to place its key priority on supporting "an enabling environment in which the private sector flourishes"³, popular pressure from the grassroots demanded a reversal of the current economic doctrine (Hanieh 2014). In Egypt, protests, strikes and factory sit-ins called for the renationalisation of enterprises privatised under the Mubarak regime, increases in minimum wage levels, and the expansion of social support to education and health (Hanieh 2013). Hundreds of strikes in the education sector, oil and energy, mining, ports and transport also occurred across Tunisia, with workers focusing in particular on privatisation and wage levels (Hanieh 2014). In 2012 Jordan's prime minister announced price hikes for gas and other fuels, setting off the most recent round of demonstrations and calls for general strikes across the country (Haddad 2012). Furthermore, in Morocco, the government was compelled to increase subsidy levels for food and fuel in an effort to prevent a repeat of its neighbour's unrest.

At the end of 2011 Lagarde blogged that the "IMF had learned some important lessons from the Arab Spring. While the top-line economic numbers on growth, for example often looked good, too many people were being left out." She further elaborated that the IMF did not fully anticipate the consequences of unequal access to opportunities: "let me be frank, we were not paying enough attention to how the fruits of economic growth were being shared."⁴

Pre 2011: Recognizing the faults in the IMF's approach in the Arab region

Prior to the Arab uprisings, numerous studies documented how the IMF staff had a difficult time assessing the impact of IMF policies on what it calls the 'social dimension'. This dimension includes policies affecting poverty, equity concerns, unemployment, and provision of social services like health and education (Momani & Lanz 2014; Anand, Mishra & Peiris 2013). Moreover, pre 2011, the term inclusive growth was completely absent from the IMF's communications with the Arab countries. Instead, the fund advocated a simpler approach to growth (Momani & Lanz 2014). An analysis of IMF communications with Egypt, Morocco and Tunisia from 2006 through 2013 by Momani & Lanz (2014) found that the IMF did not explicitly embed inclusiveness into its growth strategy until after the Arab uprisings. For instance, in 2006 and 2007, former IMF Deputy Managing Director Agustin Carstens and former IMF Deputy Managing Director Murilo Portugal stated that the main challenge for Tunisia and the other Maghreb countries was to increase economic growth.⁵ They reasoned that economic growth would, in turn, improve living standards (Momani & Lanz 2014).

Furthermore, another key feature of the pre 2011 era was that IMF staff reports made no recommendations to address inequality or to enhance redistributive policy. Instead, IMF staff tended to promote unqualified fiscal consolidation, through cuts to social spending and welfare policies which would likely exacerbate inequality, as well as call for a smaller public sector to save government costs, but which would also raise unemployment (Momani & Lanz 2014). In 2006, the IMF advised the Moroccan government to “take advantage of the favourable economic environment to pursue a more rapid pace of fiscal consolidation, which remains a key objective to support strong and sustainable growth”.⁶ Here, the IMF viewed unqualified consolidation as a prerequisite to sustainable growth (Momani & Lanz 2014). Similarly in 2006, the IMF advised Egyptian authorities that “fiscal consolidation is central to achieving growth objectives”.⁷ The reforms prescribed for Jordan in SAPs prior to 2011 revolved targeted fiscal and monetary policy in which salaries and wages in the public sector were frozen and government subsidies were cut (Nazzal 2005).

Hence, it is safe to conclude that pre 2011 the IMF’s prescriptions were not particularly concerned with social outcomes. Moreover, they were equally unconcerned with human capital development and aggregate demand management (Momani & Lanz 2014).

Post 2011: The IMF’s change in narrative?

In February 2011, Masood Ahmed, Director of the Middle East and Central Asia Department of the IMF, explained, that “the recent events ... across the Middle East brought into sharp focus the need for more inclusive growth”.⁸ Ahmed conceded that another clear lesson learnt for the IMF is that even rapid economic growth cannot be maintained unless it is inclusive, creates jobs for the growing labour force, and is accompanied by social policies for the most vulnerable.⁹ Indeed since 2011 the IMF has adopted a different perspective to growth in the Arab World in its public statements. The IMF now includes inclusiveness and improved livelihoods as intrinsic features of its growth strategies in their statements (Momani & Lanz 2014).

Country-specific strategies produced by the IMF and World Bank in the wake of the uprisings consistently highlighted issues of social and economic inclusion as key priorities of IFI policies. In April 2011 the IMF released a paper entitled *Toward new horizons—Arab economic transformation amid political transitions*. The paper makes the case for the urgency of launching economic policy reforms

beyond short-term macroeconomic management to support economic stability and stronger, job-creating economic growth in the Arab countries in transition—Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.¹⁰ One of the seven key lessons in the report was that fiscal reforms should aim to foster fairness. The report states:

*Expenditure-side reforms should include redirecting social protection from expensive and inefficient generalized subsidies to transfers that better target the poor and vulnerable. Some countries also have room for raising income tax progressivity and increasing excise and property tax rates, and the closing of tax exemptions and loopholes. Together, these policies would enhance equity while freeing scarce resources for priority expenditure in infrastructure investment, health, and education.*¹¹

Furthermore, in 2011 IMF staff began to finally make explicit recommendations to address inequality and to enhance redistributive policy (Momani & Lanz 2014). In 2011, Masood Ahmed stated: “in our view, it is crucial that governments help poor households, and even more so during difficult periods.”¹² Ahmed also said of Tunisia: “there will be a need for programs to enhance job-creating and inclusive growth, and to design a well-targeted social safety net that would protect the most needy, especially in difficult times.”¹³

As illustrated in this section there is a clear change in tone by the IMF to reassess their approach in the Arab region, which brings us to the question of whether this change of tone is translated into an actual shift in IMF practice in the region. IMF’s position in the Arab world post 2011 draws many parallels to the situation it found itself in after the 2008 financial crisis. In fact, a description of the change in IMF rhetoric post the 2008 financial crisis by Ali Guven (2013) still seems quite an accurate reflection of the same institution’s change in tone post 2011. IMF’s statements then implied a “profound soul-searching underway in the IMF” according to Guven. He further elaborated that their “public narrative gave rise to the impression that these IFIs, which have long acted as both the voice and the enforcer of the dominant development wisdom, are on a path to a paradigm renewal of sorts”, ending his reflection with the question of whether in practice this was really the case?

The next section aims to answer that question by focusing on how the IMF has operated in four representative Arab countries pre and post 2011.

Case studies

The IMF has conceded that the SAPs fell short of achieving the desired objectives in Jordan, Egypt, Tunisia and Morocco. Despite starting in different years, all four programs displayed similar characteristics. The recommendations were designed in a package of policy reform and stabilisation that was typical of the IMF policies prescribed to developing countries in other regions, such as Latin America and sub-Saharan Africa (Harrigan & El Said 2014).

The chosen case studies illustrate that in practice IMF's interventions in the region are still premised upon the classic adjustment policies of the past. Three main findings can be clearly drawn from the case studies addressed in this section: (i) focus on fiscal austerity and subsidy reduction rather than revenue enhancement and expansionary policies to boost aggregate demand; (ii) aggressive privatisation as well as trade and investment liberalisation without considering the capacity of the local sectors/industries to compete. Also, without the existence of safeguards to ensure they do not lead to negative social and economic consequences; and (iii) the failure to adequately promote employment intensive investment by persisting with the export growth model despite the lack of success and proven inadequacy of that approach historically.

Tunisia

Pre 2011

The World Bank heralded Tunisia as the Arab model to emulate during Ben Ali's rule (1987-2011) (Cammatt et al. 2015). During that era Tunisia had abided by IMF-World Bank conditionalities, including the reduction of public sector employees, the elimination of price controls over essential consumer goods, the implementation of a sweeping privatisation program and lifting trade barriers. However, while the economy grew in overall terms, and poverty was successfully reduced in absolute terms, these numbers disguised not only the discrepancies in poverty levels between the regions, which remained high¹⁴, but also the actual increase in income inequality during economic stabilisation.

Between 1987-2001 the IMF signed nine different loan agreements with Tunisia (Ed. Paloni & Zanardi 2006). In its SAPs, The IMF persisted with fiscal austerity and the removal of subsidies even when it coincided chronologically with a renewed upsurge in food prices and the lack of a developed social welfare system.¹⁵ Accordingly, the structural reforms in Tunisia failed to achieve inclusive growth. Furthermore, trade liberation, privatisations and austerity all contributed to exacerbating the inequality gap, disabling the development of productive sectors (and hence job creation) and last but not least increased the vulnerability of the poor due to the absence of solid social protection schemes to compensate for the subsidy and spending cuts.

As a result of an unbalanced policy of promoting export led growth without linking it to the needs of the Tunisian economy, more than 90 per cent of Tunisian exports remained labor-intensive manufacture; largely textiles, automotive parts, electrical machinery components, and niche processed agricultural goods, even though

the labour force was becoming more skilled (Cammatt et al. 2015). In addition, Cammet et al. argue that because all inputs had to be imported, domestic manufacturers became increasingly unable to compete against cheap Chinese and Eastern European products and the linkages in the Tunisian economy were diminished, stunting job creation. Moreover, privatisation measures promoted by the IMF and implemented during the Ben Ali era ultimately led to the concentration of economic power through corruption and the monopolisation of wealth by 'clans' close to Ben Ali's regime (Hibou 2006).

As per the analysis of Harrigan and El Said (2014), structural adjustment by the IMF in Tunisia failed to redress the high unemployment rate the country experienced from 1985-2000. During that period Tunisia's unemployment rate was at a likely underestimated 14 per cent, and was disproportionately high among the poor (22 per cent of the unemployed). High unemployment rates are also related to low investment levels and the wide gap between employment generation in urban as compared to rural areas. Hence, further liberalisation only served to increase inequality and either freeze or worsen poverty trends (Harrigan & El Said 2014).¹⁶

As concluded by the former Tunisian finance minister Hakim Ben Hammouda (2012):

"The Washington Consensus policies [...] caused political exclusion, economic inefficiency and increased inequality. This explosive cocktail that has fed the frustrations and anger and that will be the source of Arab revolutions."

Post 2011

The IMF reengaged Tunisia soon after the revolution took place in January 2011. Speaking at a news conference during his visit to Tunisia in November 2012, David Lipton, first deputy managing director of the IMF, stated "the time has come to implement reforms that can deliver higher and more inclusive growth and create new jobs for millions of people."¹⁷

In September 2012, IMF staff advised the Tunisian government to "lay the ground for a comprehensive set of reforms to achieve higher and more inclusive growth and reduce unemployment in a sustainable way."¹⁸ An excerpt taken from the IMF's 2012 staff report on Tunisia seems to suggest a significant departure from the IMF's previous positions (Momani & Lanz 2014):

"Addressing pockets of poverty and implementing targeted policies to protect the most vulnerable groups in the population will be needed. Revised poverty estimates indicate that poverty rates and inequality are higher than previously stated. At the same time, improving the quality of spending by putting in place a targeted social safety net and shifting budgetary resources to infrastructure investment, education, and health should improve growth prospects and social outcomes."¹⁹

However, an analysis of what has been done on the ground reveals a very different picture. The 2012 Article IV consultations

actually focused on recommending improvements to the “business environment”, reform of the labour market and strengthening of the financial sector (Mohamedieh 2013). The report attached the achievement of growth with the necessity to open up to “large external financing including FDI inflows and borrowing by the government and corporate sector.”²⁰ According to the IMF’s diagnosis, key challenges that Tunisia faced included controlling the wage bill, reducing subsidies and replacing that with spending on targeted social safety nets, and promoting private sector development, including through corporate tax reform and a new investment code.²¹

In June 2013 the IMF executive board approved a \$1.74 billion Stand-by Agreement (SBA) for Tunisia making it the fourth country in the region to get the IMF’s help since 2011, after Yemen, Jordan and Morocco. The total amount was to be disbursed over a 24-month period, with tranche payments dependent on eight program reviews conducted by the IMF over this time. According to Hanieh (2014) the policy proposals presented by the IMF included:

“a pledge to reduce taxes for the corporate sector by seeking a convergence between off-shore and on-shore tax regimes²²; raising taxes for consumers (including, most controversially, an increase in vehicle tax; reform of public enterprises and the pension system; liberalising the investment environment through offering incentives to the private sector²³; cut-backs to subsidies and associated increases in electricity, gas and fuel prices; decentralisation of public administration to the local government level; labour market deregulation; a salary freeze for civil service workers through 2014; and the first steps towards the corporatisation of public banks through excluding them from the law governing public enterprises.²⁴”

In early 2013, social protests emerged in the wake of the government’s attempt to implement these policies, focusing in particular on the rising cost of living, the scheduling of new fees and taxes, and cutbacks to subsidy levels (Hanieh 2014). Throughout 2013, inflation averaged more than six per cent, with non-administered food prices reaching 10 per cent in December 2013 (Hanieh 2014). These figures were back at the peak levels of 2008

and 2010, prior to the ousting of Ben Ali.²⁵ Nevertheless, despite ongoing protests, the interim government (in line with the IMF agreement) increased prices of household electricity and gas by 10 per cent in January 2014, and fuel prices were pegged to rise by a further six per cent in July 2014.²⁶ The 2014 budget also contained measures for a 25 per cent increase in taxes on vehicles, a measure that would particularly affect taxi drivers and farmers.

The IMF continued to sponsor the same policies they promoted during the Ben Ali regime through privatisation of state resources, open capital markets, de-valued currency, wage repression, lifting of subsidies and cutting government spending for social programs (Prince 2013). The overhaul of the investment incentives code, promotion of public-private partnerships (PPPs), as well as the establishment of a ‘flexible’ labour market and the liberalisation of the energy sector were all reforms consistent with the Washington Consensus framework that guided the previous policy packages by the IMF in Tunisia (Hammami 2014). In fact this line of recommendations extends back to 2001 (Mohamedieh 2013) when the IMF staff report on Tunisia promoted the acceleration of economic liberalisation and private sector-led development, including tariff dismantling on imports from the EU and accelerated pace of trade liberalisation.²⁷

Despite the change in rhetoric, IMF policies have been relatively unchanged in Tunisia and are doing very little to address the deep-seated economic and social issues that led to the uprising. The experience pre 2011 had proven how harmful trade liberalisation and subsidy cuts were to the Tunisian economy in light of the absence of productive/competitive sectors and a developed social welfare system. However, the IMF still chose to promote and re-adopt the same policies that had proved so ineffective. Consequently, economic indicators for the first quarter of 2015 reveal more or less the same economic picture Tunisia experienced before the revolution. Tunisian debt continues to rise, recording 25 billion dinars (\$12.6 billion) in March 2014, while the unemployment rate stood at 15.2 per cent in Tunisia²⁸ with unemployment rates in the western regions of the country exceeding 25 per cent.²⁹

Morocco

Pre 2011

By 1983, Morocco's currency reserves were almost exhausted, forcing the government to institute emergency measures to restrict imports. In 1984 Morocco was one of the first countries in the region to turn to the IMF for a loan. The ingredients of the new policy package were familiar: nominal exchange rate devaluation, budgetary discipline, tariff reduction, real interest rate increases, and privatisation (Cammatt et al. 2015). In the midst of the economic crisis of the early 1980s, austerity measures and structural reform measures were introduced in Morocco under the auspices of the IMF and World Bank (Harrigan & El Said 2014). By 1992, Morocco was being held up as a textbook case of successful economic reform (Cammatt et al. 2015). On the macroeconomic side, the government achieved stability through orthodox means: contractionary fiscal and monetary policy and floating the dirham in 1985. Budgetary deficits, which had exceeded 15 per cent of GDP in the late 1970s, steadily fell to around two per cent. Inflation had declined to about three per cent by the late 1990s (Cammatt et al. 2015).

The social impacts of the stabilisation programs in Morocco, however, were harmful in the early 1980s and in the second half of the 1990s (Harrigan and El Said 2014). Figures regarding poverty and unemployment released by the state have been contentious and highly debatable as they were considerably lower than the 'unofficial' yet generally recognised rates (Harrigan and El Said 2014). The social impacts of BWI programs introduced in the early 1980s were so traumatizing that the Moroccan government terminated its agreement with the IMF in 1993, but continued to implement IMF policies nonetheless (Hamdouch 1998). Even the World Bank conceded later that it was excessively bullish in its assessments of Morocco's economic future.³⁰

During the 1990s, Morocco's manufacturing sector and the overall economy exhibited a weak performance (Achy 2013). After an initial boom in the 1990s the growth of manufactured exports stagnated, due to, amongst other factors, the adoption of orthodox IMF prescriptions regarding trade liberalisation. Following the IMF prescriptions Morocco joined the World Trade Organization in 1995 and entered into free-trade agreements with the EU in 1996 (Cammatt et al. 2015). These accessions led to measures like reducing trade barriers; quota coverage being reduced from 66 per cent to 15 per cent of imports, the range of import levies was substantially decreased, and most export taxes were eliminated (Achy 2013). Moreover, following IMF advice, foreign exchange controls were relaxed achieving full convertibility of the current account in early 1993. Price and margin controls were lifted for many goods, and, after a slow start, the privatisation program took off in 1993 (Achy 2013).

Between 2000 and 2004, GDP growth increased to 4.5 per cent per annum with strong growth in agriculture due to favourable weather and in manufacturing, services, tourism, and information technology (Harrigan & El Said 2014). However, employment opportunities as a result of this growth were not sufficiently high to make an effective difference in poverty or even unemployment levels (Harrigan and El Said 2014). Morocco's ability to achieve sustainable and inclusive long term growth and poverty reduction

was questionable in light of the fact that the economy was highly dependent on external factors like remittances and tourism receipts, along with the growth of domestic demand for agriculture, as opposed to being export-driven as advised by the IMF (Harrigan & El Said 2014).

This leads to the conclusion that both fiscal consolidation and trade liberalisation, the two main IMF recommendations to promote export led growth, were not successful in enabling Morocco to achieve inclusive and sustainable economic growth. These policies did not allow Morocco to develop its capacity in sectors in which it had the potential to be competitive, like manufacturing, and hence the liberalisation policies did more damage than good. This was combined with the inadequacy of its social safety programs to protect the most vulnerable. Most of Morocco's social welfare indicators from the 1980s until mid 2000 remained at levels below those of comparable lower middle-income countries (Harrigan & El Said 2014).

Post 2011

In the 2011 Article IV report the IMF staff explicitly acknowledged the need for a careful approach to austerity and the removal of subsidies by first enhancing redistributive policies and providing more nuanced critiques of subsidies, which now attach key qualifications such as protecting the poor in Morocco (Momani & Lanz 2014). The Article IV report also noted that "a well-targeted subsidy system will be less costly and would better support the poor . . . universal subsidies should be replaced by targeted transfers, which would allow for more effective social spending, providing more room for social protection and health and education spending"³¹.

Furthermore, the IMF seemed to acknowledge that rushing towards liberalising trade and industry without first building the domestic sectors capacity to compete was a recipe for failure. In fact in December 2012, IMF staff member Jean-François Dauphin argued that Morocco was in need of structural measures to promote investment in human capital as part of a strategy to realise higher, more inclusive growth.³²

Accordingly, in August 2012 when the IMF approved a 24-month Precautionary and Liquidity Line (PLL), there were expectations of a different approach in terms of policy advice from the IMF compared to what it prescribed pre 2011, in light of the statements above. Valued at around \$6.2 billion, the PLL which could be used in the event of a severe balance of payments crisis caused by deterioration in the international economic situation, happened to be IMF's first use of that policy tool. With Morocco considered to be a guinea pig for a supposedly 'new mindset' within the IMF (Baghough 2012), the IMF was at pains to stress its novelty, with the argument being that the conditions attached to this product are not necessarily the 'standard issue' deregulation programs the institution is known for (Baghough 2012). It is also worth noting that the credit line for Morocco is precautionary in nature since Morocco did not face a balance of payments problem at the time of the loan agreement,³³ so in Morocco's case, it is supposed to serve as insurance.

Despite its 'novelty', this facility comes with its own set of conditionalities (Hanieh 2014). The Letter of Intent pledges "rationalisation and efficiency of public spending" through

measures including subsidy and pension reform, with a targeted 1.6 percentage point drop in the fiscal deficit/GDP between 2011 and 2013.³⁴ Other structural reforms include removing barriers to business entry, rationalising tariffs, labour market deregulation,³⁵ and preparing some public enterprises for privatisation.³⁶ Furthermore, the IMF 2011 Article IV report highlighted the need for improving the ‘business climate’ in order to enhance the role of the private sector, including in public sector projects.³⁷ IMF advice included “reforms aimed at reducing minimum wages and hiring costs,” which are considered by the staff critical to reducing youth unemployment (Mohamedieh 2013).³⁸

Additionally, the World Bank also stepped-up its role in Moroccan government policy by pushing towards constitutional reform that embeds fiscal austerity as a guiding principle of the state’s finances and budgetary processes (Hanieh 2014). The new constitution adopted in 2011 contains an important requirement that the “finances of the state” remain “in balance” (Article 77).³⁹ This constitutional requirement on public finances underpins a new draft Organic Budgetary Law (OBL), prepared with the assistance of the World Bank, which as its principle goal has the reduction of government spending on wages and subsidies (Hanieh 2014).⁴⁰ Some of the measures to be carried out by the government in line with these reforms include an increase in fuel, gasoline and diesel prices, control of government wages, and a six per cent reduction in subsidies on wheat.⁴¹

Therefore, contrary to claims of a changed approach, these conditionalities and structural reforms were clearly reminiscent of the previous advice provided by the IMF to the Moroccan government which had focused on fiscal consolidation, reform of the subsidy system, and moving to a more flexible monetary and exchange rate regime, while focusing monetary policy on inflation targeting with little emphasis on developing stronger social protection systems. While Morocco did not necessarily need external financing, it still committed to a range of macroeconomic and structural changes to the economy as a result of this arrangement (Mohamedieh 2013).

Another illustration of the replication of the IMF policies pre 2011 is the trend of recommending trade liberalisation that has historically been consistently reiterated and advanced by IMF reports, for example in 2007 and 2008⁴². This was again

the case in the 2011 IMF Article IV report for Morocco, in which one of the main recommendations was the need to strengthen “trade liberalisation under the EU-Mediterranean Association Agreements ... as it remains incomplete, with many barriers still hampering market access, particularly in agricultural and service sectors.”⁴³ Accordingly, Morocco launched negotiations with the EU on expanding the standing EU-Morocco free trade agreement to cover services, investment protection, competition policy, and government procurement, along with extended intellectual property rules in 2013. As Mohamedieh (2013) notes in her analysis of Morocco’s experience with the IMF, the trend of intensive trade liberalisation through tariff dismantling in Morocco overlaps with a trend of decline in the contribution of manufacturing to GDP, which declined from around 16 per cent in year 2000 to less than 14 per cent in 2008.⁴⁴

It is clear that the IMF’s role in Morocco represents a continuation of the same IMF approach before 2011 to promote export led growth and aggressive trade liberalisation at the expense of strengthening the capacity of the domestic industries. This is despite the fact that the economic upturn and decline in poverty levels experienced by Morocco during the period of 2000–2004, were based on domestic demand rather than on exports (Harrigan & El Said 2014).

Finally, despite that IMF reports have often acknowledged that the main shocks to the Moroccan economy come from external sources, such as exports, tourism receipts, remittances, FDI, as well as spillover from the European economies, the IMF still persists with recommendations that would deepen the dependency of the Moroccan economy on these factors, thus increasing their vulnerability (Mohamedieh 2013). For instance, the 2012 IMF staff report on Morocco noted that its potential growth is expected to increase as a result of the implementation of a set of policies, including “removing barriers to entry” (of business); “simplifying the regulatory environment for doing business”; and “strengthening the ongoing trade policy reform [...] and tariff rationalisation”. Furthermore, although the IMF recognised that the development of a more effective social welfare system was a priority for Morocco in the post 2011 era, the IMF placed much less emphasis on the implementation of new social protection schemes in their policy package post 2011 and contrary to how they monitored the control of fiscal deficits for instance, they placed no benchmarks for achieving this objective.

Jordan

Pre 2011

Large-scale and systemic official corruption; macroeconomic mismanagement; an unfavourable shift in the external environment; and poor policy advice from international financial institutions were all key factors in Jordan's 1989 currency and banking crisis (Harrigan, El Said & Wang 2006a). Immediately following the outbreak of the crisis, the Jordanian government agreed to its first SAP and stabilisation programs with the IMF through an SBA loan in 1989. This marked the beginning of what became a marathon of these programs that lasted for more than 15 years, until 2005 (Harrigan and El Said 2014). These SAPs set in motion a series of reforms intended to help Jordan climb out its crises, but they did not get off to a productive start. For instance, the IMF almost immediately pressured the Jordanian government to liberalise interest rates. This set off a chain reaction, which exacerbated the consequences of the recession (Leathers 2015). First, this liberalisation led to a sharp increase of interest rates among many local Jordanian banks, which caused sharp competition and a drastic increase in nonperforming loans (Leathers 2015). The government had to inject millions of dollars to meet the run on the banking sector (Harrigan, El Said & Wang 2006b).

Over the 15 years of conditionality from 1989 through 2004, IFIs implemented a range of structural adjustment policies including: privatisation of state-owned enterprises; elimination/reduction of various subsidies; cuts to the public sector; and other types of reform concerning trade, taxation and currency. The implementation of severe fiscal austerity measures on the economy, which already suffered from contracted economic activities, a high level of foreign debt, and inflation, consequently led to the collapse of the Jordanian dinar, which lost almost 50 per cent of its value in early 1989 (Harrigan & El Said 2014). Furthermore, the IMF insisted on expenditure reduction in a country where "expenditures were also rigid, leaving little scope for expenditure savings" (Mansur & Purfield 2004). As Jordan was unable to reduce payments on interest or military expenditures, austerity measures disproportionately affected the poor (Harrigan & El Said 2014). The austerity measures reduced food and energy subsidies; froze public sector wages and employment; and introduced new cost recovery charges for education and health (Harrigan & El Said 2014). Furthermore, the immediate cuts in food subsidies were accompanied by measures that gradually lifted energy subsidies and increased utility prices.

Naturally, introducing such severe austerity measures under these circumstances confronted the government with serious poverty and unemployment problems (Harrigan & El Said 2014). According to the World Bank, the share of the population living under the poverty line jumped from 3 per cent in 1987 to over 14 per cent in 1992, before declining to under 12 per cent in the late 1990s.⁴⁵ Similar trends were also observed with regard to unemployment (Harrigan & El Said 2014), however, as in the case with Morocco, these figures remain highly controversial. Other sources estimated the number of Jordanians living under the poverty line rose by two-thirds between 1987 and 1991, up to 19.8 per cent (Kossaifi 1998). The government of Jordan itself was less optimistic than the IMF and

World Bank (Harrigan & El Said 2014), stating that "depending upon the definitions used, anywhere from fifteen to more than thirty per cent of the population falls below the poverty threshold", adding that the same condition "applies to unemployment".⁴⁶

During the IMF austerity period, when subsidies were greatly reduced, Jordan's social safety net remained weak. In that time, Jordan's National Aid Fund (NAF) was the most 'comprehensive' and 'single state-funded social safety net for the poor and most vulnerable segments of Jordanian society' (Zakharova 2004). Despite the role of the NAF being consistent with the IMF's vision for it, eventually the IMF officials acknowledged that NAF had major coverage limitations (Zakharova 2004). The government of Jordan itself also admitted that the percentage of poor persons receiving NAF recurrent cash assistance to total poor did not exceed 40 per cent in best circumstances.⁴⁷

Following the stabilisation phase of reform, Jordan witnessed two spurts of economic growth between 1992–95, when growth registered an annual average of 8.6 per cent, and 2000–2004, when it averaged 4.8 per cent (Harrigan & El Said). However, rather than sustainable growth brought about by productivity increases, the growth Jordan saw under stabilisation and SAPs was largely extensive and unsustainable, brought about by factor accumulation (Harrigan & El Said 2014). In addition, much of the growth was in non-tradable sectors. More importantly by 2002, after over a decade of IMF and World Bank-guided reforms, poverty rose significantly past its 1987 level of three per cent (Harrigan & El Said 2014). In addition, unemployment rose during the reform period from eight per cent in 1987 to 15.3 per cent in 2002.⁴⁸

It can be argued that the increase in poverty and unemployment in Jordan from the 1990s until 2005 was to a large degree the result of the reform measures introduced under pressure from IFI's. Fiscal austerity under the IMF led to cutbacks in government expenditure on social welfare; reduced employment in the public sector; a freeze on civil service wages and salaries; as well as reductions in subsidies (Harrigan & El Said 2014). World Bank reforms such as privatisation and trade liberalisation contributed to unemployment, while reforms in the agricultural sector, such as the removal of subsidies on farm production costs, led to increased rural impoverishment (Harrigan, El Said & Wang 2006a).

Post 2011:

Jordan, which officially graduated from IMF support in 2005, returned to the international institution seven years later in July 2012 (Harrigan and El Said 2014). During this year, Jordan signed yet another \$2 billion stabilisation loan, which was described as a response to Jordan's renewed economic woes, which included being hit by high oil prices and affected by the unsustainable rent-seeking activities in the economy as well as high levels of official corruption.⁴⁹

The IMF loan agreement with Jordan is an SBA addressing external and fiscal challenges stemming largely from exogenous shocks. The loan, approved on August 3, 2012, was a response to balance of payments problems. The objectives of the SBA include providing liquidity over three years, helping correct fiscal and

external imbalances, and fostering high and inclusive growth.⁵⁰ The program focuses on short and medium-term fiscal consolidation underpinned by reduction of subsidies, expenditure and tax reforms; a set of reforms in the electricity sector in collaboration with the World Bank; and structural reforms aimed at improving the ‘business environment’, enhancing transparency, and fostering trade.⁵¹

Considering the fact that Jordan was experiencing harsh economic constraints and had vastly underdeveloped social protection systems, the austerity-focused package imposed by the IMF led to protests and riots, most extensively in November 2012. This episode of IMF austerity measures and the resultant riots were reminiscent of earlier ones experienced by Jordan in both 1989 and 1996 (Ryan 1998).

It is worth noting that the IMF 2012 report on Jordan suggested that an effective inclusive growth strategy should be centred on creating jobs, reducing inequality, and providing equal opportunities.⁵² Nevertheless, the IMF continued to promote unqualified trade liberalisation as the key strategy to achieve the aforementioned objectives. IMF praised Jordan for negotiating several free trade agreements in recent years, and underlined that “negotiations with EU and MERCUSOR countries ... hold potential for further enhancing trade and economic integration”.⁵³ These steps were, as was the case pre 2011, presented as policies focused on growth and employment (Mohamedieh 2013). Furthermore, implementation of structural policies aimed at “improving business climate, levelling the playing field for all firms, and fostering trade and competitiveness”⁵⁴ were advanced as steps to help facilitate external adjustment and address the current account deficit.

Consequently, we can again conclude that the IMF ignored the lessons learnt from its experience in Jordan or the Arab world in general pre 2011 by avoiding reassessing the macroeconomic implications of an expedited trade liberalisation agenda. Naturally, if the lessons were learnt the IMF would be discussing the importance of sequencing trade openness and linking it to the capacities of the Jordanian export sectors (Mohamedieh 2013). Instead, by advancing the same trade liberalisation, investment policy and austerity advice, without addressing the structural challenges facing the Jordanian economy, the IMF sponsored policies will only ultimately lead to the same negative economic and social consequences of the past.

Egypt

Pre 2011

Like its Arab counterparts, the Egyptian economy faced a crisis by the end of the 1980s. Growth in the 1970s had been based on a rentier economy model with rents in the form of aid, migrant remittances, oil and Suez Canal revenue. With the collapse of global oil prices in the 1980s, this model of growth could no longer be sustained. By the later part of the decade, Egypt faced a major external debt problem, high inflation, and an unsustainable balance of payments (Harrigan & El Said 2014).

Egypt’s involvement in the 1990 Gulf War brought a huge debt relief package and a lending program designed to promote economic liberalisation that was proposed by the IMF and World Bank. By 1991, Egypt signed a Structural Adjustment Loan with the IMF and the Economic Reform and Structural Adjustment Programme (ERSAP) was launched. The first phase of the reform program consisted of a rapid period of stabilisation in which the fiscal deficit was dramatically reduced⁵⁵, inflation fell, and the nominal exchange rate stabilised (Harrigan & El Said 2014). Although Egypt followed the IMF recommendations, embarking on trade liberalisation and privatisation, the growth that materialised in the 1990s, similar to the other case studies, was based on domestic demand, not export-led growth as prescribed by the BWIs.⁵⁶

The rapid stabilisation program promoted by the IMF in the first half of the 1990s took place before the government had “sensitised itself to the issue of poverty” (Harrigan & El Said 2014). According to two poverty measures, the national poverty line head count and the US \$2/day measure, poverty worsened between 1990/91 and 1995/96 (El-Saharty, Richardson & Chase 2005). Hence, it was clear that a decision was made to push for liberalisation despite the immediate negative social consequences, with the expectation that eventually growth would trickle down.⁵⁷

In the second half of the 1990s Egypt was considered the poster child for the Washington Consensus with growth rates and poverty trends showing positive signs. An assessment by the IMF in 2010 concluded that “estimates suggest that strong growth during 2005-2008 contributed to a 14 per cent decline in the proportion living below the (upper) poverty line in Egypt”.⁵⁸ However, closer investigation of the data reveals a different reality (Bargawi 2014). According to Cammett et al. (2015) there are three observations about the growth that occurred in that period that need to be considered. Firstly, although the Washington Consensus projected that macro-stability and deregulation would stimulate export-led growth, Egyptian growth was in fact largely driven by public investment in huge infrastructure projects. Secondly, the growth of export, particularly job-creating manufactured export, was unimpressive. Private investment remained around 10 per cent of GDP, and exports stayed flat at about 21 per cent of GDP, job creation continued to lag behind additions to the labor force, while employment became increasingly ‘informalised.’ Thirdly, the balance of payments remained dependent on the old reliables, like Suez Canal revenues and workers’ remittances.

Comparing the upward trend in GDP growth over the period 2000–2009 with the corresponding rise in income poverty highlights problems in the character of Egypt's economic growth (Bargawi 2014). For example, while nominal GDP growth rates averaged 4.5 per cent for the four years through 2009, such rates have not served to reduce income poverty according to Bargawi (2014). Furthermore, if one believes that Egypt's income distribution, as measured by the Gini coefficient, improved marginally over the last 10 years,⁵⁹ the country's growth would be expected to have been more equitable. Yet income poverty has been on the rise in Egypt since 2000 (Bargawi 2014).

Throughout this phase, the IMF seemed to ignore these clear signals of regression and persisted on the same policy prescriptions despite their negative impacts on the social and economic indicators of the Egyptian economy. In April 2010, the IMF recommended enhancing austerity measures to contain public spending on wages and food and fuel subsidies at a time the country was facing rising food prices due to global pricing fluctuations.⁶⁰ In fact just a few months before the revolution erupted in 2011, the IMF was praising Egypt's economic performance, as well as its sound macroeconomic management and structural reforms.⁶¹

Post 2011:

Almost immediately after the revolution, the Deauville Partnership launched at the G8 summit in May 2011 provided Egypt with a framework and strategy for economic transformation to be led by IFIs like the IMF, World Bank, European Bank for Reconstruction and Development (EBRD) and the European Bank of Investment (EIB).

Again similar to the previous case studies, the IMF had initially provided grounds for optimism regarding their new role in Egypt in the early days post the 2011 revolution. The IMF recognised that their policy advice and praise of Egyptian performance in the past was misplaced and their statements seemed to indicate a very different point of departure for the future. For instance Adnan Mazarei, deputy director of the Middle East and Central Asia Department, argued that Egypt's fuel subsidies were regressive and should be replaced by well-targeted transfers to benefit the poor. Mazarei said that replacing fuel subsidies, which primarily benefit the rich, with strong social safety nets for the poor would result in a redistribution of wealth that would in turn help to mitigate potential social unrest resulting from subsidy reform (The New America Foundation 2013). The IMF also seemed to advocate education and health spending as antecedents to economic growth (Momani & Lanz 2014). In fact, the IMF staff actually recommended "shifting budgetary resources to infrastructure investment, education, and health" to improve growth prospects and social outcomes for Egypt.⁶²

When the IMF eventually engaged with the Egyptian government the policies promoted showed little if any consistency with the claims made above. Negotiations for a new IMF loan to Egypt began in mid 2011 during IMF mission visits to the country. A staff-level agreement between the government and the IMF for a \$3 billion loan was initially concluded on 5 June 2011, but was met with a protesting civil society and a divided public opinion over the economic consequences of an IMF loan. The leaked details of the agreed economic plan was met with increased dissent and eventually the Egyptian authorities announced that plans to accept

the loan had been dropped, with one of the advisors noting that this was a result of the "pressure of public opinion" (Hanieh 2014).⁶³

The measures that were negotiated with the IMF and agreed upon in the preliminary agreement reached were mainly austerity measures. This was clearly illustrated through the decrees that were passed by the government to prove to the IMF that it was serious about adopting the 'required' reforms stipulated by the IMF. These decrees included consecutive price increases in electricity, butane gas cylinders and both natural gas and heating oil supplied to electricity stations⁶⁴. According to the IMF approved reform plan the budget cut targets included a 20 per cent reduction in budget deficit in the following fiscal year and a deficit/GDP benchmark of 5 per cent in 2016/2017, which clearly signifies that the austerity measures will be aggressive to the say least. In the absence of social safety nets, these measures, coupled with the classic IMF requirement of devaluation, were expected to have severe detrimental effects on the cost of living for the majority of Egyptians. Considering that Egypt imported around 40 per cent of its food and over 60 per cent of its wheat and that Egyptians spend around 40 per cent of their income on food, the effects of the expected hike in prices due to inflationary pressures can be clearly drawn (Mossallem 2012). The shelving of the IMF loan proposal along with the social unrest caused by it meant these reform measures were postponed.

In June 2012, the Egyptian government went back to the IMF with a formal application to resume negotiations on a loan, this time for a new amount of \$4.8 billion. An initial agreement was signed in November 2012 and a set of austerity measures approved by the IMF was again presented as an economic reform plan (Hanieh 2014). The plan had unrealistic targets to drastically reduce the budget deficit from an expected 12 per cent of GDP to 10.9 per cent in the current fiscal year and 7.7 per cent by 2014/2015 (Mossallem 2013). The more contentious issue in the package was that of fuel subsidies, which the government planned to start rationing in July 2013. This was suggested in a context where according to the minister of petroleum at the time, the first three months of 2013 saw the commencement of the diesel crisis with fuel shortages reaching a peak in March, the harvest season (Mossallem 2013). This shortage resulted in a surge in the prices of food commodities with increases ranging from 7 per cent to 30 per cent.⁶⁵ Such deprivation has already resulted in violent clashes in several governorates with long queues of citizens struggling to get their share of the limited quantities available. These circumstances were expected to have drastic socioeconomic consequences considering the absence of any price controls or social protection. With regards to income tax, minor changes were made to abandon the neo-classical tax policy adopted in the new IMF sponsored plan, as they aimed to reduce the number of income brackets and impose a similar tax rate across a segment despite the significant disparity in income levels (Mossallem 2013). Instead of applying progressive taxation on higher income groups, the rate remained at only 25 per cent for individuals while the unified rate for all firms is set at 25 per cent. Thus, the plan itself was very indicative of IMF policy prescriptions of the past consisting of a set of austerity measures aimed solely at bringing the deficit down and replenishing the reserves.

This IMF program was postponed again this time due to the political instability sparked by the constitutional declaration by President

Morsy in November 2012. Nonetheless, despite this postponement, many of the economic measures linked to the IMF agreement remained in place, provoking a record number of protests and strikes in the following months (Hanieh 2014). For instance, the Central Bank (CBE) acceded to IMF's pressure and resorted to currency devaluation. This resulted in the Egyptian pound losing almost 10 per cent of its value since early January, subsequently reflected in a sudden increase in the prices of basic commodities. Whereas the CBE quoted inflation at 8.7 per cent at the time, officials from the Department of Food in the Chamber of Commerce indicated that 17 per cent was a more accurate figure. Considering that savings have reached as low as 6.1 per cent of GDP and that 57.5 per cent of the Egyptians do not earn enough to cover their basic needs, a socioeconomic crisis was brewing (Mossallem 2013).

Significant political developments followed in Egypt over the following six months that eventually witnessed the return of military rule. IMF commitment remained strong as illustrated in the IMF's report to the October 2013 Deauville Partnership Ministerial Meeting, the medium-term strategy necessitated: promoting the role of the private sector to unleash Egypt's underexploited economic potential and regaining control of public expenditures, including reforming energy subsidies and containing the wage bill.⁶⁶

The next major development came in 2014 when the recently elected president Sisi decided to implement 'radical' economic reform endorsed by the IMF in an attempt to start reducing the fiscal deficit.⁶⁷ President Sisi legislated cuts in petroleum subsidies by 30.4 billion EGP (c. US \$ 4.3 billion) in July 2014 (Abdel Halim 2014). Hikes in energy prices were announced days after the budget's approval and were estimated to be in the range of 40 to 80 per cent.⁶⁸ These price increases include gasoline prices, diesel prices, fuel oil prices, natural gas prices and increases in electricity prices for households and commercial sectors.⁶⁹ These measures were the beginning of a plan by the government to completely liberalise energy prices by 2018/2019. The plan also included a targeted reduction for food subsidies at 3 billion EGP (c.US\$0.4 billion) (Abdel Halim 2014). The immediate effect of these subsidy cuts was to increase the operational costs for small-scale farmers and the cost of public transportation used mainly by Egyptians from lower socioeconomic groups (Gad 2014). The Central Agency for Public Mobilisation and Statistics announced that vegetable prices increased by 7.4 per cent and transportation costs rose 11.2 per cent in July, when the energy price hikes went into effect.⁷⁰ Moreover, diesel is the most consumed oil product, and 80–85 per cent is used by the goods and services sector.⁷¹ Compensation measures to offset the impact of the subsidy cuts put in place were limited (James 2015), essentially ad hoc measures, not enough to protect wages and mitigate price inflation.

The IMF lauded these developments with Masood Ahmed commenting in May 2015 that the government efforts to cut the budget deficit and spur economic growth were now bearing fruit,

though more needed to be done.⁷² Looking at the IMF's press release for their latest Article IV report on Egypt in February 2015, it becomes quite clear that the same policy advice and approach of the pre 2011 era was being adopted. According to the IMF, "Fiscal consolidation will bring the budget deficit below 8 per cent of GDP by 2018/19 and set government debt on a downward path. The adjustment is designed to preserve growth and inclusiveness."⁷³ This statement could have easily been an extract from any of the Article IV reports in 2008, 2009 or 2010. Indeed it is striking that measures proposed in order to achieve 'inclusion' are largely framed around private sector growth, fiscal austerity, regressive taxation and liberalisation of trade.

The latest manifestation of the replication of the pre 2011 Washington Consensus policies supported and promoted by the IMF in Egypt can be derived from the latest state budget for 2015/2016 announced in July 2015. It is worth noting that this budget succeeds a budget described as the most austere budget since the revolution of January 2011.⁷⁴ In the 2014/2015 state budget, public expenditure rose by less than 5 per cent compared to 17 and 24 per cent in the two other budgets that were approved after the 2011 one respectively.⁷⁵ According to a statement published on the Ministry of Finance website the new budget aims to adopt further contractionary policies by reducing: (i) public wages by 10 billion EGP; (ii) education budget by 4 billion EGP; (iii) health budget by 2 billion EGP; and (iv) reduction in the subsidies for bread and rationed goods by 650 million EGP. This practically means wages and education allocations will rise at a lower rate than that of the inflation rate which is expected to oscillate between 10 and 11 per cent according to the Ministry of Finance (note that for the month of May the rate reached 13.1 per cent). The aim of this aggressive fiscal consolidation is to bring the budget deficit below eight per cent of GDP as recommended by the IMF.⁷⁶

As Amr Adly (2015) describes the current state of the economy:

"the same economic model that prevailed under the Mubarak (regime) has been re-created to a great extent....subsidies for the general population have been slashed, without offsetting social policies to mitigate the higher prices that ordinary Egyptians now face. The regime has shown a general inability or unwillingness to introduce progressive taxation on property and capital holders, which would make it possible to redistribute income and improve the quality of public services in areas such as healthcare and education. With that, the same patterns of social and economic marginalisation that existed before the 2011 revolution are being reproduced."

Finally, any mention of expansionary/progressive policies to reduce inequality, investments and regulatory measures to develop productive sectors and a more targeted social welfare system seem to be included more as caveats in IMF reports⁷⁷ clearly refuting their own claims of a change in approach from the pre 2011 era.

Is MENA a crucible of IMF's changing role?

Since the 1970s, the IMF has been heavily criticised for being insensitive to the diversity of domestic conditions and its rigid commitment to a conservative view of economic development in the form of the Washington Consensus (Ban and Gallagher 2014). The IMF is currently seen to be facing an existential crisis, as since its inception it has been associated with several crises that threatened to make the IMF irrelevant (Woods 2015). Ngairé Woods (2015) recounts the setbacks IMF faced over the years as initially it was almost made redundant in the 1970s, when the US floated the dollar, only to be saved in 1982 by the Mexican debt crisis, "which propelled it into the role of global financial lifeguard". A decade later Woods recalls how the IMF's relevance had started to wane again, but was revived by its role in the transformation of the former Soviet economies. Then came its ill-fated role in the East Asian crisis, after which its former clients "did anything they could to avoid turning to it." Finally, the IMF's participation in the Eurozone crisis has now given emerging economies another reason to shy away from the IMF (Woods 2015).

After the 2008 crisis, the IMF needed to make serious concessions in its policy stances in order to remain relevant in a global economic climate that blatantly contradicts its theoretical core and policy positions (Vernengo & Ford 2014). Accordingly in some of its policy papers the IMF has indicated shifts towards a more Keynesian line of thought. These changes included conceding it was wrong about austerity and recognizing that spending cuts can stifle growth, as well as its assertion that 'slightly more progressive taxation systems' could contribute to inclusive growth. In fact, the IMF now claims to be a strong supporter of safety nets as one of the essential instruments in the stimulus toolbox (Ban & Gallagher 2014). Ban and Gallagher (2014) state that it was never as radical a departure as it might have seemed, it rather proved to be a "schizophrenic division (that) has come to characterize the IMF's approach to policy research on the one hand and policy practice on the other".

The Arab region post the 2011 revolutions provided a valuable opportunity for the IMF to translate the transformation in its public

statements to the way it designs its loan programs and undergoes surveillance. Despite the IMF's association with a legacy of failed economic policies and their drastic social consequences, the Arab regimes were still keen to re-engage with the IMF, hence providing the IMF with a chance to do things differently this time around. As illustrated in this paper the IMF started rather positively, recognizing its mistakes in the region pre 2011 and vowing to adopt a different approach to promote inclusive growth. Consequently, leading to the expectation that its intervention in the Arab World will serve as a crucible for IMF's changing role in the developing world/emerging markets.

Unfortunately, so far it seems like it will be another lost opportunity as the IMF continues to operate the way it has post 2011; showing a significant divide between its statements and the conditionalities associated with its products in the region. As each of our four cases reveal, there has been little change in the IMF approach in the Arab World from the pre 2011 era. All of the major IMF strategic documents and loan agreements continue to be underpinned by a prioritisation of private sector driven growth, fiscal austerity focusing particularly on subsidy reform, and the liberalisation of markets, industries and trade (Hanieh 2014). In fact as this report has demonstrated the IMF agreements with Tunisia, Morocco and Jordan are largely based upon Article IV consultations from prior to 2011. Even in the case of Egypt, the only country not to sign any new IMF packages, the economic reform plans since 2011 are generally consistent with Article IV recommendations made pre 2011.

Finally, we can conclude that the IMF's response to the opportunity of recreating its image in the Arab world represents what Illene Gabel (2011) described as "productive incoherence". According to Gabel (2011) this term, which has displaced the 'neoliberal coherence' of the past decades, refers to the "proliferation of inconsistent and even contradictory strategies and statements by the IMF that to date have not congealed into any sort of new, organised regime".

Conclusion

The IMF's intervention in the Arab region after the revolutions that took place was initially premised on the need to 'stabilise' the economies of the region, but more importantly to address the exacerbation of poverty and inequality as well as revive domestic demand and stimulate productive capacities. As mentioned previously in this report, IMF's intervention in the region was considered to be a possible crucible for change in IMF policy and a chance to become more relevant to the developing and emerging economies of the world.

Instead a survey of public expenditure trends in the region reveals an average of three austerity measures per country during the period from 2010 to 2013, mainly adjustments to the wage bill, subsidy programs and tax regimes (Ortiz & Cummins 2013). According to the report *The age of austerity* by Ortiz & Cummins (2013), which examines the latest IMF government spending projections for 181 countries: reduction or removal of subsidies is by far the most frequent measure adopted in the Arab region from 2010-2013. Moreover, other consolidation policies being considered in the region are increasing consumption taxes through regressive taxation policies like higher VAT rates, as well as containing the

public sector wage bill and/or reducing the operating costs of public institutions (Ortiz & Cummins 2013). Such persistent and continuous pursuit of historically proven inadequate policies and the disregard of the pressing issues facing Arab societies and economies raise fundamental questions over the role of the IMF in the economic and developmental transition needed in the Arab countries (Mohamedieh 2013).

Although IMF statements now address inclusive growth, inequality, social safety systems and health and education spending, its advice on improving these social dimensions remains vague compared to its advice on other topics such as financial, monetary, and broader fiscal policy (Momani & Lanz 2014). The IMF often identifies specific targets for inflation management and deficit reduction. However, they do not identify such specific targets for achieving inclusive growth, improving health and education outcomes, and reducing inequality. Nor do they assess governments' performance in these areas against benchmarks. These discrepancies place a lot of doubt about the IMF's commitment to improving the social aspects of economic policy (Momani & Lanz 2014) and how genuine it is in changing its failed approach of the past.

Recommendations for IMF approach in MENA region

In light of the recent downturns in both developed and developing economies, it has become evident that there is a need to shift to countercyclical policies and higher public spending to avert recession, revitalize the economy, generate productive employment, support development needs and repair the social contract (Ortiz & Cummins 2013). The recommendations have been categorised into the following topics: (i) subsidy reforms; (ii) austerity measures; and (iii) liberalisation and privatization.

Subsidy reform

It is crucial for the IMF to realise that Arab governments provide substantial energy and food price subsidies to their populations to offer relief from high commodity prices (Ortiz & Cummins 2013). The fact that the region does not have well-developed social protection systems means that the current promoted measures to aggressively reduce subsidies will lead to further impoverishment and widening inequality gaps. Instead the IMF should consider development of social protection schemes as a prerequisite to any serious reform to the subsidy and pensions systems. The IMF in its post 2011 reports has proposed mitigating measures to accompany subsidy reforms, including expansion of social safety nets and targeted energy subsidies/cash transfers (Sherry 2015). These measures overlooked the underdeveloped social protection schemes in Arab countries. Inadequate administration capacities, large informal economies and corruption (Sherry 2015) to name a few obstacles make these mitigating measures sound more hopeful than feasible. Admittedly these subsidies are inefficient and a significant portion is used by the rich businesses as opposed to the segment of the population with the most need. Nevertheless, as Hassan Sherry (2015) argues, by demanding short- to medium-term phasing out of energy subsidies, the IMF is targeting the symptoms rather than the causes of the deep rooted social and economic injustices that sparked the region's uprisings. Reversing the underperformance of Arab countries will not be achieved without profound changes in the productive structures of their economies by building effective institutions that make economic and social development a priority.

IMF recommendations in this area should closely consider the strength and capacity of state institutions, corruption levels, and existence of national databases that identify households and individuals in need of social protection (Ziad et al. 2014). Furthermore, any choice of reform strategy, must depend on the specific country context, taking into consideration the extent of existing levels of poverty within the reforming country, the status of social and economic development of the country, and its administrative capacity to implement social protection measures (Sherry 2015). By taking these factors into consideration, appropriate reforms to energy subsidies should be developed in a more gradual manner and in consultation with local stakeholders, mainly civil society. In the meantime the IMF can work with governments to develop short-term alternatives to subsidy reform, such as progressive tax systems and debt relief (considering the amount of odious debt accumulated by the corrupt regimes over several decades). These measures would create fiscal space necessary for immediate reforms and as a result allow for more

gradual subsidy reform.

Austerity

Numerous studies have highlighted the threat austerity measures pose to inclusive growth in any economy.⁷⁸ The United Nations and ILO have repetitively warned against austerity and how it is threatening to bring the global economy into further recession and increase inequality.⁷⁹ They have also “called on governments for forceful and concerted policy action at the global level to make fiscal policy more countercyclical, more equitable and supportive of job creation; to tackle financial market instability and accelerate regulatory reforms; and to support development goals” (Ortiz & Cummins 2013). The IMF itself has recently conceded it was wrong about austerity⁸⁰ and hence if there's a time for a certain policy to be revised this is definitely the time for austerity to be reassessed.

There are existing models that prove there are alternative approaches that can be followed. As Ortiz & Cummins (2013) illustrate, policymakers in Asia are increasingly moving away from unsustainable export-led growth models toward employment-intensive recovery strategies that are centred on building internal markets and improving social protection systems. They also refer to Latin American countries, which have pursued regional integration to expand internal markets and invested significantly in social protection systems to improve living standards; indeed they argue that the region's relative resilience to the contagion effects of the 2008 crisis is due to these recent policy stances.

Hence the IMF would not be venturing into uncharted territory by calling for expansionary policies and increased public investment in social sectors as alternative solutions to stimulating the economy. The Arab uprisings proved that prioritising fiscal austerity would not help to promote robust employment-generating growth, improve living standards or social cohesion. Furthermore, just like the IMF places targets on budget deficits it should work with these governments on placing benchmarks for public expenditure on vital social and economic sectors and the same for progressive taxation policies. This way it will ensure that the mitigating measures they include in its statements are perceived as more than just caveats.

Liberalisation and privatisation:

Investment liberalisation and privatisation, in the absence of supporting institutional infrastructure, have been questioned in the light of the experiences of many developing countries over the past few decades (UNCTAD 2004). This has proven to be also true in practice for the Arab region. Among the more important measures adopted and continue to be encouraged are: lowering of tariff barriers; the removal of many quantitative import restrictions; the reduction of subsidies to domestic producers; the privatisation of government business enterprises as well as utilities; and the easing of foreign exchange controls. Moreover, opening of markets through import competition and FDI liberalisation might bring enhanced competition, but if no safeguards exist, foreign firms might also engage in anti-competitive practices and abuse dominant market positions (UNCTAD 2002)

The IMF approach in the region post 2011 is characterised by deeper liberalisation and privatisation without any serious amendment to the pre 2011 strategy, despite the negative implications that the IMF promoted policies on liberalised trade and investment policy have had on the region (Mohamedieh 2013). Aggressive liberalisation adopted by Arab countries often led to the rise of imports in a disproportionate manner to the rise of exports, and a decline in the productive and manufacturing capacities in these economies (Mohamedieh 2013). These policies ignored the lack of capacity and competitiveness of domestic industries, and meant that local manufacturers became increasingly unable to compete and hence the linkages with the domestic sectors/industries were diminished, stunting job creation.

The same can be said about privatisation where, due to the lack of legal safeguards, corruption has led to privatisations benefiting a narrow circle of figures connected to the regime in one way or another. On the other hand privatisation of public utilities that have been widely acknowledged as sectors that should remain in public control be it in developed or developing countries⁸¹ (such as water and electricity), led to the transformation of them into corporations which were required to operate at a profit. These corporations began to practice full cost recovery by passing on costs to citizens through rate increases. Again, if experience has taught the IMF anything it should be that they should abandon their one-size fits all approach to privatisation and liberalisation. It is well documented that economic development is not achieved by simply liberalising its trade or privatising all its state owned industries. Institution building in combination with a partial and more importantly 'gradual' opening up to imports and foreign investment are a more effective way to also provide a significant source for growth (Rodrick 2000).

The IMF needs to acknowledge that each country has the sovereign right to identify its own model of development, and the institutional reforms that are required, where trade regime/liberalisation is a part of such reforms (Spanu 2003). Also, how and when is the

best time to open the market is different for each country as they have to take into account their different contexts, such as national legislation; foreign trade partners; export-oriented sectors; share of primary exports; rate of trade to GDP; and vulnerability of country to foreign exchange, to name a few (Spanu 2003).

It is no secret that historically, industrialised countries achieved economic growth by strategically and selectively adopting protectionist trade policy and were not forced to immediately open up and privatise, as is the case for the developing world today. More recently we have examples of East Asian countries that liberalised trade after about one decade of growth; the same is in the case of India (Rodrik` 2001). Again each country has to adopt its own trade policy and investment strategy: a mixture depending on the current legal framework, policies in place and the state of the institutions in particular countries. Most importantly the IMF should not lose sight of economic development as its main objective and that trade policy and the private sector are only two tools to achieve this objective.

In conclusion, the IMF should consider placing pre-requisites for privatisation of public entities ensuring the safeguards are in place both legally and on the policy level in terms of economic and social policies. IMF should also refrain from promoting the privatisation of strategic public utilities like water, electricity and transportation in a region where large proportions of the population are marginalised and under the poverty line.

Finally, in terms of trade liberalisation the IMF should be benchmarking the governments' efforts to develop their industrialisation capacities and enhance their dynamic comparative advantage. They should allow for policy space and autonomy to selectively use and adjust the tools available, such as tariff policy and incentives for domestic players to enhance productivity. Moreover, they should allow for sequencing of trade openness to allow the governments to determine when they are ready to compete.

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- 77 In the statement concluding their Article IV mission in Egypt they refer to the fact that this 'fiscal adjustment is designed to preserve growth and inclusiveness: it accommodates the increase in spending on health, education, and scientific research mandated by the constitution, reforms subsidies to make them more efficient and equitable, raises taxes on high earners, and strengthens social safety nets through the development of cash transfer systems.' Hence considering what was actually implemented as illustrated in the latest State Budget it is safe to conclude that these measures are only present on paper.
- 78 See Ortiz & Cummins (2013), CESR (2012), ILO (2012), Krugman (2012), Stiglitz (2012), UNCTAD (2011), United Nations (2013), Weisbrod and Jorgensen (2013).
- 79 See ILO (2010, 2012, 2013); United Nations (2012); UNCTAD (2011b).
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- 81 For social and human rights considerations



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