

# Conditionality, coercion and other forms of 'power'

International financial institutions in the Pacific

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## Conditionality

Recent relationships between Papua New Guinea (PNG), the International Monetary Fund (IMF), and the World Bank have been stormy. At various points in the loan negotiations students rioted, the Prime Minister told the World Bank to 'go to hell', and the World Bank's chief negotiator defected to the PNG side. He was later jailed. The relationship between the Asian Development Bank (ADB) and its South Pacific clients were also sometimes uneasy, and led its Board of Directors to commission a self-assessment (Knapman and Saldanha 1999). The article compares the use of loan conditions by the International Financial Institutions (IFIs) in Papua New Guinea and six small island states of the South Pacific. In spite of their juridical sovereignty, their small size may make them particularly vulnerable to international pressure (Warrington 1998:101). It is part of a wider study of 'institutional transfer' which sees 'conditionality' as one of the mechanisms by which institutions are borrowed, transplanted or imposed on other countries. Conditionality lies on a continuum that runs from voluntary 'lesson drawing' at one extreme, to direct imposition of a policy on the other (Dolowitz and Marsh 1996, 2000).

The World Bank began making Structural Adjustment Loans (SALs) in the early 1980s. Attaching conditions to loans was not new. The World Bank had typically attached conditions to loans it had given for particular projects. A loan for a power station, for example, might contain conditions about electricity pricing. And the IMF had typically set precise targets for money supply and deficit limits, before extending credit to members in crisis. What was new about SALs was a combination of lending for programs rather than projects, aimed at growth as well as tiding a country over a crisis, with conditions that were broad, often qualitative, and economy-wide (Mosley et al. 1991). The types of policy conditions are listed in Table 1. Structural elements also became more important in IMF lending in the 1990s (International Monetary Fund 2001).

Conditions can have several objectives. They may induce a government to do something it would not otherwise do, such as raise electricity tariffs or conserve its forests. They may help donors be more selective about where to provide aid, ensuring it only goes to countries with good policy environments. They may be paternalistic, insisting on donor priorities, even if these are not shared by the recipient government. Conditions may also help a government 'lock in' reforms against future reversal. Finally, conditions may also act as a signal to private investors that the government is serious about reform (Collier et al. 1997).

Research has led to scepticism about the effectiveness of loan conditions. Induced reforms have later been reversed. Donors have not been selective, and continued to provide aid in bad policy environments. Paternalism has been frustrated by the fungibility of aid—for example, the government may spend on arms the money it has saved by having donors pay for hospitals. Private investors have not been convinced. Putting recipient governments on a 'shorter leash' by releasing money in slices, on the basis of performance rather than promises, reduces local ownership and the government's credibility with private investors (Collier et al. 1997; Leandro et al. 1999). Killick compared conditionality in 20 countries (but not Papua New Guinea and the South Pacific). He concluded that 'conditionality does not fulfil its promise of greater aid effectiveness' and it 'has resulted in a considerable waste of public resources' (1998:166).

The World Bank report, *Assessing Aid*, conceded that conditionality might fail to generate permanent changes in policy because it was difficult to monitor, because it was limited to the period of the loan, and because of

institutional pressures on bank officials to keep funds flowing (World Bank 1998). Both the content of conditions and the process of applying them were issues in the East Asian financial crisis of 1997. The former Chief Economist of the World Bank, Joseph Stiglitz, argues that the content of the conditions 'went far beyond what was required to address the concerns of the crisis' while the process short-circuited and undermined domestic democratic processes (Stiglitz 2000:25). The IMF began to look at ways of 'streamlining' conditionality, including limiting its scope and detail (International Monetary Fund 2001).

## Coercion and power

Mosley, Harrington, and Toye saw structural adjustment lending as a process of bargaining. Not all the advantages lay with the World Bank, and neither side was unitary. The authors positioned themselves between what

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**Table 1      Policy measures requested by international donors for structural adjustment loans, 1980–86**

Trade policy	Remove import quotas Cut tariffs
Resource mobilisation	Improve import incentives Reform budget or taxes Reform interest rate policy
Efficient use of resources	Strengthen management of external borrowing Improve financial performance of public enterprise Revise priorities of investment program Revise agricultural prices Dissolve or reduce powers of state marketing boards Reduce or eliminate some agricultural import subsidies Revise energy prices Introduce energy conservation measures Develop indigenous energy sources
Institutional reforms	Revise industry incentive system Strengthen capacity to formulate and implement public investment program Increase efficiency of public enterprises Improve support for agriculture (marketing, etc) Improve support for industry and subsectors (including price controls)

**Source:** Mosley, P., Harrigan, J. and Toye, J., 1991. *Aid and Power: the World Bank and policy based lending*, Routledge, London and New York:44.

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they saw as two naïve views. On the one hand were the apologists, who saw conditionality in the 'mutual interest of donor and recipient' and on the other were those who saw it as a form of imperialism, and 'necessarily coercive' (1991:xiii, 67–68, 87). Killick asked if conditionality is 'co-operative or involuntary', and concluded that it was 'essentially coercive'. This led him to distinguish 'pro forma' conditions, which both sides readily agree to, from 'hard core' conditions made only at the lender's insistence, and 'that would not otherwise be undertaken' (1998:9–11). He goes on to compare conditionality with economic sanctions.

If we think of coercion as a kind of power, as the title of Mosley et al.'s book suggests, then both approaches to power remain 'one dimensional'. They see power as the ability of one side to get the other to do what they otherwise would not want to. This view of power is not wrong, but may be insufficient (Lukes 1974). A more 'two dimensional' view would also see power as the ability to control the agenda—to decide what is important and should be talked about, and what is unimportant and should not be talked about. Killick (1995) is talking about 'agenda setting' when he criticises the proliferation of loan conditions as a 'Christmas tree' that tries to incorporate the agendas of different branches of the World Bank. Agenda setting is also involved when Dolowitz and Marsh refer to consultants promoting a single model of 'best practice' in a number of different countries (2000).

The World Bank typically sets this agenda. It does so narrowly, in the sense that economic issues have tended to get more easily on the agenda than others, and broadly, in the sense that non-economic issues taken up by the World Bank (corruption, the digital divide, and so forth) tend to overwhelm others. Its annual *World Development Report* aims to set and re-set the agenda. Important World Bank publications have been carefully edited to reflect particular institutional lines (Wade 1996, 2001). The World Bank's ability to set the agenda is determined by a combination of its ability to hire talent, its command of data, and the resources and effort it puts into disseminating doctrine—whatever it happens to be ('the bank knows best, but what it knows varies over time' (Killick 1998:94)). The International Monetary Fund and the Asian Development Bank have in the past been less interested or skilled in controlling the public agenda, but are becoming more aware of it. Meanwhile, each agency is more narrowly involved in controlling the agenda of the negotiations it holds with governments. These agendas are reflected in the conditions of the loans they make.

Lukes (1974) went on to propose a 'third dimensional' view of power as ideology or the ability to control 'thoughts and desires'. Those subject to the third dimensional exercise of power were not necessarily aware they were being influenced. Victims of second dimensional power, by contrast, know their issues are not on the agenda, but cannot do much about it. Ideology is embedded in the language used to talk about development, and in the kind of data that is collected, tabulated and reproduced. It is sometimes made obvious in advertising, training or propaganda. It becomes more noticeable when it is in motion, as in Killick's remark about the World Bank's knowledge. An example is what was called the 'Washington consensus', a belief in the virtue and inevitability of representative democracy and free markets that emerged in the early 1990s. Right or wrong, its 'third dimensional' quality lay in the claim to be a 'consensus' from which no-one could sensibly dissent. Lukes' implication was that people might not recognise where their 'real interests' lay, and that others—foreign experts, technocrats, a revolutionary party, or aid donors—might be able to see through the veil of ideology and decide what is best for them (West 1986).

Lukes' concern with agenda setting and ideologies dates back to the 1960s and 1970s. More recent theories of power cast doubt on the idea of power as necessarily bad, creating victims, or being exceptional. First, power can be positive rather than negative. Looking at the power of states, as we are here, Mann (1986:113) distinguished between 'despotic' and 'infrastructural' power. The first was the ability to act arbitrarily, without negotiation. It was zero sum—A's power was at B's expense. His example was Lewis Carroll's Red Queen who was able to shout 'off with his head' and have the whim gratified immediately. This kind of power was nasty, but avoidable if you kept your distance. Infrastructural power was the ability to implement policy, at a distance, through other actors, over a long period. It was variable sum. A's power did not depend on B's not having it, and in some circumstances both might benefit from its exercise. It was a characteristic of modern capitalist democracies.

It is precisely this infrastructural power that many developing countries lack, and aid is often intended as 'capacity building'. Mann's argument also points to the flow of resources in loans: to the cheque rather than the conditions. The loan is enabling as well as controlling. It gets the government through a crisis, and at lower cost than without it. Policy reforms do not necessarily require money. 'Either policies are reformed or they are not'

(Mosley et al. 1991:35). The loan allows governments to reform more gradually, or acts as an insurance policy if the reforms fail. Though it irritates donors, the fungibility of aid is particularly enabling. If donors can pay for things they like, then the government can spend its own money on things donors do not like. Donors worry that it creates a situation of 'moral hazard', which encourages governments to spend recklessly, knowing they will be bailed out. If so, it is a hazard many recipients welcome. More immediately, the loan enables a government to survive an acute crisis.

The ideological or 'third dimensional' view of power has been criticised from several directions. Arguing from the study of comparative politics, James Scott (1990) doubted that ideology could be so invisible. He pointed out that neither the powerful, nor the powerless, are completely convinced of the ideological justifications for their dominance. Both sides recognise the violent basis on which it rests. The powerful keep their weapons handy, just in case. The powerless deploy 'weapons of the weak'—jokes, playing dumb, minor sabotage—while dreaming of a 'world turned upside down'. Aid recipients have similar weapons at their disposal. They can drag their feet, play the fool, and sabotage a process they claim to be going along with. Hau'ofa's jocular *Tales of the Tikongs* (1988) describes the sophisticated weapons of the weak the Tongans have devised to bamboozle their donors. His Pacific islanders are sly and calculating agents in a game they play with earnest and bewildered foreigners. They bend the rules, exploit donors' stereotypes and play on rivalries between them.

Finally, as Michel Foucault has argued, power is everywhere, unavoidable, and everywhere generates resistance. He saw Western thinking preoccupied with the image of the sovereign, from whom power was thought to devolve (Foucault 1980). As a result, Western explorers and traders in the Pacific were often baffled by the absence of centralised authority, and often set about creating petty kingdoms from local materials. Instead Foucault noticed the emergence in the West of new 'disciplinary' forms of power, less centralised around 'the government', less easy to avoid, and relying on people to act responsibly and discipline themselves. They operated one step back, through the 'conduct of conduct' (Hindess 1996). Foucault saw these forms of power as something productive, rather than inhibiting. They enhanced the capacities of those they operated upon, not necessarily at the expense of others. They were tied up with knowledge and expertise. In this way, power in the development business is often linked to

professional knowledge and expertise, expressed in sets of data, reports and publications, and applied through training and capacity building. The World Bank is trying to reinvent itself as a 'Knowledge Bank' (Stone 2000). Foucault also noticed that the exercise of power assumes the prior existence of freedom, and never acts without some resistance, slippage and reversal. If so, we should be worrying less about the exercise of power in structural adjustment or public sector reform. Conditionality is not exceptional, and its coerciveness no greater than apparently kinder and gentler forms of aid, ownership, evaluation and policy dialogue. Each of them also arouses resistance.

In each case, of course, we could argue that it is not really power. The test is whether these expanded understandings help make sense of events.

## **Papua New Guinea, the IMF, and the World Bank**

Papua New Guinea has had several successive engagements with the IMF and the World Bank. Each was more intense and protracted than the last. Its first financial crisis came in 1981, six years after independence. The Central Bank suggested borrowing from the IMF, but the government decided to make cuts in public expenditure on its own. The next crisis came in 1990 after rebels closed the Bougainville Copper mine, which had been contributing 20 per cent of government revenue. The government devalued the currency, cut public expenditure, restrained wages and tightened credit. It borrowed from the IMF and the World Bank, and a second slice was promised in return for longer-term structural adjustment meant to encourage the growth of the non-mining sector. 'Phase 2' of Papua New Guinea's 1991 loan included longer term 'structural adjustment' directed at improving growth in the non-mining sector. A long list of measures included 'human resource development; investment deregulation; trade policy reforms; privatisation and commercialisation of government parastatals' and so on (Kavanamur 1998:104). Significantly, for the next episode, it included 'policies to improve land administration'.

The economy stabilised quickly, and the government went ahead with a 'supply side' policy of cutting wages and taxes, deregulation of business, and the promise of eliminating primary school fees. Cash flow problems brought the government back to the IFIs in 1994. The first slice of a loan was released in 1995, but negotiations over conditions for the second tranche dragged on with increasing bitterness until it was released in early 1997. The most violent points of contention were land and forestry policy.

The World Bank was already involved in both land and forestry. It had been funding a land mobilisation program which aimed to improve administration of leases in the national Lands Department and supported provincial governments in drawing up legislation to allow customary landowners to register their land (Filer 2000). It had also promoted and funded projects in a 'National Forestry and Conservation Action Program', which aimed at tighter government regulation of an industry that a commission of enquiry had found riddled with political and official corruption surrounding deals between landowners and foreign timber companies (Alley 1999:147). The reference to land registration in the draft conditions for the Economic Reform Program (ERP) was brief. 'Complete framework legislation for customary land registration. Complete registration in East New Britain and Sepik' (Filer 2000:32).

Once made public in July 1995, it provoked an immediate and violent reaction. A local NGO announced a campaign. Some university students and staff set up barricades and burned government vehicles on the campus. There were public meetings and demonstrations in the Highlands. With at least 97 per cent of the land in Papua New Guinea under customary ownership, and a colonial history of land alienation, the issue had broad appeal. It crystallised popular suspicions of politicians, big men, and the World Bank. Some ministers backed away, and the condition was hurriedly dropped.

The politics of the forestry conditions were more complex, and both the

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**Table 2 PNG loans and number of conditions**

1995	Economic Reform Program	27
1997	Social and Economic Development Program (first draft)	171
1998	Social and Economic Development Program (after negotiation)	40
2000–01	IMF Stand-By Arrangement Structural Benchmarks	7
2000	Governance Promotion Adjustment Loan (Second Tranche)	21
World Bank average number of conditions (1989–91)		56

**Sources:** Filer, 2000. *The Thin Green Line: World Bank leverage and forest policy reform in Papua New Guinea*, NRI Monograph 37, National Research Institute, Port Moresby and the Australian National University, Canberra; Curtin, T. 2000. 'A new dawn for Papua New Guinea's economy', *Pacific Economic Bulletin*, 15(2):1–35; World Bank, 2000. *Report and Recommendation*, Report P-7374-PNG, World Bank, Washington, DC; Killick, T., 1998. *Aid and the Political Economy of Policy Change*, Routledge, London and New York.

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World Bank and the ministers were more determined. The conditions would, in summary, have required the government not to amend the Forestry Act, which reserved decisions about licensing to a statutory Forestry Board; to introduce restrictions on logging under existing permits; to introduce a revenue system that would provide more benefits to landowners and the government; and not to starve the Forest Authority of funds (Filer 2000). International environmental NGOs were putting pressure on the World Bank in Washington. A well-established timber industry was pressing the government in Port Moresby. Customary landowners did not necessarily welcome intensified government regulation. Conservation would stop them selling their timber. Individual ministers and politicians had been doing well personally as intermediaries between landowners and timber companies. (The man who became Minister of Forests in 1994 was the director of a landowner company). There was the possibility of an uneasy alliance between the World Bank and NGOs against the government.

There was a showdown over the forestry conditions in 1996, during which the PNG Prime Minister told the Bank to 'go to hell' and the Parliamentary Privileges Committee found the World Bank guilty of contempt (Filer 2000). But the prime minister backed down, and the second tranche of the loan was eventually released in January 1997. The struggle continued when a new government was elected in August 1997. A new Social and Economic Development Program (SEDP) initially contained 171 conditions, 26 of which dealt with 'forestry and conservation'. These would be implemented by a special loan, which would fund support for landowners, independent monitoring of codes of practice, transforming the Department of Environment and Conservation into a statutory authority, and a conservation trust fund. Intense negotiations followed, with the forest industry pressing for concessions on taxation, and international NGOs pressing for a moratorium on log exports. The number of conditions was whittled back to 40.

In 1998, Pirouz Hamidian-Rad, who had been leader of the PNG 'country team' at the World Bank, went over to the other side. He negotiated a deal in which he would supply economic advice to the PNG government—reportedly at a cost of \$7 million over two years. The World Bank then refused to deal with Hamidian-Rad, so his removal jokingly became the '41st' condition of the SEDP loan. Hamidian-Rad meanwhile drew up the savage 1999 budget, which Filer characterises as 'Structural Adjustment without the

loans' (2000:70). The budget would have retrenched thousands of public servants, through the abolition of 20 departments and cuts in allocations to the rest. The government also tried to boost log exports, while budget cuts limited the Forest Authority's ability to supervise extraction. Its final throw was to send a delegation to Taiwan, offering recognition in exchange for credit. On 14 July 1999, after days of horse-trading and last minute switching of support, Mekere Morauta replaced Bill Skate as prime minister.

The new prime minister, a former Secretary for Finance well regarded by the donors, proposed his own structural reform program. Its objectives were familiar

- promoting good governance
- sustaining macroeconomic stability
- improving public sector performance
- removing barriers to investment and economic development.

In March 2000, the government signed a letter of intent with the IMF which contained six 'quantitative benchmarks' for public expenditure, and seven 'structural benchmarks' relating to privatisation, public and finance sector reform (Curtin 2000).

The new government reinstated the previous export regime for logs, funded an inspection service and declared a moratorium on new permits. It also promised to require more transparency from the Forestry Board (World Bank 2000). A \$90 million loan from the World Bank contained four new second tranche conditions about forestry. Meanwhile, Hamidian-Rad had been arrested on charges of tax evasion. However, relations broke down again in February 2001 when the government cancelled the visa of the World Bank's resident coordinator, accusing him of having 'seen fit to interfere in the domestic affairs of PNG' including a 'campaign to have senior officials removed from office' (The *Australian Financial Review*, 9 February 2001:32). The influence of the World Bank and other donors was an issue in an army mutiny the following month. The soldiers were opposed to the recommendations of a Commonwealth-sponsored Eminent Persons Group, adopted by the government, that the army be halved in size. Their petition was more widely targeted, demanding that 'all representatives of the World Bank, the IMF and all military personnel from Australia or New Zealand leave this country immediately' (*Canberra Times*, 23 March 2001). The government backed away from its plans to reform the army and soldiers handed back their weapons.

## The ADB and the South Pacific

Where the World Bank's relationship with Papua New Guinea intensified over several loans, the Asian Development Bank's program had quite a different shape (Knapman and Saldanha 1999; Saldanha 1999). It engaged a number of very small countries, more or less simultaneously, for the first time. The reasons that these countries turned to the ADB in the mid 1990s were various, and related to international as well as domestic conditions. Samoa had the most deliberate program of financial sector reform, stretching back to the 1980s. The former US territories (Federated States of Micronesia and Marshall Islands) were looking ahead to the end of generous aid agreements, while New Zealand was becoming impatient at the way its budget support to Cook Islands was being spent. The Solomon Islands' economy had become dependent on log exports, which collapsed with the East Asian financial crisis. Each loan involved a different mix of local initiatives and donor intervention. Most countries had started on cutbacks before they sought loans. Solomon Islands and Vanuatu were putting heavy pressure on local banks and provident funds to pay for their deficits.

The branch of the ADB dealing with the South Pacific was receptive. The ADB wanted to broaden the scope of its activities beyond lending to projects and sectors. It saw the provision of loans and technical assistance as an opportunity to reduce the size of the public sector and encourage the growth of a private sector. Bilateral donors—particularly Australia and New Zealand—were ready to step back and let the Bank take the lead, and the political heat, in reform. In a short period, it made a six-program loan, conditional on public sector reform. The conditions in Cook Islands drew particularly on New Zealand experiments in 'New Public Management' and were transmitted to Vanuatu as the same consultants moved from one job to the next.

The loan was typically in two or three tranches. The government received the first slice by accepting the conditions for disbursement of the second, and, occasionally, the third slice. For the ADB, the second and third slices provided an opportunity to attach policy conditionalities to ensure that political or other pressures did not cause the reform program to be diluted (Knapman and Saldanha 1999:34).

A common element, and test of performance, was a cut in the number of civil servants. In the Cook Islands, the public service was reduced by a startling 60 per cent in one year. Table 3, drawn from the ABD's own review of its activities, summarises the results.

The loan conditions typically repeated, or highlighted, the basic documents of an already-drafted reform program—often with technical assistance from the ADB or other donors, such as the Economic Reform Program in Cook Islands or the Public Sector Reform Program in Federated States of Micronesia (FSM). Samoa’s Statement of Economic Strategy was more home-grown. Table 4 provides an example of a program, and Table 5 of a set of conditions:

## Results

Looking back, the World Bank found that the Skate government in Papua New Guinea had been ‘unable to advance the agenda of structural reforms’ that had been supported by the World Bank’s loan. Nor had it been able to implement its own 1999 ‘structural adjustment without the loans’. The civil service cuts were delayed, and costs ‘increased several fold’ (World Bank 2000). The World Bank was also critical of the way forestry policy initiatives of 1995–97 had been reversed. It put great store by the change of prime minister.

Filer was more sanguine about the use of conditions in forestry policy. Papua New Guinea was one of the first countries in which ‘environmental adjustment’ has been tried and the government held to account for the results. He argues that that intensive supervision had finally prevailed over the borrower’s lack of ownership (Filer 2000). He concludes that green conditionality had been quite effective in the PNG case, albeit for a limited

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**Table 3                      ADB loans for reform in the South Pacific**

	Population ('000)	Loan date	Loan size (\$ million)	Number of loan conditions	Conditions fulfilled by 1999 (%)	Reduction in public service (%)
Cook Islands	18	1996	5	110	86	57
FS Micronesia	100	1997	18	122	78	37
Marshall Islands	48	1997	12	59	56	33
Samoa	160	1998	8	62	65	n/a
Solomon Islands	319	1998	25	65	59	6
Vanuatu	147	1998	20	46	57	10

**Source:** Knapman, B. and Saldanha, C., 1999. *Reforms in the Pacific: an assessment of the Asian Development Bank’s assistance for reform programs in the Pacific*, Asian Development Bank, Manila: Tables 1.1, 1.2, Appendix 1.

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**Table 4 Cook Islands economic reform program**

Immediate measures	Forced retirements of public servants. Across the board pay cuts, and withheld pay, for members of parliament and civil servants. Assistant minister positions abolished. Most overseas diplomatic posts eliminated. Funding for international events reduced. State-owned hotels put on the market
Improved financial discipline and accountability	<i>Ministry of Finance and Economic Management Act. Public Expenditure Review Committee and Audit Act</i> Public Service Act. Output based budgeting and accrual accounting
Public sector reform	Reduction in number of ministries from 52 to 22Creation of a special 'transition ministry' to assist the 60 per cent of public servants who would immediately be made redundant. Formalisation of consultation between government and business over budget and policymaking
Private Sector Growth Promotion	Revision of tax rates; introduction of VATReduced restrictions and more transparency for foreign investment. A one-stop shop for foreign investors. Easier access to finance and business advice. New legislation that makes land more accessible. Facilitating growth in tourism, agriculture and marine
Social equity and sustainability	Devolution to island councils. National human resource development plan. Retirement savings plan for public and private employees. Integration of gender issues into development planning

**Source:** Knapman, B. and Saldhanha, C., 1999. *Reforms in the Pacific: an assessment of the Asian Development Bank's assistance for reform programs in the Pacific*, Asian Development Bank, Manila:32–33

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period and for rather peculiar reasons (C. Filer, Personal Communication, 27 November 2000).

The ADB assessed its own work in the South Pacific in terms of conditions met. Table 3 shows the percentage of conditions met at the time of the ADB review. Knapman and Saldhanha pointed out that conditions included different sorts of things, of differing degrees of difficulty: input targets (for example, a promise to provide more resources), processes (consulting with

the private sector) and outputs (legislation, retrenchments). Counting conditions might also mean that those left incomplete were the most difficult. Specifying actions also may have encouraged adherence to the letter rather than the spirit of a condition. The review complained that Vanuatu had passed a Foreign Investment Act, as required, but its provisions were to restrict rather than facilitate investment. Or, like the PNG land conditions, they might be deliberately misunderstood in order to fan resistance.

Comparing outcomes with targets is, as Mosley, Harrington and Toye (1991) conclude, a potentially futile task. The targets are guesses at best, and achievement depends on external conditions that are beyond the control of governments. Reforms may fail, in spite of best efforts. In Solomon Islands, for example, the Guadalcanal insurgency, which led to the forced resignation of the prime minister had a disastrous effect on public finance (Hughes 1999). It is also usually impossible to compare what happened with the counterfactual: no reform, or reform without outside intervention. In this case we do, however, have the PNG experience of 'structural adjustment without the loans', designed by a renegade World Bank official. Its content was not greatly different from the conditions proposed before, or after, but it would have got the pain over more quickly, using short-term commercial loans rather than

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**Table 5                      Conditions of Marshall Islands loan**

Second tranche	Reduce government employees from 1650 to 1484 and provide compensation as per the agreed formula. End all subsidies to Air Marshall Islands (AMI) except for interest payments on two Dorniers. Continue 3-year public service wage freeze for civil servants introduced in March 1996, excluding normal promotions. Establish a Financial Reserves Trust Fund. Reduce the Board of Directors of AMI from 9 to 5 members, ensuring at least two are from the private sector. Establish a private sector unit in the office of the president for a period of no longer than two years
Third tranche	Impose tax on all rental incomes on commercial buildings. Establish a Road Users Trust Fund. Establish a Marshall Islands Airport Authority. Transfer all management functions to the new authority

**Source:** Knapman, B. and Saldanha, C., 1999. *Reforms in the Pacific: an assessment of the Asian Development Bank's assistance for reform programs in the Pacific*, Asian Development Bank, Manila: 178-179

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long-term indebtedness to the IFIs (D. Kavanamur, Personal Communication). It was savage in principle, but the government was unable to carry it through. The World Bank blamed the usual 'lack of institutional capacity, planning, funding and weak governance' (World Bank 2000).

Neither experience seems to have turned the banks against conditionality as such. The Stand-By Arrangement includes eight 'structural benchmarks', and the Governance Promotion Adjustment loan contains 21 second-tranche conditions (see Table 2). The ADB may have become more cautious. ADB's review makes conditionality conditional upon 'ownership'.

Externally imposed reform measures (conditionalities) that have little government ownership are doomed to certain failure (Knapman and Saldanha 1999:171–72). The review also concluded that the reforms embodied in the conditions were overambitious. It goes on, however, to ask how the Bank can help maintain enthusiasm for reform 'when the incentive of tranche conditionalities attached to loan conditions no longer exists' (Knapman and Saldanha 1999:171–72). The answer given is a mix of policy dialogue, building up relationships of trust, with lower turnover of bank staff, plus technical assistance and project loans.

## Forms of Power

What do these examples of policy reform in Papua New Guinea and the South Pacific tell us about the kinds of power at work in conditionality? These different understandings and types of power, and examples from the cases discussed, are shown in Table 6.

## Three dimensions of power

The first is straightforward: the first dimensional exercise of power in what Killick characterises as 'hard core' conditions. The second is the control of the agenda—broadly, in the global discourse of development, and narrowly, in what topics are on the table in discussions between visiting missions and developing country governments. The third is the trickier issue of ideology—the shared background understandings that are rarely made explicit, but which may advantage one side over the other.

The PNG and South Pacific cases show it would be wrong to see conditionality as simply or only consensual. Some conditions, particularly those involving forestry in Papua New Guinea, were strongly resisted and

clearly amounted to a ‘first dimensional’ exercise of power in which the government did things it would otherwise not have done. At its most extreme, in 1996, having told the bank to ‘go to hell’, the PNG government had to publicly admit defeat. It introduced the forestry revenue system the World Bank wanted and did not proceed with amendments to the Forestry Act the World Bank did not want.

However, the concepts that are made conditions seem to have changed. The ‘new’ World Bank has been applying Green conditions in Papua New Guinea with at least temporary success—the government seems to be committed to more regulation of the forestry industry than would take place in the absence of the conditions. The ‘second dimensional’ power to set the agenda is often seen as a restrictive one, keeping awkward subjects from being discussed. The World Bank used to be criticised, for example, for the narrowly ‘economic’ focus of its agenda, and its ability to squeeze ‘social’

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**Table 6                      Types of power in conditionality**

Type	Explanation	Examples
First dimensional	A gets B to do what they would rather not do	Land and forestry conditions
Second dimensional	A sets the agenda for negotiations with B	Broadening of economic agenda to include green and public sector reform conditions
Third dimensional	A’s ideology prevents B seeing their real interests	Economic orthodoxy, nationalism
Infrastructural	Capacity to implement	First tranche payouts
Weapons of the weak	Prudent indirect challenges to the force behind the dominant ideology	Demonstrations, expulsions, ‘letter rather than the spirit’
Disciplinary	Power enhances capacities through people taking responsibility for themselves	Training, technical assistance. Donors seek ‘self- discipline’, ‘responsibility’ and ‘ownership’ of projects
Power/knowledge	Power linked to knowledge and expertise	Reports, consultants’ expertise, websites

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or 'gender' issues off it. Now, agenda control seems to work the other way. In these cases, it seems the power of the World Bank was used to bring in environmental issues, when the government might have preferred simply to talk about money. Similarly, the ADB's widening brought 'public sector reform' into a hitherto economic agenda.

The 'third dimensional' role of ideology, as we have seen, is in principle hard to detect. In Papua New Guinea and the South Pacific, there was little substantive dissent about the economic remedies being proposed. Morauta's economic orthodoxy quickly attracted international support. However, there had been signs of dissent from IFI orthodoxy before. In the early 1990s, Papua New Guinea had taken an expansionist, supply-side approach to economic policy (Kavanamur 1998:104–6). The activists who took to the streets against the 'land' conditions had broader ideological differences than the World Bank. Unions in Solomon Islands and Cook Islands acted to protect the interests of their members against redundancy, rather than challenge the ideology upon which reform was based.

Nationalist ideology seems to have been more influential than dissent from economic orthodoxy. It was certainly strong in the resistance to reforms, particularly in the favourable sale of the government-owned Rarotongan hotel to a Cook Islander, and in the general hostility towards foreign advisers and consultants expressed in the army mutiny in Papua New Guinea.

## Other forms of power

The next two classifications in Table 6 suggest we look for the exercise of power in different places: in the transfer of resources, which empowers the recipient government; and in the delays, jokes, sabotage and demonstrations whereby the powerless calculate what they can get away with. The last two draw on Foucault's insight into 'disciplinary' forms of 'power/knowledge'. Much aid activity consists of collecting and deploying information: statistics, plans and reviews. This is not a neutral, technical activity. Those that are able to document their projects tend to succeed, and states that have this kind of information are better able to intervene in the economy and society.

It is the first tranche payments that are most 'enabling'. They allow governments to get through the immediate crisis. In Cook Islands, the transition arrangements to resettle public servants weakened public service resistance to staff cuts. The government of Sir Geoffrey Henry presided through the crisis and, though newly hemmed in by machinery requiring

greater transparency, it did survive until 1999. Without outside support, the government could have fallen. In the opposite direction, the Skate government in Papua New Guinea imposed savage 'structural adjustment without the loans' in 1999 and did not survive.

The weak also had weapons. Governments could take symbolic hostages, like the biodiversity that Filer argues drove the World Bank's particular interest in Papua New Guinea. They could play on the IFIs' interest in making loans and desire to avoid foreclosure. They could go through the motions. They could delay, at least until the point that the money ran out to pay salaries. They could accept the general principle, and drag their feet on the detail. Examples often do not show up in the diplomatic language of official reports, but the ADB's comment on Vanuatu's Foreign Investment legislation as fulfilling the letter but not the spirit of the conditions, is a good example of the irritating effect of the deployment of 'weapons of the weak' (Knapman and Salhana 1999), as is Papua New Guinea's expulsion of the World Bank's Resident Representative in 2001. By hiring Hamidian-Rad, however, Papua New Guinea might have pushed the World Bank too far, showing that weapons of the weak have to be carefully calibrated not to precipitate a crackdown.

The cases are also illuminated by Foucauldian understandings of power as something dispersed, generating resistance, and linked to knowledge. It starts from freedom—none of the governments had to deal with the banks. Several had already begun their own reforms before they turned to the IFIs. Discipline is of course a favourite word among bankers, and—as Foucault envisaged—its preferred form is 'self discipline'. Donors are not 'sovereigns' in other countries, and they do not like to seem to be pushing governments around. They seek influence, rather than control. They want recipients to behave responsibly, to do the right thing because they want to do it. They also want a long-term relationship: the loan buys them a seat at the table, and they are usually happy to roll over another one to stay in the game (in a reversal of banking priorities, the conditions are not there to protect the loan; rather the loan provides an opportunity to press the conditions<sup>2</sup>). Donor struggles to get recipients to take 'ownership' of projects are a more complex example of a 'disciplinary' exercise of power. It is like the power a parent tries to exercise over a teenager, or a welfare officer over a difficult client. Donors want recipients to want what donors want. Development is shot through with these relationships of tutelage and trusteeship, of

'knowing best' for the other. It is a story of welfare as much as banking. As we have seen, there are plenty of signs of resistance and slippage.

Finally, the cases show dense linkages between power and knowledge. The negotiations were conducted through reports and studies. Knowledge was embodied in the consultants who filled the gaps in local capacity, bringing their own ideas and experience. There was criticism from local officials that their own knowledge was pushed aside. The ADB's review identified the risk that reform approaches were hostage to 'the narrow experience of the long term adviser' (Knapman and Saldanha 1999). Different kinds of expertise were regarded as relevant, with the review concluding at several points that more expertise in public administration was required (1999:38, 64).

## Conclusions

These cases show conditionality to be alive and well, in spite of research questioning its effectiveness. In Papua New Guinea it has been extended, with some apparent success, from economic to green conditions. Environmental management has become a field of what Roderick Alley politely calls 'discontinuity' between 'acceptance of international prescriptive guidelines for environmental management and national practice' throughout the South Pacific (Alley 1999:145). The PNG case also shows that it may, in some cases, be quite coercive, getting the government to do things it would not otherwise do. Donors elsewhere are being urged to act more forcefully to achieve reform (Therkildsen 2000:69). That, however, need not be the end of the story. More is at stake in conditionality than ensuring that loans are used for the purposes promised and that the money is repaid. The cases also show other forms of power at work in conditionality, and resistance to it. Loans are only one of a battery of techniques, including technical assistance, training, policy dialogue and evaluation. Recipients are not simply victims. Nor are they unitary, but consist of a variety of stakeholders, inside and outside the government (Brautigam 2000). Donors are engaging them in an ambitious process of encouraging self-discipline that is enabling as well as restrictive, but regularly resisted.

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