World Bank and IMF conditionality:
a development injustice

Eurodad report

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About this report

This report examines the conditions that the World Bank and International Monetary Fund (IMF) attach to their development lending in some of the world’s poorest countries. It is based on a desk-based study carried out by Eurodad which examined the content of current (as of February 2006) and previous World Bank and IMF development finance contracts for a selection of twenty poor countries across the world. The report was produced by Eurodad and partially financed with the help of Oxfam International. It was written and researched by Hetty Kovach and Yasmina Lansman.

About Eurodad

Eurodad (the European Network on Debt and Development) is a network of 50 non-governmental organizations from 15 European countries working on issues related to debt, development finance and poverty reduction. The Eurodad network offers a platform for exploring issues, collecting intelligence and ideas, and undertaking collective advocacy.

Eurodad’s aims are to:

- Push for development policies that support pro-poor and democratically defined sustainable development strategies
- Support the empowerment of Southern people to chart their own path towards development and ending poverty.
- Seek a lasting and sustainable solution to the debt crisis, promote appropriate development financing, and a stable international financial system conducive to development.

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EXECUTIVE SUMMARY

This report examines the conditions that the World Bank and the International Monetary Fund (IMF) attach to their development finance in the world's poorest countries. It is based on new research undertaken by Eurodad examining World Bank and IMF lending in twenty impoverished countries.

The report reveals that impoverished countries still face an unacceptably high and rising number of conditions in order to gain access to World Bank and IMF development finance. On average poor countries face as many as 67 conditions per World Bank loan. However, some of the countries faced a far higher number of conditions. Uganda, for example, where 23% of the all children under 5 are malnourished, faced a staggering 197 conditions attached to its World Bank development finance grant in 2005.

In addition to imposing a massive administrative burden on already over-stretched developing governments, the proliferation of IMF and World Bank conditions often push highly controversial economic policy reforms on poor countries, like trade liberalisation and privatisation of essential services. These reforms frequently contravene developing countries' wishes, an acknowledged prerequisite for successful development. They can also have a harmful impact on poor people, increasing their poverty not reducing it, by denying them access to vital services. This harmful impact has been recognised by the British government and Norwegian government, both of which have formally rejected tying their development aid to privatisation and trade liberalisation conditions. The G8 leaders also last year highlighted the importance of national governments' sovereign right to determine their own national economic policies, revealing the inappropriateness of tying development finance to these types of reforms.

Our research found that 18 out of the 20 poor countries we assessed had privatisation-related conditions attached to their development finance from the World Bank or IMF. And the number of ‘aggregate’ privatisation-related conditions that the World Bank and IMF impose on developing countries has risen between 2002 and 2006. For many countries privatisation-related conditions make up a substantial part of their overall conditions from the World Bank and IMF. For example, just under one third of all of Bangladesh’s conditions within its second World Bank Development Support Credit granted for 2005 were privatisation-related (18 out of 53). Bangladesh, where over 50% of the population live under the poverty line, faces direct conditions calling for privatisation of its banks, electricity and telecommunications sectors and additional reforms to the gas and petrol sector that will facilitate private sector involvement.

Our research also found that the IMF and World Bank often impose the same privatisation conditions on a country. One quarter (5 out of 20) of the countries we assessed had the same privatisation condition contained within Bank and Fund current loan documents. Such ‘cross conditionality’ places a massive pressure on developing countries to comply with the policy reform condition, as the country risks losing multiple sources of finance. It also reveals a worrying lack of division of roles and responsibilities between the two institutions.
Radical reform of IMF and World Bank conditionality is needed immediately. The World Bank and IMF need to totally re-think their current approach to development finance policy conditionality. Recent attempts by both the institutions to ‘streamline’ development finance conditionality have failed. Institutional guidelines to reduce the number and scope of conditions imposed are not being implemented properly, and are not sufficient to protect developing countries from the negative impact of onerous conditionality.

The World Bank and IMF have both introduced guidelines for their staff urging them to limit conditions that are deemed critical. However while the Bank and Fund continue to impose specific and binding conditions on recipient countries, the guidelines for its staff are vague and non-mandatory. They also do not apply to all conditions.

In the future conditions attached to development finance should only address vital fiduciary concerns. Fiduciary policy conditions must increase the transparency and accessibility of budget processes and public finance management to ordinary citizens, so they can hold their own government to account. And all conditions which impose controversial economic policy reforms like trade liberalisation and privatisation should be stopped.

If reform is delayed any further, World Bank and IMF conditionality will continue to hinder rather than aid poor countries ability to fight poverty and meet the internationally agreed Millennium Development Goals.

The World Bank and IMF must:

- Radically cut the number of binding and non-binding conditions attached to their lending. The World Bank in particular must stop its tendency to micro-manage reform in poor countries.
- Immediately stop imposing controversial economic policy conditions which push privatisation and trade liberalisation related reforms, even if these are contained in nationally owned poverty reduction papers.
- Ensure that any conditions focus only on fundamental fiduciary concerns which enhance developing countries citizens’ ability to hold their governments to account, rather than developing countries accountability to the Bank and Fund.
- Stop all forms of ‘cross conditionality’.
ABOUT THE RESEARCH

This report is based on a desk-based study carried out by Eurodad which examined the content of current (as of February 2006) and previous World Bank and IMF development finance contracts for a selection of twenty poor countries across the world.

Why look at World Bank and IMF conditionality in the first place?

World Bank and IMF conditionality is more important now than ever before. Over the next three years, the World Bank through its concessional arm, the International Development Association (IDA), will make available $33 billion dollars for poor countries. The IMF has provided US$18.7 billion to poor countries through its lending facility to low income countries; the Poverty Reduction and Growth Facility (PRGF). Though the amount of financing that the Fund is likely to provide to poor countries is actually set to decrease in the coming years, the Fund will continue to play a significant role in determining poor countries’ ability to gain access to other donors’/creditors’ development finance in the years to come. This is because nearly all official development donors/creditors (bilateral and multilateral) tie their development aid and debt relief to the presence of an IMF program.

The IMF’s ‘gatekeeper’ role makes the conditions the Fund attaches to its program hugely potent. If a poor country does not fulfil the conditions that the IMF attaches to its lending, then not only does it forfeit IMF development finance, it will also potentially forfeit all other sources of much-needed donor finance.

It is also highly likely that a significant amount of much-needed new aid and debt relief that was agreed at the G8 summit last year by the world’s international political leaders will be delivered through both of these institutions.

What countries did we assess and why?

There are currently eighty one countries that are eligible for the World Bank’s highly concessional lending and IMF development finance because they have a per capita annual income of less than $965. These are the world’s poorest countries in terms of income with citizens living on less than $3 dollars a day, on average. We examined one quarter of these countries.

In order to select just twenty countries for the purposes of this study, Eurodad decided to use the following criteria:

- whether a country had more than one World Bank International Development Association development policy loan and more than one IMF Poverty Reduction Growth Facility (PRGF) or equivalent development policy loan in the last five years;
- whether the country had produced at least one national poverty reduction strategy paper in the last five years, and;
- whether the country was classified as a post-stabilization country.
The list was then further narrowed down on the basis of geographical diversity (14 African countries, 4 Asian countries, 4 Latin American countries and 2 Central Asian countries) and priority was given to those countries that were also classified as Heavily Indebted Poor Countries.

The countries assessed (see Table One) all score badly on the Human Development Index (HDI) which looks not just at a country’s income, but at infant mortality rates and the level of adult literacy. Five of them rank at the very bottom with the worst income, education and health rates of all countries. All the countries desperately need development finance in order to help fight poverty.

For a comprehensive list of the countries, loans assessed and GNI and HDI rankings refer to the Annex.

What Type Of Loans Did We Look At?

World Bank

This study assessed the conditions contained within current and previous World Bank ‘Poverty Reduction Strategy Credit’ loans for sixteen of the countries assessed. These loans are taken out on an annual basis. For four countries, the study looked at other types of World Bank development policy loans, such as a Development Support Credit or Economic Management and Growth Credit. These loans are also annual loans. A comprehensive list of all the development loans assessed for the World Bank can be found in the Annex in the back.

IMF

For the majority of countries we assessed conditions drawn from the IMF’s Poverty Reduction and Growth Facility loans. However, in the case of Bolivia which does not have a PRGF we assessed its ‘stand by arrangement’ loan from the IMF. PRGF loans are taken out on a three year basis. In order to try to capture the annual burden of conditionality to enable comparisons with the World Bank and across time, this study has looked at the conditions imposed during a PRGF loan, examining and comparing PRGF reviews. Reviews assess a country’s progress on existing conditions and often impose new ones or modify old ones on a regular basis throughout a PRGF loan cycle. There are some exceptions, in the case of Benin and Tanzania we have compared conditions across two PRGF loans, as both these countries completed an old PRGF (3 year loan) and started a new one.

What kinds of conditions did we assess?

Conditionality at its simplest refers to the commitments contained within a loan or grant contract that developing countries must adhere to if they are to receive all or part of the funding. This study assessed as a condition the World Bank’s ‘prior actions’ and the World Bank ‘benchmarks’ both of which are contained within the loan contracts of countries’ development finance agreements.
In the case of the IMF, the Fund imposes two types of policy conditions to its lending in poor countries – quantitative conditions and structural conditions. Quantitative conditions impose a set of macroeconomic targets on poor country governments determining, for example, the level of fiscal deficit a government is allowed to go into or the level of domestic credit allowed. Structural conditions, on the other hand, push for institutional and legislative policy reforms within countries. They include, for example, trade reform, price liberalisation and privatisation.

This report focuses exclusively on the structural conditions that the IMF imposes. It is important, therefore, to note that the data provided within this report does not cover the total number of conditions the IMF imposes on developing countries. Nor does the data contained in this report, address the whole impact of the IMF’s conditions in low income countries. For example there has been a wide ranging criticism by the United Nations Development Program and numerous civil society groups about the Fund’s quantitative conditions, which are noted to push excessively tight macroeconomic targets, which can restrict growth in developing countries and prevent countries from investing in much-needed education and health infrastructure.

Both binding and non-binding structural conditions were counted within this research as conditions. For binding structural conditions the study counted IMF ‘structural prior actions’ (policies which must be implemented prior to loans being released) and IMF ‘structural performance criteria’ (conditions which must be met during the course of a PRGF review to enable further funding. For non-binding conditions we counted IMF ‘structural benchmarks’ (policy reforms which if not complied with do not automatically hold up funding).

Finally, if a single World Bank or IMF condition contained a number of different policy reform actions within it, Eurodad made the decision to count the individual policy actions as separate conditions.

For example, in Burkina Faso’s Fourth Poverty Reduction Support Credit loan in 2004 the Burkina Government was issued with the following “single condition”:

“Satisfactory implementation of the measures specified in the Environmental Assessment for PRSC-3, notably:
(1) sufficient budget funding in 2004 for the implementation of key measures of the capacity building plan
(2) development of sectoral guidelines for EAs
(3) replacement of EA focal points with cells
(4) enhanced supervision of EMP implementation of IDA credits”

Eurodad counted this as four separate conditions on the basis that there were a number of different policy reform actions the Government had to carry out.
WORLD BANK CONDITIONALITY

Too many conditions…

Eurodad research found that 14 out of the 20 low income countries it assessed have more than fifty conditions attached to each of their current World Bank grants. And 3 out of the 20 have more than 100 conditions. Uganda, where 23% of all children under 5 are malnourished, faced the highest number of conditions out of the 20 countries assessed, with 197 conditions attached to its World Bank development grant in 2005. The Ugandan Government faced 87 social and environmental conditions followed by 72 public sector reform related conditions and finally 35 financial and economic reform conditions.

Table 1. Number of conditions contained within current World Bank loans to poor countries

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>WORLD BANK LOAN DOCUMENT</th>
<th>YEAR OF LOAN</th>
<th>NUMBER OF CONDITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>Fifth Poverty reduction support credit</td>
<td>2005</td>
<td>197</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>First Poverty reduction support credit</td>
<td>2003</td>
<td>107</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Second poverty reduction support grant</td>
<td>2005</td>
<td>103</td>
</tr>
<tr>
<td>Senegal</td>
<td>First Poverty reduction support credit</td>
<td>2005</td>
<td>77</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Third poverty reduction support credit</td>
<td>2005</td>
<td>72</td>
</tr>
<tr>
<td>Honduras</td>
<td>Poverty reduction support credit</td>
<td>2005</td>
<td>72</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Second poverty reduction support credit</td>
<td>2005</td>
<td>67</td>
</tr>
<tr>
<td>Benin</td>
<td>Second poverty reduction credit</td>
<td>2005</td>
<td>60</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Second poverty reduction support credit</td>
<td>2005</td>
<td>59</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Second Poverty reduction support operation</td>
<td>2005</td>
<td>57</td>
</tr>
<tr>
<td>Niger</td>
<td>Public expenditure reform credit</td>
<td>2005</td>
<td>54</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Fifth poverty reduction support operation</td>
<td>2005</td>
<td>54</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Development support credit III</td>
<td>2005</td>
<td>53</td>
</tr>
<tr>
<td>Ghana</td>
<td>Third poverty reduction support credit</td>
<td>2005</td>
<td>52</td>
</tr>
<tr>
<td>Mali</td>
<td>Public finance management credit</td>
<td>2005</td>
<td>50</td>
</tr>
<tr>
<td>Zambia</td>
<td>Economic management and growth credit</td>
<td>2005</td>
<td>46</td>
</tr>
<tr>
<td>Georgia</td>
<td>First poverty reduction support operation</td>
<td>2005</td>
<td>42</td>
</tr>
<tr>
<td>Armenia</td>
<td>Second poverty reduction support credit</td>
<td>2005</td>
<td>39</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Fourth poverty reduction support operation</td>
<td>2005</td>
<td>38</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Social sector programmatic development policy credit 2</td>
<td>2005</td>
<td>33</td>
</tr>
</tbody>
</table>

1 The WB justifies the number of conditions for Uganda on the fact that the whole PRSP monitoring matrix was attached to the loan document and say that the Bank will not be monitoring all benchmarks. This in fact results in less transparency as the Bank has not clarified which benchmarks it will be monitoring and which ones it will not. Eurodad therefore decided to count all conditions as they are included in the 2005 PRSC5.

World Bank and IMF conditionality: a development injustice, Eurodad, June 2006
...and rising

Not only are there too many conditions, but the number of conditions that the Bank is imposing on low income countries is rising not falling. Conditions contained within current and previous World Bank loans across the 20 countries Eurodad assessed have risen on average from 48 per loan to 67 per loan between 2002 and 2005.

<table>
<thead>
<tr>
<th>Average No. of Conditions per loan</th>
<th>Average No. of Total Conditions</th>
<th>Average No. of Binding Conditions</th>
<th>Average No. of Non-Binding Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous WB loan (2002-2004)</td>
<td>48</td>
<td>13</td>
<td>35</td>
</tr>
<tr>
<td>Current WB Loan (2003-2005)</td>
<td>67</td>
<td>15</td>
<td>52</td>
</tr>
</tbody>
</table>

There has been a rise in both the number of conditions which are prior actions (which must be completed before a country gets access to development finance) and the number of benchmarks (conditions which must be completed during the course of a given financing period).¹¹

The World Bank argues that the dramatic rise in the number of non-binding conditions is relatively benign as this type of condition does not hold up development finance if a country does not implement it. Following this logic, the World Bank does not officially count benchmarks/non-binding conditions as conditions. This convenient classification by the Bank fails to take account of how recipient governments perceive non-binding conditions and most importantly respond to them. According to a World Bank survey last year 77% of developed country recipients thought that their country had to comply with all the benchmarks [non-binding conditions] in a policy matrix.¹² On top of this, even if these conditions do not automatically stop development finance flows if they are not met, they do place a massive administrative burden on developing countries which have to monitor and report on their progress as part of a World Bank assessment.

In addition, our study also found a rise in the number of binding conditions, which do hold up crucial finance for poor countries. This contradicts the findings from the World Bank conditionality review last year, which actually found a decline in the number of binding conditions imposed on developing countries.¹³ Amongst the countries Eurodad assessed two countries had loans that were made up entirely of these types of conditions: Vietnam and Armenia. The Vietnamese Government, which has 29% of its population living under the poverty line¹⁴ had to fulfil 41 policy conditions before it was entitled to access one cent of its World Bank development grant in 2004.¹⁵

More recently, Armenia had to fulfil 39 conditions before it could receive its World Bank development grant in 2005.¹⁶ Despite the fact that both these countries have enormous numbers of poor people, who depend on external assistance, the World Bank continues
to withhold lending until poor countries have fulfilled an extraordinarily high number of conditions.
Inappropriate Conditions: Micro-Management Gone Too Far

Inappropriate conditions can prevent much needed aid reaching some of the world’s poorest countries desperately in need of help. Our research revealed a high prevalence of micro-management conditions in World Bank lending, revealing an inability by Bank staff to prioritise conditionality and make rational judgements as to what should or should not constitute a condition in development finance. For example, the Burkina Faso Government, where just under 10% of all women aged between 15-24 are HIV positive, was forced, before it could gain access to its World Bank development finance in 2005 to “purchase software and train agents in procedures on the new software” in relation to the implementation of a government property accounting system.

The Republic of Mali, where over 100 of every 1000 children die as infants, was pushed as a condition of its development finance in 2005 to move one of its government offices to a new location; “Move the Land Management Unit to the CEO’s Office”. This is hardly what one would imagine constitutes a vital development finance condition. The Ugandan Government found that to access its development finance in 2005 that it had to “review and approve its school sports policy for tertiary schools.”

The World Bank has been forced to acknowledge the burden that conditionality imposes on developing countries and made some ad hoc attempts to streamline the number of conditions it imposes. For example, the Bank’s new guidelines for development policy lending, employ the concept of ‘criticality’. This is meant to confine the Bank to setting only conditions that are deemed critical for the implementation and expected results of a country program. However while the Bank is happy to continue imposing binding conditions on recipient countries, the guidelines for its staff are vague and non-mandatory. The concept also currently only applies to binding conditions.

Tying Development Finance to Controversial Economic Policy Conditions

In addition to inappropriate conditions, the World Bank is continuing to impose a significant number of controversial economic policy conditions on low income countries through its development lending. According to our research 20% of all World Bank conditions for poor countries are economic policy conditions. And over half of these (11%) impose some sort of privatisation and trade liberalisation. Economic policies such as trade liberalisation and privatisation can often have a harmful impact on poor people, limiting their access to vital services. This harmful impact has been recognised in many studies and by the British government and Norwegian government, both of which have formally rejected tying their development aid to privatisation and trade liberalisation conditions.

G8 leaders also last year highlighted the importance of national governments sovereign right to determine their own national economic policies. Economic policy decisions like whether to privatisate essential services or liberalise trade barriers within any given country – developing or developed - should be made by national governments and not influenced by leverage of increased external funding.
Privatisation: through the front and back doors

15 of the 20 poor countries Eurodad assessed have privatisation-related conditions as part of their World Bank lending. Our research also found that the overall number of privatisation-related conditions is rising not falling. Conditions contained within current and previous World Bank loans across the 20 countries Eurodad assessed have risen on average from 4 per loan to 5 per loan between 2002 and 2005.

For some countries privatisation-related conditions make up a substantial part of their overall conditions. For example, just under one third of all of Bangladesh’s conditions within its second Development Support Credit granted for 2005 were privatisation-related (18 out of 53). Bangladesh, where over 50% of the population live under the poverty line, faces direct conditions calling for privatisation of its banks, electricity and telecommunications sectors and additional reforms to the gas and petrol sectors that will facilitate private sector involvement. Just under one quarter of the conditions contained within Armenia’s development finance for 2005 from the World Bank are privatisation-related (9 out of 39). Other countries that face a high number of privatisation conditions include Honduras and Nicaragua. About one in every seven of Honduras’s conditions (11 out of 72) in 2004 were privatisation-related and about one in every ten of Nicaragua’s conditions (10 out of 107) in 2003 were privatisation-related.
Our research reveals that though the number of conditions which call for direct privatisation has actually marginally declined between previous and current World Bank loans, there has been a massive increase in the number of conditions that push for reforms associated with facilitating privatisation i.e. regulatory reforms, restructuring of certain sectors and corporate reform. The number of ‘privatisation associated reforms’ have almost doubled between previous and current World loans across the 20 countries assessed. For example, Armenia has nine privatisation associated reform conditions, despite having no actual privatisation conditions attached to its second poverty reduction support credit. These range from the demand to "Initiate railway company reforms (to get ready for commercialisation)" to demanding that the Armenian parliament "enact a new telecommunication law and a modern regulatory framework (to) …allow for progressive licensing of additional service providers".

The World Bank recognises this type of condition in its review and the rise in their number, which it attributes to greater recognition by the Bank about the importance of a conducive regulatory environment as the key to successful of privatisation. Together, conditions which call for direct privatisation and those that push for associated reforms have risen substantially.

What is being privatised? Utilities top the agenda

Our data reveals that the World Bank's privatisation conditions focus most heavily on pushing utility privatisation. This supports findings from the World Bank's own review last year. If one breaks down utilities, telecom privatisation (categorised under SOE reform in the chart)) makes up the largest share of privatisation conditions with 6 out of the 11
countries facing this as a condition of a World Bank development credit. Energy privatisation (electricity, gas and oil) is the second most popular area under utilities.

Water privatisation is far less prominent, though Uganda, as part of its current fifth poverty reduction support credit has a condition calling for the Government to provide a private supply chain for its water country wide. The reason for falling water privatisation conditions may well be that the Bank has already succeeded in privatising water in most of these countries. Bolivia and Mali both have water privatisation conditions attached to their World Bank credits in the last five years.

Undermining Ownership

It is now fully accepted that development must be home grown, with policies fully owned by developing countries in order to work, rather than imposed from the outside. Many World Bank documents acknowledge this point. The Bank’s new good practice guidelines for development policy lending, for example, call for conditions that reinforce country ownership by being drawn from country’s expressed policy intentions.28

Our research, however, reveals that the Bank is continuing to impose these often controversial economic policy reforms on poor countries, even when they are not clearly expressed within country’s own national poverty strategies. For example, four countries out of the eleven that have privatisation conditions imposed by the World Bank in their current loans, do not mention the privatisation policy in their national poverty strategies.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>WORLD BANK LOAN</th>
<th>CONTROVERSIAL POLICY CONDITION</th>
<th>IN NATIONAL POVERTY STRATEGY?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>PRSC 2</td>
<td>Privatisation of the Bank of Mozambique</td>
<td>NO</td>
</tr>
<tr>
<td>Uganda</td>
<td>PRSC 5</td>
<td>Privatisation of water supply system through the country</td>
<td>NO</td>
</tr>
<tr>
<td>Zambia</td>
<td>Economic Management and Growth Credit</td>
<td>Privatisation of Zambian Telecommunications Company</td>
<td>NO</td>
</tr>
<tr>
<td>Benin</td>
<td>PRSC 2</td>
<td>Privatisation of ONAB (Benin public wood company)</td>
<td>NO</td>
</tr>
</tbody>
</table>

These findings lend weight to the World Bank’s own conditionality survey carried out last year, which revealed that 50% of recipient countries felt that the “World Bank introduced elements that were not part of the country’s program” into their loan conditions.29 They also support research undertaken last year by the Debt and Development Coalition on World Bank conditionality in Poverty Reduction Support Credits. The study found numerous examples of controversial World Bank conditions which were not mentioned in countries’ own national poverty reduction strategies.30
The above is especially worrying given that national poverty reduction strategies have often been heavily influenced by the World Bank and other financing agencies, and thus do not always reflect the wishes of governments and citizens. A World Bank survey carried out last year on recipient government’s views on conditionality found that over a third of countries noted that negotiations with the World Bank significantly modified their original policy program.  

**World Bank still imposing trade liberalisation on poor countries**

Four out of the twenty countries Eurodad assessed had some form of trade liberalisation conditions: Uganda, Rwanda, Benin and Armenia. Armenia has a binding condition on its current World Bank loan that calls for prices to be in line with World Trade Organisation rulings; whilst Bangladesh has a condition calling for quantitative restrictions to trade imports on sugar to be removed; and Rwanda has a condition that it must join the East African Trade Agreement and Uganda to submit a World Trade Organisation bill to parliament. However, overall our research notes that trade related conditions only constitute 3% of all World Bank conditions to Low Income Countries and conditions directly relating to liberalisation constitute only 1%. The World Bank Conditionality Review also found that trade related conditions now account for less than 2 percent of the total number of conditions imposed on low income countries.”

**Public sector reform conditions**

There is a consensus amongst a majority of civil society groups that governance does matter for development. The question is whether the World Bank is the right agency to assess and push for governance reforms in developing countries and whether conditionality is the right vehicle to address this important issue. No one is disputing the need for basic fiduciary conditions on loans, but attaching more deep-seated reforms that deal with long term institutional changes is far more questionable. A recent evaluation of general budget support by International Development Department (University of Birmingham, UK) noted that “there is no consensus…. that political conditionality should not be specifically linked to budget support or any individual aid instrument, but should rather be handled in the context of the overarching policy dialogue between a partner country and its donors”.

Our research found that by far the largest number of conditions pushed by the Bank relate to public sector reform policies. 43% of all World Bank conditions attached to poor countries loans are public sector reform-related. These conditions push a range of policies: anti-corruption, civil service reform, public finance management, judicial and legal reforms and enhancing civil society monitoring and evaluation powers. All the countries assessed by Eurodad have public sector reform conditions within their current loans with the World Bank. Conditions which push for public finance management and tax reforms constitute just under half of all public sector reform conditions. Though in principle more transparent and accountable public finance management is vital for development, civil society groups have aired concerns that many public finance management conditions push economic liberalisation through the back door.
World Bank and IMF conditionality: a development injustice, Eurodad, June 2006

Social and environmental conditions

Some 37% of all World Bank lending set social and environmental conditions. These types of conditions could in principle help ensure that development finance has a positive and beneficial impact on poverty reduction and the environment. A detailed analysis of these types of conditions is beyond the scope of this report. However, our brief examination raised concerns about intrusive micro-management of detailed policy areas. The Rwandan government was asked to “prepare a strategy for promoting improved hygiene practices in 184 rural public schools and in households” – almost certainly worthwhile, but scarcely what you would expect as a condition for a national PRSC loan. The number of such conditions (averaging 24 per loan) also makes it unlikely that they are all priorities or will all be implemented.
Perverse Incentives: more conditions for good performers?

Not only are there too many conditions and many are harmful, but it appears that there is no rationale behind which countries get the most conditions and which get the least. The World Bank claims that development funds are distributed to countries that have a ‘favourable development climate’, rewarding those countries that the Bank deems to be good performing countries with greater volumes of lending. In order to assess whether a country has a ‘favourable development climate’ the World Bank assess countries’ policy and institutional framework on an annual basis to see whether it fosters poverty reduction, has sustainable growth and has the ability to effectively use development assistance. It does this using a Country Policy and Institutional Assessment (CPIA) tool, which scores countries on a number of set criteria.

Eurodad and other civil society groups are highly critical of aspects of the CPIA approach adopted by the Bank, highlighting that the criteria by which the Bank judges a country’s performance gives too much weight to economic liberalisation policies and applying a one size fits all approach to development.

However, even under this inappropriate allocation system, one should find that the number of overall conditions a country faces goes down in relation to a positive CPIA score, given that a country with a high score should have the ‘good’ policies. However, this research shows that the reverse is true. Countries that have a very positive CPIA score receiving the highest number of conditions. Five out of the eight countries with the highest number of conditions are in the top quintile of CPIA scores in 2004 and the other three are in the second and third quintiles. This begs the question of whether the CPIA criteria are wrong or the conditions imposed on countries with a high CPIA score are superfluous? Either answer demands a change of action from the World Bank and reveals that its own system with regards to conditionality is fundamentally flawed.

<table>
<thead>
<tr>
<th>HIGHEST SCORING COUNTRIES IN TERMS OF NUMBER OF CONDITIONS</th>
<th>NO. OF CONDITIONS</th>
<th>CPIA SCORES 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(1 Top 5 – Bottom)</td>
</tr>
<tr>
<td>Uganda</td>
<td>197</td>
<td>First Quintile</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>107</td>
<td>First Quintile</td>
</tr>
<tr>
<td>Rwanda</td>
<td>103</td>
<td>Third Quintile</td>
</tr>
<tr>
<td>Senegal</td>
<td>77</td>
<td>First Quintile</td>
</tr>
<tr>
<td>Tanzania</td>
<td>72</td>
<td>First Quintile</td>
</tr>
<tr>
<td>Honduras</td>
<td>72</td>
<td>First Quintile</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>67</td>
<td>Second Quintile</td>
</tr>
<tr>
<td>Benin</td>
<td>60</td>
<td>Third Quintile</td>
</tr>
</tbody>
</table>
IMF CONDITIONALITY

High number of structural conditions

By the Fund’s own admission there was a proliferation in the number of structural conditions in the 1990s. After pressure from civil society groups, the IMF made attempts to reduce this burden. In 2002 it launched new conditionality guidelines. These called for a streamlining both in terms of the number of conditions imposed and the number of areas in which the Fund imposes policy reform, in order to avoid ‘mission creep’. The guidelines also called for conditions to be more country-owned. A recent study last year of the success of these guidelines within Fund conditions, claimed to show a largely positive picture.

Eurodad research, however, reveals that countries still face an extremely high number of structural conditions. On average, our data showed that countries face around 11 structural conditions per PRGF review. Our data also found that there is a large disparity in terms of the number of structural conditions each country faces within a PRGF loan. This backs up previous Eurodad research on IMF conditionality in 2003, which found that those countries that followed IMF orthodoxy had fewer conditions imposed.

Over one third of the countries Eurodad assessed (5 out of 20) faced over 11 structural conditions within their most current PRGF review. Nicaragua, a country where just under 50% of the total population live under the poverty line, faced the most structural conditions with 25 in total as part of its development finance in 2004. This included 17 public sector reform-related structural conditions pushing reform in public finance management, 7 financial and private sector reform conditions and one privatisation condition calling for the government to divest its stake in ENITEL, the Nicaraguan telecommunication company. A study undertaken by Danish Institute for International Studies noted that Nicaraguan citizens protested at the rise in consumer prices and poor quality of services related to telecommunications companies, following its privatisation. This highlights the unpopularity and often harmful impact of privatisation. Vietnam also had a high number of structural policy conditions – some 17 structural conditions were listed in its 2002 IMF development finance loan.

However, even in more recent PRGF reviews carried out in 2005/6 there are still countries which face high numbers of structural conditions attached to their development finance. Burkina Faso, where 38% of children under five are malnourished, faced 14 structural conditions as part of its development finance from the IMF in 2005; Benin and Niger 13 each as part of their development finance loans in 2005 and 2006 respectively.
And rising

Since 2002 when the IMF issued new staff guidelines to reduce the number of conditions it imposes, structural conditions in PRGF loans have risen not fallen. The number of structural conditions contained within an IMF PRGF loan across the 20 countries Eurodad assessed has risen on average from 10 per loan review to 11 per loan review between 2002 and 2006. This contradicts findings from the IMF review of conditionality last year, which found that structural conditions had been streamlined within PRGF programs. 43

Binding conditions make up almost half of all IMF structural conditions

On average, Eurodad research found that half of all IMF structural conditions imposed on poor countries via the PRGF are binding conditions. The IMF imposes not just prior actions on poor countries (policy reforms that have to be acted upon prior to receiving funds) but also performance criteria (policy reforms that have to be acted upon during one year of a PRGF in order to gain access to the next year). The proportion of binding conditions has stayed relatively steady over time.

IMF still imposing controversial economic policy conditions

Our research revealed that the IMF continues to impose controversial structural economic policy reforms on developing countries. Some 43% of all IMF structural conditions focus on economic policy reforms, according to Eurodad research. And of these of half are privatisation-related.
12 out of the 20 poor countries Eurodad assessed faced privatisation-related conditions as part of their recent development finance with the IMF. On average one fifth of all structural conditions per PRGF review impose some form of privatisation. Vietnam faced the highest number of privatisation structural conditions of all twenty countries assessed. Over half of its structural conditions (9 out of 17) within its IMF development finance in 2002 imposed privatisation. All were related to privatising state owned enterprises and pushing for banking reform. In 2004, the Vietnamese government terminated its lending with the IMF, because it found that the Fund’s structural conditions calling for the State Bank of Vietnam to be audited by a foreign company was not permitted under Vietnam’s current laws.

Benin, where only 34% of the adult population (above 15%) is literate, had over half of its IMF structural conditions (7 out of 13) related to privatisation in 2005. These conditions imposed energy, telecoms and cotton privatisation on the Benin population and pushed for port reforms in order to facilitate privatisation. Mali, where 64% of the population live under the national poverty line, had almost two thirds of its IMF structural conditions (7 out of 11) imposing privatisation in 2005. These pushed for banking and telecommunication privatisation and reforms in energy and agriculture which are associated with privatisation.

Eurodad research found that the number of privatisation conditions imposed by the IMF has remained steady at 2 per PRGF review across the 20 countries assessed between 2002 and 2006.
What is getting privatised?

The large majority of privatisation conditions are focused around banking privatisation. 9 out of the 11 poor countries facing privatisation conditions from the IMF had some form of banking privatisation imposed upon them. Energy privatisation was the second most popular area of reform for the IMF. Out research found no evidence of the IMF imposing water privatisation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Loan Document Date</th>
<th>IMF Loan Document Name</th>
<th>Privatisation-related Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>01/07/2005</td>
<td>Third review under the PRGF</td>
<td>Banking privatisation</td>
</tr>
<tr>
<td>Benin</td>
<td>01/08/2005</td>
<td>Request for a three year arrangement under the PRGF</td>
<td>Privatisation of Electricity, Telecoms; Ginneries, (cotton processing companies) and Port</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>01/01/2005</td>
<td>Sixth review under the three year arrangement under the PRGF</td>
<td>Banking Privatisation</td>
</tr>
<tr>
<td>Ghana</td>
<td>01/08/2005</td>
<td>Third review under the PRGF</td>
<td>Banking and Energy Privatisation</td>
</tr>
<tr>
<td>Mali</td>
<td>01/04/2005</td>
<td>Sixth review under the Three year Arrangement under the PRGF</td>
<td>Banking, agriculture and telecoms privatisation:</td>
</tr>
<tr>
<td>Mozambique</td>
<td>01/02/2006</td>
<td>Third review under the three year arrangement under the PRGF</td>
<td>Energy privatisation</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>01/11/2004</td>
<td>Fifth and Sixth reviews under the three year arrangement under the PRGF</td>
<td>Telecoms privatisation:</td>
</tr>
<tr>
<td>Senegal</td>
<td>01/05/2004</td>
<td>First review under the three year arrangement under the PRGF</td>
<td>Electricity and ground nut privatisation</td>
</tr>
<tr>
<td>Tanzania</td>
<td>01/08/2005</td>
<td>Fourth review under the three year arrangement under the PRGF</td>
<td>Banking privatisation</td>
</tr>
<tr>
<td>Uganda</td>
<td>01/02/2006</td>
<td>Sixth review under the three year arrangement under the PRGF</td>
<td>Banking privatisation</td>
</tr>
<tr>
<td>Vietnam</td>
<td>01/07/2002</td>
<td>Second Review under the three year arrangement under the PRGF</td>
<td>General SOE privatisation and banking reform</td>
</tr>
</tbody>
</table>
56% of all IMF structural conditions attached to poor countries’ loans are public sector reform related. As is the case with the World Bank, there are serious concerns amongst civil society groups over whether the IMF is the right agency to be getting involved in instigating reforms such as decentralization or civil service reform and more importantly whether conditionality is the right vehicle to address these issues.

All the countries assessed by Eurodad have public sector reform conditions within their current loans with the IMF. Conditions which push for public finance management and tax reforms constitute over two thirds of all public sector reform related conditions. The large majority of this type of conditions was concerned with tax reforms.
WORLD BANK AND IMF CONDITIONALITY

Eurodad research reveals that there has been a rise in the number of privatisation conditions imposed on poor countries from the World Bank and IMF between 2002 and 2006. However, this study is unable to assess the whether overall aggregate conditionality between the World Bank and IMF has risen, as not all IMF conditions were assessed.

Cross-Conditionality: World Bank and IMF pushing same privatisation reforms

Our research also revealed that the World Bank and the IMF are often pushing the same privatisation conditions on poor countries. This form of cross-conditionality is not only inappropriate and collusive, but also reveals a lack of understanding between the two organisations over what their exact roles are. One quarter of the countries we assessed had the same privatisation condition contained within Bank and Fund current loan documents. The majority of these where related to banking privatisation; this type of reform is pushed heavily by both institutions and though overall the Fund sets more banking privatisation conditions, the World Bank still has a high number and in some
countries is the lead reformer in this area. The Bank and the Fund also imposed the same energy and telecommunications privatisation conditions on Ghana and Nicaragua in 2005.

The Bank and Fund also often work collusively, so where one institution fails to persuade a government to implement a given reform, the other picks up this reform. Bangladesh is a case in point a prior action to privatise one of its Banks fails and then becomes a benchmark and finally a prior action of IMF lending, as well.

Table 6: World Bank and IMF duplicate conditionality

<table>
<thead>
<tr>
<th>Country</th>
<th>World Bank Loan</th>
<th>Privatisation Condition</th>
<th>IMF Loan</th>
<th>Privatisation Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Development support credit III (2005)</td>
<td>Bring Rupali Bank to the point of divestment by Dec 2004; (Prior Action)</td>
<td>Third Review under the PRGF (2005)</td>
<td>Bring Rupali (Bangladesh Bank) to point of sale (Benchmark &amp; Prior Action)</td>
</tr>
<tr>
<td>Ghana</td>
<td>Third poverty reduction support credit (2005)</td>
<td>Electricity: maintain implementation of tariff adjustment mechanism (Benchmark)</td>
<td>Third Review under the PRGF (2005)</td>
<td>Ensure electricity and water tariffs are in line with their respective formulas for automatic quarterly adjustments (Privatisation Associated Reform Performance Criteria)</td>
</tr>
<tr>
<td>Mali</td>
<td>Public Finance Management Credit (2005)</td>
<td>Agree on the privatisation for the Inter-Bank of Mali (Benchmark)</td>
<td>Sixth Review under the PRGF (2005)</td>
<td>Tender for Sale of Government Stake in Inter-Bank of Mali (Benchmark)</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Poverty Reduction Support Credit (2003)</td>
<td>Sale of 49% of the Nicaraguan Government's shares of ENITEL (telecommunications company) has been initiated; sale of 49% of ENITEL's shares concluded (Benchmark)</td>
<td>Fifth &amp; Sixth Review of the PRGF (2006)</td>
<td>Divest the remaining government stake in ENITEL (telecommunications company) (Benchmark)</td>
</tr>
</tbody>
</table>
CONCLUSION: RE-THINKING WORLD BANK AND IMF CONDITIONALITY

The evidence in this report reveals that current IMF and World Bank conditionality is fundamentally flawed. Not only are these institutions imposing far too many conditions on poor countries, but many of the conditions are at best wholly inappropriate, and at worst, harmful to the poor people and undermine national ownership. Even more worryingly, the picture appears to be getting worse not better with the burden of conditionality rising not falling for poor countries.

The World Bank, in particular, appears unable to curb its appetite for micro-management, loading countries with policy reforms which show an alarming lack of understanding by staff of what the rationale for conditionality. Controversial economic policy conditionality still constitutes a large percentage of both World Bank and IMF conditions. And the aggregate burden of World Bank and IMF privatisation conditionality has risen between 2002 and 2006. This is despite the fact that these reforms are highly controversial; have been rejected by other development donors as suitable conditions for development finance; often undermine country ownership; and can often increase poverty not reduce it. Economic policy decisions like whether to privatise essential services or liberalise trade barriers within any country – developing or developed – should be made by national governments and not influenced by external funders.

The World Bank and IMF have both introduced guidelines for their staff urging them to limit conditions that are deemed critical. However while the Bank and Fund continue to impose specific and binding conditions on recipient countries, the guidelines for its staff are vague and non-mandatory. They also do not apply to all conditions.

Finally, the rise of public sector reforms, though appearing at first sight seemingly benign, may well be more of a hindrance than a help. Not only are there serious legitimacy questions about the appropriateness of the World Bank and the IMF in pushing these types of reforms, but there is a massive question over whether conditionality is the right vehicle for these types of changes, which often require long term deep structural changes.

The time is right for a radical re-think of World Bank and IMF conditionality.

The World Bank and IMF must:

- Radically cut the number of binding and non-binding conditions attached to their lending;
- Immediately stop imposing controversial economic policy conditions which push privatisation and trade liberalisation related reforms;
- Redefine ‘criticality’ to ensure that it focuses on fundamental fiduciary concerns which enhance developing countries citizens’ ability to hold their governments to account, rather than developing countries’ accountability to the Bank and Fund;
- Ensure that the concept of criticality is applied to all types of conditions;
- Stop all forms of duplicate World Bank and IMF conditionality.
# ANNEX 1: Countries and WB/IMF loans assessed

## Table 7: Countries And World Bank And IMF Loans Assessed By Eurodad

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>REGION</th>
<th>GNI per Capita ($) 2004(^4)</th>
<th>Human Development Index Ranking 2003 (out of 177)</th>
<th>World Bank Lending Type</th>
<th>IMF Lending Type</th>
<th>Highly Indebted Poor Country Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Central Asia</td>
<td>1,060</td>
<td>83</td>
<td>PRSC ½</td>
<td>PRGF</td>
<td>None</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Asia</td>
<td>440</td>
<td>139</td>
<td>Development Support Credits 2/3</td>
<td>PRGF</td>
<td>None</td>
</tr>
<tr>
<td>Benin</td>
<td>Africa</td>
<td>450</td>
<td>162</td>
<td>PRSC</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Latin America</td>
<td>960</td>
<td>113</td>
<td>Social Sectors Programmatic Structural Adjustment Credit 1/2</td>
<td>Stand by Arrangement</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Africa</td>
<td>350</td>
<td>175</td>
<td>PRSC 4/5</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Africa</td>
<td>110</td>
<td>170</td>
<td>PRSC 2/3</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Georgia</td>
<td>Central Asia</td>
<td>1,060</td>
<td>100</td>
<td>Reform Support Credit / PRSC 1</td>
<td>PRGF</td>
<td>None</td>
</tr>
<tr>
<td>Ghana</td>
<td>Africa</td>
<td>380</td>
<td>138</td>
<td>PRSC 2/3</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Honduras</td>
<td>Latin America</td>
<td>1,040</td>
<td>116</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Africa</td>
<td>290</td>
<td>146</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Mali</td>
<td>Africa</td>
<td>330</td>
<td>174</td>
<td>Structural Adjustment Credit 4 / PRSC 1</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Africa</td>
<td>270</td>
<td>168</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Latin America</td>
<td>830</td>
<td>112</td>
<td>Structural Adjustment Credit / Public Expenditure Credit</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Niger</td>
<td>Africa</td>
<td>210</td>
<td>177 (last)</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Africa</td>
<td>210</td>
<td>159</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Senegal</td>
<td>Asia</td>
<td>630</td>
<td>157</td>
<td>PRSC 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Africa</td>
<td>320</td>
<td>164</td>
<td>PRSC 2/3</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Uganda</td>
<td>Africa</td>
<td>250</td>
<td>144</td>
<td>PRSC 4/5</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Asia</td>
<td>550</td>
<td>108</td>
<td>PRSC 3/4</td>
<td>PRGF</td>
<td>None</td>
</tr>
<tr>
<td>Zambia</td>
<td>Africa</td>
<td>400</td>
<td>166</td>
<td>Economic Management and Growth Credit 1/2</td>
<td>PRGF</td>
<td>Completion Point</td>
</tr>
</tbody>
</table>
ANNEX 2: Categorising IMF and World Bank Conditionality

Defining the Categories

In order to analyse World Bank and IMF conditions, Eurodad separated the conditions into 22 separate thematic categories. It is important to note that many conditions could be in more than one category and that it is a judgement call where certain conditions should be placed. Eurodad has used common sense and been consistent throughout. In many cases this has resulted in the same categorisation as that used by the IMF and World Bank, but in other cases it has differed slightly.

Economic Conditions

1. Privatisation:

For the purposes of this research Eurodad has included as privatisation all conditions which stipulate the liquidation, divest, concession, lease, point of sale and voucher of state owned companies.

We have included within this category immediate prior actions to privatisation such as conditions which call for loan countries to—Issue a bid for privatisation of company / Hire staff to oversee bid / hold a bidding conference / draft document for privatisation etc.

Eurodad divided privatisation up into five categories:

- Water Privatisation
- Energy (electricity, gas) Privatisation
- Banking Privatisation
- Agriculture Privatisation
- SOE and other Privatisation

2. Privatisation Associated Reforms:

In addition to collecting data on conditions that specifically call for governments to privatize state owned companies, Eurodad has also decided to collect data on those associated reforms that pave the way for privatisation, but are not privatisation in themselves. For example within this category Eurodad has collected conditions which call for the exploration of restructuring a sector or call for a study to be undertaken to look at the profitability of a certain sector, of call for a management review and change regulatory environment of a given sector.

The World Bank in its Review of World Bank Conditionality uses the term 'accompanying measures to Privatisation' to refer to these types of conditions.

We have decided to include this category in our counting of privatisation conditions, though we are able to disaggregate it from the privatisation conditions, if you so wish.
3. Trade Liberalisation

For the purposes of this study Eurodad has chosen to define Trade liberalisation as the following:

- Lowering / rationalizing tariff systems
- Removing quantitative restrictions
- Dismantling controls on goods and services
- Simplification of tariff structures

4. Trade Other

For the purposes of this study Eurodad has chosen to define Trade Other as follows:

- Removal of non-trade barriers
- Freeing up of FEM
- Market based exchange rates
- Customs and standards changes
- Issues of certification
- Removing internal restrictions to external trade

Social and Environmental Conditions

5. Health

Eurodad has decided to include in this category all the conditions related to health. Take note that within this category; around fifty percent of the conditions are devoted to good governance in the health sector.

6. Education

Eurodad has decided to include in this category all the conditions closely related to education. Take note that a is the case for Health conditions, around fifty percent of the education conditions are devoted to a good governance in the education sector.

In countries where binding financial constraints force government to impose fees for health or education services, the World Bank decides to impose conditions with mechanisms to support poor families that can’t afford this kind of fees

7. Water and Hygiene

Eurodad decides to include in this category all the conditions related to water and sanitation

8. Environment, rural and urban development

Eurodad includes in this category
- All conditions related to Environment protection or management
- All conditions related to urban development
- All conditions related to rural development

It is important to note that when a condition related to these matters was categorised by the World Bank Private sector Development or Financial and private sector development category and then we followed the WB lead and categorized them as PSD not environment, rural and urban development.

9. Social Protection

Eurodad has included within this section conditions that relate to protecting certain groups. Eurodad has largely followed World Bank’s lead on this matter and where the Bank has identified these conditions as social protection, we have followed.

Public Sector Reform Conditions

10. Anti-corruption/Accountability

This category contains two kinds of conditions

Accountability: Eurodad has included in here conditions which enable citizens to better hold their governments to account, like parliamentary disclosure of budgets for example and conditions which call for external audits of accounts. There is clearly some overlap with public finance management here.

Anti-corruption: Eurodad has included in this category all the conditions that put in place regulatory and institutional mechanisms to fight corruption.

11. Civil service reform

Within this category Eurodad has included all conditions which call for interventions that affect the organization, employment conditions and/or performance of employees supported by the central government budget.

12. Decentralisation

Eurodad has included within this section all conditions which transfer authority and responsibility for public functions from the central government to local governments, quasi-independent government organizations, or the profit or non-profit private sector.

13. Public Finance Management /Tax and administration

This category also contains two kinds of conditions;

PFM: Eurodad has decided to include in this category all conditions that are related to the way public finance needs to be spent and facilitate greater efficiency in the management of public resources. It is important to note that many health and education conditions related to PFM, however, Eurodad has decided to categorise these as health and education not PFM. It is also important to note that there is some cross over with the accountability and anti-corruption section.
Tax and Administration:
Eurodad has decided to include in this category all conditions that are related to revenue enhancement, strengthening administrative institutions, strengthening administrative capacity and enhancing taxpayer compliance.
Ex. Pass new Income Tax Act

14. Legal and judicial reform

Eurodad has decided to include within this category only conditions which relate to reforming legal and judicial institutions. Please note that we decided not to include systematically in this category the enactment of new laws. Rather, we categorized new laws under the subject matter that they were referring to. For example, new law on trade would go under trade. There is some overlap here with the anti-corruption and accountability section.

15. Monitoring & Evaluation Civil Society Organisations

Eurodad decided to include in this category all conditions that call for the government to evaluate and monitor progress to poverty reduction strategy policies and any conditions which called for greater civil society role in monitoring and evaluating government poverty policies.
ENDNOTES

1 The loan was Uganda’s fifth Poverty Reduction Support Credit issued in 2005.
3 The World Bank issued new guidelines (OP/ BP 8.60) for its development lending in 2004, which covered
the issue of conditionality. These can be found at http://wbln0018.worldbank.org/Institutional/Manuals/OpManual.nsf/tocall/AD55139DFE937EE585256EEF00
504282?OpenDocument . In addition, last year, the World Bank published a review of its conditionality,
which included a set of good practice guidelines. A summary of the review containing the good practice
guidelines can be found at http://siteresources.worldbank.org/PROJECTS/Resources/40940-
1114615847489/ConditionalityFinalDCpaperDC9-9-05.pdf. Similarly, the International Monetary Fund issued
new guidelines on conditionality in 2002 these can be found at
guidance was provided by the IMF – Staff Statement – Principles Underlying the Guidelines on
4 IMF, 2005 Review of the PRGF-HIPC Financing, the Adequacy of the Reserve Account of the PRGF Trust,
and Subsidization of Emergency Assistance. Available at
http://www.imf.org/external/np/pp/eng/2005/090805.pdf. Figure converted from IMF Special Drawing Rights
figure of SDR 13.1 billion at a conversion rate of 1.42927 US$ per SDR.
5 The new Policy Support Instrument (PSI), for example, which is currently adopted by Nigeria and Uganda
will see the Fund cease to lend to poor countries but maintain its surveillance role and importantly its policy
conditionality.
6 Three of the countries assessed have a slightly higher per capita income, however, they are still eligible for
IDA lending, because their income is still extremely low. For more information about IDA eligibility and
country classifications see:
3150~piPK:64133175~theSitePK:239419,00.html The IMF uses the World Bank’s IDA criteria to determine
which countries are eligible for IMF Poverty Reduction Growth Facility (PRGF) lending. For a full list of
these countries go to http://www.imf.org/external/np/exr/facts/prgf.htm
7 For example, UNDP 2005: McKinley. T. MDG-Based PRSPs Need More Ambitious Economic Policies.
Policy Discussion Paper, United Nations Development Programme http://www.undp.org/poverty/docs/MDG-
based%20PRSPs%201-05%20Background%20Paper%20New%20York%202005.pdf. Or ActionAid 2005: Square
Pegs, Round Holes And Why You Can’t Fight HIV/AIDS with Monetarism. R.Rowden, ActionAid International
US.
9 The loan was Uganda’s third Poverty Reduction Support Credit issued in 2005.
10 Nicaragua’s Poverty Reduction Support Credit was issued in two tranches. Eurodad has counted the
conditions within both tranches.
11 For the purposes of this study Eurodad has labelled World Bank ‘prior actions’ as binding conditions and
World Bank ‘benchmarks’ as non-binding conditions.
http://siteresources.worldbank.org/PROJECTS/Resources/40940-
1114615847489/ConditionalityFinalDCpaperDC9-9-05.pdf
13 Ibid
15 The grant was Vietnam’s third poverty reduction support operation.
16 The grant was Armenia’s Second Poverty Reduction Support Credit.
17 World Bank, 2005: Millennium Development Goals, Burkina Faso:
BFA.
18 The grant was Burkina Faso’s Fifth Poverty Reduction Strategy Credit issued 2005
19 The grant was Mali’s Proposed Economic Policy and Public Finance Management Credit issued 2005
20 Uganda’s Fifth PRSC
504282?OpenDocument
22 Last year’s World Bank review hinted for the need for criticality to also to be applied to non-binding
conditions as well, but this was unfortunately not reflected in the final good practice guidelines. World Bank,
The grant referred to is Armenia’s Second Poverty Reduction Strategy Credit issued in 2005.
For example, the total number of privatisation conditions imposed on all 20 countries within previous loan documents was 32 privatisation conditions, whereas within current loans there are 29 privatisation conditions.
The World Bank refers to them as accompanying measures within its conditionality review.
Ibid, p83
Ibid, p85
28 Ibid, p83
29 Ibid
31 Ibid, p85
32 World Bank, 2005, Summation of the Conditionality Review last year. The review noted that for extremely high performing CPIA low income countries the number of conditions was also extremely high.
38 It should be noted that in this case the conditions refer to Nicaragua’s fifth and six reviews as they were merged together and not undertaken separately under a three year PRGF arrangement.
42 Second Review under the three year arrangement under the PRGF.
44 The loan is Benin’s first request for a three year arrangement under the PRGF.
46 The loan is Mali’s first request for a three year arrangement under the PRGF.
47 World Development Indicators Database, World Bank 2006

World Bank and IMF conditionality: a development injustice, Eurodad, June 2006