Untying the knots
How the World Bank is failing to deliver real change on conditionality

EURODAD Report
November 2007
About EURODAD

EURODAD (the European Network on Debt and Development) is a network of 51 non-governmental organisations from 16 European countries who work together 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.

More information and recent briefings are at: www.eurodad.org

Thanks

Penny Davies (Diakonia), Sofia Svarfvar (Church of Sweden), Romilly Greenhill (ActionAid UK), Lucy Hayes (Eurodad), Ben Hobbs (Christian Aid), Hetty Kovach (Oxfam GB), Max Lawson (Oxfam GB), Olivia McDonald (Christian Aid), Alex Wilks (Eurodad) and Daniel Martinez (for his technical assistance).

Disclaimer

This report is a EURODAD paper but the analysis presented does not necessarily reflect the views of all EURODAD member organisations.
Executive summary

In 2005 the World Bank launched a review of its conditionality policy. This was in response to growing international criticism, from developed and developing countries alike, that the World Bank was still attaching too many intrusive and, at times, harmful economic policy conditions to its development finance to poor countries. This practice undermined the growing consensus, reflected at the G8 and the UN Millennium Summit in 2005, that poor country governments must be able to define their own economic policies if poverty reduction was to be achieved. The review resulted in the Bank defining five “Good Practice Principles” that were intended to govern the way Bank staff apply conditionality. These principles aimed to reduce the overall number of conditions attached to Bank lending and ensure that those attached respected and were drawn from nationally developed poverty plans in recognition that developing country ownership is the bedrock of successful development.

Two years on from this important step, and with negotiations for IDA 15 entering their final stages, the World Bank is keen to represent the problem of conditionality as one that has been dealt with, and that is no longer a major problem in lending. In order to independently assess whether or not this is the case, this report, by the European Network on Debt and Development (Eurodad), assesses the effectiveness of the World Bank’s Good Practice Principles (GPPs) in reforming World Bank conditionality. The data used in the report is based on the World Bank’s own conditionality database, (made available to Eurodad for the first time in a welcome exercise in World Bank transparency), and information gathered from civil society groups in developing countries. Our methodology is explained in depth on page 6 and 7. The report finds that the GPPs have, as hoped, had a positive impact in reducing the overall number of conditions that the World Bank attaches to its development finance in poor countries. However, unfortunately there has been very limited progress in curbing the Bank’s practice of attaching sensitive economic policy conditions like privatisation and liberalisation conditions to its lending.

The Bank may be slimming down the number of conditions it uses in developing countries, but it is still making heavy use of economic policy conditionality, especially in sensitive areas such as privatisation and liberalisation. In assessing the numbers of these “sensitive policy reforms” we have used the same definition as that used by the Norwegian government their independent assessment from 2006. Our analysis finds that two years on from the implementation of the GPPs, more than two thirds of loans and grants (71%) from the World Bank’s International Development Association (IDA) still have sensitive policy reforms attached to them as conditions. The majority of these are privatisation related conditions. This report also finds that as a share of overall conditions, economic policy conditions have at best remained unchanged and at worst gone up slightly, now constituting a quarter of World Bank conditions in poor countries.

In short, this report highlights serious concerns with the Bank’s implementation of the Good Practice Principles. It shows that, under pressure from shareholders such as the Norwegian and UK governments, there has been a welcome decrease in the overall number of conditions. However, the continued high use of conditionality in sensitive areas such as privatisation and liberalisation is of great concern. Donor governments should take these findings seriously in considering their allocations to the World Bank as part of the IDA 15 negotiations. They must use this opportunity to push for faster and deeper reforms that see an end to economic policy conditionality.

One Step Forward?

According to the World Bank data, there has been a reduction in the overall number of conditions attached to World Bank finance. Bank data suggests that the average number of conditions has fallen from 46 per loan prior to the GPPs, to 37 per loan today. This reduction is largely due to a fall in the number of non-legally binding conditions, from 33 per loan before the GPPs to 24 today. Legally binding conditions, however, have remained unchanged at 13 per loan.

However, Eurodad’s detailed analysis shows that these numbers should be treated with a degree of caution as they paint an overly optimistic picture. This is because in some cases, the Bank is “bundling” numerous policy actions into one overall condition. For example, according to Bank data, Uganda has only eleven conditions in its PRSC V. However, when Eurodad counted the policy actions contained within each of these conditions, they found that Uganda actually had thirty-eight separate policy conditions. In a sample of 1,341 Bank conditions, Eurodad found that almost 7 per cent of Bank conditions contained multiple policy actions. If these are counted as separate condition, the number of overall conditions increases by 12 per cent.

The Bank, therefore, has made progress on reducing the number of conditions, but it is not as substantial as they claim, and there is room for improvement both in reducing legally binding and non-legally binding conditions.
Two Steps Back:

What is clear, however, is that the GPPs have so far completely failed to make inroads into the Bank’s use of policy conditions in sensitive areas such as privatisation and liberalisation. This report shows that 71% of all grants and loans contained some sort of sensitive policy reform, such as price liberalisation, privatisation, public enterprise restructuring, commodity price regulation and subsidies, trade reforms and tariff reductions. And the majority of sensitive policy reforms are privatisation related conditions.

In Afghanistan, the World Bank has attached privatisation-related conditions to their development finance, which will lead to the privatisation of more than 50 state-owned enterprises in the country over the next two years. If the privatisations take place the government of Afghanistan estimates that 14,500 jobs will be lost. Nearly $7 million would be needed to compensate these workers for one year, which would entail significant costs for the government and the donors. This is a very serious and potentially destabilising move in a country ravaged by war and where only 10% of workers are in the formal economy. By the Bank’s own admission the enterprises in question are not unduly burdening the Afghan public purse.

In Niger, the World Bank is also using conditionality related to the privatisation of Niger’s irrigation systems, which has seriously damaging effects on poor farmers’ access to a precious and scare resource in a semi-arid country.

Economic policy conditions – which include privatisation and liberalisation – have remained virtually unchanged, if taken as a percentage of overall Bank conditions. According to World Bank data, pre-GPPs economic policy conditions stood on average at 8 per loan and around 17 percent of overall conditions. Over the two-year period of the GPPs being implemented, this has dropped to an average of 6 per loan, which represents 16 percent of all conditions.

Lack of change in the proportion of economic policy conditions reveals that though the Bank might be willing to reduce other conditions in other areas, it is unwilling to relinquish its influence of the economy of poor countries via economic policy conditionality.

In addition, Eurodad has found that the Bank’s classification system is enabling it to downplay its usage of economic policy conditionality. Eurodad analysis found that almost 10% of all conditions were wrongly classified as other forms of conditionality, when under closer inspection they were actually economic policy conditions. For example, Vietnam is required to “Adopt policies to encourage the participation of non-state establishments in the delivery of public services” in its 2007 PRSC 6. This condition was classified as a public sector governance condition, but we believe it should be seen as very relevant economic policy making and the privatisation of basic services. If these conditions are taken into account, then Eurodad found that countries on average receive 11 economic policy conditions per loan – almost double the number that the Bank claims. And as a percentage of overall conditions, Eurodad found that economic policy conditions have risen since the GPP was implemented and now constitute a quarter of all World Bank conditions.

Eurodad, along with NGOs across Europe, believe that the World Bank should end its use of economic policy conditionality, which too often promotes sensitive and externally induced policy choices. Instead, grants and loans should be accompanied by a set of responsible financing standards which are mutually agreed by the Bank and recipient countries. These should be aimed at ensuring due-process obligations, such as transparency and compliance with national democratic mechanisms for public consent, and respect for internationally agreed standards and development goals.
As a condition of increased IDA funding, the **World Bank** must commit to strengthening the Good Practice Principles by:

1. Including as a key principle the commitment to end World Bank use of economic policy conditions in all of its IDA lending;
2. Increasing the transparency of World Bank conditionality, by ensuring that civil society organisations, parliamentarians and other actors are able to participate in key decisions about World Bank lending programmes, prior to their implementation;
3. Ruling out all non-binding conditions;
4. Moving away from assessing the conditionality on lending on a yearly basis and move to a longer-time frame of three years or more. This would mean that funding would be more predictable for a longer period. Progress could be monitored on an annual basis, but funds could not be lowered or withheld except in exceptional circumstances clearly and transparently defined from the outset;
5. Revisiting the definition of ownership to ensure policies are country selected rather than there simply being government support for Bank selected policies.
6. Properly implementing the GPPs -by ensuring that all new development policy lending is subject to an assessment that verifies that the principles have been properly integrated into its design, and reforming staff incentives;
7. Working with donors to ensure annual independent monitoring of these new improved GPPs, that incorporate the views of southern governments, CSOs and independent researchers;
8. Ensuring that the World Bank’s conditionality database is available on their website for all to use.
Methodology

What countries did we assess?

In order to assess the effectiveness of the Good Practices Principles in reducing the burden of conditionality, Eurodad assessed a sample of 32 operations in 16 countries, which have received an International Development Association (IDA) loan from the World Bank after the implementation of the GPPs. This sample represents more than 50% of the grants and loans approved by the World Bank during this period. The countries were based, where possible, on the same set of countries assessed in the 2005 by Eurodad for its report *World Bank and IMF Conditionality: A development injustice*. The criteria for selection were based on a number of factors including geographical diversity, non-fragile states, the presence of a national poverty plan and Highly Indebted Poor Countries where given priority.

List of countries assessed in sample: Armenia, Bangladesh, Benin, Burkina-Faso, Georgia, Ghana, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Vietnam.

What types of loans

Eurodad looked at all World Bank IDA grants and loans given to the 16 countries assessed between October 2005 and July 2007. In some cases countries had more than one loan within that period. In the majority of countries the loans assessed were Poverty Reduction Strategy Credits (PRSCs). However, for a few countries other IDA Development Lending loans where assessed. These include for Bangladesh a Development Support Credit, an Education Programmatic Sector Loan and a Railway Reform Program loan. For Mali, we also look at the Economic Policy and Public Finance Management Credit and for Niger we looked at a Rural and Social Sector Reform Credit.

Data sources and definitions

These findings are from Eurodad’s analysis of the database that World Bank staff use to monitor their use of conditionality – the World Bank ALCID Conditionality Database. For the first time civil society had access to the database, after years of requests for increasing transparency in the Bank’s activities. The release of this database to civil society researchers is a welcome move by the Bank and allows us to examine and debate in detail the status of its conditionality. However, it is important to note that Eurodad has re-classified some of the data.

What counts as a condition?

Firstly, Eurodad counted as a condition in this report, both legally binding conditions (usually referred to as prior actions) and non-legally binding (benchmarks). According to World Bank definitions only “legally binding conditions” are conditions, as they have the legal power to suspend finance. However, Eurodad along with many other NGOs have argued that non-legally binding conditions should also be counted as conditions, given that they influence recipient countries decisions and are used as a guide to assess performance of a loan throughout the year. Therefore, within this study, we have counted as a condition the following:

- Prior action / Board effectiveness – legally binding
- Legal condition unbound by tranche – legally binding
- Legal condition of 2nd tranche or higher – legally binding
- Desired action during implementation but not legally binding – non-legally binding

“Bundled” conditions

The World Bank often counts as a single condition several policy actions “bundled” together. Eurodad “unbundled” these policy actions and decided to count them as separate conditions.
Classifying conditions: defining economic policy and privatisation-related conditions

Economic policy conditions

Eurodad has counted as economic policy all conditions which related to financial and private sector development, economic management, privatisation and privatisation related activities, public enterprise reform, liberalisation, trade and other issues related to trade like the removal of non-trade barriers, regulatory reform, exchange rate changes, customs, debt management and fiscal policy.

Sensitive economic policy reform conditions

We drew on the World Bank’s definition as cited in the 2006 World Bank Conditionality Progress Report. This includes privatisation and associated reforms, public enterprise reform, price liberalisation, subsidy reform, trade reform and user fee changes. In addition we have also included the lifting of monopolies and opening for private sector participation in production of goods and services. This slightly broader concept than the Bank’s is taken from the report commissioned by the Norwegian Government in 2006.

Privatisation-related conditions

We also drew on the definition on privatisation on the report commissioned by the Norwegian Government. This includes a number of practices including: transfer of public assets to private ownership through sale of lease of public land, infrastructure, and enterprises; public financing of private services through for examples contracting out governmental services or the cessation of public programmes and disengagement of government to specific kinds of responsibilities that may lead to a shift by consumers towards privately produced and purchased substitutes. We did not consider general efforts to improve the business climate or encourage private sector development to be privatisation unless these efforts include the transfer of property or responsibility from the public to private sector.

In addition, Eurodad has also decided to collect data on those associated reforms that pave the way for privatisation, but are not privatisation themselves. The World Bank recognises these types of conditions as “complementary measures”. 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, or call for a management review and change regulatory environment of a given sector.

Timeline

In order to draw a comparison between pre-GPPs and post-GPPs conditionality figures, Eurodad used the average number of conditions attached to all loans and grants approved between September 2003 and September 2005 (pre-GPPs) and the average number of conditions of all loans and grants approved after the implementation of GPPs – from October 2005 until June 2007 (included), which was the cut-off date in the version of the World Bank conditionality database obtained. This report chose to compare two year average figures before the GPPs and one year and eight months average after the GPPs as these averages over a reasonable period of time are statistically robust to reflect real the trends of World Bank conditionality.
Section 1: Why conditionality doesn’t work

“True partnership supposes autonomy of beneficiary countries in requesting aid and in determining its objectives… Often programs are imposed on us, and we are told it is our program… People who have never seen cotton come to give us lessons on cotton… No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student.” President Amadou Toumani Touré of the Republic of Mali, opening speech of a Development Cooperation Forum in Washington, 2005

The World Bank’s practice of policy conditionality - tying its aid to the implementation of certain policies by the recipient country - has long been a contentious issue. Civil society organisations, southern governments and academics have criticised the Bank’s use of policy conditionality and, in particular, its use of economic policy conditionality, for being ineffective, undermining country ownership, and imposing inappropriate policy choices.

For many years conditionality has undermined the development of domestic accountability relationships. Conditionality takes policy decisions away from sovereign governments and places them in the hands of unelected donor officials. This means that citizens often cannot tell who made policy choices, and who to blame when things go wrong. When policies are imposed from outside the country, government commitment tends to be lower. Frequent disputes about whether conditionality has been properly implemented make aid flows to impoverished countries very unpredictable. Conditionality also imposes huge transaction costs on often already over-burdened government administrations.

“Policy conditionality…is both an infringement on sovereignty and ineffective” noted the Africa Commission in 2005, whilst the G8 in that same year highlighted that it was the right of sovereign nations to determine their own economic policies. In response, the British and Norwegian governments have developed policies to end the tying of their aid to privatization and liberalization conditions.

One of the greatest critics of the central-planning economy, the “one-size fits all” World Bank policies actually succeeded in reviving the much condemned “Brezhnev doctrine” which required Sofia opening the umbrellas when it rained in Moscow. And both got similar effects. Some economic policies promoted by the World Bank through conditionality have often been disastrous for poor people. Rushed privatizations and liberalizations have often undermined the access of poor people to basic services and have painfully increased the vulnerability of already weak economies.

The World Bank grants and loans should not impose economic policy conditions, which too often further sensitive and externally induced policy choices. Instead, they should be accompanied by a set of responsible financing standards which are mutually agreed by the Bank and recipient countries. These should be aimed at ensuring due-process obligations, such as transparency and compliance with national democratic mechanisms for public consent, and respect for internationally agreed standards and development goals.

In 2005, in the face of growing criticisms, the World Bank adopted a new set of “Good Practice Principles” (GPPs) to guide its use of conditionality. Adopted following a year-long official review, these principles were to streamline the number of conditions and support country-owned policy choices. The five “Good Practice Principles” committed to:

1. **Ownership**: Actively reinforce country ownership by relying on clear evidence of ownership informed by analytic work;
2. **Harmonisation**: Agree up-front with the government and other financial partners on a coordinated accountability framework which includes both policy actions and outcome indicators;
3. **Customisation**: Customise the accountability framework and modalities of Bank support to country circumstances. Do not use the framework to leverage additional reforms outside the government’s agenda;
4. **Criticality**: Choose only actions critical for achieving results as conditions for disbursement;
5. **Transparency and predictability**: Conduct transparent progress reviews conducive to predictable and performance-based financial support.

During the review the Bank acknowledged that “the challenge for the Bank is to avoid overloading the matrices, while focusing on steps that are critical for the results of the program.” “The good practice principles of ownership, harmonization, customization, criticality, transparency, and predictability will have to stand the test of practical challenges in Bank-supported operations on a day-to-day basis.”

What has happened two years on?
Section 2: One Step Forward?

Conditional definitions – what’s in a name?

World Bank loan documents contain two types of conditions, benchmarks and prior actions. The Bank claims that only prior actions are conditions, while independent observers such as Eurodad are convinced that all types of policy pledges in World Bank loan documents effectively represent conditions.

“Prior actions” are the reforms that the government must put in place before it will receive World Bank finance. They are pre-conditions.

“Benchmarks” are said by the Bank to be “desired reforms”, and non-binding. However, a World Bank survey in 2005 revealed that policymakers in recipient countries often regarded all conditions as requirements to obtain development finance. Benchmarks are regarded as potential future prior actions or legal conditions or important to maintain a good relationship with the Bank. Whilst we recognise these are not as punitive as formal conditions, benchmarks are still used to direct countries down reform paths that may be inappropriate and are thus a major cause of concern to NGOs.

Eurodad and many other external analysts of the Bank’s conditionality such as the independent researchers hired by the Norwegian government in 2006, adopt a broad definition which takes into account both types of policy reform pledge.

The Good Practice Principles have led to a welcome reduction in the overall number of conditions attached to World Bank finance. For the two years prior to the GPPs being approved, according to World Bank data the Bank attached an average of 46 conditions per loan, out of which thirteen were binding and thirty-three non-binding conditions. Two years on from implementing the GPPs and there has been a welcome decline in the overall number of conditions to 37 on average per loan. This reduction has come from a fall in the number of non-legally binding conditions attached to World Bank lending. Bank data shows that non-legally binding conditions, which dramatically increased since 2000 have fallen from an average 33 per loan pre-GPPs to 24 per loan in the two years after implementation of GPPs. Legally binding conditions, however, have remained stagnant at 13 per loan since the GPPs was implemented. Unfortunately, the GPPs has as of yet, not managed to build on the noticeable decline in the number of legally binding conditions that happened at the beginning of the decade from the very high baseline of the 1990’s since their implementation.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of binding</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of non-binding</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td>conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of conditions</td>
<td>46</td>
<td>37</td>
</tr>
<tr>
<td>Source: Eurodad.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In addition, the average figures mask large disparities in the number of conditions per loan that different countries received. Out of some sixty countries with loans approved between October 2005 and July 2007 for International Development Association (IDA) countries, only three had a single-digit number of conditions – one of these being Mozambique, where donors including the World Bank have been making serious efforts during the past three years to increase their effectiveness in the delivery of aid. This experience proves that, when political will is in place, efforts to streamline conditionality can give better results. Some other less fortunate countries still face strikingly high average numbers of conditions. Rwanda, for instance, faced 144 conditions in its last Poverty Reduction Support Grant approved at the end of 2006. Countries like Senegal follow very closely, with as many as 99 conditions per loan.
“Bundling” conditions: Picture not as good as it looks

These numbers based on the Bank’s own data should be taken with a degree of caution as they paint an overly optimistic picture. Eurodad has found that the Bank is ‘bundling’ numerous policy actions into one condition. For instance Uganda, one of the countries with a highest number of conditions in 2005, sharply decreased the number of conditions attached to their loans in 2006. However, this was partially a result of counting several policy reforms required by the Bank – sometimes as many as eleven – as a single condition. According to the Bank, Uganda’s PRSC V had only eleven conditions. When unbundled, these turned out to be thirty-eight. On a sample of 1,341 Bank conditions, Eurodad found that almost 7 per cent of the conditions contained multiple policy actions. If these are counted as separate conditions it increases the overall number of conditions by 12 per cent.

---

Bundled condition in Uganda’s PRSC V

Eurodad in its assessment of World Bank conditionality has found that the World Bank, perhaps in an attempt to keep the numbers down is bundling lots of policy reforms into one conditions. Eurodad found that the World Bank had counted the following actions in relation to the Plan for the Modernisation of Agriculture (PMA) as one condition in Uganda’s PRSC V. Eurodad decided to count it as eleven conditions, given the policy actions contained within it:

“Satisfactorily implemented the core undertakings as agreed in the October 2004 Joint PMA Annual Review. These were:

- MAAIF Development Strategy and Investment Plan finalized and approved by PMA Steering Committee;
- UNBS, MTTI and MAAIF establishing Ugandan Maize Standard aligned to the East African regional standard;
- Warehouse Receipts Bill tabled in parliament;
- MTTI and MAAIF implements market information system in 6 districts;
- MOWHC and Local Government maintains 9000km of district roads, rehabilitates 760km of district roads and undertakes spot improvements on 320km of community roads;
- MFPED operationalises MCAP funds outreach support and capacity building to MFIs in rural areas with 10 new branches established reaching 10,000 new clients;
- MAAIF expands and deepens NAADS coverage to 29 districts and 280 sub-counties;
- MPS and Local Government delayers extension staff in 5 districts;
- National Research Systems Bill tabled in Parliament
- MOES submits to cabinet the national agricultural education strategy; and
- MWLE completes baseline assessment survey of land right awareness levels of women.”

Source: World Bank ALCID Conditionality Database.

The World Bank’s figures given above do not take into account this 12 per cent increase and are strictly based on the numbers in the World Bank database. Therefore, although on the surface it appears that the World Bank has made considerable progress on reducing the number of legally and non-legally binding conditions, this progress is, on closer analysis, not nearly as significant.

Some other conditions are open-ended, referring to the implementation of a sector-wide action plan. Such cross-referencing means that the government has to undertake several actions. For example, Nicaragua’s PRSC II required implementation of “the National Water and Sanitation Strategy including progress and achievement of targets acceptable to the International Development Association (IDA).” Eurodad has not been able to count the extra number of policy actions implied by such broad commitments but this is another means by which the Bank seeks to minimise its conditionality numbers while maintaining its influence.
Section 3: Two Steps Back: Still addicted to privatisation and liberalisation

The Bank might be slimming down the number of conditions it attaches to developing countries, but it is still pushing privatisation and liberalisation and unnecessarily meddling in the economic affairs of sovereign nations. This report shows that 71% of all grants and loans assessed in this report contained some sort of sensitive policy reform like price liberalisation, privatisation, public enterprise restructuring, commodity price regulation and subsidies, trade reforms and tariff reductions.

The majority of sensitive policy reforms are privatisation related conditions. Out of the 16 countries assessed by Eurodad had privatisation-related conditions. In countries like Rwanda old-fashioned privatisation is still being pushed as the World Bank required in the PRSC II that “Good faith negotiations are reached for the privatization of Rwandatel, Rwandex and Nshili- Kivu tea plantation and initiate privatization process of rice factories of Rwamagana, Gikonko and Bugarama”. Furthermore, the PRSG III increased the list of targets for privatization to the “Tea plantations of Nyabihu and Rubaya”.

The World Bank’s Quiet Push for Privatisation in Afghanistan

The World Bank is currently backing a policy in Afghanistan which will lead to the privatisation of more than 50 state-owned enterprises in the country over the next two years. The enterprises exist in a range of sectors, including energy, mining, transport, construction and textiles, and constitute the bulk of home-grown industry. The enterprises slated for privatisation currently employ around 25,000 people – the government agency in charge of privatisations estimates that at least 15,000 will be made redundant as the companies are either liquidated or have their assets sold to private bidders. 21 are already being privatised this year.

This situation raises concerns about the potential social and political impacts of a rushed privatisation process: despite donor promises to re-train the workforce, very few alternative jobs exist in the formal sector in Afghanistan. 90% of the economy is informal and unemployment is thought to be as high as one-third of the workforce. For the sacked workers, a regular salary will be lost; studies have shown that such a salary often supports up to 10 family members. The severance and re-training fund for ex-workers, financed in part by the World Bank, is woefully inadequate to cover the cost of so many redundancies. The average wage for a public sector employee in Afghanistan is $40 a month ($480 a year), slightly higher than the national average of $30. If the privatisations are to cause 14,500 job losses, then nearly $7 million would be needed to compensate these workers for one year, which would entail significant costs for the government and the donors.

The Bank has failed to explain why these privatisations are necessary now – it admits itself that the enterprises in question are not unduly burdening the Afghan public purse; and the economic benefits seem uncertain. It would surely be better to wait until the security and investment climate has improved and these enterprises had had their productive capacity restored, before proceeding with the sell-offs.

Evidence from the Bank’s documents clearly show that a number of its grants to the Afghan Government have been made conditional on these privatisations going ahead. For example, in late 2005 the Bank listed privatisation as one of several macro-economic conditions for a new $80 million package of assistance to the Government (ironically called the Second Programmatic Support for Institution-building). In an apparent response to this, the Afghan Cabinet just a few weeks later revised an existing law making it possible for the first time for these companies to be divested.

The Bank’s main priority in countries with weak economies should be increasing employment and promoting political stability. This is especially the case in countries affected by conflict, such as Afghanistan. Besides, the Afghan Government should instigate a public debate on the pros and cons of privatisation. Afghan civil society and the new parliament must become more involved in this process if it is to be legitimate and responding to the needs of the Afghan population.

But privatisation related actions are also being re-branded as public-sector reform. Vietnam has to “adopt policies to encourage the participation of non-state establishments in the delivery of public services” as a public sector governance reform in its 2007 PRSC-6. And Senegal, in its PRSC III also approved in 2007, is required as a part of its public sector reform to “publish a decree revising the private sector delivery regulatory framework”.

The Bank does not seem to be listening to their own findings in the 2005 Conditionality Review, when it recognised that “The lessons of the 1990s show that generalised policy prescriptions often fail, and that there is no single model of development”.

All too often privatisation promoted by the World Bank through conditionality has led to disastrous results for poor people. Rushed privatisations and liberalisations have often undermined the access of poor people to basic services and have painfully increased the vulnerability of already weak economies. Privatisation of sectors such as water or energy has sometimes limited the access of the poor to essential services. Companies in these sectors require large investments and thus are not always profitable, let alone in the short-run. Non-competitive selling of state companies or rushed privatisations has often led to underperformance of these sectors. Sales have often been non-transparent and regulation and competition after sell-offs weak or non-existent.

**Hurting the Poor: Impact of electricity privatisation in Nicaragua**

Out of the 16-country sample assessed in this report, seven countries face conditions related to the participation of private companies in their electricity sectors. Why might this be a bad thing? Well, the case of Nicaragua reveals the negative impact of electricity privatisation on the poor eight years on from privatisation happening.

Nicaragua was required to privatise its electricity sector in 1998 as a condition of World Bank lending. Today the ramifications of that decision are still being felt by Nicaraguans according to research by Christian Aid and the Nicaraguan Consumer Defence Network.

Union Fenosa, a Spanish firm, was the only bidder to run the distribution companies, so it bought an effective monopoly over electricity distribution. Bringing in private companies to run the electricity sector provision has not resulted in additional investment in electricity provision. Instead this investment has come from the state, who has taken on loans worth $23 million to finance investment in infrastructure.

The privatisation has however resulted in adverse affects for Nicaraguan consumers. The quality of the service has worsened. Severe power cuts have been more pronounced in the past two years.

Spiralling costs have also adversely affected consumers. The bills of one family in the Montoya region of Managua showed an increase of energy consumption of 1187% in two months, which in turn saw their charges for consumption increase by 2736% without spurious additional charges street lighting that was not delivered. In December 2006 the family owed US$1,836. The annual per capita income in Nicaragua is US$890.

Perhaps the key finding from this research in Nicaragua is that the electricity system cannot function on a commercial basis. Can consumers afford to cover the full costs of the service – including the private operators’ margins and the full investment costs needed to ensure the necessary increase in quality and coverage? If the interests of the poor are not compatible with the interests of the private sector then privatisation cannot be the only answer.

Source: Christian Aid.

The Nicaraguan case shows that assessing the economic and social impacts of reforms on key income groups is crucial, particularly for the poorest who are most vulnerable when change happens. The World Bank has stated the need to assess the impact on the poor of the policies they advice. For this purpose, the Bank committed to conduct Poverty and Social Impact Analysis (PSIA). However, and despite their commitments, a recent NGO briefing note found that the Bank is still failing to consistently ensure that there is a proper assessment of the likely consequences of different policy actions on the poorest people.

The World Bank should make sure that before they recommend a course of action, the impacts of a range of options on poor people have been thoroughly explored in a country-led process. In addition, the Bank should be accountable for their share of responsibility on the impact of policy reforms which have been conditions attached to past loans.
Section 4: Meddling in Economic Affairs

World Bank economic policy conditionality – including privatisation and trade liberalisation - has at best not even moved and at worst gone up slightly as a percentage of overall World Bank conditions. According to World Bank data, pre-GPPs economic policy conditions stood on average at 8 per loan and around 17 percent of overall conditions. Over the two-year period of the GPPs being implemented, according to Bank classifications this has dropped to an average 6 per loan. However, given the reduction in the number of overall conditions, as a percentage of overall number of conditions economic policy conditions have almost remained unchanged. These figures reveal that the Bank still attaches high priority to economic policy conditionality and cast serious doubts about the Bank’s political will to give more space to recipient governments to take their own policy choices.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

Wrongly classified

However, Eurodad found that the Bank was seriously downsizing the number of conditions it classifies as economic policy conditions. Our analysis found that almost 10% of all conditions which in principle the Bank had classified as not economic policy conditions, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.

For instance, one of Bangladesh’s conditions within its Development Support Credit II calls for the “corporatisation of at least one urban distribution company. We believe this should be classified as economic policy, where in fact, when looked at closely economic policy conditionality. If these conditions are taken into account, then Eurodad found that an average 11 conditions per loan where economic policy conditions – almost double the number that the Bank claims. As a percentage of overall conditions, Eurodad found that economic policy conditions constitute a quarter of all World Bank conditions.
Since the GPP has been implemented economic policy conditions have risen, according to Eurodad's classifications. In Eurodad's 2006 report we found that pre-GPP economic policy conditions constituted 20% of all conditions. Since the GPP has been implemented, economic policy conditionality has risen to 25 percent.

### Liberalisation and Public procurement conditions

The World Bank claims to have substantially reduced controversial reforms around privatisation and liberalisation. They have shifted instead to reforms around public sector governance including reforms of public procurement, or the regulations guiding purchasing of goods, works and services at every level of government. In many developing countries there is a clear need for one set of rules to guide procurement that can be transparently monitored to ensure there are no regularities. An improved system can also generate more efficiency, making it easier to select the best contract at the lowest price.

As the government is the largest consumer in most developing countries, the rules guiding public procurement can have a major impact on the national economy. A more protected regime provides an opportunity to support domestic firms whilst a liberalised regime can bring the benefits of foreign firms with superior technology and economy of scale. Countries can decide to place themselves somewhere along this spectrum to support their economic development strategy.

This study did not count public procurement conditions as economic policy conditions. However, there is arguably a strong case for doing so.

The Bank is being particularly disingenuous when it requires countries to conform to “international best practice”. This model is underpinned by an assumption that the participation of foreign firms offers better competition, which offers best value for money. Yet, attempts by rich countries to force this agenda through at the WTO faltered, challenged by countries like India and China, who themselves had used a more strategic public procurement policy in their economic development. There is no reason why reforms to promote transparency and accountability in public procurement also need to promote liberalisation.

The fact they so often do supports the criticism levelled at the Bank that they have not shifted away from controversial liberalisation reforms, but are instead focusing on reforms to embed this further.

The impact of conditionality around public procurement does not just reduce governments' policy space. It has clear knock-on effects on local firms, who can struggle to get contracts post-liberalisation. This is acknowledged in countries like Ghana where the World Bank has called upon government to build the capacity of local firms to participate in the tendering process. Such strategies, however, do not address the constraints local firms face when competing with foreign firms, such as technology, access to credit, taxes, labour-related and fuel costs than the process of formulating and submitting tenders.
Section 5: GPPs Failing to Deliver

In 2005, in the face of growing criticisms of its conditionality policy, the World Bank adopted a new set of “Good Practice Principles” to guide its use of conditionality. These principles were adopted following a year long Conditionality Review which aimed to take a fresh look at the Bank’s use of conditionality. According to these principles, the World Bank committed to “rely on the government’s expressed policy intentions” and to “choose only the actions critical for achieving results as conditions for disbursement.”

Civil society research published a year after the approval of the Bank review already pointed that these principles were ill-conceived and failing to be properly implemented. Two years on, evidence shows that the World Bank has failed to translate the principles into practice.

Not Principled Enough

The five principles identified by the Bank were ownership; harmonization; customization; criticality; and transparency and predictability. In theory, these principles reflect a welcome departure from the Bank’s heavy-handed approach to conditionality. But the small print behind the GPPs reveals that they represent much less of a departure from previous Bank policy than might first appear.

By “ownership”, for example, the World Bank does not mean that countries should choose their own development strategies and the policies which flow from them. Instead, acceptance that a given set of policies must be implemented, even if they were designed by donors, seems to be sufficient. The Bank’s conditionality review only identifies the need for “some clear evidence of ownership”. The Bank even states that where “the government’s own policy agenda is weak….the Bank would choose not to provide development policy loans.”

This seems far from allowing the genuine policy space that true ownership would require.

Similarly, the Bank’s definition of “transparency and predictability” focuses on internal Bank-government discussions, rather than the transparency to citizens and parliaments that true accountability would require. The GPPs only commit the Bank to conducting transparent progress reviews in line with the country’s own monitoring and evaluation cycle, use of the country’s own internal accountability processes, and for performance adjustments to be based on those reviews. No mention is made of the need for the World Bank to be transparent and accountable to citizens and parliaments about their activities in country, the content of conditionality matrices, or the nature of their policy discussions with governments. Similarly, while highlighting the need for predictability, the Bank makes no mention of the need for predictable multi-year funding commitments.

Not properly implemented

A series of interviews with World Bank staff in Washington and in country offices show that most Bank’s personnel is still unaware of the principles or lack the incentives to translate the change of policy into a change of practice. Interviews with World Bank staff on the implementation of the GPPs also revealed that, while some progress is being made, this is far from the radical departure that is really needed. ActionAid commissioned interviews with eight World Bank task team leaders for PRSCs and other Development Policy Loans in Washington in September 2007.

According to the Bank interviewees, some changes had been made on the ground as a result of the GPPs, including streamlining of conditions in Bangladesh, greater scrutiny of the new Development Policy Loan in Bhutan, and a reduction in the number of prior actions in the PRSC matrix in Senegal. Bank staff also felt that they were making progress in harmonizing their conditions with other development agencies. Internal changes have also been made, with all development policy instruments now being reviewed by the responsible team in the World Bank to ensure compliance with the GPPs and a mandatory requirement to report on progress.

But in no case were these changes seen as a radical departure from previous World Bank practice. For instance, the principle that reforms should be “critical” if they are to be included as conditionality is too often cast aside. In Tanzania, the Bank required the completion of “procurement and installation of computer equipment of the National Audit Office” as a legally binding condition to disburse the funds of its 4th Poverty Reduction Support Credit. And Senegal was required to “update the database on infrastructure in rural areas”. However useful the implementation of these reforms may be, it is unreasonable to spell out in such detail recipient government actions.
In general, staff identified that they were following largely a “business as usual” approach, with only small changes resulting from the GPPs. Some interviewees even noted worrying signs of backward movement, for example pressure from bilateral donors to include new conditions within policy matrices.

If the Bank is truly to respect genuine country leadership of the development process, to promote the development of domestic accountability relationships, and to open itself up to scrutiny by citizens and parliaments, the GPPs need to be substantially strengthened, and implementation stepped up.

**Enabling investment climate: Supporting investors or the poor?**

Nearly ten per cent of the conditions assessed by Eurodad relate to “private sector development”, affecting all of the countries assessed by this report. These activities relate to the World Bank’s Private Sector Development Strategy adopted in 2002 to reform the investment climate and to promote private sector participation in infrastructure.

The attention to these “second generation reforms” was identified as a growing trend in the World Bank Conditionality Review: “The shift away from privatization is related to the increased attention to the quality of the investment climate as a whole.” This trend is perhaps unsurprising, as barriers at the border have declined, attention can turn to regulatory and other barriers behind the border. These affect the terms of access and operation of foreign investors and traders into developing country markets, but are also much more intrusive as they relate to sensitive areas of domestic regulation.

It would be difficult to argue that local small and medium size businesses would not benefit from making it easier to register a business, simpler to pay taxes or improvements to essential infrastructure services. However, many of the policies promoted have dubious development credentials. In crude terms, they promote business climates that have lower taxes and less regulation.

These kinds of regimes deprive governments of the tools they need to manage investment to ensure maximum benefits – for example promoting technology transfer through licensing requirements. They are also based on questionable assumptions about what will attract FDI – there is no strong evidence that tax breaks and investor protection rules, for example are a strong draw. Most investment promotion literature identifies poor infrastructure and the low education and poor health of workers as some of the most important obstacles to investment.

Attention to the private sector conditions in developing countries is important – local firms suffer from high costs imposed by poor infrastructure and poor regulation, but solutions need to be tailored to the needs of local firms, and take account of regulatory priorities of country governments to achieve public policy and development objectives.

Source: Adapted by Christian Aid from commissioned research by Aldo Caliari, Centre of Concern.
Conclusions and Recommendations

After several years being the object of sustained civil society and recipient government's criticisms, the World Bank claims to have reformed its conditionality policy through the implementation of the Good Practice Principles for the application of conditionality.

Current trends do show a decrease in the number of non-binding conditions attached to the World Bank grants and loans. However, this welcome decline in the number of non-binding conditions is impaired by the Bank’s failure to show progress in streamlining the legally binding conditions and by an overall limited progress. Most worrying is the slight rise, during the past year, of the number of binding conditions. These are the reforms which must be implemented before the Bank’s money flows. After a noticeable decline at the beginning of the decade, when the conditions went down from the very high baseline of the 1990s, the Bank has stalled.

Economic policy conditions have steadily risen as a share of the overall conditionality. During the last two years, an average of 11 out of 46 conditions per loan referred to economic policy reforms. This amounts for a quarter of the overall number of conditions, which is significantly higher than the 20% found in Eurodad’s 2006 report. On average, loans assessed by this research contain 6 privatisation-related conditions each.

The Good Practice Principles for the application of conditionality put in place after the 2005 Conditionality Review have not made any substantial difference in the numbers of legally binding conditions and have only brought about limited progress with regards to non-binding conditions. Moreover, the World Bank still attaches high priority to economic policy conditionality which casts serious doubts about the Bank’s political will to downsize this type of conditionality, which is particularly controversial for it has often damaged national economies, undermined government ownership and has had a harmful impact on the poor.

This situation demonstrates the World Bank’s inability to date to implement its own reform agenda. The Bank and the major governments who are currently considering increasing their financial commitments to the World Bank’s International Development Association must take action. As the 2005 Conditionality Review and Good Practice Principles are failing to deliver, World Bank shareholders should use the opportunity of the IDA funding round to get firm, specific and timetabled commitments from the Bank to reduce and clean up their conditionality figures.

In particular we would like to see the World Bank commit to strengthening the Good Practice Principles by:

1. Including as a key principle the commitment to end World Bank use of economic policy conditions in all of its IDA lending
2. Increasing the transparency of World Bank conditionality, by ensuring that parliamentarians, civil society organisations and other actors are able to participate in key decisions about World Bank lending programmes, prior to their implementation
3. Re-defining criticality to rule out all non-binding conditions.
4. Moving away from assessing conditionality on a yearly basis and move to a longer-time frame of three years or more. This would mean that funding would be more predictable for a longer period. Progress could be monitored on an annual basis, but funds could not be lowered or withheld except in exceptional circumstances clearly and transparently defined from the outset.
5. Revisiting the definition of ownership to ensure policies are country selected rather than there simply being government support for Bank selected policies.
6. Properly implementing the GPPs -by ensuring that all new development policy lending is subject to an assessment that verifies that the principles have been properly integrated into its design, and reforming staff incentives.
7. Working with donors to ensure annual independent monitoring of these new improved GPPs, that incorporate the views of southern governments, CSOs and independent researchers
8. Ensure that the World Bank’s conditionality database available on their website for all to use.

IDA Donors

We would like to see an IDA 15 settlement that mandates the World Bank to implement these reforms. Failing this, we call on all donor governments to IDA 15 to make a proportion of their funding to IDA 15 contingent on these reforms.
Endnotes:

1 A clear explanation of the methodology used by this report to calculate the figures can be found on pages 6 and 7.
7 World Bank (September 2005), page 33.
8 B Bull, A Jerve and E Sigvaldsen (November 2006).
9 Example from the World Bank ALCID Conditionality Database.
10 Example from the World Bank ALCID Conditionality Database.
11 World Bank (September 2005), page 10.
13 All examples given come from the World Bank ALCID Conditionality Database.
15 World Bank (September 2005).
17 World Bank (September 2005), page 28.
18 Forthcoming ActionAid research.