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CIVIL SOCIETY POLICY DIALOGUES PROGRAM



CIVIL SOCIETY TEAM

What Future for World Bank Conditionality September 23, 2005 / Room MC8-W150

MEETING NOTES¹

The purpose of this panel was to discuss the future of World Bank conditionality and country ownership of programs in the context of recent Review of World Bank Conditionality paper and critical civil society research. The session was chaired by Peter Bakvis, Director of the Washington Office of *International Confederation of Free Trade Unions*. The speakers included Stefan Koeberle, Adviser to Operations Policy and Country Services at the *World Bank*, Jean Somers, Coordinator of the *Debt and Development Coalition Ireland*, Abbie Shawa, Member of the Budget and Finance Committee of Parliament of Malawi and Executive Secretary of *MAPCOI*, and Jim Adams, Vice President and Network Head of the Operations Policy and Country Services, *World Bank*. Organizations that sponsored this session included *ActionAid International*, *Christian Aid*, *The Debt and Development Coalition Ireland*, *Eurodad*, and the *International Confederation of Free Trade Unions*. All these organizations are a member of the Global Campaign Against Poverty.

Peter Bakvis opened the debate by stating that the use of conditionality by the World Bank is more important now than ever before. Much of the debt relief that was agreed at the G8 Summit this summer will be channeled through the Bank, and will come with World Bank conditionality attached. Mr. Bakvis then introduced the speakers, and asked them to strictly abide to the 10 minute limit.

The first speaker was Stefan Koeberle, whose presentation focused on key findings and recommendations of the *Review of World Bank Conditionality* paper, published in 2005. The review was undertaken per request of the Bank Board's Development Committee and is designed to assess the practice of conditionality, and to lead to a set of Good Practice Principles for improving the use of conditions in policy-based programs. The goal was also to provide very pragmatic guidelines for staff. He indicated that the main issues in the review were how to reconcile the concept of country ownership with donor's need for accountability, and the ability to still maintain coherence with the principles of countries that make resources available to the World Bank Group. At the same time, the

¹ These summary notes were taken and drafted by a consultant, Zuzana Boehmova, and reviewed and edited by the speakers. Attribution is given only to the panelists since it was not feasible to allow audience participants to review the draft text of the questions and comments before posting this note on the web. If any of the participants have comments or suggested edits to this text we ask that they send an email to the Bank's Civil Society Team at: civilsociety@worldbank.org.

Bank still needs to remain performance-oriented in every operation, and provide adequate transparency.

The speaker summarized 5 main messages of the review: 1) The new operational policy from 2004 provides a robust framework that is consistent with the message that conditionality should not be coercion; 2) The Bank has fully recognized the importance of country ownership for development effectiveness, including in policy loans and in country Assistance Strategies (CAS), but like other donors it is grappling with the practical implications; 3) Over the past 20 years, the Bank has made significant strides in changing its approach, in particular by moving toward a more realistic medium-term approach for supporting complex institutional and policy changes, including through programmatic lending. The use of the term “conditionality” in a way no longer reflects the way the Bank operates, since it has moved increasingly toward a partnership approach based on performance-based conditionality rather than promise-based conditionality. The number of conditions has declined considerably. Although the length of policy matrices per se says little about the relevance or burden of conditionality, there has been a perception issue due to the increasing number of indicative benchmarks which clients sometimes do not distinguish from actual conditions; 4) the Bank has been very transparent in disclosing program documents and its conditionality in the recent years; 5) The Bank’s approach is compatible with the goal of harmonizing financial support with other development partners while retaining the Bank’s accountability.

Mr. Koeberle then went through the definitions of conditionality and explained in detail how the concept works. Conditionality is intrinsic to policy-based lending and the use of conditionality is usually discouraged in investment projects. He mentioned that the term “conditionality” has been interpreted in many ways to mean various things and some clarifications may be necessary, even for Bank staff. Mr. Koeberle noted that the Bank applies conditionality in a variety of settings, but should be confined to those disbursement conditions that are specified in a schedule to the legal agreement. The first example are *prior actions*, which are conditions that must be met prior for the disbursement of a single-tranche operation (typically as part of a programmatic series). By contrast *triggers* and *benchmarks* are not conditionality as they are not determinative of disbursements and are not included in the legal agreement. Mr. Koeberle compared benchmarks to progress markers of where the borrowing government wants to go operations, which allow citizens to hold their governments more accountable. Triggers consist of a small list of expected prior actions for subsequent.

A big shift from short-term economic management to complex medium-term institutional reforms has occurred in policy lending over the past 20 years. The Bank’s policy-based lending has reflected its client countries’ increasing move away from short term economic reforms towards complex second generation issues that require adequate space for internal policy discussion, and are placing greater emphasis on areas such as public sector, financial sector development, and governance. Mr. Koeberle maintained that there were currently very few policy-based operations that did not have a focus on strengthening the public sector, public financial management and fiduciary arrangements, while the emphasis on privatization has sharply declined since the early 1990s. At the same time, there has been very little use of conditionality in such sensitive policy areas as user fees or trade. Overall, the number of conditions has been declining, but the number

of indicative benchmarks has been rising - mainly in the past five years since the multi-sector programmatic loans were introduced. IDA credits in low-income countries (such as PRSCs) account for most of the increase in indicative benchmarks.

In conclusion, Mr. Koeberle summarized five good practice principles that should guide the use of conditionality in policy-based lending: 1) Reinforce country ownership, by relying on a well tailored analysis, taking account of the country's political economy dimensions and let the country strengthen its own capacity; 2) Agree upfront on a coordinated framework that will allow the country, donors and the Bank to evaluate performance; 3) Customize the accountability framework to the country context and to government's own development plans; 4) Focus only on actions that are critical for achieving results as conditions for disbursements; 5) rely more heavily on a country's own accountability framework and agree on a transparent review cycle.

The next speaker was Jean Somers, who presented on Debt and Development Coalition Ireland's assessment report on the Bank's Poverty Reduction Support Credit (PRSC). She focused on two main points. First, on the issue of quantity and content of conditionality used in PRSC operations and "poverty proofing" PRSCs. Second, on how the PRSCs fit within the wider structure of conditionality.

Ms. Somers' report examined PRSC programs in thirteen different countries. She welcomed the reduction in the use of binding conditionality, but pointed out that the World Bank does not have clear guidelines on criticality of conditions, because staff is not required to justify the conditions they apply to loans. The second concern is the increase of the "soft conditions" or benchmarks. Although these conditions are not a prerequisite for the country to get a loan, they are still used by the Bank to monitor progress. Ms. Somers believed that the more benchmarks are applied, the more subjective disbursements decisions become. The resulting ambiguity is reflected in the Bank's own survey, which documents that about 75% of country authorities from borrowing countries responded that they believed that they have to comply with all of the benchmarks. Moreover, the increase in the number of benchmarks implies that the World Bank is still micromanaging economies, and many find the benchmarks inconsistent with their national poverty strategies.

While the World Bank acknowledges the need not to overload the policy matrix with soft conditions, the relevant policy in the Bank's Good Practice Principles which are about to be implemented, is very weak as it merely states that there "could" be a reminder to staff on a more disciplined use of benchmarks. She noted that her organization was struck that there was no mention of developing guidelines for criticality of conditions and benchmarks.

With regard to the content of the conditions, her study focused particularly on privatization. The study documented the widespread use of privatization conditions and benchmarks, mainly in the key utilities such as water, energy and communications. In several cases, there was no previous mention of privatization in the country's Poverty Reduction Strategy Papers (PRSPs): Ghana on electricity, Burkina Faso on cotton, Mozambique on telecommunications, Senegal on health, and Guyana on water.

Obviously the World Bank realizes that there is major hostility to privatization in many countries around the world, and recognizes it in many Poverty Reduction Support Credits (PRSC) documents. The Bank even examines this hostility to privatization in one of its papers, and underscores the importance of working with civil society when designing the poverty reduction strategies. Nevertheless, in the Review of World Bank Conditionality there is only one reference to cooperation with civil society, and the problem of privatization is put aside as if it was completely solved just because it decreased.

Ms. Somers noted that while the use of conditionality has decreased, looking behind the data discloses that Privatization conditions often become triggers within World Bank grants to low income countries under IDA, such as the privatization triggers in the performance-based allocation system. For example in Nicaragua, privatization of a power company was a trigger condition. Therefore there is a greater pressure on the governments to fulfill those conditions. They do not fulfill them only to get money released from the PRSC, but also because they influence the overall level of funding.

Her next point was that PRSC conditions are part of a “tight web” of conditions, as there is cross-conditionality between the PRSC and the PRGF, PRSP with HIPC, and occasionally associated with World Trade Organization (WTO) conditions. She illustrated this with cases of Vietnam and Ethiopia, which had to implement certain policies as a prior conditions before accession to the WTO was granted.

She spelled out 3 proposals for change: reduction in number of conditions; end to privatization and other economic policy conditions; and an annual review of conditions which would involve all stakeholders.

In his remarks, Abbie Shawa focused on what conditionality means from a perspective of “a poor Parliamentarian from Malawi”, and appealed to the Bank to engage the legislature more than it has done in the past. He said that conditions are synonymous with maintaining the status quo, with keeping Malawi poor, and with the fact that not all stakeholders are involved. He noted that a lot of the conditions do not seem to have a “human face”. While conditions may be designed to spur economic growth, they have, in reality, made the economic situation worse. Moreover, conditionality does not seem to be based on the proclaimed principles of transparency and accountability. For example, there was a case of privatization of the Agricultural Marketing Board to which the attached conditions became clear only after the Parliament already passed the bill. This was not an example of transparency and in fact, conditionality actually overrode the local decision making. All the key stakeholders, and especially the Parliament, should be involved in the entire decision making process to ensure country ownership.

Moreover, the one-fits-all approach should no longer be followed. If there is room for alternatives, they should be discussed. The civil society is vocal in Malawi and it has been actively involved in the process of PRSPs, but the Parliament was not fully included. With the involvement of Parliament, public sector governance can be enhanced.

On the issue of benchmarks, Mr. Shawa noted that the multiplicity of benchmarks makes the situation even more complex. Some of the benchmarks do not even make sense. He questioned why even have them, when everybody knows that they are not going to be met. In conclusion, he noted that despite the fact that privatization has had a bad name, a good thing that has come out of the negative experience with the case of Agricultural Marketing Board is that people became more aware of the situation and are publicly questioning the case for privatization in other sectors.

The last speaker was Jim Adams, who discussed how to reconcile the use of conditions with country ownership and poverty reduction. He started by noting that the United Nations International Conference on Financing for Development held in Monterrey provided a framework for the assessment and refinement of what the Bank has done, and can do, on the use of conditionality. Commitments were made to increase donor resources with a specific focus on Africa, and the conference formulated a message both about ownership and about results.

He insisted that the Bank has moved away from using a prescriptive set of “preferred” policies. But because it moved away from them does not imply that the Bank stopped believing that some policies can contribute to economic growth and to poverty reduction. Although it seems very convenient at certain debates to leave this issue aside, it is in fact the essence of the World Bank has been asked to do – to work with governments and promote policies which encourage economic growth, attract investments, and reduce poverty. Of course, this does not mean that the Bank is always right, and that every policy it ever recommended works. But the Bank is always prepared to engage in discussion on specific policies and is prepared to consider facts on the ground and analysis which may show the need for changes in policies. In this light, he agreed that the concern about the extensive use of benchmarks in multi-sector operations is justified, and they should be reduced where appropriate although they should not be regarded as conditions. Moreover, the Bank will continue to put a lot of emphasis on transparency, and has a responsibility to both civil society and to Parliaments to ensure greater access to information on this issue.

On the issue of privatization, Mr. Adams said that the critique is generally associated with its use in PRSPs. Yet there are often misperceptions and differences of views around specific cases. An illustrative example is the privatization of cotton in Burkina Faso, which was embedded in the PRSP for that country. While this case is often cited as a negative example privatization, it has in fact been very successful. Both the farmers and the major actors agree on that. The cotton industry represents a clear example of a situation where the problem is not with the inefficiency of West African farmers, but with unfair agricultural trade subsidies practiced by the US and European governments. The policies adopted by Burkina Faso to adjust to unequal trading conditions have significantly helped the agricultural sector and the cotton industry. Another example frequently cited was that of the electricity supply policy in Ghana which was included in the PRSP, but this initiative came from the government, not the Bank. In the case of Mozambique, the PRSP called for restructuring of telecommunications. With regard to Malawi, Mr. Adams agreed that it is crucial that all the stakeholders are engaged in the discussion of how privatization is done. Nonetheless, he considered the fact that the telecommunications industry in Malawi was not privatized represented a missed

opportunity. There is clear evidence that across the Africa region, privatization of telecoms has resulted in greater coverage (particularly for the poor), better performance, and lower costs. His experience working as a Country Director in Uganda and Tanzania convinced him that the privatizations carried out in those countries directly contributed to the growth rate which also resulted in poverty reduction. This data has been confirmed by independent household surveys conducted in Ghana and Uganda.

While he agreed that some of the critique of the “one size-fits-all” approach is justified, it is also oversimplified at times. CSOs should acknowledge that the content and conditionality applied to PRSCs do not resemble the nature of traditional adjustment loans. In many countries the Bank has not applied conditionality related to privatization, but has applied conditionality geared to improving access to healthcare, education and water supply. The Bank has the flexibility to respond to the issues that governments put on the table.

Mr. Adams responded positively to Jean Somers' suggestion about involving external stakeholders in the Bank's annual reports on conditionality, and said that the Bank was willing to discuss the annual review with interested organizations.

Finally, Mr. Adams stated that a challenge the Bank faces is to consistently encourage government ownership of its policies and ensure that programs result in improved development outcomes. The Bank made two commitments to the Board through this review process. First is that the overall use of conditions will be reduced, and that the conditionality to be used are systematically linked to poverty reduction. Second, to work closely with country teams to ensure that benchmarks do not become substitutes for traditional conditionality.

QUESTIONS AND COMMENTS FROM THE AUDIENCE

1. I think we are missing the main point here in regards to conditions. The issue is not whether they work or not. The issue is whether the Bank should be applying any conditionality at all, and if it has the right to tell governments what to do.
2. Are you tracking how suitable the conditions are before a decision is made? We welcome transparency afterwards, but there should be a transparency in how and why the conditionality is designed in the first place.

Mr. Adams was first to respond. He maintained that the Bank does not tell governments what to do, but works with them for several years to design a policy program, and discusses and analyzes how individual policies will impact economic growth and poverty reduction. The goal is to successfully combine country ownership with good results. In other words, the Bank will not support policies that experience has shown to not work. For example, Zimbabwe owns its policies, but history tells us that they are contradicting economic rules. It is important for the Bank, as any donor agency, to have the option to reduce aid programs when it is not satisfied with the performance of given policies.

With regard to transparency, the Bank has been very forthcoming in disclosing all its internal documents. But one has to understand that governments also have their share of key documents, and the Bank cannot force them to disclose them against their will. The Bank is not as powerful as everyone thinks. Pushing for more transparency is perhaps the role of civil society in the respective countries.

Jean Somers came back to the Debt and Development Coalition Ireland report and reacted to some of the comments Mr. Adams made on the topic of privatization. She wondered if there was a policy space in terms of approaches needed to strengthen the public sector, and whether the Bank's answer is always in the direction of privatizing, liberalizing, and possibly restructuring. She quoted the World Bank's paper on the content of conditionality which highlighted that there had been a change in the nature of conditionality in relation to state enterprises with a greater emphasis over time on privatization rather than restructuring. This paper also showed that conditions on utility privatization have increased consistently since 1980.²

QUESTIONS AND COMMENTS (second round)

1. I would like to raise the definitional issue of conditionality. Why does that World Bank maintain that benchmarks are not conditions? They still are conditions, just not legal ones. But benchmarks still affect behavior and the decision making of the borrower. Therefore they indeed mould the lending process.
2. Regarding the issue of privatization and Mr. Shawa's comment about conditionality with a human face: while the way conditions are phrased may seem clear to the technocrats, the point is that they directly impact the public. That is why they should be made more understandable, and transparently adopted.
3. (To Mr. Adams) Our organization is very concerned about the issue of conditionality. There is evidence that the Bank supports budgetary restriction in public sector spending. This is unacceptable in a situation where 30.000 children die every day, while the number of conditions continues to increase.
4. (To Mr. Adams) The reason why there appears to be a decline in conditions is because of redefinition of some of them, and because they are made to sound as mere guidelines for engagement. But the bottom line is that if governments do not follow these guidelines, the country's aid is cut off. Moreover, there has been a study recently that shows that there is no policy ownership in many countries. This makes conditionality undesirable. Another issue is how exactly does a trade conditionality get defined. For instance, the WTO has 20 trade policies. We call any World Bank condition a trade condition if it relates to the WTO. The Bank does not, but it is a really just a semantic distinction.
5. Can you discuss the situation when the IMF and the World Bank both impose conditions that end up are contradicting themselves?

² The Ms. Somers referred to: Content of Conditionality in WB Policy Based Operations; Public Sector Governance, Privatisation, User Fees and Trade June 05

Stefan Koeberle addressed the issue of the increasing use of benchmarks in policy-based loans. He questioned the rationale behind simply counting their number and providing this as a relative statistic, as this number by itself does not say very much. The more important concern should be what their substance is. He acknowledged however, that the Bank has a certain problem with its staff “discipline” in regards to introducing sectoral benchmarks due to the decentralized nature of the Bank’s operational structure. The rationale and methodology for conditionality should aim for greater consistency as their use can sometimes differ from project manager to project manager.

He also briefly discussed the problem of cross-conditionality, which occurs when conditions in the World Bank are directly dependent on conditions in the IMF program or vice versa. This is something that should be avoided, The Bank is also trying to reduce duplication and overlapping where possible. Different interpretations by staff can happen in the Bank’s and IMF’s work, but both institutions should aim to avoid discrepancy in the use of conditionality in programs of each organization.

Mr. Adams endorsed the point Jean made in respect to the need to work on better defining the policy space. He emphasized that the Board of Executive Directors has its idea of how the Bank ought to proceed as well, and it is necessary to take the governance structure of the Bank into account. He continued to defend some of the commonly criticized cases of Bank operations that have been raised during the dialogue. The instance of exchange rate conditionality had an extremely positive impact as it thus far prevented the oil prices from soaring, and it has been a principle tool against corruption. In Zimbabwe, the reduction of inflation has made a tremendous difference. Tanzania has not faced severe food shortages since the Bank recommended that improved agricultural commodity policies be adopted by the government. There is still a lot of fragility in Africa, yet we also witness gradual improvements and more stability.

QUESTIONS AND COMMENTS (third round)

1. I think it should be acknowledged that the Bank’s best practices have improved. I was wondering if civil society participation has been required in the Africa Action Plan.
2. The Bank is in a much stronger position than civil society organizations vis-à-vis governments. If the Bank makes a suggestion, the impact will be much greater different than when a CSO makes it. Any disagreement with the stated policy of the Bank can lead to reprisals. This is apparent especially in the case of Country Policy and Institutional Assessments.
3. I would like to go back to the case of Tanzania and the agriculture reform. While it is true that Tanzania has not had outright famine in recent years, World Food Program research shows that the average daily caloric intake for poor people is about 300 calories per day. When the World Bank-designed reforms were introduced, the number of people with this low level of caloric intake actually increased to 45%. This is not something the civil society can consider a “good result”.

4. I understand that there are no clear guidelines in how benchmarks and conditions should be introduced in projects. Are you actually saying it depends on the personality of the Bank employee how much conditions will be required from a country?
5. It seems like the Bank feels it can defend anything. Can you name at least one policy that you admit has not worked well?

Mr. Adams began by noting that there has been a household survey from Tanzania that does not support the low caloric intake data the questioner presented. With regard to policies that did not work, he cited the approach to pursue cost recovery in the social sectors (i.e. use of user fees in education and health) in Africa. Many in the Bank and government felt that this policy would allow for self-financing and sustainability of these services, but since it has clearly not worked the Bank and many governments have backed away from them. It is not advisable to listen to people who claim to have all the answers. The Bank has learned that it doesn't necessarily have the answers and that development is complex, but nonetheless is making progress in providing sounder policy advice and more realistic and effective conditionality.

With regard to privatization, the Bank does not deny that the privatization of water has not always had the same positive results as that of the telecommunications area. Sometimes, however, there are crisis situations in which Bank staff and government officials are operating under intense time constraints. The space for consultations and dialogue in these situations is much smaller, and the corrective policies need to be applied right away. He noted that when he was working in Africa during the oil crises of the mid-1970s and 1980s, governments and the Bank only had weeks to try to stem severe currency losses and stabilize the economy. Obviously, some mistakes were made then in these situations and the Bank should not downplay its part in these decisions.

Ms. Somers said that it is very important that Mr. Adams acknowledged that there are indeed problems with water privatization. It would be good to include this recognition in the review reports. There is still a lot of anxiety within the civil society with regard to water privatization issues. It needs to be discussed much more broadly, however, and it is thus good news that the Bank is open to debate on this issue.

In his final remarks, Mr. Koeberle underscored that the Bank will put strong emphasis on monitoring the use of conditionality and will undertake a review of implementation a year from now. He emphasized the importance of encouraging Bank staff to adopt the provisions contained in the good practices principles.

Mr. Shawa reiterated that he hoped that participatory approach will be reflected in all aspects of the Bank's work, and that it will continue to engage with civil society, while working more closely with parliaments and governments.

In conclusion, moderator Peter Bakvis welcomed the fact that this debate will continue, and expressed hope that the Bank will put focus on the reduction of conditionality as well as focus on the "criticality" of conditions. He noted that all participants will be waiting

for the annual review of conditionality to ascertain whether their application is indeed following the new policies. He then thanked the panelists, participants, sponsors of the session, and concluded the meeting.