

CONSULTATIONS ON CONDITIONALITY IN WORLD BANK POLICY OPERATIONS AND
THE IMPLEMENTATION OF THE GOOD PRACTICE PRINCIPLES

CONSULTATIONS WITH GOVERNMENT, DONORS, AND CIVIL SOCIETY
IN MOZAMBIQUE

AUGUST 24TH and 27TH 2007

HOTEL VIP
MAPUTO

REPORT OF PROCEEDINGS

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ABBREVIATIONS (IN ENGLISH)

ANE	National Roads Administration
ANFP	National Civil Service Authority
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CS	Civil Society
CTA	Private Sector Association
GDP	Gross Domestic Product
GDI	Governance Development Institute
GM	Government of Mozambique
GMD	Mozambican Debt Group
G19	Group of 19 budget and programme support donors
ICA	Investment Climate Assessment
IESE	Institute of Socio-Economic Studies
IMF	International Monetary Fund
ISRI	Institute of International Relations
LAM	Mozambican Airlines
MoU	Memorandum of Understanding
PAF	Performance Assessment Framework
PARPA	Plan for the Reduction of Absolute Poverty
PEFA	Public Economic and Financial Accountability Assessment
PER	Public Expenditure Review
PRSC	Poverty Reduction Support Credit
PROAGRI	Agricultural Sector Support Programme
PS	Private Sector
SAA	South African Airways
UNAC	National Union of Small Farmers' Associations
WB	World Bank

1.0 EXECUTIVE SUMMARY

The World Bank Mozambique Country Office undertook a consultation review on conditionality in two meetings with its partners – government, other development partners, civil service organizations and the private sector. The review was undertaken on the 24th and 27th August 2007, in two meetings, one with government and donors, and one with other development partners, respectively.

The main objectives of the consultations were three-fold: (a) to review progress in the application of good practice for the 2007 implementation report; (b) once again to listen to borrowing countries in order to refine practice on conditionality; and (c) give voice to a broader range of in-country stakeholders – especially the civil society and private sector organizations.

The consultations promoted well the Bank's efforts in Mozambique to create dialogue, learn what works and prepare to take the "lessons learnt" into the next generation of PRSCs in order to serve its clients better. It was strongly felt that such consultations should be regular and incorporate the wider matrix of stakeholders in the development process. Apart from creating increased awareness of the Bank's mandate and portfolio, these discussions created an important forum to build a coalition of ownership of country programmes. They built a base for the Bank to change style in the way it interacts with its clients.

The two meetings were different in character and are thus reported separately below.

The key messages centred on the following:

- the consultations were welcomed by all participants as providing a more informal and transparent access to the Bank to discuss hot current issues of development policy and of Bank operations
- the consultations were considered to be an important step forward in the Bank improving its predictability and transparency and opening up for development dialogue
- for the consultations to play this role properly, the Bank was urged to ensure that they be called with sufficient prior notice and with regularity
- of common concern was the hope that such dialogue would lead to more space for stakeholders to participate in and influence the making of development policy
- many participants expressed their support for the full application of the five principles, noting that in Mozambique the Bank had come quite far in applying some of them in its policy lending operations
- most participants strongly recommended that the principles be applied to other Bank operations also, such as sector, programme and project lending: the Bank's refusal to use national instruments, such as the new (Bank-assisted) procurement system, was cited as a particularly prominent example
- some voices considered that the Bank's evaluation of criticality was shaped by its own current policies and that the really critical issues were being bypassed as a result, among them, the need for relaxation of macro constraints on social sector investment, and the need for consideration of other economic policy models, in particular, ones prioritising investment in industrial growth and the productive sectors

- a number of voices considered that the policies being applied had failed to create broad-based growth in Mozambique: the level of poverty, the very high levels of unemployment and of malnutrition were cited as indicators
- there was some concern that the perceived relaxation of conditionality had led to process benchmarks taking over and too low demands being placed on Government as regards the contents of reforms and activities.

In general, as may have been predicted, the government spokespeople were closer to the changes in Bank style taking place and felt more strongly that these changes had made a significant improvement in relations and in results. Their evaluation was that the five principles were being applied to policy lending in practice, with some areas of exception (e.g. the CPIA), and they urged their fuller application and their extension to other areas of Bank operation.

Spokespersons for the civil society and the private sector were not convinced that significant changes had yet taken place. These representatives were also highly supportive of the five principles per se, but considered that they were much further from being realized in practice. They obviously considered that the policy arena was not easily accessible for dialogue, participation and influence, and strongly urged the Bank, the country's other donors, and indeed their own government, to make more space for meaningful development dialogue.

Evidently, not all the opinions from the stakeholders were compatible with each other. However, all were calling for further progress in application of the principles, and all wanted to become as constructively engaged in the resulting dialogue as possible.

2.0 BACKGROUND, OBJECTIVES AND METHODOLOGY

2.1 BACKGROUND

The World Bank undertook a review of conditionality in its policy-based lending in 2005. The process included a set of wide-ranging consultations during the first half of 2005 with borrowers, donors, and other stakeholders. The resulting conditionality review paper proposed a set of good practice principles for the application of conditionality, which were adopted by the Development Committee in September 2005. A first progress report on the application of these good practice principles was discussed by the Board of Executive Directors in December 2006. During this discussion, several Board members requested that another progress report be prepared within 12 months and include substantive engagement with borrowing countries.

In line with the above, the World Bank Country Office in Mozambique organized two meetings, one with government and donors, and a second with partners from the civil society, the private sector and the political establishment, to seek input and comments for the review. The meetings were held on the 24th and 27th of August, respectively, in accordance with the guidelines for the proceedings.

The World Bank has a long lending relationship to Mozambique dating from the mid-1980's. Within the late 1980's and the 1990's the Bank carried out conditional structural adjustment lending oriented towards macro-economic stability, creation of a market economy, down-sizing of the public sector, and privatization of previously nationalized companies, banks and other utilities. Its operations were not always uncontroversial and some of the more radical

policy conditions continue years afterward to excited comment and criticism in the media and in government and private circles. Since the turn of the century, the closure of the HIPC process and the increased harmonisation and alignment of the country's external financiers have created a more rational and transparent financing environment, in which the Bank has come to participate actively, inter alia holding by common agreement a permanent place on the Troika+ of the Programme Aid Partnership incorporating 19 donor countries and agencies.

The Bank has engaged in policy support lending to Mozambique in the form of harmonised and aligned balance of payments support since PRSC 1 (2004) of 60 mUSD, PRSC 2 (2005-2006) of 120 mUSD, PRSC 3 (2007) of 70 mUSD, and PRSC 4 (approval in 2007 for 2008) of 70 mUSD. Besides this, the Bank has broad project and sector programme lending to Mozambique, inter alia in Agriculture, Roads, Health, Education, and Governance.

The Bank has undertaken regular analytical work with participation from the government and often partnered by other donors, including a CFAA (2001), a CPAR (2003), a PER (2003), an ICA (2003), a CEM (2005), a PEFA (2006), an Agricultural Development Strategy (2006) and annual measurement of Doing Business Indicators (2005-2007).

2.2 OBJECTIVES

The main objectives of the consultations were three-fold: (a) to review progress in the application of good conditionality practice for the 2007 implementation report; (b) once again to listen to borrowing countries in order to refine practice on conditionality; and (c) give voice to a broader range of in-country stakeholders – especially the civil society and private sector organizations.

2.3 METHODOLOGY

The consultations were held with the two different focus discussion groups of Government officials and Development Partners (donors); and private sector and civil society organizations. Consultations were held on a different day for each group.

The consultations were facilitated through key documents circulated with invitations (Review of World Bank Conditionality, a preliminary set of guiding questions to be discussed, and a PowerPoint presentation by the Country Lead Economist to clarify the subject matter). The PowerPoint presentation was followed by a discussion and consultation session facilitated by the Head of Cooperation of Norway, current chair of the Programme Aid Partnership, with the Head of Cooperation of Sweden as rapporteur.

The discussion focused on the Bank's compliance in Mozambique with the five good practice principles adopted by the Development Committee of the World Bank. The five principles are: (a) Ownership; (b) Harmonization; (c) Customization; (d) Criticality; and (e) Transparency and Predictability. Opening was also provided for broader commentary on the Bank's operations in Mozambique as a whole. The discussion sessions after the PowerPoint presentation were interactive and provided a reasonable opportunity for the World Bank to listen to stakeholders' comments and advice and answer some questions. A commonly-voiced concern was that the preparation time allowed had been too short.

3.0 VOICES OF GOVERNMENT AND DONORS

At the first meeting 28 people attended (see Annex 5.1 and 5.2), comprising 2 from the Bank, the chair and rapporteur, 7 representatives of other donors, and 17 government officials representing 12 government agencies.

3.1 GUIDING PRINCIPLES: SUMMARY OF POSITIONS

The interventions could be split into two components: one, those directed towards the broader and longer-term comportment of the Bank in Mozambique, and the other, the Bank's observance of its conditionality principles within its policy lending.

The Planning Ministry initiated by stating that over the past 5 years there had been clear progress and reform within the Bank, with more space for the beneficiary countries to exercise influence over cooperation decisions. Conditionality had previously been a headache for the Government of Mozambique (GM), but the exercise of the five principles had reduced the pressure leading to better ownership by the partner agencies. The Bank is meeting the Paris principles and respects the plans presented for financing without making impositions. If GM thinks its priority is infrastructure, the Bank today does not act in opposition. There is a clearly better harmonization between national plans and the Bank's policies.

The Bank of Mozambique indicated that there were improvements in conditionality, bit by bit, and perhaps the present consultations would reveal even more progress if they were to be held a bit later. The phase of impositions has been passed and now in the Annual Joint Review the performance matrices are developed in consultation between GM and donors.

However, looking a bit more broadly, it was still puzzling that the Bank had aligned in this area but was still non-aligned in others. For instance, he had not heard of anyone in GM being consulted about the ratings given to Mozambique in the CPIA process. He thought it odd that the Bank had directly participated in the reform and implementation of a new public procurement system for the country, but still did not apply it in its own projects. Why should the Bank review all purchases itself and make its no objection compulsory, when the country also has a system whereby the Administrative Tribunal reviews all procurements before they can be contracted?

The reform of the Labour Law had been a sensitive operation requiring broad consultation, and maybe the Bank had had too much influence. There were expectations that the Law would contribute to increased employment, counteracting the years when so many people had been laid off during previous (structural adjustment) policy reforms. He wondered if that had been achieved, and on the other hand, if he himself became an entrepreneur, he wondered if he would feel ownership of the new Law.

Nonetheless, in general the Bank was now more consultative, prioritised good governance, and communicated in better ways to ensure ownership of conditionality. It was a pity that the invitation to these consultations had come so late, or he would have prepared better.

A participant from the Ministry of Trade and Industry remarked that she had no direct insight into the Bank's lending operations, but thought from the presentations and the observations made that improvements had been done. The reforms noted were important ones for good governance in the country.

Regarding the Bank analysis of Doing Business, she did feel, however, that unjust standards were being applied to Mozambique. The rating did not take into account the improvements being made, nor was it sensitive to the country context. The rating process should be open to discussion, especially the content of the questionnaire, and more transparent. She doubted in any case that it was possible or correct to compare countries on the business environment; what did it really mean to be placed on a given position on the list? At the same time, a low placing could be very damaging for the country.

A participant from the Tax Authority considered the conditionality principles to be important for countries to own their programmes. Without them being applied there was no guarantee of sustainability and continuity. In their experience of working with the Bank and the IMF on tax reform, they had noticed that the recent missions were more open on conditionality, and he felt the success of the reform was due to the missions being prepared to accept what the Tax Authority wanted to do.

A Commissioner from the National Civil Service Authority (ANFP) said she had limited exposure to negotiating with the Bank at the policy level, and she only saw the final agreements, but she thought that there were positive differences today, as well as a better and more informal dialogue.

However, in implementing the agreements, there were still questions to be asked about the operational issues. For instance, in the matter of procurement, the Bank should stick to the same principles. The donors were integrating the methods used in executing the state budget into their assistance but the Bank remained outside, with its own manuals and procedures, using a parallel system with different instruments. She urged the Bank to align its operations with the annual Plan and Budget and the legislation of the state.

A representative of USAID countered that when the Bank and IMF had first supported Mozambique they had had to insist on painful economic adjustments being made. If they had approached that task with the principles being applied today, nothing would have been changed at all. Indeed, by being demanding they had managed to support a small but important group of reformers in the state, who needed the backing of that kind of hard conditionality to get difficult reforms pushed through.

The second-generation reforms of today also needed some pressure, e.g. to improve the business environment. Taking the example of the Labour Law: a better law was necessary than the one passed, but this time round there had been no content conditionality and the chance had been lost. So the donors are going to finance poor policies, and the GM would lack incentives to make changes. Harder conditionality could have poised a counterweight.

The ANFP commissioner noted there was no content condition on the Law, only a time limit condition in the PAF, to get the work done in reasonable time.

Greg Binkert (WB) explained that the Bank had only had the introduction of a new Law as a benchmark, not a condition, as it was recognized that its negotiation would be time-consuming and difficult.

The Counsellor from DFID remarked that the process used to choose and agree on targets and commitments was very important for the GM. There was no sense in the Bank imposing targets. The current practice of using commonly agreed targets from the PAF was much better, and meant the Bank used sensitive and realistic measures rather than over-optimistic ones. The donors consider that compared with other countries in Africa the Bank in Maputo has the best alignment between its PRSC and the PAF. It is a pity that the Bank's procedures still do not allow it to lead on predictability, as it still could not confirm its commitments for the coming year on schedule within the year in course, which is contrary to

the terms of the common MoU. This is a Washington problem, which, as the Bank is a very big donor, creates instability and requires correction.

There was still some doubt whether the Bank and the IMF were taking full consideration, when setting their conditionality, of the total picture of conditionality, including that of other donors. The Bank could be more active here. In relation to IMF processes, the Bank should more actively take the lead to streamline coherent conditionality. It could do the same towards other donors also.

The participant from the Ministry of Mineral Resources supported this, saying the IMF led four missions a year to the country and each one left behind matrices and time limits, which were not coordinated with the conditions of other donors.

Greg Binkert (WB) pointed out that there was an ever-increasing harmonisation between the donors and the IMF, and said it is now a principle that the IMF must consult with the Bank on sector questions and conditions. Despite having made good efforts to adjust the timing of its missions to the common cycle, the IMF's work was still affected by timing problems, and this could be what led it to setting different time limits, targets and benchmarks.

The Planning Ministry complained that the CPIA evaluation of Mozambique made by the Bank the previous year had not been very positive. The evaluation had been done solely by Bank technicians, without any consultation. Also an evaluation of the performance reported in the PAF at the Annual Joint Review was done separately by the Bank on a selected subset of indicators, which could mean a poor evaluation that missed the important progress made on other indicators. The country had been fully consulted in the Bank's CAS 2007-2011 process, but not on the evaluation of the PAF.

The Bank could also be more coordinated with other donors, and encourage other donors into co-financing with the Bank. The Bank has a comparative advantage for large-scale projects, e.g. in infrastructure, and should encourage others to join in with them (which the Bank's use of parallel systems does not help).

The participant from Ireland confirmed that in the area of budget support, the Bank in Mozambique is very well aligned and participates closely with the other 18 donors in the group. However, in other areas the Bank was not managing so well, and it should make more effort to do so. In relation to the IMF, efforts are being made to improve coordination, with some success.

Canada's representative agreed that the performance of the Bank in Mozambique was a good example for the rest of Africa. He noted however the problem of late confirmation of commitments and not very predictable disbursement. The Bank's practice of pre-selecting a subset of 9-12 indicators within the PAF for its own performance rating created the problem that poor performance on those could lead to an unbalanced rating overall, and thus also to unpredictability. He proposed more flexibility in the Bank's indicator rating, based on the criticality principle.

The Chair summed up that there was agreement that the Bank was doing well in Mozambique on the policy lending level, but less well operationally within the sectors.

From the Roads Administration (ANE) it was reiterated that at sector level the issue of procurement was a big problem. ANE has several donors, each of whom used to use their own procedures. But now all except the Bank have agreed to use national procedures. On disbursement, the Bank is the biggest donor in roads, but its procedures for making payments are long and difficult and problems have arisen.

There is also some general friction in the relation between GM and donors on the setting of priorities; if ANE wants to tar a road and the donor-financed feasibility study says the road is not economically viable, the GM priority does not get recognized. But the studies made are all done on false extrapolations from the current level of traffic on impassable roads. More flexibility is necessary in dialogue on these matters.

A participant from Mineral Resources put the issue of institutional capacity building on the table, noting that the Bank did a lot of project execution in Washington by itself and that this led to delays and lack of learning in Maputo. When a Bank programme officer is away on a mission to another country there can be months of delay in disbursements. He also pointed out that the practice of setting up Project Implementation Units and contracting people from outside the ministries to staff them was against Paris principles and not good for developing institutional capacity in the ministries.

He noted that Bank requirements for counterpart funding of projects by GM also created problems. Obtaining a waiver could be a very lengthy process and paralyse the project.

The Chair asked the Bank to explain its position.

Greg Binkert (WB) noted that an intensive discussion on the full use of country systems was going on within the Bank, but that no decision on change had yet been taken. The Bank in Maputo would be moving to putting more of its project funds through the Treasury, which would lead to greater use of the country's financial management system.

The Roads Administration repeated that the question of procurement was a major issue and he hoped these consultations would send that message to Washington.

The representative of the Ministry of Energy noted that the graphs shown by the Bank on its use of conditionality and benchmarks did show some impressive figures on its reduction of use of conditions, but he wondered just when the graph would reach zero? (Laughter).

3.2 CONSULTATION CONCLUSIONS ON THE FIVE PRINCIPLES

Summing up on the use of conditionality:

(a) Ownership; there was a general feeling that the Bank had acted in Mozambique in such a way that the sense of ownership of programmes was considerably improved. However, at project and programme level, the Bank's continuing insistence on using its own systems is not conducive to a sense of ownership, nor to aid efficiency.

(b) Harmonization; the Bank was improving, especially in the area of budget support, though there are still improvements to be made here in terms of timeliness and predictability. In other areas, much more remains to be done. If the Bank does not come on-system, it also prevents other donors entering into partnerships with it, and this can create more dispersion. The procurement area was shown to be particularly sensitive.

(c) Customization; there was not much reference to this, but the omission made it implicit that the Bank was customizing its conditionality better. The Bank's focus on Good Governance was mentioned approvingly on some occasions. However, the Doing Business surveys were criticized for not being properly context-sensitive.

(d) Criticality; the methods used by the Bank to rate poverty reduction performance, by pre-selection of a subset of PAF indicators, was perhaps not the most flexible way of applying the criticality principle. It could be better to rate the PAF indicators on criticality at the time of

measuring performance, and select those that are really critical. However, this opinion disregards the probable decrease in predictability that such an approach would entail.

(e) Transparency and Predictability; as noted, there has been much improvement, though some procedural difficulties are still experienced in the area of predictability, due to the Bank's central decision processes. There was general agreement that transparency has become better in some ways, though Bank exercises involving country rating at several levels were criticized for lack of participation and transparency; among them, the CPIA, the choice of a subset of PAF indicators to rate performance, and the Doing Business rating.

4.0 VOICES OF CIVIL SOCIETY AND THE PRIVATE SECTOR

At this meeting 34 people attended (see Annex 5.1 and 5.3), comprising one from the Bank, the Chair and the Rapporteur, 28 representatives of civil society (CS), and 3 of private sector (PS) organizations.

4.1 GUIDING PRINCIPLES: SUMMARY OF POSITIONS

A generally stated feeling among the participants was that the meeting had been called at too short notice and that more time would have been needed to prepare properly. Nonetheless several organizations had met and prepared themselves.

It was noted that calling meetings at short notice was a symptom of treating the civil society as a rubber stamp for decisions, rather than as a full participating partner in real discussions. It was underlined that the report should put on the table as the most important issue to be addressed to the Bank, that civil society in Mozambique was thankful to be consulted, and it would be nice if the consultation were done more regularly and with better notice. However, civil society would much prefer, and recommend, that the whole model of its participation in discussion on development policy should be conceived and implemented in an entirely different way. The policy framework should be set up through the real participation of civil society in conceiving and designing an appropriate model, and thereafter its participation should be active throughout the implementation, monitoring and evaluation of the policy framework.

The second priority message sent to the Bank by the meeting was that the participants considered that to a large degree the policy framework agreed upon between the Bank, the donors and the GM had failed to produce the expected results, and was thus in need of drastic revision, with proper public participation in the design of a new one.

The third priority message sent to the Bank by the meeting was the fear of the participants that the policy framework had led to Mozambique becoming more and more aid dependent, and their concern that the proper aim for a policy framework should be precisely the opposite, to make the country less and less aid dependent.

As in the first meeting, Greg Binkert (WB) made a short presentation of the aims of the meeting and the Bank policy changes it was hoping to get commented. The Chair then opened for discussion.

The Mozambican Debt Group (GMD) opened proceedings by saying that the GMD had prepared itself and would present its observations in six points:

1. It was necessary to look back to the previous way of setting conditions, as their effects were still evident. The cashew industry issue had its consequences, among them that there

was still fear of relating to the Bank and still a feeling that there was lack of political space provided for a dialogue of substantially different content to that fixed in the Bank's agenda. The Bank has been a main player in setting the national agenda, through its:

- running of conditionality (e.g. on the cashew industry, or its requirements for HIPC completion)
- choosing of indicators for Bank assistance strategies (e.g. the PRSC, the CPS ...).

This put into question principle 1, ownership, and principle 3, customization.

2. It was the case that joint evaluation of aid effectiveness and performance in Mozambique was being done, but the Bank still took on itself the luxury of making additional own analyses, e.g.:

- unilateral and subjective choice of indicators for assessing the country
- evaluation of issues different from those covered by the instruments of the PAP group
- the subsequent overriding influence of decisions taken by the Board of the Bank, often based on the indicator choices and evaluations made at country level, on the aid provided to the country and on the strategies and policies of the country.

This challenged principle 1, ownership, and 2, harmonisation.

3. The Bank had participated in setting up the new procurement system and rules, and yet did not use them. The question was, was this because of temporary causes, such as the system still being under introduction, or did it reflect Bank displeasure at fatal weaknesses in the system?

4. The Government was obliged to put up its own contribution funds in Bank-funded projects, which had created serious difficulties and delays in project execution.

5. There was a general perception in civil society that a very large part of aid went on external technical assistance, which had very high cost and little observable result. Much of this cost was not transparent, and this made it difficult to measure how much aid the country was really receiving directly. This went against Bank principles 1, 3 and 4. It was suggested that costs for technical assistance should not be included as disbursements made to GM.

6. There is a long history of communication difficulties with the Bank. Even in this case, it was difficult to get access to the PRSC documents, and the CS had been invited in at the last minute. This was not in accord with principle 5, transparency and predictability. Consistent measures are required to overcome this problem.

A Diakonia representative referred to the slide on terminology and asked:

- in relation to a sense of ownership of conditionalities, did GM impose its own conditions on itself or was it the Bank that set the conditions?
- it is true that the number of conditions was shown to have fallen, but the number of benchmarks had risen simultaneously. What was the difference really?
- the kind of conditionality was shown to have changed over time, from macro-issues to governance issues. Was this because the Bank now thought that macro-conditions were wrong to put, or because the macro-conditions had already had their effect and

no longer needed putting? On the other hand, were there no conditions in project lending?

- in the PRSC they had obtained, how had the 12 indicators that were shown there actually been chosen: by the Bank, by the GM, or by consultations Bank-GM-CS?

A member of Ecosida /the Private Sector Association (CTA) said that the PAF was too focused on process and not enough on results. It was true that a new Commercial Code had been passed and One-Stop-Shops created, but the actual quality of the results was disastrous. In the HIV area the situation was very bad for companies, workers were off sick, productivity falling, but the firms had great difficulty accessing the funds the Bank provided through the National AIDS Council. The PS was reliant on government services for coping with the epidemic, but the public sector response was useless, e.g. workers had to wait a month just to get a medical appointment.

A second member of the CTA shared this viewpoint, saying that Mozambique was falling back on its Business Environment rating without anyone taking action. The PROAGRI programme had absorbed 1000 dollars a day and cars and meetings had come out of it, but no increased productivity in farming. The inefficiencies in the banking sector (whose reform is supported by the Bank) cause high interest rates, which means that to take out credit in Mozambique is impossible and foreign firms are thereby favoured. There is no Law on Competition and the practice of state monopolies, such as the agreement between LAM and SAA not to compete in price, is keeping the prices exaggeratedly high. The Bank should not risk its credibility by supporting Mozambique on the basis of process indicators when the results of completing the agreed processes (such as making new laws) were no good.

A representative of the Fund for Community Development repeated the concerns that the Bank had contributed to the new Procurement rules and system but did not use them. Why?

A Christian Council member said in terms of principle 5, that CS was very critical about the provision of technical assistance. It looked like the foreigners took the lion's share of aid and the scraps remained for Mozambique. The funds used could much better be used for our own employment. Dependency is being perpetuated; a basic condition of technical assistance should be that it leads to sustainable indigenous development, but instead it is entirely brought in from abroad.

The Union of Peasant Associations agreed with GMD on the reason for less conditionality today; the GM had already adopted the required liberal policy, so such conditions were no longer necessary. We have been inoculated so the need has disappeared. The state had allowed itself to be weakened, and the process of replacing the state by private interests had led to a deluge of aid and the state living on credit.

He also wondered if the Bank could declare its policy on landholding in Mozambique. The public ownership of the land was in the Constitution but it was widely believed that the Bank opposed this, and could Mozambique then still decide that the land was a public good?

Greg Binkert (WB) answered the questions put. On conditionality versus benchmarks, he agreed that the previous number of conditions was an exaggeration. There are now lots of benchmarks instead, but their non-compliance does not mean that the financing is stopped; they are thus lighter than conditions. Missed conditions required a waiver by the Bank's Board. He agreed that conditions and benchmarks were also used in the 70% of lending operations which are project based. Their effect was usually sectoral, and had not been measured in the current process.

The choice of PRSC indicators was taken from the PAF, which itself was taken from the PARPA strategic matrix developed by the GM. The application of these indicators had been made less rigorous since PRSC 1, as they were no longer used as triggers or prior actions for disbursement. The choices had been made in consultation with GM.

The Bank and donors had been involved in the procurement reform, but they had two objections to the procurement rules: the criteria laid down for national preference (which was by nationality of firm owners rather than by origin of product), and the appeal mechanism. Neither were fatal problems. The Bank's real barrier to using other country's rules was the Bank Board's decision to do prior review of big procurements. The Bank had put the mitigation of fiduciary risk higher than the principle of ownership.

On Mozambique's land, the Bank had no policy. It had an opinion that urban and high-quality sited land should be governed by different principles from rural land. But it considered the Land Law to be good and was mainly concerned that its application was weak.

A GMD member claimed that the procurement question exemplified the Bank approach to thinking things out for other people. He asked what the Bank needed to start listening to people, who are trying to say that it's we who are supposed to be the beneficiaries and we should thus have a say? Maybe a demonstration in Washington? As it was, the Bank still decides everything and our own petty institutions are just left there for us to play with.

Another GMD member posed the question that the Bank assumed that the second-generation reforms in governance etc followed on logically from the first generation of macro-reforms. However the first generation of reforms had had catastrophic impact and what might be better needed was a series of reforms to repair the damage done. Had the Bank consulted with GM on the real priority content of the second generation of reforms?

A member of Oxfam regretted that consultations were too often held to legitimate decisions already taken, not to provide space to influence them. For instance the PRSC indicators had been chosen without consultation, and maybe others would have been better to choose, e.g. to give more priority to education. There is no employment and no security in the country, and the Bank needs to explain clearly what it is achieving.

A participant from ActionAid said it was clear that macroeconomic conditions are necessary but the ones being applied by IMF/the Bank are over-rigorous. They get decided behind closed doors and yet they affect all of us. In particular the development of the social sectors is being halted. The Bank plays a double role: it is in the education sector and knows the needs, and also it participates with IMF in setting the macro conditions which prevent the needs being met. The number of teachers to be employed to meet the needs has not been reached because of the budget ceilings on funding.

A TEIA member questioned the results shown by the Bank in its reports, that the country's development model is successful. He claimed that in terms of jobs and food the situation has not improved at all. He also observed that the way in which donors conduct their aid delivery is an infraction of Mozambican sovereignty and weakens Mozambican institutions. Under these conditions it is to be asked where is the ownership of policy, management, and ultimate responsibility for the future of the country?

A staff member of the Institute for Socio-Economic Studies (IESE) requested answers to four questions:

1. The way in which the Bank decided to assign the country framework allocation to Mozambique? i.e. the calculation of the CPIA.

2. What exactly are the conditions presently affecting the country? i.e. to allow a more concrete discussion on content to be held.
3. Is there a logical progression conceived between reforms of the 1st and the 2nd generation?
4. Has an evaluation been made of the impact of the 1st generation reforms on Mozambique? If the impact was negative, is there any room for the country to change the direction of the 2nd generation reforms?

For example, if we think the trade deficit outside the mega-projects remains very bad, and employment has not recovered, and we say we thus want to abandon the present macro-policy, de-liberalise the economy, and reallocate our aid, would the Bank agree? If we said we really want to get out of dependency, not play around with some reforms in justice, would the Bank say our policy propositions are not solid and we may not make such changes?

Greg Binkert (WB) noted that in the 1990's countries had fallen into enormous imbalances and had to get out of them as nothing worked any longer. On privatization, evaluations show that the approach was successful as regards producer firms, but mixed or poor as regards public utilities. Stiglitz among others has produced very radical criticism of the Washington Consensus. There is more attention now to alternative industrial policy, resulting from the experiences of China and India.

He explained the use of CPIA for rating each country and its access to Bank finance.

He noted countries can reduce dependency and increase fiscal space by improving their taxation rates, e.g. Kenya has lifted its rate to 22% of GDP and requires less aid, while Mozambique is currently at about 14% of GDP only.

It is by demand of the donors internationally that the IMF and the Bank carry out macro-analysis. Countries that show own analytical capacity and prepare well for discussions make much more space for themselves to negotiate. Another factor of importance is that such countries' public administration is efficient. In countries with large-scale corruption various protectionist and other strategies of subsidization only feed corruption.

The IESE member replied that one problem is that the GM works in a sector-isolated way, with the support of the donors, producing strategies for each sector with no holistic perspective. We have to identify the really important things to do and focus on doing them, e.g. industrial policy. Some countries did manage to develop because of coherent industrial policy, but Mozambique has not been given space by the Bank and the donors to try the same approach. The excuse of lack of capacity to justify doing nothing is not acceptable, if there is such a lack it has to be dealt with.

A Progresso representative granted that in some countries the Bank/IMF policies and programmes might have been successful, but she doubted an evaluation would show any success in Mozambique. At least we see none. She was always amazed that the bilateral donors went on giving money to the Bank to keep investing in things that do not work, instead of providing it bilaterally.

The ActionAid representative claimed that the Bank and the IMF had contributed to the incompetence of the public service and the low tax revenue level. Education was not getting enough money and many of the other social sectors were underfinanced too. But Education today did not even manage to spend its budget. Macro-stability is very important but the principle had been imposed altogether too harshly on Mozambique, at the cost of the social sectors and of development.

The Women's Forum representative said the cashew industry experience was indeed long past, but people were still suffering from it today. The Bank needed to base its policies on learning from experience, from listening to what people have to say. To what extent did the Bank go out and see things from the perspective of the local business community? The Bank's private sector support is going into large companies, instead of into small and medium enterprises to support the men and particularly the women there with their small-scale initiatives to achieve their goals. The Bank had done an internal gender audit on its office in Mozambique but a women's perspective was still not coming out as a result.

The GMD requested that this report show that communication must improve. A new dialogue method needs to be introduced, based on nationally built strategies at macro and at programme level. And the support needs to be designed to reduce the need for aid.

Consultation should in the future mean participation in the conception, initial design, implementation, monitoring and evaluation of the strategies. This would mean ownership and much less paternalism. Space needs to be created for the Mozambican civil society to be a valid participating actor, not an object of consultation. Invitations to consultation should mean listening to the responses. We do not want to be called to meetings by the Bank. We want to participate, and to have the Bank accept the risk of us taking part in policy design. We are adults, we take responsibility and we want to be actors in the process. Please tell us what space we have, and can we have, to do so?

It's difficult for Washington to design its model, but what we want and need is Aid Which Reduces Dependency. We can take care of ourselves, which must be difficult for the Board of the Bank to understand. The Bank itself is not an abstract thing either, it is composed of the donor countries which give it the money which it uses. These should exercise the right kind of influence on the Bank.

Greg Binkert (WB) reflected that within the donors' dialogue process with GM there is place for civil society in the working groups, but admitted that this had seldom worked well. As for the Bank, its formal legal partner is the GM. He said the donors needed to work together on finding a better solution.

Influence in general has however to be won. There is a broad range of heterodox thinking within the Bank, making space for alternative ways of doing things. The IMF has recently admitted that it was too restrictive in its macro conditionality. Change is possible, but it needs to be conquered by competent input.

A GMD participant noted that the planning and dialogue reviews between GM and the donors are very high pressure intensive, so civil society has a hard time to participate properly.

As to being invited to participate in the donor-GM reviews, another GMD member said that it was one thing to become integrated into already existing models, and quite another to participate in making a new model. To change the model would change the PAF and the process. The morning's discussion had still not got down to concrete discussions on what the Bank conditionality actually is and whether it ought to be different.

An Oxfam member asked whether parliamentarians had also been invited to attend? The answer was that they had, but none was in attendance.

IESE appealed finally for notice to be taken that there exist competent thinkers and analysts in Mozambique. Some had drawn conclusions about development policy a long time ago, which the Bank and IMF had then laughed at, but were now themselves admitting had been correct. Just recently IMF had admitted that the mega-projects were irrelevant to poverty

reduction. Still the general approach was to prevent the State from focusing resources and policy on the development of the national productive sector.

As evidence of principle 5, the participants requested that the report of proceedings should be distributed to all participants for comment before being finalised and sent to the Bank.

4.2 CONSULTATION CONCLUSIONS ON THE FIVE PRINCIPLES

Summing up on the use of conditionality:

- (a) Ownership; the meeting participants were strongly of the opinion that there was no real ownership of conditionality, as there was no participation in the making of the policies and programmes and thus even less ownership of the conditions applied to enforce them.
- (b) Harmonization; the Bank was seen to be more open in reaching agreement with GM, but was criticized along with the other donors for not allowing broader participation of other partners and stakeholders. The conditions and benchmarks agreed on in the donor-GM frameworks could thus not be considered to have been harmonised with other stakeholders' interests. Perhaps the frameworks were even based on the wrong development model and thus were out of harmony with the country's development needs and circumstances.
- (c) Customization; the participants considered past Bank policy to be unsuccessful in Mozambique, as it was brought in from outside and had proved not to be adequate for solving the problems of Mozambique. The participants strongly claimed the right to participate in designing the frameworks for ensuring progress and measuring the conditions to be set, so that the right kind of progress would be made and measured.
- (d) Criticality; the current choice of conditions, indicators and benchmarks was challenged as being carried out by the Bank without broader consultation and thus quite possibly not being focused on critical issues of high relevance, or on critical processes for producing the most important results. The low rate of investment in education was cited as an example of this.
- (e) Transparency and Predictability; the participants demanded a much higher level and a new kind of communication with civil society and the private sector, and claimed that the methods being used for setting benchmarks, limits and conditions foreclosed civil society participation and insight. They agreed that the principles now set by the Bank for conditionality were much better ones than before, but questioned whether they were actually being applied in the real world, particularly as in practice the processes were not made accessible to civil society insight and intervention.

5.0 ANNEXES

Annex 5.1

Participants: Meeting Secretariat		
Name	Organization	Title
Mette Masst	Embassy of Norway, Maputo	Head of Cooperation
Anton Johnston	Embassy of Sweden, Maputo	Head of Cooperation
Gregor Binkert	World Bank, Maputo	Senior Economist

Annex 5.2

Participants: Government and Donor Meeting		
Name	Organization	Title
Eduardo Alexandre (ME)	Ministry of Energy	National Director of Planning
João Assale (MEC)	Ministry of Education and Culture	Deputy National Director of Primary Education
Michael Baxter (WB)	World Bank	Country Director
Tim Born (USAID)	USAID	Programme Officer
Ana Chichava (ANFP)	Autoridade Nacional da Função Pública	Commissioner
Ernesto Cuambe (TS)	Supreme Court	Head of Cooperation Department
Julieta Domingos (MIC)	Ministry of Trade and Industry	Technical Staff
Constantino Gode (MF)	Ministry of Finance	Advocate
Alice Hamer (AfDB)	African Development Bank	Resident Representative
Paulo Junior (MIREME)	Ministry of Mineral Resources	Geographer
Lotta Karlsson (FI)	Finnish Embassy	Head of Cooperation
Arlindo Alberto Langa (TS)	Supreme Court	Adviser
Patrick Lemieux (CIDA)	Canadian High Commission	Economist
Maria José Lucas (ANFP)	Autoridade Nacional da Função Pública	Commissioner
Anastácio Magombe (AT)	Customs and Taxation Authority	Technical Staff
Félix Massangai (MF)	Ministry of Finance	Economist
Bridget Walker Muiambo (IE)	Embassy of Ireland	Senior Economist
Paulo Mutemba (DNA)	Direcção Nacional de Águas	Lawyer
Agostinho Notice (ANE)	National Roads Administration	Technical Staff
Elias Paulo (MPD)	Ministry of Planning and Development	Technical Staff
Eugenio Paulo (MPD)	Ministry of Planning and Development	Technical Staff
Manuel Paulo (MPD)	Ministry of Planning and Development	Head of Department
Leonardo Marcos Simbine (BdM)	Bank of Mozambique	Head of Service Department
Rachel Turner (DFID)	DFID	Head of Cooperation
Egídio Vaz (DFID)	DFID	Communications Officer

Annex 5.3

Participants: Civil Society and Private Sector Meeting		
Name	Organization	Title
Alice Banze (Oxfam)	Oxfam	Advocacy
Natividade Bule (Ecosida/CTA)	Private Sector Association	President
Ana-Katrina Cabral (GMD)	Grupo Moçambicano da Dívida	Lobby and Advocacy Assistant
Carlos Castel-Branco (IESE)	Instituto de Estudos Socio-Economicos	Director
Marta Cumbi (FDC)	Fundação de Desenvolvimento para a Comunidade	Advocacy and Cooperation Director
Fernando Curasse (ActionAid)	ActionAid	Programme Officer
José Garcia (Oxfam)	Oxfam	Advocacy
Jim la Fleur (CTA)	Private Sector Association	Adviser
Paulo Fumane (CTA)	Private Sector Association	Executive Director
Nelson O. Jeque (CTA)	Private Sector Association	Adviser
Irae Lundin (GMD)	ISRI-CEEI	Head of Department
Eufregínia dos Reis Manoela (GMD)	Grupo Moçambicano da Dívida	Coordinator
Joaquim Manuel (GDI)	Governance Development Institute	Administrator
Rev.Dinis Matsolo (CCM)	Conselho Cristão de Moçambique	General Secretary
Paula Mendonça (ActionAid)	ActionAid	National Coordinator for Education
William Mulhovo (Diakonia)	Diakonia	Program Officer
Salimo Mussagy (G20)	G20	Monitoring Officer
Jerónimo Nafido (GMD)	Grupo Moçambicano da Dívida	Information Manager
Diamantino Nhampossa (UNAC)	União Nacional de Associações Camponesas	Executive Coordinator
Elisabeth Sequeiro	PROGRESSO	Executive Director
Ercílio J. Simão	AT-GPECJ	Deputy General Director
Graça Sumo (FM)	Forum Mulher	Executive Director
António Uqueio	Concern	Journalist
João Uthui (TEIA)	TEIA	Coordinator
Humberto Zaqueu (GMD)	Grupo Moçambicano da Dívida	Research Officer

(Six more participants failed to sign the attendance list.)