World Bank Conditionalities

Poor Deal for Poor Countries

List of Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
CNELEC	the National Electricity Council
CPIAs	Country Policy and Institutional Assessments
CREE	Commission de Régulation de l'Eléctricité et de l'Eau
DPL	Development Policy Lending
DSC	Development Support Credit
EdM	Energie du Mali
EdM	Electricidade de Moçambique
GDP	Gross Domestic Product
GPP	Good Practice Principles
HIPC	Highly Indebted Poor Countries Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFIs	International Financial Institutions
IMF	International Monetary Fund
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
PBAS	Performance Based Allocation System
PRSPs	Poverty Reduction Strategy Papers
PSIA	Poverty and Social Impact Assessment
WDR	World Development Report

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1. Introduction

This report is prepared in the context of a wider European NGO campaign, calling for key reforms in World Bank's use of economic conditions and funding for fossil fuels.[1]

As the largest provider of long-term development finance for poor countries, the World Bank has undoubtedly been one of the main actors in re-shaping the economies of the poorest countries. The most striking mechanism that the World Bank has used to influence countries' economic development has been through the use of economic policy conditions. The World Bank aid-recipient countries are only eligible for development finance if they implement a set of economic reforms, or conditionalities, that have been largely determined by the Bank.

Economic conditionalities' effectiveness, democratic basis and popularity have been questioned by the citizens of the aid-recipient world, the NGOs and the academia for decades. There is now an overwhelming amount of evidence demonstrating that economic policy conditionalities, in the way defined in this report, can be damaging for the poor and leading to unequal or unfair economic development. Nevertheless the lending practices of the Bank remain largely unchanged.

In light of the critical voices and discontent emerging from civil society, donor governments and people in the South, the World Bank made an attempt to demonstrate good will and to rethink all conditionality-based development policy lending. In 2004 the Bank launched a review of its conditionality lending, which resulted in the adoption of several good practices to be linked to conditionalities: ownership, harmonisation, customisation, criticality, transparency and predictability.

On several occasions over the last two years, different World Bank officials have publicly stated that economic conditions are not applied by the Bank any more. Conditionality, however, is not history. Despite the optimistic World Bank-released progress reviews, the use of economic policy conditions (such as privatisation and liberalisation) in development lending remains the normal way of doing business for the Bank.

To ensure an open debate and to give the Dutch public and officials objective information about the World Bank performance remains a crucial task. It is the Dutch citizens, who ultimately provide the Dutch contributions to the World Bank, through the replenishment of the IDA.[2] The most recent contribution of the Netherlands was approved in Parliament in April 2008.

In terms of the debate on conditionalities, there is strong disagreement between the Bank and civil society organizations about whether the number of economic policy conditions has increased or decreased. While most of the

1. For more information, please visit: www.worldbankcampaigneurope.org
2. International Development Association is the concessional lending branch of the World Bank, partly financed by country members.

disagreement comes from the different definitions of term conditionality, it is important to keep in mind that the slight decrease in the number of economic conditions springs from the fact that many of the reforms that the World Bank had planned in the 80s have been implemented and countries are nowadays open and deregulated enough.

An important element of the debate on conditionalities is the diverse position of World Bank donor countries. Critical questions and disagreements are rising in the UK, Norway and Italy. In the Netherlands, the Socialist and Green parties are becoming increasingly critical towards the World Bank's unchanged push for liberalisation and privatisation via conditionalities and funding for fossil fuel projects.

This report presents conditionalities as a method, used by the Bank to implement economic policies, based on a conservative and market-fundamentalist view, rather than on a sincere attempt to reduce poverty in aid-recipient countries. In this context, ASEED Europe, as an organization based in the Netherlands, hopes and insists that the Dutch government demands fundamental changes in the World Bank, as a country stakeholder. The first step in the list of the fundamental reforms that need to take place in the World Bank is the abandonment of economic policy conditionalities.

The Netherlands is the 9-th largest donor in the IDA branch of the World Bank, providing 3% of its funds. The country pays around 5% of its annual development aid budget to the World Bank. Many questions can be raised about the effectiveness of this aid, and more specifically about the effects of the funds channelled though the IDA. Although the Dutch government acknowledges the problems associated with the use of economic policy conditionalities, it has not made an explicit and strong call for a more profound reform at the institution.

Finally it must be stressed that A SEED Europe considers the end of all economic policy conditions only as a step and not an end in itself. This report focuses on the issue of conditionalities as one of the most urgent issues that need to be tackled, in a long process of much needed reforms within the World Bank. A SEED Europe would like to see, and work for, fundamental changes that affect the root causes of social and environmental injustice, rather than superficial and technical improvements. Overturning of the economic growth paradigm as welfare enhancing and poverty alleviating is another example of a fundamental transformation that needs to take place.

In reality, international development aid is a negligible compensation for the past and present plundering and unfair trade relations between the North and the South, especially considering the amounts of money flowing from the Southern countries in odious debt-repayment annually[3]. In fact, economic policy conditionalities put additional burden on poor countries, and belittle the level of this compensation. International aid should be therefore conditional on transparency in spending and direct poverty-reducing and nothing else.

3. http://www.jubileeusa.org

2. The World Bank: IBRD & IDA.

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) -known as the "World Bank"- are two of the lending arms of the World Bank Group[4]. The IBRD was established in 1944 to finance the reconstruction of Europe after WWII. Today, it aims at reducing poverty by promoting sustainable development and providing loans, guarantees, risk management products, and analytical and advisory services. IBRD raises most of its funds on the world's financial markets, being an established bond-issuer after 1947.[5] Established in 1960, the IDA aims to reduce poverty by providing loans that boost economic growth, reduce inequalities and improve living conditions.[6] IDA complements and shares the same staff and headquarters as IBRD. It has become the largest source of concessional loans (credits) and grants for the world's 80 poorest countries.[7] IDA credits have no interest charge and repayments and are stretched over 35 to 40 years, with a 10-year grace period. IDA funds a huge number and variety of projects, from basic health and education, to energy and economic adjustment project and programmes.[8]

IDA is funded through three main sources: repayments from loans, transfers from the IBRD's net income and contributions from IDA donors, called Replenishments. The last Replenishment (the 15th) took place in December 2007.

Over the years the IDA has become the single and most important source of finance for poor countries suffering from large-scale budget deficit.

Before explaining in detail how conditionalities are directly or indirectly imposed by the IBRD and the IDA, this report will set out a broader introduction to the concept.

4. The three remaining are the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Center for the Settlement of Investment Disputes (ICSID).
5. IBRD site: www.worldbank.org/ibrd/
6. IDA site: www.worldbank.org/ida/
7. IDA has recently begun funding debt cancellation through the Multi-lateral Debt Relief Initiative (MDRI), and also provides other types of services to countries, such as 'economic and sector work' (ESW) which is research and analysis work, carried out in relation to specific issues or sectors in a country by the Bank staff.
8. Debt and Development Coalition Ireland & Trocaire (2007)

3. Conditionalities – Basic Concepts

§3.1 Definitions of Conditionality

Defining conditionality is not easy, as disagreement on what classifies as conditionality exists not only between NGO's and International Financial Institutions (IFIs)[9], but also between the World Bank and the IMF.[10] Independent researchers, hired by the Norwegian government to assess the use of conditionalities by the World Bank, define the term as "the application of specific, pre-determined requirements that directly or indirectly enter into a donor's decision to approve or continue to finance a loan or grant".[11] The British development NGO 'Christian Aid' defines conditionality as "the use of loans and grants to secure change in developing countries by making money conditional on the implementation of certain reforms".[12]

The World Bank and the rest of the IFIs use a narrow and technical definition for conditionality, such as: "the specific conditions attached to [the] disbursement of policy-based lending or budget support".[13] The World Bank Conditionality Review uses the following definition: "the set of conditions that, in line with the Bank's Operational Policy (OP) [...], must be satisfied for the Bank to make disbursement in a development policy operation. These conditions are (a) maintenance of an adequate macroeconomic policy framework, (b) implementation of the overall program in a manner satisfactory to the Bank, and (c) implementation of the policy and institutional actions that are deemed critical for the implementation and expected results of the supported program. These conditions are included in the Bank's loan agreements."[14]

Only legally binding conditions can be defined as conditionality according to the World Bank. These could be:

· *Prior actions*: policy actions that a country agrees to undertake before the Bank's/Fund's Executive Boards approves a loan.

· *Tranche release conditions* (floating or regular): policy actions that the country agrees to undertake for the disbursement of loan tranches from the World Bank

In this report, conditionalities refer to the set of mechanisms in the development policy lending that the IFIs use to impose policies, such as market-opening, deregulation or privatization, on poor countries.

9. The International Financial Institutions include the World Bank, the regional devel opment banks, and the International Monetary Fund (IMF)

10. The World Bank includes only legally binding conditions as conditionality, and the IMF generally also includes benchmarks and programs reviews that are not legally binding in the same way as conditionalities (Bull, B. et al (2006))

11. Bull, B. *et al* (2006)

12. Christian Aid (2006)

13. World Bank (2005 a)

14. World Bank (2005 b)

§3.2 Types of Conditionalities

In the debate on conditionalities, there is a general agreement that international aid should come with certain terms attached. Both donors and poor countries' citizens have the right to expect that aid is effectively and transparently used for fighting poverty. It is therefore important to distinguish between the following types of conditionalities[15]:

· *Fiduciary conditionality:* These relate to the financial management and public accountability of the allocated funds. The purpose of fiduciary conditionality is to ensure that the finance is used efficiently and for the purpose intended. Hence, it is an element of regular financial accountability.

· *Process conditionalities:* These focus on the management of funds, or on the process of planning, adopting and implementing policies. In general process conditionalities ensure that certain institutions are in place or that certain participation principles are followed in order to enhance transparency and the representativeness of governance.

· *Outcome conditionality:* Outcome conditionalities focus on the measurable outcomes (such as GDP growth or poverty reduction) rather than on the type of policies implemented to reach them. This form of conditionality is central to the concepts of results orientation in aid and output-based aid. Some NGOs, like Oxfam International and Eurodad, as well as some countries, have started a discussion on the benefits and costs of the potential implementation of outcome-based conditionality. The United Kingdom, through its Department for International Development, for example, argues that: "Using outcomes rather than policies as the basis for assessing progress offers a way of maintaining accountability for the effective use of aid whilst giving countries a freer rein to choose their own policies."[16] Similarly Oxfam believes that the World Bank should "move to outcome-based conditionality, linking aid to a few mutually agreed poverty reduction targets, based on the Millennium Development Goals or national poverty reduction targets."[17]Apart from recognising that it is too early to provide a definitive answer on whether outcome-based conditionality will result in a positive change for the World Bank, the analysers note the potential problems of this approach:[18] "developing countries [...] will be penalized for failing to achieve results for reasons outside their control, such as a collapse in commodity prices [...]. There are also other difficulties, such as the problem of attributing changes in performance when there are time lags in policy implementation, or when a new government takes power. In addition, accurate and timely data may not be available to determine whether outcomes have been achieved."[19]

15. Bull, B. *et al* (2006)
16. UK Department for International Development. Foreign and Commonwealth Office (2005)
17. Oxfam International.(2006)
18. See also: Oxfam International (2006) and Eurodad (2008)
19. UK Department for International Development. Foreign and Commonwealth Office (2005)

· *Policy conditionality or economic policy conditionality:* These include conditions for the implementation of policies that are believed to facilitate the achievement of certain development goals. Funding is not necessarily directed towards the areas of policy conditionality.

The main focus of this report is on economic policy conditionality, as its imposition interferes directly with countries' sovereign right to develop and implement economic policies, especially in the fields of public services and public utilities management.

§3.3 The Definitions of Privatisation and Liberalisation.

Liberalisation refers to any relaxation of governmental regulations in the areas of social and economic policy or political organization.
Economic liberalisation can be:
· *Trade liberalisation*, or the lifting of subsidies and tariff and non-tariff barriers against foreign trade.
· *Price liberalisation*, or letting prices float freely, driven by the market.
· *The restructuring of state-owned or supported monopolies*, or encouraging private sector participation in the production of goods and services previously provided by the state.

Privatisation refers to "the partial or total transfer of property or responsibility from the public sector (government) to the private sector (business) or private persons."[20]

§3.4. Necessity for a Broader Definition of Conditionality

In its popular use, conditionality is more broadly defined and is closely associated with the alleged attempt of the International Financial Institutions to require specific economic policy reforms in poor countries. Many of the IFIs' critics argue that a broad set of monitoring and review mechanisms can also act as conditionalities, although not all of them have a formal impact on World Bank's decision to provide funding. Several NGOs include a wider array of monitoring mechanisms in the term conditionality, such as:

Country Policy and Institutional Assessments (CPIAs). These so-called "indirect conditionalities", are reviews of policies and institutions, that the World Bank conducts before loan negotiation. The World Bank has also admitted that CPIAs may be understood as a form of ex-ante conditionality, which works as follows. Instead of inducing governments to reform or to undertake certain reforms, donors select genuine reformers and provide them with more financing. (CPIAs are treated extensively in the next chapter)

· *Trigger actions*. These are not formally and legally binding. Yet triggers are prior actions which the World Bank expects from governments to under-

20. Bull, B. *et al* (2006)

take, in order to disburse the next set of programme loans.[21]

· *Benchmarks* describe the contents and results of the government's program in the areas monitored by the Bank, and represent small steps in a critical reform process, that would not individually warrant an interruption of funding. Whereas the World Bank argues that the benchmarks are only indicators of the direction of performance, they may be used for the general evaluation of a country's performance, on the basis of which loans are disbursed. That implies that benchmarks in effect can act as conditions.

Importantly, a failure to meet non-binding conditions can lead to punitive actions by donors, such as suspending aid payments and influencing the allocation of future grants and loans. As such, they remain a powerful incentive for countries to implement the policies prescribed by the World Bank.[22]

The next chapters will make an overview of the specific mechanisms that the Bank uses to force economic policies on aid-recipient countries.

21. See the Bangladesh case study, in which the trigger actions play a key role in the privatisation of electricity company.
22. Christian Aid (2006)

4. Economic Policy Conditionality, the IDA and the IBRD

§4.1 The Neoliberal Background of the World Bank

The International Development Association and the International Bank for Reconstruction and Development do not have a legal right to perform political activities.[23] Nevertheless, the conditions that borrowing countries have to comply with in order to access IDA funds are a form of illegitimate political activity.

The World Bank, together with the IMF, has historically interfered in poor countries' internal affairs through the promotion of economic policies with a highly neoliberal bias. Neoliberalism refers to the view that the market is efficient enough to effectively supply the majority of the private and public goods and services. According to the neoliberal view, governments should withdraw from the provision of public services or from capital and market regulation, and should concentrate on assessing and correcting a few emerging market failures instead. The liberalisation and privatisation policies, promoted by the World Bank since the late 80s stem from the idea that quick market deregulation and private ownership provide the most efficient set-up for the production and provision of goods. After the poor results of the neoclassical policy prescriptions in Africa and Latin America in the 80s and 90s however, many economists have cast doubts on the plausibility of the neoliberal model's assumptions, and specifically on the existence of a 'perfect market'. There is also an increasing talk among economists about the trade-off between efficiency and equity, which must be given equal weight by decision-makers, especially in the provision of basic services. State intervention and regulation, for example, are necessary for achieving equity. Yet hardly any of the recent revisions of the neoliberal framework have made their way in the policy advice, pushed by the Bank.

An independent report on the World Bank's conditional lending, performed by the Norwegian government explicitly states that "in the current global context, wherein a neoliberal development strategy is no longer 'the only game in town', the need for policy space should be increasingly stressed."[24]

§4.2 What is Wrong with Economic Policy Conditions?

Although evidence is mixed, it is generally believed that international aid is instrumental for scaling down poverty in poor countries. Rich countries must therefore commit to providing long-term financial assistance and

23. IDA Articles of Agreement. Article V: Operations Section 6. Political Activity Prohibited & IBRD Articles of Agreement. Article IV: Operations. Section 10. Political Activity Prohibited
24. Bull, B. *et al* (2006)

debt-cancellation.[25] The problem arises when highly needed aid and debt relief come with large numbers of inappropriate strings attached. There is a general agreement that certain conditions need to be put in place in the provision of aid. Both donors and poor countries' citizens have the right to expect that IDA flows are effectively and transparently used for fighting poverty.[26] This, as mentioned earlier, is a fiduciary conditionality and ensures the financial accountability of the spending.

What donor countries and the World Bank are not entitled to is to demand the implementation of specific economic policy reforms in poor countries, by using aid or debt relief as the carrot, or the stick. The reasons for that are as follows:

· *Undermined country ownership*. Conditions imposed by donors undermine democratic decision-making in poor countries, i.e. sovereignty, as in order to receive development finance, governments either adopt policies that are unpopular with their citizens or that are locally insensible. The World Bank admits that countries are more likely to implement a policy if they genuinely own it, rather than if it is 'suggested' by the donors. Ownership refers to the implementation, intention and designing of a policy, regardless of the intervention of the Bank.

As often noted by researchers, the use of economic policy conditionality seriously infringes upon government sovereignty. In 2005 for example, the African Commission concluded that development cannot and does not work if policies are shaped by outsiders and forced upon countries, a system which is both ineffective and infringes on national sovereignty.[27] The World Bank claims that the system of Poverty Reduction Strategy Papers[28] (PRSPs) has enhanced country ownership, as they are supposedly written and owned by developing-country governments. This is not the case. The PRSPs are still subject to World Bank and IMF approval, and have to thus incorporate the range of policies, deemed important by the World Bank and IMF – such as deregulation and liberalisation.[29]

· *Unpredictability of the aid*. The suspension or cancellation of aid when countries fail to implement a condition makes the frequency of aid flows unpredictable. Aid that is delayed because of unsatisfactorily implemented economic policy conditions cannot be used for purposes that are vital to a country's well being (such as anti-retroviral treatment to HIV positive individuals, or for the salaries of health workers and teachers). Predictability was one of the five Good Practice Principles that the 2005 Conditionality Review proposed. According to the Bank, satisfactory progress has been made in the field of

25. Although the aim of this report is not to address the reasons for poverty, it should be stressed that rich countries and their ruling elites have historically played an important role in creating the basis for the nowadays highly unequal system of poor and rich countries. Therefore, the provision of international aid is not an altruistic action, but a responsibility.

26. Oxfam International (2006)

27. The issue of ownership will not be extensively treated here. It is worth noting however that the lack of ownership is considered unacceptable by the majority European governments and the World Bank itself

28. The PRSPs, outlining the poverty-reduction programs of countries, were introduced by the Bank after 1999 and replaced the Structural Adjustment Policies.

29. See World Development Movement (2003), (2004) and (2005)

Development Policy Lending (DPL) predictability.[30] However, there are various recent examples that provide plenty of countervailing arguments.

The case of electricity privatisation and cotton sector liberalisation in Mali is one of these. As highlighted by Intermon Oxfam[31], thanks to its democratically-elected government and national poverty plan Mali, as one of the poorest countries in the world, should receive proportionally large aid flows. Mali has macroeconomic stability and a good system of financial accountability, relative to the other low-income countries. Yet, due to the economic conditionality issue leading to unpredictable aid flows, it receives less aid than Senegal, for example, which is richer and scores lower on public finance management than Mali. Another example, from the spring of 2008, is Burundi's debt relief postponement, due to its failure to quickly privatise and deregulate the coffee industry. Coffee is the main source of export revenues to the country.

· *Ineffective*. An increasing number of development scientists are sceptical of the usefulness of aid conditionalities, especially in the fields of economic reform. Carlos Santito[32] believes that aid conditionality is not the most appropriate tool for strengthening good governance in developing countries, especially when built on the assumption that market reform and fiscal austerity or sound macroeconomic fundamentals are indispensable.

· *One-size-still-fits-all approach*. While the World Bank believes that the one-size-fits-all approach, known from the structural adjustment times[33], is passé, policies that disregard the local country conditions and push for blanket deregulation and privatization are still common in the majority of the PRSPs, approved by the IDA. What is more, the Performance-Based Allocation System with its Country Policy Institutional Assessment (CPIA), described below, directly illustrates the one-sidedness of the World Bank policy evaluation approach, based on assessing all countries' policies by the same measure set.

While the Bank argues that adjustment lending is a history, the set of conditions that it promotes has not changed, nor the one-size-fits-all approach in designing countries' poverty reduction programs. Agreement is growing that the Bank economic policy conditions are inappropriate, undemocratic and ineffective, and that aid is more effective when borrowing countries exercise genuine and effective leadership over their development policies and strategies.[34]

30. World Bank (2006)
31. Oxfam International (2006)
32. Santito, C (2001)
33. The World Bank most rigorous imposition of single-sized economic policy conditions took place in the 80s and 90s structural adjustment lending, when requirements related to the opening of markets and the quick privatisation of key sectors were set by the World Bank.
34. For instance, ownership, which counters the imposition of conditions, is the fundamental tenet underpinning the Paris Declaration. The declaration, endorsed in March 2005, is an international agreement on increasing harmonisation and alignment of aid, to which over one hundred Ministers, heads of agencies and senior officials adhered and committed their countries and organisations.

§4.3 Conditions: Increasing or Decreasing

As highlighted in many recent reports, economic policy conditions are still pushed by the World Bank onto the world's poorest countries.[35] It is undeniable that, as a result of the large-scale international pressure, the World Bank has tried to reduce its direct influence on poor countries' internal affairs. The list of explicit economic conditions that the World Bank requires poor countries to comply with, in order to receive development aid has somewhat shortened. Yet this change is insufficient and does not provide much ground for optimism, as fundamentally the Bank practices remain the same. Moreover, the reduction in the number of conditions can be largely explained with the notion that much of the restructuring job has already been done. Poor economies are now open enough and have privatised many of formerly state-owned sectors of the economy. It is nevertheless truly worrying that the push for economic policy conditions in the World Bank development lending persists.

Since the World Bank launched its Review of World Bank conditionality in 2005[36], the discussion between NGO experts and the Bank on whether the number of conditions is rising or decreasing has been waging.[37] The most recent NGO publications point out that the number of conditions in sensitive policy areas is not only constant, but sometimes rising.

The Bank itself claims to have considerably improved its respect with countries' policy ownership in recent years, while admitting that civil society organisations in some countries disagree. The Bank stresses that the average number of conditions per policy continues to be low for both IDA and IBRD borrowers, declining from above 30 in the mid-1990s to about 10-12 in 2005.

"Two years from the implementation of the Bank's Good Practice Principles, more than two thirds of loans and grants (71%) of IDA still have sensitive policy reforms attached to them as conditions. The majority of these are privatization related conditions. [...] 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."[38]

A comparative analysis between the World Bank and Eurodad positions, carried out by the Norwegian government, shows that the most striking discrepancy between the two reports refers to the number of conditionalities in "sensitive policy areas", i.e. in public service provision or in the industries, that either directly or indirectly provide incomes for the poor.

35. Eurodad (2007), Wood, A. (2005), Action Aid International (2006), Oxfam International (2006), Bull, B. et al (2006), Eurodad (2006), Christian Aid (2006)

36. World Bank (2005b)

37. Three recent reports discuss the number of conditionalities in World Bank development lending: World Bank (2007); Eurodad(2007); and an independent analysis comparing both reports: Bull, B. (2007)

38. Eurodad (2007)

Eurodad finds that 71% of the Bank loans include conditionalities in sensitive economic areas, whereas the World Bank report finds only 30%. The Norwegian analysis warns that the World Bank report may be painting a rosier picture than it should, and suggests that a minimum 40% of the Bank operations include conditionalities in policy areas, described as sensitive.

§4.4 Indirect Conditions

Besides the direct economic policy conditions that the World Bank requires countries to comply with, there are indirect requirements for loan access that can be just as powerful. As described in section 3.4, benchmarks, trigger actions and Country Policy Institutional Assessment (CPIA) can be defined as indirect economic policy conditions.

In this section, CPIAs, which are part of the Bank Performance Based Allocation System (PBAS), are looked at more closely and their impact on IDA loan-allocation decision-making is assessed. As an illustration, the countries from the strongest performing quantile, within the PBAS, received four times more resources from IDA-13 than the lowest performance quantile countries.[39] IDA resources are allocated among IDA-eligible countries[40] in accordance with the rules agreed in the replenishment negotiations, thus on the basis of the Country Performance Ratings[41] and, to a lesser extent on the countries' needs:[42]

In terms of the country needs, 50% of IDA portfolio goes to Africa, while special priority is given to vulnerable and post-conflict countries. Larger developing countries have caps on aid allocations.[43] As the Bretton Woods Project[44] and others have highlighted, the population and GNI per capita formula, used for the allocation of IDA funds, is problematic as pockets of severe poverty or high levels of national inequality might not become visible for countries with larger gross domestic product or single-sector investments.

In terms of the Country Performance loan allocation criteria, Performance Ratings are obtained through the Performance Based Allocation System (PBAS) which includes three components: CPIA, Portfolio Performance Ratings and Governance Factor, all of which will be treated below.

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39. Debt and Development Coalition Ireland & Trocaire (2007)

40. To be eligible, IDA borrowers must (a) lack sovereign creditworthiness, (b) have a per capita GNI below the annually reviewed IDA operational cut off-level, which as of July 2004 stood at $895, and (c) must meet certain "performance" criteria set by the World Bank. (Bank Information Center web page and International Development Association, 2006)

41. Estimated shares in total IDA14 resource envelope: Capped allocations to creditworthy-blend countries (20%), Special allocations -regional projects, arrears, tsunami, Iraq- (8%), Performance-based allocations (72%) of which: PBA-CPIA based (62%) and PBA-PCPI based (10%). (International Development Association, 2006)

42. IDA's resources are allocated on the basis of the IDA country performance ratings, population, and GNI per capita, as shown on the formula: IDA Country Allocation = f (Country Performance Ratings2, Pop1,GNI/Cap.-0.125)

43. Minson, A. (2007)

44. www.brettonwoodsproject.org

· The *Country Policy and Institutional Assessment (CPIA)* are based on ratings, prepared annually by the Bank, that assess the quality of a country's policy and institutional framework.[45] The CPIA, as well as the entire Rating System can be considered as a form of "back-door conditionality," as countries are allocated less IDA lending if they deviate from the standards set by the World Bank, or if they favour social protection and curb unemployment instead of market liberalisation.[46] While the CPIA are presented as an impartial recipe for growth and poverty reduction, they consist of ideologically biased policies that are preferred by the World Bank. As an illustration, the formula has a strong bias towards market liberalisation, capital deregulation and scaling down of the state. It is ill-informed to judge all countries' performance by a single measure, such as the CPIA, as no single set of policies for growth and poverty-reduction that suit all countries' individual circumstances exist. Furthermore, CPIAs rely entirely on the judgements of the Bank staff and are not subject to substantial consultations or inputs from the recipient countries. Nor are countries' scores justified by the World Bank.[47]

Countries have to adhere to CPIA-derived policy prescriptions, regardless of their internal development strategies, if they would like to receive external support. Through the CPIA policy straight jacket, donors dominate the direction of policy-making in low-income countries, which limits decision-makers' policy space and undermines democracy.

The rating system has traditionally been highly non-transparent and secretive. The World Bank disclosed the CPIA ratings only in June 2006, after intensive objections from civil society and governments.[48] There is too little debate about the legitimacy of the rating system and the implications of such a system for the policy autonomy of borrowers, especially the low-income ones. Instead of addressing this, donors compete over who has the best rating system.[49]

Importantly, CPIA scores are also used outside IDA, by other agencies, who take the scores as an indication of performance. That amplifies CPIAs impact and importance.[50] Finally, as a word of comparison, were the USA or the European Union subject to CPIA review, many current economic and political practices would be heavily questioned, and the CPIA score the Northern countries would receive is not likely to be very high.

· *The portfolio performance* ratings reflect the percentage of IDA-funded projects, that are at risk in each country. The ratings are subject to the World Bank staff judgement and to a lack of an explicit evaluation framework. [51]

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45. International Development Association (2006)
46. In the current CPIA formula, labour market flexibility, or the ease of hiring and firing, counts more than twice as much as ratification of international core lobar standards. Minson, A (2007)
47. *Ibid*
48. Still the ratings of IBRD countries are not disclosed. International Development Association. (2006)
49. Alexander, N. (2004) & Powell, J. (2004)
50. Bilateral aid from Scandinavian countries, the United Kingdom, Canada, and the Special Partnership for Africa is drawn on the basis of CPIA ratings. Certain components of the CPIA also feed into the OECD-DAC Aid Effectiveness rating system. Minson, A. (2007)
51. Alexander, N. (2004)

· *The governance factor* is also calculated with a mixture CPIA and portfolio ratings. Several years ago, the World Bank started to talk about good governance, saying that the failure to tackle poverty and achieve higher growth was due to the weak institutions in the developing world, rather than to inappropriate policies. Poor governance, according to the World Bank, had lead to misguided resource allocation, excessive government intervention, arbitrariness and corruption, which have deterred private sector investment and slowed growth. The World Bank good governance concept however, is built upon a distinct set of neoliberal policies, starting with deregulation and liberalisation, that are considered 'good'. Good governance practices therefore include the liberalisation of all markets, scaling down the role of the state and maintaining strict fiscal discipline. Deviation from the so-defined policy set means that countries do not follow good governance.[52]

IDA-Performance Based Allocation System, can be considered as a form of back door conditionality, as countries are allocated less IDA lending if they deviate from the standards preferred and defined by the World Bank.

§4.5 Worldwide Control over Development Knowledge Production

When assessing the impact of the World Bank conditionality lending, it is important to take into account that the World Bank has an enormous research and knowledge generation capacity. The World Bank is the institution with one of the largest research budgets globally[53] and has no rival in the field of development economics. Therefore the Banks' influence is enormous in the production of knowledge and provision of high-level technical advice and scientific know-how in the development field.

A number of researchers and scholars have questioned the reliability of the World Bank-commissioned research. Alice Amsdem, a top scholar on East Asian economies, argues that since the World Bank continually fails to scientifically prove its conclusions, its policy justifications are "quintessentially political and ideological".[54] Regarding the World Development Report (WDR)[55] series, for example, Nicholas Stern, an Oxford professor in economics and former World Bank chief economist says that many of the numbers used by the Bank come from highly dubious sources, or have been constructed in ways which leaves one sceptical as to whether they can be helpfully applied.[56]

An evaluation conducted in 2006 by Professor Angus Deaton reveals that many World Bank researchers are put under pressure from their institution

52. Woods, A. (2005)
53. Goldman, M. (2006)
54. *Ibid*
55. World Development Report (WDR) is one of the most influential and frequently quoted publication in international development. However, it is important to distinguish notoriety and accessibility from quality.
56. Stern, N. (1997)

not to challenge its policies and projects.[57] It is therefore very likely that researchers and analysts are made to pursue their science in a way that leads to an unified policy voice. The Bank's internal authority structure has an impact not only on the selection of research questions, but on who is hired to do research, how consultants are used, who is promoted and whose analysis is legitimated or marginalized.[58]

Furthermore, on topics such as structural adjustment, debt and African economies, the world media depends almost exclusively on World Bank data and interpretations.[59] This monopoly of information production has direct influence on policy makers, scientists, and commercial bodies all over the world.

The World Bank has virtually no rivals in development knowledge production, which creates development data and analysis monopoly. This is infrequently academically criticized. The infallibility of World Bank research and knowledge is therefore strongly questioned by scholars and other stakeholders, who find it liable to bias, donor driven, and lacking diversity in its selection of researchers.

Two forms of economic policy conditionality applied to IDA loans and grants were identified in the last two chapters. This includes both direct conditions and indirect conditions, such as trigger actions, benchmarks and CPIAs. All of them can be defined as ideologically-determined and Bank-driven. As it will be illustrated in the coming chapters. The so-designed and applied economic conditions are often inappropriate, undemocratic and ineffective. It is therefore crucial that special efforts are made immediately to end the practice of tying aid to direct or indirect economic conditions.

57. Debt and Development Coalition Ireland & Trocaire (2007)
58. Goldman, M. (2006)
59. *Ibid*

5. The Debate on Conditionalities

§5.1 A historical intermezzo

The debate on the role of the World Bank in steering economic reforms in poor countries dates back to the structural adjustment policies the World Bank promoted during the 80s and the 90s. These policies have been discussed at large and the evidence of their negative impact on the aid-recipient world is overwhelming. The Poverty Reduction Strategy Papers (PRSPs), introduced after 1999 and replacing the structural adjustment policies, have been subject to similar criticisms.[60]

As a result of the concerns with economic conditionalities expressed by civil society, the World Bank launched a Conditionality Review in 2005, which resulted in the adoption of five Good Practice Principles (GPP). These GPP would strengthen the quality of the Bank's operational policy for development policy lending (DPL). The five principles are Ownership, Harmonization, Customization, Criticality & Transparency and Predictability.

A report of Action Aid from September 2006 makes a critical analysis of the World Bank compliance with the five principles and their performance guidelines, concluding that results are not encouraging.[61] Action Aid concludes that the concept of country-ownership is still not properly respected and adopted in the operations of the Bank. Action Aid attributes the failure to properly implement the ownership principle to the Bank's narrow definition of ownership, lack of proper implementation plan and unchanged incentives of the staff to push reforms. The organisation claims that the Bank staff perceive the principles as a suggestion for improvement rather than a guideline to adhere to. Hence, the fact that controversial policy reforms are pushed without full involvement of the public, or often even in the face of strong public opposition, remains.

Contrary to Action Aid findings, in a report from 2007, the World Bank concludes that its lending is consistent with the country-ownership principle, especially when policy-making in sensitive areas is concerned.[62] The World Bank is confident that sensitive areas reforms are avoided in fragile, or ridden by conflict states, and are only used when evidence for sufficient ownership is present. In short, disagreement between the Bank and the independent observers, on whether the five good practice principles are put into practice, continues.

60. See World Development Movement (2003), (2004) and (2005)
61. Action Aid (2006)
62. World Bank (2007)

§5.2 The Positions of the UK and the Norwegian Governments

The United Kingdom

In the UK, criticism of the World Bank's use of economic conditionalities emerged in the aftermath of the G8 summit in Edinburgh in 2004. The call for debt cancellation gained enormous popularity under the 'Make Poverty History' campaign and interest in the effectiveness of development aid also grew.

In March 2005, the UK Ministry of Foreign Affairs published a paper in which a new approach to aid was proposed. The approach put a great emphasis on the conditions for development aid allocation.[63] Later on, the British government adopted a policy against allocating loans which have explicit liberalisation and privatisation conditions for aid distribution. Yet, the policy did not prevent the UK from increasing their financial support for the World Bank in the 15th replenishment round of IDA. In December 2007, the UK committed to providing 14,39% of IDA's budget and became its biggest donor, surpassing the USA for the first time in history.

Norway

As in the UK and the Netherlands, Norway's guidelines on where and how development aid should be spent is determined by the Millennium Development Goals, agreed upon by the UN in 2000.

Norway is among the most critical countries on the issue of World Bank economic conditionalities. The Norwegian government openly opposes conditions based on neoliberal ideological grounds and has asked independent researchers to investigate the impact of the World Bank's lending policies. The findings of the researches, some of which are quoted in this report, made the Norwegian government to cut back part of their commitment to the 15th replenishment of IDA. Norway keeps pressuring the World Bank to reform and remains a close observer of the institution. The country has also made some of it contribution to the IDA conditional on changes in the fields of economic policy conditionalities.

§5.3 The Dutch Position on Development Aid and IDA

Since 2000, the Millennium Development Goals (MDG) have largely determined the development goals of the Netherlands. These goals are too ambitious to be met by 2015 (the official deadline for the MDG) according to the Dutch minister of development, Mr. B. Koenders. Yet they still function as a general reference for the development policy of the country.

The Netherlands has formulated six goals that provide a framework for their spending on development aid until 2011. Each of these goals is related to a specific sector of the Dutch development policy, including: 'The active and constructive role of the Netherlands in Europe and the World', 'Innovative, Competitive and Active Economy', 'Sustainable Environment',

63. Department for International Development. Foreign and Commonwealth Office. (2005)

'Social Cohesion', 'Security, Stability and Respect' and 'The Government as Alliance and Service Public Sector'.

The Dutch government is generally supportive of the policies of the World Bank and the IDA. The Netherlands is one of the biggest World Bank donors and is investing an increasing percentage of its aid budget in the IDA. The general trend in the Netherlands is to re-allocate money from bilateral to multilateral aid. One of the ways to do so is by giving more money to the World Bank, and therefore to the IDA. The bilateral aid that is given to a number of countries is also always linked to the policies of the IMF and World Bank.

According to the Ministry of Foreign Affairs, the Netherlands has committed to spending at least 0.8% of its GDP on development aid. In 2007, the Dutch government spent 4.725 million euro, or 0.84%. In the spring of 2008, the Dutch parliament decided to make its contribution of IDA budget a 3,0% (from 2.8% earlier) and thus to pay 697,5 million euro for the period between 2008 to 2011. In the negotiations over IDA-15, the Netherlands wanted to make its contribution conditional upon the following criteria:

· *A clear demarcation of the IDA's role in international development aid-architecture including its role in fragile states*. The Netherlands would like to see a more clear role for IDA in international aid.

· *Further improvement of the effectiveness of IDA on the country-level*. That means that IDA should co-operate and coordinate better with other agencies in order to harmonise the requirements for aid allocation. The Performance-Based Allocation System (PBAS) should be revised and updated in view of this criterion.

· *Strengthened financial commitment whilst remaining solid*. That means that IDA should gather enough funds from its donors to maintain a satisfactory financial capacity.

At the end of the IDA-15 negotiations the Netherlands found that all these three requirements where met and raised its contribution to the IDA by 0.2%.

Recently the Green Party (GroenLinks) and the Socialist Party (SP)[64] raised a critical voice about the economic policy conditionalities of the World Bank, and of its funding for fossil fuels. The Dutch Development Ministry believes that there is a lot of improvement to be made in the way that the IMF and World Bank function, and that countries should be in the position to develop their own strategies to overcome poverty.[65]

In general, the Dutch government is somewhat critical of the World Bank policies, without translating its criticisms into specific actions that call for fundamental changes in the institution.

64. Both Groenlinks and the SP asked the Minister to change the Dutch policy concerning the World Bank, with regards to funding for fossil fuels and the use of economic conditionalities.

65. Koenders, B. (2007). Speech to the World Bank

6. Case Studies

This section presents several recent case studies that exemplify how the World Bank still enforces liberalisation and privatisation in aid-recipient countries. The projects described below outline the impact of World Bank policies, focusing largely on the agriculture and energy sectors, which are crucial for poor countries.

§6.1 Malawi: Agricultural Stector

"Because of these conditionalities, thousands of Malawians starved to death, the government was denied its policy space, our National Assembly positions were disregarded, the World Bank disregarded advice and its own findings of the Poverty and Social Impact Assessment (PSIA) and when our government recently reversed the programmes, the World Bank opposed."
Collins Magalasi, Head of Policy, Action Aid International Malawi

Since 1966, the World Bank has provided over 120 loans to Malawi, mainly through the International Development Association (IDA),amounting to about US$3 billion.[66] Some of these loans, which preceded the famine in 2002, came with conditions that required the liberalisation of the agriculture market, and the privatisation of the Agricultural Development and Marketing Corporation (ADMARC). The implementation of the policies met with strong resistance of the people of Malawi and the national assembly.[67] After the resistance, Malawi was declared off-track by the IMF programme, as the privatisation of ADMARC was turned into a trigger point in the IMF Poverty Reduction and Growth Facility, signed in 2000.

The approach of the World Bank to agriculture in Malawi, increasingly questioned by government and other countries in the region in the context of recurrent food crises, has focused on the full liberalisation of the sector.[68] Disregarding all the critical voices, the World Bank has pushed for the privatisation of ADMARC for more than ten years, although some of the World Bank studies had predicted the risks associated with this policy choice for the livelihoods of the poorest Malawians. The Poverty and Social Impact Assessment (PSIA) on the consequences of the ADMARC privatisation,done by the World Bank in 2003,[69] showed that the project would have negative impacts on the lives of rural poor and the vulnerable segments in society, and noted the important role of the ADMARC in ensuring food security and

66. World Bank (2008)
67. Agriculture is the main source of livelihood for Malawians, providing 80% of the exports, and supporting the livelihood of more than 85% of the population. Up to 90% of workers in the sector are women.
68. See for example: Afrodad (2007); World Development Movement (2002); Magalasi, C. (2007)
69. Nucifora, A. (2005)

providing maize during low harvest seasons.

Before its restructuring, the ADMARC was an agricultural parastatal, operating throughout the country, supplying food from its deposits at affordable prices and providing seeds and fertilizers to farmers at controlled prices. In most cases the prices were uniform across the country, thereby providing an implicit cross-subsidy for smaller farmers, and especially for the ones located in remote areas. The process of privatisation and liberalisation, pushed by the IMF and the World Bank, lead to the closure of the majority ADMARC markets in the remote areas[70] and the removal of the agricultural subsidies. Farmers were deprived from access to affordable agriculture inputs. The markets' closure, coupled with the patchy rains, made it impossible for farmers to sell their produce and eventually harvests were reduced.

The implementation of these policies lead to a capacity vacuum in the food security program in Malawi, which could not be compensated by the private sector[71]. In May 2002, Malawi hit the world headlines with reports of widespread deaths from hunger and hunger related diseases. In this framework, in 2003, when Malawi's government needed money to buy food and was not able to obtain low-interest funding from other donors because of being off-track the IMF programme,[72] the World Bank came forward with a $62 million loan for an 'Emergency Drought Recovery Project', that was supposed to help the country avert the hunger crisis. Again, this loan came with the condition that progress on the past loans was made, namely the privatization of ADMARC.

The World Bank was a key stakeholder in this process, but failed to realise that the market was unable to provide food security or support for agriculture production for marginalized groups, who are supposed to be the World Banks' main target.

The report issued by the Norwegian University of Life Sciences acknowledges the benefits of the liberalisation process in Malawi for the foreign investors, domestic elites and traders from the central areas who possess sufficient capital. Yet, the report finds that the marginalised groups and smallholders in remote areas had large financial losses and that substantial part of the population there was close to starvation.[73]

70. 400 out of the 530 rural markets of ADMARC were closed, affecting 1.3 million poor rural farmers. Magalasi, C. (2007)

71. World Development Movement (2002)

72. The rapidly deteriorating relationship between the Malawi Government and its foreign financiers dates back from July 2000, when a Parliamentary Public Accounts Committee published a highly critical report on corruption and fraud within the Malawian Government. In November 2001 some donors, including the EU, suspended their aid programmes. In May 2002 the IMF delayed the disbursement of a loan, and Malawi was also suspended from interim debt relief under HIPC. Other donors, following the IMF, froze development aid to Malawi. (Action Aid, 2002 and World Development Movement, 2002)

73. Sjaastad, E. *et al* (2007)

§6.2 Mali: Agricultural and Electricity Sector[74]

Mali is one of the poorest countries in the world.[75] Like the other Least Developed Countries (LDCs), the World Bank and International Monetary Fund required that Mali implements a number of sensitive economic policy conditions, among which the privatization of electricity supply, the removal of support for cotton farmers, the privatisation of the cotton sector and the liberalisation of cotton price.

· *Electricity privatisation*

In 1998, the World Bank and the IMF made the fast privatisation of the Malian electricity provider a condition for debt relief, which the county expected under the HIPC initiative. Energie du Mali (EdM) was in financial trouble and needed massive maintenance and extension works. The adoption of a privatisation law for EdM had to be completed by October 1998. EdM was finally privatised in November 2000. The state retained 40 per cent control and the rest became private, with the largest part going to the French company SAUR.

In 2003 the electricity and water regulatory authority, the Commission de Régulation de l'Eléctricité et de l'Eau (CREE) accused SAUR of falsifying its books. In 2005, after disagreement between the company and the state, the company pulled out, and the water and electricity were renationalised.

This brief period of private ownership was characterised by some increase in the electricity network coverage in relatively affluent areas and no increase in the rest of the country, including rural areas. Substantial price increases took place in spite of the continued state subsidies to the company in the form of tax rebates.[76] Two years after the date of the privatisation, electricity coverage in Mali still remained as low as 13 per cent.

Privatisation was pushed through even though ownership of the reform was clearly lacking in the first place. This is openly acknowledged in a World Bank study, saying that the Malian authorities strongly opposed the privatization of the EdM.[77]

· *Privatisation and price liberalisation of the cotton sector*

Cotton production is integral for the economy and society of Mali, which is the second biggest cotton producer in sub-Saharan Africa. A quarter of all Malians earn their living through growing cotton, which until 2004 was Mali's main export. The sector was partly state-owned and partly privately

74. Most of the information for this case study has been obtained from Oxfam International (2006)

75. The country has the highest percentage of people living below the poverty line in the world. Ninety per cent of Malians survive on less than two dollars a day. Twenty per cent of the children will not live beyond five years and one in eight cannot read or write (UNDP, World Human Development Report, 2005). Yet, in a World Bank and IMF assessment, Mali scored the highest out of all the Heavily Indebted Poor Countries (HIPCs) on the soundness of its public financial management systems.

76. These price increases made the Malian electricity the most expensive in the region. (Oxfam International, 2006)

77. World Bank (2001)

owned and the organizational set-up guaranteed farmers not only with a minimum price at the beginning of the season, but also access to credit, fertilizers, tools, and services like rural health and education facilities. Since 1998 the World Bank and the IMF have made all their aid and debt relief to Mali conditional on the privatisation of the cotton sector and the bringing of the cotton price in line with the world markets. The conditions have been present in all subsequent lending of the World Bank and the IMF, and remain in place today.

Since 1998, the Malian cotton industry has faced several severe financial crises. The main factor behind them has been the sharp decline of the world cotton prices.[78] When the World Bank and the IMF demanded the privatisation and deregulation of the sector, Malian farmers were directly exposed to the low world market price, distorted by the subsidies obtained by the farmers in the rich nations. In January 2005, after substantial pressure by the World Bank, the Malian government had to agree on introducing a market-based cotton pricing mechanism. [79] After the liberalization of cotton price in 2005, it dropped by 20 per cent for three million Malians who depend directly on cotton production for their livelihoods. As a result, food insecurity and farmers' debts escalated.[80]

In 2005, the World Bank openly acknowledged that government ownership of the reform was weak, saying that the current commitment to the privatisation and liberalisation program in banking, cotton, transport and telecommunications could be insufficient.[81]

Interestingly, in 2005 the European Commission (EC) and the Dutch government increased their budgetary aid to Mali, in recognition of the fact that the government was facing a larger deficit than normally due to the cotton crisis.[82] The Commission, unlike the World Bank, did not punish the government for supporting the cotton sector and instead tried to help. Nevertheless the EC, along with most of the other donors, continues to tie their budget support for Mali to the IMF programme and its conditions.

The economic conditions described above have undermined policy ownership in Mali, directly delayed aid flows to the country and facilitated the increase of poverty there.

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78. Since 2003, as part of a group of cotton-producing countries in West Africa (C-4), the Malian government, along with the governments of Benin, Burkina Faso, and Chad, have been battling at the World Trade Organization to end the trade-distorting cotton subsidies paid by industrialised countries.

79. The World Bank deliberately withheld its fourth adjustment loan of $50 million in 2004 in order to push the cotton liberalisation through, and when in 2005 it finally did release it to the Malian government, only half of that amount was allocated. The loan agreement reads 'slow progress with cotton sector reform has held the country from accessing [a] larger volume of Bank support' (cited in Oxfam International, 2006)

80. At least two studies document the increase in poverty due to the fall in cotton prices in Mali: Wodon, Q. *et al* (2006) and Traore, A. (2006)

81. Oxfam International (2006)

82. *Ibid*

§6.3 Mozambique: Electricity Sector

Within the framework of energy sector reform in Mozambique, the World Bank launched an IDA-financed project that included various conditions[83] requiring the privatisation of Electricidade de Moçambique (EdM), the national power provider. In November 2005, the Government of Mozambique officially informed the World Bank that EdM would remain a fully-integrated state-owned company, monitored by CNELEC (the National Electricity Council), an independent advisory and regulatory body.

The World Bank had to change its initial attitude towards the imposition of privatisation due to the strong resistance of the Government of Mozambique and the pressure from the Scandinavian countries, which have historically played a major role for the energy sector development in this country.[84] The World Bank agreement with the policy stance of Mozambique should not be understood as a fundamental change, but as a response to the pressures of both donors and recipient countries.[85]

As explained in the detailed case-study research that Norway commissioned, doubts about the privatisation proposal were ample.[86] According to the Government of Mozambique and the EdM officials, strong World Bank pressure for the privatisation of EdM was present from the very beginning.[87] The World Bank Country Assistance Strategy for Mozambique advocated for the privatisation, regardless the opposition of the government. In the Country Assistance Strategy of Mozambique, the World Bank argues that: "while agreement on the overall direction of reform is there, visions on the pace and scope of the privatisation differed. The Government for example, favoured labour regulations, including foreign hire restrictions, which the Bank believed to hinder competitiveness and limit job creation. Some parts of the Government were reluctant to the divestiture of state-owned enterprises, due to various reasons, among which are vested interests or disappointment with earlier privatization, which failed to realize expected returns in investment and to create jobs."[88]

The World Bank proposed the privatisation of EdM as the only possible way forward, without considering alternative management plans for the electricity sector. As found in the Norway-commissioned report, the World Bank made a study of the diverse ways that the private sector could be involved in electricity provision for Mozambique, but failed to assesses the pros and cons

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83. The Energy Reform and Access Project (ERAP) was launched in 2000 as the final Project Appraisal Document (PAD), finished in August 2003. The PAD stated that ERAP would run for eight years, divided into two four-year phases. Phase 1 had four trigger conditions, related with the privatization of Electricidade de Moçambique (EDM), affected the content and entire existence of phase 2.

84. Norway and Sweden have been providing capacity building and investment assistance since the seventies and eighties.

85. As a Christian Aid report states: *"In Mozambique, for example, pressure from the wider donor group persuaded the World Bank to drop some privatisation conditions from the PRSC..."* . Christian Aid (2005)

86. Bull, B. et al (2006)

87. *Ibid*.

88. Country Assistance Strategy (2004-2007), World Bank

of the public ownership or management, taking privatisation for granted.[89]

One of the key elements that persuaded the World Bank to change their rather conservative position towards privatisation was the 2002 Joint Scandinavian review, which studied the implication of the privatisation proposal. Importantly, the review considered the possibility of withdrawing the Scandinavian contribution to the energy sector reform and phasing out support to the sub-sectors affected by the privatisation, had the privatisation taken place.[90]

§6.4 Nicaragua: Electricity Sector

"Given the catastrophic outcomes of some of its policies in the energy sectors of poorer countries, the World Bank should urgently reform its approach so that it's based on what works for poor people and not on the assumption that the market has all the answers."

Gonzalo Salgado, National Consumer Defence Network, Nicaragua

Privatisation of the electricity sector in Nicaragua took place as a result of conditions set by the IMF and World Bank, also supported by the Inter-American Development Bank (IDB). The privatization process started in 1998 and by 2000 electricity distribution was private.[91]

The privatisation of the electricity industry was a specific condition for assigning debt relief to Nicaragua under the HIPC initiative.[92] To push the reform through, the World Bank claimed to pursue the end of the state monopoly, stimulate competitiveness and investment, to increase the country's electricity generation capacity and coverage and achieve tariff reduction. Nevertheless, according to various reports and testimonies,[93] none of the original objectives have been fulfilled. The privatisation process, which clearly lacked country ownership, is described as a huge failure, which provoked a permanent power crisis in the country and an uncontrollable indebtedness in the state.

A short overview of the process: The state monopoly has been replaced by the private monopoly of Union Fenosa, a multinational.[94] The coverage and efficiency have not improved as no significant investment in the dis-

89. Bull, B. et al (2006)

90. Joint Scandinavian Review of the Plans for Restructuring of EDM (2003)

91. It should be noted that electricity sector reform, when implemented in rich countries takes many years. For instance, in the United Kingdom the privatisation of the electricity sector took some ten years.

92. As stated in the Decision Point Document for the Enhanced HIPC Initiative: "The privatisation of public utilities will be completed by divesting the telecommunications company (ENITEL) and selling the generation units of the electricity company (ENEL), and by leasing the management of port facilities and urban water and sewerage systems to private investors." International Development Association and International Monetary Fund (2000)

93. Christian Aid (2007a); Christian Aid (2007b); Montoya, H. et al (2005); Salgado, G. (2007)

94. Unión Fenosa is the third largest Spanish electricity company after Endesa and Iberdrola. It is a significant actor in the Latin American electricity market, operating in Colombia, Panama, México, Costa Rica, Guatemala and Nicaragua, mainly in electricity distribution.

tribution system was made.[95] No improvement in the rate of electricity loss took place. As an illustration, it has been estimated that the percentage of electricity loss in Nicaragua, due to both technical inefficiencies and theft, has increased after the privatisation.[96] Continuous power-cuts,[97] sometimes up to 12 hours, with dramatic consequences for small businesses and families took place. Tariffs increased with 100% to 400% in the last 5 years.[98] Currently the country is highly dependent on oil imports.

Privatisation has reduced poor people's access to energy through increased tariffs, arbitrary charging practices and customers being charged for services – such as street lighting – which are not provided. Since 2006, electricity charges for the periods of black out caused many small businesses closing down. The negative impact of the electricity privatisation on the Nicaraguan population has led to huge popular rallies and social unrest since 2003.

§6.5 Zambia: Energy and Banking Sector

"There is no system at the Ministry of Finance to systematically prepare position papers to offer alternative positions,[…] The speed at which we privatised was too fast [...] all those companies sold to Zambians have collapsed."
Zambia National Commercial Bank Managing Director. Formally a senior official in the Ministry of Finance.

The World Bank-lead economic reform in Zambia was initiated in 1983-85, when the country was prescribed to devalue and float its currency, abolish import restrictions and price controls, restrict government expenditures and liberalise interest rates. Reforms were not fully embraced until 1991, when President Chiluba removed all subsidies and import controls, and started the privatisation of public sector enterprises as demanded by the World Bank and International Monetary Fund. In 2004, the IMF and the World Bank noted that the progress of the reforms was not entirely satisfactory, and declared that debt relief would not be given to the country until the government demonstrated sufficient progress in the commercialisation of the Zambian national energy company and the privatisation of the national bank. The impact of the policies was far from satisfactory. Due to fast and badly-sequenced privatisation and liberalisation policies, the average household incomes were seriously depressed, and poverty escalated. Between 1991

95. It is widely acknowledged that Union Fenosa made little effort to improve the efficiency of the infrastructure and to deal with the huge electrical distribution losses. This was confirmed by an interview that Christian Aid had with a World Bank representative. Interview with Fernando Lecaros, Energy Cluster, World Bank, cited in Christian Aid (2007)

96. Electricity loss was 25.49% in the period 1997-1999 (before privatisation), 33.05% in 2000-2002 and 29.41% in 2003-2005 (after the privatisation). Instituto Nicaragüense de Energía, cited in Christian Aid (2007))

97. The process lead to numerous national and international popular protests. In Spain a campaign called "Union Penosa" was launched in 2006 asking Union Fenosa to stop the indiscriminate power cuts in Nicaragua, to compensate the state for the damage and to leave the country. (www.unionpenosa.org)

98. www.unionpenosa.org and Christian Aid (2007)

and 1998, poverty levels went up from 63% to 73%.[99]

As the Norway-commissioned research asserts, the average Zambian found the privatisation process poorly managed in terms of its social impact.[100] The Norway paper notes that the World Bank evaluation of non-mining enterprises in Zambia[101] shows a depressed level of post-privatisation performance, especially in the fields of productivity and employment generation in small and medium scale enterprises. The paper argues that while privatisation was done to improve profitability and efficiency, the wider public was more concerned with its social costs. Privatisation, according to the Zambians, has proved harmful for the poor and the workers, increasing the prices of essential services and giving rise to inequality.

Whether or not the poor economic performance of Zambia after the liberalisation was entirely or partially attributable to the World Bank intervention remains under discussion. It is certain however, that the World Bank-promoted privatisation policies have a direct relationship with the worsening of poverty and wealth distribution in the country.

§6.6 Bangladesh: Power and Energy Sector

An independent academic research report evaluating the use of World Bank privatisation and liberalisation conditionalities in Bangladesh[102] affirms that privatisation is still a tool for improving economic performance, promoted by the World Bank. While the report does not delve much into the issue of the policies' ownership, it presents the power and energy sectors as the most explicit illustration of the World Bank-lead privatisation process in Bangladesh.

Bangladesh possesses large deposits of high quality natural gas and potentials to become power exporter in the region. The power sector was state-owned until the 1990s when the World Bank, as part of the structural adjustment process, insisted on increasing the role of private enterprises, which they believed would enhance efficiency in the sector. The World Bank developed a detailed program for transforming the power utility into a corporate enterprise, which operates within a market-let framework, regulated by the state. The power sector liberalization and corporatisation was also made a condition for the provision of a Development Support Credit III (DSC III) for Bangladesh in the years 2003 - 2006.

Nevertheless, after the power sector liberalisation, its management and financial situation remained in bad shape, despite somewhat marginal reduction of the power loss. Nevertheless, no investment in energy generation was undertaken and provision deteriorated. The Government was not able to defend the public interest, nor the provision of the public good. In this relation, the State Secretary of the Power Division explains that the World Bank was ignorant of the complexity of the local environment. The

99. Nsemukila, D. (2001)
100. Saasa, O. S (2006)
101. *Ibid*
102. The case study is entirely based on Bull, B. *et al* (2006)

World Bank insisted on splitting the national state Power Development Board (part of the Ministry of Energy and Mineral Resources) and creating the Dhaka Electric Supply Authority. The state official claimed that the latter reform had very poor outcomes.

Furthermore, as a trigger for obtaining Development Support Credit, the World Bank demanded the hiring of the International Finance Corporation (part of the WBG) to prepare the privatisation process for the power utility. While the last measure is called a "trigger" in the terminology of the Bank, the Secretary makes it clear that it was no different from direct conditionality: "We were told that if we do not agree to IFC then no loans under the forth Development Support Credit would be given". Similarly, a senior official from the Finance Ministry, quoted in the report, explains that the talks with the Bank were not about conditionalities any more, but about triggers, which were equally important. Eventually the Bangladeshi government officials conceded in the loan negotiations, and IFC was chosen to prepare the privatisation process of the power utility.

The report also quotes the president of the Bangladesh Economic Association, Q.K. Ahmed, who explains that in the case of policy disagreement in the loan negotiation process, it is the World Bank-prescribed policy that is enacted. He also gives the failure of the energy sector privatisation as an example, and stresses the lack of local alternatives to the World Bank-lead policy research. Ahmed explains that for the last twenty-thirty years, no change in donor attitude has actually taken place, and that the promotion of market fundamentalism is stronger than ever.

7. A Note on Alternatives

Although the main objective of the present report is to make a critical assessment of the World Bank's use of conditionalities to further privatisation and liberalisation policies, it is important to note that effective alternatives to the Bank-promoted reforms are out there.

One of the alternative standpoints within the agriculture and food sectors is the proposal for "food sovereignty", developed by Via Campesina[103] as an alternative to the policies based on the neoliberal view. Food sovereignty has become a major issue in the international agricultural debate, also within United Nations bodies.

Food sovereignty is offered as an alternative to the risky influence on food supplies by the international market forces. As stated by Via Campesina: "Food sovereignty is the right of peoples to define their own food and agriculture; to protect and regulate domestic agricultural production and trade in order to achieve sustainable development objectives; to determine the extent to which they want to be self reliant; to restrict the dumping of products in their markets; and to provide local fisheries-based communities the priority in managing the use of and the rights to aquatic resources. Food sovereignty does not negate trade, but rather, it promotes the formulation of trade policies and practices that serve the rights of peoples to safe, healthy and ecologically sustainable production."[104]

The Via Campesina food sovereignty proposal is largely ignored by the World Bank. Yet it provides a powerful solution for the poor in aid-recipient countries. Small-scale food sovereignty projects take place in many rural areas in poor countries. They concentrate on local production and distribution, and emphasise the importance of local markets over international exports. Projects are usually managed by peasant and indigenous organisations, with the support of local authorities or even governments. Examples of food sovereignty projects can be found in the settlements of Brazil's Landless Workers Movement[105], the Paraguayan's Agarian Popular Movement,[106] India and many others around the world.[107]

103. Via Campesina is an international peasant organization which describes itself as "an international movement which coordinates peasant organizations of small and middle-scale producers, agricultural workers, rural women, and indigenous communities from Asia, Africa, America, and Europe". Via Campesina is a coalition of over 100 organizations, advocating family-farm-based sustainable agriculture. (www.viacampesina.org)

104. Statement on Peoples' Food Sovereignty by Via Campesina, *et al*. (www.viacampesina.org)

105. In Portuguese Movimento dos Trabalhadores Rurais Sem Terra (MST), is the largest social movement in Latin America with an estimated 1.5 million landless members organized in 23 out of 27 states. The MST carries out long-overdue land reform in a country mired by unjust land distribution.

106. In Spanish Movimiento Agrario y Popular (MAP), is a small peasant organization in Paraguay fighting for a fair land reform and food sovereignty in a countryside affected by the massive expansion of soy monoculture. For more info check www.lasojamata.org

107. See www.viacampesina.org for information about food sovereignty projects all around the world.

The imposition of conditionalities based on a neoliberal set of policies, implies a tacit rejection of many other points of view, offered by local governments or social movements, which might be more relevant in fighting poverty. Although underestimated by the World Bank. If the Bank systematically fails to reduce poverty, it is imperative that donor countries, including the Dutch government, identify new and more efficient ways to channel aid

8. Final Conclusions and Recommendations

The current report provides an overview of the definitions of conditionality and describes their types and impacts. Some of the major disagreements between the World Bank and many NGOs on the quantity of economic policy conditionalities result from the rather narrow definition of conditionality adopted by the World Bank. Economic policy conditionalities, in the vision of A SEED, are much broader and can be divided in two categories: direct conditions specifically included in development aid agreements and indirect ones, such as trigger actions, benchmarks, CPIA, and biased research.

The case studies from Mali, Malawi, Nicaragua, Zambia, Bangladesh and Mozambique illustrate that privatisation and liberalisation policies, that are neither designed, nor desired by the affected communities or countries, are still pushed through by the World Bank. Importantly, on several occasions, the implementation of the World Bank promoted policies seems to be correlated with an increase in levels of poverty and inequality. The case studies also demonstrate that the World Bank impact on poor countries' economies is still significant and that the Bank receptivity to alternatives beyond the neo-classical framework is highly limited.

The main point which the authors of this report would like to make is that economic policy conditionalities prevent aid from working, undermine national decision-making, lead to unpredictable ceases in the aid flows and force poor countries to adopt policies that are based on ideology, rather than evidence. Therefore, international aid must be conditional on being spent transparently and in a manner that effectively reduces poverty and nothing else.

In terms of the Dutch position, the Netherlands has long-term commitments to the International Financial Institutions, including the World Bank. That poses a slight difficulty in addressing any criticisms directed at the World Bank and finding innovative approaches for the distribution of development aid. Yet, there is ground for action, and it is only a sufficient political will that is needed.

Therefore the Dutch government should:

· **Demand a complete phase out of economic conditionalities in World Bank lending, both direct and indirect, based on a carefully established criteria.**

· **Withhold the Dutch contribution to the next IDA replenishment rounds until the World Bank makes a fundamental change in this direction.**

· **Undertake research on the existing alternatives for channelling development aid, that contribute more effectively towards poverty reduction than the World Bank.**

· **Demand and sponsor a larger volume of unbiased research and knowledge in the field of development economics.**

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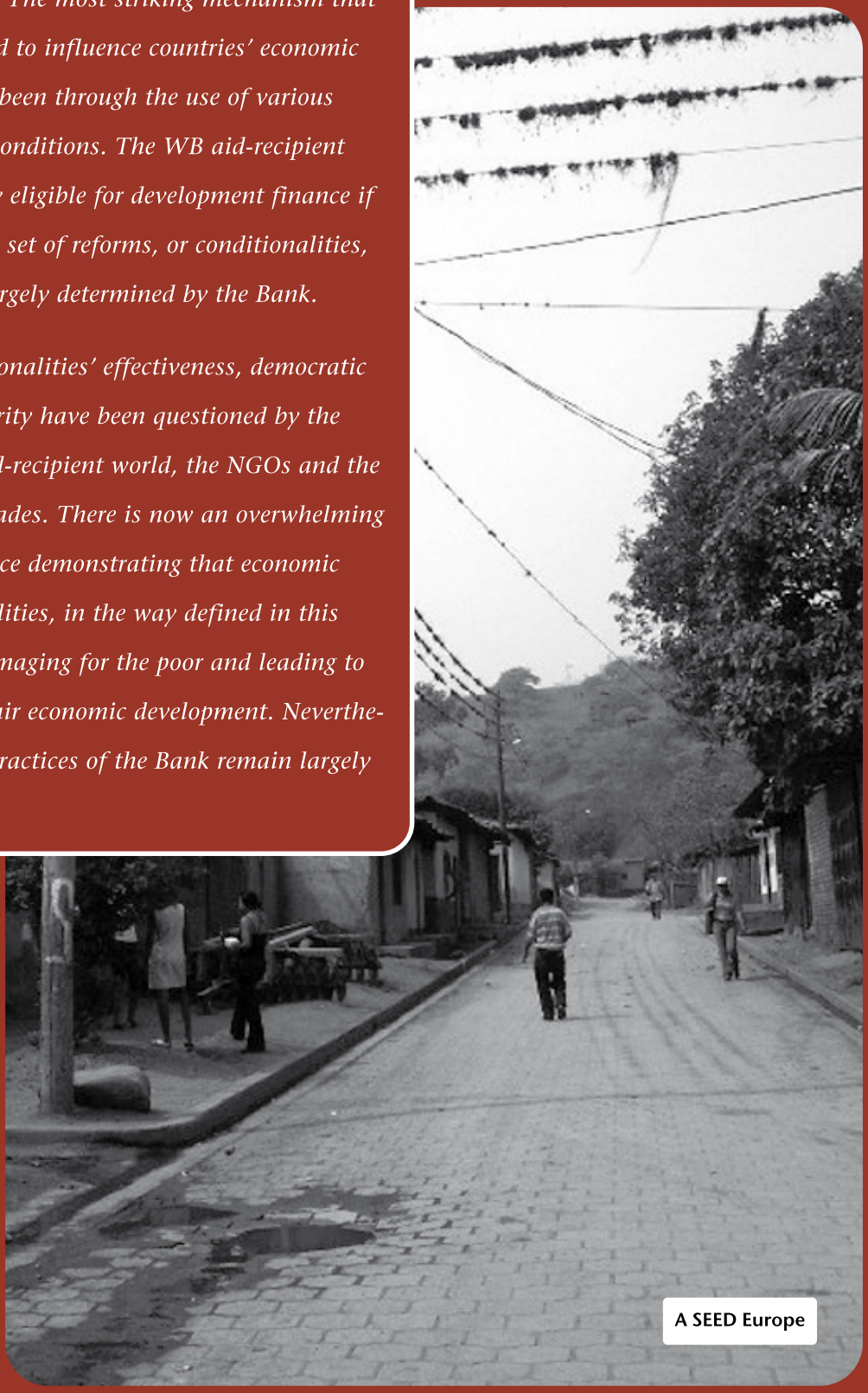
"The World Bank has undoubtedly been one of the main actors in re-shaping the economies of the poorest countries. The most striking mechanism that the Bank has used to influence countries' economic development has been through the use of various economic policy conditions. The WB aid-recipient countries are only eligible for development finance if they implement a set of reforms, or conditionalities, that have been largely determined by the Bank.

Economic conditionalities' effectiveness, democratic basis and popularity have been questioned by the citizens of the aid-recipient world, the NGOs and the academia for decades. There is now an overwhelming amount of evidence demonstrating that economic policy conditionalities, in the way defined in this report, can be damaging for the poor and leading to unequal and unfair economic development. Nevertheless the lending practices of the Bank remain largely unchanged."



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