Oxfam International Submission to World Bank Review of Conditionality, May 2005

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Oxfam International

Oxfam International welcomes the World Bank's decision to review its conditionality practice in 2005. Reforming the way conditionality is designed and applied is critical to improving aid effectiveness, and orienting the aid system as a whole to meet the Millennium Development Goals. However, for the review to make a real difference to the way the Bank operates in developing countries, it needs to do more than account for recent changes in Bank practice. The review should set out a bold agenda, and demonstrate that the Bank, as the world's largest multilateral aid donor, will be a lead player in making aid more effective for poverty reduction. It is also important that the Poverty Reduction Strategy (PRS) review, the conditionality review, and corresponding reviews at the IMF, which all take place in 2005, are strongly linked and are coherent.

Oxfam International is a confederation of over 12 organisations that works with over 3000 partners in more than 100 countries to find lasting solutions to poverty, injustice and suffering.

Recent World Bank efforts to reform its conditionality practices have not gone far enough. Oxfam International's main areas of concern are:

- **The administrative burden of World Bank conditions is still excessive**. The World Bank has so far failed to address questions about the 'aggregate' burden of conditionality - or that imposed by all donors - which we regard as the most important measure of the burden conditionality places on aid receiving governments. Previous reviews have concentrated principally on binding World Bank conditions in policy-based lending. The Bank must go further in examining non-binding conditions, and other means of policy influencing, across all types of loan agreement.
- **Country 'ownership' is still not respected in practice**. The way conditions are conceived and implemented continues to undermine domestic political processes and the formulation of national strategies.
- **Independent assessments of the poverty impact of reform proposals need to be strengthened**.

1. The administrative burden of World Bank conditions is still excessive.

Oxfam International remains concerned that the administrative burden as a result of conditionality is still too high. In a survey of developing country government officials in 11 countries undertaken by Oxfam last year, respondents described the number of World Bank conditions as 'large' or 'excessive' in 60 per cent of cases. The Bank received the worst score of all the donors rated[1]. Our analysis of three Poverty Reduction Support Credits (PRSCs) available to us in 2004, indicated that governments are still having to carry out a high number of policy changes over one or two year periods: in 2004-05 the Ethiopian government is required to complete 85 policy actions, and in 2005-07 the Vietnamese government 84. While this includes both binding and non-binding conditions, we regard this as a truer reflection of the burden this places on developing country government personnel. The problem appears to be particularly acute around joint donor frameworks; in 2004-05 the Tanzanian government is to complete 78 policy changes for all its donors, as bilateral donors have continually added in their own conditions to the original matrix.

The Issues Note produced by the World Bank in December 2004, which will frame the final review paper, only examines trends in the average number of conditions per loan. However, much broader measures are needed to capture the true impact of conditions on the ability of developing country governments to plan, manage and monitor their national programmes. The Review should factor in the move by the Bank away from multi-tranche loans to single-tranche loans in PRSC agreements, which may mean that while the number of conditions per loans falls, with the loan spread across a shorter time period, the number of conditions per year remains unchanged. The Review should also consider the perceptions of aid-receiving governments themselves, given that the notion of 'burden' is not a fixed number, but is relative to their capacity to manage donors' demands. In a recent survey of African HIPC governments undertaken by Development Finance International, government officials reported no change in the conditionality burden despite the 'streamlining' exercise that has been undertaken by the Bank and IMF (Development Finance International 2004).

The 'aggregate' burden of conditionality - or sum of conditionality from all donors - is the most important issue for aid-receiving governments, especially in light of concerns that the World Bank has 'picked up' conditions dropped by the Fund. This should be thoroughly examined in the review. This is also important in relation to Bank-Fund conditionality, as each institution's funding decision depends on progress in meeting the other's conditions (a practice known as 'cross-conditionality'). The proposed joint paper with the IMF on the topic is welcome, but the evidence base for this paper must be substantial enough to draw meaningful conclusions. It is critical that all of this analysis is disaggregated by country, given that the poorest countries are those most likely to incur the heaviest conditionality burden (Eurodad 2003).

Finally, we are concerned by evidence from countries such as Mozambique that World Bank staff are simply attaching numerous 'sub-indicators' to their conditions, thereby not revealing the true extent of conditionality that developing country governments face. The review should probe behind the numbers to extent of these kinds of practices in-country.

The Bank's analysis also needs to go beyond the 'numbers burden' of conditions, as the Issues Note acknowledges. Of equal concern to Oxfam International is donor 'micro-management' of government policy, and the level of detail specified in its conditions.

2. Country 'ownership' is still not respected in practice

That countries should 'own' their own reform programmes is an obvious principle of national sovereignty, but is also vital to guarantee the appropriateness and sustainability of reforms. However, the current danger is that 'ownership' will become another buzzword, without any real currency in the country context. To make sure this is not the case, the World Bank review should set out a clear way to implement principles of ownership in negotiations with developing country governments.

Such a set of principles would include a clear statement that guaranteeing ownership means not imposing policy choices. This is particularly important with respect to conditions in so-called 'sensitive areas' of economic policy, such as trade liberalisation and privatisation, and especially given recent evidence from the Bank itself that "there is no one right way to achieve development" (World Bank 2005). More broadly, not imposing policy options means fully respecting domestic political processes, and ensuring the active involvement of parliaments and civil society in scrutinising reform options. It means ensuring that World Bank frameworks, such as PRSCs, are drawn from and fully consistent with PRSP plans, where these represent truly nationally-owned strategies. It necessitates full transparency of the Bank to all stakeholders, ensuring that donor frameworks are available to both parliaments and civil society in country.

Oxfam International is concerned from the Issues Note that the World Bank regards the use of conditionality as acceptable when it is requested by governments as a means to 'tie their hands' to reform. However, this practice runs counter to country ownership principles. It simply reinforces government accountability to donors, away from their own citizens, and truncates the democratic process.

3. Independent impact assessments of reform proposals need to be strengthened

Too little effort is made to base conditions on an independent assessment of the impact they will have on poor communities. Recent conditions by the World Bank and IMF on the privatisation of the water system in Dar es Salaam, Tanzania, failed to consider gender in the reform design, and nor were any women targeted for consultation, despite women's primary responsibility for providing water (ActionAid International 2004).

Oxfam International has welcomed the introduction of Poverty and Social Impact Analysis (PSIA), which examines the potential distributional impact of proposed reforms, and recent efforts to disseminate the analysis and improve the transparency of the findings. However, the analysis needs to go beyond examining the mode or sequencing of a reform, to examining the impact of the reform per se. In Chad, the PSIA examined the different ways to privatise cotton marketing, but did not assess the appropriateness of the reform per se. In addition, all analysis must feed into the policy-making process, and selective filtering of PSIA findings should be avoided. In Malawi, the results of a PSIA on the privatisation of the state marketing board were ignored in the conditions of a new World Bank loan.

4. The danger of falling back on selectivity

The current Issues Note advocates 'focusing on the countries...most likely to be effective'. Oxfam International is concerned about the impact of concentrating aid in 'good performing countries', not least because of the academic evidence that has suggested that aid can have positive benefits in more poorly-performing environments (Hansen and Tarp 1999). We are also concerned about the basis for defining performance. The continuing use of the Country Policy and Institutional Assessment (CPIA) as an assessment tool for allocating aid should be examined in the review. We welcome the Bank's publication of CPIA criteria, but are concerned that this remains too subjective a tool for aid allocation purposes, given that it still incorporates judgements about policy measures, such as trade policy.

5. The role of the IMF as key to predictability and harmonisation

It is vital that a review of conditionality examines the linkages between conditionality and other aid effectiveness issues, and we welcome the discussion of harmonisation and predictability proposed in the Issues Note. However, the Issues Note fails to grapple with one of the most central issues in this discussion: the role of the IMF in signalling to all other donors when the macroeconomic framework of a country is 'acceptable' or not. The Review should examine how far this affects the predictability of aid flows. In addition, the Review should explore the trade-offs for recipient governments of harmonisation around budget support matrices, and the potential cost to governments of donors acting in concert to set unified conditions and withdraw if they are not met.

6. The scope of the review should be broadened

The Review only focuses on the Bank's policy-based lending. Although the Issues Note pledges to draw out the 'lessons applicable to investment lending', this should not be substituted for a direct evaluation of investment lending itself. We are concerned by information from African countries that the World Bank may be shifting conditions out of multi-donor frameworks into investment loans.

7. The need to assess the Bank's analytic work

The Bank also needs to look further than its conditions (both binding and non-binding) if it is to really understand its policy influence on developing country governments. With its analytic work increasing, and with the Issues Note advocating greater recourse to analytic work to induce policy reform, the Bank should systematically assess who carries out its economic and sector work, what range of policy conclusions this analytic work produces, and how its analytic work is accessed and used by governments, parliaments and civil society groups.

8. Implementation of the conditionality guidelines must be monitored

Key to the success of the conditionality review is its application in countries in which the World Bank is working. The roll-out of the guidelines should be closely monitored, while a follow-up report based on country case studies would be a useful way to assess implementation in practice.

References:

ActionAid International (2004) 'Turning off the taps: Donor conditionality and water privatisation in Dar ed Salaam, Tanzania', London: ActionAid.

Development Finance International (2004) 'The Effectiveness of aid to Africa since the HIPC Initiative: Issues, Evidence and Possible Areas for Action', London: Development Finance International.

Eurodad (2003) 'Streamlining of Structural Conditionality - What Has Happened?', Brussels: Eurodad.

Oxfam International (2004) 'Paying the Price: Why rich countries must invest now in a war on poverty', Oxford: Oxfam International

World Bank (2005) 'Economic Growth in the 1990s: Learning from a decade of reform', Washington: World Bank.

[1] The survey was undertaken in June-July 2004, with staff in various ministries in 11 developing countries, distributed evenly across regions. Respondents were asked to express their opinions on various dimensions of donor practice, with respondents anonymity assured at all times.