What progress?

A shadow review of World Bank conditionality

actionaid international

Acronyms

AAI	ActionAid International
DBS	Direct Budget Support
DFID	Department for International Development
DPL	Development Policy Lending
DPO	Development Policy Operation (World Bank loan)
GPPs	Good Practice Principles for Conditionality
HIPC	Highly Indebted Poor Country
IFI	International Financial Institutions
IMF	International Monetary Fund
OPCS	Operation Policy and Country Services (unit within the World Bank)
MDG	Millennium Development Goal
PAF	Performance Assessment Framework
PRSC	Poverty Reduction Support Credit (World Bank loan)
PRSP	Poverty Reduction Strategy Paper

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Executive summary

Over the past three decades, the World Bank has radically re-shaped the policies of developing countries. 'Conditionality' – stipulating policy changes governments must make in order to receive loans and unlock aid from other donors – has been instrumental in bringing about this change. But the practice of conditionality has also attracted a welter of criticism; for closing down policy space, for failing to foster sustainable reform and for its negative impact on poverty. Clumsily executed and highly controversial reforms in areas such as privatisation and trade liberalisation have often carried a heavy social and economic cost for the poorest and most vulnerable, and severely undermined the credibility of the Bank in many developing countries.

A growing body of evidence about the failure of conditionality to build ownership or lead to pro-poor reform – some of it produced inside the Bank – has started to force a rethink. The Bank's board approved a review in 2005, which committed the Bank to five 'good practice principles' (GPPs): ownership; harmonisation; customisation; criticality; and transparency and predictability. Despite the limitations of these principles, ActionAid welcomed them as a first step to improving how the World Bank works on the ground in the poorest countries.

One year on, the World Bank has published a rather optimistic stock-take, based largely on quantitative evidence, which suggests that "recent operations are broadly consistent with the good practice principles," (World Bank, 2006:iii). In this shadow review, we use more qualitative methods to assess how the principles are affecting the overall burden and impact of conditionality. We carried out interviews in mid-2006 with key Bank staff in Washington and stakeholders in Uganda and Pakistan, and undertook a thorough review of recent research.

Our findings are not encouraging. There is no clear plan to ensure implementation of the principles – senior leadership at the Bank has failed to signal its backing for the necessary changes in practice, and the incentives that encourage staff to impose intrusive conditions remain unchanged. Moreover, a limited and superficial approach towards country ownership and reluctance to embrace full transparency – reflected in the continuing use of loan conditions to push controversial economic policy reforms without the full involvement or even knowledge of the public – undermines the prospects for substantive progress on the other four principles. In particular:

— **Ownership:** Bank staff continue to work with an extremely narrow definition of country ownership, which in Pakistan has led to a large dam-building programme being driven forward in the face of public opposition and evidence of past failures.

— **Harmonisation:** Too often, harmonisation still means that donors link their aid to the World Bank's Poverty Reduction Support Credit (PRSC) conditions, rather than to implementation of a country's own plan. In Uganda, some progress has been made in getting donors to respond to the government's own Partnership Principles with a Joint Assistance Strategy, although it's too early to tell whether this will supplant the matrix of PRSC conditions as the organising framework for donor activity.

— **Customisation:** Even within the limitations of the idea of customisation, there's evidence from countries including Zambia,

Mozambique and Benin that the Bank is still using its loans to leverage privatisation reforms that are not even called for in governments' own development strategies.

— **Criticality:** ActionAid welcomed the principle that conditions should be limited in number and restricted to those necessary to ensure that money is used for its stated purposes. Yet there is ongoing confusion amongst donors and recipients about which disbursement criteria are in fact critical.

— **Transparency and predictability:** The Bank still lacks a detailed and coherent policy to actively disseminate information to all interested and affected citizens. The continuing secrecy of Bank negotiations with borrowing governments inhibits the development of genuine 'ownership', and leaves reform programmes open to the accusation that they have been illegitimately forced on governments by the Bank. In Pakistan, conditions continue to make disbursements unpredictable, with a small delay in meeting one trigger condition (on energy pricing) holding up disbursement of the second PRSC loan.

There are two key reasons for the failure to make substantive progress on the principles. First, the Bank has not so far developed a proper implementation plan. Our research revealed that many key staff responsible for PRSCs were not properly aware of the principles, had failed to read them, or regarded them as optional. Dissemination has been patchy, because it has relied on a small number of Washington-based staff in the Operations Policy and Country Systems (OPCS) unit of the Bank. No substantive changes have been made to procedures, incentives or reporting to senior management.

Second, the principles by themselves are insufficient to act as a motor for change in Bank working practices. The incentives within the Bank that encourage staff to push reforms have been left unchallenged, and many staff see the principles as part of an ongoing evolution of thinking about conditionality, rather than as something which should alter the way programmes are conceived, designed, implemented and evaluated.

ActionAid argues that, without a broader reform agenda that consolidates the principles, the tentative progress reflected in the Conditionality Review will be rolled back. If this happens, the credibility of the Bank's commitment to ownership and poverty reduction will continue to be called into question. As the Bank's governing body prepares to meet for its 2006 Annual Meetings in Singapore, reform is urgently needed in three areas:

— the Bank must commit clearly to end its use of economic policy conditions, and limit conditions to those necessary to ensure fiduciary accountability

— the Bank must strengthen its existing principles, especially on ownership and transparency, from which meaningful implementation of the other principles will flow

— the Bank must create the procedures, incentives and monitoring systems needed to ensure that staff on the ground are aware of and adhere to the good practice principles.

Background

World Bank 'conditionality' – the use of loans and grants to secure change in developing countries by making the money conditional on the implementation of certain reforms – has long been a serious and contentious issue. ActionAid, along with many other civil society organisations and governments, has called for the Bank to stop attaching economic policy conditions to its aid and debt relief, and for it to undertake radical reform of its use of conditionality in general. Until it does so its legitimacy and effectiveness will continue to be severely weakened, and the prospects for development in recipient countries will continue to be impeded.

There are three main problems with the Bank's current use of economic policy conditionality. Firstly, it tends to take key decisions away from sovereign governments and put them in the hands of unelected World Bank officials. This can serve to undermine the development of domestic accountability processes in developing countries. Secondly, the use of conditionality to promote policy changes has proved to be an ineffective, clumsy and politically unsustainable method of bringing about change. Thirdly, some policies promoted by the World Bank have failed to reduce poverty, or have even made things worse. Clumsily designed and ill-timed policies to promote the liberalisation of trade, the privatisation of public services and the deregulation of economies have sometimes sparked political crises serious enough to derail a government's commitment to a wider reform programme.

In recent years the pressure for the Bank to change its approach has become intense, from both inside and outside the institution. Citizens across the world have organised themselves through social movements and non-governmental organisations to demand change. Governments, including some in the rich world, such as Norway and the UK, have opposed the use of economic policy conditions. In 2005, the G8 group of the world's richest nations said:

> "It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people."[1]

Inside the Bank, pressure for reform has increased as moves have been made to match policies and activities more closely with Poverty Reduction Strategies in developing countries, and recognition has grown that conditionality has been ineffective and contentious.

Responding to this pressure the Bank agreed to undertake a root and branch review of World Bank conditionality at its 2004 Annual Meetings (the 'Conditionality Review'). This was conducted throughout 2005, and was accompanied by extensive examination of World Bank policy and practice, a survey of the views of recipient governments, and consultation, mainly in the developed world.[2] The seriousness of the issue and the extent of the review raised hopes that the Bank would commit to ending its damaging use of conditionality in poor countries.

The resulting paper, 'Review of World Bank Conditionality' (World Bank, 2005), committed the Bank to five 'good practice principles for conditionality':

1. **Ownership:** Reinforce country ownership.
2. **Harmonisation:** Agree up-front with the government and other financial partners on a coordinated accountability framework.
3. **Customisation:** Customise the accountability framework and modalities of Bank support to country circumstances.
4. **Criticality:** Choose only actions critical for achieving results as conditions for disbursement.
5. **Transparency and predictability:** Conduct transparent progress reviews conducive to predictable and performance-based financial support.

These were endorsed by the Bank's governing body in September 2005, who also called for

1. The Gleneagles Communiqué, G8, 2005
2. ActionAid participated in the consultation process and produced written submissions, which are available on our website

"regular monitoring to ensure their consistent implementation at the country level and for a report on progress next year".[3]

Though ActionAid, alongside other civil society organisations, had hoped for more – in particular a firm commitment to end the damaging use of economic policy conditionality – the adoption of these good practice principles was a step in the right direction. If properly interpreted and fully implemented, they could help to catalyse reform.

At the World Bank and IMF Annual Meetings in Singapore this year, the Operations Policy and Country Services unit of the World Bank – the unit that organised the Conditionality Review – will issue a largely quantitative review of progress, examining what has happened to average numbers of conditions. They have published this in advance and we use its evidence in this report (see World Bank, 2006).

Examining the number of conditions applied to World Bank loans tells only a part of the story. Quantitative analysis cannot tell us about the intrusiveness or impact of conditions, or the extent to which the new GPPs have led to changes in the relationship between the Bank and governments on the ground. One single condition included in a World Bank PRSC matrix can include a raft of complex and controversial policy reforms.

This shadow review of World Bank conditionality therefore takes a more qualitative approach. Our report draws on new case study research in Uganda and Pakistan, interviews with World Bank staff deeply engaged in conditionality and a review of the relevant literature (see Box 1 for more details of our methodology). Based on this research, we assess how much change has actually happened in the Bank as a result of its Conditionality Review, and how likely the GPPs are to be fully implemented. While it would be unrealistic to expect wide-scale change in the Bank in the year since the Conditionality Review was finalised, we would expect a clear plan for implementation, and to see some changes in practice, particularly in countries (including both Uganda and Pakistan) that have negotiated new PRSC loans since the GPPs were agreed.

Box 1: Summary of methodology

This shadow review draws upon three main sources:

1. **A thorough review of the literature on conditionality, particularly new studies completed after last year's Conditionality Review.**
2. **Case studies in Pakistan and Uganda. These were countries chosen because they have recently negotiated new development policy loans – direct support to government budgets – called Poverty Reduction Support Credits (PRSCs), and because they are countries in which ActionAid has staff and partners working on these issues. PRSCs are the type of loan that the good practice principles are designed to cover, and so we expected to see evidence that steps were being taken to redesign the process and content of these loans to take account of the principles. Our case studies were based on discussions with Bank staff responsible for the PRSCs, other Bank staff in critical programme areas, government officials (particularly those directly engaged with the Bank on the PRSC), other donors, non-governmental organisations, academics and other members of civil society.**
3. **Discussions with Bank staff in Washington. These were held with PRSC task team leaders from a sample of countries, staff within the OPCS unit which organised last year's Conditionality Review, and a sample of staff who had recently undertaken OPCS training on development policy lending.**

3. World Bank Development Committee Communiqué, September 25, 2005

Box 2: Where do the good practice principles apply?

The good practice principles could, in theory, apply to any Bank operation, but they are mainly supposed to improve the Bank's performance in development policy lending. Development policy lending accounts for around a quarter of all Bank lending (World Bank, 2006). It is a kind of direct budget support, financing government budgets directly without earmarking money for specific projects. Direct budget support is regarded as a more efficient and effective tool for supporting poverty reduction than traditional project-style lending. It reduces transaction costs and has encouraged improvement in public financial management and budgeting systems. It could in theory support the development of stronger systems of accountability of governments to citizens, by both increasing the funds available to the government to implement poverty reduction programmes, and by making it clearer to citizens that it is their government who is responsible for such programmes.

Our research focused on the Bank's main kind of development policy lending – the Poverty Reduction Support Credit or PRSC. The PRSC was introduced in 2001, and was intended to supply direct budget support to countries that had strong poverty reduction strategies. PRSCs are either cheap ('concessional') loans, or grants, and are normally given in a series of three or more annual tranches.

How is the World Bank performing against its own principles?

In this section we examine each of the five good practice principles, looking first at why the principle is important and what it should mean; then at how the Bank has defined the principle; and finally at how our research suggests it operates in practice, identifying problems and key issues.

We pay particular attention to the first principle – ownership – because it is the central principle which underpins all others; and also the fifth principle – transparency and predictability – because, if properly implemented, it has the potential to rapidly transform practice by increasing the ability of civil society and elected representatives to hold the Bank and their governments to account.

Principle 1
Ownership

"Reinforce country ownership."

Ownership is the key principle: the one underpinning all the others.
Country ownership should mean that policies are home grown, developed by countries themselves, with strong systems of participation by, and accountability to, citizens. Ownership is critically important because it is the bedrock of development itself. History has shown that externally imposed solutions do not work.

A proper understanding of ownership means that all policy options should be on the table, allowing the developing country to make the choice. The moment donors such as the Bank link their support to the pursuit of certain kinds of policy, they effectively close off alternatives for the developing country. The extensive use by the Bank of conditionality has, in the past, reduced the effectiveness of its aid for the following reasons:

— it has undermined country ownership and focused government attention on reporting back to donors rather than to their citizens
— it has introduced complexity and confusion, often blurring the picture for recipient governments about which conditions are the most important, and which are the crucial ones needed to access the funds
— it has focused attention on unnecessarily technical issues, or lead to the introduction of inappropriate solutions, when conditions are specific about the kinds of reforms that need to be undertaken
— it has increased the administrative burden for developing countries.

Research conducted by the Bank as part of the process of conducting the conditionality review confirmed that southern governments feel that the Bank still has a long way to go when it comes to adequately respecting country ownership. Their survey of 105 senior government officials in developing countries found that:

— almost half – 49% – agreed that "World Bank-supported policy programs introduce new elements that are not part of my country's medium and long term development strategy"
— more than half – 56% – thought that "my government's original policy program was significantly modified in negotiations with the World Bank"
— three quarters – 77% – agreed that "World Bank multi-sector operations significantly increase the number of policy actions my country must deliver to obtain financial support" (see World Bank, 2006).

The Bank has a very limited definition of ownership.
The Bank's definition seems to focus on government acceptance of a given set of policies. The Bank emphasises only the need for "some clear evidence of ownership," and goes on to state that this is provided by "a track record of sound policy implementation," (World Bank, 2005:28). Furthermore:

> "In case the government's own policy agenda is insufficiently owned or weak, the Bank would choose not to provide development policy loans rather than substitute conditionality for ownership." (World Bank, 2005:28).

Ownership, this suggests, is really about selective lending. Governments that have a policy agenda with which the Bank agrees get a greater amount of higher quality, more flexible development policy lending; those with 'weak' policy agendas get less and can only have project loans. Through the use of variable lending – the Bank has base, medium and high-case lending scenarios that vary according to the Bank's assessment of the policies and institutions of the borrowing country – this decision will also affect the total amount of Bank funding the country will receive. This gives the Bank and the International Monetary Fund (IMF) great power over developing countries' whole macro-

economic policy framework for two main reasons:

- the decision over what kind of loans to give to a country is a clear signal to markets, investors and others about how the Bank IMF rates the economic policy of that country
- there is a large incentive for countries to follow Bank and IMF macro-economic prescriptions, as it will lead to higher levels of more flexible funding.

The Bank's definition does not recognise that, to be truly 'owned', government policies should be adopted through democratic means involving a wide range of stakeholders in society, and governments should be accountable to citizens when implementing policies.

Instead, the Bank says that ownership can be deemed to exist when "policies described in a poverty reduction strategy [are] adopted by government after broad-based consultations," (World Bank, 2005:28).

The Bank, alongside other donors, argues that inclusion of a particular policy in a PRSP or other country strategy amounts to sufficient evidence of ownership. Yet even official evaluations are now accepting that the degree of participation in PRSP processes still falls far short of expectations. The joint evaluation by the Bank and IMF of the PRSP process, for example, concluded that "the process of presenting a PRSP to the boards of the Bank and IMF has been perceived as undermining the principle of country ownership – as 'Washington signing off' on a supposedly country owned strategy". The same review noted that PRSP consultations had resulted in "relatively little change in discussions of the macro-economic framework and related structure reforms," (World Bank OED/ IMF IEO, 2005:5).

For example, in Uganda, the Poverty Eradication Action Plan (or PEAP) is the government's PRSP. Civil society groups feel that most of the agenda under pillar one – economic management – and the direction of public sector reforms under pillar four – good governance – are driven by the World Bank and IMF. In the recent PEAP revision in 2003/04, civil society organisations in Uganda observed that only a small part of NGO input into the revision process had been adopted.

In Pakistan, though the Bank and the military regime have developed strong relationships on issues such as privatisation and water policy, there has been little or no involvement of civil society. When we asked Bank officials in Pakistan about the involvement of civil society in their programmes, they said that this was a government responsibility. This unwillingness to accept that the principle of participation should apply to Bank programmes means that, in the case of water (discussed in Box 3 overleaf) the Bank risks repeating the mistakes of the past where the Bank was heavily involved in a number of controversial major water infrastructure projects that were heavily opposed and delivered questionable benefits.

Furthermore, the Bank, IMF and other donors wield considerable influence in most developing countries, which makes it much more difficult than the Bank asserts to determine whether developing country governments really 'own' their policies.

In countries such as Uganda, for example, the scale of Bank and donor support to the government is so large – 40% of government expenditure – that the government is heavily dependent on these donors, making it difficult for countries to effectively challenge Bank policy recommendations. The Bank, with its sister institution the IMF, also wields considerable influence in a number of other important ways:

- they are major suppliers of advice, expertise and technical assistance to developing countries
- they effectively 'gate-keep' the international reputation of a country for investors and others – going off-track with an IMF or World Bank programme is a major negative signal to the markets and other donors
- they often play a major role in certain sectors

Box 3: Problems of 'ownership': The World Bank's role in driving water policy in Pakistan

The World Bank has a long history of major interventions in Pakistan's water and irrigation systems.
The Bank brokered the 1960 Indus Waters Treaty to settle disputes between India and Pakistan over control of water resources. The Indus Basin Project, funded by donors including the World Bank, built on a large, existing network to create the world's largest contiguous irrigation system. The World Bank was heavily involved in the design and administration of this enormous and costly water infrastructure system. For example, the Bank administered the construction of the Tarbela Dam, which, when completed in 1975, was the largest earth-fill dam in the world. Close to 100,000 people were displaced in a process that was neither consultative nor participatory, resulting in extensive hardship for affected communities. This and similar problems in other projects, together with difficulties in implementation, unresolved issues of benefit sharing, substantial overspends and political problems, have led to the widespread opposition to existing and planned 'mega-projects' and mistrust of the World Bank and other international financial institutions. These problems have meant that there has been no major dam built in Pakistan since Tarbela over 30 years ago.

The hiatus in dam building in Pakistan looks set to come to an end, thanks to the intervention of the World Bank and other donors.
The new push to build large dams in Pakistan is a clear example of the Bank being a major player in driving forward the agenda. While the government is supportive of this agenda, it is the lack of wider ownership that has prevented it from being taken forward for the last 30 years. The Bank has ignored this lack of ownership and vigorously pushed the agenda in a number of ways.

First, they have pushed water up the government's agenda. As one of the conditions for funding the national drainage programme in 1997, the donors (the Bank, the Asian Development Bank and the Japan Overseas Economic Cooperation Fund) insisted on the

development of a national water policy. The development of the resulting national water strategy was "financed by the Asian Development Bank" (World Bank, 2005c:61), through technical assistance from a consortium led by the multinational firm Halcrow Group Ltd.

Second, before a national water policy was agreed, the World Bank set out its own ambitious vision for the future of water resources in Pakistan – including the unequivocal assertion that Pakistan had no option but to construct large dams. The World Bank's detailed Country Water Resources Assistance Strategy presents a comprehensive analysis and strategy for the water sector in Pakistan which emphasises that large dams must be built. The reasons for the current high level of opposition to major infrastructure development are not properly considered. Taking as its source a single newspaper article, the Bank states that "…the discussion of dams has become a vehicle for a host of remotely or un-related historical and current political grievances,"(World Bank, 2005c:64).

Third, the Bank has bolstered this agenda through use of conditionality. A likely trigger condition for PRSC2 is that "…the government will approve a National Water Policy and establish an Apex Body for the sector and a technical secretariat to support this body," (World Bank, 2005d:11).

Finally, the World Bank has signalled that it is willing to provide the funding for these mega-projects. The World Bank's Country Assistance Strategy says it will consider technical assistance to help develop these plans and:

> "…should the proposed project [to build up to five new dams] be technically and economically sound, the Bank would be prepared to respond favourably to a government request to help finance construction…" (World Bank, 2006b:20).

As a result, the government announced it was planning five major dams by 2016, at an estimated cost of $18.45 billion.

or issues. For example, in Honduras, the government's policy of increasing teachers' wages tipped its wage bill over the 9.1% ceiling – one of the conditions for HIPC debt relief. This resulted in the suspension by the IMF of $194 million of interim debt relief (ActionAid International, 2006)

— their personnel often staff key ministries, particularly the ministry of finance, sometimes through the placement of technical advisors, and sometimes because many staff and ministers in developing countries have at some point worked in the Bank or the IMF. In Pakistan, for example, a number of past finance ministers and prime ministers have held senior posts at the World Bank.[4]

Finally, there is evidence that the Bank is not even following many of its own recommendations on ownership.

The Bank does not prioritise deepening its understanding of the political and social situation of the countries it operates in, which is particularly worrying as the Bank plays a significant political role in these countries. For example, Poverty and Social Impact Analysis (PSIA), routinely undertaken by the Bank in advance of lending decisions, should be an opportunity to assist developing countries to understand better the poverty impacts of various policy options. Instead, the evidence suggests that the Bank uses it to help plan how to alleviate negative impacts of the policies it supports, effectively helping close down debates about alternatives (see for example, Wood 2005:12). In any case, in many instances, PSIA findings that were of relevance to the reform in question are not even included in the Bank's programme document (World Bank, 2006).

Finally, an examination of Bank procedures shows that the Bank leads the development of new loans: indicating who really owns them. For example, the first step in developing a new loan is the preparation of a Concept Document, and a draft Program Information Document – the key summary document for a loan. These are drawn up in Washington, by the Bank, through internal consultation before the Bank conducts its first identification mission to the recipient country.

4. For example, former finance ministers Shahid Javed Burki and Mehboob ul Haq and former Prime Minister Moeen Qureishi

Principle 2
Harmonisation

"Agree up-front with the government and other financial partners on a coordinated accountability framework."

Harmonisation should mean aligning all forms of aid around a country-led strategy, within a framework of mutual accountability that allows for the assessment of both donors and governments and the participation of other stakeholders, including civil society and parliaments.

The Bank recognises the need to harmonise around country-led frameworks, but does not emphasise the importance of mutual accountability or the involvement of other stakeholders.

> "Under the lead of country authorities, Bank staff should reach understandings with the government and other partners on a single and internally coherent framework for measuring progress under the government's program." (World Bank, 2005:28-29).

In practice, however, donors often harmonise around Bank frameworks, which reinforces the importance of the Bank and IMF rather than the developing country.
The Bank's PRSC policy matrix often provides the 'accountability framework'. In Pakistan, Bank officials said that the PRSC matrix – a document prepared by the World Bank, not the developing country government – is effectively the document that spells out how Pakistan's PRSP will be rolled out. Often other donors link their support to the Bank's PRSC. This is the case in Pakistan, where DFID is using PRSC conditions as the benchmarks for its Poverty Reduction Budget Support programme. It is also the case in Uganda – where a far larger number of donors are linking budget support to Bank frameworks – though there are signs, as noted below, of change here. It is also the case in other countries such as Benin and Senegal (Wood, 2005:16).

In these cases, harmonisation itself may not necessarily be a good thing. It can have the effect of increasing the power of the donors, as they all harmonise around Bank-led strategies and processes, which can undermine ownership. Until the Bank starts using developing country-led matrices, other donors are likely to continue this practice.

However there are some signs that new models are emerging, but there are still concerns that it is the Bank, not the government, who is leading.
In other countries, such as Tanzania and Mozambique, Performance Assessment Frameworks (PAFs), drawn from the country's PRSP and agreed between the government and donors, are used. However, one recent examination concluded that "it is not clear whether PRSC matrices are aligned to PAFs or whether PAFs are aligned to PRSC matrices," (Wood, 2005:18).

In Uganda the government has taken the lead on donor harmonisation through the development of a set of partnership principles, signed up to by donors in 2003. Donors have responded by creating a Uganda Joint Assistance Strategy around which nine donors align their budget support. The government is planning an annual implementation review around its national strategy, the Poverty Eradication Action Plan. This could, if supported by the donor community, replace the Bank's PRSC policy matrix as the main document around which donor support is harmonised. However as it is at an early stage of development, it is too early to tell what impact it will have.

Principle 3
Customisation

"Customize the accountability framework and modalities of Bank support to country circumstances."

Customisation is inherently a limited concept
It implies that there is a 'correct' set of policies which just need to be customised so that they will be more effective and acceptable in local circumstances.

The Bank's statement on customisation indicates that it does recognise some of the problems inherent in its use of policy conditionality:

> "Accountability frameworks should never be used to add policy actions to the government's agenda, or leverage outside preferences." (World Bank, 2005:29).

Our research, and that of others, has consistently found that, in practice, the Bank continues to leverage reform.
There is still clear evidence that the Bank uses conditionality to leverage reform that is not part of a government strategy. For example, a recent study found that in Mozambique, Uganda, Zambia and Benin, World Bank loans were conditional on privatisation of certain public services – even though these privatisations were not called for in the government's national development strategies (Eurodad, 2006:11). A recent study by ActionAid found that the Bank and other donors were using their influence and the supply of technical assistance to push water privatisation in Sierra Leone (ActionAid, 2006b:38-39). Even the Bank has recognised that their policy matrices "…have raised concerns because of their complex nature and their perceived intrusiveness," (World Bank, 2006:17).

Economic policy conditionality continues to be used across Bank operations.
Recent research shows that around 20% of all World Bank conditions for poor countries continue to be economic policy conditions. Of the 20 countries studied in this research, 15 experienced privatisation-related conditions – in Bangladesh they constituted one third of the total number of conditions (Eurodad, 2006: 8-9).

The Bank said in its conditionality review:

> "The Bank's support for sensitive policy reforms (such as privatisation, trade liberalization, and user fees) should be based on an understanding of the country-specific political economy of reform and may be warranted when such reforms are part of a well-designed and broadly owned government strategy." (World Bank, 2005:29).

While we oppose the use of economic policy conditionality, as explained earlier, at least in the definition above there is an attempt to recognise its contentious nature, and a suggestion that it should only be used rarely.

Principle 4
Criticality

"Choose only actions critical for achieving results as conditions for disbursement."

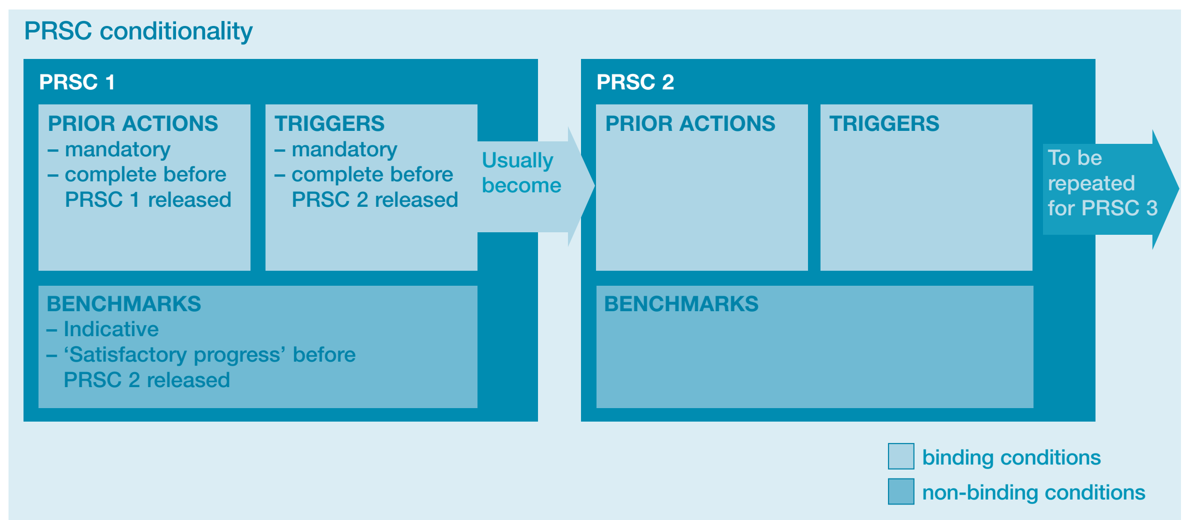
Ensuring that the conditions attached to aid money are limited only to those that are critically important for achieving the intended results is, as the Bank notes, vital.
Past experience has clearly shown that attaching too many conditions, or the wrong conditions, can reduce the effectiveness of aid and end up being bad for development.

In broad terms, the Bank agrees:

> "In establishing the conditions for lending, Bank and country staff should choose, from the agreed accountability framework, policy and institutional actions that are critical for achieving the results of the program and are aligned with the CAS results framework."
> (World Bank, 2005:30).

Bank staff we spoke to often claimed that Bank conditions are now backward looking; this is not true.
This claim is based on the fact that development policy lending such as Poverty Reduction Support Credits are disbursed on the basis of 'prior actions' – conditions which have already been fulfilled. However, as the diagram below shows, because these loans are typically disbursed in a series – Uganda is currently on its fifth PRSC – it is the debate around what the future or 'indicative' prior actions will be which is critical. In practice, these are already determined, as each PRSC contains a number of 'trigger' conditions, which should be completed before the next PRSC is disbursed – almost all trigger conditions become prior actions. It is these trigger conditions[5] that are therefore critical, and they are forward, not backward looking.

The Bank's claim that there is clarity around which conditions are really the critical or 'binding' conditions, is open to serious doubt.
It is not only the 'binding' conditions – prior actions and triggers – that should be counted as conditions. Each development policy loan contains, in addition, a number of 'benchmark' conditions that the Bank claims are 'non-binding'. What the developing country government and other stakeholders see as being the conditions they need to fulfil in order to receive Bank support is the critical issue; in practice they do not make a clear



5. Or 'anticipated prior actions'

distinction between binding and non-binding conditions. The survey for the Bank of developing country officials noted above, found that:

— 75% thought that to receive the money from the World Bank they had to meet all the conditions, including the ones the Bank classifies as 'non-binding'
— 49% thought that World Bank policy matrices included non-critical conditions
— 38% thought that harmonisation and alignment had significantly increased the number of policy actions their government had to deliver to obtain World Bank support (World Bank, 2005b).

Past experience has shown that the Bank has used non-binding conditions as a way of pushing policies which are either not high on the government's agenda or where it is likely that they will be dropped because there is widespread public opposition.

A recent examination of 13 PRSCs found this to be happening in a number of cases (see Wood, 2005:10-11). In Mozambique, Benin and Burkina Faso, the Bank was concerned about dwindling commitment to privatisation, so included benchmark conditions to keep up the pressure. In Nicaragua, the benchmark condition was to introduce a new law to allow private sector participation in the water sector. This demonstrates the subtle ways in which benchmarks, while not being formally binding, can still be used to steer governments in reform directions, or keep policy reforms going the government might prefer to drop, thus undermining the ownership principle. Even the Bank recognises that: "The number of non-binding benchmarks remains high as teams continue to describe the broader programme in Bank documents," (World Bank, 2006:iii).

The number of conditions attached to World Bank loans remains too high.

There is vigorous debate about whether the average number of conditions the World Bank attaches to its operations in poor countries is rising or falling. The World Bank claims the average number of binding conditions has fallen from 17 in 2002 to 13 in 2006. However the number of non-binding conditions (benchmarks) has risen by a greater degree, from 8 in 2002 to 32 in 2006 (World Bank, 2006).

A recent comprehensive review of World Bank operations in 20 poor countries (Eurodad, 2006) found that – in those countries – the number of conditions was rising, not falling. Binding conditions had risen from an average of 13 in 2002-4, to an average of 15 in 2003-5. The figures highlight that looking only at average numbers obscures the fact that there can be wide variations, and some countries still have far higher numbers than the average. In Vietnam the number of binding conditions was 41 and in Armenia 39. Significantly, the number of non-binding conditions had risen in those 20 countries from 35 to 52 over the same period. Given the findings detailed above, which show that there is severe lack of clarity among recipients as to which conditions are really binding, this is very worrying.

Very often, inappropriate or non-critical conditions are used.

It is important to note that only assessing the numbers of conditions may poorly reflect the overall burden and impact of conditionality. Firstly, there is still a heavy and inappropriate use of controversial, or 'sensitive', economic policy conditions, as detailed above. Secondly, it is easy to find examples where the Bank has chosen conditions that are marginal to the achievement of meaningful results, and point to unduly intrusive micro-management of the country's policies by the Bank. For example, in Mali a PRSC condition is to move the land management unit's location within the bureaucracy, and in Burkina Faso, to purchase software. (Eurodad, 2006:7).

Principle 5
Transparency and predictability

"Conduct transparent progress reviews conducive to predictable and performance-based financial support."

Transparency must be viewed as part of wider efforts to improve accountability processes.
Transparency is required throughout the process of development of Bank operations and strategy. At present the public is usually only informed about conditions once they have been agreed. Instead there should be full, open transparency and involvement of civil society and parliaments throughout the process of negotiation, and progress and positions of the various parties should be publicly reported. In fact, improving transparency, with the Bank and other stakeholders making their concerns known publicly on a regular basis, is likely to be a far better method to encourage reform than using conditionality.

The Bank's definition of transparency is very limited and unclear:
- "…progress should be reviewed regularly and in line with a country's monitoring and evaluation cycle..."
- "to the extent possible, the government's own internal accountability processes (e.g. required reporting to parliament) should be used to meet the Bank's and others' information needs."
- "on the basis of the review of progress, which should draw on implementation of triggers and conditions, and an evaluation of the overall advancement toward anticipated results, the Bank should adjust financing levels to performance." (World Bank, 2005:31).

Transparency is defined solely in terms of conducting progress reviews and aligning them to country conditions. This should already be a requirement of the principles of customisation and harmonisation. Referring to the "government's own internal accountability processes" dodges the central question of what level of transparency the Bank is proposing for its own processes. Here, no mention is made of the sharing of information publicly, including the publication of key documents, the involvement of stakeholders in key Bank decision-making processes, or the active dissemination of key information to the general public (especially those without technical knowledge, access to high-speed internet connections or English language skills).

In practice, staff seem to believe that the placing of selected completed documents on the website constitutes full transparency.
This was a common response of the Bank staff we questioned on transparency. In Pakistan, where there is little dialogue between government and civil society, and most government decisions are taken without public debate, it was the Bank and other donors, not the government, who refused to tell us what was holding up the overdue disbursement of the second PRSC.[6] This suggests that the Bank, not just governments, needs to radically improve its transparency.

The lack of transparency creates serious problems, making it extremely difficult for citizens to hold accountable the institutions that affect their lives.
It also creates confusion among different stakeholders as to what is actually happening. For example, in Uganda we met a wide range of World Bank staff, government officials, civil society organisations, donor officials and others. We asked them who they thought was driving policy, and which conditions were the points of contention between government and the Bank. We emerged with a different set of answers from every meeting. If the process were transparently conducted and publicly reported, it ought to be possible to gain far greater clarity on these issues, which would in turn help to draw together the various stakeholders' interpretations of what was happening, helping facilitate debate, agreement and ownership.

Improved transparency is an excellent route towards improving accountability relationships – critical for development – and is an area where the Bank could make rapid progress.
The Bank could take the lead in improving transparency by announcing its intention to live up to

6. It was the failure to meet a trigger condition on energy pricing – see later for more details

high standards across all its operations. This would not only greatly improve the Bank's effectiveness and provide more opportunity for the strengthening of its accountability, but it could also catalyse change in other organisations. We set out specific recommendations in the final section.

Conditionality, as practised by the Bank, makes resource transfer less predictable.
Most PRSCs have slipped from their timeframes at some point. In Pakistan, disbursement of the second PRSC has been held up by delays in the implementation of one trigger condition – energy pricing. The senior ministry of finance official we spoke to confirmed that these were just delays to intended reforms that were definitely going ahead. He said that delay was caused by the Bank's refusal to accept that final sign off on a reform make take longer than anticipated given systems of approval in Pakistan, even though the reform itself was never in question.[7] Bank staff confirmed that there were no areas of significant disagreement between the Bank and the government. This demonstrates that the insistence by the Bank on the meeting of conditions is a major factor in the frequent delays that accompany PRSCs. This is not just confined to Bank lending; other donors have similar problems. A recent multi-donor study, led by the University of Birmingham, found that uncertainty about when budget support payments would be made had been a problem in several countries. It also noted that the effects of this short-term unpredictability could be severe for recipients (IDD and Associates, 2006).

However there are some examples where better working practices have improved predictability.
For example, in the case of Ghana's PRSC, the government and World Bank work well ahead of schedule and rarely have time slippages. While some countries experience disbursement delays of six months or more, Ghana's fourth PRSC went to the board on 15 June, just two weeks late. Meanwhile, prior actions for PRSC 5 are already agreed and those for PRSC 6 are almost agreed. The PRSC process is also well ahead of the budget process. PRSC commitments can be discussed by parliament well ahead of the budget.

7. A supplement to the PRSC following the recent earthquake has, according to the same government official, lessened any problems caused by this unpredictability, but still does not explain the matter, as that was intended to cover additional costs associated with recovery from the earthquake

Why has there been so little change?

The Bank's Development Committee, when it endorsed the good practice principles in September last year, "called for regular monitoring to ensure their consistent implementation at the country level and for a report on progress next year."[8] This is the only public statement that contains the Bank's plans for implementation. Our interviews with Bank staff suggest that there are two main reasons why so little seems to have changed. First, the Bank does not have an effective plan for ensuring implementation. Second, principles are essential building blocks of reform, but on their own are unlikely to motivate real change.

8. World Bank Development Committee Communiqué, September 25, 2005

Reason 1: **The Bank does not have an effective plan for ensuring implementation**

It has been less than a year since the introduction of the good practice principles, so it would be unrealistic to expect them to have already transformed the Bank. However, it is reasonable to expect the Bank to have put in place the steps to begin the necessary change, including changes in procedures, widespread training programmes, alterations to incentives and strong signals from senior management that the principles are of critical importance. However, our research revealed that little has been done.

There have been no significant changes to procedures.
Nothing has changed for operational staff as a result of the Conditionality Review or the adoption of the principles. The only visible change is in the way the OPCS unit behaves (see below). This helps explain why, as we see below, staff do not regard the Conditionality Review as a significant change, and the implementation of the principles is patchy.

Operational staff – those engaged in conditionality on the ground – see the Review as just one more contribution to the debate and are not using the good practice principles as a template for reform.
We interviewed Bank staff responsible for the main Bank loan to which conditionality is attached – the Poverty Reduction Support Credit. When asked about the Conditionality Review, a common response was to ask which review we were talking about. They saw it as just one more internal review in a process of gradual change on conditionality. In fact, while many of the inherent concepts were familiar to most staff, the Conditionality Review itself was clearly not a document that was commonly referred to or disseminated. Some even admitted to not having read it. In the two countries we studied, Uganda and Pakistan, there had been little or no discussion of the Conditionality Review. No government representatives we spoke to had heard of it, even though many were senior staff in units responsible for relations with the World Bank, nor had civil society groups.

The main impact instead has been within the OPCS unit within the Bank, but their only power is to influence, and their influence is limited.
Within the Bank the review and the dissemination of the good practice principles is seen as an OPCS responsibility. Certainly, the Conditionality Review has led to a sharpening of OPCS's role – it has become to some extent an internal advocate for the good practice principles and is devoting a significant amount of its time to the issue.

However, operational staff do not have to act on the recommendations given by OPCS. Instead OPCS are able to influence through training and through attendance at meetings or submissions during decision-making processes. Here, they are severely limited by their size alone – while around one hundred staff work for OPCS, only around five work directly on development policy loans. It is, of course, difficult to gauge whether such kinds of influence have an impact, but so far the signs are that they do not. For example, at the corporate review for Uganda's 5th PRSC this year, OPCS made it clear that cutting the amount to be loaned by 10%[9] flew in the face of the predictability principle. Their comments had no impact on the outcome.

OPCS has revised its standard training package on development policy lending so that it now includes discussion of the good practice principles. However, there has been no effort to roll this out across the organisation, targeting staff engaged in development policy lending. Instead, OPCS has held two development policy lending academies, in October 2005 and April 2006, open to all staff, with only 68 attending.

As one development policy lending task team member interviewed explained: "Regardless of the messaging from OPCS on streamlining conditionality, because of the structure of the Bank, and the broad nature of the DPLs, there will always be pressure from other staff to insert their issues in the conditionality matrix."

9. Under pressure from donors who were worried about Uganda's political situation

Reason 2: **Principles are essential building blocks of reform, but on their own are unlikely to motivate real change**

This kind of approach was unlikely to motivate real change on its own in a large and complex organisation like the Bank with strong incentives and ingrained ways of working in favour of conditionality.

Bank staff see the Conditionality Review as an OPCS contribution to an ongoing evolution of conditionality in the Bank, not as setting out the principles to which they should make efforts to conform. They see no clear link between programmes being approved and the principles, and feel no strong incentives to change their behaviour.

Throughout the process of design, approval and monitoring of development policy lending, raising the good practice principles has become, in effect, an OPCS responsibility. While there is evidence to suggest that they have taken this responsibility seriously, their power to effect change on their own is very limited.

Our research suggests that, because of the absence of complementary changes to policy, procedures, incentives and signals for staff, there is little chance that the good practice principles will have any significant effect on Bank practices. This is why the Bank needs to undertake a radical overhaul of its implementation strategy, to ensure that the principles really do define the way the Bank behaves, and couple this with a clear policy statement on conditionality.

Conclusions and recommendations

ActionAid's research, as outlined in this shadow review, shows that the expectations generated by the Conditionality Review last year have not led to the required change in the Bank's attitude, policies or activities. The good practice principles, if properly interpreted and implemented, could help to guide the Bank towards greater country ownership, more effective aid and, ultimately, more sustainable poverty reduction. But our research shows that the principles have not yet made a substantive contribution towards this end. Without reform of the kind described below, the Bank will continue to suffer a crisis of legitimacy and will undermine the development of strong in-country accountability processes, so damaging, rather than supporting, development in the poorest countries in the world.

We therefore propose the following agenda for reform:

1. The Bank should end its use of economic policy conditionality.
It undermines democratic accountability systems which are essential for development, and often has no beneficial impacts on poverty. Furthermore, it undermines the legitimacy of the Bank and is a major cause of the high levels of public distrust of international financial institutions found across the developing world. To this end, the Bank should:

— develop a clear, unambiguous policy statement that explicitly rules out the use of conditionality in all aspects of economic policy, and makes it clear that other conditions should be the minimum necessary to ensure its fiduciary responsibilities and uphold internationally agreed standards. It should contain an improved list of good practice principles, as described below, and make it clear that all operations will be judged against these
— rule out the use of cross-conditionality, where the Bank links its support to IMF conditions
— rigorously monitor the implementation of this policy statement. A significant reduction of the number of conditions would be a clear indicator of success.

2. The Bank should strengthen its definition of the good practice principles, particularly ownership and transparency.

Ownership
As the Bank recognises by emphasising the importance of participation in the PRSP process, ownership means more than government ownership alone. The process of public debate over key issues, independent scrutiny of government proposals, fair reporting in the media and parliamentary oversight are essential for guaranteeing broader ownership – and thus effectiveness – of policies and programmes. When donors such as the World Bank attach economic policy conditions to aid, this effectively takes such policy decisions out of the sphere of public debate, and can therefore prevent them from being widely owned. ActionAid believes, therefore, that all economic policy conditionality should be abandoned. To allow countries to explore policy options, the Bank should support developing countries to strengthen their capacity in poverty and social impact analysis rather than taking the lead. Finally, the Bank should ensure that its own activities are conducted in an open, transparent and participatory manner, as set out below.

Transparency
The debate on conditions should be opened up in a transparent and participatory manner. Negotiations should be publicly reported; it is vitally important for accountability that the media and civil society know where the areas of difference are between Bank and government. This is in the Bank's interest, as until this happens it will always be open to the accusation of illegitimately forcing its agenda on recipients. Placing documents on websites does not guarantee that they can be read or understood by those whose lives are most affected by Bank operations.

The Bank should therefore make it clear that high levels of transparency will accompany all its operations in all countries, and should develop a clear, detailed and coherent policy on this.

This would mean: timely dissemination of information to allow informed participation in decision-making, including draft documents, in a manner that means affected and interested citizens can access and understand it; adopting a policy of automatic disclosure of all documents, with a strictly limited regime of exceptions; and introducing an independent appeals mechanism.

Harmonisation
While harmonisation is vital, the Bank should work with other donors to ensure that harmonisation takes place around genuinely country-owned strategies, rather than donor-led matrices. All draft matrices should be opened up to public scrutiny, and progress in implementation of matrices should be subject to public debate and scrutiny, for example during reformed Consultative Group meetings.

Customisation and criticality
There should be consensus and absolute clarity on the criteria used to decide which conditions are critical, and Bank staff and systems should strictly follow these. Non-binding conditions – benchmarks – should be removed. They introduce confusion and unnecessary complexity into aid relationships and blur lines of accountability.

Predictability
Bank support should be aligned around the national budget process. The Bank should help countries plan far enough in advance to allow parliaments and civil society sufficient time to scrutinise future lending. It should disburse on time, and only withhold promised support in extreme circumstances, with adequate time for the government to adjust budgeting to take account of this.

3. The Bank should properly implement the good practice principles, and develop the right procedures, incentives and monitoring systems to do so.
In addition to the clear statement of policy outlined above, the Bank should:

— **develop improved operational procedures** to ensure that the above statement is fully implemented. For example:

  — approval of all new development policy lending should be subject to an assessment that verifies that the principles have been properly integrated into its design, including that the recipient country has fully participated and owns the operation.
  — monitoring and evaluation systems should be improved, with yearly public reviews of progress addressing both quantitative and qualitative issues.
  — training for all staff should be expanded and improved, with all staff engaged in development policy lending being retrained within a year.

— **undertake a review of staff incentives** to ensure that staff have clear incentives to apply the good practice principles. Senior management and the Bank’s board should send clear signals that they take this issue seriously. The board should begin by requesting an annual review of progress which incorporates the views of key stakeholders including civil society and developing country governments.

— **introduce independent monitoring.** The level of public mistrust in the Bank is very high in many developing countries. The Bank should therefore seek to rebuild trust by introducing independent monitoring systems. For example:

  — conducting independent evaluations of the extent to which the principles have been applied during the process for agreeing each new operation, as one of the criteria for consideration when the operation is up for approval.

Bibliography and acknowledgements

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Acknowledgements
This report was written by Jesse Griffiths, and researched by Tasleem Mazhar, Specioza Kiwanuka, Karen Joyner, Jesse Griffiths and Romilly Greenhill. For more information, please contact:

jesse.griffiths@actionaid.org or romilly.greenhill@actionaid.org

This report received the support and input of a large number of colleagues and partners. Particular acknowledgments are due to Tennyson Williams, Hussaini Abdu, Khadim Hussain, Aqsa Khan, Azhar Lashari, Rukhsana Shama, Rick Rowden, Raphael Yves Pierre, Sophea Ung, Eric Gutierrez, Hoang Phuong Thao, Patrick Watt, Anne Jellema, John Samuel, Sandeep Chachra, Stephanie Ross, Laurance Watts, Linda Liviani, Paul Harding, Melissa Hall and Akanksha Marphatia at ActionAid, the staff at the World Bank in Washington, Islamabad and Kampala, Hetty Kovach at Oxfam, Olivia MacDonald at Christian Aid, Peter Chowla and Jeff Powell at the Bretton Woods Project, and Lucy Hayes and Nuria Molina at Eurodad.

ActionAid International is registered under Section 21A of the Companies Act 1973. Registration number 2004/007117/10

Design: Ranch

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ActionAid International
PostNet Suite #248
Private Bag X31
Saxonwold 2132
Johannesburg
South Africa

Telephone +27 (0) 11 880 0008
Fax +27 (0) 11 880 8082
Email mail.jhb@actionaid.org
Website www.actionaid.org

International Head Office
Johannesburg

Asia Region Office
Bangkok

Africa Region Office
Nairobi

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