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OSLO CONFERENCE FINDS WORLD BANK, IMF STILL PUSHING CONDITIONS

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The origins of the conference lie in the political platform formulated by the Norwegian coalition government which in its Soria Moria Declaration stated that "Norwegian aid should not support programmes that are made conditional on liberalization and privatization." The conference saw a lively debate, including between policymakers, NGOs, researchers and agency representatives, on the content and process of conditionality in Bank and Fund loans.

Below is a report on the conference.

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With best wishes
Martin Khor

Oslo Conference Finds World Bank, IMF Still Pushing Conditions

By Martin Khor, 29 November 2006

Developing countries taking policy loans from the International Monetary Fund and the World Bank still have privatization and liberalization conditionalities attached to their loans, while the two institutions also make use of other methods to push their policies onto developing countries.

These views emerged at a Conference on Conditionality organized here on 28 November by the Norwegian Foreign Ministry. About 100 participants included government officials of several European countries as well as NGOs and academics from developed and developing countries.

The conference saw a lively debate, including between policymakers, NGOs, researchers and agency representatives. The World Bank and IMF were scheduled to speak, but only the Bank's Vice President for Operations came and actively participated. The invited IMF official did not come (he was reported ill) nor was a substitute sent, although a IMF paper was distributed.

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Opening the conference, Norway's Minister of International Development Erik Solheim said "we are curious what is the state of World Bank-IMF conditionality".

"Our government came to office on a programme that there should be no conditionality forcing loan recipients on liberalization and privitisation," he said. The choice of such policies should belong to the countries.

"Some want to nationalise, some want to privatize. Such policies are up to the countries and should not be made by donors or creditors," he said. For developed countries, that had established the basis for both growth and democracy, there had been no set pattern, as there had been varying degrees of emphasis among them on the private sector or the public sector.

Explaining the reason for the conference, Solheim said Norway had asked the Bank and Fund if they put forward privatization and liberalisation conditionalities with their loans, and they said "no more." But the NGOs had said that in fact there was no change. The only way forward is to determine the facts, to "seek truth from facts." There was thus need for open dialogue as for too long the discussion had been in closed circles.

The United Kingdom's Parliamentary Under Secretary State for International Development, Gareth Thomas, said his government took conditionalities seriously as donors should use the right kind of conditionality.

"Imposing development from outside does not work," he said. "Countries must formulate their own policies and donors should move away from the old neo-liberal approach." The best policies come from public debate, which donors should not prevent. As aid comes from taxes, citizens can hold the government accountable that the funds are not misused and thus, "if we get our approach right on conditionality."

Thomas said the new UK aid policy is built on poverty reduction and achieving MDGs, respect for human rights and financial accountability. To make aid more predictable, "we'll move from aid only if the country moves from these three principles."

Improving Fund and Bank conditionality is important, and "we will also press the regional development banks to review their conditionality," said Thomas. "The days have moved from where the IMF and World Bank tell countries what to do."

The UK had asked the World Bank in 2005 to review if their conditionalities had changed, and it would not release 50 million pounds sterling to the Bank if there was no progress. Good practice guidelines must be followed and "we will hold the Bank to account for that."

Christian Aid policy head Charles Abugre said the key issue is a contest over policy and whether it is acceptable for the Fund and Bank to have unfair leverage on developing counties' policies or whether the countries have the right to decide policies for themselves.

The Fund and Bank "have got it wrong on their growth formula, on trade liberalization, on privatization... Given the shifting knowledge on these areas, the real contestation is whether they should have such influence on policy."

Abugre said that World Bank President Paul Wolfowitz at a recent meeting with NGOs in the UK had admitted that "we know conditionality does not work and even corruption as conditionality doesn't work."

Another major problem is the erosion of policy space for developing counties due to conditionality, said

Abugre. Although the Bank and Fund have tried to reformulate their policies, the content remains the same and they retain overwhelming power. For example, the number of conditions are said to be reduced, but in fact many of them have simply been re-grouped into fewer “mega conditions”, and instead of calling them conditions, some of these are now re-born as “benchmarks.”

Abugre said that conditionalities can be defined as “the use of the threat of reprisal to get governments to act”, and these continue, sometimes in new forms, and have even expanded. For example, the Bank and Fund have moved to get countries to adopt liberalization of services, government procurement and investment - the “Singapore issues” rejected at the WTO but are pushed as second generation liberalization areas by the two institutions.

Abugre remarked that these new forms of conditionality were not reflected in the review reports of the Fund and Bank, nor in the study on conditionality commissioned by Norway, and thus the supposed progress on reducing conditionality reported was misleading.

Abugre added that “harmonization” of donor policies, which had been stressed by the Bank, may present opportunities (for more predictability and provide a platform for negotiations) but also the danger of establishing a creditor cartel. “The cartelisation is at national and regional levels but there is no counterpart cartel of African debtor countries.”

He also proposed a key role for the United Nations in coordination between donors and recipient countries. Unlike the Bank and Fund, the UN is not a creditor and thus there is no conflict of interest situation (as when the Bank and Fund coordinate the framework).

“UN coordination at country level helps but there should be a shift of resources to the UN also, so there is competition too in ideas.”

The World Bank’s Vice President and Head of Network Operations Policy, James Adams, said a review of the Bank’s conditionality, requested by the Development Committee, had been published and its findings and “good practice principles” (GPP) had been endorsed by the Committee in September 2005.

These principles comprised (1) ownership (reinforcing country ownership); (2) harmonization (agreeing up-front with the government and other financial partners on a coordinated accountability framework); (3) customization (of the accountability framework to reflect the country’s circumstances); (4) criticality (to choose only actions critical to achieve results as conditions for disbursement); and (4) transparency and predictability.

Adams said that the Bank in November 2006 published a progress report involving 19 of the Bank’s operations (63% from IDA-only countries). He provided figures showing that the number of conditionalities had been declining in recent years, and also that there was a shift in conditionalities away from themes like economic management towards public sector governance issues.

“We agree the Bank should reduce the number of conditions,” he said, as the growth of conditions in the 1980s and 1990s were found to be “inappropriate, not an effective way to respond to crises” and there should be focus on critical areas instead. He also denied that the “benchmarks” introduced were not an underground way to put in conditions as these are not conditionalities.

On trade reform, the Bank worked with the WTO, said Adams. The Bank also “avoids conditions on sensitive policy areas if country ownership cannot be ascertained. Also, the Bank should not duplicate areas where the IMF has conditions.”

Benedicte Bull, lead author of a report on Bank and Fund conditionality to encourage privatization and liberalization (commissioned by the Norwegian government), said that the Bank and Fund had claimed that they had reduced the number of conditionalities but that the NGOs in their studies had found instead that there was a rise in the number of conditionalities. This disagreement was partly due to different definitions of conditionalities.

Bull said that their study included a review of 40 PRGF (poverty reduction and growth facility) programmes of the IMF signed between 2002 and 2006. There was privatization conditionality in 23 of the programmes, plus detailed description of privatization policies in another 10 “Letters of intent.” Liberalisation conditionality was also found in 11 of the 40 programmes.

A review on trade policy carried out under the study found that the Bank and Fund still advocate trade liberalization, with the Bank focusing on “behind the border” measures, while the IMF states that trade liberalization is part of its mandate and was found to be more “orthodox” in policy recommendations.

Four case studies carried out (in Bangladesh, Mozambique, Zambia and Uganda) found that privatization and liberalization conditionality was found in 3 of the 4 cases. However, the study found that many of these conditionalities in new programmes are “left over” from older programmes; in no case have conditionalities been efficient in ensuring policy change; and conditionalities are not the most important way of influencing policy.

The study also found that priorities set out in national development plans were reflected in the IMF-World Bank programmes. However, Parliament seems to play a marginal role in economic policies, and the use of external consultants reduces customization to local circumstances and impede ownership, said Bull.

She added that the case studies noted changes in Bank and Fund practices (with greater openness, flexibility and donor harmonization), but donor harmonization also means that the donors can “gang up” against the government. The local Bank and Fund representatives also show little knowledge of the World Bank’s good practice principles.

Gerald Ssendaula, former Finance Minister of Uganda, as a discussant, remarked that a relevant saying in the debate is “He who pays the piper sets the tune.” “African and weaker countries see themselves in that position,” he said. “How much can you debate with the World Bank when you are in this situation.”

“You are seen as letting your country down if you contradict the World Bank and IMF. This is psychological conditionality.”

There were many statements from the floor, especially from NGOs in both North and South, giving views and examples on how the Bank and Fund were maintaining and even expanding their policy influence in liberalization and privatization.

It was pointed out that the World Bank had recently issued a paper attacking the WTO proposals on special products (SPs) and special safeguard mechanism (SSM) that developing countries through the Group of 33 had put forward in an attempt to ensure that liberalization measures in the Doha Round do not adversely affect small farmers and food security.

Even after the G33 had formally complained about this to the Bank’s President, the Bank had made a formal statement in the WTO alleging that the SPs and SSM proposals would adversely affect the poor.

Several other examples were also brought forward on how the IMF and World Bank had used their power to influence developing countries' trade and investment liberalization positions and policies.

For example, the Bank and Fund had held a workshop in Geneva with African countries, that included presentations proposing that these countries should give up the principle of special and differential treatment in the WTO, as part of advice to them to undertake rapid import liberalization.

It was also pointed out that countries in Africa had suffered from de-industrialization as a result of low applied tariffs that were established previously as part of IMF and World Bank conditionality and remain as part of their advice. The income and livelihoods of small farmers had also been hit when countries were prevented from raising their low applied agricultural tariffs (even though allowed by WTO rules) when cheap subsidized food imports from developed countries flooded the local market.

A representative of IBON (a Filipino NGO) said the claim that there had been a reduction of conditionalities was based on an illusion, as there had been only a change in tactic. He stressed that the Bank and Fund were "merely clustering important conditionalities into a mega conditionality and then they claim that the conditions have been reduced."

A delegate from the Jubilee Zambia group challenged the claim of increased country ownership of IMF-World Bank policies. "When a Minister of Finance and his officials walk into the room with the IMF delegation which has come with a document from Washington and the Minister only rubber-stamps the document, can we call that ownership?"

A representative from an NGO from Uganda working on debt said that since 2001 he had not seen any serious changes in the World Bank. "The conditions on liberalization and privatization still remain, and the results have not changed either. Poverty went down and then has gone up again. The World Bank still remains the driver in front. Who then is the owner?"

An economics professor from Bangladesh said that the Bank and Fund had to be viewed in perspective. "We feel everyday their power and privilege. The office of the IMF is in the Central Bank and the IMF is present at the Central Bank meetings. Their privilege to set policies is not written in conditionality, but they make use of oral conditionality as part of their power and privilege."

He had been examining Bank and Fund documents for 3 decades in Bangladesh, before and after "structural adjustment programmes", and they remain consistent. "Only the words change," he said. "Now, privatization is called restructuring public institutions. 'Rationalisation of prices' is used instead of raising prices. The PRSP continues the same programme as structural adjustment."

He added that the Bank and Fund had built a support base in the country, and institutions had been restructured in a way that there are beneficiaries among the elite who speak on behalf of the Fund and Bank.

The Africa Network on Debt and Development said all conditionality is not acceptable as it is used as a tool of control with adverse effects to recipient countries.

A German development bank official said that lessons could be obtained from the EU's relation with its new member states. He posed the question why conditionality is a success story in this case, but not in Africa's experience with conditionality.

Eurodad's representative stressed that the "do no harm" principle should be adopted, and that the Bank, Fund and donors should not experiment with people's lives. "Stop giving policy advice that we are not certain about and that are very controversial", she said. She added that a major factor for the successful integration of new

EU members, such as Spain (when it joined in 1986) had been the massive transfer of financial resources to these countries based on the principle of wealth redistribution and of rights, rather than the aid or charity with conditions that the developing countries are getting.

Actionaid International said the World Bank's definition of ownership was very limited, as it considers that something is owned if the government's policy document mentions it. This raises the question of how did this "commitment" develop, as often it is the result of engagement with the Bank.

There is also the problem of the power of the Bank and Fund in these negotiations, especially the "signaling power" that they have in that other donors and the markets look to the views of the Bank and Fund in making their own decisions.

In concluding remarks at the end of the Conference, Atle Leikvoll, a senior official at the Norwegian Foreign Ministry, said the meeting did not come up with a consensus on conditionality, and thus the debate had not ended.

He concluded that there were different roads forward for the different stakeholders. The researchers would have to continue their work, as "we will continue to need research."

On the role of civil society, he said this was vital as there would be a missing element unless there is "strong CSO engagement."

As for like-minded developed countries such as Norway, the UK, Sweden and Germany, "we have our role to pursue, in the Boards of the Bank and Fund. We have responsibility to pursue it at our country level."