Oslo Conditionality Conference

On 28 and 29 November 2006 Mr Erik Solheim, the Norwegian Minister of International Development hosted a two-day conference in Oslo on the current use of conditionality in the International Finance Institutions.

The first day of the conference was open to civil society and included a high-level panel debate. Mr Solheim's opening speech was followed by an introduction by Vice-president Jim Adams from the World Bank. Regrettably, IMF had to cancel their participation at the last minute. Charles Abugre from Christian Aid UK, representing civil society, introduced the critical view of the Bretton Woods Institutions (BWI). Ms Benedicte Bull, University of Oslo, presented a recent study on "The World Bank's and the IMF's use of Conditionality to Encourage Privatisation and Liberalisation", conducted by herself, Alf Morten Jerve (Chr. Michelsens Institute) and Erlend Sigvaldsen (Nordic Consulting Group). Mr Gerald Ssendaula, Minister of Finance, Uganda 1998-2005 represented the lending countries in the panel. Mr Gareth Thomas, Under Secretary of State, DfID held a short introduction in the afternoon session and participated in the ensuing debate. Mr Atle Leikvoll, Deputy Secretary General, Norwegian Ministry of Foreign Affairs, was moderator of the conference. He referred to conditionality as the "real terms attributed to the transaction of financial funds" and asked the panellist to elaborate on the critical factors for establishing natural ownership. The term ownership was at the core of the discussion. Leikvoll concluded the first day by stating that we do not yet see a consensus on the issue of conditionality, that further research is needed, that civil society needs to stay involved and that also bilateral donors must assume responsibility.

On the second-day of the conference donor representatives from Denmark, Finland, Germany, The Netherlands, Sweden, UK and Norway met to discuss the possibilities of establishing a common understanding on the use of conditionality.

Below are short summaries of each of the panellists' interventions on the first day of the conference, with links to most of the panellists' presentations.

In his opening remarks Mr. Solheim gave credit to Oxfam for bringing up the idea of a conference on conditionality in Oslo, and said that the main reason for staging this conference was that the IMF, the World Bank and the NGO community give very different answers to the question of whether the financial institution still place undue pressure on governments to privatise and/or liberalise their economies. Mr Solheim referred to his Government's policy platform which states that Norway will not support aid projects or programmes that are conditional upon privatisation or liberalisation . He stressed that privatisation or liberalisation in itself is not negative, but that it should be up to the borrowing countries to make their own policy choices. He noted that in some countries privatisation might be a way to deal with corruption while in others privatisation would simply be a transfer of national wealth into the hands of private individuals. He also referred to the World Bank's 2005 review of conditionality which concludes that economic reform will fail if it is not driven and owned by the countries themselves. Later in the debate Mr Solheim argued strongly in favour of building sovereign states as the way of increasing ownership. In his support for a strong state he said that the consequences of the so-called Washington consensus was actually that the sovereignty of the state was deemphasised.

The World Bank was represented by Vice-president for Country Services and Operational Policy Jim Adams. Mr Adams cited the latest World Bank report on the progress of the World Bank on the implementation on the Good Practice Principles on Conditionality. The report states that the Bank's recent practice in the use of conditionality is broadly consistent with the good practice principles and that most Bank programs are well aligned with government priorities and customized to country circumstances. However, Mr Adams pointed to areas that will need further attention and stressed the importance of avoiding conditions on sensitive policy areas, such as privatisation and liberalisation. if ownership cannot be ascertained or the political environment is fragile. He stated that the Bank is concerned by the number of benchmarks in Bank programmes and that the intention is to reduce the number. He pointed to the case of Uganda where the high number of benchmarks is a result of the Ugandan government wanting to include all their PRSP indicators. This was confirmed by Mr Ssendaula. Jim Adams exemplified the difficulties related to country ownership, describing how one minister representing a borrowing country might be facing 25 donors on the other side of the table. He also pointed to the fact that we all have a tendency to respond to problems by using international rather than domestic expertise and consultants. He admitted that there is an element of inequality in the relationship between the financier and the recipient and said policy space was important. Finally he stressed the crucial role of civil society in building local ownership.

Civil society was represented in the panel by Mr Charles Abugre from Christian Aid, UK. In his intervention he underlined there are different views on what can actually be called conditionality. He said that while the World Bank does not consider benchmarks to be conditionality, that is what they are. Further, he stressed that also the Country Performance and Institutional Assessment (CPIA) exercise is conditionality. He also said that the perception of the World Bank forcing conditions on poor countries is widespread, and that “the IFIs should not have a lever on countries’ policies”. Mr Abugre concluded by saying that one must untie policy advice from loans and that the World Bank should stick to lending for projects and not for policy. He questioned the term ownership as meaningless by arguing that if a country was treated as the sovereign state it actually was, no one would need to ask about ownership. Mr Abugre therefore argued that ownership, if one should use that term, was built by strengthening the democratic processes and the state’s sovereignty. He closed his interventions by reminding that what actually ends up at the World Bank’s plate comes from the bilateral donors.

The mandate of the above-mentioned study conducted by Bull, Jerve and Sigvaldsen was to “conclude about the extent to which the World Bank and the IMF in recent years have put pressure on governments to introduce policies of privatisation and liberalisation through the use of conditionality”. In her presentation, Benedicte Bull concluded that privatisation and liberalization are still included as conditionalities in World Bank and IMF loans, but are less common than before. You will find the presentation and the whole report. She also stressed that “The IFIs exert considerable influence through policy advice and more subtle ways than outright conditionality, and have not generally elaborated alternative policies to those involving privatisation and liberalisation”. Responding to the question of critical factors for establishing ownership she used the term policy space and said that the donor community should present different policy alternatives and the consequences of different policies should be elaborated. Ms Bull also questioned the World Bank’s use of “track record” as an element of ownership by pointing out that the use of “track record” can only be a response to the efficiency problem of conditionality and not to the issue of sovereignty.

Mr. Ssendaula introduced the term psychological conditionality. He stressed the need of both parties to respect each other, but still found the expression “He who pays the piper calls the tune” relevant. Further, he highlighted the importance of confidence in the dialogue with the IFIs. This is something that has to be built over time. In that respect he made a reference to his own experience as Minster of Finance in dealing with the IFIs, saying that Uganda had gradually gained the necessary confidence. Capacity building is thus crucial for building confidence and for real ownership.

Under Secretary of State Gareth Thomas, UK based his intervention on the three objectives underlying UK ODA; reducing poverty and achieving the MDGs; respecting human rights; and strengthening financial management and accountability. Thus the right kind of conditionality is important. He distanced UK from earlier “conservative and neo-liberal” policies and conditionalities. He stressed the role of parliaments and civil society in building local ownership and generating debate. Further, he emphasised that UN agencies at country level should help countries use the money from the World Bank in accordance with their own priorities. Mr Thomas warned about imposing our own political judgement on the borrowing governments. As he said; “it is not for me to say that developing countries should not privatise, but I can question if it is the right thing to do and ask about the consequences for the achievement of the Millennium Development Goals.” Finally he recognised the progress done by the World Bank and the IMF regarding implementation of the good practice principles on conditionality, and that it would be nonsense to remove their financial support.

There were several interventions from the floor, most of them from NGOs. A representative from Action Aid stressed that the different conclusions on the progress of the IFIs in implementing their own principles on conditionality could be explained by differences in the understanding of the term conditionality. Action Aid has conducted an evaluation of the World Bank’s use of conditionality. Oxfam has produced a similar critique. **Source: http://www.dep.no/**