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Flawed conditions:
The impact of the World Bank's conditionality on developing countries

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Executive summary

The World Bank exerts enormous influence over the economies of developing countries through loan conditions, advisory services, technical assistance and policy blueprints. Conditions are significant because they tend to lock in a donor-driven reform agenda in recipient countries. Loan conditions are part of the World Bank's Development Policy Financing (DPF) and have long been criticised by civil society, academics and developing country governments. They undermine borrower country ownership and restrict policy space, and all too often they have harmful impacts on the lives and livelihoods of people, especially the world's poorest and most vulnerable.

This briefing aims to shed light on the extent to which the World Bank advances its own policy agenda through loan conditionality. Eurodad – the European Network on Debt and Development – examined the loan conditions attached to Development Policy Operations (DPOs) for 2017. We looked at 53 DPOs in 46 countries, including 30 International Development Assistance (IDA) operations (in 28 countries) and 23 International Bank for Reconstruction and Development (IBRD) operations (in 18 countries).

We 'unbundled' conditions to identify all conditions including those that refer to more than one policy issue, and we found 506 conditions for 53 DPOs – 9.6 conditions per operation on average. We focused on prior actions, the conditions borrower countries need to fulfil before the loans are disbursed.

We then examined conditions in five key policy areas: economic policy; increasing the role of the private sector; public financial management; agriculture; and social protection. Doing so, we found evidence that the World Bank's own strategic approaches and ideological preferences are reflected in loan conditions. Loan conditions promote the 'private finance first' ideology of the World Bank's Maximizing Financing for Development (MFD) approach that was adopted in 2017 and also the (foreign) business-friendly approaches which guide the World Bank's *Doing Business Report*, the Enabling the Business of Agriculture agenda and the World Bank's own procurement policy.

World Bank lending will be scaled up in the coming years due to the capital increase approved last year. Loan conditions will therefore become more relevant for borrower countries, making such analysis timely and worthwhile.

Our findings:

- **Economic policy**: Eurodad found that 14.2 % of the World Bank's conditions are related to controversial economic policies, in particular fiscal and trade policies. Prior to receiving DPO funding, the recipient country must have an International Monetary Fund (IMF) seal of approval on the soundness of its macroeconomic framework.
- **Role of the private sector**: The briefing revealed that 27.7% of all prior actions are intended to enhance the role of the private sector, by improving the business climate, privatisations and other measures. 67 prior actions (or 15.4% of the total) corresponded to the indicators of the World Bank's *Doing Business Report*, which measures the ease of doing business in countries around the world. Eurodad also identified 11 conditionalities that are directly linked to the implementation of the MFD strategy in three pilot countries – Egypt, Iraq and Jordan.
- **Public financial management**: Nearly a quarter of all conditions focused on public financial management (77 conditions) and procurement (19 conditions), representing 22.1% of the total. The World Bank exerts a large influence over the design of local institutions, and this stands in contrast to the Busan Partnership Agreement on ownership and the use of country systems[1], which call for a "country-led" approach to development and mutual agreed tools.
- **Agriculture**: Overall, we found 55 conditions aligned to the World Bank's Enabling the Business of Agriculture agenda, representing 12.7% of the total. This suggests that the preferred reforms as part of the ranking, which is portrayed as a knowledge instrument, have become policy prescriptions for the agricultural sector.
- **Social protection**: The World Bank prefers social spending targeting: 12 out of 18 conditions for social programmes were focused on enhancing targeted approaches to social spending, representing nearly 3% of all conditions. Despite, the shortcomings of targeting, the evidence suggests that the World Bank is promoting this approach to social protection in recipient countries.

Although the number of legally binding conditions has decreased from 13 conditions per DPF a decade ago to 9.6 conditions now, both the design of DPF and the content of conditions are still very influential in determining domestic economic policies and shaping domestic institutions in countries that have received funding from the World Bank. This briefing shows that the Bank continues to attach controversial economic policy conditions to its operations, which lock in a donor-driven reform agenda across different country contexts and undercut democratic ownership of development policies. In different countries, World Bank conditions have triggered fiscal austerity and reduced budgets for public sector workers, the privatisation of public services due to the promotion of public-private partnerships laws, and market liberalisations that benefit big corporations to the detriment of small and medium enterprises and smallholder farmers.

To prevent promoting a biased policy agenda, the World Bank should review its operational policy on DPF and adopt a policy that fully respects democratic ownership, avoids promoting World Bank policy prescriptions and unequivocally ends the use of economic policy conditionality.

Introduction

Development Policy Financing (DPF) is one of three financing instruments provided by the World Bank Group. The other two being the Investment Project Finance (IPF) and Program for Results (P4R). The DPF instrument promotes policy and regulatory reforms through conditionalities attached to finance. As such these programmes are very influential in determining the type of reforms pursued by recipient countries. The instrument is expected to rise in prominence since the adoption of the Maximizing Finance for Development approach by the World Bank in 2017, which seeks to create an enabling regulatory environment for private investment. The crucial question is whether this instrument will strengthen democratically owned approaches to development or rather reinforce the advancement of policy blueprints by the World Bank.

This briefing evaluates to what extent the World Bank's policy agendas and policy prescriptions are being promoted through conditionality as part of Development Policy Financing. We focus on the World Bank's prior actions, and thus shed light on one of the key mechanisms through which the Bank exerts questionable policy influence at the country level.

World Bank conditionality is not a new issue for watchdog CSOs including Eurodad. However, our last in-depth analysis was published back in 2007[2]. The key concerns highlighted back then included the large number of conditions in particular in the field of economic policy. Since the World Bank's review[3] conducted in 2005 the number of conditions for low-income countries (LIC) has steadily declined over the years. Previous Eurodad research in 2007[4] found an average of 13 prior actions per loan for the period 2003-2007 for LIC. The current briefing finds 9.6 conditions per operation on average for the poorest countries. However, the number of conditions is just one part of the problem. The other part is the type of conditions – a small number of controversial economic policy conditions can be very detrimental to a country's development agenda. This issue is still a matter of concern, as shown by the type of policy and regulatory reforms implemented as part of the World Bank's Maximizing Finance for Development (MFD) approach.

This briefing aims to contribute to the debate by updating our analysis of the issue. It is structured as follows:

Section 1 presents the instrument of Development Policy Financing (DPF), and lays the groundwork for the analysis in sections 2 and 3.

Section 2 lays out the scope of the analysis and includes data on the extent of conditionality.

Section 3 analyses how the main World Bank policy agendas, such as the MFD approach, are promoted through prior actions in the World Bank's DPF.

1. Looking at the World Bank's Development Policy Financing

Development Policy Financing (DPF) is an instrument of the World Bank that is disbursed as general budget support. The wide and unspecified objective is "to help a borrower address actual or anticipated development financing requirements".[5] DPF can be provided in the form of non-earmarked loans, grants, credits or policy-based guarantees. These different types of finance are referred to as Development Policy Operations (DPOs).

DPF is provided by the International Bank for Reconstruction and Development (IBRD) as well as by the International Development Association (IDA), which are both part of the World Bank Group. The IBRD lends money to middle-income countries while the IDA offers grants or concessional loans to low-income and lower-middle income countries.

DPF is disbursed through a programme with policy and institutional focus that can, for example, target public finance management, the investment climate, climate goals or the diversification of the economy.[6]

The use of DPF in a given country is determined by the World Bank's Country Partnership Framework (CPF), which lays out the objectives for the Bank's assistance at the country level.[7] The CPF is, in turn, influenced by the Systematic Country Diagnostic reports, which is a diagnostic exercise prepared by World Bank staff to identify key challenges and opportunities at the country level to accelerate progress towards development objectives. According to the World Bank, they consult several stakeholders at the national level – ranging from private sector to government and development partners to civil society – when preparing these reports.[8]

DPF is governed by a specific operational policy (OP) – in this case OP 8.60. This determines that DPF funds are made available to a country if it: maintains an "adequate macroeconomic framework", as determined by the Bank and the International Monetary Fund (IMF); implements satisfactorily "the overall program reform programme"; and complies with "a set of critical policy and institutional actions agreed between the Bank and the client".[9]

Regarding the 'adequate' macroeconomic framework, the existence of an IMF programme or assessment is an important element for deliberation. If there is no IMF programme, the World Bank makes its own assessment, but checks with the IMF if there are any outstanding concerns as part of the regular IMF surveillance (Article IV).

If the Bank considers that a country respects the criteria determined through the CPF, it will then prepare a programme document, which sets out the expected results of the country's programme supported by the Bank.[10] When establishing the programme, the Bank determines a set of policy and institutional actions that the recipient country has to undertake to make the programme successful. These actions are translated in the programme document into 'prior actions' and 'triggers'. *Prior actions* are a set of policy and institutional actions – framed in legal terms – that a country has to comply with before the Bank's Board approves the programme. Similarly, *triggers* are the planned actions in the second or later year of a programme, and they will constitute the basis for prior actions of future operations.[11] Triggers condition policy reforms in a later stage of the engagement, while result indicators also fashion the types of reforms to be implemented in order to get the desired results.

The wide range of requirements, eligibility criteria and conditionalities challenge the principle of democratic ownership, which asserts that development priorities should be the result of an inclusive democratic process, including national parliaments, trade unions, local civil society organisations (CSOs) and citizens.[12] The fundamental contradiction when it comes to Development Policy Financing is that the instrument is supposed to promote borrower country ownership as one of its key objectives. Contrary to Investment Policy Financing, which is earmarked to fund a specific activity, DPF is disbursed as budget support, which implies that the actual allocation of funds is left to the borrower.

However, at the same time DPF comes with onerous eligibility criteria, which include the evaluation of a country's macroeconomic policies, governance and implementation capacities following World Bank-defined criteria, and with intrusive policy conditions attached. Given that, the borrower country is explicitly or implicitly pressured to accept the preferred policies of IMF and World Bank, instead of defining its own. From a development perspective this is a source of concern, since positive development results have been closely associated with democratic ownership, which helps to put people at the centre of development policies.[13]

2. Scope of the analysis

The analysis included in this briefing covers development policy operations (DPOs) committed in 2017, the latest year for which data was available at the time of writing. These included 53 DPOs in 46 countries, consisting of 30 IDA operations (28 countries) and 23 IBRD operations (18 countries). The data analysed comes from the World Bank's Development Policy Actions Database, which is publicly available and regularly updated and the review of associated loan documents.[14]

The 53 DPOs included 434 prior actions, representing an average of 8.2 conditions per operation, which is consistent with the average of eight prior actions reported earlier in the World Bank's review of DPF – Development Policy Financing Retrospective of 2015.[15] However, our analysis of these conditions concludes that the Bank lists as a single condition several policy and institutional actions that are 'bundled' together. After 'unbundling' several conditions, which were wrapped into one condition, we found 506 conditions for 53 DPOs or 9.6 conditions per operation on average (see Table 1). The remainder of the analysis will concentrate on these 434 bundled conditions.

Table 1: Number of conditions on average per development policy operation (DPO) per lending arm

	IDA	IBRD	Totals
Bundled	7.8 (235 for 30 DPO)	8.7 (199 for 23 DPO)	8.2 (434 for 53 DPO)
Unbundled	9.2 (275 for 30 DPO)	10.0 (231 for 23 DPO)	9.6 (506 for 53 DPO)

Breaking down the data for the two World Bank Group institutions yields the following data: for IDA we found 30 operations in 2017 amounting to US$1,841.83 million. This represents 9.4% of overall IDA commitments and 3% of overall World Bank Group commitments. For IBRD, we found 23 operations in 2017 amounting to US$7,687.09 million. This represents 34% of overall IBRD commitments and 12.4% of overall World Bank Group commitments. IBRD DPOs comprise a slightly higher number of conditions on average, which suggests that the number of conditions is correlated to the amount of money that has been lent.[16]

In its database, the World Bank classifies the conditions attached to its loans and grants according to sectors and themes:

The bulk of World Bank conditionality – 31.4% – is related to public sector management, which mainly concerns reforms in the area of 'Public Financial Management' (16% of total, 77 conditions) and 'Public Administration' accounting for 12%.

The category 'Environment & Natural Resource Management' is focused on reforms in the energy sector (12% of the total). Some CSOs have been questioning the positive impact of these reforms on the climate (see Box 2).

Development Policy Financing seems like an 'adequate tool' to support the policy and regulatory reforms that pave the way for increased private sector participation.

Other prominent themes include financial sector reform and economic policy reform. The latter is focused on fiscal policy reforms.

The private sector development category officially accounts for just 8.7% of conditions according to the World Bank's own categorisation. However, we found additional conditions related to promoting private sector participation in other categories, especially in those related to the energy sector.

In the next section the analysis looks across these categories to evaluate the extent to which the World Bank is advancing specific policy agendas through loan conditionality. These policy agendas do not correspond with categories used by the World Bank, therefore the analysis will look across the categories mentioned in Table 2.

Table 2: Thematic distribution of conditionality (both IBRD & IDA combined)

Theme level	Conditions as % of total conditions	Number of conditions
Economic policy	14.2	62
Private sector development	8.7	38
Finance	14.6	63
Public sector management	31.4	136
Social Development and Protection	4.1	18
Human development and gender	4.3	19
Urban and rural development	6.4	28
Environment and natural resource management	16.1	70
Total	**100**	**434**

3. The Development Policy Financing: Democratically owned or a blueprint policy agenda?

The World Bank's practice of policy conditionality – tying its loans to the implementation of certain policies by the recipient country – has long been a contentious issue. Civil society organisations, developing country governments and academics have criticised the Bank's use of policy conditionality. In particular, they criticise its use of economic policy conditionality for being ineffective, undermining country ownership and for imposing inappropriate policy choices.[17] In the following section, we highlight the important trends in World Bank conditionality and explore how they are linked to the institution's own policy agenda.

In 2017 the Word Bank launched the 'cascade' approach, which was later renamed as the 'Maximizing Finance for Development' (MFD) approach.[18] This is an overarching policy agenda to guide the Bank's operations. The main objective is to promote private sector finance over public finance. According to the cascade principles, the World Bank, "first seeks to mobilise commercial finance" and "only where market solutions are not possible through sector reform and risk mitigation would official and public resources be applied".[19]

The cascade approach implies a strong emphasis on 'de-risking' private finance by promoting changes in the regulatory framework that give more favourable conditions to private investors. These include changes in laws that alter risk-reward calculations, and provide subsidies, guarantees and various other risk-mitigation instruments. In this regard, DPF seems like an 'adequate tool' to support the policy and regulatory reforms that pave the way for increased private sector participation.

In fact, the MFD approach explicitly refers to development policy loans as an instrument to eliminate "regulatory constraints for private financing in a priority sector".[20]

Importantly, an initial set of nine pilot countries has been identified: Cameroon, Côte d'Ivoire, Egypt, Indonesia, Iraq, Jordan, Kenya, Nepal and Vietnam. Building on these initial pilots, the implementation of MFD will be scaled up geographically and in terms of sectors. This briefing will highlight the reform agenda of three of these pilot countries: Egypt, Iraq and Jordan.

A. Economic policy conditionality

For this analysis we divide the category economic policy conditionality into broader economic policies and role of the private sector. This was done to capture to what extent the World Bank's focus on private sector promotion emerges in DPO conditionality. We have mirrored the prior actions that aim to increase the role of the private sector to the indicators of the Doing Business Ranking and regulatory reforms as part of the MFD approach. Overall there were 155 economic policy conditions representing 35.7% of the total.[a]

General economic policies

To be eligible for World Bank's Development Policy Financing a country must have a 'sound macroeconomic framework'. The existence of an IMF programme is a crucial factor here. In the absence of an IMF programme the World Bank tends to coordinate with the IMF on a country's macroeconomic framework. IMF programmes typically already include strict fiscal targets and an extensive structural reform agenda that is heavily geared towards fiscal austerity. So, in order to be eligible for a World Bank loan, countries will typically have to abide by IMF conditionality.[21]

World Bank conditionality on economic policies is designed along the lines set out in the 'sound macroeconomic framework' and it pays particular attention to fiscal sustainability – fiscal policy represents 8.5% (37 conditions) of all conditionality, and 26 of those conditions were geared towards fiscal austerity. In our sample we found 21 DPOs (14 IDA, seven IBRD) had at least one condition related to fiscal policy covering budgetary decisions, expenditure policy, debt and tax policies. The remainder of conditions focused on trade policy.

Wage bill reform is perhaps one of the most controversial components in this area of conditions, as it is one of the most obvious social costs of adjustment programmes that promote fiscal austerity. We found nine conditions calling for containing or reducing a country's wage bill. In practice, these conditions led to hiring freezes and layoffs in the public sector. In the cases of Lao People's Democratic Republic, Colombia and Serbia, loan conditionality was very specific in terms of putting ceilings in place for public sector hiring. In Serbia loan conditionality called for reducing staff of the public railway and the electricity company as part of the downsizing operation for these state-owned companies.[b]

a 27 prior actions in the field of tax and trade policy overlap and fit both the economic policy category and Doing Business indicators. They were not counted twice within the 35.7% total for economic policy conditions.

b Based on analysis from the World Bank's DPO database.

Increasing the role of the private sector

In this section we look across the different World Bank categories (see Table 2) in order to identify all the different conditionalities aimed at enhancing private sector participation. Overall, we found 120 conditions – 27.7% of the total – directed at increasing the role of the private sector. The analysis concentrates on the content of private sector conditions and links them to relevant policy agendas – Doing Business Ranking and the MFD approach. Finally, we listed reforms, which promoted private sector participation in a general sense through sector reform. Overall, reforms typically focus on lifting regulatory constraints for business activity, facilitating international trade, liberalising energy and telecommunications markets, improving competition law, promoting privatisation, public-private partnerships and attracting foreign direct investment through 'one stop shops' for investors and the establishment of Special Economic Zones.

Business climate

The bulk of private sector related conditions – 67 – are reforms coherent with the indicators of the World Bank's *Doing Business Report* (DBR) (see Table 3). The DBR has been published annually since 2002, ranking countries on 11 indicators related to the 'ease of doing business'. The indicators are intended to measure the impact of business regulations – such as registering property, paying taxes and trading across borders – on small- and medium-sized enterprises (SMEs).[22] However, in the current sample, only one DPO – Morocco – focuses specifically on local SMEs. In most cases, general reforms to improve the business climate are intended to benefit the business sector as a whole.

The inappropriateness of the DBR for local SMEs is a longstanding concern.[23] In addition, CSOs[24] and an independent evaluation panel,[25] including the former chief economist of the World Bank, have expressed concerns surrounding the questionable methodology used for the rankings.

Table 3: Conditions related to Doing Business Indicators

Doing Business Indicator	Number of Conditions
Trading across borders	24
Paying taxes	10
Starting a business	6
Getting electricity	6
Getting credit	5
Resolving insolvency	4
Dealing with construction permits	3
Enforcing contracts	3
Protecting minority investors	2
Labour market regulation	2
Across indicators	2[c]
Total	**67**

c These two reforms were aimed at reducing the compliance costs of inspections overall, which can touch upon construction, trade, tax, etc.

The data suggest that the DBR is more than an advisory tool, as the 'suggested' business reforms are locked in through loan conditionality. In the case of Albania, for example, the link between the Doing Business Report and Development Policy Financing for the country was explicit. The 2017 Doing Business Report[26] praised Albania for its reforms in the field of construction permits and access to electricity. Similarly, Albania's Competitiveness Development Policy Loan of 2017 included specific conditionalities on improving the issuance of construction permits, as well as connections to the electricity distribution network. The general trend of these reforms is geared towards deregulation.

In addition to the business climate, other forms of conditionality equally aim to increase private sector participation (see Table 4), in particular through reform of entire sectors of the economy. These reforms concern the privatisation of state-owned companies and creating markets through amending competition rules and facilitating foreign investment. In the energy sector in particular, the World Bank is pushing for regulatory reforms that increase private sector participation. The examples of the MFD pilot countries in Box 1 illustrate this in more detail. In addition, public-private partnerships (PPPs) are equally incentivised through loan conditionality: the adoption of PPP laws and policies are being included in the conditions of five countries: Tunisia, Afghanistan, Mauritania, Bhutan and Burkina Faso, while Grenada's DPL includes the conditions to set up a PPP unit in its government administration.

Table 4: Conditions targeting sector reform and market creation

Type of conditionality	Number
Energy sector	16
Telecommunications	10
Privatisation	6
PPPs	6
Foreign Direct Investment	6
Competition law and regulations	4
Water sector	4
Innovation	1
Total	**53**

Box 1: Putting the MFD approach into practice: the cases of Jordan and Egypt

The study sample of 53 DPOs included three countries – Iraq, Jordan and Egypt – where the World Bank is implementing the MFD approach. The DPOs for these countries included 11 conditions specifically related to the MFD strategy. The reform programme of the DPOs figure as regulatory building blocks for the MFD strategy, which involve several World Bank instruments. In what follows, we highlight in more detail the cases of Egypt and Jordan.

Jordan

In Jordan the MFD approach[27] focuses on energy, water, transport, agriculture, education and services. For both the energy and water sectors, the DPO lays the institutional and regulatory foundations for increased private sector participation. For the water sector the conditions focused on both increasing the efficiency of water use and to reduce the financial losses of the water sector. Similarly, a planned project loan also aims to reduce financial losses in the sector in order to 'position the sector for potential increased private sector participation'. Furthermore, another condition required the Jordanian government to adopt a National Plan for Wastewater Treatment Plants, which is backed up by a Multilateral Investment Guarantee Agency (MIGA) guarantee for the expansion of wastewater plants in Jordan through a PPP project.

Egypt

The MFD approach for Egypt focuses on infrastructure and energy. Infrastructure investment is seen as the overarching priority to increase overall private sector involvement. The energy sector reform agenda is centred around two axes: the oil and gas sector on the one hand and the electricity and renewable energy sector on the other. The conditions on electricity and renewables of the 2017 DPO are in line with the MFD priorities: sector reform, better energy efficiency and tariff recovery. The DPO also includes a prior action supporting the modernisation of the petroleum sector in order to make Egypt into a regional oil and gas hub.[28] The World Bank provides advisory services to assist Egypt in the modernisation of the oil sector, which has the objective of improving the fiscal situation and attracting more foreign investment in the petroleum and gas sector.[29]

In conclusion, the reform agenda included in the DPOs we investigated for this briefing contributed to the implementation of the MFD strategy in the pilot countries. The loan conditionality served to create the regulatory environment, institutional foundations and policies for greater private sector participation. DPOs are used in coordination with other World Bank instruments such as project lending, guarantees and advisory services. As such they can be considered as a crucial instrument in the World Bank's toolbox for MFD.

Box 2: World Bank conditions and climate change

The vast majority of World Bank member states have ratified the Paris Climate Agreement and the World Bank has vowed to support countries with their low-carbon transition.[30] The bulk of World Bank conditions in the area of 'environment and natural resource management' are centred around 'Energy policies and reform' – 11.8% of the total. This largely concerns reforms regarding energy pricing policy: subsidies and tariff adjustments mainly for electricity, governance of state-owned enterprises (SOEs) in the energy sector and other regulatory reforms As a result, a substantial share of Word Bank conditions impact a sector that is particularly climate-sensitive.

Country case studies by the Bank Information Center (BIC) Europe, a World Bank watchdog, found that despite some support for renewable energy reforms, World Bank DPFs continue to provide incentives for fossil fuel investment. BIC Europe's research looked at DPF in Egypt, Indonesia, Mozambique and Peru. Conditions in these countries included passing new public-private partnership and investment laws, which eventually led to new private fossil fuel investments, often subsidised with public monies.[31]

For this reason, several CSOs have been calling for safeguards to prevent World Bank conditions promoting extractive and fossil fuel industries.[32]

B. Public financial management and procurement

Public financial management refers to a country's laws, systems and processes that govern the management of public finances. Public procurement is an integral part of public financial management and refers to the purchasing of goods and services by a government with a view to deliver on public services. These are essential elements by which countries make budgetary decisions and implement policies.

Nearly a quarter of all conditionalities focused on public financial management (77 conditions) and procurement (19 conditions), representing 22.1% of the total. These high numbers flow from the fiduciary arrangements of the Bank's Policy on DPF,[33] which includes evaluation of a country's use of foreign exchange and budget resources. For the latter, the policy specifically calls for reviewing a client country's public financial management (PFM) and procurement arrangements.

The Operational Policy 8.60 states: "The Bank reviews the Member Country's public financial management and procurement arrangements through diagnostic work and through reports prepared by the Member Country and others, including published annual audit reports of the central bank and of the government." These diagnostic reviews would consequently inform "Bank decisions on the amount of the DPF, tranching of the Bank Loan, program content, conditionality, and risk mitigation measures".[34]

This approach conflicts with international agreements on development effectiveness. In the Busan Partnership Agreement, the outcome document of the Fourth High-Level Forum on Aid Effectiveness, the parties, including the World Bank, committed to "assess jointly country systems using mutually agreed diagnostic tools. Based on the results of these assessments, providers of development co-operation will decide on the extent to which they can use country systems. Where the full use of country systems is not possible, the provider of development co-operation will state the reasons for non-use, and will discuss with government what would be required to move towards full use, including any necessary assistance or changes for the strengthening of systems. The use and strengthening of country systems should be placed within the overall context of national capacity development for sustainable outcomes."[35]

According to the principles of the Busan Partnership Agreement, using country systems should the default option for development cooperation. Both the assessment, which is based on mutually agreed diagnostic tools, as well as the potential capacity development plans to strengthen country systems are to be carried out in close cooperation with partner countries. However, in practice the Bank uses its own diagnostic reviews to identify 'weaknesses'. Consequently, these reviews inform programme design and conditionality and, as the review of prior actions shows, PFM reforms regularly become a requirement in order to receive funding. These methods contradict the Busan principles on ownership and country systems, which call for a 'country-led' approach to development and mutual agreed tools.

Zooming in specifically on procurement systems, the Bank has an influence on designing the type of systems used. Public procurement is an important branch of government spending, broadly representing between 12-14% of Gross Domestic Product (GDP).[36] This is at the highest level for low-income countries, where public procurement represents 14.4% of GDP. Procurement systems are important, as they determine how a country uses Official Development Assistance (ODA) and project loans. In addition, pro-poor procurement practices have the potential to deliver a double development dividend, through purchasing goods and services locally that deliver benefits both to the domestic private sector and to the beneficiaries of those goods and services[37]

In 2015, the World Bank adopted a new procurement framework, which is designed to govern procurement activities for their project lending. However, its influence reaches a lot further. The World Bank Procurement Framework is considered to be a blueprint for reform at the national level. The Bank exerts this influence on country systems through loan conditionality, technical assistance and diagnostics of procurement systems. This influence has been the strongest in the poorest countries, which have lower leverage – due to financial and organisational constraints – to contest World Bank-driven reforms. Overall, we found 19 conditions on procurement systems in 15 countries, of which 16 conditions were applied in 13 low-income countries.

As such the World Bank yields significant influence over reforms on the design of borrowing countries' procurement policies and systems, which often reflect the practices contained in the World Bank's procurement framework.[38] For instance, in Myanmar the World Bank has been closely involved in designing the public procurement reforms[39] to assist the country in developing an open and competitive procurement system. International competitive bidding remains the Bank's preferred approach for "complex, high-risk, and/or high-value contracts".[40] However, Eurodad research from 2015 raised concerns regarding international competitive bidding as best practice in procurement, as it opens up poor countries' government procurement markets to bids from transnational corporations to the detriment of local SMEs, and in turn limits the capacity of procurement as a development policy tool. In conclusion, the World Bank's influence on the design of country procurement systems, in particular through loan conditionality, remains controversial.

C. Enabling the business of agriculture

The World Bank's ranking 'Enabling the business of agriculture' (EBA) collects data on a number of indicators on the regulatory framework and institutions in the agricultural sector. The indicators aim to assist policymakers in identifying "barriers that impede the growth of agriculture and agribusiness"[41]. Both the data and the advice related to the EBA should help policymakers to improve the regulatory framework for the agricultural sector by offering a roadmap for reform in areas including seeds, fertilisers, machinery, trade and land. The rankings have been largely controversial among CSOs,[42] because the type of reforms promoted would primarily benefit large-scale agribusiness enterprises at the expense of the local agricultural sector and the local economy.

Table 5 displays the conditionalities from the 53 DPOs listed along the indicators of the EBA. Overall, we found 56 conditions aligned to the EBA agenda, representing 12.67% of the total. The bulk of conditionalities focused on land reform and improved Information and Communication Technology services, more specifically access to mobile networks. The land reforms are principally focused on land titling and regulating tenure in borrowing countries, which is a matter of concern. A Study by the Oakland Institute warns that this leads to the commodification of land, which in turn increases the risk of dispossession of the rural poor in the global south.[43]

Table 5: Distribution of conditions in agriculture sector

Topic	Amount
Land reform	11
ICT services	10
Agricultural trade and markets	7
Finance	7
Water management	7
Seeds & fertilisers	4
Transport	5
Other	5
Total	56

Box 3: Agricultural reforms in Malawi

The conditions attached to DPF in Malawi called for various pieces of land legislation to be adopted: the Physical Planning Act, the Customary Land Act, the Land Act and the Land Survey Act. As part of this reform agenda, a land survey is conducted to identify so-called 'idle' land in order to open up this land and improve tenure security for commercial agriculture. However, the World Bank has been criticised for its stance on 'idle land' as in most cases the land appears to be in productive use. A recent research paper argues that large-scale agricultural projects did not live up to their expectations in terms of employment, output and income and they would even deepen rural poverty.[44] As a matter of fact, the promotion of this model incorporates significant risks for local development. For instance, in Malawi, large-scale land deals have been found to have a negative impact on livelihoods and have also led to dispossession of land.[45]

Moreover, conditions in Malawi as well as other countries such as Sierra Leone and Central African Republic promoted the use of 'improved' seeds and synthetic fertilisers. This creates business opportunities for large corporations of such agricultural inputs. Such practices were criticised, however, by the UN Special Rapporteur on the Right to Food who emphasised the importance of local seed systems for both food security and agrobiodiversity and cautioned against the negative environmental consequences of the over-reliance on nitrogen-based fertilisers.[46]

D. Social protection

Overall the World Bank DPFs have few conditions on social protection, which is a finding in itself and where they do have these conditions, they prefer targeted approaches in social programmes. Out of 18 conditions for social programmes 12 were focused on enhancing targeted approaches to social spending. Two of the social programmes supported by DPF, in Rwanda and Guatemala, were among the least effective in reaching the poor, according to a 2019 survey of 38 social protection schemes.[47] In addition the targeting was also found in prior actions for other sectors: two for education, one for agricultural subsidies and for one energy subsidies.

CSOs[48] and international organisations[49] have questioned targeting of social protection, particularly in developing countries, where a large proportion of the population lives in poverty. Some of the concerns raised include increased costs of the administrative burden, gender bias,[50] and under-coverage, meaning many of the most vulnerable people may be excluded.[51] Instead, CSOs are calling for an approach in line with global agreements and international law, which states that social protection should be universal and rights-based.[52]

> Development Policy Financing is a vehicle to lock in a donor-driven reform agenda in recipient countries. Similar reforms are being promoted through conditionality across different country contexts.

The methodology for targeting championed by the World Bank[53] – the proxy means-testing (PMT) – is beset by large 'exclusion errors', as demonstrated by various research reports.[54] This means that many beneficiaries of the desired target group do not receive the proper benefits. For instance, Guatemala's programme *Mi Bono Seguro*, which uses a PMT, failed to reach 96% of the intended beneficiaries.

Despite this major failing of targeted approaches, the World Bank keeps pushing targeted social programmes through its loan conditionality and policy advice. In its loan to Guatemala, for example, the World Bank acknowledged the existence of exclusion errors and lower benefit pay-outs, because of the programme's "wide coverage and lack of resources".[55] Rather than questioning the methodology and approach, which is the root cause for excluding many beneficiaries, the Word Bank continues its plea for targeting. The World Bank's continued push for poverty targeting seems to contradict its stated commitment towards universal social protection.[56]

Conclusion

The World Bank is a very influential actor in the field of development finance. The institution exerts its influence through loan conditionality, advisory services, technical assistance and the promotion of its overarching policy agendas.

This briefing shows that the World Bank approach to conditionality is still fundamentally flawed. Many of the conditions continue to be very influential in determining domestic economic policies and shaping domestic institutions in recipient countries, resulting in harmful impacts such as layoffs of public sector workers leading to reduced public service provision, or market creation for foreign corporations to the detriment of local SMEs and smallholder farmers. The briefing shows that controversial conditionalities in the field of economic policy and promotion of the private sector are still very widespread, representing 35.7% of the total. In addition, nearly a third of all reforms are intended to shape country systems through reform of public sector management.

Prior to receiving Development Policy Financing (DPF) budget support, recipient countries must have an IMF seal of approval for the country's macroeconomic framework. They must also have public financial management systems that are up to World Bank standards and implement the prior actions of the programme. The substance of the conditions tends to correspond with World Bank preferred policies as part of its 'private finance first' approach to development finance, formally called Maximizing Financing for Development, or the Doing Business Report/Enabling the business of agriculture rankings.

Overall, the findings suggest that DPF is a vehicle to lock in a donor-driven reform agenda in recipient countries. Similar reforms are being promoted through conditionality across different country contexts. This suggests that there is a preferred set of policy prescriptions, which serves to undermine democratic ownership of development polices and echoes past critiques of a one-size-fits all approach to development.

If the World Bank is serious about its commitment to its own twin goals of ending poverty and boosting shared prosperity, it should stop promoting a biased policy agenda. We therefore call upon the World Bank to review its operational policy on DPF and to adopt a policy that fully respects democratic ownership, avoids promoting World Bank policy prescriptions, and unequivocally ends the use of economic policy conditionality

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