

**THE REVIEW OF WORLD BANK CONDITIONALITY,
STATEMENT BY THE RT HON HILARY BENN, SECRETARY OF STATE
FOR INTERNATIONAL DEVELOPMENT**

Achieving the Millennium Development Goals is our common commitment and the guiding framework for international development assistance. It is universally accepted that developing countries themselves must lead this process. At Gleneagles it was agreed that developing countries and their governments need to lead on planning and sequencing their economic reforms, to fit with their own development strategies. The responsibility on us, as development agencies, is to maximise the value of assistance we provide and ensure that it supports countries' own plans and efforts to eradicate poverty. This is particularly important as we continue to scale-up the level of development assistance provided to countries. Building successful partnerships with recipients of our assistance is an important aspect of our aid. Development agencies need to demonstrate to their shareholders that the assistance they provide to countries is used for the stated purposes. An effective aid partnership should be based on a shared commitment to strengthen financial management and accountability, and reducing the risk of funds being misused through weak administration or corruption. However, we must ensure that the conditions really make aid more effective and are agreed in a manner which does not distort or undermine countries' own strategies or processes, and that we make a clean break from past practice which sought to enforce particular policy choices.

It is for these reasons that the UK called on the World Bank to undertake a review of its policy and practice on conditionality. I thank the World Bank staff for the manner in which they have carried out this exercise, and the commitment they have demonstrated to ensuring that it is based on current thinking and experience. I appreciate the efforts to consult so widely – there are a wide range of views and experience on conditionality. I am pleased that the review papers have all been released publicly. This statement sets out our position on the main findings of the review to date. I look forward to discussing the findings and recommendations of the review with my colleagues at the Development Committee in September.

I agree with many of the statements in the Bank's review. I acknowledge the positive developments in the Bank's approach to conditionality in recent years. I welcome the commitment from the Bank management to continue to improve the Bank's practice on conditionality, and believe that the approach set out in the papers would be a step in the right direction. I support the good practice principles the review team has put forward, namely: the need to reinforce country ownership; the importance of harmonisation and to agree up-front conditions as part of a co-ordinated framework; the necessity of customising conditions to individual country circumstances; the need to choose only those actions that are critical for achieving results; and, the need to conduct transparent progress reviews conducive to predictable financial support. These accord well with the principles set out in the UK's policy paper on conditionality published in March 2005, and I hope that my fellow governors will endorse them.

The UK paper emphasises the centrality of country ownership and leadership in a development partnership. I am pleased that the World Bank's review has clearly recognised that forcing policy choices on reluctant governments cannot be sustained and ultimately does not work. I therefore welcome one of the review's most important messages – that in supporting a country, the Bank will not seek to lever more or faster reform than a country wants. I hope that the final paper for the Development Committee can make this point very clearly.

We thank the Bank for undertaking an external survey of governments to gather their views. As the survey shows, the evidence on practice to date is mixed. It is encouraging that the vast majority (85%) of responding borrowers agreed that Bank programmes align well with their country's development strategies. However, around a half of countries thought the Bank introduced elements beyond their plans, and more than a third found policies were modified significantly as a result of Bank negotiations. The Bank has considerable experience and knowledge to bring, and many governments – borrowers and donors – rely on and value it. However, this expertise should be primarily used to inform a country's own development plan, and programs should be based on the country's own body of policies.

I recognise that the concept of ownership is a complex one. However the UK position is that it is not enough for there to be a high probability of the policy action or reform being implemented to warrant ownership. That is a necessary requirement, but it is not sufficient. Countries need space to formulate policy, consider the options, and build broad-based support for the path they will take. We should seek to understand the choices that governments make in the light of the political economy they face. We must ensure that in our discussions with countries, we do not crowd out space for domestic stakeholders, especially elected representatives, and support processes that strengthen domestic accountability.

I accept the review's conclusion that the current operational policies of the Bank are consistent with supporting country ownership. In particular, the adoption of the new operational policy for Development Policy Lending in August 2004 was an important step in changing the Bank's approach to conditionality. It removed the prescriptive approach taken on policy areas such as privatisation, trade liberalisation, financial sector reform, and sectoral adjustment, which are particularly sensitive. Statistics show that their use has declined. Guidance to staff now limits the scope of policy conditions to fully owned actions essential to achieving the objectives of the program. However, given the continuing concerns surrounding these issues, and the continued use of policy actions as conditions, it is important that the forthcoming paper for the Development Committee includes a clear statement setting out the strict limited circumstances when the Bank might use sensitive policy actions as triggers or benchmarks. I believe country ownership requires that countries lead in setting program objectives and determining critical reforms. The statement should expand on how actions deemed "critical" to achieving the objectives of the program are to be determined in practice. In relation to this point, the statement should also cover how the Bank will ensure that it has

been informed by analysis of the political, economic, social and poverty impact of these policy changes.

Implementation of these principles is going to be key. I ask Bank management to ensure that staff abide by these principles, and to set out how this will be monitored. In particular, by the time of the Annual Meetings, I would like the Bank to expand on the challenges of respecting ownership during programme negotiations and reviews.

In monitoring staff's actions, Bank management must address significant variations in performance across countries. Management need to consider how to ensure staff incentives support the application of these good practice principles. A statement on the Bank's thinking on this needs to be included in the Development Committee paper.

The use of ex-post conditionality in Poverty Reduction Support Credits (PRSCs) represents a step forward and it needs to be mainstreamed into all Development Policy Lending (DPL). That is not to say, however, that it cannot be as intrusive as other forms of conditionality if it is used to attempt to accelerate or leverage reforms. Further work is required to ensure PRSC/DPL frameworks are aligned with countries' own national development strategies or poverty reduction strategies and do not override existing or emerging domestic policy processes. Predictability is important, and the Bank should consider moving to 3-year PRSCs, particularly in countries well established in this form of adjustment lending.

The review makes a clear distinction between prior actions and triggers that affect disbursements, and performance benchmarks which are not linked to disbursements but serve as a management tool. However, the survey finds that country governments do not recognise the distinction. A great deal of misunderstanding exists on the role and emphasis placed on each by Bank staff. Not only should the paper for the Development Committee clarify the distinction between critical conditions (prior actions or triggers) and benchmarks but, in implementing this new approach, the Bank must also make it clear to borrowers what the role of benchmarks are and the consequence of failing to meet one or all of them. The review needs to articulate the impact that not meeting a benchmark would have on coming year loan disbursements and future allocations of aid. The Bank should also clarify how it intends to reverse the trend of increasingly large and complex sets of policy actions being agreed in PRSC matrices and urge other development agencies to take a similar approach.

It is worth noting that the Bank imposes conditions in a variety of different instruments, for example, in PRSCs/DPLs, in Country Assistance Strategies (CASs), and in investment lending. I hope that the final paper would look at the case for making its approach more transparent and easier for governments, and others, to track by moving conditions out of individual instruments and placing them in the Country Assistance Strategy. Similarly, the Bank must ensure that the results frameworks included in each instrument are appropriate and consistent with a country's own national system.

Finally, we support the adoption of outcome indicators for monitoring the success of Bank-supported programmes. Outcome based indicators should form part of overall accountability frameworks. Over time we anticipate the share of outcome indicators in accountability frameworks to rise. In addition, over time the Bank should monitor the overall progress towards poverty reduction rather focusing unduly on single “critical” policy conditions.