Worldbankification of Norwegian Development Assistance
Cover illustration (by Finn Graff): Norwegian Minister for Development Erik Solheim and World Bank President Paul Wolfowitz in a well-known fairy-tale setting.
Preface

This paper is published by two Norwegian NGOs, The Development Fund of Norway and the Ignis Foundation. It was made possible through a grant from the Norwegian Agency for Development Cooperation (Norad) through the Rorg network of Norwegian NGOs engaged in Development Education in Norway.

We would like to thank both Rorg and Norad for allowing us this opportunity to get a little deeper into the nature and works of the relationship between the World Bank and Norway. We are appreciative of all openness and hospitality that met us at the Norwegian embassy in Washington and at the World Bank, particularly from the staff at the Nordic-Baltic office and in particular World Bank Executive Director Svein Aass; the Bank section at the Ministry for Foreign affairs in Oslo; all the engaged and knowledgeable NGOs in Washington that shared their experiences and views with us, and the host of individual resource people that furnished us with their insights and comments. We owe a special thanks to Aksel Nærstad, Finn Graff, Sigurd Kihl, Martine Dahle Huse, Mary Mbekani and Anette Wilhelmsen, and all the different people who have commented on various drafts. Any remaining mistakes are, of course, the authors’ responsibility.

The report was written by Christoffer Ringnes Klyve, Vegard Hole and John Y. Jones. Vegard Hole has also filled secretarial functions within the team. The work has taken place from May to November 2005 with a one week study visit to Washington in May/June 2005, and has involved the following activities:

1. reading of background papers from the World Bank, the Norwegian Government, NGOs and UN sources
2. reading of a selection of scholarly articles and books from the vast reservoir of World Bank and related literature, both Norwegian and international
3. talks and interviews in Norway with government officials;
4. talks and interviews in Washington D.C with World Bank staff, Norwegian embassy staff and international NGOs
5. talks with representatives and individuals from Norwegian and international NGOs and other relevant institutions

A list of names and institutions is provided in the appendix, but it is not exhaustive. As a rule, we do not identify our sources by name in the report itself, since in some instances our sources have asked to remain anonymous.

We have also analyzed statistical data from Norad and the Organisation for Economic Cooperation and Development (OECD). How the numbers have been used, and what they signify, is explained in the text itself.

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John Y. Jones is director of the IGNIS Foundation
LIST OF ACRONYMS USED IN THIS REPORT

AIDS Acquired Immune Deficiency Syndrome
DAC Development Assistance Committee
DGAP Development Group for Alternative Policies, USA
DfID Department for International Development, UK
DPL Development Policy Loans
EIR Extractive Industries Review
FAO Food and Agriculture Organization
GDP Gross domestic product
GNI Gross national income
GOZ Government of Zambia
H&A Harmonisation and Alignment
HIPC Heavily Indebted Poor Countries
HIV Human Immunodeficiency Virus
IBRD International Bank for Reconstruction and Development
ICSID International Centre for Settlement of Investment Disputes
IDA International Development Association
IFC International Finance Corporation
IMF International Monetary Fund
IFI International Financial Institutions
IMF International Monetary Fund
MDGs Millennium Development Goals
MFA Ministry of Foreign Affairs
MIGA Multilateral Investment Guarantee Agency
MOU Memorandum of Understanding
NGOs Non-governmental organisations
NORAD Norwegian Agency for Development Cooperation
NTFPSI Norwegian Trust Fund for Private Sector Investment
ODA Official development assistance
OECD Organisation for Economic Cooperation and Development
OED The World Bank’s Operations and Evaluations Department
PPP Private Public Partnership
PRBS Poverty Reduction Budget Support
PRS Poverty Reduction Strategies
PRGF Poverty Reduction and Growth Facility
PRSPs Poverty Reduction Strategy Papers
PSIA Poverty and Social Impact Analysis
SAP Structural Adjustment Programmes
SAPRI Structural Adjustment Participatory Initiative
SAPRIN Structural Adjustment Participatory International Network
SWAPs Sector-wide approaches
TFESSD Trust Fund for Environmentally and Socially Sustainable Development
UN United Nations
WBI World Bank Institute
WCD World Commission on Dams
WTO World Trade Organization
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1. Introduction

Few institutions have been scrutinized more thoroughly than the World Bank. Notable reviews include the World Commission on Dams (WCD), the Extractive Industries Review (EIR), and the Structural Adjustment Participatory Research Initiative (SAPRI). These were all endeavours in which civil society invested a lot of time and effort, and they were all partly funded by the Government of Norway. While they all provided valuable information and insights, they were also more or less ignored both by Norway and by the World Bank. (One of the organizations behind this report, IGNIS, participated actively in this work, and present a more in-depth analysis at the end of this report.)

We are also civil society organizations, and this work is also financed by the Norwegian government. But we hope our efforts receive a warmer welcome. We are not trying to provide an exhaustive analysis of the World Bank. But based on our own fresh interviews and encounters, we want to open up a few windows of observation towards the World Bank, by looking at its relationship with Norway.

This paper springs out of a joint effort by two Norwegian organizations, Ignis and the Development Fund. The Ignis Foundation is an NGO building on a network of Southern organizations with a special attention to the World Bank, World Trade Organization and global justice issues. The Development Fund is a Norwegian NGO working for sustainable development through a combination of development projects and advocacy work. For Ignis, which has been actively involved in work on the World Bank for many years, this paper is part of a wider analysis of the role played by the World Bank in development today. The Development Fund has worked less on the World Bank, but is a member of the Norwegian Campaign for Debt Cancellation and has participated in public debate on debt and related issues. Our organizations share fundamental values in our North-South development engagement building on people-centeredness and environmental concerns in a Southern based perspective.

Our intervention is hopefully timely, as the newly installed Norwegian government has put the topic of Norway and the World Bank back on the political agenda. In the government’s platform, known as the Soria Moria Declaration, the Government has stated that it intends to reorient its development policy and assistance away from the World Bank. We welcome these signals, and hope our contribution will help the new government deliver on these promises. This paper is written in English for the benefit of our partners in the South and elsewhere, and for the many individuals that fed into the report through conversation, interviews and statements. A Norwegian summary exists.

The question:
Worldbankification of Norwegian development policy?

Has there been a worldbankification of Norwegian development policy?

This question emerged after reading the 2005 budget for the Norwegian Ministry of Foreign Affairs, published in late 2004. At first glance, The World Bank seems to have a significant, but limited role. The budget allocation for the World Bank and the regional development banks is approximately one tenth of total development assistance. This topic is awarded less than two pages in a 200-page strong document.

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1 St.prp.nr. 1 (2003-2004) and St.prp.nr. 1 (2004-2005).
However, when reading the budget text, one is struck by the number of references to the World Bank. A quick count reveals that in the budget for 2005, the World Bank is mentioned 132 times. A look at previous budgets reveals that this is a sharp increase, from 72 in 2003 and 102 in 2004. Furthermore, the World Bank is not referred to in a strict sense of a Bank as a provider of financial services, but frequently as a thematic and benchmark expert institution.

Neither of this is “proof”, in a strict and scientific sense, of the Bank’s importance. We think it is still sufficient to warrant a closer study of its role and influence over Norwegian development policy. Is Norwegian development policy being ‘worldbankified’, and if so, how is this happening?

Our main hypothesis is this:

The World Bank has come to play a significantly larger role in Norwegian development policy than the budget share to the organization indicates, to the extent that one can talk of a ‘worldbankification’ of Norwegian development policy.

Based on this hypothesis we formulated a series of operational sub-questions:

- In what way is Norwegian development policy being influenced by the World Bank?
- In what way is Norway trying to influence the World Bank, and how successful is this?
- In what way does the Bank’s dominating role as a global development actor spill over into the bilateral and other aid spheres?

The World Bank by the World Bank

The World Bank was established in 1945 to assist in the reconstruction of Europe after the Second World War, but has since expanded its mandate greatly. On its extensive website, the Bank writes the following:

“The World Bank is a vital source of financial and technical assistance to developing countries around the world. We are not a bank in the common sense. We are made up of two unique development institutions owned by 184 member countries—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in our mission of global poverty reduction and the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. Together we provide low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure, communications and many other purposes.”

The World Bank is actually a group of institutions, IBDR, IDA, MIGA, ICSID and IFC (see table), but is usually referred to as The World Bank. The 184 member countries own and control the

<table>
<thead>
<tr>
<th>Total member countries in each institution:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>The International Bank for Reconstruction and Development (IBRD)</td>
<td>184</td>
</tr>
<tr>
<td>The International Development Association (IDA)</td>
<td>177</td>
</tr>
<tr>
<td>The International Finance Corporation (IFC)</td>
<td>165</td>
</tr>
<tr>
<td>The Multilateral Investment Guarantee Agency (MIGA)</td>
<td>164</td>
</tr>
<tr>
<td>The International Centre for Settlement of Investment Disputes (ICSID)</td>
<td>140</td>
</tr>
</tbody>
</table>

2 www.worldbank.org
Bank. Each part of The World Bank group officially has its own board. However, the Executive Directors on each board are normally the same, and the shares of votes in the different parts are quite similar. In this report, we use the votes in the International Development Association (IDA) as a reference point.

Each member country holds voting power proportional to its contributions to the Bank, in the same way as in any shareholder’s company. Holders of more than 15% of the shares have veto power over major decisions. Only the United States is in this position. The World Bank president is appointed by the United States Government, but is formally endorsed by the Board for a five year period.

The World Bank has close to 10,000 employees, most of them in the headquarters in Washington DC. 30% of the staff is based in more than 100 country offices on all continents.

In 2005, the arm of the World Bank lending to the poorest countries, the International Development Association (IDA) committed a total of $8.7 billion. New commitments this year comprised 160 new operations in 64 countries. 45 per cent of IDA commitments went to Sub-Saharan Africa, 33 per cent to South Asia, 12 per cent to East Asia and the Pacific, 6 per cent to Eastern Europe and Central Asia (ECA). The remainder is lent to poor countries in North Africa and in Latin America.

This is how the World Bank describes the activities of IDA:

Since 1960, IDA has lent $161 billion to 108 countries. Annual lending figures have increased steadily and averaged about $8.4 billion over the last three years. Most loans address basic needs, such as primary education, basic health services, and clean water and sanitation. IDA also funds projects that safeguard the environment, improve conditions for private business, build infrastructure, and support reforms to liberalize countries’ economies and strengthen their institutions. All these projects pave the way toward economic growth, job creation, higher incomes and better living conditions.3

In addition to the funds, loans and grants offered to client countries, the World Bank has a panorama of analytic and advisory services and capacity building. Usually grants and loans are given in combination with services. This marks a significant shift over the years. Where the Bank at the beginning simply lent money to projects that were within its mandate and guidelines, it is now much more involved in the entire procedure, from appraisal and planning through implementation to evaluation. It used to be quite simple. Projects were proposed. They were denied or approved. Countries got their money, carried out their projects and repaid their loans.

“The initial position of the Bank,” writes Judith Tendler “was that preparation of a project was the responsibility of the borrower; if the Bank became involved, it could not thereafter be sufficiently objective in appraising the project”.4 This logic did not last long within the Bank: “Experience has demonstrated that we not get enough good projects to appraise unless we are involved intimately in their identification and preparation” add Alpeus Thomas Asher and Robert E. Mason5 of the World Bank.

3 www.worldbank.org
4 Tendler (1975), p87; cited in Ellerman (2005) p 125
5 Tendel and Mason (1973), p308; see Ellerman (2005) p125
2. Observations and findings

There can be no question that the World Bank is given a significant role in Norwegian development policy. Norway channels a substantial amount of money through the World Bank, close to two billion NOK (USD 300 million) in 2005. Norway has also announced that they have invested political energy and prestige in trying to change the World Bank, through a variety of ways. However, few would disagree with the claim that the World Bank is still a bank with close ties to the United States Government, and that the backbone of the policies that Norway criticized in the 1990s, known as the Washington Consensus, are still in place. Furthermore, the World Bank has become a gatekeeper for much bilateral development assistance as well.

Below, we examine Norway’s relationship with the World Bank by looking at

1) Norwegian funding for the World Bank;
2) Norway’s formal and informal channels for influencing the World Bank;
3) selective funding through trust funds;
4) what Norway is contributing to by financing the Bank;
5) how the Bank influences Norwegian development policy and practice;
6) how conflicts of interest might undermine the principle of untied aid.

**Norwegian Funding has been relatively stable**

Norway’s contributions to the World Bank and other multilateral institutions have been relatively stable when measured as a proportion of total official development assistance (ODA). The exception is 2005, when Norway’s World Bank contribution increased significantly. Norwegian ODA has increased steadily, as successive governments have tried to keep up with, and even outpace, growth in Gross Domestic Product. This means that Norway’s World Bank contributions have increased significantly in absolute figures, even if this does not seem to have come at the expense of other forms of ODA.

**Norwegian multilateral assistance**

During Hilde Frafjord Johnson’s tenure as a Minister for Development in 1997 until 2004 (with one brief

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6 See, for instance, St.meld.nr. 35 (2003-2004), p. 85
interruption), OECD statistics show that Official Development Assistance has increased during most of this period, both in the OECD region and in Norway.\(^7\)

Finding out how much of this is channeled through the World Bank is not as straightforward as one might think. Most World Bank funding falls in the category “multilateral aid”, which can be broken down by institution. Most of this goes to the IDA arm of the World Bank, but a significant amount is also spent on the African Development Bank. Smaller amounts are spent on the Asian and Inter-American Development Banks. The regional banks are separate institutions, but often cooperate closely with the World Bank Group. The World Bank, the regional development banks and the International Monetary Fund (IMF) are often referred to collectively as the international finance institutions (or IFIs).

Looking at the period 1997-2004, total bilateral aid from the OECD region has increased by 41 per cent and the multilateral aid by 31 per cent. The corresponding numbers for Norway are 21 per cent for bilateral and 22 per cent for multilateral. For the whole period, multilateral aid made up about 30 per cent of total official development aid both from Norway and from the OECD region as a whole (Table 2).

### Table 1: Bilateral vs. Multilateral ODA Norway and OECD (1997-2004)

<table>
<thead>
<tr>
<th>Year</th>
<th>Norway</th>
<th></th>
<th></th>
<th>OECD</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bilateral</td>
<td>Multilateral</td>
<td>Bilateral</td>
<td>Multilateral</td>
<td></td>
</tr>
<tr>
<td></td>
<td>US $</td>
<td>Share</td>
<td>US $</td>
<td>Share</td>
<td>US $</td>
</tr>
<tr>
<td>1997</td>
<td>1 142</td>
<td>70%</td>
<td>487</td>
<td>30%</td>
<td>34 986</td>
</tr>
<tr>
<td>1998</td>
<td>1 274</td>
<td>72%</td>
<td>498</td>
<td>28%</td>
<td>38 786</td>
</tr>
<tr>
<td>1999</td>
<td>1 307</td>
<td>73%</td>
<td>472</td>
<td>27%</td>
<td>40 659</td>
</tr>
<tr>
<td>2000</td>
<td>1 181</td>
<td>74%</td>
<td>417</td>
<td>26%</td>
<td>40 431</td>
</tr>
<tr>
<td>2001</td>
<td>1 202</td>
<td>70%</td>
<td>519</td>
<td>30%</td>
<td>41 145</td>
</tr>
<tr>
<td>2002</td>
<td>1 321</td>
<td>68%</td>
<td>636</td>
<td>32%</td>
<td>45 976</td>
</tr>
<tr>
<td>2003</td>
<td>1 462</td>
<td>72%</td>
<td>580</td>
<td>28%</td>
<td>49 812</td>
</tr>
<tr>
<td>2004*</td>
<td>1 385</td>
<td>70%</td>
<td>597</td>
<td>30%</td>
<td>49 343</td>
</tr>
</tbody>
</table>

\(^7\) OECD DAC (2005)

\(^8\) Numbers are adjusted for the change in prices that have occurred in the period. If the prices grew five per cent from 2003 to 2004, then the 2004 amount is given a five per cent lower value, to make the comparison with the year before more interesting and relevant. Such “deflated” numbers are included in the OECD DAC tables and use the year 2003 as base year.

### United Nations vs. Development Banks

In the state budget for 2005, there is an increase in the contribution to the development banks by 28 per cent compared to an increase of only 5 per cent to the UN organizations. Of all funds going to both the UN and the
development banks, the UN now receives 66 per cent and the banks receive 34 per cent. The bank’s share is up from the 30 per cent that has been the trend in recent years (table 3). The OECD figures (table 4), which use slightly different categories, show basically the same picture.

For the OECD countries in general, the distribution is different, with UN share of contributions increasing over the period from 40 per cent in 1997 to 47 per cent in 2003.

A further breakdown shows that about forty per cent of development bank funding has been going to the regional development banks. This leaves sixty per cent mainly for the IDA-branch of the World Bank, but also to the IFC, IBRD and MIGA. This means that the regional development banks receive relatively more support from Norway.
than is the case for the OECD as a whole. From the OECD, the regional banks got 33 per cent of all development bank allocations, compared to 37 per cent of the Norwegian allocation.\(^9\)

**Other World Bank funding**

What this picture does not cover, however, are funds used in projects co-financed with the World Bank. When Norway co-finances a local project where also the World Bank contributes, then this is classified as bilateral aid by the OECD (See boxed text for details). For the World Bank to participate as a partner in such a project, however, the project must also meet the Bank’s policy requirements. This means that Norwegian bilateral assistance in these cases has to follow the policies of the World Bank.\(^10\)

Another form of funding not caught by the definition “multilateral” is what Norway itself calls “multi-bi” assistance. This implies that Norway sets up a trust fund at the World Bank that only funds particular areas of the World Bank’s activities. In this setup Norway controls which sector to fund and sets the priorities. However, all activities are in fact World Bank activities, carried out (or contracted out) by World Bank staff that have to follow World Bank policies.

The budget for 2005 indicates that NOK 465,5 million (US$ 72 mill) will be earmarked for such trust funds, making up 25 per cent of the total Norwegian contribution to the development banks.\(^11\)

**Norway’s strategy for influencing the Bank:**

**Three carrots, no stick**

“Today’s World Bank is a much more Norwegian bank now, compared to when I last worked in this office in the early 1980s”, Svein Aass, Alternate Executive Director, Nordic-Baltic Group, World Bank, interview June 1st 2005.

As the boxed text “Norway’s reform agenda” shows, Norway has a clear reform agenda at the Bank. Norway’s former Minister for Development, Hilde Frafjord Johnson, left little doubt that she had the “will to engage in the process of decision-making”. And in the proposition to Norway’s parliament, the Storting, her government wrote: “Norway has for many years prioritized highly the work with questions regarding the World Bank, and has aimed at influencing the institution along the lines of Norwegian development politics.”\(^12\)

Norway’s strategies for reforming the World Bank can be grouped in three categories; formal influence, informal influence, and selective funding. All are ‘positive’ or incentive-based strategies. Norway does not threaten to reduce or withdraw funding unless certain conditions are met, like the United States has been doing repeatedly.

**Norway’s formal influence**

In the World Bank, some larger countries have their own representatives at the Board. Norway is part of the Nordic-Baltic group and these countries share one Executive Director (ED) that sits in the Boards of the bank,
**Norway’s reform agenda**

Norway prioritizes the following:

- Continue to strengthen the Bank as a development institution with focus on poverty reduction in practice.
- That the World Bank enhances its work with PRSPs and prepares the ground for real country ownership, and that these strategies are the base for all the Bank’s activity in a country.
- Work for a deeper and broader cooperation between the World Bank and the IMF, and between these, the regional development banks and the UN system in order to maximize the poverty reduction effect of the multilateral system.
- Support the World Bank effort to use analytical tools to consider consequences of alternative political reforms (PSIAs), in order to calibrate reforms to maximize poverty reduction effect.
- Further strengthen the coordination between efforts through WB and bilateral aid.

Further intensify cooperation with embassies in order to get the best possible base for participation in decision-making processes in the governing organs of the Bank.

Start the work with important cross-sectional themes such as environment, gender equity and good governance, e.g., through the TFFESD (see below).

Support the World Bank in its work for private sector development in the poor countries, e.g., through NTF-PSI (see below).

Contribute to the World Bank efforts on education and health.

Support initiatives to make the Bank more efficient, e.g., by stimulating more cooperation between departments and regions.

Continue the work for a broader and less economics dominated mix of Bank staff.

Continue to use Nordic cooperation and other alliances, especially the Utstein-cooperation actively to influence the World Bank.


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**Table 4: Voting in the World Bank**

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Shares of votes</th>
<th>IBRD</th>
<th>IDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>0,94</td>
<td>1,93</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>0,85</td>
<td>1,02</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>0,63</td>
<td>1,02</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>0,54</td>
<td>0,6</td>
<td></td>
</tr>
<tr>
<td>Lithuania*</td>
<td>0,11</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>0,1</td>
<td>0,25</td>
<td></td>
</tr>
<tr>
<td>Iceland</td>
<td>0,09</td>
<td>0,23</td>
<td></td>
</tr>
<tr>
<td>Estonia*</td>
<td>0,07</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Nordic-Baltic group</td>
<td>3,33</td>
<td>5,05</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>16,39</td>
<td>13,98</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>7,86</td>
<td>10,71</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>4,49</td>
<td>6,86</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>4,3</td>
<td>4,24</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4,3</td>
<td>5,03</td>
<td></td>
</tr>
</tbody>
</table>

*not member of IDA
different policies to adhere to. Our sources among Bank staff left little doubt that only a few of these policies were really on the table when decisions on funding were taken.

The Norwegian government therefore writes, in a proposition to the Storting (the Norwegian Parliament) in 2002, that in “dealing with the World Bank, Norway’s challenge will be to ensure that decisions on new politics are implemented at all levels of the organization.”

Many of our interviewees among Norwegian officials and World Bank staff were of the opinion that Norway has more influence than Norway’s formal power alone should warrant.

However, there is little hard evidence of this. Some argue that the fact that Norway’s outgoing Minister for Development, Hilde Frafjord Johnson, was one of the keynote speakers during the 2005 Annual Meetings of the World Bank and IMF demonstrates that Norway is being listened to. Or in the words of Ian Johnson, the Bank’s Vice-President for Socially and Environmentally Sustainable Development: “When Hilde Johnson calls [former World Bank President] Wolfensohn, she is put right through.”

Personal relationships might be important when assessing potential clout and power of persuasion. Several sources echoed Ian Johnson in emphasizing that Frafjord Johnson had easy access to Wolfensohn, the President of the Bank 1995-2005. Olav Kjørven, Johnson’s Deputy Minister from 1997 until February 2005 came directly from a job in the World Bank, where he worked under Ian Johnson.

There are other such personal connections involving Norwegians, but so have other countries. This argument can just as easily work the other way round: For instance, none of the 24 Vice-Presidents are Norwegian. Altogether, there are currently only approximately 40 Norwegians among the World Bank staff. This is less than 0.5 per cent of the total, and thus less than Norway’s formal power. It is worth noting that eight of the Norwegians are concentrated in the Social Development Department, making the staff in that department seven per cent Norwegian.

We have found no evidence that Norway has either more or less influence than the 0.5 per cent of the staff and 1 per cent of the funding should warrant.

**Selective funding through Trust Funds**

The Norwegian Government increasingly uses earmarked contributions through World Bank trust funds as a channel for development assistance. The share of Norway’s contribution to the international finance institutions going to such trust funds has increased from 21 per cent in 2003 to 25 per cent in the budget for 2005, amounting NOK 465.5 million.

A trust fund is a financial and administrative arrangement between the World Bank and one or several outside donors. It is administered by the Bank, and must follow all bank policies. Principles for what type of initiatives to fund is set out in the agreement between the donor(s) and the Bank. In several of the Norwegian-supported trust funds, all parts of the Bank may apply for funding for their activities. Bank staff on these funds receive the

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13 St.prp.nr. 33 (2002-2003), p. 31
14 Interview, June 16th, 2005
15 St.prp.nr. 1 (2004-2005)
applications, but the external donor to the trust fund has the final say about which activities to finance. We have been told that Norway only rarely changes the proposed list of recipients presented by bank staff.\textsuperscript{16}

Norway is not among the largest contributors to World Bank trust funds. A listing of the ten most important trust fund countries on the Bank's website\textsuperscript{17} does not involve Norway. Trust funds have become increasingly popular with donors, representing in 2004 over ten per cent of total World Bank Group activity.\textsuperscript{18}

However, trust funds are more than channels of aid. Norway sees the strategic use of trust funds as central in its effort to influence the Bank. In the state budget, trust funds are legitimized partly by the World Bank being a central actor in development assistance, and that “through earmarked funding [Norway] contributes to activities in the institutions that to as large extent as possible are conducted according to the development politics of Norway.”\textsuperscript{19}

We have looked more closely at two of the higher-profile Norwegian-initiated trust funds.

**Trust Fund for Environmentally and Socially Sustainable Development (TFESSD)**

The Norwegian–Finnish Trust Fund for Environmentally and Socially Sustainable Development (TFESSD) was established in 1999, and in 2002, the Government of Finland joined. Finland now provides 15 per cent of the funding. As of April 2005, the fund had spent some $50 million, currently funding more than 140 activities in 80 countries.

One of the things the TFESSD is set up to fund, is Poverty and Social Impact Analyses (PSIAs). PSIA “is the analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable.”\textsuperscript{20} Checking to see if a program actually is of any use to the poor seems like a good idea for a poverty-reduction institution, so why does the Bank not do this as a matter of routine? In order to explain this, it is necessary to look a bit more closely on how the Bank operates.

The World Bank is organized so that Bank staff bill every working hour to a project. PSIAs, like everything else, costs time and resources, and bank staff are well paid. One single PSIA may therefore cost $50 000. For a project manager, spending $50 000 on a PSIA therefore has to be weighed against other project costs. What the TFESSD does, is to provide funding for task managers who want to conduct a PSIA for their project, but who do not want to fund it out of their core resources. In other words, the TFESSD offers a subsidy, an economic incentive for certain kinds of behavior by bank employees. Norway thinks PSIAs are a good idea, and by creating a funding opportunity within the Bank itself, Norway in other words pays the Bank to do PSIAs more often than they would otherwise do.

But if PSIAs are such a good idea, should not a poverty focused development institution, which the World Bank claims that it is, have made such an assessment mandatory in the first place, and funded them out of its ordinary resources? The Bank could make PSIAs mandatory, but it does not. This contrasts with Environmental Impact Assessments (EIAs) which are mandatory for any proposed project that could have a major impact on the

\textsuperscript{16} Interview with Marianne Bergstrøm, Coordinator, Norwegian Trust Fund for Private Sector and Infrastructure (31/05/05)

\textsuperscript{17} Http://web.worldbank.org/WBSITE/EXTERNAL/EXABOUTUS/ORGANIZATION/CFP/ext/0,,contentMDK:20135627~menuPK:64060203~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html

\textsuperscript{18} Powell (2005)

\textsuperscript{19} St.prp.nr. 1 (2004–2005)

\textsuperscript{20} www.worldbank.org/psia
environment. It is worth noting that EIAs were made mandatory only when the United States Congress, after lobbying by environmental groups, threatened to withdraw US funding.

Norway’s basic assumption is that by introducing a concept such as PSIA through trust funds, the Bank will sooner or later realize what a splendid concept this is. Then the Bank will “mainstream” it, by making it mandatory. The TFESSD secretariat considers the fund a success; writing: “The Trust Fund’s flexible support at a critical time provided an opportunity to move from idea to pilot to systematic reality. About a hundred PSIAs have been completed around the world, and the Bank has spent approximately $5.5 million of its own budget on PSIAs.”

It still remains to be seen if the Bank replaces Norwegian funding and make PSIA mandatory when the trust fund is terminated. If so happens, the Norwegian trust fund could be said to have lead to change in assessment policy at least. As noted above, however, introducing a new policy does not necessarily lead to change in the way the Bank and IMF conducts their work on the ground.

**Norwegian Trust Fund for Private Sector and Infrastructure (NTFPSI)**

The Norwegian Trust Fund for Private Sector and Infrastructure (NTFPSI) was set up in 2002 under an agreement which commits Norway to multi-year financing. Norway will spend NOK 60 million in 2005, and so far more than NOK 100 million in total. The trust fund centers on the importance of improving the investment climate in order to attract private capital to infrastructure projects, and it funds public-private partnerships through the Infrastructure Services for the Poor Window.

The NTFPSI covers water, energy, urban development, and transport and private sector development, through two approaches, or ‘windows’ in the Bank’s language: The first window concerns investment climate; “the creation of a sound investment climate as a prerequisite for private sector development and market-led growth”. The second window concerns infrastructure service delivery to the poor.

While the Norwegian government emphasizes the balance between private and public sector and public ownership in its proposition to Parliament, in the Strategy Paper for the Trust Fund they are less ambivalent about the benefits of privatization: “The Bank Group’s assistance in the infrastructure sector can reduce poverty faster and more effectively if the delivery of services moves increasingly from public to private sector channels.” No empirical evidence is offered to back this statement.

Most countries in North America and Europe, Norway included, have largely public water services. Public Services International notes that “although Norway is a country whose water and sanitation, like the majority of its public services, are provided directly by public authorities” Norway seems to be pursuing very different policies in developing countries than we have successfully installed at home.

“Acknowledging problems with the private sector,” the research unit of Public Services International, a federation of public sector trade unions, concludes that Norway “in its specific headings makes uncompromising reference to the World Bank’s private sector development strategy:

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21 World Bank (2005)
22 World Bank (2002)
23 Hall, David (2004)
calls for more extensive use of private sector solutions in infrastructure – through concession arrangements with private companies and private participation in infrastructure projects.”\(^{24}\)

$6 million out of $7 million in the program are targeted for existing projects through the IFC, the arm of the World Bank specializing in financing the private sector, which “are in line with the new Private Sector Strategy.”

**Why trust funds?**

“How much trust should we put in the funds?” asks a September 2005 study by the Bretton Woods Project, a World Bank and IMF watchdog. Noting a significant increase in both the number and the total volume of trust funds, they ask whether trust funds represent “an optimum use of resources, or just a cacophony of voices all trying to pull the Bank in different directions?”\(^{25}\)

Most trust fund activities are rather small by World Bank standards, and the Bank’s transaction costs make it not a very cost-efficient provider of small-scale development services. The World Bank’s size and organizational set-up is designed to handle huge infrastructure projects. Several of our sources, both at the Bank and among Norwegian officials, agreed that there are more cost-efficient ways to have these things done. But Norway’s ultimate justification for using trust funds, is not really simply to subcontract the Bank to do certain development-related activities or research. Rather, it is to create incentives for Bank task managers to make different kind of priorities than they would do otherwise, and thereby pulling the Bank in a more “Norwegian” direction.

There are other concerns about trust funds as well. One is whether the trust funds’ objectives reflect the priorities of recipient countries. And even if they do, is a donor-friendly method of financing being prioritized over local ownership? It is also worth questioning whether the World Bank is the most appropriate agency to play the role that it does in the more than 900 trust funds it administers. The Bank’s own Operations and Evaluations Department (OED) is also concerned that that donor countries are using trust funds to “influence Bank work through the back door”.\(^{26}\)

Officials we spoke to, were quite explicit that trust funds were a way for Norway to influence the Bank through this back door, and it would be no surprise if other countries are using the same strategy. And if so, we are in no position to say in what direction other countries have been pulling the Bank. The TFESSD, discussed above, is a good example of how Norway contributes to the “cacaphony of voices” that the Bretton Woods Project worries about. Assuming that other countries use trust funds in the same way Norway does, it seems likely that these different voices at best cancel each other out, and at worst create so much noise that any clear strategy or direction is indiscernible.

When Norwegian officials tell us that the trust fund mechanism is an ‘efficient' channel of development assistance, this is largely an administrative consideration. As noted above, the Bank is not a particularly cost-efficient provider of development services. This raises the question of whether trust funds offer a “lazy” channel for spending ever-increasing sums of development aid money. Norway has repeatedly increased development spending considerably, with no corresponding increase in staff on the government’s side. With the general impression that the Bank is efficient and well organized, it is relatively uncontroversial to set up a trust fund.

\(^{24}\) Hall, David (2004)
\(^{25}\) Powell/(2005)
\(^{26}\) ibid.
What is Norway contributing to?

As a contributor and shareholder in the World Bank, Norway is responsible for the Bank’s actions. As noted above, Norway has a clear reform agenda at the Bank, but it is difficult to assert any measurable effect of Norway’s efforts. It would be beyond the scope of this paper to examine the entire breadth of the World Bank’s work, but we want to emphasize certain aspects. The World Bank’s approach to structural adjustment, privatization and conditionality all beg the question of whether this institution is an appropriate vehicle for Norwegian development assistance, and what mandate Norwegian development authorities have for using this institution.

Structural adjustment is not dead

When Norwegian authorities talk about the World Bank and the International Monetary Fund (IMF), structural adjustment programs (SAPs) is referred to as a thing of the past. Our findings show otherwise.

The SAPs are aimed at stabilizing wayward economies and contribute to economic growth. The countries were put on a strict diet of neoliberal economic reforms, where macroeconomic stability was seen as the recipe that would bring economic growth and hence development. Public expenditure was cut, trade rules and financial markets were unilaterally liberalized, user fees were introduced in the health and education sectors, agriculture and industry were made more export-oriented, state-owned enterprises were privatized, and the labor market made more “flexible”. Arguing that you couldn’t cross a chasm in two leaps, reforms were often introduced all at once, ignoring any issue of sequencing. This was termed ‘shock therapy’.

The recipe in general has not worked. The economies have not recovered as predicted. People subject to the shocks objected, at times loudly, against cuts in the education and health sectors. People at the receiving ends of the reforms were generally unhappy about economic theories from Washington being imposed on them. It is worth noting that those who were actually structurally adjusted, protested for years to no avail. When change finally came, it was only after civil society in the rich countries, some of the wealthy countries’ governments (Norway included), and – with extreme caution – the World Bank’s own research and evaluation units, started to point out the deficiencies with the adjustment policies.

The rich countries dominate the World Bank and IMF. When they finally acted on structural adjustment, this clearly had to do with the institutions’ plummeting reputations in the North. According to the Norwegian government, the critique of structural adjustment forced donor countries and the World Bank to abolish SAP. A few quotes from the latest White Paper on development issues illustrate this well:

...there was emphasis on more short-term structural adjustment programmes ... had been dependent on structural adjustment loans from the IMF and the World Bank granted on strict conditions ... previous structural adjustment programmes... Norway therefore criticized both the content and the processes surrounding these structural adjustment programmes... The PRSP model is a significant innovation in relation to previous structural adjustment programmes...27 (emphasis added)

Throughout, structural adjustment is referred to as a thing of the past, either by use of the past tense, or through adverbs such as “previous”. Norway also credits itself for contributing to the killing and burying of SAP. This is, however, far from the full history of SAPs. Following the heavy criticism, the World Bank and IMF were indeed forced to reformulate the conditions and formal policy documents dealing with the budget support lending that

27 St.meld.nr. 35 (2003-2004), p. 85
SAP entails. This does not mean that the World Bank and IMF have stopped demanding structural reforms as conditions for loans.

A quick search for ‘structural adjustment’ on the World Bank website in June 2005, yields a large number of references to current projects. Out of the first ten, for instance, seven were about structural adjustment “loans” or “credits” to various countries in 2004 or 2005.

A more concrete example: According to Zuckerman and Vladislavjevitz, Serbia and Montenegro received five structural adjustment loans in the period 2002-2003. These contain strict conditionalities on budget discipline, and the package includes cuts in public expenditure in health, education, and labor, as well as privatization or shutting down of state-owned enterprises and the banking sector. User fees are recommended in the health sector without any clear strategy on how to handle those who cannot pay.28

Other such examples exist. The various structural adjustment tools are about to be renamed “Development Policy Loans” (DPLs). The basic concept, however, is the same: Lending for structural adjustment purposes. Future loans will also have conditions tied to various reforms in the borrower’s macroeconomic policy.

Reading Norwegian policy documents, however, one could easily get the impression that the whole concept of structural adjustment has been replaced by country-owned Poverty Reduction Strategy Papers (PRSPs). This is not the case. The World Bank and IMF do not attempt to hide the fact that structural adjustment is still being used, but the Norwegian government seems eager to present a different story.

**Making conditionality history?**

At the core of structural adjustment is the demand for policy change in exchange for loans or credits. This is not something only the World Bank and IMF have been doing; bilateral donors like Norway have also set a range of conditions for development assistance. In the past few years, however, donors have started questioning the effectiveness of conditionality.

The concept and policy of conditionality has been among the most controversial in the Bank’s history. Following a major conference in 2004, “Revisiting Conditionality”, the Bank and IMF summed up its experience with the use of imposed structural changes through demands on the shape of conditionalities. In line with the outcomes of this conference, the UK Department for International Development (DfID) in 2005 made it quite clear that the development world needs to reassess its approach to conditionality:

“The UK government accepts the evidence that conditionality cannot ‘buy’ policy change which countries do not want. Reforms will not be implemented – or will not be sustainable – if a partner country is acting purely in order to qualify for financial support and does not consider that the reforms are in its own interest”29.

Therefore, DfID concludes “the UK will not make [its] aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or trade liberalization)”30.

In a meeting with Norwegian NGOs on August 24, 2005, a senior official at the Norwegian Ministry of Foreign Affairs commented that Norway would probably be in line with the new DfID policy.

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29 DfID, Foreign and Commonwealth Office and HM Treasury (2005)
That structural reform-imposed conditionality does not work as intended, and can even have harmful effects, should not have come as a surprise to the Norwegian government. Norway funded part of the comprehensive Structural Adjustment Participatory Review in 2002\textsuperscript{31}. This report, along with other studies, found that there are inherent contradictions between externally-imposed conditionality and country ownership. Conditionality creates exactly the type of accountability problems that fledgling democracies do not need, by making politicians having to answer to Washington rather than their own constituencies.

As with structural adjustment, it took years before the Bank’s own researchers reluctantly accepted that their policies did not work, and that something needed to be done. The subsequent changes, however, were more a question of polishing concepts and terms rather than actual shift in policy content.

A World Bank review of conditionality released in July 2005 found that the average number of conditions fell from 35 in the late 80s to about 12 in 2005. However, this excludes the so-called “benchmarks”, which have actually doubled in number in the last two years. Benchmarks are not directly tied to the release of funds, but can lead to the suspension of payments if “satisfactory progress” is not being made. According to a survey the Bank did, most borrowers fail to see the distinction between these different types of conditions.\textsuperscript{32} Externally imposed policies remain basically unchanged.

While the UK government says it will no longer impose certain policies on the partner government themselves, they stop short of completely de-linking lending from Washington-imposed conditionality. They will still “look to the IMF to provide an assessment of a country’s macroeconomic position, independently of IMF financing”\textsuperscript{33}. The IMF’s assessment of the macroeconomic situation in a country is therefore still crucial, as World Bank lending requires a “green light” from the IMF (the IMF’s role is discussed in more details below). The UK still wants the countries to follow a macroeconomic policy based on IMF’s standards, but they are not going to force them to. As long as the IMF is capable of doing the arm-twisting for them, the British are happy.

\textbf{The World Bank promotes privatization}

The new Norwegian government has stated that Norwegian development assistance is not to be spent on “programs that require liberalization and privatization.”\textsuperscript{34} If this is to be taken literally, Norwegian financial support to the World Bank needs to be seriously reassessed, if not altogether eliminated.

That the World Bank and IMF promote liberalization and privatization, is beyond doubt. Again, a look at the World Bank website is instructive. A separate section is devoted to privatization, involving the Bank’s very own “privatization toolkits”. These are “eight complete guides to the privatization and regulation of infrastructure services in sectors such as telecommunications, water, sanitation, and transportation.”\textsuperscript{35}

Another section is on how to “Promote Reform”, i.e. how to sell privatization to people who do not really want it. Here you can get inspiration on “Maximizing reforms through comics” in Bosnia-Herzegovina and even the lyrics and video of the big “Rapping for privatization hit parade” in Tanzania. Here, a local rap artist performed a rap promoting privatization.\textsuperscript{36} The rap was co-written and produced by the UK-based Adam Smith Institute,
which labels itself “the free-market think tank”\textsuperscript{37} Do Norwegian government officials know how fundamental the privatization issue is within the Bank? And if they do, what are they doing about it?

Public Private Partnerships (PPP) is one of the tools used by the World Bank to include the private sector in development activities and transfer funds from the public to the private sector.

World Bank infrastructure expert Antonio Estache has reviewed the World Bank’s findings on the Bank’s PPP programs from 1984-2002:\textsuperscript{38}

In developing countries during the period 1984 to 2002, investments in public-private partnerships (PPPs) in water and sewerage infrastructure came to $39 billion - compared to energy $242 billion, telecom $332 billion, and transport $129 billion.

A study of PPPs in infrastructure from 1994 to 2004 concluded that poorly structured PPP projects have been pervasive over the past decade and have generated considerable fiscal risks, and that countries risk giving priority to PPPs at the expense of improving systems for public investment. The study identified problems related to:

Affordability. “…efficiency gains were achieved at the cost of an increase in the burden imposed on the lowest income groups connected.”

Cherry picking. “The design of reforms has often left rural and suburban areas out of the service obligations.” Private firms have strong incentives to invest in consumers that use the most water and can pay for it, while neglecting poor areas in which per capita consumption is limited and bill collection is harder.

Fiscal stability. One of the more surprising risks of privatization is fiscal deterioration, since increased revenue is touted as one of its main justifications. However, as private firms have become more risk averse, especially in areas with poor people and weak governance, they have

- increasingly insisted on guarantees and financial supports that ensure profitability,
- minimized capital outlays, and
- greatly increased the fiscal exposure of government.

For instance, in Eastern Europe, there was an average increase in electricity prices of 16% between 2000 and 2002. But the combination of high losses, non-payment of bills, and below-cost recovery tariffs added up to a fiscal cost of, on average, 7.5% of GDP at the end of the 1990s;\textsuperscript{39} which declined to 5.9% of GDP by the end of 2002.

Corruption. Corruption increased during the timeframe.

Reporting. For now, there are no internationally agreed fiscal accounting and reporting standards for PPPs, which exacerbates risks.

\textsuperscript{37} http://www.adamsmith.org/
\textsuperscript{38} Citizens’ Network on Essential Services (2005)
Collusion. Risks of collusion grow in sectors, such as water and sanitation, which are dominated by only a few transnational corporations:

- French companies, Suez (Ondeo), Veolia Environment (form. Vivendi), and SAUR;
- German company RwE (owns Thames Water and American Water Works).
- The U.S.’s Bechtel Corporation is also a significant player.

Currency Risk. Financiers are exploring how to shift “currency risk” from transnational corporations to governments. When the value of a domestic currency falls in relation to the dollar, the amount of the dollar-denominated corporate debt and cost of imports balloons. Currency risk was a major factor causing the collapse of corporate contracts for water and electricity provision in Manila and Buenos Aires, among others. In June 2005, Suez withdrew from its contract to supply water and sanitation services after a long-simmering dispute dating back to the 2001 Argentine economic crisis, when the government froze utility tariffs and converted them from U.S. dollars into pesos, making contracts held by Suez and other companies unprofitable. [Suez took Argentina to the World Bank’s international arbitration tribunal which, in May 2005, determined that it has the power to accept “friends of the court” briefs from civil society organizations, even in the face of objections from the parties.]

Estache et al’s findings indicate that Private Public Partnerships (PPP) shift not only ownership and control of assets in general, but also profits and risk-security away from the public and on to the private actor; draws on the poor to pay the extra cost for the introduction of PPP; creates inequality and increased marginalization; and benefits the large global operators.

The point is not that public institutions in developing countries have a particularly good record in providing services for the poor. In many developing countries, the state has an abysmal record in providing services for the poor, and there is no question that this grave situation needs to be addressed. But running large scale common goods services in water, sanitation, health and transportation is always difficult, both for private and public operators. However, the World Bank’s approach is very much biased in favor of private solutions to public problems. As Estache et al shows, the result is often that where corrupt politicians or inefficient bureaucracies used to swallow the resources meant to provide services for the poor, this role is being taken over by private companies. The poor receive just as bad or even worse services than before. And constructive approaches remain as distant as ever. This needs to be addressed, and privatization does not seem to be the answer.

Worldbankification of Norwegian bilateral aid

The direct aid that Norway gives to its partner countries in the South (bilateral aid) is also influenced by the policies and politics of the World Bank and the International Monetary Fund. This means that the scope of influence that these organizations have, to some extent also includes the bilateral aid from Norway and most other donor countries. This happens in a variety of ways.

First, there is an international agenda for harmonization of development assistance, which in effect gives the development paradigm propagated by the World Bank and the IMF pre-eminence over other, more diverse or locally adapted, approaches.

Second and third, the harmonization agenda sanctions the role of the World Bank and IMF as gatekeepers and shepherds for international development assistance, multilateral as well as bilateral: Gatekeepers, because they endorse the national poverty reduction strategies upon which all loans and aid is based; and shepherds, because they often coordinate multi-donor projects and provide technical assistance to government officials.
Fourth, the IMF controls the macroeconomic framework within which a developing country can operate.

Fifth, the World Bank is a dominating producer of development theory and policy.

**Harmonization means worldbankification**

There is a broad international agenda for harmonization of aid. One aim is to reduce the administrative burden on recipient countries, some of which “receive as many as 800 new projects a year, host more than 1,000 missions to monitor the work, and have to present 2,400 quarterly reports on progress.” 39 Another aim is to make development assistance more efficient, by concentrating resources better, and pulling in the same direction.

Norway is one of the driving forces behind the harmonization agenda. Together with the “Nordic Plus” group of countries, Norway has developed a “Joint Action Plan on Harmonisation”.40 As cited in the box “Norway’s reform agenda” above, the government wants to “further strengthen the coordination between efforts through World Bank and bilateral aid”:41

However, there are several pitfalls here. One is that streamlining and coordinating of policies and implementation may be a challenge to the diversification of solutions and approaches.

Harmonization of aid is giving the donors increased influence over the recipient countries’ policies: A report by Public Services International Research Unit and NGO War on Want documents this, arguing that the donors’ harmonization agenda represents “new structures of ‘globalised aid’ ... [imposing] serious limitations on independent decision-making by developing countries”.42

Based on in-depth studies of Canadian bilateral aid, a Canadian NGO, The Halifax Initiative, argues that harmonization means greater leverage for the World Bank and the IMF: “Recent progress in procedural harmonization on the part of donors is reflected more often as policy harmonization with World Bank/IMF macro-economic and sectoral policies.”43

One lesson from the history of development is that each country needs to find its own development path, rather than relying on some universal development formula. In this perspective, a “winner take all”-situation could easily be the result: Because the World Bank offers the most dominating development paradigm, “harmonization” could very easily mean that all others follow the lead of the World Bank and what it has identified as ‘good practises’.

**PRSPs: The World Bank as gatekeeper**

Poverty Reduction Strategy Papers (PRSPs) were introduced in 1999, and were labeled something completely new. They “describe a country’s macroeconomic, structural and social policies and programs to promote growth and reduce poverty”,44 and were to be developed by the countries themselves. In broad, participatory processes, all relevant stakeholders were to be consulted. PRSPs are now a precondition for World Bank/IMF lending to a country, as well as for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. Most bilateral aid donors also use the PRSPs as the policy framework for their development assistance.

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39 See http://www.aidharmonization.org/ for details
40 Can be downloaded from http://www.oecd.org/dataoecd/30/10/30216580.pdf
41 St.prp.nr. 33 (2002-2003)
42 PSIRU (2004)
44 www.worldbank.org/prsp
PRSPs have been criticized on a number of points:

1. Blueprint practices. They all look remarkably similar, indicating that there is a fairly blueprint template that drafters follow. Cutting-and-pasting takes place, which is revealed when drafters fail to use the search-and-replace tool perfectly. Thus, for instance, the draft PRSP for Mongolia had a reference to Ecuador.45

2. Poor participation process. A 2004 survey of participation in more recent PRSP processes found that in most countries there were at least some efforts to include parliaments and civil society.46 As such, this generation PRSP can be said to represent an improvement from earlier processes, but not to the extent that one can talk of people’s participation or civil-society owned processes. Major shortcomings remain, not least concerning the limitation in questions that are open for discussion. In particular, the same survey found that NGOs and others that attempted to raise questions about macroeconomic policy, discovered that these were not even on the table. According to Oxfam International, “the glass is a quarter full” when it comes to participation in PRSPs.47

3. Accountability flaw. The PRSPs engage the wrong type of accountability. They are supposed to be nationally owned development strategies, but it is not the national legislatures that approve them, but the Boards for the IMF and the World Bank.

4. A donor-driven process. One often-cited advantage of PRSPs over SAPs is that the country is now ‘in the driver’s seat’, to use a common phrase. PRSPs only have to be “endorsed” by World Bank and IMF Boards, whereas the SAPs were “approved”. Actually, “endorse” and “approve” are synonyms, something the Norwegian government

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**How the IMF blocks progress on HIV/AIDS**

There is general agreement that countries need to substantially increase their spending on both health and education in order to combat HIV/AIDS. However, even when money is available (from loans or grants from funds or charities) for a country, the IMF may throw up roadblocks that prohibits the country from accepting the funds. The key word here is inflation, and the IMFs extremely rigid view on what is an “acceptable” inflation level.

Increased public or private spending in an economy leads to higher inflation. If inflation comes out of control, it can turn into hyperinflation, which is generally disastrous. Somalia and Zimbabwe these days are vivid examples of this. When the IMF today requires countries to keep their inflation in the low single digits (5 per cent or less), however, this is unnecessarily rigid. Regardless how much funds the country raises through taxes and foreign aid, the IMF agreements actually limits the total amount a country can spend.

In 2002, Uganda had to decline an offer of $52 million from the Global Fund to Fight AIDS, TB and Malaria, because spending this money would push Uganda’s inflation above 5 per cent. In other words, keeping inflation below 5 per cent was – according to the IMF – more important than recruiting the thousands of new health workers necessary to handle the AIDS crisis.

The point is that there is a trade-off between the potential gains from very low inflation and the costs in terms of lost opportunities due to reduced public spending or very high interest rates.

There is no agreement among economists what the optimal inflation level for a developing economy is. Some suggest that even 15-30 per cent will work just fine. Historical experience shows that the economies of Latin America in the 1950s and 1960s and in Asia in the 1960s and 1970s had very high growth rates while inflation levels averaged 20 percent. So while higher spending might be necessary from a public health or development point of view, the ensuing slightly higher inflation might not even be detrimental to stability or growth. There is no doubt that a country should avoid hyperinflation and that a stable inflation is beneficial for development. Once the inflation is stable, however, the level is of secondary importance.

Sources: Rowden (2004, 2005)
seems to have caught on to. In their White Paper 35 (2003-2004), they therefore introduce yet another term, saying that PRSPs have to be “assessed by the World Bank and the IMF” (emphasis added). However, the point remains the same: PRSPs have to pass through the World Bank and IMF before a country can receive debt relief and further loans.

PRSPs are thoroughly prepared in a manner expected to meet IMF/World Bank approval, with IMF/World Bank staff heavily involved in the actual drafting process. This ensures that nothing that is out of line ever reaches the Boards. Officials in charge of these processes locally also know from experience who they’re dealing with and what they want, most of them having undergone decades of structural adjustment.

Furthermore, all national PRSPs have to be screened by a process known as joint-staff assessments (JSA), conducted by staff from both the World Bank and the IMF. While the Bank and the Fund have stated that they might accept a PRSP that does not meet all their requirements, the likelihood of this happening is small. The purpose of the JSA is to prevent the wrong kind of documents from ever reaching the Boards. When the PRSP is near completion, the JSA would “...discuss with the authorities any modifications to the strategy that might be considered necessary to allow managements to recommend to the Boards that the PRSP be endorsed”.

The track record of PRSP processes until now suggests that developing country governments actively discourage discussion on key economic issues. This is not necessarily because they do not find such debates useful. Rather, there seems to be a situation of self-censorship, so as not to have to submit a PRSP that would be rejected by the JSA. This would explain why the so-called “country-owned” PRSPs usually include an economic reform package not very different from the old SAPs. A study of PRSP processes in Sub-Saharan Africa suggests that developing country governments know that if their plans do not fit the world view of the World Bank and [International Monetary] Fund, they are unlikely to get approval, and this knowledge is bound to affect the shape of the plans. ... This is very well understood by personnel in African ministries of finance, and partly explains why, despite their countries’ intensely painful and costly experience of increased openness to trade since the late 1960s, they go along with the basic package.

**Joint funding: The World Bank as shepherd**

Under the harmonization agenda, multi-donor joint funding of projects or programs is encouraged. This means that several donors pool their resources and form a sort of donors’ consortium. Frequently, multilaterals such as the World Bank or one of the regional development banks form part of such consortia, and get a hand on the steering wheel in what is technically bilateral development assistance.

In 2004, the government of Zambia and its donors, including Norway, signed a Memorandum of Understanding (MoU) committing to the promotion of donor co-ordination and harmonization at all levels. The Zambian Wider Harmonization in Practice (WHiP) process is intended to ensure common procedures and alignment. Signatories to the MoU commit to the Zambian Poverty Reduction Strategy Paper (PRSP) “as an overall framework for national planning, priorities and interventions for development, poverty reduction and achievements of the internationally agreed MDGs.” The MoU stresses the need for improved integration of donor funds in the Zambian budget and recommends the increased use of Sector-Wide Approaches (SWAps), and possibly direct budget support, as a “mechanism for disbursing funds and improved dialogue.”

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48 “Concluding Remarks by the Chairman of the IMFs Executive Board”, December 21, 1999
49 Thomas (2004)
As The Halifax Initiative report cited above has pointed out, the leverage of the IFIs increases as more aid is disbursed through joint multi-donor programs. There are currently three examples of such joint funding in Zambia where Norway is involved. The first is in the education sector. In line with the preferred funding mechanisms of the harmonization process, Norway participates in the Zambian SWAp on education by contributing to the multi-donor basket funding where resources from several donors are being pooled in non-earmarked budget support to the educational sector. The purpose of the SWAp is to streamline all funds under a common framework with coordinated efforts from donors.

Another example of joint funding is the Public Expenditure Management and Financial Accountability reform program (PEMFA) where Norway contributes as co-financier. The implementation of PEMFA is funded through joint pooled-funded donor support.

Finally, the same form of financing is planned within the Poverty Reduction Budget Support (PRBS) where donors are preparing to give assistance through direct budget support. The condition for donors to offer multi-year and multi-donor poverty oriented budget support is that the Zambian government concentrates on reaching outcomes that it has committed itself to in the Zambian PRGF.

The importance of the IMF

In Norwegian development policy debate, the International Monetary Fund is almost a non-issue. Yet, this institution is probably more important for poor countries now than ever. The IMF has a similar organizational set-up to the World Bank (see section 2.2). Norway and the Nordic-Baltic Group have slightly less formal influence, with 3,51 per cent of the voting power (as opposed to 5,05 at the World Bank).

In the division of labor among the International Finance Institutions (IFIs), it is the World Bank that is in charge of the “soft” issues like lending and grant-giving for development purposes. Traditionally, the International Monetary Fund’s (IMF) role was only to ensure financial stability. Only as late as 1999 did focusing on poverty become part of the Fund’s mandate, with the introduction of PRSPs.

However, the IMF’s role is also to be gatekeeper for all international finance. In order to get loans and aid not only from the IMF itself, but also from the World Bank, the regional development banks and bilateral donors, a country first needs to be given a “green light” from the IMF. This places the IMF in the role of de facto gatekeeper in the realm of international finance. Thus, the IMF has tremendous leverage over aid-dependent poor countries, whose only alternative to following IMF conditionality on economic policy, is bankruptcy. Ironically, this also means that the IMF – whose role ostensibly is stability – can have a tremendous destabilizing effect. When the IMF suddenly downgrades a country, volatility and calamitous financial consequences are sure to follow for the borrowing country.

Even private markets look to the IMF, and if a country gets a thumbs down, this generally means no further access to private sources of capital. This is less of a problem for the poorest countries, who have a hard time accessing private capital anyway. What it does mean, is that the IMF wields power also over middle-income countries that are not necessarily all that dependent on aid and loans from the IFIs. A new tool, the Policy Support Instrument, could expand this even to countries with no loans.51

The net effect of this is that a country’s agreements with the IMF in fact over-rules all other plans and strategies. Among the various agreements and tools, Poverty Reduction Grant Facilities (PRGFs) are the most important

51 Bretton Woods Project (2005b)
for the poor countries. This is why, in many cases, civil society organizations that try to raise questions about the macroeconomic framework in PRSP processes, find the door closed. In this way, the PRGFs determine the framework for the PRSP, rather than the other way around. The fate of countries trying to meet the challenge of HIV/AIDS are instructive in this respect (see boxed text).

**The Knowledge Bank**

The World Bank produces a massive amount of research, policy papers, reviews, evaluations and background papers of all sorts, that have established the Bank as the undisputed leader of knowledge production in the field of international development. The World Bank says itself that “The Bank has changed considerably in the last few years, to become a knowledge Bank as much as a lending Bank.” and that “The Bank’s store of development knowledge has always been an important element of its assistance to client countries.”

As a “knowledge bank”, The World Bank operates in many capacities, and through many of its sub-departments. These include the Operations Evaluation Department, Research Division, Data and Statistics Division, a Media Division, Publications Division, Library, Documents Archives and Reports galore with the flag-ship World Development Report on top, as well as online and traditional bookstores. Influential is definitely also the Development Indicators publication, available online at a – relatively speaking – moderate price, easily accessible for any student in the Western world.

The Norwegian government writes in its latest White Paper on development that the development banks “are also important knowledge institutions, and increasingly set standards in the development debate.” As if to underline the point, in that very document, the World Bank is the source in 12 out of 27 cases. The OECD is the source for 6 references, followed by the UN with 5.

The World Bank Institute (WBI), partly funded by Norway through a trust fund, is perhaps the most important tool for bringing the World Bank’s vast body of information to the world. The Institute trains 80 000 students a year, through more than a thousand activities in 124 countries. The WBI has partnerships with some of the world’s foremost universities, including Harvard and Columbia. They are mostly American, but also British like London School of Economics. It hosts a range of web-based initiatives, as well as various distance-learning programs.

David Ellerman, a former staff at the WBI, working closely with the then World Bank Chief Economist, Joseph Stiglitz, writes:

> in five years in the educational institute of the World Bank (then called Economic Development Institute and now, World Bank Institute or WBI), I constantly saw programmes of giving out ‘the answers’ to people in developing countries – rather than working to help those people find their answers on their own. 

Knowledge is power, but sometimes even a massive institution like the World Bank is unable to produce the information it needs without resorting to foul play. We spoke to a former employee of the Bank who wanted to remain anonymous: Prior to the Beijing +5 meeting in 2000, his department was asked to come up with the figure for World Bank allocations of funds for education for women. In Beijing, World Bank President

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54 St.meld.nr. 35 (2003-2004)
55 Ellerman (2005)
Wolfensohn had promised a considerable increase in World Bank efforts in the following 5 years. The figures, however, showed a disappointing decline. The president’s office wanted new material but this time new figures that showed targets were met. During the following night statistics were “massaged” to make the answers match the promised targets.

We have also spoken to one of the evaluators of a World Bank program in a big Indian city. They were also instructed to modify their conclusions, after having asserted that the program in question was not particularly successful. The Bank needed to disburse more money, but could not unless the program was given a more positive review. So the evaluators, who were dependent on future contracts from the Bank, obliged and modified their conclusions as requested. Not surprisingly, they also want to remain anonymous.

**Conflicts of interest**

Norway’s relations with the World Bank Group is not limited to development assistance. The World Bank procures goods and services from private actors, some of them Norwegian. In many ways, the World Bank headquarters functions as a “stock exchange” where Bank representatives float needs and tenders for the international world of consultants and providers of goods and services to engage.

Norwegian officials we have spoken to confirm that they would like to see Norwegian research institutions and consultants get more contracts from the World Bank. Currently, the feeling is that Norwegian actors are not getting their due. But the principle of untied aid is flagged and advocated strongly by the political leadership, and limits the options for marketing of Norwegian representatives.

However, one of the Ministry of Foreign Affairs’ (MFA) tasks is to facilitate Norwegian institutions seeking better access to World Bank contracts. The MFA, through the Norwegian Embassy in Washington DC, provides logistical assistance, and e.g. in June 2005 organized a workshop, on World Bank premises, for Norwegian companies and research institutions that sought information and contacts with World Bank staff and programs. The Norwegian-Finnish TFESSD (discussed above) as well as the NTFPSI, also list Norwegian and Finnish institutions applying for or seeking to be considered for contracts.

The Norwegian Embassy in Washington DC has recently created a new position of liaison officer, who has tasks both related to Norway’s relations with the Bank as a donor, and as facilitator for Norwegian institutions trying to get contracts from the Bank. This new position should be seen in the context of another Washington office run by the Norwegian Export Council a few years back. That office also served Norwegian consultants and research groups that paid a subscription fee for services rendered. The service, turned out not to be financially viable in the end, and was closed down. It now looks as if the Norwegian government has taken up the tasks of the Export Council, but this time under an official heading.

In principle, there is no inherent conflict between Norway’s national interests and those of the developing world. We are well served by the prosperity of third world countries in many ways. But this common interest is a subtle one that can be threatened by unwise arrangements and policies. In this particular instance, Norway’s role as a donor with a strong adherence to the principle of untied aid competes with Norway’s legitimate role as a promoter of Norwegian commercial interests. It is hard to see how the new position in Washington can maintain two distinct roles without jeopardizing one or the other intended tasks.
3. Joint Recommendations

These recommendations come in the current Norwegian context of a new Norwegian government, and its Soria Moria declaration issued at its inauguration.

They are important first steps, and must be followed by a long term, concrete plan of action for a significant change of direction in Norwegian development policy internationally.

**Reduce World Bank funding**
We recommend an immediate reduction in Norwegian funding for World Bank activities. Reducing the funding through the World Bank will be an important signal that Norway refuses to support the proliferation of neo-liberal economic policies. This will enable Norway to take a leading role in exploring and expanding other channels of cooperation and funding. This could involve existing channels such as UN organizations and national bodies in cooperation with civil society, national governments and academic organizations in the South.

**Review the Reviews**

Civil society organizations have recently been actively engaged in three reviews of various parts of the World Bank’s activities: The World Commission on Dams (WCD), the Extractive Industries Review (EIR) and the Structural Adjustment Participatory Review Initiative (SAPRI) were all important contributions to the understanding of various aspects of the World Bank’s work and a testimony to the strength of global civil society’s resilience and competence.

These reviews were all partly financed by Norway. Their findings were also, to a large extent, ignored by the Norwegian ministry that helped finance them in the first place.

We urge the government to revisit these reviews, with the aim of mobilizing civil society in a Southern and people-centered approach to extractive industries, large dams and structural adjustment policies. This will both be a signal of respect for the South’s competence and input to poverty eradication programs, but also respect for civil society and people’s participatory processes into which Norway invited them by funding these exercises.

**Genuine untying of aid**

Knowing that Norway officially, together with the rest of the official donor society has pledged to withstand from tying of aid, we urge the government to stop using proxy arrangements to secure de facto tied aid arrangements disguised in various forms.

Instead of pushing for an increased Norwegian share in the consultancy and aid program market, Norway should encourage and support local and national bodies in the South to take the lead in securing the growth of locally owned production of knowledge and competence. The aim must be to encourage global networks of national governments, civil society and local competence, rather than the current coordination and harmonization of global agencies with headquarters in Washington.
Why trust funds?

Norway uses trust funds as a strategic tool to influence the World Bank. We doubt the effectiveness of this strategy, and recommend that the government completely reassesses its use of trust funds.

End conditionalities for Norwegian aid

Experience has shown the destructive effects of externally imposed conditionalities. There is an inherent contradiction between externally imposed conditionalities and national ownership and participation, which are crucial to successful development strategies.

Norway should as soon as realistically possible de-link all Norwegian development assistance from World Bank or IMF conditionalities that require the adoption of neo-liberal policies like privatization, liberalization and deregulation. This includes “benchmarks”, “triggers”, “topic for negotiations” and other euphemisms for conditionality.
4. Additional IGNIS perspectives and recommendation

An IGNIS perspective on the World Bank and conditionality and a subsequent recommendation. This is in addition to the work done jointly by the two organizations.

IGNIS recommends:

An unconditional removal of the use of conditionalities in all Norwegian development work, beginning with the work we support through the World Bank.

**Conditionality Undermines Democracy and Autonomy**

Our appraisal of the World Bank has led IGNIS to realise that the effect of the Bank on the poor has been one of suppressing energies and draining resources away from those that so badly need them. The World Bank has become a part of the problem for the world’s poor. Our deepest concern is, however, the constant undermining of the autonomy of countries that is perpetuated through the institution of conditionality.

The following text discusses the way The World Bank works, and the importance of abolishing conditionalities in order for sustainable development and eventually democracy, to emerge.

There is a surprising lack of discussion of the concept *conditionality per se* in the Norwegian development arena. Internationally, the doubts about the ethical and pragmatic aspects of conditionality is about the institutional reform packages and structural reform requirements that are under scrutiny internationally. Questions are asked: Do conditionalities work? Are they ethically acceptable?

There seems to be an almost universal Northern and Norwegian agreement that practitioners only need to improve and impose a tougher attitude and get conditionalities more performance based – and see to it that the requirements are fulfilled. It is a question of getting the right incentives.

**Development as Freedom**

But conditionality belongs within the larger discussion of democracy and autonomy of nations. There is a delicate complexity about how donor countries treat the concept of democracy in their development strategies today. On the one hand, democracy seems to be the ultimate aim for their policies. On the other, development as an economic pursuit, tends to overshadow the democratic aspect. Beggers can’t be choosers, tends to be a rule, and democracy tends to become an unacceptable dream for the poor. The Nobel laureate Amartya Sen’ discusses this, saying: "priority must be given, so the argument runs, to fulfilling economic needs, even if it involves compromising political liberties. It is not hard to think that focussing on democracy and political liberty is a luxury that the poor countries ‘cannot afford.” [emphasis added]

The Soria–Moria declaration in effect signals a turning towards democracy when it denounces the imposing of neoliberal policies and promises to stop the funding of such practices. It is, however, of little comfort that NGOs and official aid organisations increasingly are accepting it as a fact that harmful policies are harmful, or that

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1 Amartya Sen, Development as Freedom, Oxford University Press, 1999. P. 146-147;
neoliberal economic impositions do not benefit the poor. The evidence for privatization and private-public-partnership in water projects, cost-recovery in health and education, or deregulation of speculative capital transfer, have never been established. Privatization is politically and ideologically motivated. Suffice it here to point to the one example that the best water-distribution system in the world, the Swiss, has never seen a privatization initiative what so ever. Ironically, in the hills of Davos, the Swiss host one of the strongest proponents of privatization, the World Economic Forum,( WEF) at which the World Bank president is a household name together with leading, mostly Western, politicians, celebrities and billionairs^2.

Conditionalities are the "sticks" that the Bank and its donor partners use to enforce their will on the receiver, and constitute an important set of tools in current development policies. Loans and grants “buy” powerful influence, and conditionality is the ticket to that power. The tools of conditionality therefore greatly extends the arsenal of tools that the Bank can activate, and gives it a formidable leverage over receiving countries. Let’s look closer at the various roles of the Bank that are at play:

**The Tripartite Bank**

The World Bank can best be described in terms of three mutually reinforcing attributes.

*The Bank as Bank*

As a shareholder’s company, and major international financial operator with hundreds of billions in the financial market, the Bank is dependent on its rating as an acceptably behaving financial operator. The upholding of its AAA status will have prominence in all Bank activities. Soft fields like environmental concerns, effect of policies for women’s, children’s and poor people’s lives, can never be allowed to dominate. Then the institution of Bank Bonds will deteriorate, the Bank will lose its market trust and clout and resources will soon be drained out, even the 40% of the profits it plows back into good causes.

“Money is the magnet that sets all compasses wrong”, writes David Ellerman^3, who worked with Joseph Stiglitz at the Bank. Money becomes the solution to all problems, for Bank people who only speak this language. People are viewed as customers and taxpayers, human needs are confronted with cost recovery, health becomes a question of affordability. Money becomes the sole language or currency acceptable.

Money also blurs the understanding of what development is all about, says Alice Amsden^4 “A “veil of money” keeps inquisitive readers from understanding the world of development. The veil comes in the form of expensive “background papers” by consultants, hand-picked and hired by the Bank…based on … extensive bibliographical references mainly to their own work.” And she concludes: “The failure to recognize classic works in the debate and cite the original source … means that all information to the reader is filtered.”

*The Bank as Dinosaur*

The gatekeeper function of the World Bank is rooted in its control over a manyparted series of operations in the financial and aid assistance market. Through its role as Knowledge Bank it holds the key to research, controls ideological trends, feed into academic institutions, define fields of research, owns the results and filters them

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^2 the 1200 members of WEF in Davos are billionaires who invite politicians, religious leader and celebrities for its annual festival

^3 p. 244, Ellerman 2005

^4 cited in Goldman, p. 147
according to what serves it best in the public domain. It is the judge of evaluations as well, and buries reports it finds less supportive. It channels funds for certain implementations and blocks other avenues.

The share size of the Bank is not daunting, but the status countries have given to the Bank, is. (Philippines do not spend a dollar of their state budget before the Banks’s loans are paid in full) The country clients cannot go bust, and the Bank rightly prides itself of the fact that it has never had to concede on any loan. As judge, jury and purse, the Dinosaur Bank is a formidable force on behalf of its bonds- and shareholders.

The Bank as US Bank

It is not so much the cultural and emotional affiliation with everything American, through close geographical proximity to the White House, that makes the World Bank an American Bank. Neither is it the fact that the American presidents de facto appoint the Bank’s head. Nor even the fact that American scholars and students are over-represented among Bank staff. More important is the role the Bank can possibly play, squeezed in between the US presidential preferences, the host of 20,000+ professional lobbyists of K-street hired by Wall Street financiers, and the Capitol Hill politicians accountable only to the citizens of the world’s only superpower. After 9/11 the Bank suddenly identified new areas for its poverty eradication programmes: areas coincidentally identical to the axis of oil and evil pointed out by the White House. In 2002 800 million USD were granted Pakistan, 2,2 billion USD to India, 3,5 billion USD to Turkey, “much of which is unconnected to plans the Bank had before September 2002”.

The Bank’s role in Argentine, Iraq and Indonesia in willing coalition with the US, is well known and not unique.

In combination, the three mutually reinforcing roles work in symphony:

- the omnipresent, multifaceted and powerful Bank, that acts as gatekeeper of knowledge and holder of development “truths”;
- the Bank’s embeddedness with the World’s only superpower, and its ongoing ideological calibration with that dominating regime;
- and the monoteistic belief in money as the ultimate answer and tool for change in combination with vested interests.

It is in the hands of this complex called the World Bank that conditionalities are found to be a forceful tool.

Conditionalities; in whose name?

The World Bank is in its essence a tool for, and expression of, a world order in which a dominant North has used the weakness of the South for its own advantage. In the name of the poor, the North is pursuing its own interests:

In the name of Poverty reduction the North uses conditionalities to enhance free trade to the benefit of Northern exporters; denies the use of subsidies and protective measures for Southern farmers pressed by Northern dumping and advanced technology; and imposes structural adjustments on vulnerable Southern countries in order to uphold a sustained flux of debt repayments from the South to the North.

The power of the Bank is used to undermine the autonomy of Southern countries. Even Southern “peoples’s participation” and “local ownership” to programmes are made conditional by the North to the release of funds.

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5 The Bank demands as a minimum a one-dollar-a-year contract for people to get full information access. This entitles the Bank control of the end results of assignments.

for debt forgiveness and development assistance. This constant imposition of conditionalities constitutes a grave attack on the autonomy of Southern nations and leaves them even more vulnerable and disempowered.

So-called “good conditionality” may look beneficial to the Northerner. At the receiving end, however, “good conditionalities” are degrading and humiliating. They pervert the communication between the donor and the country and people that are responsible for the use of the resources transferred. In fact, says Ellerman “Aid agencies have their preconceptions of “virtue” in the sense of good policies. They try to “buy virtue” by imposing conditionalities on program aid geared to “virtuous” behaviour…Such aid pushes the external motive of receiving the aid into the motivational foreground and thus establishes external control – the lack of autonomy.” The hidden costs of conditionalities are rarely accounted for. But the centre of our resistance to conditionalities rest not so much on the ineffectiveness, as on the undermining of the autonomy, and subsequently jeopardizing of the entire democratic project that development is all about.

As long as progressive Northern NGOs allow their governments, the multilateral agencies and themselves, the power of deciding over their receiving partner’s plans and policies, there can be no real autonomy and no democratically rooted change. And development aid will continue to be used in what Charles Abugre of Christian Aid, UK, calls “the silent occupation”.

“What makes the World Bank so powerful?” asks Michael Goldman, and answers “it has no rivals.” We might add that Norway historically has its share of the responsibility for this through its use of development aid and its ignorance of the forces at play: We have made the Bank powerful. We can reharness that power, and return it to the people we claim to serve. And conditionalities stand in the way.

Therefore we recommend an unconditional removal of the use of conditionalities in all Norwegian development work, beginning with the work we support through the World Bank.

**Lessons from NGOs working with the World Bank**

With President James Wolfensohn at the helm, the World Bank signalled a new attitude towards NGOs in 1995. Numerous initiatives were taken to invite civil society to engage with bank managerial level as well as lower echelon technicians and field workers. Skeptical NGOs carefully approached the Bank, testing its sincerity to listen, learn and change.

A series of initiatives stand out in terms of width and depth in involvement of citizen’s groups: Major initiatives taken by the Bank with citizens’ organizations in recent years include the launching of

- the World Commission on Dams (WCD), which released its findings and recommendations in 2000 on the impact of the financing of large dams;
- the establishment of an Extractive Industries Review (EIR) following Wolfensohn’s commitment at the Bank/IMF Annual Meetings in Prague in 2000 to investigate the impact of the Bank’s investments in mining and fossil fuels;
- Structural Adjustment Participatory Research Initiative, SAPRI, in 1997 with civil society and governments in ten countries to assess the impact of key economic adjustment policies on major economic and social sectors;

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7 as we have seen, conditionalities have been reduced in numer but not in importance
8 Ellerman, p. 211
9 Charles Agubre, Christian Aid, UK: Input to NGO Conference on WTO, Bruxelles, Sep 2004
10 Imperial Nature 147.
the development of Poverty Reduction Strategy Papers (PRSPs) as the framework for Bank lending in the world poorest countries;

- the Bank has also deliberated with NGOs on Bank policies related to environmental safeguards, forestry and logging, and information disclosure.

The first three of these exercises stand out in terms of having NGOs in a high profiled fashion taking an active role in formulating the architecture of the exercises as well as the implementation of information gathering, and editorial work. And in terms of volume. Thousands of NGOs and individuals took upon them to comprehensively ensure a representative people’s respons to the Bank’s effect on the ground. And Norway backed the exercises financially.

Civil Society in the shape of broad NGO-networks and movements can be said to flag the simple question: Whose realities count when the Bank’s policies are formulated, decided, implemented and evaluated.

It is also worth noting that each of the three exercises started out as joint initatives with the Bank. And that all ended up with the Bank dismissing the substantial body of findings and subsequently disregarding them in terms of crucial policy shifts11.

**SAPRI**

For SAPRI, the Structural Adjustment Participatory Review Initiative, the origins of the multi-year undertaking lay in the challenge to Wolfensohn by NGOs, led by The Development GAP together with IRN. Organized as intensive public consultations and field investigations on four continents on the effects of Bank-promoted policies, SAPRI was launched upon the Bank’s commitment to “... learn from the critics of adjustment and identify specific actions that can be incorporated in future programs” and its president’s request for help from those critics in identifying “a different way of doing business in the future.”

SAPRIN, reports that “as it became clear that the findings would be damning of its policies,” the Bank dissociated itself from the very process it had been establishing in the first place.12 “While SAPRI has yielded extensive documentation on the effects of structural adjustment mobilized and involved thousands of local organizations on the issue worldwide and engendered alliances on the part of the SAPRIN civil-society network with official institutions and other social movements,” Lidy Nacpil of SAPRIN/Philippines, pointed out that the Bank “has shown no interest in utilizing the results of this endeavor with civil society to inform or adapt, much less make fundamental changes in, its policies or operations.”

**World Commission on Dams**

On the implementation of the findings of the World Commission on Dams, WCD,

… the Bank has refused to adopt any of the WCD’s recommendations into its binding policies and has made only vague commitments to follow some of the WCD’s recommended approaches. The Bank is also misrepresenting or ignoring the Commission’s findings on the Bank’s role in promoting poorly performing and destructive dams,” said Patrick McCully from International Rivers Network.13

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11 All exercises are well documented on the web., see www.saprin.org; www.eir.org; www.irn.org

12 see www.saprin.org,

13 See www.irn.org/wcd
Extractive Industries Review

Daphney Wysham, a fellow with the Institute for Policy Research, Washington, says “the extractive industries review comes after years of agitation for reform, beginning in the early 1990s, by scores of NGOs and project-affected peoples who raised a number of serious concerns. These have included the World Bank’s downgrading of its energy-efficiency and power-sector policies to non-binding guidelines, the scarce Bank investment in renewable energy despite Bank studies which show it is best suited for the two billion rural poor it claims to serve, and the serious social and environmental effects of World Bank fossil-fuel investments. The Bank has promised reforms and then continued with business as usual.”

Summing up NGO experience

A hearing bringing together the NGOs engaged in the three major SAPRIN, the CMD, and the EIR, came to a very different position from what the Bank had promised:

In none of these areas has the Bank’s response to citizen input and recommendations and to joint learning been considered close to satisfactory by those involved. Concerned that the Bank has been engaging citizens’ groups primarily for public-relations purposes, civil-society participants in the above-mentioned initiatives met in Washington in late September to share experiences as the basis for informing other civil-society organizations considering involvement with the Bank.

The complaints summarised how the Bank works with civil society:

- The reneging by the Bank on many of the agreements and commitments it has made with and to the organizations it has engaged regarding the process and product of the endeavors;
- Efforts by the Bank to control and manipulate the endeavors and to use consultations with civil society to validate and advance its own positions and objectives;
- Efforts by the Bank, when it has been unable to control initiatives, to distance itself from their outcomes and to avoid implementation of recommendations.

“Overall … the Bank has demonstrated little or no interest in achieving meaningful policy changes as a result of these initiatives. In fact, engagement with the Bank has entailed continual struggles to hold it to its commitments.”

Unfinished Business

The three large civil society engagements with the World Bank, WCD, SAPRI and EIR—exercises in the 90’s—issued their reports in 2000, 2002 and 2004 respectively. The reception, or rather lack of such, from those who should be holding the World Bank accountable to the people they serve, left a still unmended, huge rift in the relationship between government officials and civil society. World Bank-sceptical NGOs were confirmed in their unfinished business.

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14 See www.seen.org
15 Press statement IRN and DGAP 9th Nov 2001
16 ibid
17 World Commission on Dams, dealing with large dams and their impact on environment and sustainability in general and the violence created to huge groups in the name of development. Presented to the World Bank in 2000
18 Structural Adjustment Participatory Review International Initiative, looking into the policy roots of economic crisis, poverty and inequality. Reported presented to the World Bank in 2002
fear: why work with governments and the multilateral institutions to bring the voices from the people involved when their reports and testimonies are refuted, ridiculed and eventually ignored, anyway.

We think the disappointing feedback these three exercises received from i.a. Norway, can be turned into something constructive. But it will not come easy, since all three basically challenge central powers of global development. And the World Bank is indeed one of the central power players.

Increasingly, NGOs have come to the conclusion that working with the Bank is of no avail. This led to the refusal by the SAPRI NGO-network, SAPRIN, to work with Bank at the Oslo ABCDE-conference in 2002. NGOs are goal oriented and are sensitive to being co-opted to waste their integrity that way. And their conclusions are understandable in the light of many instances lately. In the case of the EIR, WCD and SAPRI, their conclusions were obviously too dangerous, evidently, to be let alone to grow into serious challenges to World Bank controlled scientific canon.\footnote{Confer the Bank as Knowledge Bank}

Norway was instrumental in establishing these assessments. SAPRI’s first 12 mill. NOK came from MFA Norway. But initial Norwegian enthusiasm for the exercise died when results started to come: The Ministry of Development sided with the Bank in refusing to accept the outcomes and recommendations. One argument e.g. was that SAPRI did not contain a contra factual component, in order to control for what would have happened had SAPs not been implemented. Had SAPRIN been invited to respond to that accusation, they could have informed the minister that it was the World Bank that decided that contra factuals were not relevant. In reality, contra factual components would have forced the World Bank to confront the successful examples of China, South Korea and India. These countries had strategies qualitatively different from the Washington Consensus style SAPs that the Bank has been imposing, with tragic results, on countries susceptible to their influence.

In fact Norway has not been fair to the generous body of information and experience that civil society has put on its doorstep through the WCD, EIR and SAPRIN exercises. One would also think that Norway’s considerable financial contributions to these exercises should have led to a more substantial follow-up. The Norwegian government has failed to take this knowledge and make the World Bank accountable to it. Rather, they have abdicated their responsibility, and supported the Bank in the face of thousands of people’s testimonies and demands.

**Recommended Norwegian follow-up**

We will therefore strongly urge the new Norwegian government to follow up its signals of a new policy direction, by picking up the unfinished business from the EIR, WCD and SAPRI reviews. As we have seen, there is much overlap in lessons and critical views between the three, that can be pursued in a single program. Such an endeavour will not only trigger civil society engagement in fields of great importance to future poverty reduction strategies, but will send a strong signal that the new Norwegian government will take civil society input and engagement seriously. The process should have a clear aim to revisit the findings with the goal of changing policies accordingly. This way a credible and promising process of accountability and learning can be launched (see Joint Recommendations above).
Norway contributed NOK 300 mill / US$ 46 mill to various trust funds in 2003. Out of this, the World Bank received NOK 260 mill / US$ 41 mill

The trust funds were (contributions listed are from 2003):

Education – total of 100 mill / US$ 16
- Norwegian Education Trust Fund – NETF, est. 1997 (NOK 60 mill / US$ 9 mill)
- Education for All Fast Track Initiative Catalytic Fund, est. 2003, Co-funded by Belgium, Italy, The Netherlands and Norway (NOK 40 mill / US$ 6 mill)
- Education Program Development Fund – EPDF, est. 2004
- Norwegian Trust fund for Aids in Africa (NOK 0 / US$ 0)
- Environment and sustainable development – total of 105 mill. / US$ 16 mill
- Trust Fund for Environmentally and Socially Sustainable Development. – TFESSD, Co-funded with Finland (NOK 80 mill / US$ 13 mill)
- Waterfund in AsDB, est. 2001, Multidonor (NOK 2 mill / US$ 0,3 mill)
- Environment and Poverty fund in the Asian development bank, est. 2003, Co-funded with Sweden (NOK 5 mill / US$ 0,8 mill)
- Good governance – total of 16 mill NOK / US$ 2,5 mill
- World Bank Institute, WBI, program for anticorruption and good governance, Co-funded with United Kingdom and Netherlands
- IDB’s ethic and development initiative, est. 2003
- AfDB’s good governance fund, Co-funded with Nordic countries
- Commerce, trade and agriculture – total of 55 mill NOK / US$ 9 mill
- Norwegian Trust Fund for Private Sector Infrastructure – NTFPSI (NOK 55 mill / US$ 9 mill)
- Gender and social equity – total of 24 mill NOK / US$ 4 mill
- GENFUND in WB, est. 2000, Co-funded with Netherlands
- PROLEAD in IDB (NOK 1,5 mill / US$ 0,2 mill)
- Multidonor fund on gender in ADB, Co-funded by Canada and Denmark (NOK 5 mill. / US$ 0,8 mill)
- Multidonor fund on social equity in IDB, Co-funded by United Kingdom (NOK 5 mill / US$ 0,8 mill)

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## List of Interviewees

We have interviewed and/or cited directly the following people for this project:

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<td>Alexander, Nancy C.</td>
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<td>Ambrose, Soren</td>
<td>50 years is enough</td>
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<td>Zuckerman, Elaine</td>
<td>Gender Action</td>
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