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Sustainability: Lenders Know Best – A Practitioner’s View

Robert Brian Smith
Academic Advisor
Walailak University
Thailand

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Dr. Gregory T. Papanikos
President
Athens Institute for Education and Research

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Athens Institute for Education and Research
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Sustainability: Lenders Know Best - A Practitioner's View

Robert Brian Smith
Academic Advisor
Walailak University
Thailand

Abstract

The recent formation of the Asian Infrastructure Investment Bank (AIIB) has once again brought into focus issues of governance within the international lending institutions as well as the conditions imposed on borrowers i.e. national governments. This paper will explore, from a practitioner's perspective whether the drive for effectiveness and efficiency of operations imposed by the lenders are imposing conditions that are in effect impacting on the long-term sustainability of local communities. Lending institutions may impose a philosophy that is contrary to the best interests of the citizens and the social fabric of society. This was clearly the case with the IMF and the Asian Financial Crisis of 1997-1998 and its impact on countries such as Thailand and Indonesia. Lessons have been learnt but is the mix right. International lending institutions are more and trying to force governments to comply with a neo-liberal agenda before they will grant a loan. The solutions may be inappropriate or too extensive. Governments often accept the conditions to obtain the loan. Whilst it is critical that governments have the appropriate fiscal and contract management skills in place the imposition of a neo-liberal agenda is another story. The agenda essentially implies that services should be outsourced wherever possible. Such an agenda may be efficient, but it can have devastating effects on the local communities.

Rather than imposition of the external agenda for wholesale change the institution undergoing change needs to be fully committed and systematic institutional diagnostics should be undertaken jointly before a decision is made on the areas and direction of change. A medium-term strategy for capacity building should be developed, providing the framework for continuous assistance with interim milestones. Without such an approach sustainability is likely to be a pipe dream. There are plenty of examples to prove it.

Keywords: Sustainability, Developing Economies, International Lending Institutions, Capacity Development, Procurement.

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Introduction

In 2017, eight of the major international financial institutions (IFIs)[1], namely, African Development Bank (AfDB), Asian Development Bank (ADB), Asian Investment Infrastructure Bank (AIIB), CAF-Development Bank for Latin America, European Bank for Reconstruction and Development (EBRD), International Fund for Agricultural Development (IFAD), Islamic Development Bank (IsDB) and the World Bank (WB) lent developing countries around $US 94.84 billion and provided $US 3.43 billion in technical assistance and grants. These banks are generally owned by country shareholder members who are both developing and developed countries. Details are provided in Table 1.

Table 1. *Value of Grants, Technical Assistance and Loans approved by Major International Financial Institutions in their 2017 Fiscal Year*

International Financial Institution	**Grants & Technical Assistance ($US billion)**	**Loans Approved ($US Billion)**
African Development Bank[2]	-	7.66[3]
Asian Development Bank[4]	0.20	20.01
Asian Investment Infrastructure Bank[5]	0.002	1.61
CAF- Development Bank for Latin America[6]	-	1.65[7]
European Bank for Reconstruction and Development[8]	-	13.98[9]
International Fund for Agricultural Development[10]	0.06	1.24
Islamic Development Bank[11]	0.0014	9.8
World Bank[12]	3.17[13]	38.89[14]
Total	**3.43**	**94.84**

[1]Also called Multilateral Development Banks (MDBs).
[2]African Development Bank Group. 2018.
[3]Includes grants. AfDB uses the Unit of Account (UA) as its currency unit in its reports. As at 31 December 2017 1 AfDB UA = 1.42413 USD.
[4]Asian Development Bank. 2018a.
[5]Asian Infrastructure Investment Bank. 2018.
[6]Deloitte.2018.
[7]Movement in loan portfolio between 2017 and 2016.
[8]European Bank for Reconstruction and Development. 2017a.
[9]Loans and equity investments. As at 31 December 2017 1 EUR = 1.2006 USD.
[10]International Fund for Agricultural Development. 2018a.
[11]Islamic Development Bank. 2018.
[12]World Bank Group Financials. 2018a
[13]International Development Association (IDA) grants
[14]Includes IDA concessional loans and International Bank for Reconstruction and Development (IBRD) loans.

In addition, many developed countries provide bilateral aid. For instance, in 2016 the Japan International Cooperation Agency (JICA) one of the world's largest donors provided $US 5.59 billion in grant aid and $US 1.42 billion in loans (JICA 2017).

Clearly, with well over $100 billion being dispersed annually, the banks need to protect their investment and ensure that the money is "well spent." The issue is that the banks might become focused on their ideological agenda and investment priorities rather than focusing on the needs of the recipients and the development of the recipient's human capital. This outcome may be the result acts of commission but often acts of omission.

The paper includes a concise review of recent literature, an outline of the methodology, the findings, followed by discussion and recommendations.

Literature Review

Stiglitz (2002) identified a number of issues associated with the international financial institutions. There appear to be just as relevant in 2018 as they did in 2002. Firstly, an ideological view of government and markets has come to prevail. This view is not accepted by all developed economies but is being imposed on developing countries and those in transition (p. 225).

The imposition of conditions, "some political in nature, as a precondition for assistance did not work; it did not lead to better policies, faster growth to better outcomes" (p. 242). Countries that think reforms have been imposed upon them are less likely to be responsive than those that were part of the deliberation process.

Park and Strand (2015) argue that, as the banks are dependent on their developed country shareholders for a continuing supply of funds, they are often result in policy demands by the lenders (p. 9).

Babb and Kentikelenis (2018) point out that IFIs such as the International Monetary Fund (IMF) and the World Bank lack immediate control like that exercised by colonial administrations so they rely on indirect forms of influence. Like Stiglitz, above, they see conditionality as the best known of the levers of influence as non-compliance with conditions can result in delays in loan disbursements or suspension of lending altogether (p. 18). They also describe subtler means of behavior because they possess considerable expert authority. They argue that "World Bank research is recognized by supporters and critics alike as setting the terms of international development debates" (p. 18). They further argue that, as there is no external peer review the research publications can gravitate towards the official position of the IFI.

Finally, they note that developing economies are gaining more influence over the activities of the banks. With the rise of the banks like the China-based AIIB the focus will be more on lending and will make it harder for traditional IFIs to impose conditionality and promote market liberalizing reforms (p. 22-23).

Stichelmans (2016) acknowledges that IFIs such as the World Bank have made recent efforts to reform conditionality but argues that there is "a gap between the stated intentions and the reality" (p. 19). He also notes that "[t]he World Bank continues to make loan decisions on the basis of the assessments made by its rich-country dominated board on the economic agenda of recipient countries" (p. 19). There are two key reasons for this: Firstly: directors have a dual "role" on the one hand they have fiduciary duties and on the other they represent their constituent(s). Secondly is the extensive retained authority of IFI boards (Nestor 2018, p. 15)

The AfDB has a key difference from most of the other IFIs as it is development experts from the recipient countries who are the ultimate deciding parties. Conditionality focuses on good governance "as a way to ensure good governance a key factor in Africa's lack of development" (Serem 2016: 13).

Another significant issue in the development debate is the role of privatization (Chang 2007). Chang's heading for Chapter 5 of his book is "Private Enterprise Good, Public Enterprise Bad?" (p. 103). He considers that capitalists base their argument against state owned enterprises on the premise that "people do not fully take care of things that are not theirs" (p. 104). He argues that there is no simple answer as there are good state-owned enterprises and bad state-owned enterprises just as there are good private enterprises and bad private enterprises.

> "… there is no hard and fast rule as to what makes a successful state-owned enterprise. Therefore, when it comes to SOE management, we need a pragmatic attitude in the spirit of the famous remark by China's former leader Deng Xiao-ping: 'it does not matter whether the cat is white or black as long as it catches mice'."
>
> (Chang 2007, p. 120)

Leipziger (2014) argues that neither the World Bank nor for that matter the International Monetary Fund (IMF) are any longer a major voice in the world of policy but rather remain sources of data and projections. In the past IFIs played a major role in the evolution of development thinking but their future role, if any, is an open question (p. 31-32). Kenny (2017) argues that the delivery risk is a much greater challenge to investment lending than procurement risk yet the IFIs tend to focus on corruption in procurement (p. 3).

This brief review has described the issues, particularly the issue of conditionality at the macro-level. They have also permeated down to the project level. It is the project level which is the focus of this paper.

Methodology

Whilst, as described above policy is set at the macro-level, it is at the project implementation level where technical assistance, procurement and construction supervision support that is the concern of this paper. It is at this level that institutional and capacity development is programmed to occur.

It should be emphasized that the methodology is focused on types of conditionality clauses rather than on the IFIs per se. For ease of presentation, however the review will be undertaken IFI by IFI. Discussion is restricted to procurement of works and consulting services.

All publicly available procurement manuals and procedures issued by the IFIs and publicly available were assessed for relevant conditionality clauses. The potential impact of such clauses on the implementing agency at the project level was then assessed.

Findings

African Development Bank

Eligibility for Assistance

The African Development Bank was established to "contribute to the sustainable development and social progress of its regional members individually and jointly (AfDB 2011a, art 1).

Procurement Policy

The bank's procurement policy is to support regional member countries to obtain optimal value for money based on the principles of economy, efficiency, effectiveness and equity. Process and procedures must be fair and transparent (AfDB 2015a, p. 7 clause 2.1).

The Bank will not fund a project in the territory of a member if the member objects to the financing of the project (AfDB 2011a, art 17.1(b)).

Procurement of goods and services is only to be sourced from member countries unless a non-member country has made a significant financial contribution to the project (art 17.1(d)).

Procurement Regulations

The African Development Fund (ADF) permits parties from any country to offer goods, works and services for projects financed by the ADF (AfDB 2011b). Only parties from AfDB member companies can participate in a project funded from the proceeds of any financing undertaken in the operations of the AfDB and the Nigeria Trust Fund (AfDB 2012, p. 3 para 1.6).

Participation in the procurement process can only be denied from bidders of eligible countries on the basis of capability and resources to successfully perform the work (AfDB 2015a, p. 11 clause 5.2).

Firms may associate in joint venture, subcontracts and sub-consulting arrangements between local firms, between international firms and between local and international firms. Such associations may be project specific or long-term (p. 13 clause 5.7). Mandatory requirements for firms to associate are forbidden (clause 5.8).

The AfDB has a facility to develop a country procurement capacity plan. The plan can support the public procurement system; support the private sectors so that firms can bid effectively and enabling civil society to provide effective oversight (p. 7 clause 8.3).

Domestic Preference

Under "special circumstances and conditions" the bank may accept domestic or regional preferences (p. 20 clause 8.10).

<u>Technical Assistance</u>

The AfDB supports capacity development typically by means of technical assistance and transfer of knowledge, training and procurement capacity development. Assistance can be made by way of a loan or direct bank funding (AfDB 2015b, p 18 section 2.5.4).

Asian Development Bank

<u>Eligibility for Assistance</u>

Assistance is only provided to developing member countries (ADB 2017c, p. 1 para 2-3). ADB has classified its developing member countries as detailed in Table 2. Brunei Darussalam; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China have graduated from ADB regular assistance (ADB 2018b, p. 3).

Table 2. *ADB Classification of Developing Member Countries as at 1 January 2018*

Classification	Developing Country Members
Group A (concessional assistance-only)	Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Federated States of Micronesia, Lao Peoples' Democratic Republic, Maldives, Marshall Islands, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Vanuatu.
Group B (Ordinary capital resources/Blend)	Bangladesh, India, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, Viet Nam.
Group C (regular ordinary capital resources-only)	Armenia, Azerbaijan, Peoples Republic of China, Cook Islands, Fiji, Georgia, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, Turkmenistan.

Source: ADB (2018b) Appendix 1.

Procurement Policy

The ADB procurement policy is clear. It encourages the development of the borrower country's domestic contracting, consulting and manufacturing industries (ADB 2017a, p 3 para 9).

Procurement Regulations

Properly administered, open competitive bidding including both national and international bidders results in value for money and most cases and is therefore recommended (ADB 2017b, p. 5 para 1.14). The borrow may request national competitive bidding if the works are unlikely to be attractive to international bidders or the financial burden associated with international competitive bidding is outweighed by the administrative or financial burden involved (ADB 2014, p. 1 para 2). International firms cannot be precluded from bidding, but they must abide by the local rules such as bidding language, payment in local currency and payment of local taxes (p. 3 para 8).

Nevertheless, there are restrictions on which international firms may bid, depending on funding source (ADB 2017b, p. 5). For loans or grants from ADB Special Fund only firms from developed country members who contributed to the resources or developing members may bid (para 1.14). In the case of loans or grants from their ordinary capital resources or ADB-ministered funds procurement must be restricted to member countries.

Participation in bidding can only be denied if the bidder is deemed to not have the necessary professional and technical qualification and competence and resources to undertake the work (ADB 2017b, p. 6 para 1.17).

Services of government-owned universities or research institutes and/or their specialist services in the borrower's country may be hired on a case by case basis where they are of unique and exceptional nature and critical to project implementation (p. 6 para 1.18(c)).

There are also restrictions on government officials and civil servants in the borrower's being engaged as individuals or as members of a consulting team (p. 6 para 1.18(d)).

Force account i.e. using the borrower's own personnel and equipment may be used for quantities of work that cannot be defined in advance; where firms are unlikely to provide bids at a competitive price; risks of unavoidable disruption are better borne by the borrow; or there are emergencies requiring prompt attention (p. 15 para 2.19).

Community participation is possible in the interest of project sustainability or to meet specific social objectives. This is with the proviso, of course, that "these are efficient and provide value for money". (p. 20 para 2.36).

Joint ventures between domestic firms and/or foreign firms with the joint venture partners being jointly and severally liable are acceptable but mandatory joint ventures are not. Nor can other forms of association between firms be mandated (p. 31 para 21).

Domestic Preference

ADB observes that the main argument for domestic preference is that local businesses in lower income countries are at a disadvantage when competing against international competition and that local firms are "deemed to give greater social and economic benefits to local communities" (ADB 2018c, p. 7 para A1.1 - A1.2). They identify the following challenges: lack of data and analysis; misalignment of incentives; administrative costs and issues of fairness (para A1.3).

It may accept domestic preference provisions to encourage domestic industry through domestic preference schemes (p 41 para 80). If other development partners in ADB's developing member countries accept domestic preference margins, ADB may accept their application also (para 81). All developing countries are eligible to participate in a domestic preference scheme for goods that are procured by international bidding (ADB 2013, p. 3 para 7).

For works contracts domestic preference can only apply if the country's per capital national income (GNI) is below a predetermined level. For the sake of harmonization ADB usually adopted the threshold defined by the World Bank (ADB 2018c, p. 5 para 3.3). For the World Bank fiscal year commencing on 1 July 2018 the threshold was $995 or less (World Bank 2018b).

<u>Technical Assistance</u>

Under its Charter, ADB provides technical assistance funding to prepare produce to induce investment by other IFIs; prepare projects that ADB might finance; improve technical managerial and administrative capabilities of agencies within developing countries; promoting technical cooperation between countries; and giving special attention to the needs of least developed countries (ADB 2017c, para 2). The Charter also stipulates that ADB shall not finance any undertaking in a member country if the member country objects to such financing (para 1).

Domestic Preference

For consulting services ADB allows one of two options. The first option is to allow for positions in the terms of reference to be reserved for nationals of the borrower's country (ADB 2018c, p. 6 para 3.6). The other is to agree to include "the use of nationals in key positions" as an evaluation criterion (p. 6 para 3.7).

Asian Infrastructure Investment Bank

<u>Eligibility for Assistance</u>

Funding can be provided to any member or any agency, instrumentality or political subdivision or any entity or enterprise operating within the territory of the member (AIIB 2015, art 11(1)(a)). Funding will not be provided for a project within the territory of a member if the member objects to that financing (art 13(3). It should be noted that funding is not restricted to members in the Asia and Oceania Region nor to developing country members.

<u>Procurement Policy & Regulations</u>

Competitive procurement is the preferred approach for procurement of goods, works, services and consulting services (AIIB 2018, p. 2 para 3.3.1- 3.3.2). Procurement is open to firms from any country unless that country is explicitly excluded by the Board of Directors (p. 2-3 para 4.1).

Domestic Preference

The AIIB does not include any domestic preference clauses in its processes or procedures.

CAF- Development Bank for Latin America

The shareholding of CAF is quite different from the other banks in that Members or their delegates hold one Class A share each, entities and individuals in Member countries can hold Class B shares and entities and individuals in non-Member countries can hold Class C shares (CAF 2015a, p. 11 art 5)

Eligibility for Assistance

The Corporación Andina de Fomento (CAF) was established to "promote sustainable development and regional integration, by providing multiple financial services to clients in the public and private sectors of its Shareholder Countries" (CAF 2015a, p. 8, art 3).

Procurement Policy

Humphrey (2016) noted that in 2011 CAF had "no procurement or financial policies whatsoever – once the country is granted a loan, it is free to spend the resources as it sees fit (p. 158). This improved in 2015 with the issue of the CAF guidelines selection procurement contracting goods services consultancies works (CAF 2015b). Essentially the guidelines focus on greater transparency in the CAF procurement procedures, but they only marginally address the issues raised by Humphrey.

European Bank for Reconstruction and Development

Eligibility for Assistance

The EBRD is owned by 66 countries, the European Union and the European Investment Bank (EBRD 2018, p. 1). It operates in 38 economies from central Europe to Central Asia; Western Balkans; southern and eastern Mediterranean; Lebanon, West Bank and Gaza. At least 60 per cent of its funding must be provided to the private sector in its countries of operation (p. 2).

Procurement Policy

The objective EBRD is to obtain appropriate goods, works and services for "the required purpose, at the required time and place, and for an appropriate cost, with due regards for overall institutional requirements" for: transparent and open procurement practices; non-discrimination in supplier selection; value for money; sustainability: quality; contractual protection and timely supply (EBDR 2017b, p. 2 para 2.1).

Procurement Regulations

Firms or individuals from all countries are eligible to offer goods, works, services and consultancy services regardless of whether or not the country is a member of the bank (p. 2 para 2.2). Firms can only be excluded from the tender process based on their capability to perform the contract or are subject to sanctions for improper behavior or have a conflict of interest or an unfair competitive advantage (para 2.2).

Contracts estimated to cost more than £120,000 (GBP) for the supply of goods, works or services must be implemented using a two-stage competitive section process i.e. shortlisting followed by submission of proposals or price quotations (p. 3, para 3.1(c). For consultancy services, contracts estimated to have a cost than £75,000 can be a sole select; above that limit the process is single stage open competitive selection unless the consultancy services are complex or of a special nature in which case the two stage open competitive selection process is required (p. 4, para 4.1). Evaluation of consultants should be based principally on quality of its technical proposal (p. 4, para 4.2).

Domestic Preference

As described in its procurement policy EBRD pursues an open and non-discriminatory procurement policy (p. 2, para 2.2).

International Fund for Agricultural Development

<u>Eligibility for Assistance</u>

IFAD allocates funds to developing Member States to increase food production and improve nutritional levels of the poorest population in the poorest food deficit countries (IFAD 2018b, p. 5 para 7).

Grant financing is used as an instrument to “advance smallholder farming, rural transformation and the fight against poverty’ (IFAD 2015, p. 1 para 6). Recipients may be developing Member States, intergovernmental organizations, civil society organizations, academic institutions and the private sector (p. 4 para 14).

<u>Procurement Policy</u>

IFAD projects must be designed in close cooperation with the Borrower/ recipient. Among the issues to be considered are the experience, knowledge and capacity of the local lead implementing agency and the resources available for procurement. A capacity development plan for procurement staff should be prepared, if required (IFAD 2010a, p. 9).

IFAD guidelines allow for affected communities to participate in project design and implementation (p. 187). “Communities can only become involved as suppliers or contractors only where the goods, works or services are of a type commonly produced or provided by the communities” (p. 189).

Goods, works, and services can be supplied or produced from the territory of any country (IFAD 210b, p. 12 para 64).

Procurement Regulations

IFAD encourages borrower/recipient country participation as suppliers, contractors and consultants in the procurement process in as much as it encourages the development of local capacity. It will not accept "mandatory joint ventures or other forms of mandatory association between domestic and foreign firms" (IFAD 2010a, p. 6).

The Borrower/recipient has primary responsibility for procurement and its management; IFAD is responsible for ensuring that the funds are used for the intended purpose (p. 13).

Domestic Preference

A margin of preference may be granted for domestically manufactured goods where procurement is by international competitive bidding (ICB) for goods. It may also be granted where the IFAD financing is on "highly concessional" terms and procurement is by ICB. (IFAD 2010b, p. 13 para 65).

Islamic Development Bank

Eligibility for Assistance

The IsDB was established to promote the economic development and social progress of member countries and Muslim communities in accordance with the principles of Shari'ah (Islamic Law) (IsDB 2000, para 1.3). Only countries which are members of the Organization of Islamic Cooperation can be members of the Bank.

It finances both public and private sector trade and development projects in the member countries (para 1.8). Islamic communities in non-member countries are supported by the provision of scholarships and training facilities (para 1.9).

Technical assistance is mainly restricted to least developed country members (para 1.11.8).

Procurement Policy

The IsDB policy is for the beneficiaries to obtain the best possible goods and works with the procurement process being economic, efficient, provide a fair opportunity for eligible bidders with a transparent bidding process (IsDB 2012a, p. 4 para 1.1.3). Bidders must "be in strict compliance with the Boycott Regulations of the Organization of the Islamic Cooperation, the League of Arab States and the African Union" (p. 5, para 1.7.1). the same policy applies to the engagement of consultants (IsDB 2012b, p. 7 para 1.10).

Procurement Regulations

Associations and joint ventures are encouraged between_domestic firms and with international firms where appropriate. Roles and responsibilities of each party shall be clearly defined (IsDB 2012a, p. 7 section 1.9). In the case of International Competitive Bidding (ICB) associations between firms from non-member countries with firms from member countries is encouraged. (p. 7 para 1.10.2). Similar regulations apply to the appointment of consultants (IsDB 2012b, p. 5 para 1.7)

Technical specifications and standards quoted in bidding documents as far as possible should be those issued by the International Standards Organization (ISO) (IsDB 2012a, p. 16 para 2.12).

Importantly:

> "Where, in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable to (i) call for the participation of local communities and/or non-governmental organizations (NGOs) in the delivery of goods and works, or (ii) increase the utilization of local know-how and materials, or (iii) employ labor-intensive and other appropriate technologies, the procurement procedures, specifications, and contract packaging shall be suitably adapted to reflect these considerations, provided these are efficient." (p. 31 para 3.7).

Domestic Preference

A margin of preference may be provided to the firms of Member Countries when comparing bids with those on non-Member Countries. For goods it shall not exceed 15% of the lower evaluated offer provided the added value in the Member Country exceeds 30%. For civil works the margin of preference is 10% (IsDB 2012a, p. 25 para 2.39).

World Bank

Eligibility for Assistance

The World Bank operates a similar system as that of the ADB described above. It is based on the per capita income of each country with concessional funding through the International Development Assistance (IDA) program provided to the least developed countries. The remainder of the developing countries obtain lending through the International Bank for Reconstruction and Development (IBRD) with the lesser developed countries obtain blended funding through a mix of lending from each institution (World Bank 2015).

Procurement Policy

The World Bank permits firms and individuals from any country to offer goods, works and services for bank-financed projects (World Bank 2014a, p. 3 para 1.8 & World Bank 2014b, p. 5 para 1.11). Under exceptional circumstances consultants may be single-sourced from United Nations Agencies (World Bank 2014b, p 24, para 3.15). If they are suitably qualified non-Governmental Organizations (NGOs) can be shortlisted (para 3.16).

Procurement Regulations

As is the case with the IsDB, technical specifications and standards quoted in bidding documents as far as possible should be those issued by the International Standards Organization (ISO) (World Bank 2014a, p. 15 para 2.19).

The Bank does not accept conditions of contract which require mandatory joint ventures or other forms of association (p. 5 para 1.12).

Domestic Preference

For works contracts domestic preference can only apply if the country's per capital national income (GNI) is below a predetermined level (World Bank 2014a, p 23 para 2.55). For the World Bank fiscal year commencing on 1 July 2018 the threshold was $995 or less (World Bank 2018b).

Discussion

As shown in Table 1 over $90 billion of loans are approved by IFIs per annum. Grants and technical assistance are of the order of $5 billion. This is without considering the investments of individual donor countries developing and managing their own international projects.

The international financial institutions clearly have a fiduciary duty to protect their investments on behalf of their shareholders. They argue that their approach to procurement leads to the best value for money outcome. In a pure economic sense, they may be correct. From a long-term sustainability point of view their approach may be questioned.

For a country to develop there must be a self-reliant well-educated population who are able to manage the resources of the country in a sustainable manner. This requires an informed client and opportunity for staff development. It is argued that the lending practices of the IFIs hinder such an outcome.

As was shown in the research findings the banks appear to have common policies on some conditions and are divergent on others.

Procurement

All of the banks allow a range of procurement processes from shopping where quotations are called for the provision goods and services, to National Competitive Bidding (NCB) to International Competitive Bidding (ICB). The preferred option of all of the banks, except for CAF for which no details are available is international competitive bidding because this is considered to provide the best value for money and the highest quality work. Whilst ICB does not preclude domestic companies from bidding it does limit the possibility of them being successful as they are often unlikely to have the technical and financial capacity to undertake such works alone. As a result, the domestic company will have to join with an international company. This is the ideal situation to allow the professional development of the local partner. Again, there is a catch, all of the institutions will allow joint ventures or other forms of association and some even encourage them, none will allow the mandatory imposition of joint ventures or other associations.

Only the Islamic Development Bank, as discussed previously, has shown innovation in addressing joint ventures and other associations. It has opened up international competitive bidding to non-members in the hope of encouraging them to link with domestic firms. Probably of more importance is that it requires the submission to clearly show the parts of the work which will be undertaken be each of the parties in the joint venture or association. This is a small initiative but will ensure that all parties are clear about their respective roles in the work and to some extent ensures that the domestic partner is allocated a fair component of work.

The IsDB has also recognized the potential role of local communities and NGOs in project delivery to achieve sustainable outcomes (IsDB 2012a, p. 31 para 3.1). It also acknowledges the potential benefit of local know-how and the possible benefits of employing labor-intensive techniques.

What should be noted is that the procurement of works, goods and services usually precludes the engagement of government agencies. The philosophy being that the government should be the owner/manager of the asset and should outsource the provision of works, goods and services. None of the banks appears to have a policy as to what should happen with the displaced workers. Surely many could be employed by the private service provider. Should this be made mandatory?

Domestic Preference

The concept of a applying a domestic preference is considered by many of the banks to be contrary to the ideal of free and fair competition. ADB and the World Bank apply a very low maximum Gross National Income (GNI) per head of population as the cut-off point for domestic preference. This cut-off precludes many of the least developed economies. IFAD is an exception and allows domestic preference. IsDB only applies it when comparing the bids of firms from Members Countries as against non-Member Countries. AfDB allows it under special circumstances.

There are some important exceptions. ADB policy allows the procurement of specialist services from government-owned funded universities and research institutes. It also allows community participation. The IsDB actually encourages the involvement of community organizations and NGOs where there is a need to ensure sustainability and ensure positive social outcomes. One concession made by ADB is to allow certain positions on the project team to be reserved for Nationals of the recipient country where suitably skilled people are available.

As discussed earlier the ADB has formed the view that domestic preferences should be limited to the very least developed countries. They considered that there was lack of data and analysis to show the benefits of applying domestic preferences; misalignment of incentives; higher administrative costs and issues of fairness (ADB 2018 para A.3). Most of the banks agree on the limiting of domestic preferences or in denying them altogether. In such circumstances how can the local industry develop and become sustainable. The banks may get greater competition for the high value works after which the international works providers return to their home countries leaving the local firms with little additional experience and an unsustainable local industry. It will be the small local firms that will need to undertake the ongoing maintenance works yet they will have learned little in the process. This will in turn affect the service life of assets and will lead to unsustainable practices.

Loan Conditionality

Loans often have an institutional strengthening component associated with the funding of the project for which funding has been sought. Alternatively, the funder may require a condition precedent to be fulfilled before loan award. In one case known to the author, a very large government department, with a mammoth road network to manage and total employees, both staff and labor, in the tens of thousands, undertook to institute major organizational change as a condition of loan award. The loan was awarded, and minimal organizational change ensured.

In other cases, technical assistance or grants have been accepted without the recipient fully understanding the commitment to reorganize its operations and the need for active involvement of recipient resources to ensure a sustainable outcome. Often neither the lender nor the recipient is fully aware of the impact of the commitment. Government ministries and/or departments are rarely stand-alone entities rather they are part of an integrated and interdependent government-wide enterprise.

It is critical that both donors/lenders and recipients recognize that change has to be gradual with active involvement of the recipient organization and its staff.

Conclusions

In light of the above analysis it is hard to sustain the view that the lender knows best. The outcome might be the best value for money in the short term. In the longer term it is hard to see how the impositions of these conditions on least developed and low-income developing companies will lead to sustainable local providers with the technical and financial capacity to be competitive even in their domestic market.

Of the more major players the Islamic Development Bank appears to have better developed approaches that are likely to be more sustainable with the Africa Development Bank also showing some innovation. The annual investment is enormous the banks need to rethink their approach on conditionality and remove the impediments that reduce the chances of recipient countries developing sustainable industries for providing goods and services and undertaking works.

On the other hand, the developing and developing countries who are all members of their respective banks should join together to have the banks remove conditions that hinder sustainable development whilst ensuring that the process remains far, transparent and free of corruption.

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