

# Aid & Political conditionalities



**JAN VANHEUKELOM  
ECDPM**

**NADIA MOLENAERS,  
IOB, UNIVERSITY OF ANWERP**

# Political conditionalities: a hot topic



- **EC communication on BS and political conditionalities**
  - Budget Support: From technocratic to democratic governance concerns
  - The tensions with certain bilateral donors
- **Bilateral tendencies:**
  - Move away from GBS (escape/avoid the stingy political issues)
  - Move into 'politically more neutral' modalities (SBS, ...)
  - Use governance incentive tranches (EC, Belgium) or variable tranches linked to governance indicators
- **Exacerbated by the Arab spring !**

# What are political conditionalities?



- **Conditionalities**

- In general: macro-economic, fiscal, monetary issues and the enabling environment for growth.
- Political conditionalities: human rights, democracy, press freedom, *rule of law* and *corruption* (though dimensions of the latter two are also often tackled by macro-economic conditionalities)

- **Ex-ante – ex-post conditionalities**

- Ex-ante: release the funds before implementation
- Ex-post: release the funds after having achieved the desired goals.



- **The issue of preferences**

- Conditionalities are **NOT NEEDED** when giver (principal) and receiver (agent) have matching preferences
- Conditionalities do **NOT WORK** when preferences between principal and agent are very different and reforms at stake are complex
- Conditionalities might make a difference when
  - ✦ Preferences between principal and agent more or less match
  - ✦ Compliance does not produce large risks/costs for recipient
  - ✦ **HOWEVER:** the problem of incomplete information, moral hazard, etc...

- **The issue of complexity**

- On the donor side
- On the recipient side



## Recipient complexities

- Degrees of complexity of different policies - implementation
- Complexity made simple - Levy
  - Big-G governance reforms
  - Small-g governance reforms

## Donor complexities

- Fragmentation among donors
- Different interest and powers at play within donors
- Including the demands from citizens and politicians

# Why use political conditionalities ?

## 3 Motivations



- **Donor values & norms**
  - Aim: Promoting the ‘good society’
  - Attitude: Pro-active
  - Strategy: Political conditionalities part of the ‘larger plan’
- **Donor accountability concerns**
  - Aim: Risk avoidance strategy
  - Attitude: Re-active
  - Strategy: Political conditionalities used as a ‘safety net’
- **Aid/development effectiveness motivations**
  - Aim: Because in exceptional circumstances it might work
  - Attitude: Cautious
  - Strategy: Evolutionary/gradual approach IN context

# But the problem is that



- The use of political conditionalities today is mainly motivated by
  - Donor accountability concerns
  - Donor values and norms, but the required strategic approach is often lacking
- The use of political conditionalities is not sufficiently linked to
  - aid/development effectiveness concerns and evidence regarding political conditionalities
    - ✦ If it would be linked to evidence, donors would not engage so easily with political conditionalities
  - a strategic approach of democracy promotion
    - ✦ A strategic approach requires an almost revolutionary change in how aid agencies function

# Aid/development effectiveness concerns



What does the evidence suggest:

- High development performance related to ‘sound policy environments’
  - Rule of law, property rights, low corruption...
  - Voice and accountability
- Fragile states and the inextractable link with bad (democratic) governance
- Aid is more effective in ‘sound policy environments’
  - Good macro-economic policies, commitment, capacity,
  - Democratic regimes



# Democratic governance matters!

## But is it cause or consequence of development?



- It's the cause!
  - India, Brasil, Botswana, Mauritius
- It's the consequence!
  - Most Western democracies, some Asian countries
  - Developmental neo-patrimonialism: China, Viet Nam, Ethiopia, Rwanda, East Asian experience

Evidence thus indicates the existence of different development paths

# Democratic governance matters!

## But what are the policy implications for donors?



- ⇒ More aid to democratic regimes?
  - ⇒ Buy democracy through conditionalities?
  - ⇒ Ignore politics all together?
  - ⇒ Other possibilities?
- 
- Q&A: What is the view/position of DGD on cause/consequence debate? What is the motivation of Belgium for the incentive tranche? What is the role and place of the Belgian Incentive Tranche? How well developed is Belgian analysis around these issues?

# Current donor strategies to deal with democratic governance challenges



- **STRATEGY 1: Selectivity: Avoid ‘unworthy regimes’**
  - Aid allocation selectivity
  - Modality selectivity
- **STRATEGY 2: Deal with it! The use of political conditionalities**
  - Pro-actively engaging with political governance (Incentive tranches, Political dialogue/policy dialogue, Ex-post resultsoriented consensual conditionalities...)
  - Reactively sanctioning regress (Aid reduction, aid withdrawal, disbursements linked to political conditionalities)
- **What is missing? Pathways to STRATEGY 3**

# The two strategies in a nutshell



	Selectivity	Lever for change
<b>Interference level of donor</b>	<ul style="list-style-type: none"> <li>- Low</li> <li>- Hands-off</li> <li>- Pulling reform</li> </ul>	<ul style="list-style-type: none"> <li>- High</li> <li>- Hands-on</li> <li>- Pushing reform</li> </ul>
<b>Access to aid tied to or based on</b>	<ul style="list-style-type: none"> <li>- Achieved results (Governance quality in place)</li> </ul>	<ul style="list-style-type: none"> <li>- Possible results</li> <li>- Some degree of trust in recipient government</li> <li>- Verifiable actions / results</li> </ul>
<b>Disbursement of funds</b>	<ul style="list-style-type: none"> <li>- Ex post</li> </ul>	<ul style="list-style-type: none"> <li>- Ex post</li> </ul>
<b>Conditionalities</b>	<ul style="list-style-type: none"> <li>- Unilaterally imposed</li> </ul>	<ul style="list-style-type: none"> <li>- Negotiated between donors and with recipient</li> </ul>

# Is STRATEGY 1 a good option?



- Yes, if selectivity means
  - No aid to ‘unworthy regimes’
    - ✦ The fungibility argument
    - ✦ The amplification argument
    - ✦ Modality selectivity is useless:
      - Projects are just as regime endorsing as GBS
      - It only soothes public opinion
  - That aid is channelled through or to democracy enhancing actors
    - ✦ Building civil society, the media
    - ✦ Building internal counterveiling powers (opposition parties etc)

# Is STRATEGY 1 a good option?



- No, because selectivity
  - Does not solve the aid paradox
    - ✦ worst governance states, most aid-needy → aid orphans
  - Does not show how to deal with countries that do not have good democratic governance regimes (anymore)
    - ✦ Governance problems unavoidable and unpredictable, even in relatively stable democracies (cfr. Mali, Senegal)
    - ✦ Most LICs and LMICs imperfect electoral democracies (Mozambique, Uganda...)

# How about STRATEGY 2?



- What do we know about political conditionalities?
  - Has it worked? What were the success factors?
  - Has it failed? Why?
- **DEBATE:** What do you think? Do political conditionalities work? Your own experience?

# STRATEGY 2: success stories & factors



- Marshall plan - EU accession - South Korea
- Featuring characteristics:
  - Aid dependence
  - One dominant donor
  - A clear and coherent package of conditionalities (technocratic and political) + clear, credible sanctions and rewards (carrots and sticks)



# STRATEGY 2: factors of failure



- Most LICs and LMICs have
  - Varying levels of aid dependency – different leverage levels
  - Complex donor landscape and collective action problems
    - ✦ OESO/DAC - European donors - Vertical/global funds – BRICs
    - ✦ Varying goals, governance assessments, performance appreciations
    - ✦ => incoherent, contradictory signals
      - Advantage: no ganging up of donors
      - Disadvantage: low effectiveness conditionalities

# STRATEGY 2: conditionalities need



- To be in touch with internal reform drives
  - No ownership, no implementation
- Clarity, coherence, consistency: the importance of coordination
  - Easiest in case of gross human rights violations
- Credible incentives
  - Easier when no geo-strategic interests at play

# STRATEGY 2: recurring problems



- **In touch with internal drive of reform:**
  - Challenging for political conditionalities
- **Donors have a bad track record in**
  - **Coordination:** Coordination poses additional challenges on the democratic front
  - Design challenges for political conditionalities, focus on formalistic features of democracy
  - Democratic forces in wider society must be supported selectively, but this may lead to tensions with partner government
- **How big must incentives be?**
  - Difficult to assess
  - Stop and go aid, unpredictability of aid flows

# What is missing? Pathways to STRATEGY 3



- Evidence on how development and democracy come about matters.
  - Development is the result of large scale economic, social transformations: messy and conflict ridden processes
  - Democracy and its values and norms cannot be imposed or bought by outsiders
  - Democratic rights are not “granted” but achieved through struggle...
  - And maybe reversed again (see threat of censure in the New South Africa) ...

# Example: *Protection of State Information Bill*





- Democracy enhancing interventions require
  - Sufficient commitment (interest?) to engage over **the longer term**
  - Recognition of the **complexities**
  - Acceptance of an **evolutionary approach** beyond the 4 year project and career cycle
  - A realistic sense **of change-potential** in recipient countries
  - Some investment in **knowledge development**: political economy tools (with their focus on interaction between history-institutions-politics) – risks, margins of maneuver, ..
  - In politics, it is struggles (again), elites, bargaining processes, coalition building, mobilisation, etc. that matter



# The Politics of Poverty: Elites, Citizens and States

Findings from ten years of DFID-funded research  
on Governance and Fragile States 2001–2010

A Synthesis Paper



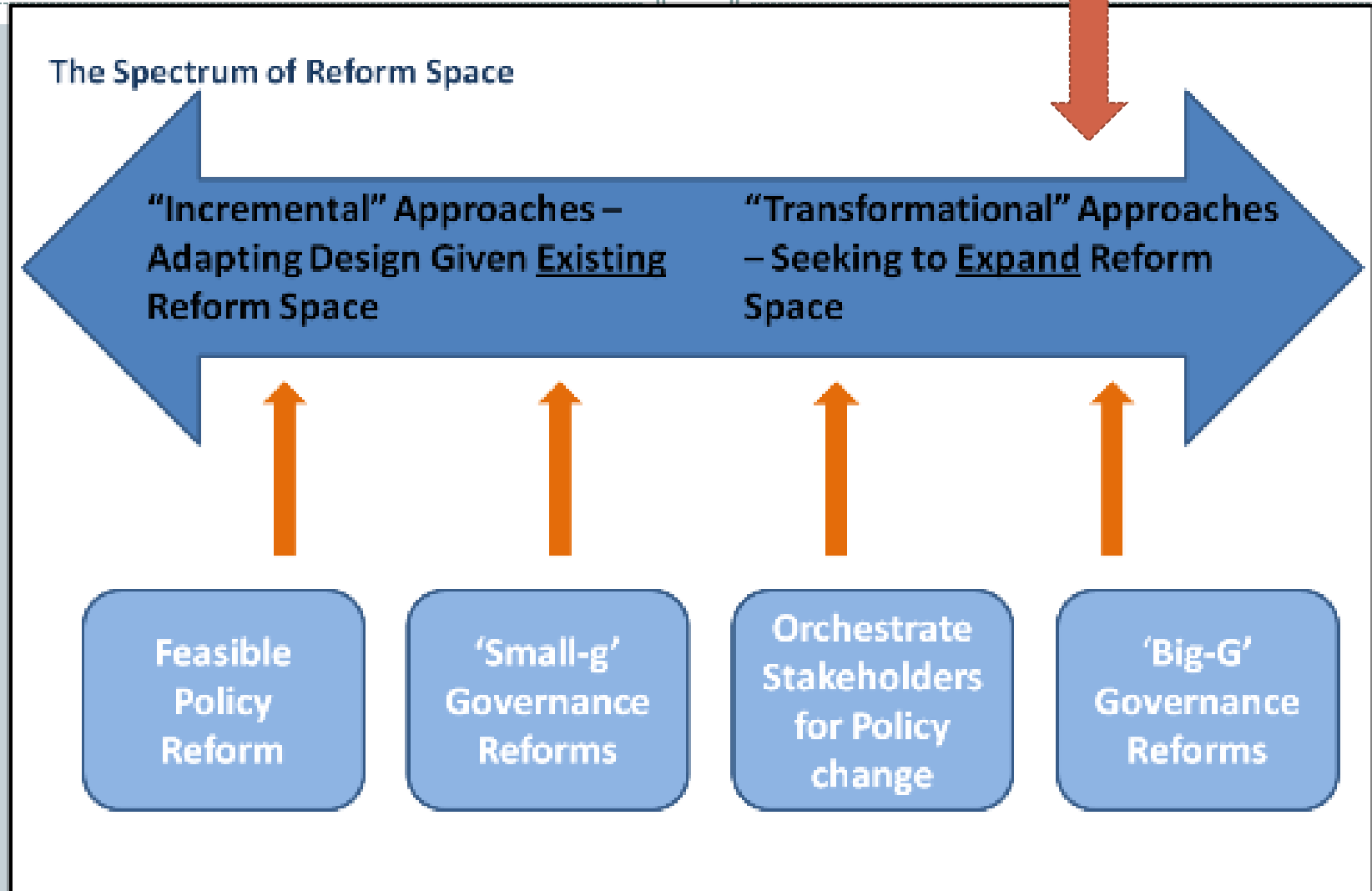


- Adapt response strategies:
  - ✦ A strategic use of instruments
  - ✦ A strategic engagement with “demand” and “supply side” actors
- Be political savvy – tipping the balance
- And engage with donor constituencies on the new “results” agenda
  
- Brian Levy:
  - ✦ *“In some settings, at some times, democratization and the strengthening of institutions that support democracy will be high priorities. In other settings, at other times, they will not.”*
  
  - ✦ *“But opportunities for effective big-G reform have turned out to be rarer than expected, while small-g opportunities – which so far have barely shown up on the radar screens of democracy activists – seem to be everywhere, and with potentially far-reaching consequences.”*



# G-governance is a form of political engineering

## Are donors up to that?



# THANK YOU



[JVH@ECDPM.ORG](mailto:JVH@ECDPM.ORG)  
[NADIA.MOLENAERS@UA.AC.BE](mailto:NADIA.MOLENAERS@UA.AC.BE)