



A Farewell to Policy Conditionality?

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- ◆ The idea of local “ownership” of development policies is now popular among the donor community, but without a reduction of conditionality on aid disbursements, enhanced ownership will be difficult to achieve.
- ◆ While there are still strong reasons for attaching certain kinds of conditionality to aid, policy conditionality has been shown to be largely ineffective and often counterproductive.
- ◆ Donors insisting on policy conditions may in any case soon find themselves sidelined, as developing countries find alternative official and private sources of finance with fewer strings attached.

The official languages of next month’s Accra High-Level Forum on Aid Effectiveness are French, English and Spanish. However, participants in discussions will also need to master the new aid lexicon, which includes concepts like “ownership” and “harmonisation” and is embodied in the 2005 Paris Declaration on Aid Effectiveness.

Fortunately, these words represent more than a shift in semantics. They stand for a sincere reappraisal by donors and aid recipients of the way aid should be delivered if it is to become more effective in reducing poverty. “Ownership” implies that aid recipients need greater space to choose their own development policies. “Harmonisation” means that donors should coordinate their aid better to reduce costs and needless duplication.

There is one older concept, however, whose place in the new aid lexicon remains controversial: “conditionality”. The donor community now prefers to use the term “ownership”, but arguably they are different sides of the same coin, for without a reduction of conditionality, ownership is impossible. In practice, donors still feel they need to tie their aid to conditions to ensure it is well spent. And, understandably, recipients would prefer their aid without strings attached.

It is not surprising, then, that the Paris Declaration’s take on conditionality is ambiguous. Paragraph 16 commits donors to base conditions on recipient-country priorities “wherever possible”. It allows exceptions with “sound justification”. And it calls on donors and recipient countries to develop a “manageable” set of indicators to which aid might be tied. A non-committal paragraph to say the least!

The problem with such ambiguity is that the imposition of conditions runs counter to ownership, a principle of aid effectiveness which emerged following the recognition that past attempts to impose policies from the outside had not proven effective. Most aid experts are now unanimous about the failure of structural adjustment programmes, through which donors attempted to coax developing countries into economic reforms throughout the 1980s and 1990s.

The failure of policy conditions to bring about meaningful reform has a number of reasons:

For a start, donors have not been consistent in applying conditions: whilst measures are imposed forcefully in some countries, generous aid disbursements have continued in countries that ignored conditions. This lack of even-handedness in applying conditions may well relate to the underlying political dimensions of aid, often ignored during formal negotiations of aid agreements. Bilateral aid agencies often see their relationships with recipient-country administrations undermined by their counterparts in ministries of trade or foreign affairs¹. Aid agencies quickly suffer from a credibility gap that undermines the very rationale for conditions.

A further problem with policy conditions, even when they are applied consistently, is that they inevitably undermine local accountability structures. Some donors believe that conditions can help governments lock in urgent reforms

1. See, for instance, the examples pointed out in Carol Lancaster (2007), “Foreign Aid – Diplomacy, Development, Domestic Politics”, The University of Chicago Press, Chicago.

without broad local support. Conditions thus become scapegoats for governments seeking to avoid national debate about unpopular policy measures. Governments become accountable to donors rather than citizens.

Finally, there are legitimate doubts about the extent to which donors can know which development policies may be the right ones. They have often been criticised for ignoring local contexts when negotiating policy priorities. Most economists would now recognise that the laundry-list approach to economic policy, epitomized by the "Washington Consensus", was inappropriate in many circumstances, and that the proper sequencing of reform is crucial to its success. Dani Rodrik calls for a more pragmatic approach to economic policy, adapting to local circumstances and considering the returns on different policy options². The resulting choices may not always coincide in what economists consider to be the "first-best" policy choice. But this is surely the right way to ensure successful reform.

Moving away from policy conditionality, of course, does not mean giving developing countries "carte blanche". Donors are right to insist on transparency and good fiduciary practices to guard against the embezzlement of aid monies.

2. Dani Rodrik (2007), "One Economics Many Recipes – Globalization, Institutions and Economic Growth", Princeton University Press, Princeton, NJ.

Similarly, they should expect aid recipient countries to adhere to international human rights standards. Finally, they are entitled to a degree of quality assurance: without development results to show for their aid, OECD-based taxpayers will withdraw their support for aid programmes.

This is why some donors have begun linking aid disbursements to the achievement of agreed results, leaving the choice of policies with recipient countries. As yet, such performance-based conditions are untested and bear risks: natural disasters or economic crises can put performance beyond a country's control. But these risks could be factored into aid contracts with safeguard clauses.

In any case, donors insisting on policy conditions may soon find themselves sidelined – many developing countries are finding alternative official and private sources of finance that come with fewer strings attached. If they are serious about development, they will use this freedom from conditions to design effective, innovative and home-grown policies for development. Let us hope that this is indeed the case.