

## Political Conditionalities and Foreign Aid

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### Abstract

Overall, the impact aid has had on both economic and democratic development in least developing countries, the last four decades, is sobering. Interestingly enough, regime issues matter, as evidence has shown that aid does seem to work better in democratic settings. These insights have reinvigorated the use of political conditionalities which figured either as (1) entry conditions for aid (selectivity), and/or as (2) an active lever for change in least developed countries. With regards to selectivity, academic research shows that donors indeed are becoming more selective but the impact of these shifts in selectivity remains unresolved, and differences between donors in terms of how selective they are and which criteria they use, loom large. With regards to the use of aid as a lever for democratic governance, academic evidence is inconclusive. Most large-n studies on political conditionality are skeptical about the effectiveness of political conditionalities, yet some of these studies come to the conclusion that conditionality works in specific donor-recipient constellations. These studies point to the possibilities of aid enhancing democratic institutions and they are increasingly context-sensitive with regard to the effect of aid on democracy. Similarly the majority of case studies highlight the ineffectiveness of political conditionality or at least point the difficulties for donors in providing credible, context-sensitive and effective political conditionalities. The relevance and importance of research on the patterns and effects of political conditionalities is exacerbated by the emergence of a new aid architecture since 2000 (endorsed by the Paris Declaration in 2005) which has at least partially altered the way in which donors deliver their foreign aid. Against this background, the workshop particularly wants (1) to gain insight regarding emerging patterns and evolutions of political conditionality, and, (2) to gather further evidence on the (in)effectiveness of political conditionality. Papers that look into the political and economic conditions - on the donor and/or recipient side- which enable or constrain the effectiveness of political conditionalities under the new aid architecture (post-2000) are particularly welcome.

## Introduction

The impact of aid on growth and poverty reduction is mediated by regime characteristics (Svensson 1999; Chauvet & Guillaumont 2002; Kosack 2003). In general democracies display a better use of aid resources (Chauvet & Guillaumont 2002; Kosack 2003). This insight brought the issue of political conditionalities and foreign aid back on the agenda. First, aid should be given selectively to those countries that are well governed in order to increase aid effectiveness. Research shows that donors indeed are becoming more selective (Bourguignon & Sundberg 2007; Dollar & Levin 2006), but the impact of these shifts in selectivity remains unresolved, and differences between donors in terms of how selective they are and which criteria they use, loom large (Alesina & Dollar 2000; McGillivray 2003). Second, aid should be used as a lever for change to improve democratic governance. Some large N-researches point to the possibilities of aid enhancing democratic institutions (Kalyvitis & Vlachaki 2010), while case studies highlight the ineffectiveness of political conditionalities and caution against the use of it (Stokke 1995; Crawford 1997, 2001; Brown 2005). The relevance and importance of research on the patterns and effects of political conditionalities is exacerbated by the emergence of a new aid architecture since 2000 (endorsed by the Paris Declaration) which has altered the way in which donors deliver their aid. This workshop seeks to link existing knowledge on political conditionalities (selectivity and as a lever for change) and link it to the changing practices of donors under the changed aid architecture, with a special emphasis on least developed countries.

## Situating the workshop in the wider scientific debate

### *1. Aid conditional upon good governance: Selectivity.*

How selective are donors? The effect of recipient countries' broad level of governance (Neumayer 2003, Hout 2007), democracy, military expenditure and human rights record (Carey 2007, Zanger 2000) or corruption (Alesina & Weder 2002, Svensson 2000) on aid allocation is variable among aid agencies but in general rather weak, although the trend has been improving (Dollar & Levin 2004). Other factors and interests predominantly come into play when donors assign their aid (Neumayer 2003): recipient need (poverty-oriented aid: e.g. GDP/capita, infant mortality) but also strategic "friendships" and colonial ties (Alesina & Dollar 2000; Lancaster 2007). The weight given to more self-interested motives often eclipses the significance given to the factors more important for the potential effectiveness of the allocated aid. Still, large differences loom between donors on how selective they are and which criteria they use (Alesina & Dollar 2000; McGillivray 2003), while little is known about which factors drive these differences in selectivity. Recent research showed for example that less corrupt donor countries will allocate more aid to less corrupt recipients (Schudel

2008), and commitment to development<sup>1</sup> is influenced by the quality of democracy in donor countries (Faust 2011). It appears that the emergence of a new aid architecture (since 2000) is marked by changing donor behavior and changing selectivity policies (Bourguignon & Sundberg 2007). Dollar & Levin (2006) show a positive correlation – in the case of bilateral donors- between getting aid and being democratic, whereas multilateral donor allocation of aid shows a stronger link with the quality of economic institutions.

One of the major shortcomings of most of the above mentioned researches is their limited time horizon. Little to no research exists on the effectiveness of aid since the emergence of the new aid architecture (post 2000 with the Paris Declaration in 2005, the Accra Agenda for Action 2008). Even though evaluations and research has shown that donor behavior has changed, and that donors are becoming more selective, the impact of this on development remains unresolved. More research thus is needed, but not just on impact, also more research on selectivity evolutions and patterns in the post-2000 era, with a particular emphasis on the importance of political conditionalities in selectivity policies.

## *2. Aid as a lever for good governance*

Burnside & Dollar (2000) argue that although there is little systematic evidence on the effect of conditionalities on policy reform, there are case studies that show positive effects under certain conditions. Important to mention is that most of these studies on conditionalities refer to macro-economic conditionalities which aim at promoting growth. Within the aid literature there are however also a number of success stories which suggest that coherent conditionality packages, containing both economic and political conditionalities can have a positive effect. Examples are the conditional aid packages delivered to post-war Europe (the Marshall plan<sup>2</sup>), a number of Eastern European countries which enabled them to enter into the EU (although there is discussion on the causality link between aid and political reform, and the counterfactual), and South Korea. Critical factors for effective conditionalities are: 1) a clear and coherent set of economic and political conditionalities, part of a larger development package, and with a clear vision on development/democracy, 2) the recipient was heavily dependent on aid, with one dominant and consistent donor, 3) large incentives for compliance (such as accession to EU), clear carrots and sticks<sup>3</sup>. The factors that explain their success however do not seem to apply to the actual context of a

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<sup>1</sup> as measured by the Commitment to Development Index by the Global Center for Development

<sup>2</sup> Scholars disagree on whether aid to post war Europe is comparable to structural aid to low income countries.

<sup>3</sup> The work of Schimmelfennig has been crucial in producing insights with regards to the effectiveness of conditionalities such as the political accession conditionality. Large rewards, like joining the EU, are however usually absent in the aid relationship between donors and least developed countries.

number of least developed countries where a proliferation of donors is noticeable, with, as some case studies show, diverging goal hierarchies, and varied levels of coordination (Faust et al. 2012)<sup>4</sup>

The aid effectiveness literature in general cautions against the use of ex-ante, donordriven conditions because they are deemed ineffective (Stokke 1995; Crawford 1997; Gibson et al. 2005; Killick 1997; Morrissey 2004; Collier et al. 1997 ). However, the rise of a new aid architecture which pushed for more aligned forms of aid delivery such as budget support, also exposed donors to the ‘imperfect’ and sometimes ‘unstable’ governance situations in recipient countries. The use, particularly of reactive political conditionalities -when the governance situation in a country deteriorates or when there is a crisis at hand- has been a regularly returning phenomenon (Molenaers et al 2010; Hayman 2010). There is however an important difference with conditionalities before the turn of the millennium. The principles underlying the new aid architecture prescribe that conditionalities should be negotiated with the government, so as to ensure ownership, should stem from donor coordination efforts so as to avoid contradictory demands and to achieve a credible, coherent package of conditionalities, and, that the conditionalities are results-oriented so as to be able to attach clear disbursement commitments to them. These new style conditionalities are also referred to as ‘consensual conditionalities’ (Killick 1997; Mosley et al. 2004). This negotiated approach to (political) conditionalities has also been combined with the design of sophisticated disbursement schemes involving ‘incentive tranches’ (Molenaers & Nijs 2009; 2011). Little is known however about the effectiveness of such political conditionalities, though case studies point at a number of substantial problems regarding the feasibility of new style conditionalities, and the challenging pre-requisites effective conditionalities require (Faust et al. 2012 forthcoming; Molenaers et al. 2010).

### **Focus of the workshop**

In its broadest sense, the workshop wants to contribute to the generation of knowledge with regards to political conditionalities (selectivity and lever for change) under the new aid architecture (post-2000). Specific interest goes to: 1) the characteristics of political conditionalities: Which patterns of political conditionalities have emerged under the new aid architecture? 2) the effectiveness of political conditionalities: Which political and economic conditions - on the donor and/or recipient

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<sup>4</sup> Whenever the effectiveness of political conditionalities is discussed, there seem to be two different levels of impact measurement issues: regime impact (aid causes a shift in the regime from authoritarian to democratic) and gradual impact (aid had an effect on the quality of already existing democratic institutions). With regards to regime impact, there is some discussion on whether political conditionalities (especially in the aftermath of the Cold War) have caused the transition to democracy, or rather that this is a case of reversed causality (Nielson & Nielsen 2010). With regards to gradual impact, it seems that the impact of aid which focused on strengthening the political institutions conducive to democracy seemed to have had a limited but positive effect on levels of democracy in countries that had already moved into democratization (Kalyvitis & Vlakachi 2010; Nielson & Nielsen 2010).

side- enable or constrain the effectiveness of political conditionalities under the new aid architecture? We welcome empirical papers relying on case studies, small- and large-N research. Mixed methods are also welcome. One important goal of the workshop is to attract both qualitative and quantitative researchers. Given the often contradictory findings, it is imperative that more exchange takes place between both research strands. Ideally this workshop will enable the establishment of a standing group on Foreign Aid within ECPR. This workshop is open to new/young researchers and established academics from the wider field of aid effectiveness research.

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