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Political Conditionality and Foreign Aid

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Summary. — This article argues that a new generation of Political Conditionalities has emerged during the last decade. This requires an expansion of the original definition and research agenda. Beyond the traditional questions of use and effectiveness however, there is also a need to dig deeper into the dynamics surrounding political conditionalities, particularly the bargaining processes and outcomes along the aid chain -from domestic donor politics, donor harmonization fora, policy dialog spaces to the political economy of recipient institutional reform and donor-coping strategies- because they influence the set-up, use, follow-up, purpose, and effectiveness of PCs.
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1. INTRODUCTION

After a rapid rise and decline in the 1990s, political conditionalities¹ (PCs) have returned to the aid scene. Yet, post-2000 PCs are in many ways different from their 1990 predecessors. This article argues that a new generation of PCs has emerged during the last decade, which requires an expansion of the original research agenda studying the emergence, dynamics, and effectiveness of PCS.

In early research, PCs were defined as:

‘the use of pressure, by the donor government, in terms of threatening to terminate aid, or actually terminating or reducing it, if conditions are not met by the recipient’ (Stokke, 1995, p. 12).

Most PCs (studied) were of the *punitive, reactive kind*, where aid providers wanted to sanction cases of human rights violations and democratic decay (i.e., Crawford, 1997, 2001; Stokke, 1995; Uvin, 1993).

Many post 2000 PCs, however, do not fit this 1990s definition. The United States Millennium Challenge Account (founded in 2004) sets political threshold criteria which countries have to reach *before* they can profit from the initiative and which aim at incentivizing recipients to reform without however interfering in domestic affairs (Woods, 2005); the European Commission (EC) in 2007 launched the Governance Incentive Tranche, which was a topping up of the aid envelope (*a reward*) if recipient governments were willing to negotiate with the EU to implement political reforms (Molenaers and Nijs 2009, 2011); the “Good Governance Contracts” (2011) of the EC give more weight to political criteria *before* considering the provision of provide budget support (Faust, Leiderer, & Schmitt, 2012); recent discussions among EU member states arguing that the European Development Fund should become more *selective* regarding democratic governance and human rights; a number of bilateral donors have been experimenting with splitting up *aid disbursements in fixed and variable tranches*, with the possibility of the latter being tied to the achievement of either negotiated (with recipient government), coordinated (with other donors), or single handedly bilaterally identified political targets/indicators.

The examples suggest that PCs can have democratic governance as an objective but also as a condition for aid. This

broadening implies that PCs can reward and sanction, they can be pro-active and reactive, hands-on (interfering in recipient domestic affairs) but also hands-off like the use of (political) selectivity criteria to allocate aid volumes or to choose certain modalities (such as budget support).

Although PCs are broader in scope than during the 1990s, they are nonetheless narrower than the so-called ‘governance conditionalities’ (e.g., Hayman, 2011; Santiso, 2001, 2002, 2004) which have been affected by a conceptual over-stretching of the governance² term (Dellepiane-Avellaneda, 2010; Weiss, 2000).³ We understand PCs as having an explicit focus on political regime and human rights issues. Corruption, in this regard, remains as an ambivalent issue. While for some donors, the anti-corruption agenda should be approached from a technocratic perspective, others claim there is a straightforward link with political accountability and political representation. Whether or not conditionalities attached to corruption fall into the realm of political conditionalities often depends on the framing and the proposed solutions.

Against this background, we therefore suggest a modified definition of political conditionalities and will refer to these PCs as second generation PCs for the remainder of the text.⁴

‘Political conditionality refers to the allocation and use of financial resources to sanction or reward recipients in order to promote democratic governance and human rights’.

Financial resources can refer to aid, but our definition does not exclusively limit PCs to aid. PCs can travel across policy domains. The EU, for example, is experimenting with human rights clauses in its trade agreements (see Koch, this volume). The legitimacy and effectiveness of climate funding (like aid) is also largely dependent on the socio-political conditions of recipient countries (Cammack, 2007). And in spite of the declining importance and weight of aid itself, the post 2015 global development agenda includes human rights and democratic governance concerns. In other words, PCs will not go away hence research and learning across the policy domains will remain important.

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Contributions in this special issue mostly focus on European foreign aid and the use of PCs by European donors. Why? First, the emergence of second generation of PCs has been quite visible in the EU context, because the EU is quite explicit about its political goals. Referred to as Normative Power when it comes to using civilian means for external democracy promotion (Manning, 2002; Youngs, 2004),⁵ and being awarded the Nobel Prize for Peace illustrate the importance of these political intensions. Second, the EU's accession process for example is often considered as one of the most interesting experiences of employing political conditionality successfully (e.g., Schimmelfennig & Scholtz, 2008). However, the EU is far from being a unitary actor. Foreign aid policies of the EC and member states have shown a great deal of heterogeneity which challenged the consistent and coherent use of PCs but at the same time also offers a fertile ground for analyzing the determinants, use, and effectiveness of second generation PCs.

The most important contribution of this introductory article relates to the mapping out of a new research agenda because broadened, diversified PCs also require the opening up of related research questions and perspectives. Beyond the traditional questions of use and effectiveness, there is a need to dig deeper into the processes surrounding second generation PCs. There is a need to address the knowledge gaps regarding the bargaining processes and outcomes along the aid chain -from domestic donor politics, donor harmonization fora, policy dialog spaces to the political economy of recipient institutional reform, and donor-coping strategies- because they influence the set-up, use, follow-up, purpose, and effectiveness of PCs. Tackling these knowledge gaps also calls for cross fertilization between different scholarly traditions: the aid effectiveness debate, research on EU accession processes, as well as the economic sanctions literature in International Relations all provide novel insights, even though they use different narratives and even different conceptualizations of conditionalities.⁶ In the same vein, research on the political economy of recipients institutional reform, on governance and development can offer insights into enabling and constraining dynamics relating to political change (e.g., Haggard & Kaufman, 1995).

In sum, we provide a broader conceptual ground for analyzing second generation PCs. First we summarize the evolution toward second generation PCs. Second, we take a look at the form these PCs have taken in broad typology distinguishing hands-off political selectivity and hands-on uses of aid as a lever for political change. Next, we ask what is known so far about (the effectiveness of) these second generation PCs. The concluding sections zoom in on the gaps in our knowledge so far and draws out venues for, but also the limits of further research.

2. WHY DID POLITICAL CONDITIONALITIES RE-EMERGE?

(a) *Shifting ideas about what aid should do*

In the early 1990s, the 'victory of democracy', the subsequent wave of democratization around the globe, the many intra-state conflicts, genocides, and reversals to authoritarianism all formed legitimizing building blocks for the use of first generation PCs. Notwithstanding the 'enthusiasm' to push for democracy, research suggested that results were rather meager. PCs didn't work because donors did not coordinate which resulted in mixed signals, incentives weren't big enough and PCs failed to build on domestic drives for political reform in

the recipient country (Brown, 2005; Crawford, 1997, 2001; Stokke, 1995).

Second generation PCs re-emerged in the new millennium due to 'the governance turn of foreign aid', in combination with the events of 9/11, providing a new legitimacy push for democracy. The prescriptions of aid effectiveness research in turn, provided a number of evidence-based recommendations on how to make conditionalities more effective.

The governance turn of aid started to take form in the second half of the nineties. The 1997 *World Development Report* reassessed the role of the state in development, famously stating that 'good government' was not a luxury that only developed countries could afford, but actually a key (pre)condition for development. This 'good governance consensus' (Knack, 2003) responded to the growing awareness that pervasive political institutions, including corruption, patronage but also authoritarian regimes were undermining economic reforms necessary for growth and broader measures of inclusive economic development (e.g., Acemoglu, Johnson, & Robinson 2002; Knack & Keefer, 1995). Added to this some scholars argued that democracy also has a positive impact on economic development (e.g., Acemoglu, Naidu, Restrepo, & Robinson, 2014; Blaydes & Kayser, 2011; Lake & Baum, 2001; Olson, 1993).

Insights regarding the extrinsic value⁷ of political institutions reshaped the terms of the aid effectiveness debate, as both policymakers and researchers became increasingly concerned with the mediating effects of recipient-side politics and institutions. The 'Assessing Aid' report (Dollar & Pritchett, 1998) and other influential studies showed how the effect of foreign aid on economic development has been conditioned by the quality of the recipients' governance. Not just technocratic governance (such as the quality of economic policies or public financial management) but also democratic governance mattered for effective aid (e.g., Burnside & Dollar, 2004; Kosack, 2003; Svensson, 1999a, 1999b). Later on empirical enquiry also showed that foreign aid has helped entrench the regime in power, meaning that aid can consolidate autocratic structures (Bueno de Mesquita & Smith, 2011; Djankov, Montalvo, & Reynal-Querol, 2008; Dutta, Leeson, & Williamson, 2013), strengthen personalist rule (Wright, 2009), and foster patronage (Hodler & Raschky, 2014). Moreover, aid had to address gradual changes in a myriad of governance dimensions, rather than a uniform and linear political transition from authoritarianism to democracy because an increasing number of recipient countries were now located in the gray areas between autocracy and liberal democracy, often labeled as hybrid regimes, anocracies or illiberal and defective democracies (e.g., Santiso, 2001).⁸

The above insights continuously prompted two different recommendations⁹: aid should be given selectively to countries that have better scores on democratic governance, and aid should function as a lever for institutional (including political) change.

(b) *Shifting ideas about how aid should be delivered*

Besides an enhanced idea of what aid should do (take into account and deal with governance issues in order to achieve poverty reduction), the way in which aid was delivered mattered too. Fragmented, donor-driven foreign aid and the use of conditionalities over which the recipient had little ownership (also referred to as adversarial conditionalities) were to be avoided. More donor harmonization should overcome the perverse effects of projects on the administrative quality and political transparency of the recipients' public sector (Bigsten

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