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What Should Be Done about Conditionality?

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The debate on conditionality has been taking place for a long time but is now growing: what are the reasons for this and what are the prospects for reform?

► The Historical Critique of Conditionality

Time for Adjustment

The academic and political debate on the merits and nature of conditionality in official development assistance (ODA) was particularly intense in the 1980s and 1990s, when adjustment programmes were proliferating, whether sponsored by the International Monetary Fund, the World Bank or bilateral aid. The debate on structural adjustment programmes was particularly lively. CERDI and FERDI contributed to this debate through numerous reports and publications, either of a general nature or applied to specific African countries, notably on the possibility of moving from instrument-based conditionality to results-based conditionality, which will be discussed below. The main point of the debate was the interference of Western donors in the policy choices of countries and the underlying assumption that donors know better than the countries themselves what to do – or are at least freer to say or recommend it than country officials. Over the years, this interference has become less tolerated, while the competence of the elites in the recipient countries has increased and nationalist feelings have been exacerbated, either by recurrent events or by global geopolitics.

From the Aid Effectiveness Forum to the Busan Forum

In 2005, the OECD Development Assistance Committee's Forum on Aid Effectiveness adopted the Paris Declaration, which advocated the principle of alignment with the priorities of recipient countries and the ownership of policy instruments by those countries. The Paris Declaration, the implementation of which has been the subject of various evaluations, has regularly been repeated in official speeches and documents, though it is far from being fully and generally applied. The Busan Forum that followed in 2011 adopted the new name of «Global Partner-

ship for Effective Development Co-operation», supported by both the OECD and the UNDP, and reaffirmed the principles of the 2005 Paris Declaration, which seemed to augur a real change in aid practice.

► Conditionality Undermined by the Change in the Political Environment

Two main categories of international and national factors, the importance of which was recently assessed by Ferdi (Guillaumont, Boussichas and Dsouza, 2023), appear to have undermined the principles of conditionality over the last ten years and significantly influenced its implementation.

Chinese “Non-conditionality”

Among the international factors, one is naturally the growth in Chinese aid, particularly in Africa, which has been provided without Western-style conditionality. It is clear that Chinese aid, despite having freed itself from traditional conditionalities, involves other costs and other constraints, which may gradually reduce the appeal of an apparent lack of conditionality. The impact of this apparent lack of conditionality in Chinese aid on the conditionality of Western aid remains to be assessed. It does seem that Western conditionality has been relaxed where Chinese aid was the most important (Hernandez, 2017; Maroof, 2020; Watkins, 2021).

Universal Objectives

Another important factor in the change in thinking was the adoption, in 2000, of the Millennium Development Goals (MDGs) and then, in 2015, of the Sustainable Development Goals (SDGs). One might have assumed that reference to these universal goals would have encouraged the expansion of goal-based, rather than instrument-based, conditionality, but the practice of aid agencies, the pressure of their bureaucra-

cies and the public opinion in developed countries have led to its goals (and the 169 targets that have accompanied them since 2015) being used as arguments for maintaining a relatively detailed conditionality that, in the end, comes closer to the instrument-based conditionality from which it was difficult to break away. This is how conditionality linked to climate impacts or gender equality has taken refuge behind the SDGs, undeniably introducing a new form of interference, felt as such and sometimes vigorously criticised by the recipient countries. Admittedly, nationally determined programmes to reduce CO₂ emissions seem to be based on the principle of ownership, but this new context has not necessarily encouraged respect for the principle of alignment.

Fragile or Authoritarian States

It is more difficult to assess and deal with the internal political factors that have influenced the practice of conditionality. In this respect, a distinction must be made between what has been called, on the one hand, the fragility of the state and what has been called, on the other, the authoritarian nature of the regimes. Fragile states and autocratic regimes are two different political realities, but they cause fairly similar problems for conditionality because of the strong suspicion that they arouse in donors about the behaviour of recipient governments. Whatever doubts there may be about the concept of fragile states, the fact is that, since the beginning of the 21st century, situations of political fragility have multiplied and deteriorated, particularly in Africa. State fragility, when manifested in internal violence, ineffective public services or endemic corruption, has naturally led to a greater desire on the part of donors to condition the use of resources made available to governments. Another reaction has been to bypass the state itself by funding structures that are independent of it and supposedly better controlled but that play a growing role that has also contributed to the weakening of the state. In addition, condi-

tionality has been extended in various ways to cover issues such as human rights, and its scope has been widened to include democracy and governance, posing a particular problem for authoritarian regimes. Conditions can become formal or virtual until one day, when a threshold of poor governance is crossed, cooperation is suspended altogether. As the threshold of intolerance is discretionary, it has in fact been applied unfairly: more rigorously to countries of little economic and political weight than to the big emerging countries and the good economic performers. «Double standards» have thus become a new criticism of conditionality. Faced with fragile states and poor governance, donors have had to look for a solution in two directions: increase political conditionality, but in an apparently ineffective way, or implement measures to monitor the destination of flows.

The above factors, fragility in particular, call into question not only the logic and practice of conditionality but also the criteria for the international allocation of concessional resources – another important issue that aid policies have to address (Guillaumont, Guillaumont Jeanneney and Wagner, 2020; Guillaumont, 2023). Multilateral development banks allocate their concessional funds on the basis of allocation formulas that, more often than not, give considerable weight to the quality of the policies pursued by the assisted countries (so-called “performance”), judged on a discretionary basis. This practice is intended to guarantee the effectiveness of aid but constitutes another form of interference. What is more, since the result has been to exclude fragile or conflict-affected countries – precisely those most in need of aid – from allocations, special windows have been created for the benefit of these countries, with a specific and often more fussy application of conditionality. The two issues of allocation criteria and conditions cannot be addressed independently. Finally, allocation criteria and conditionality must together be made coherent in the way in which

they take the SDGs, fragility and vulnerability into account.

► What are the Avenues for Reform?

What then are the ways of improving the practice of conditionality, bearing in mind that donors cannot totally abandon it and that recipient countries are finding it increasingly difficult to handle? Four avenues, none of which is completely new, seem to need to be pursued, clarified and strengthened.

Macroeconomic Conditionality: Alignment with the IMF

As regards macroeconomic conditionality, which has been the responsibility of the IMF for more than half a century in its support for balance of payments adjustment, it is inconsistent for other donors because they wish to provide budgetary support and to impose macroeconomic conditionality that diverges from that of the Monetary Fund. In the glorious days of adjustment, the practice was for the European Union, or even France, to provide budgetary aid only if the country had signed an agreement with the IMF. This does not mean that, under the guise of budgetary aid, donors cannot finance and influence fiscal policy reform, for example. However, these are two different things: one is to subject overall budgetary aid to conditions that are likely to improve the budget balance; and the other is to finance a study or technical cooperation mission in the tax field, the conclusions of which could eventually be used to devise a political decision for the country, which it could put forward in its negotiations with the Fund. The Fund's major responsibility in the macroeconomic field, which is in line with its purpose and the competencies that lie within it, is all the more justified in that it has been able to adapt its doctrine to changing ideas and circumstances (Cabrillac and Jacolin, 2022).

Results-Based Conditionality for Sectoral Aid

The second approach, which is particularly relevant to sectoral aid (education, health, etc.) that is likely to be renewed or continued over a medium or long period, is to make its continuation conditional on the achievement of results (Collier, Guillaumont, Guillaumont Jeanneney and Gunning, 1997). Its essential advantage is that it gives countries full freedom and responsibility to choose the measures or instruments that they will implement to achieve these results. As far as possible, results should be assessed in terms of impact rather than being measured by indicators of intermediate variables, whether output or even outcome indicators. For example, attendance at health centres is not an end result: only the reduction in mortality or morbidity represents a final impact. This reduction, particularly in infant and child mortality, can be assessed through DHS-type surveys, which are no more costly than maintaining an external, fussy bureaucracy of which the purpose is to monitor, check, influence and steer the implementation of the measures selected as a condition for disbursement.

Obviously, it remains to be seen whether these results take into account the role of exogenous factors that are independent of a country's policy. The burden of proving exogeneity certainly lies with the recipient country, while the assessment of its impact rests with the funding source. This implies a consensus on the method to be adopted and the reallocation of these funding sources' staff, who will have to be less ill-accepted prescribers than evaluators.

Operational Conditionality

The third approach, which applies to fairly large-scale operations, can be described as operational: it involves one or more conditions, the implementation of which is directly necessary for the success of the project financed. In the case of an energy supply project, the condition may be

the adoption of a tariff policy. The condition is then the operational standard. It is legitimate and acceptable if the standard imposed by the donor to finance the project does not constitute a macroeconomic policy choice when the country could legitimately prefer a different approach. The project leader must then be able to justify rigorously that the condition concerning the standard is the only one that can ensure the success of the project.

Traceability

The fourth way, which corresponds to a general demand from public opinion and especially from the parliaments of the countries providing aid, is that the destination of disbursements should be subject to rigorous verification. Traceability of aid flows is obviously desirable to avoid misappropriation, corruption and so on, but it is unevenly easy. It is very difficult for budgetary aid, but then it is up to the Monetary Fund to perform as much monitoring as it can. It is easier for specific, clearly identifiable projects but obviously implies the power of investigation and therefore the cooperation of the operator's country.

The Red Line

Traceability is particularly important in the most fragile countries but also in countries that are not fragile but that have authoritarian and opaque management. The political problem posed by dictatorial regimes is knowing what red line they must not cross in terms of human rights, in particular to ensure that the State remains a recipient of external public funds. There is a debate about the legitimacy of the new political conditionality, such as that which the EU is trying to promote through societal norms inspired by European standards (for example, LGBT rights). The trade-off between standards specific to certain civilisations and universal standards is particularly delicate.

However, even if the red line is crossed and donors decide to stop all support for these coun-

tries, this should not prevent the continuation of decentralised actions or support for local NGOs, provided that these actions can be carried out with sufficient security and that they consist of donations and do not involve the State in repayment. Of course, we must ensure that local people do not suffer a double penalty as a result of the State's behaviour on the one hand and the withdrawal of donors on the other.

In conclusion, in the current geopolitical situation, in which the West's policy towards the global South is increasingly contested, we need to reflect on the legitimacy of conditionality.

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