

Democratic Conditionality in Development Assistance

“We must tie greater aid to political and legal and economic reforms. A USD5 billion annual increase... will be devoted to projects in nations that govern justly, invest in their people and encourage economic freedom.”
President George W. Bush, Monterrey, 22 March 2002ⁱ

President Bush's address to the United Nations Conference on Financing for Development with its startling announcement of a 50% increase in United States Official Development Assistance (ODA) has put the issue of aid conditionality at the forefront of the development debate. To understand and evaluate the impact of the announcement, it is worthwhile examining the concept of ODA and the role of conditionality in that concept. The paper will then consider to what extent, and to what effect, has democratic governance become one of the conditions for the granting of ODA.

Situating ODA

The starting point might be to situate ODA in comparison to other major financial flows. Using OECD figures², ODA by OECD members in 2000 amounted to USD53 billion which was .22% of donor countries' combined Gross National Income (GNI). The United States contribution was USD10 billion which was .1% of GNI. Accordingly, to raise US ODA to USD15 billion would take it to .15% of GNI, still well below the OECD average and, of course, well below the .7% target set by the Brandt Commission. For the purpose of comparison Australia provided USD987 million or .27% of GNI.

It is interesting to compare the USD53 billion to other flows. The flow of private capital to developing countries in 2000 was approximately USD120 billion. The figure has still not recovered from the 1997 East Asian financial crisis. In that year the flow of private capital was USD270 billion, more than five times the ODA flow. The total flow of government domestic agricultural subsidies in Europe, Japan and the United States is estimated at USD310 billion or nearly six times the ODA flow. This means that the average European cow receives USD2.50 a day in subsidies while 75% of people in sub-Saharan Africa live on less than USD2 a day.³ And we should also note that global military expenditure is around USD700 billion.⁴

ODA is therefore not nearly as significant a sum as many people imagine.⁵ Its value is in part compromised by the reverse flow from developing countries to donors in the form of debt servicing. Total debt in 2000 has been estimated at USD2 trillion⁶ and one of the startling facts which generated the outcry that resulted in the IMF-led debt relief strategy was that in 1996 sub-Saharan Africa paid \$2.5 billion more in debt servicing than it received in new long-term loans and credits.⁷ In September 1996, the IMF and the World Bank launched a program to address this situation. The Initiative for the "Heavily Indebted Poor Countries" (HIPC Initiative) is designed to provide exceptional assistance

to eligible countries following sound economic policies to help them reduce their external debt burden to sustainable levels. The total cost of providing assistance to 34 countries under the enhanced HIPC Initiative is estimated to be over \$30 billion, freeing countries from over \$50 billion in payments.⁸

Another important qualification is that about half of all bilateral aid is tied to the procurement of goods and services from the donor country.⁹ While tied aid may be an understandable political constraint it has been estimated that it raises the cost of goods and services by between 15-30% thus lessening the value of ODA.

The Rationale for ODA

The donor states give three principal motivations for ODA.¹⁰

1. Fundamental humanitarianism, a compassionate response to extreme poverty. This responds to the wishes of a significant part of the electorates of western democracies. Evidence of individual humanitarianism can be found in the statistic of transfers from OECD NGOs to developing countries of almost USD7 billion in addition to ODA of USD53 billion in 2000. This rationale resembles that of charity in domestic situations and has similar problems as those associated with charity. While it is a rationale for relief in an emergency, it is not a rationale for economic development.

2. Enlightened self-interest is the 'hard-headed' rationale as opposed to the 'soft-hearted' humanitarian rationale. Increased prosperity in developing countries expands markets for goods and services of the industrialised countries. Increased prosperity should also have an impact in increasing human security and stability while decreasing transnational crime and illegal migration. The question to be posed here is just how enlightened is the self-interest? The less enlightened it is the more there is aid in the form of trade credits, tied aid, concessional loans for projects more in the interest of the donor than the recipient and aid for programs pushing donors' culturally specific values. The more enlightened the self-interest the more will the aid be in grant form, untied, supporting universal values and under the 'ownership' of the recipient to the largest degree that donor accountability can allow.

3. International solidarity is given as the third reason for ODA. Development co-operation is one way all people can work together in pursuit of common aspirations such as combating epidemic diseases, protecting the environment, controlling population growth and pursuing universal values such as support for democracy and human rights. ODA has become an important tool for a coherent approach to global problems. One difficulty with this approach is that the development aspect may be secondary. Addressing global issues is ultimately an intensely political activity and ODA is thus one tool in that political process.

While these are the official reasons for ODA, other rationales could be posited:

4. Reparation for colonialism has been suggested by former President of the International Court of Justice, Mohammed Bedjaoui, as the key reason for ODA.¹¹ Bedjaoui points out that the first conference of non-aligned countries meeting in 1961 in Belgrade called for a 'right to reparation' and this was echoed in 2 resolutions of the UN General Assembly in 1974:

- Resolution 3201 (S-VI) proclaiming the Declaration on the New International Economic Order affirms "the right of all States, territories and peoples under foreign occupation, alien and colonial domination or apartheid to restitution and full compensation for the exploitation and depletion of, and damages to, the natural resources and all other resources of those States, territories or peoples."
- Resolution 3281 (XXIX) proclaiming the Charter of Economic Rights and Duties of States refers to "the remedying of injustices brought about by force and which deprive a nation of the natural means necessary for its normal development."

These resolutions were passed after the oil embargo had given the 'South' the confidence to challenge the economic dominance of the industrialised world. The 1974 instruments were never accepted by the 'West' and therefore have little weight in international law, which requires consent of affected parties. The OECD countries have never conceded any connection between ODA and colonialism. The nations of the developing world have not actively pursued this line of argument.

The actions of the OECD countries, however, tell a different story. A 2000 study by Langhammer of the Kiel Institute of World Economics examined what factors determine the direction of ODA.¹² The study found that the colonial relationship was the general factor that had the most influence on the direction of aid – "a country that has a relatively long colonial past receives up to 72% more aid than a country without a colonial past."

There may also be other factors to explain French concentration on West Africa and Australian concentration on PNG. Without articulation by the donor of a motive based on reparations, no such conclusion can be reached in international law. Yet that conclusion is hinted at in a decision of the International Court of Justice in the case of *Certain Phosphate Lands in Nauru (Nauru v. Australia)* in which the Court, by deciding it had jurisdiction over the case, "seems to have accepted the principle of review of the acts of a trustee affecting the beneficiary prior to the independence of the territory concerned."¹³ Australia quickly settled the case before the Court could pronounce an adverse judgement on the merits, a judgement which would have given Nauru a remedy for the loss of its resources. The settlement was funded under the Australian aid program and was explained by the Australian government in the following terms:

"In August 1993 the Governments of Australia and Nauru signed a Compact of Settlement which ended litigation by Nauru against Australia in the International Court of Justice over rehabilitation of phosphate land mined before independence. As part of the settlement Australia paid Nauru \$57 million in cash payments and will continue to provide \$50 million over a period of twenty years (paid in annual instalments of \$2.5 million indexed at 1993 values) for projects to be undertaken

under a Rehabilitation and Development Cooperation Agreement. Australia provides funding for a bilateral scholarship program.”¹⁴

5. Neo-colonialism may provide another explanation of ODA. According to this view, ODA plays a Trojan horse role pretending to be a gift but instead containing one of the means of control the industrialised world is bent on using to exploit the resources of the developing countries while imposing its cultural and moral values. Supporters of this view are able to point to the many means whereby the industrialised world retains economic dominance; favourable terms of trade, control of financial markets, speculative ‘uncommitted’ investment, as well as cultural dominance; hegemony of English, Hollywood-led culture, and the portrayal of what they might consider as Western values (such as individual rights and electoral democracy) as universal values.

The concept of neo-colonialism as a means of explaining the world’s economic imbalances has certain attractions including historical continuity. But it does not account for the fact that the industrialised world happily welcomes into its ranks new members, such as the various Asian tigers, seeing in them economic partners with whom far greater profits are on offer than are available in simply ‘exploiting’ their resources. Further, the neo-colonial approach must discount the significant achievements of ODA over the past half-century (eradication of certain diseases, dramatic falls in child mortality, huge increase in literacy, the green revolution). Finally, the neo-colonial argument has difficulty in accounting for the influence of the liberal elites of the developing world that have, particularly since the eclipse of communism, by and large accepted the universal applicability of values such as human rights and democracy as well as open markets and free trade and consider the application of these values in their own countries as the best means of fostering development.

The reason for examining the rationale for ODA is that the view one takes will greatly influence one’s perspective on the issue of aid conditionality. If motivated by the OECD’s stated reasoning then conditionality may be seen as a valid tool in the ODA process. If, however, one adopts the colonial or neo-colonial approaches, then conditionality necessarily becomes yet another instrument of repression. Arguments can be advanced for these colonial approaches but ultimately they rest on the difficult foundation that there is some sort of conspiracy to keep developing countries poor. The conspiracy may be seen as conscious and secret or tacit and unspoken but nevertheless real. The problem with seeing the world in this light is that it leaves as the logical response by developing countries a national policy of economic and political autarky for which our only models are North Korea and Burma. Without diminishing the problems of global economics and governance, it is submitted that ascribing to the industrialised world a posture of bad faith towards the developing world in the use of ODA is profoundly misleading and unhelpful.

But dismissing the bad faith argument does not imply as a corollary that ODA has been well directed and effective. To examine this aspect it is necessary to look back on the origins of the ODA process.

The Myth of the Marshall Plan

These days any plan for a major effort to assist another country or region earns the title of a new Marshall Plan. The Marshall Plan administered by the American-run European Cooperation Administration (ECA) has come to be known as the plan that single-handedly rebuilt a shattered post-war Europe. This is a myth. The Marshall Plan certainly provided raw materials, food and fertiliser, fuel and vehicles but it did so within a context that can only be described today as “severe conditionality.”¹⁵ Every country benefiting from ECA assistance had to sign a bilateral agreement with the United States binding it to balance budgets, restore financial stability and stabilise exchange rates at realistic levels. Further, the assistance was not fully in grant form as recipients had to set aside counterpart funds from government budgets and put them at the disposal of the ECA, which then employed these funds to restrain inflation and underwrite capital investment.¹⁶ The American plans for Europe would today be regarded as unacceptably intrusive. They included policies to promote European economic integration, reduce trade barriers, make currencies convertible and indeed “to encourage the growth of democratic politics.”¹⁷

Far from having ‘ownership’ of the Marshall Plan, the recipients chafed at the insistence of the American donors to enforce the conditions set. The counterpart funds represented a significant part of government revenues and there was also initial French opposition to the policy of integrating Germany economically into Europe.¹⁸ Waller calls the Marshall Plan “history’s most successful structural adjustment programme.”¹⁹ The Marshall Plan succeeded because it was able to impose a coherent policy mix as well as provide basic commodities in a time of American political preponderance over a Europe beset by shortages in a period of reconstruction. The degree of political, economic and strategic engineering engaged in by the Americans through their Marshall Plan would be unacceptable today. But the myth of the Marshall Plan remains based largely on the remarkable generosity of the American taxpayer of the day - .87% of GNI (which would translate today to a USAID program of USD87 billion). Flowing from the myth was an idea that further generosity from taxpayers in industrial countries could do for developing countries what the Marshall Plan did for Europe.

The Invention of Development Assistance

William Easterly provides a lively account of the origins of development theory and the development assistance process that accompanied it.²⁰ The Marshall Plan “proved” that it could be done and all that was needed was a theory to explain the process. Curiously, the theory did not draw on any of the realities of the Marshall Plan such as the importance of policy settings, counterpart funds or conditionality and instead drew on Domar’s theory, a simplistic and soon discredited idea that “GDP growth will be proportional to the share of investment spending in GDP.” Poor countries cannot put aside sufficient savings to invest in capital but if an outsider could fill this “financing gap” and spend the required money on capital works and productive machinery, the reward would be a mathematically equivalent rate of economic growth.

One can perhaps understand how political leaders in the 50s fell prey to such a simple model. It seemed like a good investment to turn millions of poor people into middle class consumers of American products; the romance of technology as panacea was in its naïve infancy; Domar's theory had an unsophisticated and compelling clarity; and the concept of development assistance had a pleasing Good Samaritan ring to it.

For Domar's theory to have any coherence, one had to add a little caveat – all other things being equal. Decades of development assistance projects now suggest that the list of 'all other things' includes such factors as stable and competent government, rule of law, property rights, respect for human rights, vibrant media, engaged civil society and probably, democracy. No developing country could boast such institutions.

It did not take long for development assistance to carry many other objectives as well as fuelling growth. The Cold War was kicking in and there was strong competition to reward one's supporters and sway the undecided. ODA became a distinctly political tool and to this day retains some of this political character. "Donors use aid to advance their values, their commercial interests, their cultural aspirations and their diplomatic and political objectives."²¹

Embedded Conditionality

Donor values are embedded in ODA. In the minds of the donors these are the values of successful societies and their economic and political success qualifies the donors and legitimises their values. The inculcation of donor values is rarely put in the form of overt conditionality. It is simply part of the package and it is usually not articulated by the donor or perhaps even understood as embedded in the ODA process. All aspects of the ODA phenomenon from choice and design of projects, to delivery and evaluation, have the imprint of donor values.

Some of the values can be seen as universal. Donors refusing to provide aid only for boys' education may set in train a process whereby decision makers in the recipient society re-evaluate their own values. Few would take issue with a process of values transfer promoting universal values such as gender equality. Promoting human rights through the aid program is a corollary of the emergence of human rights in international relations as an international issue rather than simply a domestic discretion.

Other values are far more culturally and politically specific. A recent example can be seen in President Bush' National Security Strategy released on 20 September 2002,²² in which he states that "we will use our economic engagement with other countries to underscore the benefits of policies that generate higher productivity and sustained economic growth." One of those policies is "lower marginal tax rates." Surely this is going beyond the bounds of promoting universal values. Low taxation is of course a strong Republican Party value.

The problem of embedded values often lies in the grey area between universal values and specific national values. It often arises in the way projects are delivered. The different

styles of leadership, consultation, discussion, hierarchy and claiming credit are often the friction points between donors and recipients. Donor values of individuality, punctuality and win-at-all-cost, often conflict with local values. A mundane but telling example is the loss of momentum in a project when meetings must be postponed because a key local participant must attend the funeral of someone the project deliverer considers to be a 'distant relative.' Differing notions of family, social responsibility and work ethics are in conflict. The aid experts and the foreign investor in these circumstances are urging their counterparts to change their values.

The process of values transfer is based on an assumption that the values being promoted are best for the recipients. Many of the values being promoted may well be beneficial. No society is static and all societies develop by learning from others. Values transfer is as natural as the transfer of goods. The point about values transfer in the ODA process is that the relationship between the parties is unequal. The values of the successful donor society have the advantage even though the definition of what constitutes success may be very different.

The flow of values is also pretty much one-way. "What do you think of the idea of our Peace Corps?" President John Kennedy once asked Prime Minister Jawaharlal Nehru. "A good plan," Mr. Nehru answered, "young Americans can learn a lot from Indian villagers."²³ Nehru's response was entirely appropriate, as a later generation of western backpackers would learn, but the humour in the exchange speaks eloquently of the underlying assumption about which group has the knowledge and the power.

Contractual Conditionality

The most widely practiced form of contractual conditionality is in the preconditions laid down by lenders such as the IMF. As noted, this form of contractual conditionality has its origins in the severe conditionalities of the Marshall Plan. There is a significant economic literature dealing with this form of conditionality which has been defined as "a mutual arrangement by which a government takes, or promises to take, certain policy actions, in support of which an international financial institution or other agency will provide specified amounts of aid."²⁴ The two points that I wish to refer to concern the iterative process of designing conditions and the quality of the recipient agreement to the conditions.

Conditions imposed by the IMF and other international financial institutions have evolved over the years reflecting changes in economic theory as well as lessons learned from previous situations. Conditions concerning demand restraint and interest rates were soon enlarged to deal with government expenditure and public employment and then began to call for austerity policies while opening up the economy to greater competition and finally, currently, to the design and practices of the institutions of government. It follows that the borrowing nations have been the guinea pigs in this vast economic experiment.

The experimentation has followed economic fashion in the donor countries regardless of their relevance to the developing world. The Thatcher/Reagan era of small government is still with us together with its accompanying mantras of deregulation, privatisation and outsourcing. Many developing countries were still coming to terms with the previous lessons of 'nation building' including strong executives, rigorous revenue collection regimes and the leading role of the state in societies with small private sectors. These ideas were fashionable when economists admired the concept of the development state. But the new fashion of small government has now replaced it. It may be that the corporate excesses of the United States will lead to a greater emphasis on regulation and the necessity for a strong bureaucracy of accountability as the next swing in fashion. This is not to ascribe bad faith motives to the IMF and the World Bank but it does raise the question of the ethics of externally imposed policy prescriptions when the imposers do not personally experience the effect of the possible failure of these policies.

Which leads to the question of the quality of the agreement of the borrowing country. Formally, the borrower has accepted the conditions laid down in the loan agreement. The agreement is usually a document of treaty status. It is a public document. The financial market carefully examines it and adherence to it becomes one of the key barometers of the credit rating of the borrowing country. There may be cases when local political leaders, accepting the necessity of austerity policies, will prefer to portray these as imposed by the lender in the hope of finding an outside target for the anger the policies generate. The problem is that the bargaining room of the borrower is extremely limited. If they do not want the conditions imposed on them they can borrow from the private market. But the borrower economies are often in so parlous a state that private loans have dried up and the IMF becomes the lender of last resort.

And here lies the weakness in the contractual conditionality system – the conditions are not locally owned, they are seen as imposed from outside. In a recent report, the World Bank accepts that "without such 'country ownership,' external cajoling and or donor-imposed 'conditionality' is unlikely to make poor countries adopt reforms which they oppose."²⁴ Ownership of reforms is therefore becoming a key determinant of the success of development projects and programs, a point to which this paper returns. The ownership has to go deeper than the leadership of the developing country. It must include some at least of the elite. But full ownership can only come about through a discursive and deliberative process involving the people affected by the policies. There is no single formula for the process of gaining ownership of policies. Some policy decisions may well be left to the bureaucrats if there is a vigilant media alert to the issues. Others may require the more formal processes of democracy whereby the electorate can own the decision through its vote. While single party states may claim to be able to lead their people through the reasoning and to be able to dispense with the criticism of the media, this probably only establishes ownership of the policies by the rulers.

Democracy is also a factor in the donor countries. ODA is public money and public money requires proper accountability. So one form of contractual conditionality that will continue to be employed concerns audit and oversight conditions to ensure the money is

spent as agreed. The sentiment of the electorate in the donor states also comes into play in the process of negative conditionality.

Negative Conditionality

An initial distinction should be made between negative conditionality and punitive conditionality. While the former is guided by the wish to influence policy, the latter may contain rhetoric to this effect but is intended as a political response in the form of punishment. A good example of punitive conditionality was the western response to the Vietnamese invasion of Cambodia in 1979 thus ending the Khmer Rouge genocide. Although a strong argument could have been made that this was a valid and effective exercise of the doctrine of humanitarian intervention, the politics of the situation required a Cold War response including the suspension of aid.

Negative conditionality as a calibrated pressure point to influence a specific policy seems to have had its genesis in the Dutch decision of 1990 to suspend a part of its aid program to Indonesia in response to the execution of four political prisoners (bodyguards of President Sukarno who had already spent some 25 years in prison).²⁶ Such executions had been a feature of Suharto's regime and regularly drew protests to the point that these had become rather ritualised. The suspension of an aid program, as a direct and articulated response to a perceived abuse of human rights, was a new development and elicited much comment in the media and among diplomats. Whether as a consequence of this initiative or not, the executions of 1965 era prisoners came to an end in Indonesia thereafter.

Here then, it would appear, was a direct and effective means of influencing policy. But within two years, in response to the Dili massacre in 1991, the suspension of Dutch aid programs as well as some of those of Denmark and Canada brought a far more belligerent response from Jakarta. Indonesia announced the refusal of all aid from the Netherlands while at the same time announcing an internal inquiry into the massacre. In 1992 the Netherlands and Indonesia quietly mended fences and the aid relationship resumed.

An important precedent had been set in that aid and human rights had thus been linked through this form of negative conditionality. Since that time the concept of negative conditionality has been refined and has now found itself formalised in the aid relationship between the European Union and its African, Caribbean and Pacific recipients who have concluded a new twenty-year Partnership Agreement in which respect for human rights, democratic principles and the rule of law are essential elements. Parallel to the multilateral negotiations, the EU adopted a policy of including democracy clauses in its various bilateral agreements making democracy and human rights part of the bilateral dialogue. More pointedly, the recent bilateral treaties regard serious and persistent human rights violations and serious interruptions of democratic process as a 'material breach' of the treaty. Article 60 of the Vienna Convention on the Law of Treaties states that "a material breach of a bilateral treaty by one of the parties entitles the other to invoke the breach as a ground for terminating or suspending its operation in whole or in part." The EU has thus armed itself with the power at international law to suspend or

terminate bilateral aid agreements in the event of human rights abuses or extra-constitutional attacks on democratic government.²⁷

Suspension of EU aid for non-respect of democratic principles and interruption of the democratic process has occurred in at least ten cases; Niger, Sierra Leone, Togo, Cameroon, Haiti, Comoros, Cote d'Ivoire, Fiji, Liberia and Zimbabwe.²⁸ Each case has its own particularities making generalisations about the effectiveness of the suspension mechanism difficult. One broad conclusion is that this tool is blunt and difficult to wield with any precision. The EU has embarked on its own learning curve to determine ways of calibrating the tool to particular circumstances. Negative conditionality works poorly in weak or failing states and can have the effect of reducing even further the legitimacy of the state thus making the solution to the problems more elusive. Haiti provides an example where the EU has basically dealt itself out of the process by suspending the means through which it exerted some influence. Negative conditionality seems to work best when allied to internal forces working for the restoration of democracy. It thus strengthens the hand of those forces by giving them leverage that they would not otherwise have. Fiji may provide an example where negative conditionality seemed to have a positive influence.

Perhaps the best example of negative conditionality leading to virtual pariah status as far as aid is concerned is the donor community's relationship with Burma. With the exception of small humanitarian and training projects, aid to Burma flows not to the military regime but to the dissident community on its borders and in foreign states. It is an expression of the unacceptability of the rejection by the military of the popular mandate won by the National League for Democracy (NLD) in 1990. Over a decade of aid suspension has not brought an end to the military dictatorship in Burma, but it may have strengthened the hand of NLD's leader, Aung San Suu Kyi.

The literature tends to the view that negative conditionality does not often bring about the desired result.²⁹ The Dutch experiment in 1990 raised hopes of the existence of a simple process to trigger respect for human rights and democratic principles through suspension of ODA but subsequent experimentation has shown that the process is rather complex. Many other factors need to be taken into account. A further response has come in the form of positive conditionality.

Positive Conditionality

The promise by President Bush quoted at the beginning of this paper is a recent expression of the current popularity of positive conditionality. The view has been echoed by the Australian Prime Minister, John Howard:

"Any country that has a role in providing help to countries that need help has a right to see that that help is most effectively used and it's certainly the view of the Australian public that aid should be given on the understanding that it's used in a sensible and effective fashion and we have our sovereignty as well and we have a perfect right to say to a country 'well we will provide aid but in return we would

like certain standards of governance to be met and that's our philosophy' and I think it's a very understandable philosophy. It's also, incidentally, the philosophy of the European Union in relation to Africa and the Pacific should understand that what is happening in Africa under NEPAD (New Partnership for Africa's Development) now, is that governance and aid have been linked."³⁰

This thinking flows from a sober realisation that many aid practices have simply not brought results. The World Bank's 1998 Report *Assessing Aid: What Works, What Doesn't and Why* called for a systematic targeting of aid to countries with sound policies and effective institutions. It thus encouraged the donor community to link aid to performance not to promises. This argument has had considerable impact. It has led to a significant shift in the type of aid flowing to developing countries. Donors are now wary of large infrastructure projects. Projects building roads, dams, irrigation schemes and bridges are becoming less popular than they once were. Apart from the problems of corruption that can creep into these large projects, they have come to be seen as secondary in the development process, the primary requirement being good institutions of governance and good policies. Accordingly, aid flows for governance projects have grown considerably. Aid for 'social and administrative infrastructure' is now the largest category of aid spending accounting for over 40% of OECD aid and within that category almost half is devoted to 'government and civil society'.³¹

Positive conditionality can also be seen as selectivity. It is selectivity not only in the choice of aid projects but selectivity in the appreciation of the policies in developing countries that attract those aid projects. Once again, the literature tends to show that the selectivity is in fact not directly related to good policies but by other more political considerations.³² The correct policy package is difficult to gauge for each developing country given the differing histories and capacities. This has led instead to the idea of measuring not policies but outcomes and tying aid to progress in outcomes such as a fall in child mortality or a certain rate of growth of GDP.³³ Measuring outcomes is also problematic, even if one has confidence in the developing country's statistics. Outcomes are dependent on many factors and basing aid on outcomes may lead to penalising a country that has missed its targets because of conditions such as drought. Outcomes do not measure quality. For example, unsustainable use of natural resources may lead to higher economic growth. Nevertheless, outcomes are at least measurable and increasingly sophisticated processes can be designed to factor in the qualitative aspects.

Positive conditionality can lead to its own distortions. The holding of free and fair multi-party elections is a common condition set to bring positive rewards. Donors then have a strong interest in achieving this result virtually 'at any cost'. The 1994 Mozambique elections cost USD64.5million, virtually all of which came from donors, representing 4.4% of GDP. Similar amounts were spent in transition elections in Nicaragua and Ghana.³⁴ Good outcomes were achieved but at unsustainable costs. Can ODA processes thus lead to situations where more money is spent on elections than on education?

Directing whatever influence aid generates to the improvement of government policies and processes through positive conditionality is worthwhile even though it is not without

problems. It is part of a process of policy transfer. Transferring policies and processes aimed at increasing accountability, transparency, competence and participation in government decisions are positive steps. Much of the aid effort is now directed at this process. But question marks remain. Even leaving aside problems of subjectivity, politicisation and inconsistency, there is a problem of a lack of commitment to the policies being transfer. The solution to this fundamental problem has been summarised in one word – ‘ownership’.

Democratic Conditionality

“And finally, I talk of ownership, ownership as an essential element in this development process; ownership as a result of knowledge transfer, ownership as a result of opportunity, ownership as an essential element because no one wants to be told what to do from the outside. It is simply not effective to get nominal acceptance of programs. Key is that the programs should be owned and developed by the people who are in development. This is a form of democracy; a form of political movement in a sense. But it is also an economic issue, because with ownership, you get results.”³⁵

World Bank President James Wolfensohn is articulating a truism that has taken the development assistance community half a century to come to grips with. Ownership goes well beyond the formal acceptance of development assistance or even the signing of an agreement to its terms; it is about the policies and ambitions of the leaders of developing countries and their people. If ownership is a key requirement then the absence of ownership of programs and policies by recipient polities will be a disabling feature. The absence of ownership can be put in quite graphic terms:

“Because African leaders were dragged kicking and screaming into the governance and democratisation reform movement, their commitment to it is at best, questionable. They cannot, therefore, be counted on to carry through to their logical conclusions the reforms called for.”³⁶

Here then lies one of the great dilemmas of the process of development assistance – the imposition of the institutions of democratic governance through processes of conditionality is unlikely to be effective, yet without democratic governance there is unlikely to be sustainable development. The factors favouring the imposition of conditionality may be politically popular in the donor community but that does not make them effective instruments of policy. “Conditionality cannot substitute or circumvent domestic ownership of and commitment to reform.”³⁷

One response to this dilemma is to contribute to the process of domestic commitment to reform and democratisation. Di Palma has described part of this process as the diffusion of democracy.³⁸ The processes of diffusion include example, persuasion and the progressive development of universal norms favouring democratic governance. An important step in this process was the argument by Amartya Sen that democracy, though perhaps not yet a universal norm, had become a universal value – “While democracy is

not yet universally practiced, nor indeed uniformly accepted, in the general climate of world opinion, democratic governance has now achieved the status of being taken to be generally right.”³⁹ This general climate of opinion encourages the view that democracy is not the preserve of the rich countries but is as valid a form of governance for developing countries.

The process of diffusion need not be passive or evolutionary. The broad field of democracy assistance may be seen as an active means of favouring diffusion by delivering the message of the benefits of democratic governance as widely as possible. One of the major targets is the ruling elite but diffusion needs to go well beyond this narrow group interested in protecting the status quo. The political opposition may be an ally in some circumstances. Aung San Suu Kyi holds a de facto veto over the aid programs of most donors. That is one reason why Burma receives just USD2 per head in aid while communist Vietnam, a country that successfully uses the rhetoric of reform, receives USD22 per head. The Aung San Suu Kyi veto is a form of ownership. Burnell calls this form of influence ‘coercive conditionality’.⁴⁰

One of the most important developments in the development assistance process has been the realisation of the need for the diffusion of values to target groups aside from governments and thus to focus on civil society. This is an attempt to develop a mass base for democratic reform by bypassing ruling elites and attempting to reach a different elite, the leadership of civil society. All donors have recently concentrated greater resources on civil society. Usually the recipients are local NGOs working in fields such as health and education but some donors also support civil society advocacy groups. The USAID program in Cambodia, for example, directs all its assistance to civil society and none to the government.

Ownership, whether by a government committed to democratic reform, or by an opposition with some form of democratic legitimacy, or by locally acknowledged leaders of civil society, helps to deal with another paradox of democratic conditionality; its fundamentally undemocratic nature. Santiso describes this perverse effect noting that conditionality “undermines the domestic processes by supplanting public policy-making.”⁴¹ So some form of local ownership through local public policy-making is necessary though at times it may lack the formality of political party platforms endorsed in elections. The more authoritarian the society, the more difficult it is to engage in a public deliberative process indicative of local views.

Democratic processes therefore have a central place in making political conditionality effective. One of the three values Sen sees in democracy beyond its intrinsic and constructive values is its instrumental value whereby people have a voice and can direct political attention to specific issues.⁴² Democracy’s instrumental value is crucial in making economic and social policy effective. This is perhaps where the once popular concept of the development state is at its weakest, the absence of an instrumental role for democracy proved to be the Achilles heel that ultimately caused its unsustainability. Whether imposed by an autocrat or imposed by an outside donor, policies that do not have broad local ownership will not succeed.

Democratic conditionality can therefore take numerous forms. It can be a negative reaction to the unconstitutional overthrow of an elected government. In this form negative conditionality may be a response to the will of the people in both the donor and recipient nations. As noted, however, negative conditionality can also take a punitive form. The distinction can often lie in the motivation behind the decision to cut off aid and the evidence of that motivation can often be drawn from issues of consistency in donor practice and the impact on the commercial and strategic interests of the donor.

Democratic conditionality can also take a positive form through the diffusion of values to leaders and opinion shapers in recipient countries. The main issues in this form of assistance concern the problem of selectivity, the promotion of inappropriate values and the question of effectiveness. An underlying concern in all these issues is whether the donors have a 'one-size-fits-all' model of the political and economic organisation of modern society. The 'Washington consensus' is often seen as an articulation of the model calling for small government and active markets. The Washington consensus can be particularly difficult for many developing countries either because they are still very much engaged in building basic government infrastructure or because the regulatory institutions are not effective in overseeing a process of marketisation of the economy. The results of conditions imposing a Washington consensus may be particularly negative; gangsterisation of the political system, corruption in the privatisation process and decreasing economic and social security for the general population. The basic assumptions of the Washington consensus, multi-party democracy and market economies may well remain valid as universal prescriptions but their implementation needs to take into account the circumstances of each country.

The quote by President Bush at the commencement of this essay is very much about a process of positive conditionality. No means of implementing the policy have yet been announced and Congress has not voted any money for this initiative. So it is not clear what criteria will be adopted to meet the test that nations "govern justly, invest in their people and encourage economic freedom." Nor will it be clear for quite some time how the test will be applied. Looking at current US practice, Langhammer concludes that the two key determinants for the direction of American aid are 'being Israel' and 'being Egypt' (the recipients of one third of all American aid) regardless of any other factors.⁴³

For either positive or negative conditionality to be effective, they must be designed as a form of democratic conditionality through processes of consultation, participation and local ownership. Without the democratic element, the conditions, however well thought through or well intentioned, are unlikely to achieve their objectives.

Roland Rich
Director
Centre for Democratic Institutions
Research School of Social Sciences
Australian National University

Endnotes

¹ <http://www.whitehouse.gov>

² Statistical Annex of 2001 OECD Development Cooperation Report <http://www.oecd.org>

³ Edmund L. Andrews, "Rich Nations Criticized for Barriers to Trade" *New York Times* 30 September 2002

⁴ Lawrence Kolb, "Arms spending instead of basic aid" *International Herald Tribune* 22 August 2002

⁵ See OECD Report on International Development Co-operation in OECD Countries: Public Debate, Public Support and Public Opinion, CD/R (2001) 5 of 29 November 2001

⁶ Abdur R. Chowdhury *Foreign Debt and Growth in Developing Countries* Conference Proceedings <http://www.wider.unu.edu/conference/conference-2001-2>

⁷ Soren Ambrose "Multilateral Debt" *Foreign Policy in Focus* Volume 4, Number 21 August 1999

⁸ IMF *Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative: A Factsheet* <http://www.imf.org/external/np/exr/facts/hipc.htm>

⁹ OECD *Untying Aid to the Least Developed Countries* Policy Brief July 2001

¹⁰ OECD *Shaping the 21st: The Contribution of Development Co-operation* Policy Brief May 1996

¹¹ Mohammed Bedjaoui "the Right to Development" in M. Bedjaoui (ed) *International Law: Achievements and Prospects* UNESCO (1991) 1190

¹² Rolf D. Langhammer, *Foreign Aid Recipients: Who gets the Money, Who should get the Money*" Kiel Institute of World Economics 2000 http://www.bwl.uni-kiel.de/gwrp/german/publ/ifw_papers/foreignaid.pdf

¹³ James Crawford "Democracy and the Body of International Law" in Gregory Fox and Brad Roth (eds) *Democratic Governance and International Law* Cambridge University Press 2000 at 110

¹⁴ Department of Foreign Affairs and Trade http://www.dfat.gov.au/geo/nauru/nauru_brief.html

¹⁵ Peter Waller "Aid and Conditionality" in *D + C Development and Cooperation* No1 Jan-Feb 1994

¹⁶ Michael J. Hogan "American Marshall Planners and the Search for a European Neocapitalism" in *The American Historical Review* Vol 90 Issue 1 Feb 1985 at 47

¹⁷ Ibid

¹⁸ Ibid 49

¹⁹ Waller, op cit, 1

²⁰ William Easterly *The Elusive Quest for Growth* MIT Press 2001

²¹ World Bank *Can Africa Claim the 21st Century?* Washington 2000

²² <http://www.whitehouse.gov/nsc/nss.html>

²³ *International Herald Tribune* 11 March 1999

²⁴ Tony Killick *Aid and the Political Economy of Policy Change*, Overseas Development Institute, London (1998) 6

²⁵ World Bank News Release No: 2001/263/S

²⁶ Marlies Glasius "Human Rights Conditionality Between the Netherlands and Indonesia: Two Cases Compared" in Netherlands Institute of Human Rights SIM Special No. 21 *To Baehr in Our Minds. Essays on Human Rights from the Heart of the Netherlands* (1998) 249-270

²⁷ INFORMATION MEMO No 10, Conclusions of the Brussels ministerial conference held on 2 and 3 February 2000

²⁸ Carlos Santiso *The Reform of the EU Development Policy – Improving Strategies for Conflict Prevention, Democratic Promotion and Governance Conditionality* Center for European Policy Studies Working Document No182, March 2002

²⁹ Carlos Santiso "Good Governance and Aid Effectiveness: The World Bank and Conditionality" in *The Georgetown Public Policy Review* Vol 7 No 1 Fall 2001

³⁰ Unity 23 August 2002

³¹ Statistical Annex of 2001 OECD Development Cooperation Report <http://www.oecd.org/>

³² Craig Burnside and David Dollar *Aid, Policies and Growth* The World Bank Policy Research Working Paper 1777 (1997). Shantayanan Devarajan, David Dollar and Torgny Holgren *Aid and Reform in Africa: Lessons from Ten Case Studies* The World Bank.

³³ Jan Willem Gunning *The Reform of Aid: Conditionality, Selectivity and Ownership* Proceedings of Conference on Aid and Development, Stockholm, 21-22 January 2000

³⁴ Marina Ottaway and Thersa Chung "Toward a New Paradigm" *Journal of Democracy* 10.4 (1999)

³⁵ James Wolfensohn, Remarks at the International Conference on Democracy, Market Economy and Development, Seoul 26 February 1999 <http://www.worldbank.org/html/extdr/extme/jdwsp022699.htm>

³⁶ Ndiva Kofele-Kale ‘Good Governance as Political Conditionality: An African Perspective’ in Julia Faundez, Mary Footer and Joseph Norton (eds) *Governance, Development and Globalization* Blackstone Press London 2000 at 151

³⁷ Santiso (2001) *op cit* 8

³⁸ Giuseppe Di Palma *To Craft Democracies: An Essay in Democratic Transitions* Uni of California Press 1990

³⁹ Amartya Sen ‘Democracy as a Universal Value’ in *Journal of Democracy* 10.3 (1999) 4

⁴⁰ Peter Burnell ‘Democracy Assistance: the State of the Discourse’ in Peter Burnell (ed) *Democracy Assistance: International Co-operation for Democratization* Frank Cass, London (2000) 16

⁴¹ Santiso, (2001) *op cit* 9

⁴² Sen, *Op cit* 10

⁴³ Langhammer, *op cit* 4