

Can Aid Conditionality Help Governance Reform in Needy Countries?

Devendra Raj Panday

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Purpose

If there is no such thing as a free lunch in economic transactions, there is no unconditional international aid either. One can therefore plausibly argue that conditionality has been a part of the international aid system since its inception. Often, the technical assistance component of an aid program has been a conduit or a channel for conditionalities that may, however, remain hidden. The technical assistance experts, almost always expatriate, have exercised a big influence in the past on how the aid monies were to be used. They also had a big say on the choice of technology. Incidentally, in a developing country it is "technology" that is frequently at the front of supply-driven "grand corruption."

Every aid agreement signed between a donor and the recipient contains mutual obligations and sharing of responsibilities that have a bearing on the outcome of the cooperation program. In that sense, no recipient country has ever received aid *unconditionally*. It is another matter - and, in the present context, an important matter - that a non-performing recipient did not have to feel threatened that any donor might discontinue its aid program for that reason. Otherwise, in my country, Nepal, among others, the donors would probably have discontinued aid long ago.

One reason why this did not and could not happen is that both the recipient and the donors often fail in fulfilling their reciprocal obligations. If the recipient ails from misgovernance, major donors often suffer from inconsistencies and contradictions in their objectives and, sometimes, even from incompetence in articulating and following through with the development strategy they wish to promote.

The use of the term "conditionality" itself is a recent practice. The usage is associated especially with the origin of structural adjustment lending in the late 1970s and early 1980s, if, in a more limited way, with the earlier IMF-supported stabilization programs as well. In the beginning, the conditions attached to such programs were about macro-economic policies, later progressing to broader economic reform measures. Today, the conditionality regime may also encompass, explicitly or implicitly, policy measures and actions that fall in such sensitive domains of recipient countries as the character of the political regime and the governance standards including the nature and incidence of public corruption in those countries. Since the donors can hope to contribute to anti-corruption programs only through the preventive methods of intervention, combating corruption becomes intimately related to the issue of governance in general.

The purpose of this Note is to provoke a debate if aid conditionality can indeed yield expected outcomes in terms of clean governance in the under-performing and misgoverned countries. The debate is not about the general contribution that the donors can and must make in combating corruption. It is now accepted that this issue can be addressed in practice only through a network of national and international coalitions. The role of the donors is as critical as that of the business establishments that have perpetrated supply-driven grand

corruption in the developing countries. The debate is about the legitimate domain of the donors and the methods they might adopt to yield good results.

Context

Even without the incentive of aid or the threat of possible sanctions affecting access to it, *interference in the internal affairs* of a sovereign country by another is now admissible in international social and political conduct. The policies and performance of a country on issues such as environment, status of women, rights of the children and treatment of minorities within a nation-state together with considerations of human rights in general have been a subject of international concern or even surveillance for some time. With the emergence of governance as an important domain of international development partnership, governments, inter-state institutions like the United Nations and its specialized agencies and multilateral financial establishments are now increasingly treading on more complex and sensitive areas of domestic governance in the recipient countries.

Corruption has become a major sub-item in this agenda as combating the scourge has also become a matter of international priority. The donors or the development partners of a corrupt regime in the developing world now take the position, rightly, that corruption as an issue is of direct interest to them because it affects the performance and outcome of all development efforts they are engaged in. As they take interest in the issue of corruption, they are likely to get increasingly drawn into a host of other areas that may place them in a relationship of cooperation or direct conflict with the domestic political actors.

If the relationship becomes one of genuine and willing cooperation, the outcome will be positive for the set objective. However, the probability of cooperation as opposed to conflict is again related to the two factors. One is the strategic objective of the donors promoting such policies and programs; that is, the extent of contradiction in their policies. The other factor is related to the historical experience and social and cultural processes in the host country, which the donors may not be able to influence positively with their methods, even when they are free from contradictions.

In this Note, I avoid questions such as whether it is right, morally and diplomatically, for the donors or development partners to do what they are trying to do in the area of governance. My main interest is in a debate on whether they can be expected to succeed in what they wish to accomplish through their methods.

Donor Strategy

On matters concerning corruption or governance in general, the major donors tend to adopt a two-pronged approach. One, increasingly but not yet explicitly, the status and incidence of corruption is treated as an important performance measure in the conditionality regimes pertaining to international aid. Purportedly a corrupt regime can no longer expect to remain recipient of international aid for long. The idea is to give notice to the delinquent leadership of the recipient countries that they must do some house cleaning by reforming themselves and improving their conduct.

As far as I know, this expectation is not yet formulated (and "imposed") as a specific conditionality by any donor. But major donors seemingly wish to promote such threat perception. This is clear from the pronouncements (followed by actions in isolated cases) of important global actors such as the President of the World Bank and Managing Director of the IMF, and the locally based aid administrators of major bilateral donors in many recipient countries. There are also voices at the civil society levels, international as well as national, that the only way to get reforms going may be by withholding aid until agreed reforms happen.

Two, many donors now include anti-corruption schemes in their country programs for recipient countries. Governance has thus become a sector and anti-corruption programs a sub-sector for donor engagements. Such interventions are not directly a part of the conditionality, as one defines the term today. If the possibility of withholding aid were there, even as a mental exercise, the success of these programs would amount to a condition. And if there was a general possibility of aid being actually withdrawn on account of corrupt leadership, this might eventually do some good to the people of the recipient country. But such possibilities are not usually present as a threat, because governance reform programs may simply constitute a new domain for

donor engagement and disbursing allocated funds, much like it is done for agriculture, rural development, and so on.

Yet, since all major donors include governance programs in their overall development strategy and expect the recipient countries to abide by it, the process works almost like a *conditionality relationship*. This is a type of conditionality, however, that has to do more with the age-old processes of international aid system than with the rewards and sanctions related to its outcomes. One may even compare it with the performance conditions involved in the traditional IMF-type of stabilization program. In a manner similar to the IMF's attempt at fiscal efficiency, a recipient country is given support to rectify an unacceptable and unsustainable social condition, for the success of which the country concerned is presumably held accountable. But even the MF conditionality does not always work as expected. I will return later to this point briefly. In any case, the design and implementation of governance reform programs may suffer from hazards that are more complex than the pursuit of fiscal and monetary discipline that is normally the condition in the IMF programs.

How is the Strategy expected to Work?

The concerned donors have little at their command in terms of tools to set targets or measure performance on governance and anti-corruption behavior. Specific cases of corruption or misuse of funds may be detected in some specific projects financed by one donor or the other. The concerned donor may even seek a rectification. However, what may actually trigger the termination of the aid program by a donor is not clear. Furthermore, termination of aid program by one donor on the ground of corruption and continuation of their programs by the others will not serve the intended purpose. If aid is to be geared to performance in anti-corruption measures and outcomes, all major donors need to act collectively. This is a difficult proposition even in normal circumstances, as we know from the perennial problem of donor coordination. The picture becomes more complex when the international action and interests themselves are motivated by extraneous considerations. Sometimes, the interests of the "overseers" themselves may be suspect and prone to contradictions and a double standard as seen frequently in the monitoring and handling of human rights issues, for example.

The strategy therefore seems to be to rely on the second part of the two-pronged approach. That is, by treating governance as a *needy sector* that could benefit from some technical and financial assistance from the donors. As this line of reasoning is pursued, the donors seek improvements in the policies, institutions, and methods of government by supporting projects and activities in the *political* domain. The institutions to be reformed may include anything from the parliament, the judiciary, prime minister's office and even the political parties. It may similarly involve supporting and recruiting civil society actors, local communities and the elected local bodies into the process.

Ultimately the outcome of the donor policies and activities may depend upon one critical aspect of governance reform. One has to see and understand, first, whether governance reform including controlling corruption is primarily a technical work, or whether it is something that is associated with values and institutions that can best be addressed by the host political and civic societies. If it is taken as a technical agenda, the donors may have plenty to offer. Procurement practices may need improvement; accounting and auditing practices can be made more transparent; and so on. Similarly, some technical assistance will undoubtedly be needed in such complex areas as banking regulations to check money laundering, for example. Paradoxically, however, many developing countries may need or be able to use such help the least at the moment, when what they need most is political commitment and a political culture that any donor can rarely engineer.

The donors try to address this problem by engaging themselves in programs in what I have called the political domain. But, again, reforming politics may be a technical matter in established democracies (like the United States struggling for campaign finance reform) but not so in countries that need to assimilate democratic political culture in their own wisdom, through their own mistakes and domestic interaction.

It is always a practice of the donors, no matter how interventionist their approach, to assert that governance reform, like societal development in general, ultimately depends upon the commitment of the leadership and the people of the country concerned. What also needs to be acknowledged is that there is a synergy between donor intervention and local initiative. This synergy may work positively or negatively, depending, again, upon the cultural and historical experiences of the recipient country, on the one hand, and the competence, maturity and sensitivities of the donor representatives, on the other (see below the section on *Counterproductive Effects*).

Performance

The development literature, both theoretical and empirical, tells us that different countries in the post-war, post-colonial world have performed differently in terms of developmental outcomes. The reasons, including those behind the performance of the more successful East Asian group of countries, are still being debated. What is common to all of them is that all countries in what has been called the third world have been recipients of international aid, financial as well as technical. They have also been subjected to conditionality in one form or the other. One conclusion on which there may be no serious disagreement is that nowhere one finds a claim that a country performed better, and lastingly so, *because of aid conditionalities*.

The countries that have fared well as well as the others that did poorly on development management have been influenced little in the past by the conditions set by their international partners. This is so even with regard to the resources that the International Monetary Fund (IMF) has provided in exchange for stabilization policies that the borrowing country is expected to adopt. It is an open secret that the IMF authorities in charge were often constrained in the past to find ways and means of rationalizing the poor performance of a borrower country so that the program could continue unhindered. Termination of an agreed program has been a rarity in the world, where poor performance is a much more widespread occurrence.

The countries that succeed in the proper implementation of an aid program probably do not need the discipline of conditionalities in the first place. The IMF conditionalities appear to have had relevance, for example, for the policies of the affected countries for rescuing them from the East Asian crisis two years ago. But this was because the countries concerned were better placed in their own considered wisdom to implement the agreed program. (For a different type of country, we have the example of Russian Federation). That the IMF also required the East and South East Asian countries to follow the set of policies that they would have followed anyway is a secondary consideration. We know, for example, that the "East Asian miracle" itself was founded on internally articulated policies and the culture of self-discipline and hard work in the concerned countries.

By contrast, the developing countries of South Asia and Sub Saharan Africa have generally failed because, with or without conditionalities, they could not discipline themselves for their unique reasons. Often, such countries do not fully implement the agreed policies or slip back to their earlier positions soon after the IMF monitoring ceases. More importantly, perhaps, the authorities escape accountability for their malpractice and misconduct while the IMF (and the World Bank, as the practice goes) take the public wrath, educated as well as uneducated.

In short, the performance record of the previous conditionality regimes is not reassuring.

Counterproductive Effects: Actual and Potential

What the donors may need to watch, under the circumstances, is that their actions and activities do not yield any counterproductive effects. What donor activism is doing in my country, Nepal, is that it is diluting public accountability, the enforcement of which is precisely and rightly what the donors wish to emphasize and ensure. Perhaps, a greater danger is that donor activism may crowd out the energy and integrity of domestic pressure groups (civil society) that alone can provide long-term sustenance to governance reform and, indeed, to democratic values and practices.

"Careerist" donor representatives thrive pushing one governance project after another that may look good momentarily but which may be neither productive nor sustainable in the long run. The more insensitive of them do not mind even projecting themselves as the source of inspiration (but not accountable!) of such programs, seeking accolades from their headquarters. By virtue of incentives they provide their hosts with the help of traditional technical assistance tools (e.g., a *pajero*, foreign tours, and so on), they may even be able to "buy" *local ownership* for *their* projects. In essence, however, when such route of donor intervention is followed, nobody actually may own the project and nobody be held accountable.

Too much donor activism in governance may also have an adverse effect on the evolution of the democratic process. When the donors, not the government policymakers, become the source of inspiration (or commands and conditions) for a governance reform or any other public program, the public authorities concerned can

easily escape accountability. In short, the legitimacy of the democratic process, as we have understood it traditionally, can be in jeopardy.

In many countries, even the civil society institutions, especially the NGOs have become suspect precisely because they are also perceived as foreign-driven and avarice-ridden players with no accountability. Partly, the problem is with the lack of aid transparency at the donors' end. This is unfortunate because, if properly supported and deployed, civil society will definitely be more effective because the delinquent state institutions cannot hoodwink it as easily as they might do the donors. The donors need to be careful, therefore, about the domains and methods of supporting civil society, too.

My Bottom Line

The corruption-afflicted, misgoverned countries generally need, and the donors can always provide, suggestions and advice on what might be done as remedies. These suggestions can be helpful not only in technical areas but quite possibly also on aspects related to values and institutions. But the donors must be cautious that they do not design policies and programs in such a way that they end up owning them, releasing the recipient from the much-needed accountability. This requires that the advice and suggestions do not "graduate" to *command* and *conditionalities* that become counterproductive.

It is also essential that the suggestions and advice do not become a *project*, in which case the project might suffer the same inefficiencies, corruption and distortions as the traditional projects in the economic and social sectors. For example, the pressure to meet disbursement targets, to use unnecessary or unusable experts or to sell available wares of one kind or another can drive the donor as well as the recipient to the same murky environment of corruption that they wish to change.

The donors as a community have now a unique opportunity to almost unilaterally contribute to controlling corruption by enforcing and diligently monitoring the implementation of the OECD convention that finally criminalizes the bribery of public officials overseas. Any success in this area may have a multiplier effect (positive) on the degree of corruption and quality of governance in the recipient countries. The donors and civil society institutions in the exporting as well as importing countries should find a way of constructively collaborating in this important task. The donors can similarly cooperate with and help the recipient governments and the concerned civil society actors in enforcing existing laws of the land. This is not always the case at present.

In most developing countries, governance reform at the initial stages is an advocacy work, for which civil society needs to work as pressure groups. For this task, it may need donor support. Advocacy work becomes more effective and also pro-democracy if it becomes the responsibility of the domestic constituents, rather than external partners. Donor activism in governance reform, with or without direct conditionalities, may need to be contained for this reason, too.

But, again, partnership with civil society institutions and actors should not be allowed to degenerate into a process in which they get coopted in support of the donors' agenda. As stated, the accountability of the civil society is also emerging in most developing countries as a critical issue that demands attention of all parties concerned. There are already donors, mostly the so-called "minor" donors, who understand the importance of supporting responsible advocacy without being involved directly in project-related activism. The more this happens, the greater will be the long-term effectiveness of donor contribution to good governance.

Devendra Raj Panday
President, Transparency International Nepal

Email: pandaydr@csl.com.np