

# **Applying Conditionality to Development Assistance**

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**T**he announcement on 6 May 2004 by the Millennium Challenge Corporation (MCC) of the 16 countries eligible to receive funding under the Bush Administration's Millennium Challenge Account (MCA) is a key step in the process of determining the direction of development assistance by applying quantitative international comparators to the governance performance of developing countries. It is the latest in a series of conditionality strategies aimed at making aid 'effective'. It is also the most sophisticated in terms of quantification of the eligibility conditions, giving the impression that the direction of aid flows has moved into a scientific direction of applying solid statistical information in a formulaic manner, thus making the system both transparent and reliable. The MCA process has the advantage of learning from previous experience, but whether it will be able to 'solve' the problem remains in doubt.

This paper looks at the context for this initiative by tracing some of the key historical episodes shaping development assistance in an attempt to understand the increasing reliance on conditionality. A broad taxonomy of conditionality is proposed. The paper also examines the MCA process to date, looking at the growth of, and reliance on, statistical comparators as the critical decision-making tool. It concludes with some thoughts on the place of conditionality in development assistance and the place of statistics in conditionality.

It is not within the aims of this paper to comment on, or attempt a measurement of, the effectiveness of aid. This is one of the big questions in development assistance. Recent work demonstrates the need for far greater care in tackling this issue and, in particular, the need to disaggregate emergency aid, institution-building aid delivering benefits over the longer term, and aid intended to stimulate growth in the shorter term (Clemens, Radelet and Bhavnani, 2004). While the debate on aid effectiveness continues, the working assumption in the development assistance community is that improvements in direction and delivery are necessary. Conditionality continues to be a key part of the formula.

## **Inventing Development Assistance**

The 'invention' of official development assistance (ODA) flowed from the success of the Marshall Plan, which has been described as the largest and most successful aid package in history, in which \$US 13 billion was spent after WWII by the United States for the reconstruction of the infrastructure, policies and governance

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processes of a devastated Europe (Sanjana, 2000:2). While the Marshall Plan is remembered for its generosity, it has been described by Waller (1994) as accompanied by a form ‘severe conditionality’. Every country benefiting from American assistance had to sign a bilateral agreement binding it to balance budgets, restore financial stability and stabilise exchange rates at realistic levels, as well as to set aside counterpart funds from government budgets and put them at the disposal of the American administrators to underwrite further investment (Hogan, 1985).

The Marshall Plan ‘proved’ that ODA worked, and all that was needed was a theory to explain the process. Curiously, the theory and the subsequent early practice 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 relied on Evsey Domar’s theory — a simplistic and soon disowned idea that ‘GDP growth will be proportional to the share of investment spending in GDP’ (Easterly, 2001). 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 correspondingly higher rate of economic growth. One can perhaps understand how political leaders in the 1950s 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 ODA had a pleasing Good Samaritan ring to it.

Fifty years of ODA practice have demonstrated the complexities masked by Domar’s simplistic theory. In the process of refining ODA, conditionality in various forms has made its way back to centre stage, though it has not always been labelled as such.

### **Embedded Conditionality**

Donor values are embedded in ODA. In the minds of the donors these are the values of successful societies whose economic and political achievements qualify donor experts and legitimise 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 process. All aspects of the ODA phenomenon, from choice and design of projects to delivery and evaluation, have the imprint of donor values.

Some values such as the elimination of discrimination against women can be seen as universal. Donors refusing to provide aid for local systems that educate only boys 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 against racial or gender discrimination. Promoting universal human rights through the aid program is a corollary of the emergence of human rights in international relations as a legitimate issue of international concern.

Other values are far more culturally and politically specific. A recent example can be seen in President Bush's National Security Strategy released on 20 September 2002 (see <http://www.whitehouse.gov/nsc/nss.html>), 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'. This is clearly going beyond the bounds of promoting universal values.

The problem of identifying 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 the way credit is claimed are often the friction points between donors and recipients. Donor values of individuality, punctuality and succeed-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 attends the funeral of someone the donor project deliverer considers to be a 'distant relative'. Differing notions of family, social responsibility and work ethics are at play. The aid expert and the foreign investor in these circumstances are urging their counterparts to adopt a new set of 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 are indeed often beneficial. No society is static, and all societies develop by learning from others; values transfer is as natural as the transfer of technology. The important point about values transfer in the ODA process, however, is that the values come attached to, or embedded in, the aid. Poor recipient countries wish to attract financial and technical assistance from rich powerful donors, and thus have little option but to accept the accompanying values, often in spite of doubts as to their suitability. These values may not necessarily fit well into the recipient societies, and the social or cultural costs of achieving 'success', as perceived by the donor, may not be apparent to, or may even be masked from, the recipient.

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', Nehru answered, 'young Americans can learn a lot from Indian villagers' (*International Herald Tribune*, 1999). 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' (Killick, 1998:6). The two points that should be made in relation to contractual conditionality concern the iterative process of designing conditions, and the quality of the recipient agreement to those 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 experience. Conditions concerning demand restraint and interest rates were soon enlarged to cover government expenditure and public sector employment, then began to deal with opening up the economy to greater competition, and finally, currently, to deal with 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 its relevance to the developing world. Thatcher/Reagan era ideas about the desirability of small government are still with us, together with their accompanying mantras of deregulation, privatisation and outsourcing. These ideas became fashionable when many developing countries were still coming to terms with the previous focus on 'nation building', including strong executives, rigorous revenue collection regimes, and the leading role of the state in societies with small private sectors. The latter ideas were widely accepted when economists admired the concept of the development state, but the new fashion of small government has now replaced this — although recent corporate excesses in the United States may 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 others, but it does raise the question of the ethics of externally designed policy prescriptions when the designers do not personally experience the fallout from the possible failure of these policies.

This 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 markets carefully examine 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 it does not want the conditions imposed it can borrow from the private market. But the borrower economies are often in so parlous a state, as Soeharto found in 1998, that private loans have dried up and the IMF becomes the lender of last resort.

Here lies the weakness in the contractual conditionality system: the conditions are not locally owned, but are seen as imposed from outside. In a recent report, the World Bank (2001) accepts that "without such 'country ownership', external cajoling and or donor-imposed 'conditionality' are unlikely to make poor countries adopt reforms which they oppose". 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.

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 involves 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**

Negative conditionality in ODA, as a calculated attempt 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). Such executions had been a feature of Soeharto'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 in Indonesia ended thereafter (Glassius, 1998).

Here then, it would appear, was a direct and effective means of influencing policy that seemed to be less confrontational and politically easier to employ than sanctions. 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. The Netherlands and Indonesia quietly mended fences in 1992 and the aid relationship resumed (Glassius, 1998).

An important precedent had been set, in that aid and human rights had been linked through this form of negative conditionality. Since that time the concept of negative conditionality has been refined, and its most formal expression is in the aid relationship between the European Union (EU) and its African, Caribbean and Pacific recipients, who recently concluded a 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 these bilateral

treaties. 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 (EU, 2000).

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 (Santiso, 2002). Each case has its own particularities, making generalisations about the effectiveness of the suspension mechanism difficult. One broad conclusion is that this weapon 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 basically dealt itself out of the process by suspending the means through which it previously 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 they would not otherwise have. Fiji’s eventual return to constitutionality after George Speight’s coup in 2000 may be seen in part as a response to pressure from an alliance of international forces together with civil liberty groups and, importantly, local exporters who understood that Fiji’s preferential access to European garment markets would otherwise be lost (Robertson and Sutherland, 2001:105).

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, which constitutes 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.

Negative conditionality may include an element of punitive conditionality. While the former is guided by the wish to influence domestic development policy, the latter may contain rhetoric to this effect but is actually 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, 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.

The literature tends to the view that negative conditionality does not often bring the desired result (Santiso, 2001:8). The Dutch experiment in 1990 raised hopes that suspension of ODA might be a simple process to trigger respect for human rights and democratic principles, 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**

‘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 made this announcement in Monterrey on 22 March 2002. Support for positive conditionality has been echoed by the Australian Prime Minister, John Howard, though without an announcement of significant new funds for ODA:

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 (Howard, 2002).

This thinking flows from a sober realisation that many aid practices have simply not brought results. The World Bank (1998) 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 per cent of OECD aid in 2000, and within that category almost half is devoted to ‘government and civil society’ (OECD, 2001).

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 policies in developing countries that attract those aid projects. Burnside and Dollar (1997) and Devarajan *et al.* (1997) argue that selectivity is in fact not directly related to good policies but rather it is based on other more political considerations. The correct policy package is difficult to gauge for each developing country, given differing histories and capacities. Collier *et al.* (1997) note that 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 economic growth. Measuring outcomes is also problematic, however, 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 it cannot control, such as drought. Outcomes do not measure quality (for example, unsustainable use of natural resources may lead to higher economic growth). Nevertheless, outcomes are 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 per cent of GDP. Similar amounts were spent in transition elections in Nicaragua and Ghana (Ottaway and Chung, 1999:102). Good outcomes were achieved, but at unsustainable costs. Can ODA processes thus lead to outcomes where more 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 the process of transferring policies and processes aimed at increasing accountability, transparency, competence and participation in government decisions. 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 the problem of a lack of commitment to the policies being transferred. 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 (Wolfensohn, 1999).

World Bank President James Wolfensohn is here 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. Kofele-Kale (2000:151) has put the absence of ownership in quite graphic terms, arguing that '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'.

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, in the opinion of this writer, 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' (Santiso, 2001).

One response to this dilemma is to contribute to the process of domestic commitment to reform and democratisation. Di Palma (1990) has described part of this process as the diffusion of democracy. 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 (1999:5) 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'. 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. The *de facto* veto over the aid programs of most donors held by Aung San Suu Kyi is a form of ownership. Burnell (2000) calls this form of influence 'coercive conditionality'.

One of the most important understandings in ODA 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 in fields such as health and education, but some donors also support civil society advocacy groups.

Ownership, whether by a government committed to democratic reform, or by an opposition with some form of democratic legitimacy, or by acknowledged local civil society leaders, helps to deal with another democratic conditionality paradox: its fundamentally undemocratic nature. Santiso (2001) describes this perverse effect, noting that conditionality 'undermines the domestic processes by supplanting public policy-making'. So some form of ownership of local 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 (1999) 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. 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 by an outside donor, policies that do not have broad local ownership are unlikely to succeed.

### **Applying Positive Conditionality**

Two years after the Bush announcement in Monterey setting out the adoption of a positive democratic conditionality policy, an initial amount of \$US 1 billion was voted for this policy for the 2004 fiscal year, and on 6 May the MCC announced the list of eligible countries as 'including Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu' (details are available at: [http://www.mcc.gov/Documents/PR\\_Eligible.pdf](http://www.mcc.gov/Documents/PR_Eligible.pdf)).

The criteria applied to arrive at this list have been described by Radelet (2004), which led him to predict a slightly different list of eligible countries. By comparison Benin, Cape Verde, Georgia, Mali, Mozambique and Vanuatu are in, and Bhutan and Vietnam are out. A possible reason for the discrepancy is that the comparators used to determine eligibility under the various criteria have margins of error and are capable of being interpreted in various ways. Indeed the World Bank Institute, on whose calculations the MCC relies heavily, expressed concern at the use of its figures in this way. As Kaufmann and Kraay (2002:1) point out, 'simple "in-or-out" allocation rules risk misclassifying countries. These risks are not trivial: for one-third of the potentially MCA-eligible countries, there is at least a 25 per cent chance they will be mistakenly classified as below the median when they should be above, and vice versa. *Rather than simply eliminating countries below the median, special scrutiny should be given to borderline cases*' (italics in original).

No doubt a form of political moderation was also applied. The case of Vietnam stands out, in that it scores poorly on the two Freedom House measurements for civil liberties and political rights, but is above the median on the other four scores, including the crucial corruption score. Clearly, the Bush Administration was not about to have a communist country as the main beneficiary of its new scheme. Looking at the MCA list, one is also rather tempted to ask 'so what?' Of the 16 eligible countries, only Ghana has a population more than 20m and only five other countries have a population of over 10m. Vanuatu boasts 200,000 people. So the MCA is hardly about to pass the impact test in terms of the key issue — global poverty.

Another caveat that needs to be expressed concerns the MCA's capacity to deliver ODA. Bypassing USAID will create bureaucratic frictions. The established aid agency may not be fully cooperative, and the new agency will need to re-invent some wheels. Nevertheless, the MCC aims to be lean, responsive and flexible, relying on recipient country ownership of projects and outsourcing administration and oversight. It is certainly an experiment worth watching.

In terms of methodology, MCA is already having a significant impact. The quantification of eligibility criteria is an important new development that aid agencies throughout the world will study closely. It is not surprising that this phenomenon is recent, as it is only in recent times that comparators have achieved the range of sophistication and depth of issues to allow them to be so employed. Comparing nations by indicators other than blunt measures of population and the size of armed forces is a modern innovation, which first required the capacity to produce national accounts. Although international comparisons could be made by using GNP per capita figures, it was clear from the outset that these had limited utility. The first systematic multilateral set of purchasing power comparisons was that of the International Comparison Programme of the United Nations, which had its genesis in 1968 with the University of Pennsylvania taking a leading role (Heston *et al.*, 2002). The number of countries covered rose from 16 for 1970, 34 for 1975, 60 for 1980, 65 for 1985, and 115 for 1996. The utility of the measurement was instantly apparent and opened the way for the crafting of many other comparators in the economic field and beyond.

The World Bank now publishes some 140 indicators quantifying the governance performance of countries, localities and institutions (World Bank, 2004). There has been a virtual explosion of datasets measuring quality of institutions, governance and corruption drawn from surveys, statistics and opinion polls. It is the existence of these indicators and the growing confidence in their accuracy that is preparing the way for a formulaic dispersion of ODA as a means of rewarding good performance. It has been only in very recent years that major donors like the EU and the US have drawn on such indicators as the means of applying both negative and positive conditionality. The methodologies are very likely to become ever more sophisticated in time.

## Conclusion

The MCA has received some good press. Siegle, Weinstein and Halperin (2004) have lauded the use of qualifying criteria in the MCA process, and thus appear to accept the comparators as of sufficient quality and accuracy as a basis for aid disbursement decisions. Yet if the designers of some of these comparators argue that they contain a significant margin of error, surely it is difficult to place full confidence in decisions flowing from their use. It also means that absence of information will be tantamount to failing the test. East Timor did not qualify for MCA funding because insufficient data on it existed.

While the increasing use of comparators is inevitable, ultimately policy-makers should not abdicate their responsibilities to a set of measurements, no matter how 'scientifically' they were assembled. Policy-makers need a menu of options when dealing with development, and need to select from that menu a strategy appropriate to individual countries based on country specific expertise, much of which will be sourced in country. There may be times when negative conditionality is the best, or perhaps least worst, means of influencing the situation, as is the case in relation to Burma where, by giving Aung San Suu Kyi an effective veto over aid to that country, there is at least some local ownership of the development assistance issue.

In most cases the best option will be to employ a form of positive conditionality, but there can be no running away from the essentially political nature of the decision. Policy makers must make their own assessments of progress and reform in recipient countries. These assessments need to be tied to, and tested in, debate and deliberation in the democratic processes of both the donor and the recipient systems. It is only within these processes that the use of statistical comparators can serve a useful role as one guide to assessing performance in policies and competence in governance. Indeed it is likely that these comparators will become more useful over time, when they will be used not just to compare across countries but also to track change within countries. While most donors are unlikely to follow the MCA pattern and adopt comparators formally as the means of determining the direction of aid flows, it is highly likely that they will increasingly play this role informally within the debate over the direction and shape of aid.

Conditionality in ODA was part of the earliest processes of aid, and it is only natural that it should return to centre stage. When the rhetoric used by donors was about unconditional aid, this merely disguised the various forms of embedded and political conditionality that implicitly were being used. One of the best aspects of moving towards positive conditionality is the need for articulation of the requisite conditions. This could bring about greater transparency in the entire ODA process. With the conditions spelled out and, where appropriate, criteria for measurement set, developing countries will be in a more certain position, and perhaps better able to be assertive about ownership of the development process. Transparency should also have an impact on the donor. There will be pressure for any implicit political conditions to be made clear. If the MCA ruled out Vietnam

because it failed the Freedom House measures, then these should have been spelled out from the outset as threshold qualifications. If Vietnam failed because it is a one party state, then this also needs to be stated. Because it is public money, ODA is already one of the most transparent and internationally monitored financial flows. The advent of positive conditionality will see that transparency applied beyond the disbursement of aid to its motivation.

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