MAD-RUSH Undergraduate Research Conference

Proceedings of the Seventh Annual MadRush Conference: Best Papers, Spring 2016

Throwing (Sh)Aid: Optimizing Aid Conditionality for the Developing World

Timothy F. O'Shea
George Mason University

Tim O’Shea

12/8/15

Dr. Hoefer

HNRS 110

Throwing (Sh)Aid: Optimizing Aid Conditionality for the Developing World

Introduction

My research has focused on investigating the optimal strategy for using aid conditionality to improve political conditions in developing countries. This encompasses several fields of research. Aid conditionality is defined as the attachment of strings to aid packages so that recipient governments must pass certain policies or meet certain goals in order for the flow of aid to continue. The two typical uses for these are either political, mandating that countries implement elections or other increases in political freedom, or economic, forcing countries to shift their public sector spending or economic output towards results that donors deem as more desirable. The use of aid conditionality began in the 1980s and has generated two clear sides in opinion on its ethics and importance as a policy tool. Much of the aid community views it as a powerful tool to guide policy choices in countries with poor decision-making capacities, such as totalitarian dictatorships or nations rife with corruption. Threatening to remove aid if actions aren’t taken can theoretically provide the necessary incentive for countries to take actions they may not consider in their own best interest without outside intervention.

However, critics are quick to point out that the choice in policies that donors could chose for developing nations may not always be the best idea. Firstly, donors might pursue only their own best interests and incentivize policies that support their own economies. For example, they may push recipients to increase commodity exports, which may be a suboptimal strategy for long-term growth. Moreover, other experts see the continued power of donor nations, which are disproportionately from the global North, in policy discussions among the global South as an extension of antiquated colonial power structures where developing nations are subordinate and told what is best for them based on a Northern model of development that strips them of their flexibility and accountability as leaders.

The importance of this topic cannot be understated. Even small, percentile changes in the effectiveness of aid programs can alter the livelihoods of thousands of the world's most vulnerable. And if there are certain discernable causes of policy failure are detectable and correctable which could be corrected, there is no other excuse to allow ineffective methods to continue. To optimize aid is to optimize a chief tool in alleviating global poverty, making the research question a critical matter.

Baseline

Before discussing the factors determining success for conditionality, it is necessary to establish the holistic success rate for the policy. A review of the policies imposed onto 47 countries found that 20 made some sort of progress towards being designated as "free" on a scale of democratic freedoms and rights. However, only 8 countries managed to achieve the status of "free", reaching a score of 70 on a 90 point scale reported each year (Emmanuel 859). However, this analysis suffers from conflation of multiple time periods, which other analyses indicate hurts the data. A review of democratization data that separated out the Cold War and post-Cold War periods found that since the fall of the USSR, aid conditionality has become much more effective (Dunning 418). This is because Cold War aid had only a veil of democratization efforts, with a true purpose of achieving influence among possible satellite states. This caused the stated conditions to fall by the wayside, and thus render the policy defunct. Both analyses in this case use the same index for democratization effects, the Freedom House Index, so although the index is subjective, both claims are exposed to a parallel methodological risk that the index is skewed towards a single conclusion, therefore there's no clear bias. Ultimately, the claim on the transition of aid towards efficacy post Cold War is superior for several reasons. First, it subdivides the data to zero onto specific events rather than lumping together decades of data, offering more specific insight. Second, real world examples such as the interaction of Benin and France confirms that Western nations received more coercive power after the end of the Cold War. France made empty calls for reform to the political system of Benin in the 1980s, but never followed through on their threat of suspension because of the knowledge that the USSR would merely instill the same aid package in their absence, providing no impact on the regime but merely reducing French influence in its former colony (Dunning 420). Finally, the difference in effectiveness discovered for the post-Cold War era is so great that a statistical significance test unveils a p-value of .001, meaning that there is a .1 percent probability that the results are due to chance and not a statistical relationship (Dunning 418). Thus both the broad-based trends as well as the real world record illustrates that in the newer age of aid conditionality, the trend is a positive one.

The unique effect of aid conditionality policies compared to other aid strategies is that they occasionally result in full aid suspensions. This gives the donor a second chance to induce democratization, where the vacuum of revenue left by aid creates leverage for a donor to instill more policies post-suspension. Overall, 13 out of 29 of these aid suspensions provided some movement towards democratization, especially in Guatemala and Malawi (Crawford 80). The low success rate can be attributed to the diminished capacity of governments post aid-suspension, which will be discussed in the proportionality section below.

Component Analysis

Public Opinion

The first conversation surrounding the factors that contribute to the effectiveness of aid conditionality is the effect of public opinion on how the country changes with the introduction of conditions. This is because the imposition of conditions upon the government of another nation raises multiple legitimacy problems. First of all, economic conditionality may require the recipient government to remove popular policies, inspiring retaliation. This is because citizens may view the government as a crony of an international donor (Bienen 749), running the risk of internal conflict or instability. For example, the removal of food subsidies in the Dominican Republic sparked unrest as citizens became angered at the reduction in their discretionary income (Bienen 730). The government of the Philippines encountered similar objections to its legitimacy as a result of its perceived deference to Western powers when their agreement to a conditionality package triggered protests (Bienen 735). In these cases, both the theoretical and historical analyses line up to demonstrate a trend.

A solution would be so-called "flexible response" lending, in which governments are given multiple options which they could use to fulfill their conditions (Collier 1402). However, there still may be a certain degree of perceived control by donors, albeit minimized (Collier 1403). This is because an outside political force is still setting parameters and boundaries for the native policy-making institutions. It is merely comparatively less restrictive and manipulative since recipients can at least make their own final decisions on which policy they can pursue.

Another option would be an adjustment of conditions on a country-by-country basis rather than as blanket policies (Leandro 291). This could reasonably minimize animosity among the population because they'd see how the program was tailored into their own challenges as a state instead of one more country in a set of pawns for the West's hegemonic chess game.

Some sources also allege that democracy cannot be imposed externally on face, because the citizens of a country must become committed to democratic traditions and rules for policies to stay, or else future election cycles with vote-grabbing politicians will gradually advocate for the destruction of democratic policies if citizens aren't actively invested in making democracy work (Grosh 48). However, these claims are mainly theoretical, and haven't been substantiated in real world policies or outcomes. Moreover, the fact that there have been documented cases of successful external pushes for democracy implies that the problem is not a total incompatibility of entire cultures with democracy, but rather implementation-based issues with achieving that goal.

Unfortunately, the problem of the base of literature as a whole is that there is no broad analysis of the relationship between flexibility and effectiveness, relegating the debate to only a theoretical field. The exception to this problem is the example of Uganda, which saw minimal public retaliation from aid regimes when the policies achieved high economic growth rates (Djikstra 331). Another reason to individualize policies is that certain penalties will fail for certain countries. For example, conditionality using normal aid suspension as a penalty failed in Angola because high oil revenues kept government coffers filled (Borzel 552). Analyzing each recipient on a case-by-case basis thus provides the opportunity for tailoring each policy to maximize political outcomes.

This suggests that finding the goals that each country holds and using that as a base goal for conditionality may offer the best chance at appeasing the populace because it proves the policies are in their best interest. Thus, from the literature that does exist, both the logical and grounded reasoning seems to reside in the camp of individualized, flexible lending plans as a method of reducing public backlash for aid conditionality.

Donor Self-Interest

The control of donor self-interest is also a barrier for effectiveness. For example, the French aid regime with Cameroon was rendered innate because France wanted to retain influence with Cameroon even after the government repressed political freedoms, suggesting that hegemonic aims may restrict the success of aid policies (Emmanuel 873). The Biya regime in 1990 managed to delay instituting multiparty elections for two years because of substantial aid inflows from France even as they suppressed protests and manipulated election results (Emmanuel 868). As a result, the democratic system that emerged was illegitimate and unable to accurately channel the will of the Cameroonian people. This also occurred when economic self-interest held back enforcement of English conditions on Nigeria (Crawford 92). Even after a report by the U.S. Department of State outlined extensive repression of protests across the country in 1994, the U.K. authorized over 20 licenses for arms exports to the Nigerian military. This move was widely believed to be motivated by large British commercial interests in the country, including oil companies such as Shell operating in the Niger River delta (Crawford 92). Holistically, it seems that when countries are self-interested, they encounter conflicting sets of incentives that make threats of aid removal empty, thus ruining the coercive ability of aid (Dunning 411).

A possible solution would be outcome-based conditionality, which would move countries towards specific goals that would have to be published and therefore known to others. Countries would be unlikely to admit subversive motives and thus wouldn't be able to establish plans that lead to unfair outcomes for recipients. However, such outcome based methods may reward luck, or punish countries for events that were outside of their control (Collier 1406). The metrics for success would also be difficult, as inconsistent data sources or statistical outliers would muddle the decision making process on withdrawing aid (Brown 184). A possible strategy for using an outcome based approach would be to index the outcome to account for economic disadvantage and instability, creating reasonable goals for even extremely dysfunctional states (Collier 1407). Unfortunately, this is mainly theoretical, with only rough conceptions of what such an index would look like. Once again, this section of the debate seems doomed to remain theoretical at least until donors begin to diversify techniques enough for reasonable study. However, looking purely to the logic presented and the historical role of self-interest in blocking aid suspensions, it seems that there is reasonable evidence that outcome-based approaches constrain the ability of donors to assert subversive agendas.

With proper expectations and oversight to compensate for luck and unexpected circumstances, it seems that the literature agrees that donor self-interest is worth certain risks to constrain. Considering that the only scholarship rooted in the real world is the statistical result that donor self-interest can neuter aid policy and multiple examples of self-interest short-circuiting current paradigms and patterns of policy, it seems important to be open to alternative strategies.

Unconscious Bias

Unconscious biases may also corrupt the ability of states to design effective conditions. This is because conditions, especially those concerning human rights and political freedoms, are based on Western conceptions of freedom which may not pose enough motivation for countries in the Global South to legitimately pursue them (Uvin 383). Moreover, the development gap between donors and recipients can mean that donors ask recipients to prioritize certain goals over other ones that they do not understand as a result of their position: poor countries may want to focus on economic growth instead of freedom of the press, but be constrained in their policy goals as a result of Western conditionality (Uvin 380). However, this analysis makes generalizations of Western policy, doesn’t quantify or empirically prove the bold claim, and doesn’t offer an alternative to the model.

A possible solution could be an outcome or flexible response approach that gave maximum flexibility to recipient countries so as to let recipients seek the least biased option for them. However, these are purely theoretical and there is no guarantee that there’d be a dilution of biases across multiple options.

Adoption Speed

Another sector of debate is on the speed of adoption required by the conditions. Forced policy adoption at faster speeds is becoming more popular, as more nations attempt to grab for influence because of the increasing popularity of aid as a political tool (Grosh 60). For example, forced multiparty elections in Kenya ignited ethnic tensions as different groups began grabs for power that turned violent (Grosh 47). When donors announced an aid suspension to the country in 1991, a multiparty election followed within a month. However, the rapid attempts at partybuilding and vote-grabbing ignited ethnic tensions as groups attempted to self-organize. With little time to prepare, polarization set on quickly and it quickly spiraled into random bouts of violence, killing thousands (Grosh 49). Indeed, considering the unstable and unpredictable nature of the political climates in certain developing nations, slower proposed policy adoptions and aid withdrawals may maximize coercive ability without the destabilizing effects of large aid shocks (Bienen 746). The proportionality also comes into play, as certain aid regimes that withdraw all aid at the violation of a single condition, known as "short-leash lending", can trigger similar instability in unpredictable environments (Collier 1402).

Besides the separation of different political conditions into smaller, individually enforced conditions, the separation of economic and political conditionality also may minimize any disproportionate spillover harms from a single misstep, ensuring that a single mistake on anti-corruption or campaign finance efforts doesn't trigger negative aid shocks across multiple sectors of a recipient country (Grosh 61). However, while the destabilizing effects of short-leash lending is well documented in both statistical and historical literature, little evidence proves, beyond theory, that the subdivision of conditions and penalties could solve the problem.

Proportionality

Proportionality of penalties codified in aid conditions is also its own point of discussion. This is because of the pro-cyclical nature of aid, wherein aid can fuel a better political and economic environment which can make it easier for governments to fulfill conditions for aid agreements and create a positive feedback loop towards prosperity (Bulir 2050). However, this effect can also occur in reverse, where negative aid shocks trigger instabilities that make it harder to fulfill future conditions (Bulir 2050). Moreover, even the possibility of future aid flow volatility can cause a reduction in private investment over concerns of future instability, compounding the losses from a single penalty (Bulir 2049).

The result of this insight is that donors must strike a balance between keeping the threat of aid withdrawal high enough that recipients are effectively coerced into good governance, but not carry out such a severe punishment that it condemns the recipient to permanent economic malaise.

Donor Coordination

Another point of debate is about how donor coordination in goals and implementation of aid conditionality can change the effects of the policies. By conditioning more aid on the fulfillment of a single condition, multiple donors coordinating their aid regimes with similar policies seems to improve the chances of success (Emmanuel 865, Brown 189). More international pressure may also solve another problem of aid conditionality: the lack of full effort by recipient governments. Recipients often fulfill the conditions with only the bare minimum effort, reducing the efficacy of the policies as they commit low resources and effort towards them (Brown 184). Indeed, this reduced incentive for change resulted in reduced governmental reforms in Vietnam, Bangladesh, Nicaragua, Tanzania, Zambia, and Uganda (Djikstra 320).

By raising the stakes of non-compliance as well as signaling international condemnation for resistance, donor coordination can improve the effectiveness of the conditionality regime. This is why history has shown how a lack of donor coordination meant that when Cameroon and Guinea saw their aid suspended, they refused to change their policies since they had other donors whose conditions they were still following (Crawford 82). This approach could be augmented with an outcome-based approach if multiple donors use the same outcome indicators as their gauge for conditionality, combining the strengths of both methods (Leandro 291).

The main problem with this broad-based advocacy of donor coordination is that it accumulates multiple penalties onto single violations, increasing the proportionality of response and withdrawal and therefore increasing the risk that a country is crippled by a single violation. Thus, the interaction of the two factors is inherently contradictory, in that donor coordination decreases risk via a signal of solidarity but increases risk via an increase in magnitude of punishment. However, the advocacy of donor coordination seems methodologically sound because a statistical analysis found overall positive association of donor coordination as a strategy (Emmanuel 865), implying that the deterrent effect on conditionality violations is a net positive over any increased magnitude in punishment. Moreover, the examples of Cameroon and Guinea provide individual, causally exact examples of how donor coordination could have improved compliance with aid policies, meaning that both quantitative and qualitative real world evidence finds donor coordination as a net benefit.

Conclusion

The final image of the aid conditionality policy that best serves its goals is far more complex than the stock regime rolled out by donor states in the status quo. Firstly, policies drawn up for countries on a case-by-case basis to target their specific challenges are both theoretically and empirically sound in both achieving their goals and limiting popular backlash, as proven in Uganda. Flexible response lending is also a logical tool against the challenges of pubic opinion by helping to foster an image of donors as cooperative partners rather than tyrants. The latter prescription is more tentative, however, due to little real world testing of the method. Outcome-based policies are also a tentative recommendation because, while they are also only theoretical, they offer reasonable solutions to two serious problems. First, the subversion of aid programs by both the self-interests and unconscious biases of donors by forcing their goals into the light of international scrutiny. And secondly, offering recipient states maximum breadth in their attempts to meet the conditionality. Slower adoption speeds also logically maximize the outcome of the policy by reducing the possibility of large-scale instability triggers, given that slower changes in economic and political conditions would be less likely to spark large-scale instability. Next, another theoretical but reasonable recommendation is the compartmentalization of penalties, whereby violating certain clauses of the conditionality agreement triggers a suspension of some part of the aid package, but doesn’t pull out the entire policy, lest the massive aid shock trigger instability that causes even more domestic chaos down the road and erodes the possibility of long term progress. Finally, the prescription most supported by the literature in real-world evidence, through large statistical analyses as well as case studies, is that donors need to coordinate the conditions that they impose on recipient states both to signal international unity for political progress and to reduce the presence of conflicting incentives that allow countries to violate clauses without suffering for their misdeeds. The real world success of this policy suggests that the greater coercive ability outweighs any increase in proportionality from the coordination of penalties. Thus, the final prescription of the literature would be individualized, outcome-based, slowly adopted, compartmentalized, and coordinated conditions imposed by multiple countries.

Bibliography

Bienen, Henry and Mark Gersovitz. "Economic Stabilization, Conditionality, and Political Stability." *International Organization* 39.4 (1985): 729-754. JStor. Web.

Börzel, Tanja A, and Christine Hackenesch. "Small Carrots, Few Sticks: EU Good Governance Promotion in Sub-Saharan Africa." *Cambridge Review of International Affairs* 26.3 (2013): 536–555. *CrossRef*. Web.

Brown, Stephen. "Foreign Aid and Democracy Promotion: Lessons from Africa." *The European Journal of Development Research* 17.2 (2005): 179–198. *CrossRef*. Web.

Bulíř, Aleš, and A. Javier Hamann. "Volatility of Development Aid: From the Frying Pan into the Fire?" *World Development* 36.10 (2008): 2048–2066. *CrossRef*. Web.

Collier, PAUL et al. "Redesigning Conditionality." *INTERNATIONAL LIBRARY OF CRITICAL WRITINGS IN ECONOMICS* 208.1 (2007): 400. Print.

Crawford, Gordon. "Foreign Aid and Political Conditionality: Issues of Effectiveness and Consistency." *Democratization* 4.3 (1997): 69–108. *CrossRef*. Web.

Dijkstra, G. "The Effectiveness of Policy Conditionality: Eight Country Experiences." *Catalysing Development? A Debate on Aid* (2004): n. pag. *Google Scholar*. Web. 6 Nov. 2015.

Dunning, Thad. "Conditioning the Effects of Aid: Cold War Politics, Donor Credibility, and Democracy in Africa." *International Organization* 58.02 (2004): n. pag. *CrossRef*. Web. 2 Oct. 2015.

Emmanuel, Nikolas. "Undermining Cooperation: Donor-Patrons and the Failure of Political Conditionality." *Democratization* 17.5 (2010): 856–877. *CrossRef*. Web.

Grosh, Barbara, and Stephen Orvis. "Democracy, Confusion, or Chaos: Political Conditionality in Kenya." *Studies in Comparative International Development* 31.4 (1996): 46–65. Print.

Leandro, Jose E., Hartwig Schafer, and Gaspar Frontini. “Towards a More Effective Conditionality: An Operational Framework.” *World Development* 27.2 (1999): 285–300. Print.

Uvin, Peter, and Isabelle Biagiotti. “Global Governance and the‘ New’ Political Conditionality.” *Global Governance* (1996): 377–400. Print.