

AID AND POLITICAL REFORM

The linking of aid to political reform has assumed increasing importance with the trend towards democratisation in Eastern Europe and many parts of the developing world. The link seems strongest in sub-Saharan Africa where most donors share the view that democratisation is conducive to improved economic performance. Political conditionality relates aid provision to actions ranging from improved human rights performance to constitutional change. This Briefing Paper explores the precedents for attaching political conditions to aid, the nature of the 'new' conditionality, and problems of applying this type of conditionality in practice.

Introduction

Over the past two years, bilateral aid donors have given greater attention to the use of aid funds to promote political reform in developing countries. This has generated a new consensus on political conditions for aid allocation, which has found expression in a series of recent policy pronouncements. Foreign Secretary Douglas Hurd spelt out the British position in a speech in June 1990 (see Box 1). In the same month President Mitterrand, at the summit of African heads of state in La Baule, affirmed that France would be less generous with its aid towards 'regimes which conduct themselves in an authoritarian manner without accepting evolution towards democracy', and 'enthusiastic towards those who take the step with courage'. In February 1991 the head of the US Agency of International Development (AID) stated that it would 'direct an increasing amount of funds to those countries that are moving towards economic and political liberalisation'. In October 1991 Germany stated its criteria for supplying aid. These covered the state of democracy, the rule of law, moves to strengthen market forces in the economy and reductions in military spending. In December 1991 the OECD's Development Assistance Committee (DAC) High-level Meeting highlighted democratisation, the respect of human rights and 'good governance' as basic conditions for achieving sustainable development.

Precursors

Political conditions for aid are not new: strategic, diplomatic and ideological considerations have always influenced policies on aid allocation, and all governments use aid to further foreign policy objectives. For example, during the Cold War period a primary motive of US and other Western aid was to stem the rise of Communism and counter the influence of the Soviet Union in developing countries. Soviet and Chinese aid was similarly influenced by ideological and strategic perceptions of developing countries. Foreign policy concerns have also influenced US aid in the Middle East; Israel, for example, became the largest recipient of US bilateral aid after the 1973 Arab-Israeli war.

Bilateral aid allocations also reflect other donor politics. Sweden and Norway have favoured governments which

espoused a commitment to social values and high welfare spending. France has traditionally concentrated its aid programme on Francophone countries in sub-Saharan Africa where it has strong foreign policy interests, while Britain has done so in the Commonwealth.

Although political criteria have always figured in aid policy decisions of bilateral donors, especially those governing country allocations, these did not usually amount to *explicit* conditions that individual countries were obliged to meet in order to qualify for aid. An exception in this regard is human rights performance where several donors have incorporated explicit criteria into their development assistance programmes. For example, the US foreign assistance act specifies that no assistance will be provided to countries found guilty of 'a consistent pattern of gross violations of internationally recognised human rights ... unless such assistance will directly

Box 1: The UK Position

The British government first set out its policy stance on political conditionality in a speech by Douglas Hurd in June 1990, where he affirmed his belief that 'good government' goes hand in hand with successful economic development: 'Economic success depends to a very large extent on effective and honest government, political pluralism, and I would add, observance of the rule of law, freer and more open economies.' The criteria for applying aid conditionality were outlined as follows: 'Countries which tend towards pluralism, public accountability, respect for the rule of the law, human rights, market principles, should be encouraged. Governments which persist with repressive policies, corrupt management, wasteful and discredited economic systems should not expect us to support their folly with scarce aid resources which could be used better elsewhere'. This theme was taken subsequently taken up by Mrs Lynda Chalker, the Minister for Overseas Development. In June 1991, she listed four components of good government:

- sound economic and social policies, free markets and an enhanced role for the private sector, the provision of essential services and curbs on military expenditure
- competence of government: the need for training to improve administrative capacity
- pluralistic political systems that are open and accountable, to reduce political interference and corruption, and a free press
- respect for human rights and the rule of law

Mrs Chalker stressed that Britain was interested in helping to promote good government through positive measures to strengthen legal and financial institutions, rather than cutting off aid as a punitive gesture. She announced a £30 million programme of assistance to encourage good government in two areas; public administration, public expenditure management and the legal sector on the one hand, and processes and institutions designed to promote democratic and pluralistic structures, a free press and human rights on the other.

benefit the needy people in that country'. The US approach is essentially punitive, but the AID provides support for encouraging the development and application of human rights in countries receiving development assistance. The US has not employed human rights criteria consistently, however, especially when they conflict with strategic interests. In the early 1980s for example, El Salvador became the third largest recipient of US aid despite extensive documentation of human rights abuses.

The 'new' conditionality

The explicit linking of aid to political reform was introduced into Europe with the end of the Cold War, where countries committed to economic and political reform were offered favourable treatment from Western donors. The mandate of the European Bank for Reconstruction and Development extends to countries in Central and Eastern Europe which are committed to the principles of multi-party democracy, pluralism and market economics.¹

Eastern Europe apart, what is new about recent political conditions attached to development aid? The main difference, at least in the rhetoric, is that explicit conditions have been attached not only to economic policies and human rights performance, but also to the way that political systems are structured. The new conditionality extends to accountability, openness, transparency in decision-making, and in some cases, the rules governing political competition and representation. This is summed up by the term 'good governance'.

This current donor interest in questions of governance and democracy, especially in sub-Saharan Africa, derives from several concerns. First, there have been the difficulties encountered by the World Bank, the IMF and bilateral donors in sustaining the momentum of structural adjustment programmes. The process of economic adjustment has been protracted and internal political factors are increasingly seen as major obstacles to economic progress. The motivation for political and institutional reform stems from a desire to improve aid effectiveness, by preventing waste and corruption and strengthening the overall policy environment. Second, donor interest in political factors is a response to internal movements for political change in Africa, where the momentum for democratic reform has been gathering pace since the late 1980s. Third, with the decline of Cold War rivalries, Western governments feel they can promote democracy and pluralism as desirable objectives in their own right without fear of seeking to promote 'Western' values.

Finally, the linking of assistance to political reform in the Eastern bloc has required consistency in policy towards the developing countries. In both Eastern Europe and sub-Saharan Africa governments have often been centralised, unaccountable and weak in the area of economic management, although in the former political reform preceded aid, whereas in the latter, political reform is increasingly treated as a condition for aid. Among developing countries, the linking of aid to political reform is especially, but not exclusively, pertinent in Africa, where authoritarian or single party regimes have tended to dominate, economic development is least advanced, and where the potential for aid leverage is greatest. Much of Latin America has already experienced a transition to democracy, and Asian countries are in a position to resist political conditionality more robustly.

The mechanisms used by bilateral donors to promote political reform fall into three categories: a reduction or a

termination of aid funds (or threats towards this), an increase in aid to reward political reform, and specialised forms of assistance. The last covers on-going support for institutional reform and the funding of new activities, which include the training of lawyers, legislators, journalists and trade unionists; direct grants for non-governmental organisations and professional associations; strengthening the media; technical assistance for administrative reform and renovation of the public sector; support for local government and decentralisation; and improving the policy-making capacities of both government and independent public policy research institutes.

Political conditionality in practice

It is too early to assess what has been the impact of political conditionality, since donors are still in the process of applying new policies. There are some examples of punitive actions where aid has been suspended or curtailed, usually on the grounds of persistent abuse of human rights. The British government has cut off aid to the Sudan, Somalia and Burma for such reasons. Belgium, and later, France, suspended aid to Zaire following consistent human rights abuses and in exasperation at the reluctance of President Mobutu to share power. This has given succour to the opposition but has not as yet led to wide-ranging political reform. The US government suspended aid to Haiti following a coup that deposed the democratically elected government of Jean-Bertrand Aristide in October 1991, although this did not immediately succeed in forcing the military regime to stand down.

There is evidence to support the view that political conditionality can influence domestic politics, especially when there are already internal pressures for reform and where additional external pressures could help to tip the balance. Donor pressure helped induce President Kaunda in Zambia to seek legitimacy through multi-party elections. He handed over power to the opposition following defeat in the polls. Moreover, the fact that political conditionality is now being actively discussed by donors has encouraged several African governments to opt for political reform, even if explicit conditions have not been attached to their aid.

The French government now refrains from intervening militarily to prop up unpopular regimes, although it continues to use its troops to protect French nationals, as in Gabon and Zaire. Partly as a result of French pressure, a number of Francophone African countries (among them Benin, Togo, Niger) have held national conferences to draw up new constitutions, and in some cases have altered both their leadership and their system of government.

Kenya offers a particularly instructive example of how political conditionality has been applied by donors in practice. In July 1990 the four Scandinavian countries warned Kenya that \$80 million of aid would be jeopardised if the country continued to ignore domestic calls for greater democracy. Denmark subsequently withheld a quarter of its aid, not on human rights grounds, but because endemic corruption has made the functioning of an aid programme in the country impossible. Norway suspended new aid commitments and diplomatic relations were broken following Norwegian criticism of the Kenyan government's treatment of a political refugee. The US government has also adopted a tough stance over Kenya's human rights record. At the instigation of Senator Edward Kennedy, foreign aid appropriations in 1990 for Kenya were tied to its human rights performance, although the administration subsequently granted \$5 million in military assistance, ostensibly to acknowledge that marginal improvements had taken place, but more probably to reward

1. *The European Bank for Reconstruction and Development*, ODI Briefing Paper, September 1990

support during the war with Iraq. Following the subsequent detention of a prominent lawyer and journalist, the American ambassador adopted a much tougher line, calling for 'a more responsive, responsible and more participatory government' as a condition for continued assistance. He also gave overt support to the opposition grouping, Forum for the Restoration of Democracy (FORD).

In contrast, the British government seemed less inclined than the US to force the pace over Kenya. Britain was looking for signs of a trend towards better government whereas the US identified specific human rights criteria including the release of political prisoners, the end of physical maltreatment of prisoners, restoration of judicial independence and freedom of expression as conditions for continued aid. But the meeting of aid donors in the Kenya Consultative Group in Paris at the end of November 1991 resolved to withhold further assistance to Kenya for six months pending progress in social and economic reforms, signalling an unprecedented level of agreement among donors.

In early December, President Moi announced his willingness to institute a multi-party system with free and competitive elections in 1992. This indicates that the reforms were triggered or at least accelerated by donor pressure.

The case for political conditionality

Political conditionality is not a new phenomenon, since it includes established concerns with financial accountability, civil service reform and human rights. But the concern with rules and institutions affecting regime legitimacy and accountability is novel. Multilateral financial institutions do not, in general, have a political mandate. They can concern themselves with increased scope for consultation, access to information and public accounts, transparency in decision-making and predictability of the law, because these are deemed to be relevant for improved economic management. Broader political issues such as the party system and freedoms of association and expression are left to the bilateral donors.

Bilateral donors now operate on the twin assumptions that democracy is desirable in itself and that democracy can help to bring about economic success. The first may seem unexceptional, although not all donors believe that aid should be appropriated as a lever for this purpose. There is far less certainty about the assertion that democracy enhances economic performance. While most donors believe that these are compatible, documented evidence on the linkages is not so clearcut or categorical (Box 2).

The case for the linking of aid to political reform stems from the proposition that political conditions are justified as an extension of economic policy conditionality if they improve the likely effectiveness of aid. A second argument in favour of political conditionality is that internal demands for democratic change are worthy of external support and encouragement. International pressure is increasingly seen as justified where an authoritarian regime is unresponsive to demands from within for political reform. The assumption is that the threat of a reduction or termination of aid will encourage such governments to take political initiatives which comply with domestic and donor demands.

The case against

Sceptics rest their case on three counter-arguments. First, the evidence on *economic* conditionality suggests that it has not been very effective in persuading governments to introduce reforms they do not favour, or when it undermines their political support. Nor is there certainty among donors that

Box 2: Democracy and Development

Democratic regimes are usually thought to be more effective than authoritarian regimes at economic management and to achieve better economic and social outcomes. They are also assumed to be responsive to a wider range of interests in formulating and implementing policies. The rule of law, transparency in decision-making and a respect for civil and political liberties - usually characteristics of democratic societies - are thought to create a predictable, less costly and more stimulating environment for enterprise and trade. Against this, policy processes in democratic countries are sometimes seen as vulnerable to capture by powerful interest groups and to popular pressures for unsustainable state expenditure. Democratic regimes are also thought to be less decisive in making difficult policy decisions, especially in times of crisis.

The superiority of policies which rely more on markets than the state-administered allocation of resources for wealth creation is now widely accepted although governments continue to play an important role in economic policy management. However, the relationship between market-oriented policies and political regime type is less clear. Western history suggests that political democracy has been unsustainable unless coupled with markets over the longer term. Thus markets appear a condition for democracy because they provide the basis for stronger independent centres of power to counter that of the state.

However, experience in developing countries suggests that authoritarian rule is likely to generate higher domestic savings as a basis for higher levels of growth whether by 'forcing' public savings or by promoting inegalitarian policies which indirectly assist higher savings rates. Furthermore, democratic regimes appear to be no more successful than authoritarian ones in achieving economic growth or a lower degree of income inequality. Political instability (in the sense of frequent changes in a regime via military intervention or endemic civil war) in developing countries has been systematically correlated with lower economic growth and lower investment, but it is less clear that such instability is associated with any particular type of political regime.

Adjustment experience among developing countries in the 1980s suggests that democratic regimes have been no worse than authoritarian ones in initiating and sustaining difficult strategic and policy decisions affecting the economy. However, the former have faced greater problems in stabilising very high inflation, especially in polarised social and political environments as, for example, in much of Latin America. Whether democratic or authoritarian, elected or not, weak political rulers unable to command support from divided parties, coalitions, legislatures or key support groups cannot initiate broad economic reform programmes.

Authoritarian regimes are effective at imposing short-term stabilisation measures if they are 'strong' in the sense of having wide support or facing splintered opposition, but they are not necessarily effective at sustaining reforms. Whether a country has an established democracy, a transitional regime or an authoritarian government explains little about the timing and scope of adjustment decisions. Established democracies with a legitimacy stemming from a tradition of consultation can, however, initiate economic reform. While there are some encouraging signs, developing country experience in the 1980s does not give a firm assurance that greater democracy will result in better economic management, effective adjustment policies or faster economic growth. Ultimately, democracy's case may stand better on its own.

external pressure will assist or hinder internal pressures for democratic reform. Past efforts at using diplomatic and aid

pressure to promote political reform have not proved very effective in inducing political change and most reforms have been in response to domestic pressures.

A second criticism is that the relationship between greater political accountability and improved economic management is not direct or well-founded. There is a tendency for donors to assume that economic and political liberalisation are mutually reinforcing, but past evidence for this is weak (Box 2).

A third concerns the infringement of national sovereignty. Many developing country governments have been uneasy at the prospect of political conditionality; some have been actively hostile. In Africa, official objections to political conditionality are twofold. The nationalist objection is that this form of conditionality is unwarranted interference in the internal affairs of sovereign states many of which were ruled from outside only some twenty-five or thirty years ago. For instance, the OAU Heads of State in July 1990 expressed concern at the 'increasing tendency to impose conditionalities of a political nature for assistance to Africa', at the same time upholding a commitment to democratisation, taking into account country realities. (Similar reservations were expressed by the governments of India, Malaysia and Zimbabwe at the Commonwealth Summit in Harare in October 1991. In December 1991 China and India - hardly strong traditional allies - combined in rejecting human rights performance as a condition for development aid.) A second objection is that multi-party democracy is potentially destabilising since it can give rise to ethnic and sectarian tensions. The experience of the Sudan and Nigeria under parliamentary democracy is often cited as evidence of the difficulty of multi-party politics in promoting development and the single party state is defended on the grounds of national unity and ethnic harmony. (However, Nigeria is currently making a fresh attempt to construct a two-party system.)

Despite these objections, internal opposition movements often perceive political conditionality to be a welcome source of pressure on incumbent authoritarian regimes. Creditors who might have been shoring up an increasingly disreputable political establishment for years might suddenly find themselves in favour with the opposition and with the power virtually to topple governments.

Practical difficulties

Although political conditionality is now widely accepted by donors in principle, there is less certainty that it will work in practice. Specifying political conditions and ensuring compliance is more difficult than for economic and financial conditions. There is as yet little agreement among donors on the standards for good government or on appropriate indicators of democratisation. Political development has many strands, so little will be achieved in making one element of this subject to conditionality if it requires progress on many fronts.

There may be a general consensus on what constitutes an open and free society, where political leadership can be voted out of office through competitive and fair elections held at regular intervals and where government is responsive to the needs of its citizens. The problem for donors is to assess meaningful changes in this direction which are worthy of external recognition and encouragement. It is even more difficult for donors to specify the types of political changes that they would like to see in advance and to assign weights to indicators as varied as fair and competitive elections, judicial independence and an effective legislative apparatus in order to evaluate regime performance. The monitoring of such indicators is likely to stretch the capacity of donor missions,

should they resort to specialist staff to perform this function.

Donors have differing views as to whether absolute measures of positive freedoms (of expression, association etc.) should be used in preference to more dynamic indicators which gauge improvements. There is also disagreement on the best means to achieve policy objectives: should it be through diplomatic channels or would political conditions attached to aid allocation be more effective? The latter approach may cause resentment and uncertainty among aid recipients who are having to deal with a number of donors, each of whom stresses different conditions, making compliance difficult to achieve. A lack of consensus among donors over the appropriate conditions to apply may allow recipient governments to play donors off against one another, by complying with the least onerous conditions in order to resist pressures for more fundamental political changes.

Political and economic development objectives may conflict. Donor rhetoric suggests that political liberalisation is consistent with, and may reinforce, economic and social development. However, efforts to promote participation and democratisation may also impede economic reform by generating unsustainable demands from newly mobilised interest groups.² The 'revolution of rising expectations' can be a political as well as an economic constraint. Donors may have to be content with the balance between equity and growth that emerges from more politically accountable governments even if growth is not maximised.

Conclusions

There are two competing views on the possible longer term effects on aid levels of political conditionality. The more cynical view is that donors wish to cut or reorient their aid programmes to favour pro-Western governments, perhaps to provide a justification for aid diversion to Eastern Europe. In the process, the poor in African countries who are ruled by dictators who ignore Western pressure will lose out. In contrast, the optimists believe that political conditionality, if applied judiciously, will improve the prospects for economic progress by promoting democratic reform. The corollary is that political reform in compliance with aid conditions should unleash additional development assistance. Those Caribbean and Asian countries which have long maintained a record of multi-party democracy and the Latin American countries which have recently returned from dictatorship have not generally enjoyed additional aid, as opposed to foreign investment and credit. African countries which are undergoing a transition to multi-party democracy are effectively being promised more aid. But it is not yet clear whether additional aid funds are available and will be forthcoming to assist with the process of economic adjustment which, in turn, will be a critical determinant of the sustainability of political reform.

2. See J. Healey and M. Robinson, *Democracy, Governance and Economic Policy: Sub-Saharan Africa in Comparative Perspective*, ODI Development Policy Studies, 1992.

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ISSN 0140-8682

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