"The Ownership-Conditionality Paradox
The drivers of conditionality: constraints on the donor side"

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Ownership means different things to different people. This briefing will try to raise questions to help clarifying the concept and point out possible ways in how ownership could be made operational **to ensure greater effectiveness in achieving the expected results while meeting the main concerns of all stakeholders.** This briefing is also intended to assist framing the discussion on, out of the wide array of drivers of conditionality, what are the legitimate donors concerns when delivering development finance. Legitimacy is not only crucial in defining an **ethically and politically acceptable framework of standards and obligations** for both donors and recipients, but it is also of utmost importance to define the most appropriate tools to meet these concerns effectively. In face of the historical failure of conditionality, ownership has become the current answer to questions of legitimacy and effectiveness of conditionality.

1. Drivers of conditionality

Donors have traditionally attached conditions to their development finance (grants and loans) for a number of reasons ranging from increasing the probability of prompt repayment (in the case of loans); ensuring that the funds do not support policies inconsistent with the values of the creditors; inducement to policy reform; restraint in the event of a changing political environment; or simply paternalism. These reasons – by no means exhaustive – have given place to a number of criticisms pointing at the undesirability and ineffectiveness of conditionality in attaining the expected results, as well as the donors' real motivations.

Undoubtedly **there need to be mechanisms in place so aid resources do not go astray and they are effectively spent for poverty reduction** – the ultimate goal of development aid. To this effect, donors are not the only ones concerned. But also governments, civil society and, mostly, citizens living in poverty whose lives are most affected by the success or failure of development aid. However, beyond these concerns, donors have sometimes put conditions to protect their national commercial or political interest and have often exhibited the "overprotective parent" syndrome: "do what I say, I know better than you." Donors now realize that some of the above conditions are nor effective

neither ethically and politically acceptable. They say they have changed their practice and espouse principles of country ownership, partnership and mutual accountability.

2. Why donors should change their approach to conditionality if they are serious about ownership

Much has been said about the ineffectiveness of conditionality to buy policy change. To be successful and sustained, policy change needs to be home-grown and nationally led. This requires opening-up policy space and strengthening country leadership. However, there are **limits to what ownership can contribute if traditional approaches to conditionality persist.**

Ownership has often been understood by development agencies as government adherence to a set of policies and reforms which are not necessarily home-grown but rather imported. Such understanding of ownership reproduces the power imbalances in donor-recipient relationships and misses the crucial dimension of national political economy, which led to failure of conditionality in the past. In brief, donors have tried once again to "buy" ownership rather than opening-up space for national leadership in donor-recipient relations. Government support for imported policies is not enough: for policy change to be successful, sustained and legitimate it should emanate from national dialogue and respond to the needs and aspirations of national stakeholders[1].

Beyond an appropriate definition of ownership, a meaningful implementation will need to address the structural power imbalances enshrined in the donor-recipient relations. Breaking the vicious circle of upwards accountability (to donors) and consolidating accountability to citizens requires a dramatic increase of policy space at country level. For this to happen, donors (and recipients) should change their perceptions of the foundations of the current aid architecture. Development finance should not be seen as a "gift" of the rich – as beggars cannot be choosers. Rather, development finance should be regarded as a wealth redistribution mechanism to correct widely acknowledged market failures (i.e. wealth originated in the South often ends up in Northern pockets and financial flows from South to North outweigh the total amount of resources channelled through development aid)[2].

3. How to put governments in the driver's seat – and yet feel safe

Conditionality has proved to be ineffective when imposed from the outside. Therefore, implementation of conditionality in times of ownership should preclude mingling in

[1] ActionAid's definition of ownership in "What Progress? A shadow review of World Bank Conditionality": country ownership should mean that policies are home-grown, developed by countries themselves, with strong participatory systems by, and accountability to, citizens.

[2] Such acknowledgement should not prevent decision-makers from trying to correct these failures at origin. Compensatory arrangement such as development finance should also come in addition to resolute measures to avoid the abovementioned reverse flows.

national policy decisions. In order to address everyone's concerns (including donors, governments and national constituencies and citizens), conditionality should be only applied in cases where none of key stakeholders could reasonably object to. This would respond to the problem of illegitimacy. The problem of efficiency should be addressed by a second "conditionality test": agreed standards and obligations should aim at increasing national leadership and policy space (understood in the terms stated above) and should aim at maximizing results.

Mutual accountability has the potential of framing donor-recipient relationships in ways that could yield much better results. It is aimed at improving predictability of development finance, leadership of partner governments and transparency of development aid.

Practically, **what could be the legitimate obligations which provide a reasonable guarantee that funds will be well-spent and which are effective in achieving this goal?**[3]

- Due-process obligations, such as compliance with national democratic mechanisms for public consent; transparency – i.e. budget transparency – and disclosure of information; and accountability.
- Respect for internationally recognized standards, such as protection for human rights and the environment.
- Promotion of internationally agreed development goals, such as the Millennium Development Goals.

These mutual obligations should constitute a reasonable safety belt for donors (but also for civil society and citizens in developing countries). Beyond these areas, any condition which is not mutually agreed or highly "encouraged" by donors, or which clearly steps into substantive areas of policy-making should not be included in a financing agreement as it risks making more harm than good.

This would obviously imply a higher perceived risk on the donor side, as donors would lose control over a wide range of policy areas where they had played active roles. Opening up such policy space is the only possible way to trigger a positive circle of building capacities and responsibilities of national actors. Increased mutual accountability has already proved to result in several positive impacts: government/donor relationships tend to be more open and based in trust; donor behaviour improves (i.e. it is more responsive to local needs); and government gradually increases true ownership of the reform agenda.

[3] Some of these arguments are further developed in the Eurodad Paper by Celine Tan "Responsible financing or unwarranted obligations?" 2006.

Beyond conditionality reform, donors willing to start implementing this new approach could refocus their role to:

a) support capacity building for aid management and citizens' oversight;

b) support the generation and dissemination of information on aid and donor behaviour;

c) support research and debate on ex-ante and ex-post impact assessments and on alternative policy scenarios (always using and building on local knowledge);

d) support enhanced monitoring and evaluation (including statistical capacity) which are crucial to assess results; strengthened citizen's oversight and government accountability.

Main questions for discussion:

- What are the political burdens that prevent donors to shift from a dominant role to a partnership position vis-à-vis recipient countries?
- Are there any key concerns that would be left uncovered by the set of standards and obligations listed in section 3?
- What is the value-added of keeping old-fashioned policy conditionality in the light of its extremely low rates of return?
- Is there a sense of agreement that donor-recipient relations should move towards a framework of standards and obligations along the lines of the ones listed above?