



european network on debt & development

Outcome-based conditionality: Too good to be true?

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Executive summary

Citizen groups demanding more and better aid have increased public debate about development funds. Citizens in the North and the South want to know whether public money is paying for development and whether it is lifting people out of poverty. In response to these demands, governments at the Rome and Paris aid conferences¹ agreed to adopt a results agenda. Since then, ownership and mutual accountability have become the new development mantras. However, the continued use of old-fashioned conditionality on development finance operations undermines the implementation of these principles.

The failures of traditional policy-based conditionality have been recognised, leading to several proposals for new approaches which strengthen ownership and development effectiveness.² One promising approach suggests linking disbursement to achieved or pledged development results encompasses, in principle, the potential to increase government ownership and link development programs to their impact on poverty reduction. It would also help measure the effectiveness of aid in delivering the internationally agreed Millennium Development Goals.

The first part of this report analyses new approaches to contractual relations in development aid as explored and used by the World Bank, the IMF and the European Commission. The second part assesses the experience by the European Commission, the only multilateral which has implemented outcome-based conditionality. The report features analysis and opinions on the pilot operations in three African countries: Burkina Faso, Mozambique, and Tanzania.

Part I: Outcome-based conditionality: differing policies

Outcome-based conditionality means different things to different multilateral agencies. Some understandings and uses of this new approach do not take up the full potential of shifting the focus from policy actions to poverty reduction as they define “outcomes” as the results of certain economic or structural reforms rather than poverty reduction indicators. Nor do they take up the potential of opening up greater policy space for governments, as they keep on instructing recipient governments what policy actions they should implement to achieve a given set of outcomes. This is the approach taken by the World Bank and the IMF.

While increasingly including poverty reduction outcomes in policy matrices of program documents and other papers, the World Bank uses outcomes only to measure progress, but not as the yardstick against which money is disbursed. The IMF typically continues to include structural conditions - which are policy actions - rather than outcome indicators.

The European Commission is more explicit than the Bank and the Fund in establishing a straightforward link between their new approach to conditionality and poverty reduction.

Therefore, the landscape in the use of outcome-based conditionality is fragmented. The Bank struggles between enhancing its results-based approach, while keeping away from linking disbursement to outcomes. The Fund turns a blind eye to poverty reduction and claims it implements outcome-based conditionality looking mostly at macroeconomic outcomes. The EC should be given credit for having gone further linking disbursement to poverty reduction and opening up policy space for governments. However, operational challenges remain, and the EC has only changed its conditionality approach on a small part of its financial operations.

Part II: Outcome-based conditionality: differing practices

There is widespread agreement that this modality of conditionality by the European Commission has:

- **promoted a results-based approach** and helped develop indicators to measure poverty reduction;
- been a catalyst to increase governments’ focus on poverty reduction;
- managed to **streamline the number of conditions**; and
- contributed to **improve policy dialogue** between donor and recipient governments.

While acknowledging that the EC approach has fostered a greater focus on results, the introduction of outcome-based conditionality is not sufficient to create incentives for poverty reduction. Moreover, it is unclear whether a greater focus on poverty reduction has translated into actual results.

Likewise, progress in opening-up policy space gained by the introduction of outcome-based conditionality may have been offset by the fact that the overall conditionality burden borne by a country may have increased as a result of donors

aggregating their conditions into common conditionality frameworks. This seriously limits the potential of outcome-based conditionality to open-up policy space.

Assessment and operational challenges: too early to tell or too hard to tell?

A number of factors have limited the impact of outcome-based conditionality in practice. Among them:

- the **amount of funds backing this new modality of conditionality**, which have been insufficient to create the desired incentives;
- the insufficient availability and disclosure of **data** has prevented scrutiny by citizens;
- the nature of **indicators** and targets used, and the process for choosing these indicators;
- the ways in which **disbursement decisions** are taken;
- the limited **engagement of civil society**.

Funds disbursed by the EC against poverty indicators are only a share of its budget support and usually comprise less than 3% of the total budget support in the countries assessed.

Available data is limited and not always the best suited to properly monitor poverty reduction. Besides serving donors' and governments' purposes, data should be **a tool in the hands of civil society and citizens at large to be able to monitor the results of their governments' actions and hold them accountable for their promises**. Evidence from the three countries assessed shows that the ways in which data has been collected and disclosed have hardly contributed to downwards accountability.

The indicator challenges are multiple, ranging from the ways in which they are chosen, or how these indicators are annualised and evaluated. "The problem is that the choice of indicators is not always led by the government, but by the donor, and the focus on a very concrete outcome may miss the broader picture", a Sierra Leonean official said. In addition, some indicators are sometimes biased towards quantitative rather than qualitative monitoring of progress achieved in these sectors.

Civil society organisations are generally unaware of the European Commission's shift to outcome-based conditionality. In addition, technical complexities related to the system that the EC uses to implement this approach increases the difficulties for civil society to monitor this system.

Political challenges

When it comes to the **increasing policy space** available for governments, the context of the joint donor groups may have neutralised any improvements potentially brought by outcome-based conditionality. But this is not the only reason. There are deeper political challenges. Long-standing structural imbalances between donors and governments may have also burdened the expectations to open-up policy space. However, the incentive framework used by outcome-based conditionality differs substantially from the one used by policy-based conditionality. Outcome indicators are drawn from development objectives which have been internationally agreed, for example within the framework of the Millennium Development Goals. Thus, rather than a new imposition outcome-based conditionality aims to be a contractual agreement based on a "minimum of internationally agreed social and human rights standards".

Conclusions

The limited experience to date in the countries assessed makes it hard to conclude whether outcome-based conditionality has created incentives for poverty reduction or had an additional impact on poverty reduction. Yet the majority of outcome targets chosen by the Commission and the governments have been reached. However the indicators chosen are only in the education and health sectors and overall poverty reduction in these countries has not been sufficient.

Outcome-based conditionality has contributed to strengthen the focus on poverty reduction and may have also improved the quality of policy dialogue between donors and recipients.

To break the cycle of dependency in development aid and increase country leadership in deciding policies to reduce and eventually eradicate poverty, further innovations in aid delivery are required. It is early to provide a definitive answer on whether outcome-based conditionality can play that role. Outcome-based conditionality based on internationally agreed

development goals has the potential of giving developing countries more space to decide which policy reforms they wish to undertake and puts poverty reduction in the spotlight. It could also contribute to streamline the conditionality burden and move towards a framework in which the contractual terms of the aid agreements are more balanced between donors and recipients.

However, to reach its full potential some challenges need to be addressed. Outcome-based conditionality faces some contextual constraints, such as its implementation in the context of the joint budget support groups. Until donors have not managed to harmonise their approaches to conditionality. Some other problems are clearly intrinsic to this approach and should be addressed if the expectations for this approach are to become a reality.

Recommendations

1. The **process of choosing outcome indicators should be much more inclusive and led by the recipient government**. Civil society should be involved in all the stages of the policy dialogue.
2. The European Commission should use its leverage as a growing budget support donor to streamline conditionality in the joint Performance Assessment Frameworks (PAFs) and to shift the leadership in the process of designing the PAFs from donors to governments.
3. Governments should have the space to pick outcome indicators within the sector of their choice (which would open-up the choice to a wider range of indicators and avoid resorting systematically to health and education only).
4. Outcome-based conditionality **should** move beyond a purely quantitative monitoring **and also try to incorporate qualitative aspects** of poverty reduction.
5. **Data** should be collected and displayed in ways which **strengthen downwards accountability**, instead of serving only governments' and donors' monitoring and evaluation purposes.
6. A **less mechanistic link between targets and disbursement** should be introduced to relax the burdens Southern countries face when trying to implement and monitor this approach.
7. Collect data on an annual basis but only make disbursement decisions every 3 years.
8. For this new modality of conditionality to realise its potential policy-based conditionality or donor government intrusiveness in recipient government policy making must be phased out.

More discussion on this approach with governments, parliamentarians and civil society in the recipient countries is needed. Greater awareness on the functioning and implications of this approach, as well as on its risks and opportunities will help achieve positive results. If these recommendations are implemented rapidly the outcome-based conditionality approach may help lighten the conditionality burden, and represent a strategic step towards giving Southern governments the authority and responsibility to make their own choices about development.

Introduction

It was just a matter of time. Companies obsessively publish results; employees earn their yearly bonuses according to results achieved; and, as in any other business, official development agencies in 2005 decided to go serious about results. But in this business, focussing on results is even more urgent than anywhere else: failure to deliver equates to 16,000 children dead from hunger-related causes every day; 315 HIV/AIDS related deaths a day; or 600 million women illiterate.

After decades of development aid, half of the world population still lives under the poverty line. Pressure of civil society in the North and the South led in the year 2000 to an unprecedented international agreement which set up concrete goals and targets for poverty reduction in 2015. Known as the Millennium Development Goals (MDGs), this agreement has provided concrete yardsticks against which governments can be held to account in their efforts to deliver poverty reduction. Half way to 2015 persisting widespread poverty show that the world is failing to live up to its commitments. More and better aid is needed if the MDGs are to be met by 2015.

Citizen groups demanding more and better aid have increased public debate about and scrutiny of development funds. Citizens in the North and the South want to know whether public money is paying for development and whether it is actually lifting people out of poverty. In response to these demands, the Rome and Paris aid conferences³ put the results agenda in most donors' sights. Most donors who committed to the Rome and Paris targets, among them the World Bank and the International Monetary Fund, have included the results approach in their assessment frameworks in order to measure progress of a given programme towards the stated goals. In 2005, the World Bank acknowledged that "in the past, policy-based lending ... mistakenly focused almost exclusively on compliance with policy actions ... without giving much attention to their intended outcomes or their contributions to achievement of country's long term development goals."⁴

In the past decades, it was a common wisdom among donors to assume that conditions attached to development lending – prompting structural changes in the recipient country's economic system – would ensure the effectiveness of aid spending to lift these countries out of poverty. To a great extent driven by the Washington-based International Financial Institutions (IFIs), this development paradigm was embodied in the economic policy formula known as the "Washington Consensus".

More than two decades later, the persistence of extreme poverty in many areas of the world cries out for a new development model which does not impose a particular economic paradigm but rather gives space for developing countries to decide their own way to development. Ownership and mutual accountability have become the new development mantra. These principles are embodied on the Paris Declaration on aid effectiveness signed by over one hundred donors and developing countries. However, the continued use of old-fashioned conditionality in development lending poses serious challenges to the implementation of these principles. How far donors want to go in shifting to a development paradigm which is based on equitable relationships between donors and recipients is to a great extent determined on the donors' willingness to give up their use of old-fashioned conditionality. But are donors serious about letting go of the reins?

The end of economic policy conditionality?

The World Bank states that their "approach to conditionality in policy-based lending has changed over time. As applied today, the approach is consistent with a view that conditionality is neither coercion nor inducement – the Bank now strives to define its assistance strategy in alignment with the country's own development strategy and to design its programs in support of a country's efforts to implement its own development strategies and achieve its development objectives."⁵

Yet the Bank and Fund still attach economic policy conditionality in their grants and loans to each and every corner of the South⁶. Undoubtedly change has happened, but according to critics not enough. After a reasonably productive critical exchange in the 1990s between conditionality advocates and detractors which led to changes in the conditionality practices of the Bank and the Fund, the parties find themselves trapped in an endless dialogue on whether the number of economic policy conditions has decreased or not; whether the Bank and the Fund still push liberalisation and privatisation in their use of conditionality; or whether conditionality reviews have succeeded in increasing national ownership. Beyond the quarrels, much talk, reflection and studies on the failures of conditionality and development aid in the past have led to widespread acceptance of two different but complementary findings:

- "Money can't buy you love": when conditionality is imposed from outside, change is likely to be ineffective. Policy

reforms not genuinely supported by national constituencies are deemed to be dismissed without being fully implemented. When ineffectiveness is the question, strengthening **ownership** has emerged as the answer.

- “There are many ways to do the right thing”: growth and development are complex processes influenced by many variables, a good number of them closely linked to national circumstances. Experience shows that different recipes have worked in different contexts and that there is no absolute truth and definitive answers.⁷ When uncertainty about the “right policy measures” leading to poverty reduction is the question, a greater **focus on results and development outcomes** – rather than policy inputs – appears to be the answer.

New ways of rethinking the contractual terms of aid agreements

In the light of the failures of traditional policy-based conditionality, several proposals for new approaches to conditionality which strengthen ownership and development effectiveness have been put forward:⁸

- process conditionality, focussed on the process of policy making and refraining from specifying the content of the policies;
- conditionality applied to development outcomes, as opposed to policy actions;
- floating tranches, whereby funds are disbursed whenever the conditions are met without a concrete deadline for meeting them;
- providing a choice of different policy options to reach agreed goals;⁹
- increasing selectivity by channelling aid to countries that already have a certain set of policies in place or a good track record in achieving development outcomes.

Disbursing aid against development outcomes

Among the options listed above, the one which suggests linking disbursement to achieved or pledged development results seems to encompass, in principle, both the potential to increase government ownership and to establish clearer relations between development programs and their impact on poverty reduction. It would also help measuring the effectiveness of aid in delivering the internationally agreed Millennium Development Goals.

In 2006, the main world donors gave \$US 100 billion for development aid. But, what did this money pay for? Did this money go to the poorest of the poor? Was it used to improve much-needed basic services? Often unanswered, these questions that we, citizens in the North and South, pose ourselves call for tighter and more transparent causality lines between the purpose of development aid and the actual results achieved.

Trying to respond to these questions, a number of multilaterals (e.g., the World Bank, the IMF) have devoted a good deal of time and efforts exploring the concept and some have even gone further and implemented this new approach in practice (the European Commission). The idea has also sparked some interest among the NGO community; however there has been little research or debates among NGOs to explore the potential and risks of the concept and assess how it has worked in practice.

Half way to 2015, when the world is failing to achieve the Millennium Development Goals (MDGs) targets set for that date, pressure is growing to increase the volume and effectiveness of aid. Within the next 12 months the governments of wealthy countries are going to:

- Meet in Accra to assess what progress they have made in meeting the aid effectiveness targets that they committed to in Paris in March 2005;
- Meet in Doha to review aid commitments contracted in the Monterrey Summit in March 2002;
- Gather under the newly-created United Nations panel to discuss the effectiveness of multilateral aid, under the auspices of the UN Secretary General Ban Ki-Moon;
- Decide the course of reform at the International Monetary Fund resulting from the ongoing Medium Term Strategy;
- And last but not the least, the World Bank concessional arm, the International Development Association (IDA), will start disbursing in 2008 their 15th round of funding to the world’s poorest countries under scaled-up pressure from some progressive donors to step-up its efforts to reform their conditionality policy.
- Meanwhile, the European Commission is about to launch an enhanced modality of General Budget Support (GBS), the MDG contracts. Among other innovative features, the Commission is going to link disbursement to MDG

related outcomes shifting away from old-fashioned policy-conditionality.

Within this context, it is crucial to rethink what should be the legitimate terms of aid relations and how they could be made more effective. Multilaterals such as the World Bank and the European Commission (which channelled some 8 Euro billion from their own budget in 2006 and which will manage more than 22 Euro billion from the European Development Fund between 2008 and 2013) are fundamental in this debate as they channel a good share of the wealthiest countries development aid and define whether and on what terms much of the rest is provided. These multilaterals are currently engaged in processes either reviewing or changing their approach to conditionality and are likely to be very influential in defining the terms of this debate.

This report, based on desk research and interviews with multilateral agencies and recipient government officials, as well as Southern parliamentarians and civil society activists, analyses this new approach to contractual relations in development aid as explored and used by the World Bank, the IMF and the European Commission. The report:

- defines how the World Bank, IMF and the European Commission understand outcome-based conditionality (section 1);
- reviews some experiences where it has been implemented and assesses its main potential and risks as well as some operational problems involved in its implementation (section 2, 3 and 4); and
- encourages debate among NGOs to shape their positions and their recommendations (section 5).

PART I: Outcome-based conditionality: differing policies

Section 1: Disentangling rhetoric and reality

1.1 What do we mean when we talk about results?

When hearing the word “results” in the framework of development, presumably, the average citizen would think of people lifted out from poverty: fewer women dying during childbirth; more children in schools and lower illiteracy rates; better health conditions and fewer people dying every day because of hunger.

However, in the technical jargon used by development agencies, results often refer indistinctly to changes at any step of the policy cycle ranging from:

- policy actions or **inputs** (i.e. share of the budget devoted to education expenditure or definition of a sector strategy);
- concrete consequences of the policy measures taken or **outputs** (number of schools built or teachers trained);
- benefits obtained by the population or **outcomes** (i.e. school enrolment);
- and, last but not least, the **impact** that the benefits have in terms of poverty reduction (i.e. literacy rates, unemployment rates).

In an attempt to clarify the conceptual mess, multilateral agencies started talking about **outcomes** to refer to poverty reduction “results” of development programs. But rather than bringing greater clarity, this has sometimes spurred further confusion. There are two main aspects inducing confusion:

- First, the four simplified phases of the policy cycle described above and labelled as inputs, outputs, outcomes and impacts mean slightly different things for different multilaterals. For example, while the European Commission uses outcomes to refer to the results at the level of beneficiaries, the World Bank tends to give it a broader use which partially covers the immediate and concrete results of policy actions but also the impact at the level of beneficiaries.
- Second, on top of the variable geometry in the use of the word outcomes, both outcomes and results are sometimes used indistinctly thus giving the reader a hard time to assess whether results is being used to refer to results of any of the policy phases or to one particular phase of the cycle.

Table 1: Policy and results: logics compared

	Definition of “outcomes”	Policy actions in programmes	Outcomes in programmes
World Bank	Desired change resulting from the actions associated with the operation. Short- and medium-term effects on broader society of government actions.	<u>Burkina Faso PRSC 7:</u> - Alignment to international market price - Contracts with professional operators to manage water systems <u>Tanzania PRSC 5:</u> - Reform of business activities registration	<u>Burkina Faso PRSC 7:</u> - SOFITEX operating profit at \$US Million (>0) - Access to drinking water % <u>Tanzania PRSC 5:</u> - Ranking on “Doing Business”
European Commission	Outcome indicators used are at the level of the effectiveness, coverage or uptake of public service delivery related directly to poverty reduction.	No policy conditions are used to spell out the actions that the government should undertake to achieve a particular outcome ¹⁰ .	<u>Mozambique PRBSP III:</u> - Net primary school enrolment rate - Completion rate - Proportion of institutional deliveries among expected births

Source: Eurodad, from World Bank PRSCs and European Commission Budget Support Financing Agreements.

What do we have in mind when we talk about outcome-based conditionality?

The words results and outcomes in the framework of conditionality are sometimes used synonymously. For the purpose for this study, we attempt to clarify the meaning of outcome-based conditionality for the World Bank, the IMF and the EC and the extent to which their use of this new approach translates into changing aid relationships.

Despite the lack of a clear-cut definition by official development agencies or NGOs, if well-understood, outcome-based conditionality provides an opportunity to change the terms of aid relations. Two main arguments lay behind the case for shifting to outcome-based conditionality:

- Firstly, there is widespread acknowledgement that policy-based conditionality has not worked in promoting the expected changes in countries. Literature analysing this blunt failure has come up with different explanations, ranging from the lack of attention paid to national political economy to failure to achieve change when imposed from outside. It is common thinking in the NGO community that this situation requires increasing “**policy space**” available for national governments to experiment with the policies most appropriate to national circumstances to reach the goals of poverty eradication. It is common sense to guess that successful policies require both the knowledge of national contexts so they need to be home-grown and **owned** by national actors.
- The second argument refers to the lack of clear-cut knowledge on what are the right policy measures conducive to the final goals of growth, poverty reduction and human development. This should be addressed by **shifting the focus to development goals rather than continuing advising concrete policy recipes**.

Consequently, any shift to a new approach in the contractual terms of aid relations should clearly include these two dimensions. For this paper we will therefore assume that **outcome-based allocations or conditions** refer to (a) disbursements linked to performance measured by indicators at the outcome level; (b) which refrain from spelling out concrete policy measures that should be adopted in order to obtain certain results; and (c) which refer to outcomes in areas clearly linked to human development and poverty reduction.

1.2 Different understandings of outcome-based conditionality: the WB, the IMF and the EC

What has been the progress in the use of outcomes in official development agencies' conditionality? The reality is not much. Several multilateral development banks measure results. The World Bank also claims to take the quality of development policies into account in its aid allocation decisions for the poorest countries.¹¹ Not many, though, have dared to go further and link disbursement to outcome indicators. In a nutshell, the Bank summarises the current situation by saying that “outcome-based indicators are an essential tool for measuring results but their use as conditions for disbursement should be approached with caution.”¹²

A) The World Bank: no conditions, no party

Talk about results is not alien to the World Bank. A June 2005 staff guidance note advises including the results-based approach in the Bank's operations.¹³ Aware that “results orientation” was falling short of what is needed in the Bank's policy-based operations, which “typically focused on compliance with loan conditionality rather than on the program's impact”, the Bank pointed to the need to “sharpen the focus on achieving results in supporting developing countries' poverty reduction strategies and contribution toward the Millennium Development Goals.”¹⁴

While increasingly including poverty reduction outcomes in policy matrices of program documents and other Bank papers, the Bank still spells out the policy measures that should be taken – using outcomes only to measure progress, but clearly not as the yardstick against which money is disbursed. However, outcome indicators chosen are not always uncontroversial proxies for poverty reduction (such as primary school enrolment, or vaccination coverage) but often reflect the economic policies that the Bank deems most appropriate (such as labour market flexibilisation and reduction of retrenchment costs). **Binding conditions in the policy matrices are still invariably at the level of policy measures** and not at the outcome level. There is no substantial shift away from policy-based conditionality and inclusion of poverty reduction outcomes has come only as a relatively marginal addition. In a nutshell, the results orientation of the Bank in Development Policy Lending does not translate into results-based or outcome-based conditionality.

Half way between poverty reduction outcomes and policy actions

Generally, the Bank understands that outcome-based conditionality is the practice of “linking annual disbursement volumes directly to outcome indicators.” At times using “results-based conditionality” and “outcome-based conditionality” interchangeably, the World Bank takes outcome conditionality to cover both “indicators of direct poverty reduction results and other outcome-related indicators.”¹⁵

Table 2: World Bank outcome indicators

World Bank: “Outcomes are the short- and medium-term effects on broader society of government actions.”		
Country/ Program	Sector	Outcome Indicator
Mali PRSC 1	Electricity	Ratio of gross operating profits to sales revenue
Mali PRSC 1	Water	Number of piped water systems managed under PPP
Burkina Faso PRSC 6	Private sector	Bidding documents and tender ready for the selection of a private operator
Tanzania PRSC 5	Macroeconomic stability	Inflation rate consistent with PRGF target

Source: World Bank programme documents.

Definitions of outcome-based conditionality as broad as the above potentially allow for linking disbursement to development outcomes. However, the definition is loose enough to allow sticking to policy actions with dubious links to poverty reduction. The latter seems to be the case in most of the examples above, where the Bank calls outcomes to a range of variables with **greater resemblance to policy actions than to poverty reduction outcomes**. The blurriness of the definition, rather than a failed attempt of the Bank’s outstanding analytical brains, seems to point at an intended “yes but no” strategy. The Bank seems to feel the need and the pressure to include in their definition a straightforward link to poverty reduction; but has not really managed to “kick the habit.”¹⁶ it seems to be still addicted to policy-based conditionality.

Outcomes in policy matrices: Country Assistance Strategies and programme documents

Outcomes and outcome indicators are now generally included in the matrices of program documents as well as in the Bank’s Country Assistance Strategies (CASs). The CAS is the Bank’s “Master Plan” for a country, where the Bank outlines how money will be spent in the future and the longer-term development outcomes that the country should achieve.

Outcomes outlined in the CASs are then included in policy and results matrices of program documents, together with policy actions and outcome indicators. For example, the matrix of policy actions in Burkina Faso’s PRSC-7 approved in 2007 prompts the government to “finalise contracts with professional operators to manage water systems” as a policy measure to increase access to water and uses the percentage of “rural and urban population with access to drinking water” as an outcome indicator to measure progress. The policy matrix of Mozambique’s PRSC-3 includes the outcome indicator “reduction of cost of retrenchment” and attached to it as a prior action it requires to approve a “new labour law in line with improving the business environment”.

Table 3: Mix of policy actions and outcome indicators in the World Bank's programme documents

Country/ Programme	Objective	Policy actions*	Outcome
Burkina Faso PRSC 7 (2007)	MDG targets for water and sanitation	Contracts with professional operators to manage water systems	% of rural and urban population with access to drinking water
Tanzania PRSC 5 (2007)	MUKUKUTA Cluster 1 – Growth and Poverty reduction	Amendments of Crop Board legislation	Agriculture sector growth (%)
Mozambique PRSC 3 (2007)	Creation of a favourable environment for the business sector	New labour law in line with improving the business environment	Reduction of cost of retrenchment

* Actual World Bank conditions.

Selectivity and Performance-Based Allocation

Beyond actual conditions in policy matrices, allocation mechanisms are also crucial in determining the amount of funds to be disbursed in a given country. The World Bank allocation system is based on a country's performance on a number of policies and institutions, which effectively turn out to be "soft" conditions to be fulfilled if the country wishes to see their aid allocation increased. However, some observers have contested this allocation system which rewards implementation of a set of policies rather than achievements on the poverty reduction front.¹⁷

At the IDA 14 Mid-Term Review held in November 2006, Deputies required the Bank to review how IDA's PBA related to development results. Answering to this request, the Bank prepared the paper "Selectivity and Performance" which analysed the links between country level outcomes and CPIA ratings. The paper concludes that while CPIA is still an indicator of what the Bank takes to be the "quality of development policies and institutions", in fact these ratings are endogenous to outcomes. The Bank holds that there is a "systematic relationship between CPIA and development outcomes", but it can only "be expected to be apparent in the fairly long run". The Bank resorts to time-lags between policy indicators and outcomes as well as "the needs versus performance" debate to argue their scepticism about making "extra assistance conditional to outcome indicators."¹⁸

B) International Monetary Fund: doing it their own way

Outcome-based conditionality à la IMF: results as macroeconomic outcomes

In 2002 the IMF published new "Guidelines on Conditionality" stating that "program-related conditions may contemplate the member meeting particular targets or objectives (outcomes-based conditionality)." According to the Fund, "outcomes-based conditionality, particularly with regard to structural reforms, could help strengthen ownership by giving the authorities greater flexibility in choosing how to achieve the agreed results."¹⁹

Indications on how this approach could be applied to the Fund included:

- pre-selection, i.e. "providing financing only to countries that have already accomplished reforms to achieve some minimum standard of good policies and institutions" – which follows the same logic as the World Bank CPIA allocation system;
- linking finance to progress to achieve final **macroeconomic outcomes** such as external balance, inflation, and growth (interestingly, the Fund notes that "this would permit a radical streamlining by eliminating conditionality on monetary and fiscal policy as well as all structural conditionality); or
- identifying specific areas of structural policy in which implementation would be monitored on the basis of outcomes rather than on detailed policy action.

Typically, the IMF has used the word outcomes to refer to performance criteria in their programs. Performance criteria are "either a quantitative target to be met or a policy action to be implemented by an agreed date for the country to be able to continue to draw on the IMF's financing." Aware of their particular use of outcome-based conditionality, at least the Fund acknowledges that "many of the quantitative macroeconomic Performance Criteria are, in practice, intermediate

targets, lying somewhere between policy actions and the desired outcomes”.²⁰

Table 4: IMF outcome indicators

The IMF: “Outcomes have been defined as performance criteria in programmes”

Thus, an outcome variable in an IMF-supported programme would be, for example, a floor on net international reserves or inflation targets. Other outcome variables could include “the trade balance, the current account, investment and growth.” Applied to structural reform, for instance financial sector reform, an outcome could be “that all banks that remain open for business by a specified date would need to have achieved a specific capital adequacy ratio or be supervised under specific procedures”. If the aim is to improve tax collection, the outcome would be the amount of revenues collected by a given date.²¹

Country/ Programme	Type of condition	Outcome indicator
Burkina Faso PRGF 2007	Quantitative performance criteria	Ceiling on the amount of new non-concessional external debt: 0
Burkina Faso PRGF 2006	Quantitative performance criteria	Expenditure on wages and salaries (157 million CFA francs)
Mozambique PRGF 2006	Quantitative performance criteria	Stock of net international reserves (floor)
Tanzania PRGF 2006	Structural assessment criterion: Recovery Plan for TANESCO	Structural benchmark: Raise electricity tariffs to reflect the increased cost of power generation

Source: IMF Poverty Reduction Growth Facility documents.

The guidelines’ green light to outcome-based conditionality has translated into little change in the way the Fund does its conditionality business. One of the main reasons is the widespread institutional perception that “programs already define outcome variables as performance criteria.” In addition to performance criteria, Fund programmes in low-income countries typically continue to include structural conditions which are policy actions or measures, rather than outcome indicators. For instance, in Burkina Faso the 2007 PRGF required to “Secure government approval of a liberalization strategy for SOFITEX in collaboration with the World Bank”, alongside with ten other structural measures. However, the Fund is convinced that their current use of conditionality already includes an outcome-based dimension, thus shutting the door to further change.

Eyes wide shut to poverty reduction?

The Fund does not have a development mandate and many analysts inside and outside argue that it should stay out of the development business. However, this is different from having their eyes shut to development goals. When correcting macroeconomic imbalances the Fund should always bear in mind that this is done not for the sake of having the right numbers in the charts but for providing a decent life for all. This would certainly include a more flexible approach to what are supposed to be “right” monetary and fiscal policies and providing more chances for national governments to decide on their own.

Awareness of the need to shift to greater flexibility seems to be rising among some Fund staff, as publicly expressed by officials in consultations following the release of the above-mentioned IEO evaluation on IMF and Aid to Sub-Saharan Africa. In addition, the use of some of the typical IMF targets (i.e. inflation) as conditions is currently being contested within the Fund. The main reason behind this criticism seems to be that they are not under governments’ control and, according to the 2002 Guidelines, conditions should restrain only to policies under the government’s control (such as budgetary performance – deficit; monetary performance – international assets held by the government; debt; and some structural conditions mainly related to the national financial sector). These strands of change, though, should not be overrated as professional culture is difficult to change, as recognised by both in the IEO evaluation and the 2006 Progress Report of the Bank’s Conditionality Review.

Winds of change may rather stem from practices where the Fund has already experimented with some aspects of what we would call outcome-based conditionality, such as the HIPC decision-point documents which included some conditions related to social sectors which were closer to poverty reduction outcomes.

C) The European Commission: too good to be true?

The European Commission (EC) has also announced steps to transform its conditionality, but early indications are that, to date, change on the ground has been limited.

In 2005 the European Commission published “EC Budget Support: an Innovative Approach to Conditionality” which encapsulates the institution’s turn in their use of conditionality shifting from policy conditions to results-based indicators. As an interviewed EC senior official said, in the late 1990’s the Commission realised that “even if we had succeeded on some issues like macro-economic stability, it was very difficult to see at the end what the result for the people was”.²²

This change of approach was mainly driven by the findings of a Commission led multi-donor experiment in the late 1990s on the effectiveness of conditionality in Burkina Faso. Change was also fostered by the growing international critique of conditionality suggesting that policy-based aid could not buy reforms. More broadly, the new approach to conditionality is framed within the Commission’s renewed commitment to achieve the MDGs and the wish to explore new aid instruments which are “more long term, with less conditionality, focussed on results and ensuring every year a minimum level of assistance.”²³

The European Commission boldly defines outcome-based conditionality as aid disbursed against progress attained “for a number of indicators, mainly of results in the reduction of aspects of poverty directly linked to service delivery, and of public financial management.”²⁴ The EC is clearly more explicit than the Bank and the Fund in establishing a straightforward link between their new approach to conditionality and poverty reduction.

Table 5: European Commission outcome indicators

European Commission: “outcomes measure progress towards poverty reduction”		
The EC understands that “results” are “indicators used ... at the level of the effectiveness, coverage or uptake of public service delivery related directly to poverty reduction. A typical example would be primary school enrolment.		
This is classified as an “outcome” in the Commission’s “Input-Output-Outcome-Impact” typology where:		
<ul style="list-style-type: none"> - the amount spent on primary education would be classified as an “input”; - the number of primary teachers trained would be an “output”, - and literacy rates would be an “impact”. Indicators are selected for their relevance to measuring progress towards poverty reduction, and hence are mostly chosen from, or close to, indicators used for the Millennium Development Goals. 		
Typically, indicators cover disaggregated enrolment of boys and girls at school, net enrolment, primary school completion rate, drop out rate, average cost of primary education, etc. for the education sector; vaccine coverage, rate of assisted delivery or rate of utilization of health services for the health sector; and % of women covered by family planning or access to safe water as “other MDG” indicators.		
Country / Programme	Sector	Outcome indicator
Burkina Faso ABRP 2005-08	Health	% children vaccinated
Mozambique PRBSP III 2006-07	Education	% completion rate – girls
Tanzania PRBS III 2006-08	Education	% primary school enrolment

Source: European Commission programme documents.

From the variable tranche to MDG contracts

Since the end of the 1990s the Commission has been using outcome-based conditionality linking disbursement of grants to the attainment of some poverty reduction outcomes, mainly in the health and education sectors. This approach is intended to foster policy space for national governments to shape their own policies and to promote downwards accountability to

national citizens as the government is committed to deliver in terms of poverty reduction. Besides, the EC has also decided to operationalise outcome-based conditionality in a way that it can provide a graduated response to performance by disbursing greater or lesser amounts according to the targets achieved – and getting away from the “all or nothing” approach.

The Commission’s budget support has been delivered in two different type tranches, namely fixed and variable, “both subject to a minimum of general conditions related to macro-economic stability (usually linked with an IMF assessment), progress with PFM (public financial management), and the broad strategic context (in low-income countries usually a PRSP). Outcome conditionality only comes in with the variable tranche, which is disbursed in graduated amounts “depending on the extent to which targets are attained for a number of indicators, mainly of results in the reduction of aspects of poverty directly linked to service delivery, and of public financial management”.²⁵ According to the EC, targets and indicators are agreed upon with the government. These are mainly outcome indicators for social sectors like immunization rates, attendance to primary healthcare, and net enrolment in primary school.

Building on the experience of the variable tranches, the EC in 2006 started devising a new aid modality, the MDG contracts, which are supposed to be an enhanced type of the Commission’s budget support. MDG contracts are supposed to enhance predictability of aid, widen policy space available for national authorities and strengthen focus on results. It will shift from three year to six year financial commitments and will keep the same modality of outcome-based conditionality split in fixed and variable tranches, as described above.

Box 1: MDG contracts

A number of European Union documents have committed the EC to develop new, more predictable and less volatile aid mechanisms. The European Commission is therefore working on a proposal for an MDG Contract as a longer terms, more predictable form of budget support.

In this proposal the MDG Contract would have the following features:

1. Commitment of funds for the full 6 years of EDF 10;
2. Provision of a minimum, virtually guaranteed level of support (80% of total commitment) except in the case of a clear and unambiguous breach in eligibility criteria or fundamental principles of cooperation;
3. Annual monitoring with a focus on results, notably in health and education;
4. Assessment of performance in a medium-term framework to promote more comprehensive dialogue, and allow, whenever there are genuine prospects for the underlying problems to be credibly tackled, for financial responses to be held off.

More than half of all General Budget Support commitments in the 10th European Development Fund (EDF) national programmes would be disbursed in the form of MDG Contracts, covering nearly half of all African countries for which GBS is programmed.

The Commission has to be given credit for having gone the furthest in implementing outcome-based conditionality. Nevertheless, at the moment only around 35% of their GBS is disbursed according to this new modality of conditionality. This share is expected to decrease when the MDG contracts are in place. Moreover, critics say that the Commission decision to operationalise outcome-based conditionality through a variable tranche does not increase predictability of aid – as it does not help governments to assess the exact envelope of resources that they will finally receive.

Last, but not least, outcome-based conditionality used through the variable tranche is simultaneously combined with other forms of policy-based conditionality linked to the fixed tranche and eligibility conditions. The simultaneous use of different types of conditionality by one donor, or by different donors in the same country, can overstretch recipient countries’ capacities and increase, rather than decrease the conditionality burden.

1.3 More than terminological divergences

The landscape in the use of outcome-based conditionality is fragmented. The Bank struggles between enhancing its results-

based approach, while keeping away from linking disbursement to outcomes. The Fund turns a blind eye to poverty reduction and claims it implements outcome-based conditionality looking mostly at macroeconomic outcomes. The EC should be granted credit for having gone further linking disbursement to poverty reduction and opening up policy space for governments. However, it should not only be looked at through rose tinted spectacles.

While divergence in definitions and practice could simply be due to different terminological uses, they seem to be deeper than terminological. Different uses by the agencies analysed in this report seem to point to:

- different understandings of what is possible – and desirable – to measure and how the data obtained should feed into or relate to other stages of the program cycle;
- different perceptions of the role of the agency at the country level – while the Bank perceives its role as a much more active one, in terms of providing policy advice and thus still thinks disbursement should be linked to measures recommended by the institution; the EC may be moving to a greater “hands-off” approach at the country level and is thus more keen in using internationally or nationally agreed development outcomes which are exogenous to the policy priorities of the institution; and
- different assessments of the trade-off between the risks and benefits of moving towards this new approach to the contractual terms of aid and the ways in which risks involved can be overcome.

Different perceptions of practical challenges

Bank staff interviewed for this research mainly referred to technical challenges preventing the Bank moving in this direction: “linking annual disbursement volumes directly to outcome indicators faces a number of practical challenges, such as unavailability of suitable short-term outcome indicators (for example, for public finance management and private sector development), substantial time lags in data availability, unreliability of data, and the risk of penalizing governments for outcomes that are outside their control”. Fund officials also resort to “implementation” challenges to question the possibility of adopting this approach.

The Commission confronted these challenges at the time when they started using outcome-based conditionality. It explored possible ways to overcome the problems of attribution, availability of outcome indicators, measurement problems and quality of data, and came up with ways forward which seemed reasonable to them. Broadly, the EC believes that the influence of government action on development outcomes can somehow be established, thus creating the attribution line. External shocks can be identified and taken into account whenever necessary. And enough data of reasonable quality is available, while efforts can be made to substantially improve it. A number of these problems will be reviewed more in-depth in the following section. As some reasonable technical answers are available, other reasons seem to be blocking the Bank and the Fund.

What role for development agencies at country level?

One of the causes behind the Bank’s reluctance to move towards this new approach may be that some Bank staff still think that policy-based conditionality may sometimes be effective to unleash growth and development. A Bank staff member of the Africa Department declared that “it is not true that we do not know much about the drivers behind growth and development. After a long-standing experience in the development business, the Bank has now sufficient knowledge” to determine what are the right policies to foster growth and poverty reduction. Some sectors of the Bank believe that they need to be as present as possible at country level, providing policy and technical advice. Otherwise, they think, national actors would be left “behind” by a Bank’s “hands-off” approach.

Despite rhetoric to the contrary, the IMF is not ready either to give greater policy space to developing countries. Macroeconomic theory and debates have not been able, so far, to conclude what are the exact targets of the performance criteria (or outcomes) typically used by the IMF conducive to growth. But still, a recent report by the IMF Independent Evaluation Office on the “IMF and Aid to Sub-Saharan Africa”²⁶ shines light on the fact that generally the IMF holds pre-conceived views on what are the right inflation targets or levels of international reserves, leaving little space for discussion or little autonomy to the countries to decide on their own.

Contrary to this approach, the Commission seems to have genuinely shifted away from policy-based conditionality. Staff interviewed appeared utterly convinced on the failure of the use conditionality to lever change from outside. They also seem to be convinced about the value of opening up space for developing countries to experiment and decide what policy choices they make to attain development goals. They hold that outcome-based conditionality does not equate to “abandoning” a government, as advice – if required by governments – could always be provided through other means.

PART II: Outcome based conditionality: differing practices

Many agree that in principle outcome-based conditionality is a good idea. Even the Bank and the Fund openly recognise that: “First, it could help reduce the perception of micro-management of countries’ economic policies, by focusing on the overall objectives of the policy rather than individual actions. Second, it could help foster and build country ownership of policy programs, by giving the authorities greater flexibility to design their own economic policies. Third, it reduces the importance of modelling in advance the linkages between policy instruments or actions and outcomes: instead, the authorities would be accountable for achieving results and they would thus need to adjust the instrument as frequently as needed to stay on course to these objectives. Finally, outcome-based conditionality could reinforce the focus on program objectives.”

However, the European Commission has been the only one to implement conditionality based on outcomes related to social services delivery. Since 2000 it has disbursed budget support in more than thirty ACP countries (Africa, Caribbean and the Pacific) through fixed and variable tranches – the latter partially linked to performance in social service delivery, and partially to public financial management. The second part of this paper analyses implementation of this approach in three African countries with different circumstances and experiences: Burkina Faso, where a first “conditionality pilot” began in 1999; Mozambique, where outcome based conditionality has been applied since 2004; and Tanzania, where the EC has been using this approach since 2003.

The shift of the European Commission to outcome-based conditionality has mainly been driven by the recognition that policy-based conditionality has too often undermined national decision-making and it has imposed inappropriate policy choices which at best did not help reducing poverty and at worst contributed to exacerbate poverty and inequality. The move to outcome-based conditionality is expected to increase policy space available for national authorities, to enhance policy dialogue and downwards accountability and create further incentives for prioritising poverty reduction objectives in national development policies.

Expectations for the “results-based” variable tranche

- Encourage a focus on results by using indicators of service delivery / poverty reduction;
- Protect the political space for Governments to determine policy;
- Streamline conditionality;
- Allow graduate response to partial performance instead of “all or nothing”;
- Promote domestic accountability;
- Stimulate demand for quality data on poverty.

To assess whether these expectations have translated into reality, this study focused on the institutional mechanisms created at country level to improve the quality of policy dialogue between donors and national stakeholders; priorities and goals of national development plans and alignment of donor’s conditions to these; and perceptions of key actors, including recipient governments, involved in budget support processes with regards to the merits and risks of outcome-based conditionality.²⁷ These were mainly drawn from the three desk-based case studies on Burkina Faso, Mozambique and Tanzania. Information from the three case studies was complemented with perceptions from officials, parliamentarians and civil society from other African countries (Malawi, Sierra Leone, South Africa, Uganda and Zambia). This study also benefited from face-to-face interviews conducted during occasional meetings in Europe and during a Eurodad field research trip to Sierra Leone. To the possible extent, this study also analysed available data on poverty reduction to assess responsiveness of poverty reduction indicators to outcome-based conditionality.

Section 2: Impact of outcome based conditionality so far

When asked about the impact of outcome-based conditionality either on policy dialogue or on poverty reduction, EC and WB officials, governments or civil society for once share a single view: in a nutshell, no one knows what has been the impact so far.²⁸ The European Commission is planning to publish assessments of this experience during the first semester of 2008, which should shine lights on what has been the impact of their Budget Support, including the effects of outcome-based conditionality.

This study found that this modality of conditionality has:

- pushed forward a results-based approach, and it has helped developing indicators for measuring poverty reduction;
- often been a catalyst to increase governments' focus on poverty reduction;
- managed to streamline the number of conditions, and it has generally refrained from spelling out economic policy conditions; and
- contributed to improve policy dialogue between donors and recipient.

However, the impact has been limited and outcome-based conditionality has not managed to fully deliver on the initial expectations of the European Commission.

Creating incentives for poverty reduction

From the beginning of the implementation of variable tranches in 2000 until mid 2006, the Commission has disbursed on average 71% of the variable tranche, which is partially linked to performance in social service delivery indicators. Although these reasonably high rates could have been triggered by institutional pressure to disburse, they could also be interpreted as a sign of governments' good performance and success of the variable tranche in achieving poverty reduction. This evidence is consistent with the Joint Annual Reviews conducted by the group of budget support donors, which tend to be overall positive. In Tanzania, the General Budget Support (GBS) review from December 2006 "demonstrated largely satisfactory progress in the area of growth and income poverty reduction"²⁹ and in Mozambique "The Joint Review considered the implementation of PARPA II³⁰ in 2006 to be positive in various areas, in spite of significant variations within the range of PAF targets... / ...Performance also continued to be good in 2006 with respect to the expansion of service delivery in health and education."³¹

Checked against other sources, poverty reduction scenarios in Tanzania are not that promising and even good growth rates in Mozambique do not seem to be, according to some analysts, pro-poor. In recent years, Mozambique has experienced a strong record of poverty reduction and growth after decades of civil war. This has been accompanied by a relatively strong role of the government in relation to the donor community. However, according to a recent study by UNDP, the "poverty headcount figure fell (in Mozambique) from 69 per cent in 1996-97 to 54 per cent in 2002-03" but "over 70 per cent (of the total increase in consumption) went to the top income quintile, while less than three per cent went to the poorest ... Using the definition of pro-poor growth proposed by Kakwani and Pernia³², the recent economic growth in Mozambique cannot, therefore, be considered pro-poor."³³ Tanzania seems to be failing to reduce poverty in the country after more than four decades receiving development aid and after having been reported as a "success story" at the beginning of this decade. According to a 2007 Policy Note by the World Bank "Simulations using household consumption from the IMF database indicate an increase in poverty from 36% in 2006 to 43% in 2007."³⁴

Table 6: Results achieved for the social sector outcome indicators

COUNTRY	1. Girls' primary school enrolment	2. Children vaccinated	3. Poverty	4. Social expenditure
Burkina-Faso	2006 target: 57.6% Actual: 61.17%	2006 target: 85% Actual: 88%	2006 target: 41% Actual: 40.8%	2006 target: 24.4% Actual: 27.3%
Mozambique	2006 target: 82% Actual: 87.1%	2006 target: 95% Actual: 100%	Not available	Not available
Tanzania	2005 baseline: 93.9% 2010 target: 99% Actual in 2006: 95.5%	2005 baseline: 71% 2010 target: 85% Actual in 2006: 87%	Not available	Not available

Source: Burkina-Faso, Mozambique and Tanzania 2006 Performance Assessment Frameworks (PAFs).

The majority of targets set for 2006 in education and health were met in Burkina Faso (nine out of 15 targets), in Mozambique (seven out of ten) and in Tanzania (four out of five). In all three countries, indicators chosen in the Performance Assessment Framework (PAF) to monitor social service delivery have evolved quite positively, and sometimes performance has even been better than the targets set in advance. However, these indicators should be treated with caution as an assessment of the extent of poverty reduction or of the distributional impact of improvement in service delivery. Data on reduction of income poverty, as well as on distributional impacts of improved access to social services, is neither available from the Performance Assessment Frameworks (PAFs), nor from the joint reviews. Alternative, and potentially more accurate, sources to monitor income poverty – such as household surveys – are rarely up to date or easily accessible.

There is widespread agreement that this modality of conditionality and the push by the European Commission has fostered a greater focus on results, which is acknowledged as a positive development by many. However, the introduction of outcome-based conditionality is not sufficient to create incentives for poverty reduction, and it is unclear whether greater focus on poverty reduction has translated into actual results on this front. When asked about the role of outcome-based conditionality in creating incentives for poverty reduction, officials from Burkina Faso felt that the push for outcome indicators by the European Commission had strengthened the country's willingness to monitor indicators closely linked to poverty reduction and progress towards achieving the MDGs. The case of Burkina Faso shows that when domestic willingness to focus on results is in place, the Commission's support to this approach strengthens the incentives to focus on poverty reduction and keep up performance to the targets that the government sets. Incentives for poverty reduction and a greater focus on results seem to be taking place in countries where these objectives are already embedded in the government's agenda. **The EC approach may have acted as a catalyst.**

Both in Tanzania and Burkina Faso, World Bank staff acknowledge that the EC approach has to be given credit for swiftly pushing the results-based approach and **developing indicators for measuring poverty reduction**. In Tanzania, where looking into outcome indicators for the social sector does not seem to be among the highest government priorities, it seems that the Commission can be granted credit for encouraging the budget support group to increase the share of outcome indicators in the new PAF, which is currently being negotiated.

Opening-up policy space

The European Commission has managed during the last years to change its institutional culture and create – to some extent – a “hands-off” approach to development. Staff at headquarters and country delegations candidly expresses their views in this regard. As a staff in the delegation of Tanzania said, “it is not the task of the donor to tell a government what their health strategy should look like.” The move to outcome-based conditionality is one of the most remarkable signs of such institutional change. Recipient government officials have different views on the extent to which outcome-based conditionality can actually improve the space available for them to take their own policy choices. Whilst none of the officials interviewed seemed to be reluctant to strengthening the results-based approach, some felt that recipient governments are not leading the process of choosing outcome indicators and that performance on this set of indicators is linked to disbursement in an excessively mechanistic way. This poses serious constraints to unleashing the potential of outcome-based conditionality to open-up policy space.

Beyond perceptions expressed by recipient governments' officials, the number of conditions attached to development finance is also a good proxy to assess the policy space available for national authorities. For operations disbursed from 1999 until mid 2004³⁵, fixed tranches³⁶ had an average of 4 conditions (3 general as explained in the first part of this report and one specific to each country) and variable tranches had on average 15 indicators (4-5 in each of health and education). The cases assessed showed a slightly higher number of conditions than the average.

Table 7: Number of conditions in current EC Financing Agreements

Country	Fixed tranche	Variable tranche			Total
		PFM	Education	Health	
Burkina Faso (ABRP ³⁷ 2005-08)	9	7	6	6	28
Mozambique (PRBSP ³⁸ 2006-08)	3	3	4	4	14
Tanzania (PRBSP 2006-08)	3	4	4	4	15

Source: Eurodad.

Typically, the average **number of conditions that the EC attaches to their disbursements is lower** than the average number of World Bank conditions.³⁹ However, it is important to note that roughly 50% of the funding (the so-called fixed tranche) is only attached to fewer conditions (those in the first column in table 2). The EC is also making efforts to **move away from “action type” of conditions** to “results indicators”. This is clearly the case with social sector outcome indicators, and to a lesser extent in the area of Public Financial Management.

However, the context in which this approach has been developed has not helped to unleash its full potential. On the one hand, conditionality has now clustered around the joint Performance Assessment Frameworks (PAFs). This means that even if the EC grants have on average fewer conditions, overall the PAFs still have a high number of conditions and outcome-based conditionality has added rather than substituted other modalities of conditionality attached by other donors. For instance, the 2006 PAF for Burkina Faso contains almost 130 indicators. In Sierra Leone, officials from the Ministry of Finance are wary that if the joint budget donor group agrees more joint conditions, that this could shrink the space that the government has to negotiate these conditions.

In addition, outcome indicators for the social sector are just a relatively small share of the PAF. In Burkina Faso, they comprise less than a third of the PAF, and only 20% in Mozambique and Tanzania. And these indicators coexist with traditional types of policy-based conditionality. The World Bank continues to use mostly policy based conditions or actions, and a good number of bilateral donors link their disbursements to overall performance assessments. As PAFs are negotiated within the group of donors, where the outcome conditionality advocates have been until now outweighed by advocates of policy based conditions, the dynamics of joint negotiation seem to have neutralised the potential of outcome based conditionality to open up policy space for governments.

Until recently, in Tanzania neither the government nor the World Bank have been keen to introduce outcome indicators in the PAF. Some officials from the Tanzanian government expressed that a shift to outcome-based conditionality would entail a whole change in the way they currently deal with donor's conditions which they were not fully prepared to undertake. However, things may be swiftly moving forward both at the donors and government circles. The EC has been trying to convince other budget support partners to include this type of indicators in the joint PAF. Whilst at the start of the negotiations there were only 5 indicators in the 2007 PAF matrix, the final version now contains 9 indicators related to health or education. EC staff in the country offices, even if rather discouraged about their possibilities to succeed in pushing further a results-based approach few months ago, seem to be satisfied with the outcome of the negotiations. However, according to a staff of the EC delegation in Dar Es Salaam, “we would like to see a greater impetus in trying to include outcome-based indicators in the assessment matrix”. But even if the EC is succeeding in introducing outcome-based indicators in the PAF in countries formerly as reluctant as Tanzania, they are almost the only donor to link their disbursement to results achieved in the social sectors.

Beyond contextual constraints, issues related to the choice of indicators and the way in which disbursement decisions are

taken may have also contributed to limit the expected effects of outcome-based conditionality. The EC systematically uses health and education indicators, ruling out other sectors which could also be crucial for development and which sometimes may be a priority for recipient governments. In addition, the EC keeps hold of a good share of power when it comes to disbursement decisions. If there is agreement with the government, negotiations to disburse the variable tranche take place in a friendly policy dialogue. In case of disagreement, the last word is in the hands of the European Commission.

On a positive note, this paper found that generally the perception among all actors involved is that policy dialogue has improved in the three countries assessed.

Box 2: The process of disbursing aid against development outcomes

How does the EC process work?

Stage 1: The donor group, including all budget support donors in the country, negotiates the joint Performance Assessment Framework (PAF). This group in Mozambique is composed of 19 donors, 11 in Burkina Faso and 14 in Tanzania. Even if the PAF is in principle the outcome of a joint donor and government negotiation, Eurodad found that in some cases, such as in Sierra Leona, in fact donors negotiate the matrix of their conditions and then go to the Finance and other relevant ministries to negotiate the targets and obtain approval of the government, which most times has not played a proactive role in the negotiations. This is the stage when the EC has to negotiate insertion of outcome-based indicators in the PAF.

Stage 2: The European Commission decides which indicators from the PAF they will use in their own financing agreement as conditions for disbursement of the variable tranche. In the cases of Mozambique and Burkina Faso, indicators used by the Commission are drawn from the PAF. However, in countries such as Tanzania where the EC has not managed to convince other donors to include the outcome-based indicators needed to release the variable tranche, other indicators are used outside the PAF.

Stage 3: The Commission uses a relatively complex mechanism to calculate the release of the social sector outcome variable tranche. Each indicator is weighted and then given a score depending on progress towards achieving the target set for a given year. Funds are released according to the scores obtained by the country.

Stage 4: In order to ensure a reasonable degree of predictability of the volume of funds, the EC uses the annual review of performance of year $n-1$ made in year n to make its bilateral decision on provision of budget support for the year $n+1$. Data used by the Commission is typically drawn from the joint annual reviews conducted by the group of donors together with the government. Usually, agreement around the release of the variable tranche should be reached within normal political dialogue between the Commission and the government.

Stage 5: What happens if there is no agreement? Then, it is ultimately the Commission which takes a final decision on the disbursement (or non-disbursement) of the tranche.

The general sense is that neither poverty reduction trends nor progress related to policy dialogue and policy space has advanced quite as much as expected. A staff member from the European Commission delegation in Tanzania candidly said that “change is happening, but it cannot be fully attributed to the effects of implementing outcome based conditionality”.

The reasons behind this limited impact (or at least, the limited perceivable impact) could be due to the difficulties in tracing the causality line from the results attained back to the influence of outcome-based conditionality in promoting these results. They could also be simply due to the fact that outcome-based conditionality has not managed to deliver on the expected results.

The rest of this paper aims at disentangling what may be simply problems of assessment from what are actual operational and political problems behind this approach. This exercise may help to identify what reasons may be constraining the expected effects of outcome-based conditionality with the view of detecting what are the structural deficiencies of this approach and what are problems that could be overcome. The following sections will try to respond to the following questions:

- 1) What are the major assessment and operational challenges that outcome-based conditionality has met when applied in practice?
- 2) What are the political challenges? and
- 3) What are some of the questions that civil society could and should be asking about outcome-based conditionality with the view to facilitating civil society debate and to shaping positions with regards to this approach?

Section 3: Assessment and operational challenges: too early to tell or too hard to tell?

EC staff asked about the impact of outcome-based conditionality typically share the view that “it is too soon to tell”. This is particularly the case when referring to the **impact that outcome based conditionality may have had in poverty reduction**. This is reasonable for countries such as Mozambique where the experience has only been in place since 2004. However, for countries like Burkina Faso where this approach has already been in place for more than seven years, this perception could be contested. One could say this lapse of time should be enough to assess whether it has had any impact in poverty reduction.⁴⁰

When assessing the implementation of outcome-based conditionality in the cases of Burkina-Faso, Mozambique and Tanzania, the observer is confronted with two main facts: firstly, outcome-based conditionality is a tiny reality within the much larger business of joint budget support groups. Secondly, be it because of its marginal size, because of its lack of appeal, or even because of a “PR failure” on the Commission’s side, it has to some extent passed unnoticed.

A number of reasons have so far limited the impact of outcome-based conditionality in practice. Among them:

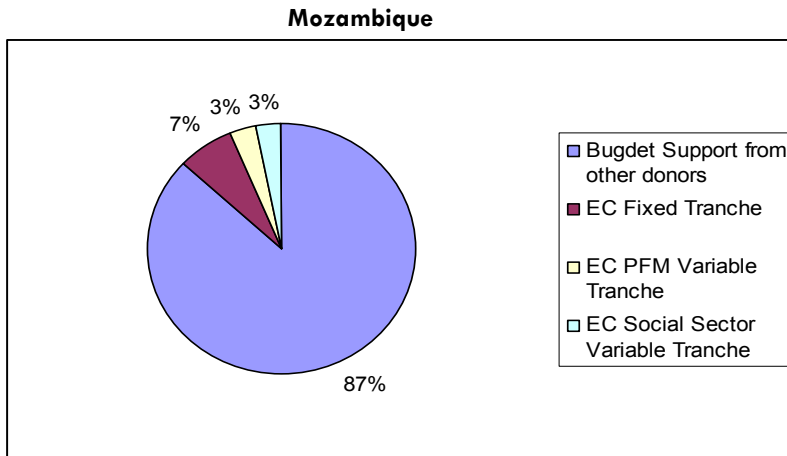
- the **amount of funds backing this new modality of conditionality**, which seem to have been insufficient for creating the desired incentives;
- the insufficient availability and disclosure of the **data** has blocked the possibility of strengthening downwards accountability;
- the nature of **indicators** and targets used, and the process whereby these indicators have been chosen;
- the ways and timings in which **disbursement decisions** are taken;
- the **context** where this modality has been implemented – the **joint donor groups for budget support**, which may have neutralised progress done by the EC in opening-up policy space; and
- the limited **engagement of civil society**.

3.1 Not enough funds to make a difference

With the EC being one of the very few donors using outcome-based conditionality, the share of budget support disbursed against outcome indicators is too little for the government to place extra effort in achieving the results as required by some donors. In Tanzania, the EC is the only donor linking disbursement to outcome indicators, while multilateral donors such as the World Bank or the African Development Bank still use policy based conditionality and most of the bilateral donors link their disbursements to overall performance assessments. In Mozambique, Sweden, Denmark and Switzerland also have split mechanisms to respond to performance which link some of their disbursements to poverty reduction indicators. And in Burkina Faso Sweden and Switzerland are considering implementing such a mechanism as well.

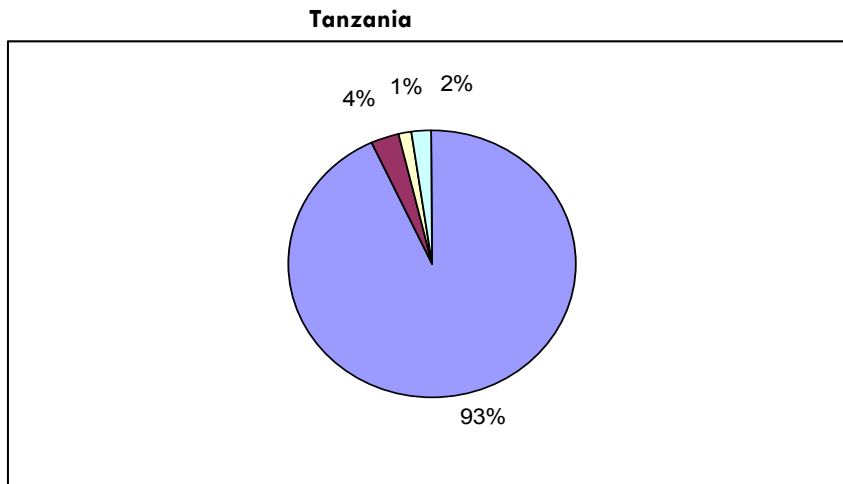
In addition, the EC’s budget support is split into fix and variable tranches and only the latter one uses outcome based conditionality. And still, within the variable tranche, only a share of the tranche is linked to outcome-based indicators but not the whole amount. All in all, therefore, funds disbursed against poverty indicators do not reach more than 3 % of the total budget support in the countries assessed.

Chart 1: Share of budget support linked to social sector outcome indicators



Source: Eurodad, based on figures provided by the EC delegation in Mozambique.

Chart 2: Share of budget support linked to social sector outcome indicators



Source: Eurodad, based on figures provided by the EC delegation in Tanzania.

The European Commission is well aware of the lack of a critical mass of funds that could potentially create incentives strong enough for the governments to make extra efforts to target poverty reduction. Facing this problem it has tried to encourage EU member states to adopt this modality and top up the Commission funds. Undoubtedly, operational challenges related to the amount of money backing outcome-based conditionality overlap with the lack of political traction that this approach has so far managed to generate. Donors, and sometimes recipients, claim that there are operational questions that prevent them engaging in this modality of conditionality. However, as explained below, these are closely intermingled with political concerns, which cast doubt on the willingness of donors to implement their commitments on managing for results, as stated in the Paris Declaration on Aid Effectiveness.

3.2 Cryptic data: failing to improve downwards accountability

Available data is limited and not always the best suited to properly monitor poverty reduction. In addition, when available, this data does not seem appropriate to trace what has been the impact of outcome-based conditionality in improving indicators for poverty reduction. It is widely recognised that the lack of data is a problem that needs to be overcome. A growing shift towards a results based approach in development aid requires greater efforts to produce and publish data on poverty reduction.

But the problem with data goes beyond the quality and amount of data available. Besides serving donors' and

governments' purposes, data should be **a tool in the hands of civil society and citizens at large to be able to monitor the results of their governments' actions and hold them accountable for their promises.** Evidence from the three countries assessed shows that the ways in which data has been collected and disclosed have hardly contributed to downwards accountability.

The data required for governments and CSOs would not necessarily disaggregate the effects of a particular donor's contribution to the government's budget.⁴¹ Although it is crucial that donors evaluate what is the impact of their aid, it is unclear how this data should be produced without further burdening the already stretched statistical capacities of these governments. This would undermine efforts to increase policy space and reduce administrative burdens borne by recipient governments.

When data improves, attention should be paid to unintended effects, such as decreasing government performance not so much due to a real decrease but to the enhanced quality of data. Accordingly, this possibility should be carefully taken into account in order to avoid penalising governments for "statistical", as opposed to real, performance decreases. This has been the case in Ghana, where under-performance in the health sector seems to reflect poor analysis of previous data rather than a worsening situation now.⁴² Donors, however, instead of analysing the reasons for under-performance have taken steps to reduce the amount of aid.

The joint annual reviews, which are conducted since the establishment of joint donor groups, should be the most logical source of data to monitor poverty related indicators. These reviews are generally vague and they monitor whether the targets set in the PAFs have been achieved. However, they hardly ever provide overall figures of access to basic services, such as health or education; quality of these services; incidence of income poverty; or general poverty level trends.

Box 2: Programme Aid Partners Joint Review 2007, Republic of Mozambique

Assessment of Performance in 2006

"In accordance with the MoU, an assessment of macro-economic policy and of the performance related to the main economic indicators was made outside the PAF, jointly with the IMF. The Joint Review concluded that the macro-economic performance continued to be very good. .../..."

"The Joint Review considered the implementation of PARPA II in 2006 to be positive in various areas, in spite of significant variations within the range of PAF targets. Out of the 49 PAF, 22 targets were met .../..."

Assessment of general performance is complemented with detailed assessment of Public Finance Management, Public Sector Reform, or Economic Development. For instance, it is reported that "the banking sector showed signs of good performance, characterised by a positive variation of 29.2% of nominal credit in 2006 as against the 48% registered in 2005 and a rather modest reduction of the average interest rates, with the spread reduced from 10.82% to 10.62%." However, almost no information is provided on poverty levels and trends in poverty reduction, while referring to "various quantitative and qualitative studies conducted in 2006 ... for example the annual poverty report (RAP) elaborated by civil society (G20). Unfortunately, this report does not provide detail information on poverty figures either.

The information provided by the Joint Review is mostly limited to provision of basic services, such as health, education and water sanitation. The review reports that "The year 2006 was characterised by a certain stabilisation of the performance in the health sector and a decrease of imbalance in the use of services was noted". "In 2006 the sector of education continued to report growth concerning its main indicators. The net enrolment rate in primary education was 87.1% as against the 85% that was planned". These are definitely good proxies for grasping what are the poverty levels in the country but fail to provide information on other important variables, such as incidence of income poverty.

Source: Mozambique's Joint Review 2007 (selected excerpts).

In Mozambique the joint reviews conducted by the group of donors are complemented by reports from the Poverty Observatory. Data regarding service delivery is usually the proxy taken for measuring poverty reduction. Unfortunately,

information related to the quality of the services and who are the beneficiaries of improvements in provision of basic services is hardly ever available. This was a concern raised by several civil society groups in the three countries assessed.

Household surveys are a good measuring instrument for poverty reduction but they are few and far between. In the past decade, Mozambique has experienced outstanding growth rates which seem to have contributed to poverty reduction. However, the first household survey is currently being prepared and should be launched within the next few months. In Tanzania, the last one took place in 2001. An update of the survey should be launched soon, but the timelines are still unclear. In any case, this data will always provide aggregate figures for poverty reduction and impact of all donors' budget support.

Mozambique is probably the country where greater efforts have been made to improve statistical capacities, set up independent monitoring of poverty reduction trends and involve civil society in these efforts. A "Poverty Observatory" was created for these purposes in 2003 and has been publishing an "Annual Poverty Report" since 2004. However, a civil society activist referred to the traditional African saying "when you don't want to disclose information, you shall put it in a book" to express how these reports have failed to be a meaningful tool for civil society monitoring of poverty reduction trends.

Box 4: Civil Society engagement in monitoring poverty reduction

The Mozambican experience of the Poverty Observatory

The Poverty Observatory (PO) is a consultative mechanism with no legal basis and no clear institutionalization which emerged following civil society demands for participation in the budget support process.

According to a civil society activist in Mozambique "the most effective and efficient tools for both informing and consulting civil society must include public debates, mass media, opinion polls, hearings, seminars, workshops, conferences, etc. Forums like the Poverty Observatory, which are held once a year during a plenary session for a single day cannot really fulfil this purpose." Civil society participation on the PO is facilitated by the Group of 20 (G20), originally created to fill the twenty places available for CSOs in the PO. In the capital, the G20 is hosted and controlled by the FDC (Fundacao de Desenolvimento da Comunidade) a national civic organisation with close ties to FRELIMO, the current and long standing party in government.

In 2004 and 2005 the G20 produced a poverty report (RAP) which, according to the same civil society activist "reduces poverty to data collection which is displayed in a way not accessible to the majority of Mozambicans. The RAP is a very narrow instrument that is more useful for consultants and donors than for the poor. In addition, it is not focused on monitoring and evaluating the poverty reduction strategy."

The Mozambican CSOs have not so far developed an approach to monitor and evaluate aid targets and indicators in the PRSP/PARPA. The annual evaluation takes place in the dialogue between government and donors and CSOs have no significant space. The process of budget support excludes the CSOs and the Parliament. "There is need to set up a strategic engagement with the government which includes shared responsibility on partnership and negotiation within the joint budget support group if the G20 is to become a meaningful hub for civil society participation."

Source: Viriato Tamele: "The CSOs' role in General Budget Support in Mozambique", September 2007.

Despite numerous procedural problems, these efforts seem to have contributed to a certain extent to, at least, set the ground and the mechanisms that if improved could be used to strengthen downwards accountability in Mozambique. No changes are noticeable in other countries, such as Burkina-Faso or Tanzania. In no case, outcome conditionality seems to be the driver behind this change (or lack of change). Change has unleashed in some countries due to national circumstances and willingness but not so much as a result of any type of donor conditionality.

3.3 Outcome indicators: cure or curse?

The challenges around indicators are multiple, ranging from the choice of indicators, the ways in which they are chosen, or how these indicators are annualised and evaluated.

Outcome-based indicators as used by the European Commission are mostly related to service delivery in the health and education sectors. The reasons for choosing these indicators are sometimes operational – these sectors provide some indicators, such as rate of immunisation, which are easy to operationalise and respond quickly to government action. However, systematic choice of these sectoral indicators reflects political priorities on the donor side rather than tailoring to national choices and circumstances. In addition, emphasis on these two sectors could unleash, in the mid-term and in case that a notable amount of money was linked to these, a certain bias towards health and education dismissing other sectors which in some national circumstances could also be crucial to achieving poverty reduction.

Officials from Sierra Leone are also concerned that the choice of fewer and more concrete outcome indicators against which disbursements are made may increase pressure to the government to deliver on the targets for the indicators chosen while diverting attention from other areas. “It is not that the government doesn’t think it is important, for instance, to increase the proportion of assisted deliveries. The problem is that the choice of indicators is not always led by the government, but by the donor, and the focus on a very concrete outcome may miss the broader picture and put too much pressure on the Health Ministry as performance on such indicators are instrumental in getting budget support funds linked to performance fully disbursed”, a Sierra Leonean official said.

Civil society and parliamentarians interviewed expressed reluctance about the choice of indicators: “In Uganda, we badly need improvement of roads to be able to develop local productive activities and even to get to hospitals and schools”. Indicators used by the European Commission in Mozambique and Burkina-Faso are almost without exception within the PAFs. In Tanzania, where the government is more reluctant to adopt a results-based approach, the Commission has sometimes used indicators outside the PAF. Likewise, in Burkina-Faso and Mozambique, PAF indicators are substantially aligned to the PRSPs – and to a lesser extent in Tanzania.

However, the problem is that PRSPs generally do not include detailed outcome indicators. And even if there is the recipient government officials consulted agreed that no indicators are actually “forced” onto them, officials from Sierra Leone raised the fact that the proposal for indicators usually springs from the donors’ side and governments are too stretched to enter in an equal-footing discussion on the appropriateness of these. In addition, once the indicators are agreed in the PAFs, some of them do not include yearly targets which can be used for informing donors’ disbursements. Therefore, the Commission is bound to annualise targets for the indicators chosen and this process is not without tension. Targets need to be ambitious, but at the same time realistic and perceptions of what is in the government’s control change across the negotiating table. At the end of the day, annual targets allow for a very short time for the government to deliver on the targets agreed.

In addition, some indicators are sometimes biased towards quantitative rather than qualitative monitoring of progress achieved in these sectors. “The number of assisted deliveries in health centres in Burkina-Faso does not reflect the fact that the quality of these centres sometimes could advise women to deliver at home. And the number of girls enrolled in school does not reflect progress (or lack of) in the quality of education received” as a Burkinabe civil society activist acknowledged.

3.4 Outcome indicators beyond the social sector

There is a wide range of policies which seem to clearly be under the government’s control. These are mostly related to access to basic services and infrastructure, such as access to water, access to and reliability of electricity supply (energy), telecommunications and transport. In these sectors, outcome indicators are relatively easy to identify and they are already being used by the EC (clearly in the case of access to water, as one of the eight MDGs). Although only for the purpose of measuring progress, they are also used by the World Bank (i.e. telecommunications costs borne by consumers, number of telephone lines available). Public Financial Management is another sector where results seem to be fully controllable by the government. Moreover, it is widely agreed that PFM issues are closely linked to “fiduciary aspects” of aid contracts, so they should be clearly included – mostly to ensure that effective procedures are in place to so that money goes where it should.

The link between government action and outcomes is slightly less straightforward in the productive sector. And yet the government has very large leverage in achieving certain outcomes. For instance, with regards to agriculture – the largest productive sector in most developing countries – governments can take actions related to access to land, access to credit, seeds, water or fertilizers which may have a great impact on results achieved. Thus, while not being fully controllable, government still has a very large share of responsibility in achieving the outcomes (or not).

Last but not least, there are sectors in which it would be **more difficult to track responsibility** of the government in the outcomes achieved. These are mostly related to the **external sector** (i.e. exports or foreign direct investment) where variable related to the global economy and markets can easily outweigh the leverage that the government may have. However, **if outcomes in this sector are fully out of government's control, what is the purpose of prompting the government to take policy actions in this sector** (i.e. lifting trade barriers or lowering taxes for foreign investment)? Implicitly, the Bank and the Fund seem to understand that there is a relation between certain policies and their outcomes, even in these sectors where influence of government action is more difficult to track. This seems to be in clear contradiction with their main argument against outcome-based conditionality.

3.5 Attribution – or where to place the higher risk

The European Commission is convinced that progress in a country is in the hands of the government and they should be held accountable for the results of their actions. This is one of the rationales behind moving towards outcome-based conditionality. However, a Malawian official harshly criticised outcome-based conditionality on the grounds that “these indicators are not in the hands of the government and they are very difficult to achieve”. Officials from the Mozambican government also express unease with having to meet target indicators because of the difficulties they see in attaining them.

The Bank and the Fund are also concerned about attribution issues around tying their aid to development outcomes claiming it is extremely difficult to attribute outcomes to a government's actions (or inactions). However, policy-based conditionality does not get around this problem. This is because policy-based conditionality is also grounded on the presumption that there is causality between government policies and outcomes.

The Commission holds that outcome indicators used are “**readily susceptible to government action.**” Their progress depends on “measures over which government action has very large leverage” if they are not fully within government's control. They recognise that **external shocks** such as floods, droughts, plagues, or other human created external shocks such as conflicts, or global financial crisis, can heavily undermine the most heroic government efforts and provoke serious drawbacks on results. But these can be clearly identified and taken into account.

Professor Ravi Kanbur⁴³ suggests using averages of outcome variables in several years, to shift away from the narrower one year focus to assess performance. Similarly, progress towards agreed targets could be measured dynamically – looking into longer time-spans – rather than statically looking at results achieved at a certain date.

Allowances (or waivers) can also be used in the event of a clear external shock jeopardising government action. For instance, in 2006 Mozambique could not achieve the agreed development outcomes with the EC because of severe floods. The reason was identified and measures were taken not to punish the country for that. Obviously, the question still remains about who decides what event constitutes an external shock deserving a certain allowance and under what procedures.

You can have a set of policy conditions whose implementation is easy to track thus solving the problem of attribution. However, then you face a greater risk with regards to whether these policies are effective in delivering poverty reduction. On the other hand, you can focus on poverty reduction and try to ensure that this final goal is met. You then face a greater risk in terms of uncertainty on how governments are going to get there. Given that the final goal is achieving poverty reduction, shouldn't we take a lower risk ensuring the goals are met, even if this is at the cost of a higher risk (or uncertainty) on the means?

The Bank and the Fund solve the problem of attribution at the expense of sacrificing greater focus on poverty reduction. It seems odd to solve a problem by turning a blind eye to a greater one, which is whether the policies recommended by the Bank and the Fund are conducive to poverty reduction.

3.6 A mechanistic link to disbursement

Other criticisms point at how progress achieved on these indicators links to disbursement. On the one hand, the formalised framework set by the Commission provides a more objective base for assessment. On the other hand, if not applied with the necessary flexibility they risk establishing a very mechanistic link between a given target and the share of funds disbursed. Moreover, a Malawian official also expressed unease with the fact that most times only a share of the funds are going to be disbursed, but hardly ever entirely. There is a clear tension for governments between the gains in terms of policy space in the long run if outcome-based conditionality is more widely applied, and the loss in terms of governments' efforts to adjust to this new approach and the financial burden of not getting 100% of the funds disbursed. Finance ministries officials naturally tend to think of the short run (which is linked to the electoral cycle) and to getting all funds disbursed. Civil society and officials from other ministries are more conscious of the merits of outcome-based conditionality in the long-run.

The way the EC has operationalised "variable tranches" providing a graduated response to good performance or under-performance could give governments a higher degree of uncertainty with regards to the exact amount of funds which they may receive. At the same time, a graduated response to performance entails a greater certainty about getting, at least, a given share of the funds – as underperformance will be punished by a smaller share of funds disbursed, but it will hardly ever entail a complete halt of the aid flows.

Besides, the concept of disbursing aid against development outcomes does not necessarily imply a "variable tranche" approach along the lines of the Commission. In fact, in theory, an "all-or-nothing" approach could also be applied. However, it does not seem that "all-or-nothing" and "stop-and-go" procedures used in traditional policy-based conditionality are any better in making aid more effective. While the latter systems are clearer in determining the exact final amount a government will receive, the chances of not receiving funds at all also seem to be greater than a graduated response based on a strengthened policy dialogue could yield altogether more predictable results.

3.7 Long term commitments VS short term disbursements

Development outcomes at the level of beneficiaries won't happen overnight. This could clearly be a reason to shift to longer term programs which allow recipient countries some time to experiment development policies, deliver development outcomes, while not being tied up so often with high administrative burdens resulting from such short programs.

In the past years, the potential has been constrained by the fact that disbursements have been made on an annual basis and thus performance assessment of the indicators agreed also have taken place every year. The latter increases the burden of national governments which need to report after very short periods of time and diminishes the space for the government to achieve results which take some time to occur.

The EC has responded to this problem prolonging the timeline of the programs and funds committed up to six years in their enhanced modality of General Budget Support, the "MDG Contracts", which is to be approved within the next weeks. The "MDG Contracts" propose making assessments with financial implications every three years. This is obviously a very welcome development which has the potential to increase predictability of aid flows and increase their focus on poverty reduction.

3.8 Limited civil society participation

Civil society organisations are generally unaware of the European Commission's shift to outcome-based conditionality. There is a vague awareness of the push towards a results-based approach and the inclusion of outcome indicators in the PAF matrices. However, civil society in the three countries assessed tends to be uninformed about the fact that some donors are linking their disbursements to outcome indicators.

Once again, this situation may be partially due to the fact that NGO participation in donor and government negotiations occurs within the framework of the joint donor groups, and within this context outcome-based conditionality is not a predominant part of the discussions on conditionality. Involvement in joint budget support groups, though, is uneven across countries. In Mozambique the joint budget support group has set up twenty-three thematic working groups with a tripartite structure, including donors, government and civil society representatives. This structure should allow civil society to engage in policy dialogue with donors and governments from programming to monitoring and evaluation. However, most

Mozambican groups do not have the capacity to meaningfully engage in an ongoing basis. The amount of discussion and outputs produced require time and human resources which are hardly available. Civil society has been able to provide more inputs in social sector related working groups, whereas engagement has been more limited in economic policy or public financial management discussions. In Burkina Faso and Tanzania channels for civil society participation are not quite as formal as those in Mozambique. Participation is more ad hoc and there are no mechanisms providing for a formal ongoing dialogue with donors and government within the framework of joint budget support groups.

The European Commission has not conducted any consultations or hearings with civil society on the issue of outcome-based conditionality in the countries assessed. They have not conducted informal meetings either to find out about non-governmental priorities for the national development plans. Such consultations are supposed to take place within the process to draft the national development strategies (PRSPs) or within the joint donor groups, when it comes to priorities in the Joint Assistance Strategy (JAS) or indicators in the PAF. Given the limited civil society participation in the latter, it is doubtful that NGOs have been able to input in the choice of outcome indicators linked to the Commissions disbursements. Technical complexities related to the system that the EC uses to implement their outcome-based conditionality approach increase the difficulties for civil society to monitor this system.

A representative of a Tanzanian NGO, while acknowledging that the Commission has to be given credit for pushing a results based approach, showed scepticism about the potential of outcome based conditionality to create more policy space. "Donors come along with new formulas every now and then, and after few years these fade away and they come with new ones...But it is always about their agendas, not necessarily ours" a Tanzanian civil society activist says. However, when briefed about the European Commission shift, civil society organisations and networks in these countries tend to acknowledge the potentials contained in this new approach.

However, if transparency is to be improved, technically complex systems should be simplified to allow for greater civil society awareness and monitoring of this approach.

Section 4: Political challenges

4.1 Opening-up policy space: contextual burdens or “business as usual”?

An appealing prospect of this new approach is donors’ greater attention to the true underlying objectives of development aid. However, if outcomes are not sharply defined in terms of direct benefits of policies for the people (outcomes of policy actions), multilaterals may end up using a hybrid mix of old-fashioned policy actions and their immediate results or outputs with some “outcome” dressing. This is not only tricky because it deprives this new approach of most of its potential, but also because it may provide its detractors with best arguments to claim that this is only the multilaterals’ “new toy of the season”. Besides, it may create a problem of adding new conditions to the old ones (“double-conditionality”), which may increase confusion around what are, at the end of the day, the real indicators used by multilaterals to take financial allocation and disbursement decisions. It may also raise the administrative burden for national authorities bound to monitor a whole different range of indicators.

Conditionality baskets

The EC has certainly managed to **streamline the number of conditions** attached to their budget support. Unfortunately, streamlining has not gone as far as it could have and the overall number of conditions attached to the EC budget support is not substantially lower than that of the World Bank.⁴⁴ Besides, the overall conditionality burden borne by a country may have increased as a result of harmonising their conditions into common conditionality frameworks.

As a result of efforts aimed at coordinating and harmonising budget support at country level, as agreed in the Paris Declaration on Aid Effectiveness, donors and recipient governments have pooled in the so-called “donor groups”. These groups are intended to coordinate assistance strategies through the “Joint Assistance Strategies” (JASs); they pull together all conditions that the country has to meet in the joint “Performance Assessment Frameworks” (PAFs); and conduct joint yearly evaluations to monitor results and assess whether the conditions have been met.

Donors come to the joint group with their own “conditionality shopping list” and the result is that rather than a matrix with fewer and clearer conditions, the PAF is the sum of all donors’ wish-list. Once the PAF is set, each bilateral or multilateral donor picks the subset of conditions which they like – presumably those that they have contributed – and link their disbursements to their preferred subset.

The result is a melting pot of different types and shapes of conditions, which needs to meet different donors’ aspirations and, in principle, be aligned to the corresponding national Poverty Reduction Strategy Paper (PRSP) or National Development Strategy. In this context, it is difficult to tell what may have been the impact of the EC’s contribution of outcome-based conditions in opening-up policy space for the government or improving the policy dialogue. It is reasonable to think that the influence at best may have been one among many; and, at worst, it may have been simply neutralised by the influence more enshrined old-fashion modalities of conditionality. Thus, what in principle seems to be a good development in terms of donor coordination and harmonisation, poses serious challenges to assess how – if at all – outcome-based conditionality may have increased policy space for national governments.

Table 8: Different types and shapes of conditions in the PAFs

Underlying process	Process Actions	Outcome indicators	Targets
Cluster 1: Growth and Reduction of income poverty			
Energy sector	Implementation of the TANESCO financial recovery plan	Total electricity generating capacity and utilisation	Installed capacity 1278 MW, reliability of supply 85%
Infrastructure	Transport sector investment plan and a framework for PPP	% of rural population who live within 2 Km of an all-weather road	Targets to be agreed by start of sector review
BEST programme review	Implementation of Business Activities Registration Act	Enabling environment for private sector as reflected in Doing Business ranking	Ranking 99
Financial sector reforms	-	Increase credit extended to private sector	30% annual increase
Cluster 2: Improvements of quality of life and social well being			
Health sector review	-	Proportion of children vaccinated	85%
Education sector review	-	Net primary school enrolment	99%
Cluster 5: Public Financial Management			
PEFAR review	Procurement indicator on the basis of OECD DAC procurement compliance indicators	Number of procuring entities complying with Public Procurement Act 2004	80%
Cluster 6: Macroeconomic stability			
PER MACRO	Policy Support Instrument (IMF PSI)	Inflation rate consistent with PRGF targets	Per PSI

Source: 2006 PAF for Tanzania (selected excerpts from some of the thematic clusters)

Once agreed, each donor can pick from the PAF their subset of preferred conditions to link its disbursements. And the government needs to meet them all. A staff of the European Commission delegation in Tanzania confessed that joint donor groups and the PAFs they produce may have rather increased the overall conditionality burden for governments, as “there is now more conditionality than in the past.”

For instance, the PAF in Mozambique contains almost fifty actions and outcome indicators which the government and donors are supposed to monitor in a yearly basis. In the case of Burkina Faso indicators go up to more than a hundred. Staff of the EC in country offices expressed concern for the lengthy PAF and said that streamlining the number of conditions in the PAF is a priority for all donors when designing the next matrix. Even if all the actions and outcome indicators included in the PAF are not legally binding conditions – some of them are just used for monitoring and evaluation purposes – this shows the donors’ underachievement in trying to harmonise and streamline the number of conditions and monitoring indicators so far. Strikingly, countries where donors acknowledge higher success in terms of harmonisation – such as Burkina Faso and Mozambique – happen to have longer PAFs than other countries with lesser progress towards harmonisation – such as Tanzania.

The above-mentioned situation cannot be solely attributed to the emergence of outcome-based conditionality and the fact that it has added a new type of conditions while not being able to phase out the traditional ones. World Bank staff at country offices claims that “the EC push for outcome indicators has not put an extra burden to the conditionality framework, it has only added another column in the PAF where required policy reforms are matched to outcome indicators to measure performance”. This is only partially the case as some of the outcome indicators are matched to policy actions, but this is not always the case. The World Bank uses outcome indicators to assess performance and picks conditions for disbursement from the column containing policy measures. However, the EC would only choose outcome indicators as disbursement conditions for their social sector variable tranche. All in all, the PAF is the outcome of a common negotiation among all budget support donors in the joint groups and a lengthy PAF is the consequence of a collective failure of agreeing a limited number of conditions.

Increasing policy space

When it comes to the **increasing policy space** available for governments, the context of the joint donor groups may have neutralised any improvements potentially brought by outcome-based conditionality. But this is not the only reason. In Tanzania, the EC conducted bilateral negotiations with the government to agree on social sector outcome indicators, as they were not fully included in the PAF. And yet, policy space does not seem to have improved in this case where outcome based conditionality was isolated in the negotiation.

This case shows that beyond contextual reasons, there are deeper political challenges related to donors' confrontations over development aid and long-standing structural imbalances between donors and governments may have also burdened the expectations to open-up policy space.

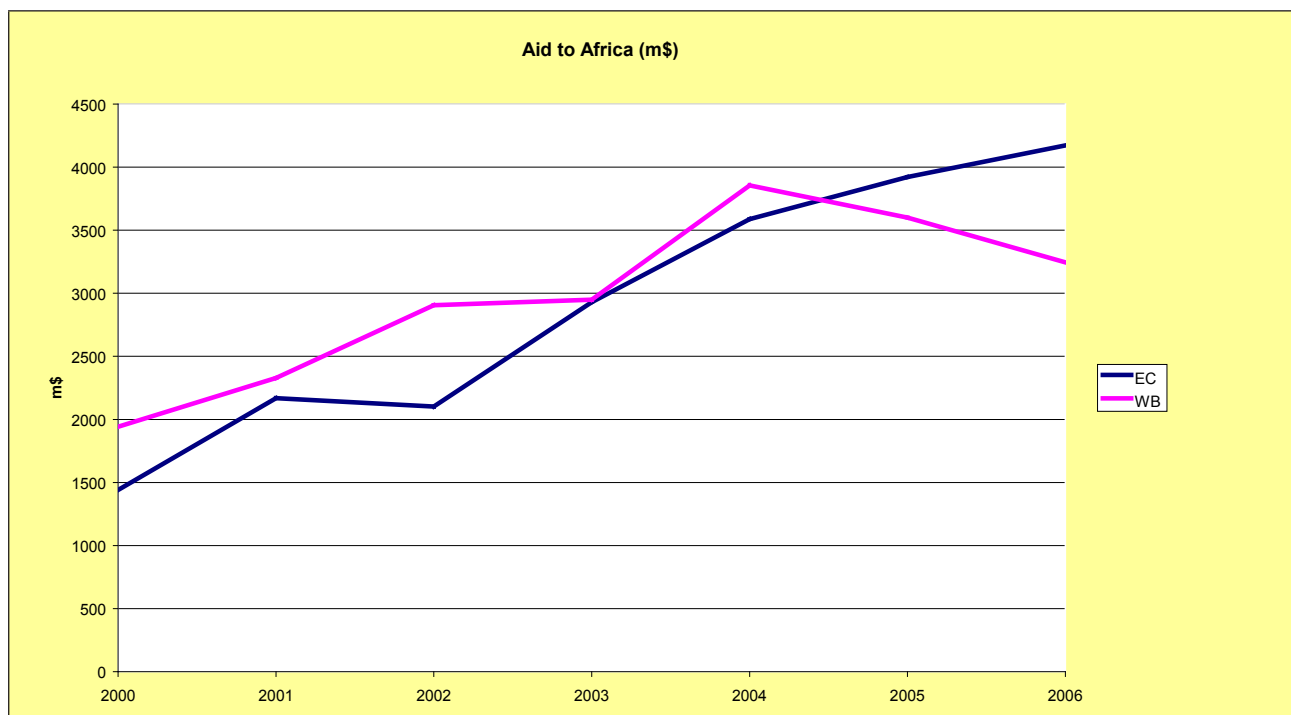
On a positive note, joint donor groups seem to have contributed to **enhance the policy dialogue** with governments, which now have – at least – all interlocutors in the same room. In this regard, policy dialogue has improved among all parties involved. These changes, though, could hardly be attributed to outcome-based conditionality but rather to current dynamics stemming from broader donor and governments efforts around the aid effectiveness agenda.

4.2 Further contextual burdens: WB and EC wrestle for control over development aid in Africa

Experiences in Burkina-Faso and Tanzania show that the World Bank has been struggling to keep its influence in the light of the sharp increase of the funds that during the last years the Commission alone is channelling to African countries – slightly higher than the World Bank International Development Association (IDA). In Burkina Faso, the Bank was initially reluctant to engage in the pilot on outcome-based conditionality conducted from 1999. Finally they joined the group of donors conducting the pilot. But World Bank economists that were during these years in Burkina-Faso have rather sceptical views on the results yielded by the pilot.

And in Tanzania World Bank staff are very sceptical on the possibility of advancing a results-based approach in the short-run. "In general, the government could see outcome-based conditionality as a chance to increase policy space available for them to take their own policy choices. However, often governments have neither the priority nor the capacity to go beyond the day to day business. This approach would imply embarking on far-reaching reform of the public sector management which some governments are not ready to undertake" a World Bank official said. Moreover, the interviewee added that at the moment in some countries, such as Tanzania, "it is difficult for the government to provide annual data on the outcome indicators typically used by the European Commission. It is also difficult to make sector ministries to make commitments on these indicators so as to make them monitorable." Although these positions tend to be defended on the grounds of operational challenges and government's unwillingness to move to this approach, there are clear underlying motivations of a more political nature.

Chart 3: World Bank and European Commission aid to Africa



World Bank staff explicitly stated that donors should accompany very closely governments' decision-making process: "donors should not withdraw and just come back after a year to look at how indicators for results have evolved". These views diverge from those of the Commission staff in headquarters. However, divergences are smoothed when it comes to staff in country offices. European Commission country offices, which have been instructed from Brussels about the need to open up policy space, tend to agree that if further policy space is opened-up there would be need for increased technical assistance. These views are shared with officials from other multilateral agencies, such as UN agencies, which have the reputation of having a more "hands-off" approach to development. Obviously, technical assistance is troubled water which has to be approached with caution when devised as a "solution" to meet recipient governments' needs of policy advice.

Reluctance of bilateral donors to move towards this approach is diverse. Among most progressive donors, and particularly those who have progressive policies on conditionality, Norway prefers refraining from posing any particular type of conditionality and linking disbursements to overall assessments. DFID seems to be institutionally traumatised by an attempt to implement internally a results-based approach which staff felt was unfair and hard to meet. This has developed a sense of solidarity with governments that face the same circumstances and also complain about the difficulties of meeting the targets set. A number of other rather progressive donors, such as Switzerland, Sweden or Denmark are already using a "split response" mechanism⁴⁵ in some countries, such as Mozambique; and for instance Denmark is considering expanding this approach to other countries like Burkina-Faso. For most donors, such as Southern Europeans which are very inexperienced at using budget support, these debates are just out of reach.

In general, though, the indecisive seem to look back to the Bank rather than the European Commission. This may be due to the fact that, even if the Bank has recently been outweighed by the Commission in the volume of funds channelled to Africa, it has not still lost the reputation of the multilateral with greater expertise in development issues. The European Commission, after several years of ineffective and unpredictable aid, still has a long way to go to gain the EU members favour.

4.3 The problem with “creating incentives”: business as usual?

Recipient governments are also facing internal contradictions to clarify their positions on outcome-based conditionality. They tend to acknowledge that outcome-based conditionality can give broader policy space. However, they do not provide clear-cut answers on the merits of this new approach.

Government officials within the Ministries of Finance are mainly focused on obtaining the funds the easier the better. . Benefits in terms of country leadership that outcome-based conditionality could bring along in the mid-run are outweighed by concerns of dealing with a framework of conditions which is unknown – it is too much hassle having to deal with new frameworks and still being hardly able to get 100% of the funds disbursed – and which, according to the views of the Malawian Minister of Finance, are much easier to meet and fully under government control. On the other hand, sectoral ministries, such as health or education, may sometimes use donors’ influence to leverage the Ministries of Finance in order to get more funds. For this reason, they may not be fully happy with a “hands-off” stance from some donors. Generally, joint donor groups and their contribution to improve policy dialogue seem to progressively mitigating these dynamics, while enhancing coordination with donors and within governments. However, parts of the government still may be addicted to these power games and thus not keen to shift to a new conditionality framework.

At the end of the day, the reality of most elected officials in governments (in recipient countries and anywhere else in the world) is that they operate according to rather short-run electoral cycles. Therefore, getting the funds easily disbursed now will tend to outweigh greater gains in terms of country ownership in the mid and long-run. Which politician would take full responsibility for their actions if they could blame an external actor for their under-achievements?

Some governments also express unease about the fact that donors applying this approach may withdraw from giving “necessary and appreciated policy advice”, as the Malawian Minister of Finance feared. In one of the countries assessed, the Minister of Health went to the European Commission delegation to get informal approval of the draft national health strategy. European Commission officials report that they refrained from rubber-stamping the strategy on the grounds that this should be a national decision. In Burkina-Faso, officials from the Ministry of Finance report their comfort with two types of conditions, policy based and outcome based as “they are complementary and while the former provide advice on policy-making the latter help to increase monitoring of results.” Reliance of some developing country ministries on the “advice” from development agencies is coupled by what David Ellerman calls “the social engineering vision that development can be “done” through a series of projects and programmes incentivised by development aid (loans and sometimes grants) and executed according to the instructions or plans laid out in the conditionalities, with detailed technical assistance provided by visiting experts. Where there are “good” and “bad” factions in the government, the mental imagery in the agency is that timely intervention (with a lot of money) can tip the balance in favour of the good guys and push the government over the hump so that deep-lying institutional change will then take place.”⁴⁶

Having raised the note of caution above, it is also worth noting that the incentive framework used by outcome-based conditionality differs substantially from the one used by policy-based conditionality. Outcome indicators are drawn from development objectives which have been internationally agreed, for example within the framework of the Millennium Development Goals. On these grounds, one could say that they are not an externally imposed agenda. According to these views, outcome-based conditionality would only be the terms of a contractual agreement based on a “minimum of internationally agreed social and human rights standards.”⁴⁷

In countries such as Burkina Faso – or Ethiopia – where the results based approach is part and parcel of the government’s political culture according to in-country staff of the European Commission, outcome based conditionality has nicely coincided with the government’s agenda and there have been no major implementation challenges. In Burkina Faso the government is a strong driver behind strengthening the results based approach and is asking the European Commission to raise the importance of outcome indicators in the PAF and in the financing agreements. However, in Tanzania for a number of years the governmental has been reluctant to adopt a management-for-results approach. Thus, outcome based conditionality has come as an extra burden for an already stretched government which is not very keen in changing the type of indicators that has been required to monitor in its long-standing love and hate relation with donors during the past forty years. The Commission seems to be succeeding in lobbying European bilateral donors to support their approach in the current negotiations for the new PAF, thus a move to outcome indicators in the PAF matrix stems from a donor push rather than national acceptance of this framework.

The main problem identified is not new to anyone. Development is a complex process. Same development policies don’t work equally in different places so development processes, in order to succeed, need to be tailored to national circumstances and priorities. Even if no one would disagree that health and education are crucial sectors as they invest

in people and human capital is the basis for sustainable development, where are other productive and non-productive sectors left? Are they less important, in general? And in a particular country situation, couldn't it be that prioritisation of other sectors was necessary in a certain juncture? These are questions that can only be answered case by case, and responding to the needs and desires of those who will be directly affected.

Even if there are merits in the need to enforce internationally agreed development goals, as much as human rights and other internationally agreed standards and obligations, maybe the specifics of how outcome-based conditionality has been implemented so far call into question its full respect for country ownership. A less mechanistic link between targets and disbursement and an open-ended range of human development indicators that countries could choose could certainly contribute to relax some of these tensions.

Section 5: Conclusions, questions unanswered and challenges ahead

Outcome based conditionality means different things to different people

Outcome-based conditionality means different things to different multilateral agencies. Some understandings and uses of this new approach do not take up the full potential of shifting the focus from policy actions to poverty reduction as they define “outcomes” as the results of certain economic or structural reforms which do not contain indicators on poverty reduction, such as the internationally agreed Millennium Development Goals. Nor they take up the potential of opening up greater policy space for governments, as they keep on instructing recipient governments what are the policy actions that they should implement in order to achieve a given set of outcomes. This seems to be the case at the World Bank and the IMF.

The European Commission has been the only multilateral to implement conditionality based on outcomes related to social services delivery hoping that it would encourage focus on poverty reduction; it would streamline conditionality; and it would protect the political space for governments to determine the policies of their choice.

Uneven success in creating incentives for poverty reduction and opening-up policy space

There is widespread agreement that this modality of conditionality by the European Commission has:

- **promoted a results-based approach** and helped develop indicators to measure poverty reduction;
- been a catalyst to increase governments’ focus on poverty reduction;
- managed to **streamline the number of conditions**; and
- contributed to **improve policy dialogue** between donor and recipient governments.

While acknowledging that the EC approach has fostered a greater focus on results, the introduction of outcome-based conditionality is not sufficient to create incentives for poverty reduction. Moreover, it is unclear whether a greater focus on poverty reduction has translated into actual results. In the cases examined by this study, outcome indicators chosen by the Commission and the governments have evolved rather positively and the majority of targets have been achieved. Joint annual reviews are also positive with regards to poverty reduction trends. However, when checked against other sources, poverty reduction does not seem as promising.

Likewise, progress in opening-up policy space gained by the introduction of outcome-based conditionality may have been offset by the fact that the overall conditionality burden borne by a country may have increased as a result of donors aggregating their conditions into common conditionality frameworks. This seriously limits the potential of outcome-based conditionality to open-up policy space.

Structural constraints

Long-standing structural power imbalances between Northern and Southern governments suggest that current changes in the conditionality framework, such as harmonisation of different donors’ conditions in the joint Performance Assessment Frameworks, or the shift from policy-based to outcome-based conditionality, contain, once again, the risk of gravitating to “business as usual”. At the end of the day, outcome-based conditionality still relies to a certain extent to the idea of creating incentives from outside. And, as David Ellerman says, it is doubtful that “development agencies with organisation “business plans” based on providing aid by moving money could implement an autonomy-respecting indirect approach to development assistance. .../... the more powerful the agency is, the less likely it is to pursue the indirect methods required to fulfill its mission.” In addition, some recipient governments may prefer the short-term gain of securing aid through policy-based conditions which are “easier” to fulfil, rather than investing in longer-terms effects that the outcome-based conditionality promises to bring about – such as opening-up policy space in the future, or improving poverty reduction rates.

However, if we are serious about breaking the vicious circle of dependency in development aid and increasing country leadership in deciding the policies that will reduce and eventually eradicate poverty in their countries, it would not be wise to dismiss without further assessment policy reforms which may have the potential of constituting a stepping stone towards the ultimate end. It is early to provide a definitive answer on whether outcome-based conditionality can play that role. It is however safe to say that outcome-based conditionality can be based on internationally agreed development goals, instead of ideologically-biased economic policy reforms; it has the potential of giving developing countries more space to decide which policy reforms they wish to undertake; and it puts poverty reduction in the spotlight. It could also constitute a strategic reform towards streamlining the conditionality burden and a stepping stone towards a framework in

which the contractual terms of the aid agreements are more balanced between donors. However, in order to unleash its full potential, some challenges need to be addressed.

Some challenges and recommendations

A number of challenges have been identified when assessing the merits of outcome-based conditionality in paper: the problem of attribution (or whether the government can be deemed responsible for the achievement or under-achievement of certain results); the quality of indicators to measure poverty reduction and the quality and availability of data to monitor poverty reduction trends; the (un)intended effects on predictability of financial flows; and the real potential of this approach to unleash broader policy space for governments and a more balanced relation between donors and recipients.

Some of the problems outlined above, came up as real problems on the ground when the desk-based case studies were conducted. Some others appeared to be less relevant in practice than in theory. And, lastly, new problems linked to the implementation of outcome-based conditionality arose when examining the reality of this approach on the ground.

1. Funds disbursed against outcome indicators are a tiny share of the total budget support – generally in the countries assessed they range between 2 to 3 percent of the overall budget support. It is unlikely that this amount of funding can create enough incentives for the governments to take seriously this approach when the efforts outweigh potential gains in terms of finance and policy space. The problem of attribution and the lack of predictability were mentioned as real concerns by government officials consulted.
2. Moreover, outcome-based conditionality has not been implemented in isolation, but as a part of the joint budget support groups, where donors continue to use different types of conditionality. As a result, the overall conditionality does not seem to have substantially decreased.
3. The problems related to the quality of data also came up when assessing outcome-based conditionality in practice. But from a rather different angle. If concerns in theory mainly referred to the insufficient data available to monitor poverty reduction trends, in practice the problems with the quality of data refer to the inadequacy of data to strengthen downwards accountability and provide a tool for civil society and citizens to monitor their governments.
4. The problems with outcome indicators are multiple, ranging from technical to political issues. Indicators do not seem to result from a balanced negotiation between donors (the European Commission) and governments, but rather tend to reflect donors' priorities and needs.
5. Civil society participation also appears to have been very limited, due to the complexity of the process and due to the fact that governments and donors have not really made serious efforts to involve civil society in the policy dialogue concerning budget support.

Recommendations for donors

Some of the problems with the outcome-based approach to conditionality are contextual constraints, such as the fact that it has been implemented within the context of the joint budget support groups, where donors have not managed to harmonise their approaches to conditionality and thus governments still bear the weight of different types of conditions. Some other problems are clearly intrinsic to the design and implementation of this approach and should be addressed if the expectations for this approach are to become a reality:

1. The **process of choosing outcome indicators should be much more inclusive and led by the recipient government**, rather than by the budget support groups – mostly dominated by donors. Civil society should be involved in all the stages of the policy dialogue. Even if the European Commission and their outcome-based approach to conditionality are not the only player in the joint budget support groups, they could use their leverage as a growing budget support donor and their privileged position vis-à-vis the European bilateral donors to streamline conditionality in the joint Performance Assessment Frameworks (PAFs) and to shift the leadership in the process of designing the PAFs from donors to governments.
2. Governments should have the space to pick outcome indicators within the sector of their choice (which would open-up the choice to a wider range of indicators and avoid resorting systematically to health and education only). Needless to say, indicators should always meet the requirement that they should be geared at monitoring

results in poverty reduction.

3. Outcome-based conditionality / **indicators should also try to grasp qualitative aspects** of poverty reduction and avoid a purely quantitative monitoring.
4. **Data** should be collected and displayed in ways which **strengthen downwards accountability**, instead of serving only governments' and donors' monitoring and evaluation purposes.
5. Assessments for disbursement were, until 2008, conducted on a yearly basis, thus undermining the potential of the longer term commitments by the European Commission. This increased the administrative burden associated with yearly assessments and did not allow enough time for governments to obtain the desired results. Thus, data should still be collected on an annual basis but **disbursement decisions should only be made every 3 years**.
6. Technical complexities to decide disbursements burden civil society monitoring of this approach. Moreover, the formulas used can sometimes be a narrow assessment of progress as they establish rather mechanistic links between a number of targets and the amount of finance disbursed. This seems to suggest that a **less mechanistic link between targets and disbursement** could help to relax the burdens that both governments and civil society in Southern countries face when trying to implement and monitor this approach.
7. Last but not least, it is fundamental that the move towards this new modality of conditionality is presided by greater coherence in the use of conditionality. This requires that policy-based conditionality is phased out, as well as other forms of donor intrusiveness in recipient governments policy-making - such as aid allocation systems or eligibility criteria imposing conditions "through the back door" or simply broader systemic incoherence between development aid and donors' commercial interests and foreign policies.

Recommendations for civil society organisations

If civil society is to advocate and support this new approach – and try to link more funds to it so it can have a greater impact – further research on the impact of that outcome-based conditionality as implemented by the European Commission has had so far; research on how this approach could be creatively used to streamline the conditionality burden; as well as further consultation with civil society groups in the South will be needed.

In general, more discussion on this approach with governments, parliamentarians and civil society in the recipient countries is also needed. Greater awareness on the functioning and implications of this approach, as well as on its risks and opportunities, needs to be raised. In addition, it is crucial to assess whether this approach actually lightens the conditionality burden, and represents a strategic step towards phasing out Northern intrusiveness in Southern policy choices.

Complementary, constraints limiting civil society participation should be addressed as they are likely to remain even if approaches to conditionality shift from policy-based to outcome-based. Citizens groups in the South should lay out how this approach can be made operational in ways which match their expectations in terms of creating incentives for poverty reduction and opening-up policy space.

Upcoming opportunities

Both the preparatory meetings taking place in the run-up to the Accra High-Level Forum on Aid Effectiveness and to the Doha Conference on Financing for Development are focussing on the need to move the conditionality debate forward and have identified outcome-based conditionality as one of the possible strands of work.

Ongoing discussions in the run-up to these conferences have already identified the contradictions faced by the widespread agreement of the need to increase ownership of developing countries and the continued use of old-fashioned conditionality frameworks which maintain the dominant influence of donors in recipient governments' policy choices.

Civil society engagement in these processes will be instrumental to shining a light on these contradictions; to confront donors with the contradictions between their rhetoric and their practices; and to come up with innovative proposals to overcome such contradictions and step-up progress towards truly balanced and mutual contractual agreements in development aid.

Endnotes:

¹ Rome Declaration on Harmonization (February 2003) and Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability (March 2005).

² For a review of new approaches to conditionality: Wood, Angela: "Current Topics on Conditionality", CIDSE – Caritas Internationalis, May 2005; World Bank: "The Theory and Practice of Conditionality: a Literature Review", July 2005.

³ Rome Declaration on Harmonization (February 2003) and Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability (March 2005).

⁴ World Bank: "Good Practice Note for Development Policy Lending", June 2005.

⁵ World Bank: "Review of World Bank Conditionality", June 2005.

⁶ Eurodad: "Untying the knots: how the World Bank is failing to deliver real change in conditionality", Policy briefing, November 2007.

⁷ Rodrik, Dani: "Growth Strategies", August 2004; Ha-Joon Chang: The East Asian Development Experience, Third World Network, 2006.

⁸ For a review of new approaches to conditionality: Wood, Angela: "Current Topics on Conditionality", CIDSE – Caritas Internationalis, May 2005; World Bank: "The Theory and Practice of Conditionality: a Literature Review", July 2005.

⁹ Bretton Woods Project, CAFOD, Christian Aid, Eurodad, Oxfam International, Norwegian Church Aid, et. al.: "Blind spot: The continued failure of the World Bank and the IMF to assess the impact of their advice on the poor", Joint NGO Briefing Note, September 2007.

¹⁰ "Process" conditions, which in EC terminology are the equivalent for World Bank policy conditions or actions, are used within the EC conditionality framework in areas other than the tranche of budget support linked to social service delivery outcome indicators. However, they are not used in the social sector variable tranche (Sections 1 and 3 provide further explanation on the functioning of the conditionality framework within the EC budget support).

¹¹ The Bank claims that results are included in the Country Policy and Institutional Assessments (CPIA).

¹² World Bank: "Review of World Bank Conditionality", June 2005.

¹³ World Bank, "Good Practice Note for Development Policy Lending. Results in Development Policy Lending, June 2005.

¹⁴ World Bank: "From Adjustment Lending to Development Policy Lending", 2004.

¹⁵ In its 2005 "Good Practice Note for Development Policy Lending: Results in Development Policy Lending", the World Bank includes a "Vocabulary for Results in Development Policy Operations" where:

- Results are defined as the completed actions, outcomes or impact of a program. Actions are defined as "the policy and institutional actions of the government that are expected to bring about desired outcomes.
- Actions usually involve modifications in policies or institutions."
- Intended outcomes are "the desired change resulting from the set of actions associated with the development policy operation. Generally outcomes are the short- and medium-term effects on broader society of government actions."

¹⁶ Oxfam International: "Kicking the Habit", Policy Paper, November 2006

¹⁷ Misereor: "Poverty Reduction and the Distribution of World Bank Funds An Analysis of the Performance Based Allocation System", Discussion Paper, November 2007.

¹⁸ International Development Association: "Selectivity and Performance: IDA's Country Assessment and Development Effectiveness", February 2007.

¹⁹ International Monetary Fund: "The Modalities of Conditionality", January 2002.

²⁰ International Monetary Fund: "Conditionality in Fund-Supported Programmes", February 2001.

²¹ International Monetary Fund: "The Modalities of Conditionality", January 2002.

²² European Commission: "EC Budget Support: an Innovative Approach to Conditionality", February 2005.

²³ Speech by European Commissioner's Michel at the IMF and WB Annual Meetings in Singapore, 17 September 2006.

²⁴ European Commission: "EC Budget Support: an Innovative Approach to Conditionality", February 2005.

²⁵ European Commission: "EC Budget Support: an Innovative Approach to Conditionality", February 2005.

²⁶ Independent Evaluation Office: The IMF and Aid to Sub-Saharan Africa, 2007

²⁷ Interviews conducted include four World Bank country economists, four staff members of three EC delegations, eight government officials from four recipient countries, six CSO activists from four countries and two Members of Parliament.

²⁸ The EC is conducting an evaluation of their budget support, which will be released during the first semester of 2008.

²⁹ United Republic of Tanzania, Ministry of Finance: "GBS Annual Review 2006", December 2006, page 9.

³⁰ Mozambican Poverty Reduction Strategy Paper (PRSP). Aid Partners: "Joint Review 2007" be positive in various areas, in spite of significant vari

³¹ Republic of Mozambique and Programme Aid Partners: "Joint Review 2007", April 2007, page 3-4.

³² Kakwani, N. and Pernia, E.M.: "What is pro-poor growth", Asian Development Review 18, 2000.

³³ UNDP International Poverty Center: "Growth, Poverty and Inequality in Mozambique", September 2007, page 5.

³⁴ World Bank: "Policy Note: Did poverty really decline since 2000/01?", August 2007.

³⁵ European Commission: "EC Budget Support: An Innovative Approach to Conditionality", February 2005. Figures correspond to operations disbursed from 1999 to 2004. A new evaluation is currently underway but it will not be available until mid 2008.

³⁶ For an explanation of the functioning of the EC fixed and variable tranches, please see: European Commission: "EC Budget Support: An Innovative Approach to Conditionality", February 2005..

³⁷ Appui budgétaire pour la réduction de la pauvreté (Poverty Reduction Budget Support Programme in its French denomination).

³⁸ Poverty Reduction Budget Support Programme.

³⁹ 2007 Eurodad research on World Bank conditionality found that the World Bank attaches an average of 37 legally binding and non-binding conditions to their grants and loans (out of these, only 13 are legally binding conditions).

⁴⁰ Commission officials tend to point at the “Evaluation of General Budget Support”, conducted by IDD and Associates and published on May 2006, as the main source of evidence to track the impact of outcome-based conditionality. The evaluation also concludes that it is too early to tell to which extent budget support has contributed to poverty reduction.

⁴¹ Impact assessment of budget support faces very similar problems.

⁴² Please see forthcoming CORDAID research on aid effectiveness.

⁴³ Kanbur, Ravi: “Reforming the Formula: A Modest Proposal for Introducing Development Outcomes in IDA Allocation Procedures”, January 2005.

⁴⁴ See Table 2 in this section of the report.

⁴⁵ “Split mechanism” refers to some donors’ graduate response to underperformance of recipient countries. As opposed to the all-or-nothing approach whereby donors attach some conditions to their funds and disburse only if these are met, “split response mechanisms” disburse a share of the funds committed depending on performance – for better performance there is a greater share of committed funds disbursed and for lower performance there is a lower share of funds disbursed.

⁴⁶ Ellerman, David: “Helping People Help Themselves,” University of Michigan Press, Ann Arbor, 2006.

⁴⁷ For further details, see the Eurodad Responsible Finance Charter, February 2008.