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THE EVOLUTION OF AID CONDITIONALITY: A REVIEW OF THE LITERATURE OF THE LAST TWENTY YEARS

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Table of Contents

Foreword by EBA	1
Sammanfattning	2
Summary	4
1 Introduction	6
2 Evolution of ideas on the nature and forms of conditionality	7
Definitions	7
Objectives and modalities of conditionality.....	9
3 Implementation of conditionality.....	17
A move towards less macroeconomic conditionality.....	17
On the implementation of sanctions: How credible is conditionality?.....	23
Highlighting competition from new donors.....	25
4 The effectiveness of conditionality	28
Effectiveness of macroeconomic conditionality.....	28
Effectiveness of political conditionality	29
Effectiveness of climate conditionality.....	33
5 Conclusions	34
References.....	36
Appendix – Literature search strategy and methods	44

Foreword by EBA

Official Development Assistance is never provided free of conditions. In addition to withholding or withdrawing aid if conditions are not fulfilled, the provision of aid is ultimately at the donors' discretion. For instance, as operations are decided, contracts state how money is to be spent, interventions managed, and how results shall be reported. However, aid relations also contain other, more extensive demands on recipient organisations, and states. Over the years, donor governments and international organisations have required recipient countries to implement economic, political, social, and environmental reforms in exchange for aid. This conditionality has long been discussed and studied. What has it achieved and how effective has it been?

Over time, the nature of conditionality has changed. Whereas in the past requirements were aimed at promoting economic growth in recipient countries, recent conditions have become more concerned with fulfilling either joint donor-recipient interests, or objectives more directly in the national interest of donor countries.

The setting has also changed with the entry of new donors, that often come with a different perspective on conditionality and national sovereignty. The traditional donor countries' scope for making demands decreases when recipient countries have more donors to turn to for aid.

Against this backdrop, EBA commissioned researchers at the French organisation FERDI to compile and assess the state of research. The author team was led by Professor Patrick Guillaumont, who has been a leader in research on aid conditionality for many years. Their summary shows the great difficulty of achieving results through aid conditionality, despite attempts to make conditionality progressively more flexible.

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Stockholm, September 2023

Jan Pettersson, Managing Director

Sammanfattning

Denna forskningsöversikt sammanställer den akademiska litteraturen om villkorat bistånd och hur villkor i det internationella biståndet utvecklats de senaste tjugo åren. Rapportens första del undersöker villkorens syfte och former, den andra delen granskar erfarenheter från implementering av villkorat bistånd medan den sista delen undersöker det villkorade biståndets effektivitet.

Det villkorade biståndets syfte och former

Det ekonomiska stödet i biståndet har historiskt ofta kompletterats med villkor där givaren antar att finansieringen blir mer effektiv om det landar i en gynnsam ekonomisk och politisk miljö. Att ställa upp villkor för bistånd blir då ett verktyg för att uppmuntra genomförandet av makroekonomiska politiska reformer, för att försvara demokratiska värderingar eller för att främja en fredlig utveckling.

Villkorat bistånd kan också eftersträva mål som inte är direkt kopplade till mottagarlandets utveckling. Till exempel kan villkor knytas till mål som anses gynna det internationella samfundet, som att uppmuntra till minskade koldioxidutsläpp, eller för att stödja givarens, ofta ekonomiska eller geopolitiska, intressen.

Det villkorade biståndets genomförande

Klart är att villkoren på det makroekonomiska området, och som svar på den omfattade kritik som framförts, i hög grad har ändrats mot mer av flexibilitet. Villkoren för att få lån har blivit färre och traditionella villkor (stöd baserat på löften om reformer) har delvis ersatts med resultatbaserade villkor (stöd baserat på resultat hos partnersidan). Litteraturen visar dock att denna i princip lovande ansats sällan nyttjas eftersom den är svår att implementera rent praktiskt.

Beträffande politiska villkor verkar det som om dessa delvis styrs av de viktigaste givarnas geopolitiska intressen, vilket kan undergräva deras trovärdighet. Vi kan också konstatera att villkor på klimatområdet, en i litteraturen ny form av villkorat bistånd, sällan har använts i praktiken.

En av de viktigaste förändringarna för villkorsställande inom biståndet är inträdet av nya givare, av vilka några, som Kina, håller på att bli mycket stora långivare i låg- och medelinkomstländer. Med biståndsformer som i hög grad skiljer sig från de traditionella DAC-givarnas, tillämpar de nya givarna nya och alternativa former av villkor. Detta nya ”erbjudande” gör det svårare att tillämpa villkor för traditionellt gåvobistånd då incitamenten att acceptera villkor försvagats när ett (till synes) mindre villkorat bistånd samtidigt finns tillhanda. Forskningslitteraturen om det kinesiska biståndet visar dock att löftet om ett villkorslöst bistånd är långt ifrån uppfyllt eftersom de nya givarnas inträde snarare har åtföljts av nya villkor än att villkoren i sig försvunnit.

Det villkorade biståndets effektivitet

Litteraturgenomgången visar också att det villkorade biståndet, oavsett om det är makroekonomiskt eller politiskt, inte kunnat bevisas vara effektivt. Inom den ekonomiska sfären bedöms effektiviteten av villkor för att få mottagare att genomföra strukturella reformer vara i huvudsak negativ. På det politiska området är slutsatserna tvetydiga, både på grund av svårigheten att fastställa vad som är villkorat bistånd och på grund av den stora mångfalden av situationer. Konkurrens från nya givare har minskat effektiviteten i policyvillkor medan klimatvillkorens effektivitet förblir outredda på grund av hittills begränsad tillämpning.

Summary

This study presents a review of the academic literature on aid conditionality and its evolution, with a particular focus on the last twenty years. The first part looks at the nature, forms and objectives of conditionality, the second examines the implementation of conditionality, and the last examines the effectiveness of conditionality.

Conditionality has long been understood as the counterpart of financial assistance, with the donor assuming that its aid will be more effective for development if it is granted in a favourable economic and political environment. Aid conditionality is thus thought to be a tool to encourage the adoption of macroeconomic policy reforms, but also to defend democratic values and promote peace. It can also pursue objectives that are less directly linked to the development of recipient countries. For example, conditionality can be used to pursue goals beneficial to the international community, such as encouraging recipients to reduce their CO2 emissions, or to those of the donor and the defence of its interests, particularly economic and geopolitical.

What does the recent literature tell us about the implementation of conditions? Macroeconomic conditionality has evolved in response to criticisms of it, namely towards more flexibility, fewer loan conditions, and an attempt to replace traditional conditionality (aid based on the promise of reforms) with results-based conditionality (aid based on results achieved by recipients). The literature shows that this attempt, promising in principle, is seldom used today because it is difficult to implement. As for political conditionality, it appears that its effective application is partly subject to the geopolitical interests of the main donors, which undermines its credibility. Finally, climate conditionality, a new form of policy conditionality, is very rarely used in reality.

One of the key developments in the application of aid conditionality is the arrival of new donors, some of which, such as China, are becoming major lenders. With assistance modalities that are very different from the traditional OECD DAC donors, these new donors are thus practicing alternative forms of conditionality. This new offer of assistance makes it more difficult to apply conditions to traditional donor assistance, as the incentives to accept these conditions are weaker in the presence of (seemingly) less conditioned assistance. However, the literature on the conditions of Chinese aid shows that the promise of unconditional aid is

far from being fulfilled, and that the arrival of new donors like China is often accompanied by a new form of conditionality rather than the disappearance of traditional conditionality.

Finally, the recent literature shows that conditionality, whether macroeconomic or political, is struggling to prove its effectiveness. In the economic sphere, the effectiveness of conditionality in actually getting recipients to adopt structural reforms is thought to be rather negative. In the political sphere, conclusions of the literature are ambiguous, both because of the difficulty of measuring precisely what is conditionality and because of the diversity of situations. Competition from new donors has reduced the effectiveness of policy conditionality, while climate conditionality remains unstudied because of its weak application.

1 Introduction

For several decades, the issue of conditionality in official development assistance has occupied an important place in the academic literature and in recurrent meetings of the international community. As we shall see, conditionality is justified by a search for aid effectiveness, but it is also the subject of strong criticism. It is feared that it strips the recipient governments of their policy responsibility and turns into a game of pretend, as developing countries can hardly do without external funds.

The question posed takes on new importance as international developments expand the potential domain of conditionality. Global warming and biodiversity loss, as well as increased conflict and warfare and general insecurity, including terrorism, have led donors to implement environmental and governance conditionality.

It is difficult to avoid conditionality because public donors must be able to justify to the public that their taxpayers' money is being well spent. Besides, most funding agencies are heavy administrative machines where experts feel they are more competent than the administrations of the countries they help, particularly in low-income countries. Although over the past two decades the international community has expressed its intention to reform conditionality, the means of doing so have not been agreed upon and have only been timidly implemented.

In order to assess the advantages and disadvantages of conditionality in its various forms and the means of reforming it, it was important to analyse the evolution of the literature on conditionality, with particular attention to the last ten years. This is the purpose of the document presented below.

The work is organized according to the main themes discussed in the literature, namely the nature and forms of conditionality, its implementation, and finally its effectiveness.

2 Evolution of ideas on the nature and forms of conditionality

After reviewing the definition of conditionality, this section outlines the rationale for conditionality and the different types and forms that conditionality can take in development assistance.

Definitions

Conditioning development aid consists of imposing a quid pro quo for the benefit it grants to a recipient country. Kishore (2017) defines it as “*granting benefits subject to the beneficiary meeting certain conditions.*” For Koch (2015), “*conditionality thus describes an incentive instrument in the relationship between two actors, in which one actor aims at changing the behaviour of the other by setting up conditions for the relationship and by manipulating its cost–benefit calculation by using (positive and negative) material incentives.*”. Bourguignon and Gunning (2016) point out that the key to conditionality is the asymmetry in the objectives of both parties, without which there would be no conditionality.

These simple and intuitive definitions mask a number of subtleties that can make the concept more complex. While acknowledging with Cohen, Guillaumont Jeanneney, and Jacquet (2006) that the concept of conditionality is “ambiguous”, Guillaumont and Guillaumont Jeanneney (2006) in the same book give a simple definition of conditionality: “*Aid conditionality establishes an explicit link between the volume of aid granted to a country and some of the conditions that the country must meet [...]. There are several types of conditionality. It can apply to aid commitments or disbursements and refer to either policy instruments or outcomes. There is also conditionality of a more political nature, such as respect for human rights, democracy and good governance*”.¹

¹ An alternative way to discuss the definition of conditionality is to ask about aid that is not conditional. Indeed, aid is always granted as a result of an agreement between parties, membership of a group or compliance with rules establishing eligibility for a particular aid, etc. All aid is in some way the result of the direct or indirect fulfilment of one or more conditions to be met. In this paper, the concept of conditionality is understood as aid whose granting is subject to the respect of at least one explicit condition. However, the explicit character of the condition can itself be discussed, as is the case, for example, when geopolitical proximity is one of the determinants of the aid granted (see in particular the section on Macroeconomic conditionality in chapter 3).

We retain this definition and the distinction between economic and political conditionality, even if the line between the two can sometimes be unclear, as is the case when it comes to economic governance.

Economic conditionality. Historically, conditionality has taken the form of an “exchange” between external financing provided by a donor and the implementation (or promise) of a reform validated by that donor. This is the approach of the International Monetary Fund (IMF): “*When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid. These policy adjustments are conditions for IMF loans and serve to ensure that the country will be able to repay the IMF. This system of conditionality is designed to promote national ownership of strong and effective policies*”.² Morrissey (2005) elaborates on this definition by introducing the potentially enforced nature of conditionality, which he defines as a mechanism to induce policy reforms or impose policies that the recipient country would not voluntarily choose.

In this note, we will focus on macroeconomic conditionality, i.e., that described above by Guillaumont et Guillaumont Jeanneney (2006) as “the fact that external financing of the government’s budget (and sometimes even the cancellation of its debt to increase its “fiscal space”) is conditional on its commitment to an economic policy that has been approved by the donor. Of course, there is external financing for projects that are conditional on specific policy decisions, for example, the reform of a railroad company or a commitment to tariff changes in connection with an investment in that sector.” These authors specify that “in its most common sense, the notion of conditionality is macroeconomic”, i.e., “it accompanies non-project financing, global or sectoral budgetary aid, balance of payments aid or debt cancellation, the payment of which is subject to specific economic policy measures.”

Political conditionality. The field of political conditionality has historically focused on the promotion of human rights and democracy (Molenaers et al., 2015) but has gradually broadened to include other areas of foreign policy such as security issues, climate, and more broadly the promotion and preservation of global public goods. The authors speak of a “*new generation of policy conditionalities [that] has emerged over the past decade*”. Koch (2015) even distinguishes three generations, the first dealing with political and civil rights, the second with economic and social rights, and the third with environmental and climate rights. We further distinguish

² <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>

between political conditionality and climate conditionality, which links a state's cooperation with a state to the latter's adoption of pro-climate measures. There is therefore not one type of aid conditionality but several, each with its own justifications and modalities, and not all institutions use the same type of conditionality.

Objectives and modalities of conditionality

Broadening the objectives: Why condition aid?

The above definitions naturally lead to the motive of encouraging economic policy and institutional reform: aid is provided only if the recipient adopts reforms, macroeconomic policies or an institutional framework that the donor deems sufficient for the resources to be useful. As mentioned above, however, the motivations have broadened to include a wider range of considerations, including respect for social and environmental rights, and the promotion of global public goods.

Incentives for macroeconomic policy reform. This is the traditional form of macroeconomic conditionality that many international institutions such as the IMF or the World Bank apply, consistent with their respective mandates, in return for their assistance.

The stated objective of IMF conditional assistance is to “*help countries solve balance-of-payments problems without resorting to measures that are harmful to national or international prosperity.*” For its part, the World Bank's is to ensure that the country's institutional environment is of sufficiently high quality for its interventions to be effective (Burnside & Dollar, 2001, Dollar & Pritchett, 1998). From this perspective, which has remained dominant, conditionality is seen as a condition of efficiency. This approach has been used to justify the use of the Country Policy and Institutional Assessment indicator (CPIA), giving primary weight to its governance cluster, as the main criterion for allocating resources from the World Bank's concessional window (IDA).

Collier, Guillaumont, Guillaumont Jeanneney & Gunning (1997), while critical of this position, also point out that so-called traditional conditionality can serve a variety of complementary purposes, with donors conditioning their aid on the existence or maintenance of specific policies. Conditional aid can then be justified by a concern for selectivity, “*paternalism*”, “*maintaining a policy*” or “*sending a signal to markets*”.

Selectivity, in the particular sense given to it by the World Bank, is the quality of aid assessed through its geographical orientation, in this case towards countries with “good policies”. Although, other selectivity criteria are conceivable: aid is then conditional on the existence of good policies, the underlying assumption being that aid effectiveness is greater when projects are implemented in good policy environments.

Paternalism: aid may be granted on condition that it is targeted at specific actions, themes or population groups suggested by the funder, or the funder may grant aid on condition that it is not directed to a particular purpose.

Another objective of conditionality may be to induce a government to uphold public policies that it or its successors might abolish, by making future aid conditional on such continuance.

Finally, Collier et al. (1997) argue that conditioning aid can also respond to the need to send a positive signal to private actors, in the sense that the reforms imposed by conditionality will reassure the markets of the state’s ability to improve its economic environment.

For the European Union, the quest for aid effectiveness is also an important justification for conditionality, although Shah (2017) shows that the European approach to conditionality has shifted over the past 15 years towards less conditionality (see below).

Interviews conducted by Dornan (2017) in several Small Island developing states (SIDS) that have experimented with aid conditionality highlight the need to distinguish between donor-imposed conditionality and conditionality that governments accept to implement politically risky reforms that they agree with. They dare not undertake such reforms on their own, so conditionality allows them to pass the buck to the donors. Aid conditionality can thus be an accelerator of reforms that governments are struggling to push through.

Defending democratic values and promoting peace: the objectives of first-generation policy conditionality. The granting of development aid can also be conditional on the respect of values inspired by the United Nations Charter (the most sensitive are the OECD countries) such as the promotion of peace, the “*principle of equal rights and self-determination of peoples*” or “*respect for human rights and fundamental freedoms for all*” (United Nations, 1945). The motivations justifying conditionality applied to development aid have thus broadened in recent years to include considerations of

respect for democratic principles and human rights, particularly on the part of the European Union. This is more commonly known as political conditionality.

Beyond the moral and ethical argument, Douch et al. (2022) show that conditioning aid on respect for democratic values is a factor in aid effectiveness (this is also discussed in Molenaers et al. (2015), thus justifying the use of this form of conditionality. Econometrically estimating the impact of respect for human rights on aid effectiveness, their results indicate that aid is significantly more effective when human rights are promoted, with corruption and repression being important factors of ineffectiveness.

This search for efficiency through the fight against corruption is also a motivation for the application of project conditionality. As Miguel (2022) explains, this takes the form of procedural conditionality consisting of the strict supervision of all procedures that punctuate the life of a project (calls for tender, procurement, disbursements, evaluation, etc.) in order to ensure maximum transparency and to fight against waste and corruption.

Aid can also be used by donors as an incentive to engage in a peace process. The literature review by Herbert (2019) shows that donors can influence the behaviour of belligerents by altering their cost-benefit calculations through the promise of increased aid or the threat of decreased aid.

This broadening of the motivations for conditionality also includes respect for social and environmental rights. Koch (2015) explains that there are now new types and objectives of policy conditionality “beyond aid”. Policy conditionality touches on different areas of foreign policy and includes cooperative and punitive measures. It has also shifted from political rights to social and environmental rights.

Promotion of global and regional public goods. The preservation and promotion of global and regional public goods requires collective action. This has motivated donors to use development assistance as a tool to encourage developing countries to participate in such action. In the fight against climate change, this may involve forcing countries to adopt pro-climate measures (adoption of environmental standards, financing of climate-friendly projects, etc.).

Defending the donor's interest. Aid can also be used as a tool to defend the interests of the donor country. This is the case, for example, when the donor country grants aid more easily to countries that support its foreign policy, or when it makes aid conditional on the signing of agreements aimed at limiting migratory flows from the beneficiary country. Tied aid, when the donor ties its aid to the obtaining of markets or commercial contracts is another illustration of aid donor interest driven aid.³

Discussions on the modalities: How to condition aid?

The ways in which aid is conditioned are diverse; they vary based on the time of their application but also based on the actors.

Instrument-based conditionality vs result-based conditionality. Cohen et al. (2006) point out that there are two main types of conditionality, namely instrumental and outcome.

Instrument-based conditionality occurs when the disbursement or commitment of aid or the benefit granted to the recipient is conditional on the adoption of public policy measures (macroeconomic measures, for example). This is the traditional conditionality that reflects the donors' objective to promote public policy reforms, often macroeconomic, in recipient countries (see above on the objectives of conditionality).

Results or performance-based conditionality is used when aid payments or benefits granted to the beneficiary are conditional on the achievement of results defined jointly and upstream between the donor and the beneficiary. These results must be assessed by taking into account the exogenous factors that may influence them in order to isolate what is the

³ This paper does not deal with tied aid.

responsibility of government policy. The European Commission has been one of the main institutions to use such a form of conditionality, believing that it allows for *“better ownership of the reforms since the choice of instruments is entirely up to the country”*.^{4 5}

Ex-ante or ex-post conditionality, and positive or negative conditionality. Koch (2015) proposes another typology based on a double distinction: he contrasts ex-ante conditionality (preconditions to be fulfilled before cooperating) with ex-post conditionality (conditions set during a cooperative relationship). This also contrasts positive conditionality based on incentive to negative conditionality i.e. punitive conditionality based on the principle of sanction. Positive ex-ante conditionality promises the beneficiary cooperation if it fulfils certain preconditions; the EU accession process is an example. Negative ex-ante conditionality is that which ‘reduces benefits before entering into cooperation’ in order to force the potential recipient to adopt the measures desired by the donor before the latter commits. For Koch (2015), the rare examples of such conditionality can be found in the diplomatic pressure that the EU can exert during accession negotiations with a member country to speed up its reforms (threatening to stop the process, or on other parts of foreign policy towards that country, etc.). Ex-post conditionality is positive when the beneficiary’s performance is sufficient to continue or even increase the donor’s support. It is negative in the opposite case and generally leads to a reduction in cooperation, or even its termination, or to public condemnation of the partner.

Based on the institution. Each institution applies its own conditions to the benefits it grants. Take for example the IMF, the World Bank and the EU institutions (see in particular Shah (2017), or Koch (2015) on the case of EU policy conditionality).

⁴ The European Commission has been very critical of the problem of instrument conditionality in terms of ownership and therefore effectiveness (see Guillaumont and Guillaumont Jeanneney, 2004).

⁵ A complementary study to this paper analyses the effectiveness of results-based conditionality (Dijkstra, 2023) and concludes that this effectiveness is mixed. It depends on the design and context factors and the type and sector of aid. Involvement of all stakeholders, i) flexibility, ii) perception of fairness and iii) independent verification of indicators are key factors determining effectiveness, along with accompanying technical assistance. This makes it hard to determine if the benefits of Payments by Results (PbR) outweigh the costs. PbR is most appropriate when there is non-alignment in objectives between donor and recipient. PbR is challenging in fragile and low country capacity contexts. Effectiveness also depends on whether the threat to withhold aid is credible.

The IMF generally requires the recipient country to meet what it calls “preconditions” (i.e. ex-ante) before approving financing to ensure that the conditions for the success of the IMF programme are, if not optimal, at least conducive to its successful implementation. These conditions may, for example, take the form of the abandonment of a price control system, subsidies to a sector (e.g. agriculture) or the alignment of the budget with the fiscal framework.⁶ The IMF also usually requires the country to meet measurable conditions related to macroeconomic aggregates (e.g. a ceiling on government borrowing, a minimum level of international reserves, etc.). These conditions may constitute targets to be met for the IMF programme to continue, thus introducing a form of result-based conditionality.

The World Bank applies a double instrument conditionality (Cohen et al., 2006) in that the model for allocating its financial commitments considers the quality of public policies as an important criterion (which the World Bank measures with the CPIA indicator⁷), and then the resulting disbursements are often accompanied by conditions relating to the implementation of public policy reforms.

The following section on the effectiveness of conditionality shows that the modalities applied by the IMF and the World Bank have changed significantly in recent years.

With regard to the European Commission, while it has also practised traditional conditionality of the type used by the Bretton Woods institutions, it stands out by also imposing conditionality of a more political nature, notably focusing on human rights. Koch (2015) points out that this conditionality mainly takes the form of sanctions or suspension of aid,⁸ although precedents remind us that the EU also practices positive ex-ante conditionality. This is the case when it negotiates a country’s accession in return for major public policy reforms, but also when following the example of the World Bank, it introduced a quality of institutions component in the allocation model of its European Development Fund (EDF) in 2014.⁹ The Commission also practices

⁶ <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>

⁷ Country Policy and Institutional Assessment.

⁸ The Cotonou Agreements provided for a graduated system of conditionality based on respect for human rights, democratic principles, the rule of law and good governance.

⁹ https://international-partnerships.ec.europa.eu/system/files/2020-02/methodology_for_country_allocations_european_development_fund_and_development_cooperation_instrument_2014_2020_en.pdf

results-based incentive conditionality with, for example, the introduction of a system of governance incentive tranches in 2007. This consisted of an increase in the aid envelope allocated to countries making real efforts in terms of public policy reforms.

Based on the recipient country. In addition to the level of confidence that donors have in the recipient country, notably its capacity to face its current and future challenges, conditionality is also linked to its economic and political weight. Aid granted to a small, vulnerable country with poor governance is generally not subject to the same conditionality as aid to a large middle-income country with more mature governance (Shah, 2017) – the conditions imposed on the former are generally more demanding and intrusive.

Fighting climate change: a new form of political conditionality

Tackling climate change means tackling its causes and consequences. This objective, which has become a major item on the international agenda, has naturally influenced thinking about conditionality.

Adaptation. In terms of consequences, it is mainly a logic close to that of classic development aid, i.e. helping the poorest countries that do not have the means to adapt even though they are only marginally responsible for climate degradation. The conditionality applicable to adaptation aid is more or less the same as that of traditional aid. That is, financial resources are conditional on the effective implementation of projects, on the satisfactory management of these projects, and possibly on the political consent of the recipient country in international climate negotiations (Ciplet et al. 2015). COP27 was notably an opportunity to discuss the financing of adaptation to climate change, in particular the compensation of shocks due to global warming by the countries that are responsible for it. In contrast, it was envisaged that countries could agree on a global envelope that would be allocated without conditions and according to the vulnerability of each country to climate change (Feindouno et al. 2020).

Mitigation. Addressing the causes means mitigating greenhouse gas emissions. Achieving a necessarily ambitious mitigation target is different in nature from adaptation because it implies the widest possible cooperation. This makes the donor-recipient relationship less unbalanced, since the target can only be achieved collectively, and the (developing) country can choose whether or not to participate, recall Sippel and

Neuhoff (2009). And this choice is guided by a multitude of factors, including the trade-off a government must make between investing in environmental and climate preservation or in the more immediate but potentially less environmentally friendly drivers of growth. This trade-off is increasingly expressed by the poorest countries, for whom the climate is an important issue, but one that cannot be treated to the detriment of the economic and social imperatives they face.¹⁰ Increasingly, this has led these countries to denounce climate as a new form of conditionality of Western international support. The very principle of considering the financing granted by rich countries to less wealthy countries as aid is being questioned by a growing number of actors. Instead, this financing is merely compensation for the climate damage for which developed countries have been mainly responsible for the past century (Werksman, 2009).

Forms of aid conditionality for mitigation. Gilley and Kinsella (2015) discuss possible options for coercing countries into climate action, ranging from the strongest (military!), through moderate (trade coercion), to softer coercion based on the principles of aid conditionality. Here, aid conditionality could look like promising a state funding to help it mitigate its emissions and threatening it if it does not adopt the measures deemed necessary by the donor to ensure that mitigation targets are met. The authors call this soft option “climate conditionality”.

Climate conditionality can firstly concern the eligibility of projects for climate change aid by defining as a project selection criterion the fact that it is favourable to the environment, or at least not harmful to it. It can also consist of linking a financial payment to the achievement of results in terms of greenhouse gas reductions, or to a minimum of transparency on the actions carried out in favour of the climate by the recipient country (Dadush and Davis, 2009).

¹⁰ Recent literature seems to confirm the long-standing and discussed hypothesis of an Environmental Kuznets curve (EKC), while pointing out that there are other important contributors in the mix. Apergis and Ozturk (2015), find an inverted U-shaped relationship between emissions and income in Asian countries, with strong effects of policy and institutional quality (political stability, government effectiveness, regulatory activities, level of corruption). Similarly Ben Jebli et al. (2016) test the EKC hypothesis for OECD countries. As these countries are in the second part of the inverted U of the EKC, the authors’ simulations lead to the result that increasing trade (and thus income) reduces CO₂ emissions per capita (which does not solve the problem of the volume of global emissions). Zoundi (2017) does not find evidence of full validation of the EKC in African countries but finds that CO₂ emissions increase with income. Renewables have a negative effect on emissions, but this is more than offset by the larger effect of overall primary energy consumption.

3 Implementation of conditionality

The practice of major donors in relation to conditionality has evolved considerably since the 1980s. This section briefly reviews some of the stylized facts of this evolution, the reasons for this evolution, the implications for the implementation of donor conditionality, and the new forms that conditionality is taking today.

A move towards less macroeconomic conditionality

Historically, conditionality is associated with the concept of a binding counterpart imposed unilaterally on the beneficiary by the donor, in exchange for financial or political support. This conception of conditionality is inherited partly from the practice that accompanied the IMF and World Bank structural adjustment plans in the 1980s, whose record has been discussed widely in the literature of the 1980s and 1990s. The discussion has become less frequent in recent years. Some works continue to argue that conditionality has been linked to a number of adverse economic, social and political outcomes (Kentikelenis et al., 2016). This criticism states that conditions were largely imposed without consultation with the recipients, were too numerous, not always appropriate (Shah, 2017), and had led to the stabilisation of economies but proved disappointing in terms of the structural nature of the adjustment.¹¹

It seems that the trend in recent years has been towards less conditionality. Is this effective?

More flexibility for less strict conditionality? The fact that conditionality is imposed without any real consultation with recipients has been strongly criticised, in particular because it prevents ownership by the beneficiary and thus undermines aid effectiveness (Dornan, 2017; Shah, 2017). This is even though, as we have seen above, one of the justifications for conditionality is precisely the quest for greater effectiveness. This need for ownership has been at the heart of the debates on aid effectiveness instructed by the formal processes initiated by the

¹¹ See the roundtable “Ajustement structurel et développement” (“Structural Adjustment and Development and development”) chaired by Patrick Guillaumont: https://bibliotheque.auf.org/doc_num.php?explnum_id=723

Paris Declaration on Aid Effectiveness in 2005 and its subsequent descendants (Accra Agenda for Action in 2008, Busan Declaration on Development Effectiveness in 2011, etc.) (see OECD, 2009).

The rules of conditionality have evolved during the 2000s. Major donors, particularly multilaterals, have shown a willingness to adapt their conditionality doctrine, including a discourse to move towards a system where conditions are negotiated and mutually agreed through enhanced policy dialogue (Dornan, 2017). The IMF has revised its conditionality framework several times, including by introducing more flexibility in the design and implementation of its programmes and thereby “*to promote national ownership of strong and effective policies*”. This desire to improve the degree of ownership of conditionality rules can be found among all major multilateral donors. For Dornan (2017), this is a “new conditionality” where, unlike the “old one”, conditions are supposed to be mutually negotiated and agreed.¹² The European Union even endorsed in 2009 the principle of assistance becoming progressively unconditional. Shah (2017) argues that the practical implementation of this principle remains modest.

As Shah (2017) points out, this shift towards more flexible conditionality practice favours the use of budget support. A significant share of the World Bank’s lending is indeed in this form. This instrument is favoured by many donors, including bilateral ones. Budget support allows them to align themselves more easily with the priorities of the beneficiary, who is the pilot of the aid received (its appropriation is therefore facilitated), while imposing reforms that the donor deems necessary to ensure a good use of the funds (for example, a reform of public finance management). Dornan’s (2017) interviews in SIDS highlight how recipients see budget support as “*a means to ‘incentivise’ and ‘reward’ policy reform*”. For Molenaers et al. (2015), this instrument has become “*a crucial instrument for supporting and inducing both technocratic and democratic governance reforms*”.

Loans with fewer conditions. Too many conditions make them more difficult to apply and ultimately conditionality less effective. In 2007, the IMF’s Independent Evaluation Office (IEO), found that the number of conditions attached to each loan was too high and that this undermined compliance with a significant proportion of the conditions (IEO, 2007). Kentikelenis et al. (2016) show that the IMF’s stated intention to streamline the number of conditions in the 2000s was followed by an actual decrease in the number of conditions from 2005 onwards (see IMF Monitor,

¹² Chapter 4 analyses the effectiveness of conditionality.

which independently tracks IMF conditionalities between 1980 and 2014).¹³ However, the authors' work on a detailed analysis of the conditions applied in IMF arrangements to 131 countries between 1980 and 2014 (i.e. over 55,000 individual conditions) reveals that, behind an evolution in rhetoric, IMF conditionality has in fact changed very little.

Dijkstra (2011) further shows that intentions to promote ownership are not necessarily followed up in practice, particularly for World Bank budget support loans which continue to impose 'numerous and detailed' policy reforms. While interviews conducted by Dornan (2017) in SIDS show that policy dialogue between donors and recipients is now much better than it was 15 years ago, they also show that conditionalities associated with budget support loans have sometimes taken the form of reforms that are not priorities for recipients. The author points out that the difficulty in significantly improving ownership may also lie in the behaviour of the governments of the beneficiary countries, which do not always seek, for political reasons, to obtain national political support for reforms.

Towards results conditionality? The words 'outcome' and 'impact' have increasingly become part of the common language of development, illustrating the attraction of results-based management for donors in their search for aid effectiveness. However, Shah (2017) points out that donors actually practice relatively little outcome conditionality and notes a confusion in the discourse as "*multilateral agencies impose conditions on intermediate inputs but construe these as outputs or outcomes*". A common example is aid to the education sector, where the outcome is measured by indicators for which data is readily available, such as school enrolment or student/teacher ratios (Mizell, 2017), even though these are indicators of intermediate inputs but not of outcomes. This is also the case for indicator 4.6.1 of the SDGs "*Proportion of population in a given age group achieving at least a fixed level of proficiency in functional (a) literacy and (b) numeracy skills, by sex*".¹⁴ Beyond the availability of data, one reason for this confusion is that it is often difficult to distinguish between the part of the result that is attributable to the policy in question and that which is attributable to numerous potential exogenous factors (Koeberle, 2005).

¹³ <http://www.imfmonitor.org/conditionality>

¹⁴ https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202022%20refinement_Eng.pdf

Less conditionality also means fewer countries to support. The number of aid-dependent countries has gradually decreased, making the lever of conditionality less operational. Koch (2015) argues that as the number of aid-dependent countries has declined significantly, the expectation of government reforms in exchange for aid is becoming less attractive for many countries.

Conditionality in the context of the Covid-19 health emergency. It is interesting to analyse the practice of conditionality in the particular context of the Covid-19 crisis, which was characterised by urgent assistance needs in many countries. Notably, the World Bank and the IMF have not adapted their conditionality practices in the same way. Landers and Aboneaj (2021), show that while most IMF emergency financing was provided without conditions, World Bank financing was often provided with conditions. Moreover, the majority of these conditions were not related to Covid but rather to medium-term reforms, which tends to undermine effectiveness in this type of emergency context.

Practical implementation of political conditionality

This section examines how the literature addresses first and second generation political conditionality, i.e. political and civil rights and economic and social rights (the section on climate conditionality relating to the third generation of political conditionality is discussed below.)

OECD statistics on development assistance show that Western donors, in particular the EU, Germany, the UK, Sweden and the US, have increasingly allocated aid to the promotion of democratic governance.¹⁵ This support for democratic development has been rather incentive based. The United States adopted positive conditionality in the 2000s by favouring well-managed countries, while the EU has put in place a system of governance incentive tranches as explained in chapter 2. As indicated by Hackenesch (2019), these countries or institutions also practice negative conditionality in the form of sanctions for violations of democratic principles. In the case of the EU, political conditionality is provided for in a graduated system that starts with the activation of a dialogue, then threats, and finally sanctions in the form of aid suspension (Leclercq and Donse, 2015). This gradation makes suspension of aid relatively rare. The website <https://sanctionsmap.eu/> maps the sanctions taken by the EU (on four grounds: chemical weapons, cyber-attacks, human rights and terrorism).

¹⁵ <https://stats.oecd.org/>

Another case where political conditionality may have been activated is that of coups. Masaki (2015) finds that the occurrence of a coup has a significant negative effect on the per capita aid received by the country, but that this effect is not proven for all donors. Notably, the United States prioritises its geopolitical interests over the application of its conditionality rules.

Finally, we also note the analysis of Flentø & Simao (2021) on the use of ODA by donors to delegate control of migration flows to African countries. The EU expresses this quite clearly in the strategy paper describing its development cooperation policy for the period 2021–2027. Several European countries, including Denmark, are aligned with this position. Aid conditional on this control is described by the authors as a ‘bribe’, an expression taken from Bourguignon and Gunning (2016). They do not so much denounce the approach as the insufficient exploitation of the position of strength of African states vis-à-vis European donors. In their view, migration conditionality is under-exploited by the beneficiaries, as the aid promised by the EU in exchange for border control by beneficiary countries is insufficient. They also fear that this form of conditionality constitutes a diversion of available aid away from poverty reduction objectives in the most vulnerable states.

The new climate conditionality

As mentioned in chapter 2, one of the (recent) objectives of conditionality is to promote global public goods, in particular the fight against climate change.

The question this section asks is how recent works have examined the objectives of promoting global and regional public goods: do they (or do they not) affect aid modalities and do they in fact constitute a new form of conditionality?

Rather weak climate conditionality in reality. While Davis and Dadush (2009) argue that climate conditionality is inescapable, they note that financial transfers [in climate aid] are rarely conditional. According to Kono and Montinola (2019), this was still the case three years ago.

Climate change aid: a form of policy conditionality through allocation criteria. Climate aid is subject to allocation criteria in the same way as aid for other sectors. Werksman (2009) emphasises in this respect that the allocation of funds intended for the fight against climate change is primarily determined by the interests of the donors rather than the

operational strategies of the beneficiary countries in terms of climate. This raises the question of the selectivity of aid for climate change (understood as the quality of aid allocation, i.e. whether aid is allocated according to criteria relevant to its objective (Guillaumont Jeanneney & Le Velly, 2011)). Weiler et al. (2018) confirm the results of Werksman (2009) while adding an interesting detail. While their modelling results indicate that vulnerability to climate change is an important factor in the allocation of aid for adaptation, they also show that aid is instead allocated on the basis of good country governance (measured by the World Bank's WGI indicator) and donor interests (measured by donor-recipient bilateral trade, possible colonial ties, votes at the United Nations and geographical proximity).¹⁶ The authors imply that there is a form of conditionality in the granting of climate funds, but that it is more political than climatic.

Development aid (non-climate): are projects selected on the basis of the recipient country's climate policy? Beyond the aid specifically dedicated to the fight against climate change, is development aid granted according to binding climate conditions? Yes, according to the main donors, who claim that their projects strive to comply with the 2015 Paris Agreement as much as possible. This form of conditionality is not directly imposed on the recipient, but shows up in the types of projects that get funded, depending on whether or not it reflect a country's commitment to tackling climate change.¹⁷

Interestingly, climate conditionality, which is a kind of coercion to force countries to adopt pro-climate measures, can work in reverse. Gilley and Kinsela (2015) recall the example of Ecuador, which asked the international community for billions of US dollars in aid in 2007 in exchange for abandoning an oil exploitation project in an ecologically valuable area of the Amazon Forest.

¹⁶ The authors also introduce among the explanatory variables an indicator of the country's capacity to adapt to climate change, reflecting both the merits and needs of the beneficiaries. While this variable is insignificant in their regression, this measure, by the authors' own admission, partly measures, by its construction, the quality of governance, which is already measured by the WGI indicator, so much so that it seems difficult to draw any conclusions from the result concerning this indicator of adaptive capacity.

¹⁷ For example, the French Development Agency (AFD) explains that "in concrete terms, in order to comply with this 100% Paris Agreement commitment, AFD Group teams analyse each intervention with regard to its coherence in terms of low-carbon trajectory and resilience to climate change". The exposure of investments to climate risks is also scrutinized, whether these risks are physical or linked to low-carbon transition policies. Since COP21, AFD no longer supports any project that runs counter to the two major objectives of the Paris Agreement: reducing greenhouse gas emissions and adapting to the impacts of climate change.

However, it is necessary to understand the reluctance of beneficiary countries about the conditions that donors may impose on climate adaptation aid. Developed countries (i.e. most donors) bear a large part of the responsibility for global warming, whereas vulnerable countries bear the consequences. This awareness is reflected in the current debate on compensating poorer countries for the losses and damage they suffer as a result of global warming. The traditional approach to climate financing based on the idea of “climate aid” is gradually being replaced by the idea of “climate debt” owed by developed countries to others. This semantic evolution has consequences, particularly on the legitimacy of conditionality associated with the transfers committed to financing this debt.¹⁸

On the implementation of sanctions: How credible is conditionality?

Many of the conditions imposed by funders are preconditions for their support. But what really happens when the conditions required by donors for continued support are not met? Bourguignon and Gunning (2016) argue that this is the main problem with conditionality – its credibility, especially when the recipient does not meet the conditions or does not achieve the expected results, even though its population requires continued assistance.

Macroeconomic conditionality

In principle, an IMF, World Bank or any other donor aid programme is slowed down or even interrupted if the conditions for its commitment or implementation are not met by the recipient country. These situations are not uncommon, especially for IMF programmes, where two-thirds of loans approved between 1980 and 2015 were terminated because of compliance problems in the implementation of conditions by the recipient country (Reinsberg et al., 2022). These authors argue that the weapon of conditionality makes the IMF a very powerful institution, not least because non-compliance with conditions can point to a country’s inability to

¹⁸ On this subject, see in particular a blog by the Director General of the IF, for whom aid for adaptation must be accompanied by simplified conditions; see also the intervention by Matthieu Boussichas, during COP27 in Sharm el Sheikh, for whom these transfers should be unconditional and allocated according to physical vulnerability to climate change (Feindouno et al., 2020): <https://ferdi.fr/en/events/cop27-monitoring-and-measuring-adaptation-in-the-context-of-a-climate-emergency>

reform sufficiently, scaring markets and increasing transaction costs as Fund assistance has to be renegotiated. Nevertheless, these conditionality failures are also analysed by these authors as stemming in part from the IMF's programme design that can often be too difficult to implement.

However, Sippel and Neuhoff (2009) point out that these problems of non-compliance and discontinuation of programmes are not necessarily a disincentive for new programmes. The same is true for the World Bank. Drawing on studies from the 2000s, Shah (2017) highlights the difficulty the World Bank has in enforcing its conditionality, where conditionality has little effect on the continuation of aid but rather on the speed of disbursement (Killick, 1997).

Apart from the fact that it is difficult to abandon a country even if it is unable to properly fulfil the contractual obligations it has committed to, one explanation would be the power that the major shareholders of the IMF and World Bank have over the decisions of these institutions. For Kilby (2009; 2013), there is a significant causal link between the quality of macroeconomic policy and World Bank disbursements for countries benefiting from structural adjustment loans, with the notable exception of countries that are "friends" of the United States, i.e. those that vote with the United States at the United Nations. For the latter, conditionality applies much less. Kersting and Kilby (2016) suggest that this effect of influence on actual implementation of conditionality is most pronounced for investment projects. A clear US influence on Inter-American Development Bank (IDB) disbursement decisions is also identified by Bland and Kilby (2012), while Kilby (2011) establishes a significant link between Asian Development Bank (ADB) disbursements and US and Japanese geopolitical interests. Dreher et al. (2015) mention a similar effect for the IMF: the application of IMF loan conditionality rules is influenced by the degree of proximity of geopolitical interests between the recipient country and the Fund's main contributors.

Finally, the need for donors to disburse in order to have credibility and resources is probably another aspect of the difficulty in making conditionality operative.

Policy conditionality

In terms of political conditionality, Masaki (2015) also criticises the United States for varying actual implementation in dealing with coups, depending on its geopolitical interests. For Shah (2017), sanctions applied by the EU

for political reasons have been unevenly applied across countries, with other criteria (security, diplomatic, economic or historical) coming into play to determine the response to a human rights violation (Nivet, 2015).

Masaki (2015) highlights the need for donors to adopt and actually implement a common approach to conditionality if it is to be seen as credible.

Highlighting competition from new donors

The previous paragraph mentions the need for coherence between the conditions applied by donors. Without such coherence, “*aid recipients can shop around for offers of assistance with a minimum of strings attached,*” thereby undermining the overall effectiveness of political conditionality” (Masaki, 2015), with recipients turning away from the most demanding donors to others that are less demanding. However, beyond the criticism of conditionality as a brake on beneficiary ownership, a significant development in the past decade is the emergence of new donors proposing a partnership model to developing countries in which conditionality is much less demanding (or at least seemingly so), particularly at the political level (Koch, 2015). For example, new donors, and China in particular, do not condition their aid on the quality of policies (Dreher, 2011) or even less on the respect of human rights, and generally claim not to impose conditions on recipient government policies. One advantage of less conditionality is that it reduces the administrative costs of managing aid and thus improves absorption rates (Kilama, 2016).

This new, supposedly unconditional offer, led by China, will gradually compete with the offer of traditional donors, which is made less attractive by their conditionality. This competition has been growing over the past decade as China has taken an increasing share of aid to developing countries (see OECD DAC data¹⁹ and Aiddata data²⁰ for Chinese development finance data). Has this emergence of an alternative offer changed the conditionality practiced by traditional donors? And is the alternative really unconditional?

¹⁹ <https://stats.oecd.org/Index.aspx?lang=fr>

²⁰ Aiddata estimates Chinese aid using the same eligibility rules as those established by the OECD DAC, based on a census of thousands of development projects:
<https://www.aiddata.org/datasets>

To the first question, Hernandez (2017) responds that World Bank loans are subject to fewer conditions when Chinese aid is high (the author estimates that a one percentage point increase in Chinese aid leads to a 15% reduction in the number of conditions), whereas the presence of DAC bilateral donors does not influence World Bank conditions. The presence of donors with a reputation for low conditionality would therefore encourage traditional donors to reduce their conditionality. Maroof (2020) arrives at a similar conclusion for aid to African countries but not for other developing countries and specifies that this negative effect of Chinese aid on World Bank conditionality is especially true for concessional aid, whereas it is not proven for non-concessional aid. Watkins (2021) also confirms this effect for Africa: using Aiddata data on Chinese aid to 42 sub-Saharan African countries, he shows that the probability of the recipient complying with World Bank conditions is lower in countries receiving such aid. This result shows that the presence of Chinese aid contributes to undermining the credibility of World Bank conditionality and thus weakens the ability of traditional donors to impose counterparts to their support. This study also shows that this effect is more pronounced in the mining, energy and public sector governance sectors.

To the second question, elements of an answer come from Asmus et al. (2017), who qualify the a priori unconditional nature of aid from the BRICS, which on the one hand seem to use aid to pursue their interests as much as the DAC countries and on the other hand do not necessarily respect the principle of non-interference to which they officially subscribe (the author cites Russia in particular). Mattlin & Nojonen (2015) argue that while not explicitly conditional on economic or other policy changes, Chinese loan contracts can nonetheless exert a strong influence on partner countries, resulting in “consequential” rather than “prior” conditionality.²¹ As the authors explain, China has considerable investments in strategic sectors and infrastructure in many partner countries, made through its many economic actors linked to the central government. This in turn has created a de facto structural dependence of countries on China, placing the conduct of these countries’ policies under strong Chinese influence. The authors do not comment on the intentional nature of this outcome. The authors suggest that the emergence of new donors does not mean the effective end of conditionality but rather a disruption of the rules of conditionality.

²¹ It is interesting to note in this context that Chinese aid significantly favors regions where African leaders originate, and particularly before major elections, suggesting a search for Chinese influence through its aid (Dreher et al., 2019).

A recent study based on the analysis of a hundred or so Chinese loan contracts with developing countries confirms the existence of indirect but very restrictive conditionality for borrowers. Gelpern et al. (2021) analysed the legal clauses of these contracts and found that they were “*considerably more ingenious*” in order to “*maximize their repayment prospects*” (which is one of the aims of traditional conditionality). They thus gain an advantage over other creditors and potentially influence the domestic and foreign policies of the debtors. These authors note the very contradictory nature of these clauses with the Chinese narrative of South-South cooperation and non-interference. These contracts, in principle not publicly disclosed, usually include a prohibition on the borrower negotiating its debt with China in coordination with Paris Club creditors in order to position Chinese lenders as “preferred creditors”. These contracts also often stipulate that “*Chinese contracts give lenders considerable discretion to cancel loans and/or demand full repayment ahead of schedule*”, allowing the lender to exert constant pressure on the borrower, including on its policies, whether economic, foreign, environmental or otherwise. This study raises a strong suspicion about China’s control over its debtors’ policies and it seems difficult to argue that Chinese loans do not come with conditionality, even if it differs from conditions imposed or negotiated with traditional lenders. It also appears that an important difference between traditional approaches and China’s is the transparency of the conditionality applied by each.

It appears that these recent changes in the conditions of Chinese loans to developing countries give much more weight to political conditionality and at the same time weaken the macroeconomic conditionality of traditional donors.

4 The effectiveness of conditionality

The developments in the modalities and practice of aid conditionality discussed above reflect the findings on the effectiveness of conditionality. In this section, we focus on the most recent articles analysing this effectiveness.

Effectiveness of macroeconomic conditionality

As mentioned above, macroeconomic conditionality (or at least the discourse around it) has evolved significantly, not least because its effectiveness has been questioned. The recent literature on this form of conditionality does not seem to provide new elements and generally refers to articles from the 2000s. Bourguignon and Gunning (2016) cite in particular the studies conducted by Svensson (2003) or Devarajan et al. (2001) to analyse the impact of conditionality on reforms. These studies find a relatively weak link, but their authors remain cautious in view of the difficulty of taking into account all the factors that may have an influence on the final result.²² Dreher et al. (2009) confirms this weak link by arguing that there is no evidence of the effectiveness of IMF conditionality (at least as practised before 2009). On the other hand, Dreher et al. (2012) argue that the instrumental conditionality practised by traditional donors is a failure, and favour exploring results-based conditionality.

The tone regarding the effectiveness of conditionality in actually getting recipients to adopt structural reforms is therefore rather negative. To explain this pessimism, Shah (2017) points out that the analysis of the practice of macroeconomic conditionality reveals a lack of consideration to the specific context of each country. The author illustrates his point by referring to practical cases of failure. Also consider here the findings from chapter 3, on conditionality driven by donor interests. Namely, donor geopolitical interests sometimes take precedence over the pursuit for an improved macroeconomic environment and governance in recipient countries. These factors taken together paint a grim picture for the effectiveness of conditionality.

²² The authors emphasize the methodological difficulties of this kind of analysis.

Shah (2017) also points out that a persistent problem with World Bank conditional lending is that failure is always blamed on the recipient, while the World Bank *“as a major creditor, will almost always be repaid”*. This creates *“perverse incentives”* that limit the effectiveness of conditionality. The literature on aid conditionality shows the wide variety of cases across countries, contexts and types of conditions.

Finally, one aspect that should not be neglected is that raised by Guillaumont Jeanneney (2011), namely the sincerity of the commitment of recipient countries to accept the conditions of the donors, the author estimating that *“often the governments of the assisted countries accept the economic policy conditions imposed by the donors on their aid so as not to lose the aid, but without really believing in them.”*

Effectiveness of political conditionality

The recent literature has further explored the effectiveness of political conditionality, the conditions of which have evolved considerably, as shown in the previous sections.

A literature that struggles to distinguish. Hackenesch (2019) shows that while the literature on the effect of aid on the level of democracy is extensive, it has difficulty distinguishing between the impact of projects on democracy and the impact of the political conditionality associated with aid transfers. This literature is also rather divided on the impact it analyses. Another difficulty in measuring the effectiveness of political conditionality lies in the diversity of the components of rule of law and democracy promotion.

Dreher et al. (2009), already cited above, believes that if conditionality is to be effective, it must explore results-based conditionality, drawing in particular on some experiments in political conditionality such as those of the US Millennium Challenge Corporation (MCC) or the EU. Dreher et al. (2012) analyse the effectiveness of the political conditionality of the MCC, which was set up in the 2000s and whose particularity is to practice positive conditionality. The MCC thus rewards countries capable of achieving results decided jointly and upstream of American support. This support is thus conditional on the achievement of measurable progress in the area of good governance. The authors analyse the impact of this conditionality on the level of corruption in assisted countries. Their results show several interesting things. First, conditionality as practised by the MCC is more likely to promote governance reforms than aid based on promises of

reform. The authors thus seem to recognise a form of superiority of results-based policy conditionality over instrument-based policy conditionality. However, they qualify their statement by noting that results tend to weaken over time and that it is as difficult for MCC as for other donors using instrumental conditionality to stop their aid in such cases. They explain this weakening both in terms of potentially declining motivation on the part of recipient governments, but also in terms of the donor's occasional difficulty in keeping its promises and disbursement deadlines. Furthermore, the good results are mostly found in countries that already had relatively low levels of corruption. In the case of countries with higher levels of corruption, the cost of reform is necessarily higher, and the financial incentive offered by the donor tends to be insufficient in comparison. The authors conclude that MCC as a results-based approach has not been entirely convincing, but that it is more the conditions of implementation than the approach itself that has been problematic.

Another example of political conditionality is that of the EU and its sanctions under the Cotonou Agreements with ACP countries. Hackenesch (2019) refers to the existing literature on the effects of these sanctions and cites in particular Portela (2010) for whom the application of sanctions has proven to be more effective in aid-dependent countries. He concedes that applying political conditionality today has become more difficult due to *“domestic challenges to democracy within Europe and the United States, domestic dynamics in African countries, and the rise of China as an alternative political model”*.

Competition from new donors reduces the effectiveness of policy conditionality. Section 3 finds that the conditions imposed in return for aid from traditional donors are weaker for countries also assisted by China. Does this have an effect on the usual objectives of policy conditionality, i.e. strengthening the rule of law?

It seems that the answer is yes, according to the work of Li (2017) who shows that Chinese aid received by a country has a negative and significant effect on the probability that its level of democracy will increase. This result is not surprising, as the promotion of the rule of law is not a concern of new donors such as China (section 3 Dreher et al. (2011)). Dreher et al. (2019) also suggest that Chinese aid may be partly driven by the search for influence over the leaders of the countries in which they operate, to the detriment of improving governance in those countries. Their results suggest that Chinese aid is more frequently given in the home regions of

African leaders (unlike World Bank aid, for which they find no link); Chinese aid thus potentially disrupts the search for better governance through conditionality by traditional donors.

Internal challenges in Western democracies. The rise of nationalism in Europe and the United States in recent years has led to potential instability in the cooperation policy of traditional bilateral donors, including the conditions for granting their assistance (Hackenesch, 2019). While the promotion of the rule of law and democratic values is one of the pillars of the political conditionality of these donors, a change in the donor governments can often mean a change in priorities or values, trickling down to aid policies. One prominent example is social rights (e.g. sexual and reproductive rights, LGBTQ²³ rights), where a new government espousing different values can significantly reduce (or even completely cut) any funding relating to these issues (Long, 2012). This increasing instability makes aid unpredictable both in terms of its amount and its objectives, thus negatively affecting the effectiveness of the associated conditionalities.

Internal dynamics in recipient countries. The effectiveness of political conditionality also depends on the willingness of recipient governments to engage with donors in this area. Hackenesch's (2018) analysis of governance cooperation relations between the EU and African countries shows that the propensity of the latter to accept the political conditions of EU aid depends on four factors. The competing Chinese offer mentioned above is one, but not the only one. African governments will also weigh the benefits of conditional cooperation with the EU against the costs. These costs will be higher when the conditions are less aligned with the countries' strategic objectives, and when the adoption of reforms is an obstacle to their staying in power. The fourth criterion is the dependence of their country on the EU. Depending on the country, these dynamics explain the success or failure of the political conditionality of aid.

Political conditionality linked to migration issues. In recent years, migration movements have aroused fears of public opinion in some donor countries, prompting some political leaders to consider the option of making aid conditional on migration controls by the countries of origin themselves.

²³ Lesbian, Gay, Bisexual, Transgender and Queer.

This control can be achieved by detaining migrants before they enter the desired destination country, or by encouraging countries of origin to “get back” their migrants.

The academic literature focuses rather on the link between aid and migration movements, without specifically considering the type of control or political agreement that may exist behind the dynamics of migration, with the exception of a few studies that rather analyse the effect of aid on immigration to the host country but hardly any on return emigration to the country of origin.

On the effect of aid on immigration to host countries, most studies point in the same direction: increasing aid for this purpose does not reduce migration in host donor countries (Benko, 2020; Clist and Restelli, 2020) nor the number of migrants apprehended at Europe’s borders (Restelli, 2020). Making aid conditional on the control of migration flows would therefore be illusory. Moreover, increasing the level of development in countries of origin is not enough to reduce emigration to rich countries (Menard and Gary, 2018) and may even improve the capacity to migrate (Clemens and Postel, 2018). Promoting development in migrant-sending countries, or cooperating with these countries to control migration flows, is therefore not enough to reduce immigration. Only an effect on the number of refugees in the medium to long term is possible, especially if humanitarian aid is high (Dreher et al., 2019a). Migration-related assistance should focus on reducing forced migration and consider that migration should be a choice and not a necessity (Fine et al., 2019).

On the effect of aid in return for accelerated return of migrants to the country of origin, Dreher et al. (2019b) analyse the effect of aid on the propensity of countries of origin to adopt policies facilitating the return of their migrants; their results show a positive effect on the adoption of such policies by the governments of the countries of origin, but without a significant effect on the volume of migration flows.

A special case of a formal agreement that makes the granting of financial aid conditional on the control of migration flows is the one that has linked the European Union and Turkey since 2016. As Turkey has been a major gateway for immigration to Europe since the civil war in Syria, the agreement provides for Turkey to manage on its territory the refugees heading to Europe, for all asylum seekers who have entered Greece and whose applications have been refused to be sent back to Turkey, and for the latter to receive several billion euros from the EU for this purpose. Beyond the ethical judgement that this type of agreement may give rise to,

a number of articles by think tanks, blogs and even academic articles point to the limited effectiveness of the system. Although immigration fell sharply as soon as the agreement was put in place, it resumed by bypassing the blocked passageways, and under conditions that are more dangerous for migrants. It also turns out that migrant returns are much lower than initially expected. Returning migrants are effectively stranded in Turkey as Syria is not able to receive them properly. This agreement is furthermore attacked on the fact that the Turkish partner does not present sufficient guarantees to ensure acceptable return conditions for migrants; a project by the University of Utrecht to evaluate this agreement estimates that *“the EU-Turkey deal was designed around the assumption that Turkey is a safe third country, but it is very difficult for refugees to get access to Turkish asylum procedures, and to protection or access to basic needs such as education or employment in the country”*.²⁴ Many experts believe that this agreement cannot be considered a sustainable migration policy.²⁵

Effectiveness of climate conditionality

The low level of climate conditionality actually applied to aid makes it difficult to assess its effectiveness. As a result, the literature struggles to analyse the effectiveness of conditionality in promoting public policies that reduce CO₂ emissions or better adapt to the consequences of climate change. Moreover, data on climate aid is of poor quality (Kono and Montinola, 2019). The question of the effectiveness of climate conditionality has so far received little attention.

²⁴ <https://www.uu.nl/en/research/human-geography-and-planning/evidence-based-assessment-of-the-eu-turkey-refugee-deal>

²⁵ <https://odi.org/en/insights/learning-the-lessons-from-the-euturkey-deal-europes-renewed-test/>

5 Conclusions

Several observations can be made from the various elements provided by this review of the recent literature on aid conditionality.

The first concerns the evolution of traditional conditionality. Criticism of the Bretton Woods institutions' assistance modalities in the 1980s and 1990s led to a profound rethinking of these modalities. The result was a desire to better adapt aid conditions to the context of each recipient country, and to include the beneficiaries in the elaboration of these conditions. The search for greater ownership by beneficiaries goes hand in hand with the search for greater effectiveness of interventions. This has led donors to imagine conditionality based on results to be achieved by the beneficiary rather than on the adoption of instruments promising future and potential results. Reality shows that this approach is now promising, although the difficulty in implementation remains significant.

A second observation concerns the broadening of the scope of conditionality. In addition to the historical conditionality, based on the adoption of economic policy measures in exchange for financial support, conditionality may also be more political in nature. Furthermore, conditionality is now also linked to donors' requirements in terms of social rights, respect for the environment and, more broadly, the promotion of global public goods. In this respect, climate conditionality is rarely used, except at the level of the eligibility of projects that donors are likely to finance.

It may be tempting for a donor to require the recipient to adopt policy measures in an increasing number of areas, although this may pose a problem of consistency with donors' stated objective of promoting aid effectiveness through greater ownership.

This expansion may also reflect a shift away from the original idea of conditionality, which is to seek to impose reforms that are supposed to be structurally beneficial to recipient countries (but not necessarily popular) and to promote greater donor aid effectiveness. The shift from the original concept of conditionality to a broader form that more easily includes donor interests changes the objective somewhat. Some of these new forms of conditionality are further away from the original form than others, such as aid given to a country on the condition that it controls emigration flows to the donor. The literature seems clear on the ineffectiveness of such conditionality.

The third observation is the implications of the emergence of powerful new donors, such as China, whose conditionality rules are very different. It is quite clear that China's increased assistance constitutes a new assistance window, which is attractive at first sight for the beneficiaries, but which may prove to be a trap with regard to the real, albeit not very transparent, conditions imposed on the beneficiary countries.

This problem of transparency is at the heart of the debate on conditionality. Conditionality is basically a means to make aid more effective and, beyond that, to foster the development of the recipient. The literature reviewed suggests that conditionality as practiced by traditional donors will need to continue to evolve to adapt to this new context while also juggling the desire to promote reform and improved governance while ensuring ownership.

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Appendix – Literature search strategy and methods

The first part of the literature search followed a two-pronged approach – a general search and a thematic search. The general or non-thematic search on aid conditionality was carried out first, to check for key subjects or questions that stood out in the recent discourse. This was followed by the thematic search, based on the pre-identified focal issues recognised as relevant or of specific interest to the study (e.g. migration). The thematic search was broadly classified as follows:

- **Traditional conditionality:** economic and policy conditionality associated with the Bretton Woods institutions.
- **China and new donors:** Impact of new actors on conditionality of traditional donors (IMF, World Bank and DAC bilateral donors)
- **Human rights and development related conditionality:** aid conditionality related to the realisation of the Sustainable Development Goals (SDGs), gender equality, LGBTQ+ rights, human rights violations and political violence.
- **Democracy, fragility:** aid conditions related to democratic governance in recipient countries, aid conditionality in fragile states and countries in conflict, aid conditions linked to peace negotiations ('peace conditionality')
- **Climate conditionality:** aid conditions related to recipient country cooperation on climate change action (e.g. compliance with the Paris Agreement 2015), aid earmarking for climate related projects as a form of conditionality.
- **Migration conditionality:** aid conditioned on migration cooperation from recipient countries,
- **Donor influence, tacit conditions:** Unwritten, unofficial.

After a first round of literature was selected and reviewed (general and thematic), the next step of the review used a snowballing approach. That is, references of the identified papers, related literature suggestions on main digital libraries of academic journals (such as JSTOR or Science direct), Google scholar or the journal website, as well as scoping publications of authors and institutions specialising on the topic.

Inclusion criteria:

- In a bid to capture the recent work on conditionality, we focused mainly on literature published after 2012 (with some exceptions based on relevance and scarcity of recent work).
- Due to language constraints, only literature in English or French were included in the review. The search was primarily focused on the literature in English and partly in French.
- In order to be non-restrictive, academic papers, policy analysis documents, grey literature (blogs, theses) were all eligible to be included in the review. Quality control related inclusion decisions for the grey literature were made on a case-by-case basis.

Main search engines: JSTOR, Science direct, Google Scholar

Team: This work was mainly carried out by two senior researchers and a research assistant and benefited from numerous reviews and advice from two other senior researchers as well as from many informal exchanges with experts, researchers and development practitioners.

Keywords and search terms employed: ²⁶ aid conditionality, conditionality of aid, aid conditions, development conditionality, human rights aid conditions, human rights and conditionality of aid, gender and aid conditions, climate conditionality, china aid conditionality, human rights conditionality, SDGs and aid conditions, debt conditionality, traditional conditionality, economic conditionality, political conditionality, policy conditionality, LGBTQ rights and aid conditionality, LGBT rights and aid sanctions, new donors and DAC aid conditions, conditionality in fragile states, aid conditions in fragile contexts, peace conditionality, migration and aid conditions, migratory conditionality of aid, migration flows and aid, tacit aid conditions, aid and donor pressure, aid and donor pressure, geopolitical conditions on aid.

²⁶ The list is non-exhaustive. Terms searched with AND OR Boolean operators.