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POLITICAL CONDITIONALITY AND FOREIGN AID

1. INTRODUCTION

After a rapid rise and decline in the 1990s, political conditionalities¹ (PCs) have returned to the aid scene. Yet, post-2000 PCs are in many ways different from their 1990 predecessors. This article argues that a new generation of PCs has emerged during the last decade, which requires an expansion of the original research agenda studying the emergence, dynamics and effectiveness of PCS. In early research, PCs were defined as

‘the use of pressure, by the donor government, in terms of threatening to terminate aid, or actually terminating or reducing it, if conditions are not met by the recipient’ (Stokke 1995:12).

Most PCs (studied) were of the *punitive, reactive kind*, where aid providers wanted to sanction cases of human rights violations and democratic decay (i.e. Stokke 1995; Crawford 1997, 2001; Uvin 1993).

Many post 2000 PCs, however, do not fit this 1990s definition. The United States Millennium Challenge Account (founded in 2004) sets political threshold criteria which countries have to reach *before* they can profit from the initiative and which aim at incentivising recipients to reform without however interfering in domestic affairs (Woods 2005); the European Commission (EC) in 2007 launched the Governance Incentive Tranche, which was a topping up of the aid envelope (*a reward*) if recipient governments were willing to negotiate with the EU to implement political reforms (Molenaers 2009, 2011); the „Good Governance Contracts” (2011) of the EC give more weight to political criteria *before* considering the provision of

provide budget support (Faust et al 2012); recent discussions amongst EU member states arguing that the European Development Fund (EDF) should become more *selective* regarding democratic governance and human rights; a number of bilateral donors have been experimenting with splitting up *aid disbursements in fixed and variable tranches*, with the possibility of the latter being tied to the achievement of either negotiated (with recipient government), coordinated (with other donors), or single handedly bilaterally identified political targets/indicators.

The examples suggest that PCs can have democratic governance as an objective but also as a condition for aid. This broadening implies that PCs can reward and sanction, they can be proactive and reactive, hands-on (interfering in recipient domestic affairs) but also hands-off like the use of (political) selectivity criteria to allocate aid volumes or to choose certain modalities (such as budget support).

Although PCs are broader in scope than during the 1990s, they are nonetheless narrower than the so-called ‘governance conditionalities’ (e.g. Santiso 2001, 2002, 2004; Hayman 2011) which have been affected by a conceptual over-stretching of the governanceⁱⁱ term (Weiss 2000; Dellepiane-Avellaneda 2010).ⁱⁱⁱ We understand PCs as having an explicit focus on political regime and human rights issues. Corruption, in this regard, remains as an ambivalent issue. While for some donors, the anti-corruption agenda should be approached from a technocratic perspective, others claim there is a straightforward link with political accountability and political representation. Whether or not conditionalities attached to corruption fall into the realm of political conditionalities often depends on the framing and the proposed solutions.

Against this background, we therefore suggest a modified definition of political conditionalities and will refer to these PC as second generation PCs for (in?) the remainder of the text^{iv}.

,Political conditionality refers to the allocation and use of financial resources (such as foreign aid) to sanction or reward recipients in order to promote democratic governance and human rights’.

Our definition does not exclusively limit PCs to the aid domain. PCs can travel across policy domains. The EU, for example, is experimenting with human rights clauses in its trade agreements (see Koch, this volume). The legitimacy and effectiveness of climate funding (like aid) is also largely dependent on the socio-political conditions of recipient countries (Cammack 2007). And inspite of the declining importance and weight of aid itself, the post 2015 global development agenda includes human rights and democratic governance concerns. In other words, PCs will not go away hence research and learning across the policy domains will remain important.

Contributions in this special issue mostly focus on European foreign aid and the use of PCs by European donors. Why? First, the emergence of second generation of PCs has been quite visible in the EU context, because the EU is quite explicit about its political goals. Referred to as Normative Power when it comes to using civilian means for external democracy promotion (Manning 2002; Youngs 2004)^v, and being awarded the Nobel Prize for Peace illustrate the importance of these political intensions. Second, the EU's accession process for example is often considered as one of the most interesting experiences of employing political conditionality successfully (e.g. Schimmelfennig & Scholz 2008). However, the EU is far from being a unitary actor. Foreign aid policies of the EC and member states have shown a great deal of heterogeneity which challenged the consistent and coherent use of PCs but at the same time also offers a fertile ground for analyzing the determinants, use and effectiveness of second generation PCs.

The most important contribution of this introductory article relates to the mapping out of a new research agenda because broadened, diversified PCs also require the opening up of relat-

ed research questions and perspectives. Beyond the traditional questions of use and effectiveness, there is a need to dig deeper into the processes surrounding second generation PCs. There is a need to address the knowledge gaps regarding the bargaining processes and outcomes along the aid chain -from domestic donor politics, donor harmonization fora, policy dialogue spaces to the political economy of recipient institutional reform and donor-coping strategies- because they influence the set-up, use, follow-up, purpose and effectiveness of PCs. Tackling these knowledge gaps also calls for cross fertilization between different scholarly traditions: the aid effectiveness debate, research on EU accession processes as well as the economic sanctions literature in International Relations all provide novel insights, even though they use different narratives and even different conceptualizations of conditionalities^{vi}. In the same vein, research on the political economy of recipients institutional reform, on governance and development can offer insights on enabling and constraining dynamics relating to political change (e.g. Haggard & Kaufman 1995).

In sum, we provide a broader conceptual ground for analyzing second generation PCs. First we summarize the evolution towards second generation PCs. Second, we take look at the form these PCs have taken in broad typology distinguishing hands-off political selectivity and hands-on uses of aid as a lever for political change. Next, we ask what is known so far about (the effectiveness of) these second generation PCs. The concluding section zooms in on the gaps in our knowledge so far and draws out venues for, but also the limits of further research.

2. WHY DID POLITICAL CONDITIONALITIES RE-EMERGE ?

(i) Shifting ideas about what aid should do

In the early 1990s, the 'victory of democracy', the subsequent wave of democratization around the globe, the many intra-state conflicts, genocides and reversals to authoritarianism

all formed legitimizing building blocks for the use of first generation PCs. Notwithstanding the ,enthusiasm' to push for democracy, research suggested that results were rather meager. PCs didn't work because donors did not coordinate which resulted in mixed signals, incentives weren't big enough and PCs failed to build on domestic drives for political reform in the recipient country (Stokke 1995; Crawford 1997, 2001; Brown 2005).

Second generation PCs re-emerged in the new millennium due to ,the governance turn of foreign aid', in combination with the events of 9/11, providing a new legitimacy push for democracy. The prescriptions of aid effectiveness research in turn, provided a number of evidence based recommendations on how to make conditionalities more effective.

The governance turn of aid started to take form in the second half of the nineties. The *1997 World Development Report* reassessed the role of the state in development, famously stating that 'good government' was not a luxury that only developed countries could afford, but actually a key (pre)condition for development. This 'good governance consensus' (Knack 2003) responded to the growing awareness that pervasive political institutions, including corruption, patronage but also authoritarian regimes were undermining economic reforms necessary for growth and broader measures of inclusive economic development (e.g. Knack & Keefer 1996, Acemoglu, Johnson & Robinson 2002). Added to this some scholars argued that democracy also has a positive impact on economic development (e.g. Olson 1993; Lake and Baum 2001; Blaydes and Kayser 2011; Acemoglu et al 2014)

Insights regarding the extrinsic value^{vii} of political institutions reshaped the terms of the aid effectiveness debate, as both policymakers and researchers became increasingly concerned with the mediating effects of recipient-side politics and institutions. The 'Assessing Aid' report (Dollar and Pritchett 1998) and other influential studies showed how the effect of foreign aid on economic development has been conditioned by the quality of the recipients' govern-

ance. Not just technocratic governance (such as the quality of economic policies or public financial management) but also democratic governance mattered for effective aid (e.g. Svensson 1999; Kosack 2003, Burnside & Dollar 2004). Later on empirical enquiry also showed that foreign aid has helped entrench the regime in power, meaning that aid can consolidate autocratic structures (Djankov et al. 2008; Bueno de Mesquita & Smith 2011; Dutta, Leeson & Williamson 2013), strengthen personalist rule (Wright 2009) and foster patronage (Hodler & Raschky 2014). Moreover, aid had to address gradual changes in a myriad of governance dimensions, rather than a uniform and linear political transition from authoritarianism to democracy because an increasing number of recipient countries were now located in the grey areas between autocracy and liberal democracy, often labeled as hybrid regimes, anocracies or illiberal and defective democracies (e.g. Zakarias 1999; Croissant & Merkel 2000; Santiso 2001).^{viii}

The above insights continuously prompted two different recommendations^{ix}: aid should be given selectively to countries that have better scores on democratic governance, and aid should function as a lever for institutional (including political) change.

(ii) Shifting ideas about how aid should be delivered

Besides an enhanced idea of what aid should do (take into account and deal with governance issues in order to achieve poverty reduction), the way in which aid was delivered mattered too. Fragmented, donor-driven foreign aid and the use of conditionalities over which the recipient had little ownership (also referred to as adversarial conditionalities) were to be avoided. More donor harmonization should overcome the perverse effects of projects on the administrative quality and political transparency of the recipients public sector (Knack & Rahmann 2007; Djankov, Montalvo & Reynal-Querol, 2009; Bigsten & Tengstam 2014). More alignment to the recipient priorities and systems should enable the donors and recipient govern-

ments to jointly negotiate over development targets and needed reforms, allowing for more recipient ownership and avoiding excessive donorship (Dollar and Pritchett 1998; Koeberle et al 2006).

These new aid delivery principles, initially, were heavily geared towards supporting poverty reduction. The Poverty Reduction Strategy Papers launched by the World Bank (1999) together with the MDGs (2000) strongly pushed the idea that foreign aid should primarily aim at reducing poverty, while the Paris Declaration (2005) set out the aid delivery principles of recipient ownership, harmonization, alignment, results-orientation and mutual accountability.

Interestingly, the use of more harmonized and aligned aid modalities such as multi-donor budget support, actually promoted or facilitated the use of PCs. Donor coordination mechanisms and policy/political dialogues became crucial places to discuss development targets but also to tackle broader governance concerns, and to persuade the government into more transparent and inclusive policy making, for example by requesting the involvement of civil society in policy formulation. The increased high level interaction opportunities for aid agencies upgraded their potential influence (from project to policy level) and gave them additional fora to address governance concerns (De Haan and Everest Phillips 2005; Hayman 2011).

The role of budget support merits particular attention in this context, because it became a crucial instrument for supporting and inducing both technocratic and democratic governance reforms. Originally designed as the primary aid instrument for combating poverty and for improving related technocratic governance reforms in the area of public finance management (Koeberle and Stavreski 2006) it slowly developed into an instrument -particularly for bilateral donors- to tackle the democratic governance agenda (e.g. Hayman 2011; Faust, Leiderer and Schmitt 2012; Molenaers 2012). As such, budget support with its core elements of donor harmonization and alignment to recipients' priorities became a vehicle for the concomitant

and simultaneous promotion of democratic and technocratic governance and poverty reduction.

3. WHAT DO SECOND GENERATION POLITICAL CONDITIONALITIES LOOK LIKE?

(i) Political selectivity

Aid should be given selectively to those countries that are well governed in order to increase aid effectiveness because the impact of aid on growth and poverty reduction is mediated by regime characteristics (Svensson 1999; Chauvet & Guillaumont 2002; Kosack 2003).

The use of *political selectivity* criteria is a form of ex-post conditionality as foreign aid was supposed to be allocated and disbursed upon/after reaching governance thresholds or political reform achievements (Svensson 1999; Chauvet & Guillaumont 2002).^x Democratic governance thus is a condition for aid (Santiso 2001), fully donor driven and hands-off (low interference), since the donor decides unilaterally which criteria to use when allocating its foreign aid.

According to Clist (2011) however, selectivity, can be multi-dimensional. Country allocation of aid volumes (and the use of political criteria in deciding over this) might be based on different criteria than the ones used for choosing aid modalities. Extending this argument one step further, one can also expect that the choice for certain sectors and even actors may be influenced by political considerations.

(ii) Lever for political change

In contrast to aid selectivity, using aid as a *lever for political change* implies that supporting democratic governance is an (intrinsic or extrinsic) objective rather than the condition for foreign aid (Santiso 2001). It also implies a more pro-active approach to promote or support political reforms.

The “Assessing aid” report (1998) argued that traditional forms of aid conditionalities often failed because disbursements were made based on promised future reforms (ex-ante) over which recipient governments had little ownership. Consequently, the call for ex-post conditionalities increased, particularly the idea that conditionalities had to be negotiated, preferably consensual, and results oriented so as to allow for ownership and more pluralism in terms of the possible policies a recipient government could implement (Dollar & Pritchett 1998; Koeberle and Stavreski 2006; Killick 1997). Moreover, the underlying idea is to strategically deliver aid to leverage the very political reforms which are meant to be conducive to economic development. Such a broad perspective to “getting the incentives right” has led to highly diversified approaches to support or induce democratic governance. PCs can range from subtle persuasion behind the closed doors of the policy dialogue to outspoken press statements condemning certain government actions (such as anti-gay bills or electoral fraud); monitoring the ‘good governance commitments’ (or Underlying Principles) of the Memorandum of Understanding; using soft incentives (peer pressure, social control) through working groups involving both state and non-state actors; negotiating hard incentives by pushing for political targets in the Performance Assessment Framework; the development of governance incentive tranches; suspending or reducing aid; shifting aid from one modality to another to reward democracy or to sanction regress; massaging governments into consultations with civil society; and this may go in tandem with ‘democracy promotion’ activities such as funding political parties (including the opposition), funding civil society to play watchdog functions; supporting capacity development of parliament, etc... As such, the lines between democracy assistance, democracy promotion and PCs have become very blurred, although all these forms of conditioning foreign aid were geared toward promoting democracy: either through government structures or bypassing them^{xi}.

(iii) The grey zone between selectivity and lever for change

In reality, and over time, the distinction between selectivity and lever for change is often blurred. For example selectivity criteria can have a ‚lever for change’ effect if the former are publicly announced by the donor, because the latter can have a signaling hence an incentive function, particularly if the reward (access to aid) is big enough compared to the cost the recipient must bare when striving for the benchmark. Though in most cases, the establishment and use of selectivity criteria is a very opaque process, there are some notable exceptions. The Millenium Challenge Corporation is not only quite transparent about the criteria, it also offers some funding for countries that almost reach the threshold (<http://www.mcc.gov/pages/about>). Another exception is the World Bank with its CPIA scores and clear formulas on how they calculate volumes per country and the benchmarks used to allocate aid through Budget Support.

Furthermore, selectivity does not imply that aid is subsequently disbursed without any strings attached. Aid always carries some implicit or explicit political conditions, and future disbursements may thus be influenced by these. The implicit conditions often become explicit when problems occur in that specific area which in turn tend to lead to the use of explicit conditions to redress the situation and/or ensure continued disbursement.

Figure 1 below summarizes our broad typology.

	High interference	
Ideal-types		Operational variety
Lever for political change: adversarial political conditionalities		Donor driven explicit or implicit political conditions on policies, (country-->)programmes, projects
Lever for political change: negotiated consensual resultsoriented ex-post political conditionalities		Donor coordination, division of labour (not) linked to disbursement schemes Policy/Political dialogue with no link to disbursement schemes (art 98) Clear agreements on recipient actions/targets regarding political reform linked to aid disbursements (fixed/variable tranches)
Political selectivity: Political criteria for country eligibility, volumes, modalities, actors, sectors		Donor driven, unannounced political selectivity criteria Donor driven, announced political selectivity criteria
	Low interference	

3. WHAT DO WE KNOW ABOUT SECOND GENERATION PCs?

(i) Political Selectivity

Large-N econometric studies have largely dominated allocation and selectivity research. It seems that donors have in general become more selective in their ODA-allocation patterns. It is however, unclear if and how political selectivity plays a role (e.g. Bourguignon & Sundberg 2007; Dollar & Levin 2006; Clist 2011). At the same time, the 'heterogeneity of donors' is remarkable. Differences between donors loom large in terms of the degree and the specific criteria of aid selectivity used (e.g. Alesina & Dollar 2000; McGillivray 2003; Neumayer 2003; Hout 2007; Easterly & Williamson 2011). In general terms, the 4Ps (poverty, population, policies and proximity) matter for the donor (Clist 2011) but the extent to which political criteria (regime issues recipient) enter into allocation decisions is unclear.^{xiii} Dollar & Levin (2006) looked into donor differences in selectivity and show that bilateral donors' aid allocation is more oriented towards political criteria, while multilateral organizations tend to give a stronger weight to the quality of economic governance. Donor characteristics matter too. Schudel (2008) shows that less corrupt donor countries will allocate more aid to less corrupt recipients. Interesting differences may also appear when distinguishing structural aid from humanitarian aid. Recipient needs might be more important for emergency aid, at least in the case of the USA (Kevlihan, DeRouen and Biglaiser, 2014).

When taking the selectivity concept from country volume allocation down to modality choice less is known. Clist (2011) showed that the quality of recipient policies seems to matter more for donors at the level of aid modality choice, little research so far has focussed on this (see Winters & Martinez 2015).

(ii) Lever for political change

First, a number of scholars look at aggregated ODA flows and are mainly interested in either impact on democratic institutions, or in the developmental impact of sanctioning democratic regress. Here, some authors have pointed to the possibilities of aid impacting democratic institutions (e.g. Finkel et al. 2006; Kalyvitis & Vlachaki 2010; Wright, 2010). Economic sanctions scholars have looked into the effects of economic sanctions on regime. Particularly the work of Hufbauer et al (1985, 2007) has been ground breaking in refining the economic and political determinants of effective sanctions. The growing interest in the economic sanctions literature regarding the relation between effective economic sanctions and regime type showed that democracies are more vulnerable for certain types of sanctions than autocracies (e.g. Brooks, 2002; Allen, 2005, Major, 2012). Some large N-studies have looked into the effects of comprehensive economic sanctions on development, and conclude that they tend to have large unintended but detrimental effects on citizens in target countries. This has led to calls for using smart and targeted sanctions (Drezner 2011).

An interesting tendency in this research stream is to acknowledge the ‚heterogeneity of aid‘ which points at the need to disaggregate aid flows in order to better unravel the use and effectiveness of PCs as levers for political change. Dietrich and Wright (2012) for example looked at a particular aid flow, namely democracy aid, and showed that the impact of democracy aid is conditional on the domestic context in recipient countries. In a similar vein, the institutional context of autocracies also tended to condition the effects of foreign aid as authoritarian regimes based on broader distribution coalitions will find it less riskier for their own political survival to engage in political liberalization (Wright 2009). These studies show that the leverage of overall and democracy aid on political liberalization is dependent on the political trajectory of the recipient country.

Next, a number of (comparative) case studies have been carried out looking at the different political conditionality instruments deployed, the goals attached to them, (versus) their set-up, implementation (challenges), subsequent bargaining processes and collective action problems both on the donor and on recipient side (e.g. Chhotray & Hulme 2009; Borchgrevink 2008; Carey 2007; Emmanuel 2010). The interesting edge offered by some these studies, is that they give a rich description and analysis of the variety of tools used by donors. Discovering (what drives) this variety and complexity allows for further conceptualization and understanding of how donors deal with democratic governance challenges and to carry out more detailed analysis on the motivations of donors, recipient coping strategies (e.g. Whitfield) and gradual, incremental changes achieved by these instruments. Particularly with regards to the latter, very little evidence has been gathered so far (Grindle 2014).

A number of influential case studies have particularly looked at EU conditionalities because the neighborhood policy and the EU's Cotonou Partnership Agreement have been identified as relatively successful uses of PCs. In the case of the EU's neighborhood policy, the effectiveness of political conditionality heavily relied on offering a big carrot: EU membership to a selected number of countries (e.g. Schimmelfennig 2007; Schimmelfennig and Scholz 2008). Membership negotiations were not only accompanied by a harmonized dialogue and monitoring process but also by clear and consistent reform demands. From a recipient perspective, the perspective of becoming a EU member country provided substantial incentives in terms of market access and subsidies. Moreover, the ownership of potential members further increased, as they already had taken substantive steps toward democratization. The EU's Cotonou Partnership Agreement and its possibility to use aid sanctions in the case of severe human rights violations under article 96 points to the similar requirements necessary for effective political conditionality: A comparatively high level of donor harmonization under the guidance of the

European Commission, an institutionalized political dialogue, comparatively clear benchmark criteria as well as high economic leverage (Portela 2007, 2012).

(iii) More harmonized, more aligned, more effective PCs?

Preference alignment - between donors or between donors and recipients - seems to be a daunting challenge, particularly when the number and heterogeneity of donors increases (Knack and Smets 2013; Bourguignon and Platteau 2015). Most case studies therefore show that in African, Asian and Latin American countries preference alignment, particularly between donors, has not been a success story. At best, jointly negotiated ex-post conditionalities were possible, or, donors succeeded in giving a clear collective signal to the government, but it did not necessarily imply jointly agreed upon aid disbursement decisions (e.g. Aalen and Tronvoll 2008; Borchgrevink 2008; Hayman 2011). Even if goodwill in the field existed, without harmonization at the level of headquarters, all attempts remained quite limited. Even for the EU, which had proclaimed an important coordination role for itself, it has been a daunting task to get member states to engage in information exchange on sensitive political issues, to undertake joint governance assessments and to agree on whether or not to use PCs (e.g. Delputte 2013).^{xiii}

Some research on the stumbling blocks for preference alignment (and its effects) have been carried out (e.g. Bourguignon and Platteau 2015; Birdsall 2005; de Renzio 2006; Lancaster 2007, Leininger & Grimm 2012; Bader & Faust 2014; Booth 2011; Knack/Rahmann 2007), but most of it are case studies. Most case studies zooming in on harmonization and alignment show that such interfaces provide space and opportunities to engage in the use of PCs. Particularly when budget support was provided. The fiduciary, accountability and political risks of this aid modality (e.g. Koeberle et al) made it prone to the use of political selectivity criteria and to (ad hoc) political conditionality because donor governments wanted to avoid parliamentary and public opinion accusations that aid was propping up dictators or funding corrup-

tion. Added to this, donors have also used PCs increase their visibility towards recipient government and/or within the donor group. The latter points at the importance of context in the recipient country. Donor landscape but also the bargaining position of the government influences the relation and leverage of donors, harmonization attempts and the use of PCs. In this sense the growth spurt in some recipient countries and alternative sources of foreign aid from China, India and other emerging powers has enabled recipient governments to become less aid dependent and/or thus better placed to resist political conditionalities (e.g. Furtado and Smith 2007; Hackenesch 2011)

Most research looking into the dynamics of harmonization and alignment have been in-depth qualitative (comparative) case studies. Interestingly, this research has forcefully shown the importance of looking into the black box of both donor home politics and recipient home politics and the need to look into the complex dynamics that shape donors' leeway to engage with new aid principles and the recipients leeway to cope with political donor demands.

4. A NEW RESEARCH AGENDA

There are still many things to discover about PCs. Above all, research needs to catch up with the growing heterogeneity of donors, the heterogeneity of aid and how this interacts with PCs. Some knowledge gaps are evident. The myriad of domestic factors shaping conditionality bargains remain largely understudied. This is true for both the donor and recipient sides. Similarly, we don't know enough about the dynamics of the bargain between donor and recipients, including crucial credibility and coordination issues. Our understanding of the politics underlying the choice of either political selectivity or lever-for-political-change forms of conditionality is also limited. We know even less about the tensions and policy dilemmas associated with these approaches and the grey zone between them. Some knowledge gaps correlate with research strategies. On the one hand, research on political selectivity (mirroring the allocation

literature) is predominantly large-N and not followed by in-depth studies of mechanisms and processes. On the other hand, the large number of qualitative studies on the use and effects of PCs in individual countries do not always accumulate into convincing evidence and/or lead to useful policy lessons.

In order to address these knowledge gaps and integrate isolated research lines, this section maps out an analytical roadmap for studying the new generation of political conditionalities. The general argument is that the future PC research agenda studying PCs can look at or across different bargaining arenas: donor home politics, recipient political economy, and interface issues (donor-donor and donor-recipient interactions) (Figure 2).

(i) Donor home politics

Several articles in this volume explicitly examine how domestic dynamics shapes the use of political conditionality as a foreign policy/development promotion tool. Notwithstanding these valuable contributions, it remains by and large unclear how ideas, interests and institutions affect the conceptualization, design and implementation of politically tied aid, and how this relates to donor variations in modes of accountability and representation. This points at the importance of studying key stakeholders, including pressure groups and influential NGOs. For example, the role of the media in framing the politics of foreign aid seems be crucial (Van Belle et al. 2004; Joly 2014). Yet, the systematic study of media representations and how it relates to the use of PC is still a largely under-researched area. The same holds for other key-veto players such as parliaments, the NGO landscape and how they influence the use of PCs. Equally important and understudied is the link between PC and the institutional autonomy/capacity of aid agencies, particularly vis-a-vis Foreign affairs and implementing agencies. The ideational side of donor politics is also a fertile ground for future research. We know that decisions regarding political conditionality are to a good extent taken to please domestic audi-

ences (see the discussion on Molenaers et al., this volume).^{xiv} This stresses the importance of analyzing public preferences on foreign aid in general and PC in particular as well as the extent to which governments are responsive to those preferences. More generally, a more systematic account of the influence of ideas in the evolution of PCs is in order.

Figure 2: broad outline of research agenda

	Within arena research: Donor home politics	Within arena research: Political economy recipient	Interface issues	Research tasks
Players	Stakeholders: Aid agency/ies Incumbent government Veto-players: Parliament Media NGOs/landscape Public opinion	Stakeholders: Incumbent government Pro- & anti-reform coalitions Veto-players: Parliament Media Civil society - NGOs Public opinion	Donor landscape: number - weight of donors types of aid and PCs BRICs - Non-DAC donors	Concept formation Measurement: Large N - Small N (Comparative) Case studies Mixed Methods Research Disaggregating ODA (heterogeneity of aid)
	Ideas, interests, institutions Actors are not homogeneous unitary blocks			
Bargaining processes	Conceptualization, design, implementation of PCs Influence stakeholders (inter- and intra-organizational bargaining) (eg Foreign affairs versus aid agency) Influence veto-players Policy coherence Policy space	Responses and coping strategies - compliance costs Impact PCs on domestic political dynamics and political opportunity structure - goodness of fit Effectiveness of PCs - political economy of reform Policy space	Credibility dilemmas across conditionality spectrum Perverse effects / trade-offs preference alignment Quality donor coordination Power asymmetries	Knowledge accumulation: Integrating quali and quanti Multiple analytical /theoretical lenses
Across arena research questions	Trade-offs and tensions between optimal within-arena-bargaining-outcomes Regime characteristics / government responsiveness influence use/compliance PCs Heterogeneity of donors Heterogeneity of aid (disaggregating ODA)			

A key issue is how, or indeed whether^{xv}, policy learning in the light of new evidence takes place. In this regard, it may be interesting to know how narratives of success and failure are

constructed and internalized in policy designs. Another potentially interesting area is the international diffusion of political conditionality thinking and practices across donors and international agencies. De Felice (this volume) offers insights into this issue by comparing the experiences of France and the UK. This research may also engage the way influential epistemic communities contribute to the framing and promotion of policy paradigms.^{xvi}

(ii) Recipient political economy

On the recipient side, the new generation of research is developing more nuanced accounts of how alternative conditionality frameworks may affect political opportunity structures, including the dynamics of pro-reform and anti-reform coalitions and veto players. A very promising line of research is already exploring the way PCs play out in authoritarian and semi-authoritarian (hybrid) regimes (see Hackenesh, this volume). Building on these inspiring efforts, researchers should pay closer attention to the domestic costs of compliance and their associated political drivers. Looking more carefully at what in the EU jargon is called the “goodness of fit” (the gap between expected outcomes and underlying institutional and ideological structures) is key for understanding the possibilities and limits of political conditionality in different contexts. This also implies working with more subtle measures of policy outcomes, and not least of success and failure.

Another promising avenue of inquiry lies in the intersection between the study of PC and the ever-growing literature on governance and development. Despite the huge amount of research in this area, our understanding of how aid may impact on poverty reduction and growth through institutions is still imperfect. Moreover, there is lack of consensus regarding whether it is a good idea to target political institutions in development interventions. One of the current conundrums of global development thinking concerns the two major policy paths taken by the aid effectiveness debate following the Paris Declaration: the conditionality road and

the political economy road (Booth 2011).^{xvii} Both approaches are predicated upon different understandings of the institutional underpinnings of development and by implication of the role of political conditionality. In the same vein, some ground-breaking works on political economy (e.g. North et al. 2009; Besley and Persson 2013) put forward innovative arguments which cut across debates about the logic and merits of PCs.

Along similar lines, some scholars have been raising challenging questions regarding donors' capacity to leverage political change. Matt Andrews' (2013) book on the limits of institutional reform in development is a case in point. In a nutshell, Andrews explains why so many attempts to engineer institutional change from abroad fail and formulates a more incremental, inclusive and ultimately realistic reform agenda.^{xviii} The issue is whether and how conventional understandings of PC, either as selectivity or lever for change, can accommodate a more context-specific, experimental and problem-driven approach to governance reforms. Whatever the answer, the lesson is that insights from the latest literature on governance and institutional reforms may inspire original research on the recipient side of conditionality.

(iii) Interface issues

Recent research on democracy support has called for more explicitly addressing the interaction process between the democracy supporters and the recipients of this support (Leininger 2012, Bader & Faust 2014). Seen from the particular perspective of political conditionality, conditionality implies an (implicit) aid contract between donors and recipients. The inherent interdependence between the two parties is marked by the pivotal issue of credibility, which intersects with conditionality in two fundamental ways. On the one hand, different forms of conditionality can be seen as attempts to address credibility issues. On the other hand, conditionality bargains would inevitably be undermined by further credibility problems. The conundrum is that institutional solutions to credible commitment are subject to further problems

of credible commitment (Bardhan 2005). In this context, seeking to disentangle how credibility dilemmas play out and are reconciled across different forms of conditionality should be an exciting theme in future research.

Moreover, credibility may be a plausible entry point for closing a critical knowledge gap, the study of the multiple interface issues surrounding donors-recipient interactions. The core analytical themes here are donor-donor coordination and donor-recipient alignment (see Table 2).

Regarding donor coordination, the last years have witnessed a substantial increase of research related to the ills of donor fragmentation (e.g. Knack/Rahmann 2007) but also to potential benefits of looking at the potential advantages of ‚fragmented‘ democracy support (e.g. Ziaja 2013), or inversely, the perverse effects of preference alignment for democratic progress. Yet, more systematic analysis is needed on how the quality of coordination among donors effects the quality of the aid contract between donors and recipients and particularly the potential tensions between a coherent external incentive scheme and the principle of alignment towards the policy priorities of a the recipient. Given that an increase in the coherency of conditionality will affect the actual bargaining situation, one may plausibly ask, for example, how power asymmetries affect the content, negotiation (dialogue fora) and implementation of PCs.^{xix} Moreover, given the heterogeneity of donor agencies, the landscape of donor agencies should be addressed more systematically. Beyond the sheer number of donor agencies, the type - e.g. financial vs. technical cooperation, the differences among them in financial and political weight and the presence of BRICs and non-DAC actors should affect the levels of coordination and alignment and therefore the quality of the aid contract(s) related to political conditionalities. Against the background of Reinsberg’s findings (in this volume) that the World-Bank responds differently to political liberalization than the EC and particularly bilaterals donors, one could more systematically tackle the question, if major donors such as the World-

bank, the EC or some major bilateral donors try to shape the way political conditionality enters into aid contracts.

As for donor-recipient alignment, it is important to go deeper into the factors shaping the actual bargaining of PCs. One may plausibly ask, for example, how pervasive power asymmetries affect the negotiation and implementation of PCs conditionalities.^{xx} But interface issues like the quality of policy/political dialogue may also be important.

Another promising field for further research concerns the study of the tensions *across* arenas of interaction. This is relevant because apparently optimal “within-arena” policy innovations tend to have unintended consequences in other arenas which are often overlooked. To put it simply, attempts to address credibility issues on the recipient side may lead to problems on the donor side and viceversa. A related issue is how different forms of PCs impact on the “policy spaces” and eventually on the behavior of both donors and recipients. These interactions have massive implications. For example, the viability of a more experimental approach to political change depends on donors’ capacity to credibly commit to the more realistic, though diminishing expectations of “good-enough governance” in the face of public opinion and media pressures. The logic of ‘two-level games’ (Putman 1988) may be a useful analytical tool for approaching these crucial tensions and interactions.

The above-mentioned research avenues should be core building blocks in the next generation of research on political conditionalities. That said, the following three research tasks are also essential. Firstly, concept formation. The attachment of political conditions to aid is often packaged in varied and subtle ways.^{xxi} This means that researchers should develop refined conceptualisations and typologies (see Koch, this volume). Secondly, measurement. One of the main lessons of economic sanctions literature is its commitment to the systematic documentation of events, the constant improvement of measurement strategies, and the attention

given to causality. This lesson should motivate research on PCs (see Molenaers et al., this volume), not least in relation to the elusive issue of effectiveness. Thirdly, and finally, knowledge accumulation. The research efforts produced across the different avenues of inquiry should be consolidated and synthesized. This includes the integration of findings from both large-N and case studies. Building on the ethos of ‘working together’ (Poteete et al. 2010), the articles of this volume illustrate how multiple analytical perspectives and methods can be brought to bear on complex development problems.

5. CONCLUDING REMARKS: UNRESOLVED POLICY DILEMMAS

Good governance produces higher development dividends, and makes aid more effective. Scientific research has been less clear though, about which dimensions of governance matter more, in which sequencing order^{xxii}, how exactly to craft, reform and/or improve the functioning and performance of political institutions, and how exactly such improvements may interact with developmental progress. Tampering with political institutions may negatively impact political stability, it may interrupt a continuous effort to reform the economy towards higher productivity, or, it can do exactly the opposite. Added to this, the time horizon taken by many social scientists is often long-term and allows for the detection of patterns, while donors and policy makers have to deal with the messy reality of interpreting short term events. This is particularly challenging in hybrid regimes, where it is difficult to interpret and assess the meaning of events in relation to the broader trends of democratic governance and/or political reforms. In that sense, neither empirical research on the determinants of democratization or democratic breakdown nor an increasing amount of more practitioner-oriented political economy frameworks provide clear answers to these policy challenges. Is a detected corruption scandal a sign of weakening state institutions or does it provide evidence for strengthening accountability mechanisms? Are elections won by the incumbent government in a hybrid regime a step towards democratization or are they a well-calculated means for securing power?

Does a NGO law serve the purpose of bringing the state back in into an under-regulated arena of state society relations or is it a means to restrict civil society from expressing its legitimate interests? It is easy to prescribe the need for a shared understanding about the dynamics of the political process in a concrete country setting, but how to get to such an understanding is a whole other matter.

Against this background, it is therefore of little surprise that donor governments, aid agencies and civil society actors often resort to normative claims and remain far from being united in their views and preferences regarding core questions related to political conditionality. While some actors question the desirability and legitimacy of political interference based on the idea that national sovereignty is to be respected, others reason that ‘richer countries’ should refrain from supporting autocratic rulers, or inversely should not shy away from taking up responsibility vis-à-vis the suppressed citizens in recipient countries. Such normative arguments are also present in the social science debate. While neo-colonial studies are particularly skeptical regarding normative grounds for political conditionality, liberals would claim that democratic governance and human rights provide good normative grounds for providing aid more selectively.

Finally, the whole aid-debate is caught up in witnessing a rapidly changing world, a further proliferation of aid actors, the decreasing importance of aid in middle income countries, the multiple and complex governance challenges in fragile states, the pressing need to incorporate the care of global public goods (climate) without robbing countries from their right to develop, the challenge of dealing with emerging powers and the collective action problems related to fiscal austerity in many European countries. All of these factors add to the controversy of what international financial transfers should do versus what they can do. How to incorporate human rights and democracy concerns will remain a crucial part and parcel of these debates.

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ENDNOTES

ⁱ We differentiate between political conditionalities and policy conditionality, the former referring to political criteria such as human rights, the rule of law and democratic governance and the latter being linked to policy content in specific policy fields such as macroeconomic management and regulation, public financial management or particular sectors such as health or education. Some scholars have referred to the existence of 4 generations of conditionalities: SAPs in the 80s, Political conditionalities of the 90s, the poverty reduction conditionalities by the late 90s, and the post 2000 partnership-based conditionalities (cfr Hayman 2011).

ⁱⁱ The meaning, scope and implications change depending on the increasing elasticity and intrinsic vagueness of the idea of governance. For example Kaufmann et al. define governance involves voice and accountability, political stability, control of corruption, but also rule of law, regulatory quality and government effectiveness.

ⁱⁱⁱ In the context of the aid effectiveness debate, the governance term was launched by the World Bank and IMF during the late 1980s and 1990s to address more technical reform issues mostly within the realm of administrative modernization (Santiso 2002). Yet, soon the term also incorporated political dimensions (Leftwich 1996). This has led to confusing uses of the governance concept and blurred lines between specific categories of democracy enhancing aid such as democracy promotion, democracy assistance and governance aid (Santiso 2001).

^{iv} Referring to second generation PCs does not aim to suggest an abrupt break with first generation PCs (1990s). Rather the contrary, the move into second generation conditionalities has been gradual and slow, and hence there are similarities between both generations. donors have also used aid to sanction democratic regress and human rights abuses such as electoral fraude, coup d'états, and anti-gay bills in recipient countries. These included the implementation of conditionality for such diverse issues as anti-gay bills or the criminalization of homosexuality, discriminatory laws against women, electoral fraud, repression of opposition, etc. For case study evidence on the application of these aid sanctions see for example Borchgrevink 2008; Hackenesch 2011; Aalen & Tronvol 2008; Furtado & Smith 2007; de Renzio 2006 ; Beswick 2011 ; Schmidt 2011 ; Resnick 2011 ; Fisher 2011 ; Portela 2010; Hayman 2011; Faust et al 2012.

^v Recent Eurobarometer research (2012) has also shown that European citizens prefer aid to strengthen Human Rights and Democracy above anything else, and that political conditionalities are considered a legitimate aid instrument to push for democratic reform.

^{vi} Particularly the definition of ex-ante and ex-post (before or after what?) is quite different. EU-accession studies refer to the agreement to determine ex-ante or ex-post, while most aid effectiveness studies regarding conditionalities take disbursement as the reference point. Such differences in conceptualization may lead to -at first sight- contradictory results when looking into effectiveness issues, hence the importance of clearly defining and operationalizing the crucial concepts. Furthermore, EU studies often portray a relatively powerful external agent (the EU) using conditionality as a strategy to induce policy and/or political changes according to EU standards and values in politically relevant countries (Schimmelfennig and Sedelmeier 2004) and looking into the role of veto-players in EU policy making (Borzel et al 2011). In the aid literature, conditionality refers to how donor imposed constraints on the delivery of aid might persuade a recipient government to behave in certain ways (Gibson et al. 2005). In research on economic sanctions, a sender seeks to discipline target countries by strategically imposing, or threatening to impose, economic hardship. In all cases, the analytic and policy focus is on whether and how the “incentives” embedded in different conditionality arrangements can/may shape the behavior of key actors involved in the bargain.

^{vii} Promoting democracy can also be done because of intrinsic values of course. The aid effectiveness debate however most often referred to the extrinsic value of democracy for economic development.

^{viii} This proliferation has led some authors to criticize the ‘reform overload’ in governance and the overly ambitious aspirations of donors (e.g. Merilee Grindle on Good Enough Governance).

^{ix} In research this led to a proliferation of efforts aimed at measuring democracy, governance, and human rights (Kaufmann et al. 2000; Knack 2003; Landman and Hausermann 2003). In the real world, new global actors advocating good governance emerged (e.g. Transparency International, launched in 1995).

^x The change from ex-ante conditionality (aid is disbursed based on promised future reforms) to ex-post conditionality (aid is disbursed after reaching threshold criteria or reform achievements) was another major recommendation from the "assessing aid" report and also influenced by increasing insights about the adverse effects of structural adjustment programs with ex-ante conditionality (e.g. Easterly 2002, 2005).

^{xi} The upside of this proliferation is that it allows, at least in theory, for a diversified approach which may take the form of a 'political portfolio-approach' or a 'democratic governance portfolio' where complex goals such as democratic governance are tackled from multiple entry points, with multiple instruments and modalities, in multiple sectors and supporting different actors.

^{xii} On these different drivers of aid allocation see also Svensson 2000, Neumayer 2003; Berthelemey 2006; Carey 2007; Lancaster 2007.

^{xiii} Some research has looked into the collective action problems of donors and the link with conditionalities. Large N-research showed that the more donors present in a country, the higher the likelihood that conditionalities will be used (Knack & Smets 2012). Also the rapid emergence of new private aid players (such as vertical funds) and the BRICs which were less affected by/interested in the governance turn of aid or the changed aid delivery principles (let alone concerns about governance), exacerbated the collective action problems between traditional donors.

^{xiv} We should also take into account that governments in recipient countries also face incentives to use conditionality bargains to send 'signals' to foreign audiences. See, e.g. Andrews' (2013) account of the signaling effects driving institutional reforms in developing countries.

^{xv} Some development ideas tend to be resilient even in the presence of strong disconfirmatory evidence, simply because they are politically attractive/profitable (see Booth 2011).

^{xvi} In this area, the new literature on the politics of policy ideas may be inspiring. See especially Beland and Cox (2010) and Blyth (2013).

^{xvii} According to Booth, the conditionality path implies a reversion to political conditionality with enhanced emphasis on the use of indicators of institutional and governance quality. Alternatively, the political economy road is about understanding the deeper institutional roots of development with an eye on informing a more flexible, nuanced approach to aid and institutional change.

^{xviii} This echoes previous contributions by Grindle (2004), Evans (2004), Rodrik (2009) and many others.

^{xix} This is an area where counterintuitive findings may turn up. As Schelling famously argued, in bargaining weakness is often strength (and viceversa).

^{xx} This is an area where counterintuitive findings may turn up. As Schelling famously argued, in bargaining weakness is often strength (and viceversa).

^{xxi} In the extreme, the use of political conditionalities remains hidden behind politically correct rhetoric. The case of budget support suspensions is a case in point (see Molenaers et al, this volume).

^{xxii} Merilee Grindle is one of the few academics who has undertaken a valuable attempt at prioritizing governance reforms while proposing an analytical scheme to map and address reform bottlenecks.