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Lessons from conditionality provisions for south-north cooperation on climate change

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Abstract

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Keywords International cooperation, incentive schemes, mechanism design

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Lessons from conditionality provisions for south-north cooperation on climate policy

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This article examines what may be taken into account, when designing a mechanism of international public finance to support south-north cooperation on domestic climate policies in developing countries. We draw lessons from existing mechanisms of conditional transfers. Experience with conditionality provisions that the World Bank, the IMF, and bilateral donors apply to development assistance is varied. Conditionality provisions applied during the EU enlargement process are generally evaluated more positively, as the shared objective is increased credibility and participation. Clearly defining global emissions reductions as a shared objective could offer similar opportunities for cooperation. We discuss lessons that might be of relevance to the design of cooperative climate policy.

1. Introduction

Developing countries are expected to contribute to 39% of global CO_2 emissions by 2010 (IEA 2005). Thus they will need to have an important role in stabilising CO_2 concentrations in the atmosphere and global climate. However, with limited responsibility for historic emissions, pressing short term development goals and limited financial capabilities to reduce emissions, climate policy in developing countries is likely to be contingent on support provided by industrialised countries (Müller 2008).

Project based approaches, like the Clean Development Mechanism, have been successful in delivering emissions reductions on a project by project basis. It may be difficult to scale-up these approaches in order to achieve sufficient coverage of all sectors. Difficulties also arise in successfully extending such a mechanism to a sufficient number of small projects. Emissions reductions, or a move towards low-carbon growth, are therefore likely to require domestic policy initiatives. Developing countries might be willing to engage in such domestic policy initiatives, if they are not accompanied by high economic or political costs and do not undermine the countries ability to address pressing socio-economic and local environmental needs.

The Bali road map created a link between action by developing countries and technology transfer, financing and capacity building by industrialised countries. It requires both parties to make their contribution in a measurable, reportable and verifiable manner. This raises questions about what lessons we can learn from previous cooperation between countries on suitable ways to structure joint mitigation and adaptation efforts.

As both industrialised and developing countries need to make measurable, reportable and verifiable contributions, all parties have the opportunity to make their cooperation conditional on the observed contribution of the other parties. We do not aim to discuss how such conditionality will work in the area of climate policy, but want to collect historic examples and to provide a structured summary of their evaluation in academic and policy literature. We hope this can inspire new ideas and constructive discussion.

Conditionality has previously been used in various settings - among them development assistance from the World Bank or the IMF, bilateral development cooperation, or EU enlargement.

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The effectiveness and the scope of World Bank and IMF conditionality are highly controversial both among researchers and practitioners (i.e. Burnside and Dollar 2004b; Svensson 2003; World Bank 2006). At the same time, conditionality in the EU enlargement process is frequently acknowledged as an effective policy instrument (Ederveen et al. 2006; Schimmelfennig and Sedelmeier 2004). Some research on EU conditionality has also included reference to World Bank and IMF conditionality (Checkel 2000; Ederveen et al. 2006), however this is less so vice versa.

This paper assesses the implementation and verification of conditionality based on a literature survey of the performance of these programs. Conditionality frequently evokes negative associations. These may result from an institutional setting that is perceived as inequitable, or from policy objectives that are subject to debate. For example, the policy measures that were requested by the World Bank and IMF from developing countries were frequently seen as overriding national sovereignty and thereby undermining ownership. In addition they were associated with negative short-term effects such as unemployment and reduced social benefits. However, this paper does not assess the validity of such policy objectives, or the extent to which the policy instruments required by conditionality can deliver the desired objectives, instead it focuses on the mechanisms of conditionality.

Table 1 provides a qualitative summary of evaluations of conditionality provisions within the literature. The level of compliance associated with the conditionality requirement, i.e. whether the recipient country implemented the required policy, is higher when the response in the case of non-compliance is more credible. For example, the IMF is somewhat more stringent than the World Bank in reducing loans and transfers if conditionality requirements are not met. This may explain why the IMF is seen to be more successful in realizing the implementation of agreed policies.

Candidate EU Member States are likely to be more persistent in implementing conditionality requirements, as compliance results in the benefits of membership. Also the compliance mechanism is strengthened by the European Commission and existing Member States' motivation to ensure the integrity of the institutional set up of the EU is not threatened by non-compliance. In contrast, bilateral development cooperation seems to be less successful in realizing the implementation of agreed policies by recipient countries. This is possibly due to the ability of recipient countries to 'choose' between several donor countries, allowing recipients to avoid unilateral conditionality requirements. In addition, the reluctance of donor countries to reduce transfers for health or poverty reduction programs limits their ability to respond in the case of non-compliance. Furthermore bilateral donors frequently continue programs despite non-compliance because their strategic geopolitical interest and historic friendship outweigh the importance of credibility in the conditionality mechanism.

Table 1. Qualitative comparison of conditionality provisions in different programs.

	IMF	**World Bank**	**Bilateral aid**	**EU Enlargement**
Stringency of reaction to non-compliance	XX	X		XXX
Compliance with conditionality	XX	X		XXX
Competition on donor side			XX	
Competition between recipient countries			XX	XXX
Defining conditions	IMF after negotiation with countries	World Bank after negotiation with countries	Donors frequently adopt IMF and WB conditionality, own policy conditions by donor countries	European Union in discussion with accession countries

The literature also suggests that details of the conditionality mechanism can have a significant impact on its success:

Experiences from IMF and World Bank conditionality suggest that a lack of shared ownership of projects and policies reduces their effectiveness and persistence. Ownership can be achieved during the formulation of conditions through a dialogue between the partners. As developing countries often have limited experience with climate policy and may have other priorities, cooperative climate policy can achieve ownership more successfully by building on country-specific requirements. An emphasis on policies with climate co-benefits may be more appealing to developing countries due to the importance of other national priorities.

Transparent monitoring of compliance enhances the credibility of conditionality mechanisms. Clearly defined indicators are a particularly important component of successful mechanisms, as is the institutional framework for the monitoring and evaluating of conditionality provisions. World Bank experience suggests that if staff evaluate their own programme, a lack of objectivity may cause them to overestimate programme achievements. This highlights the importance of an independent monitoring and review body. An international framework for such monitoring may be preferable as it reduces the risk of ‘implicit conditionality’, for example requirements for the use of specific technologies produced by the partner country, or the pursuit of wider geopolitical interest.

In the programs analysed, conditionality can be formulated with ex-ante requirements that must be satisfied before any financial transfer is received. An alternative formulation makes continued support dependent on sustained compliance with conditionality requirements (ex-post). So far ex-ante conditionality has proved more effective.

Cooperative climate policy could for example provide financial support for the costs associated with specific climate or energy policies, for policies with climate co-benefits, or for the achievement of more specific climate or energy indicators. Thus cooperative climate policy could create links between policies or indicators and financial payments, thereby encouraging policy implementation. A precondition for success is the ability of the recipient country to implement climate and energy policies. Cooperative climate policy must therefore take into account a country’s institutional capacity for climate policy – and in some cases provide support for capacity and institution building in the first instance.

The credibility of any such conditionality depends on the stringency of the response in case of non-compliance. This has often proved to be missing – particularly in bilateral development aid projects – due to the ‘Samaritan dilemma’ or the geo-strategic interests of donor countries. In the first case, donors struggle to respond to non-compliance because they want to continue aid and health care provision. Responding to non-compliance is also impeded when discontinuities threaten the success of a project or program. For the design of cooperative climate policy, this suggests that it would be more difficult to limit financial support that is dedicated to aid projects if they have strong social components.

In the case of EU enlargement, enforcement was more credible because existing Member States had a vested interest in the compliance of new member countries due to their own involvement in the EU. Similarly, climate conditionality may be more successful than traditional development cooperation because the self-interest of industrialised countries in facilitating emissions reductions may be higher and therefore result in more consistent implementation of the cooperative climate policy. Also from the perspective of developing countries, it is possibly easier to participate in climate agreements that contain incentive-based provisions if they share the objectives of the programs.

The institutional setting appears to have a strong impact on the potential success of a conditionality mechanism. Essentially, the institutional setting of a cooperative climate policy can either be bilateral, multilateral, or comprise of both bi- and multilateral elements.

A bilateral approach creates the risk that countries abandon the cooperation prematurely and engage with other countries. This can result in less compliance of both parties and can reduce the effectiveness of the cooperation. This suggests the need for some process that results in a ‘twinning’ of countries so as to strengthen the links.

However, in this case the developing countries face a greater risk that industrialised countries tie their support for climate policies to additional explicit or implicit political conditionality – either by direct conditions included in the initial formulation of the agreement or by gradual extension of the scope of climate policy provisions. Such bilateral cooperation thus benefits from a multilateral framework that creates transparency and clear rules to define the scope of the conditionality agreement and enables transparent monitoring to ensure the cooperation is focused on policies with climate (co-) benefits.

In contrast, bilateral formulations of cooperative climate policy can also offer benefits. It allows for an approach that is better tailored to the national circumstances of a country than a purely multilateral setting that has to be globally harmonised. This type of duality might also enhance the level of accountability on both sides, as the partners may feel more responsible for their partner country than in a more 'anonymous' multilateral setting. It is also not clear whether the detailed expertise and experience required for cooperation and capacity building is available at sufficient scale in international institutions. Bilateral cooperation could directly link institutions at the national or sub-national level. This may lead to a wider engagement of partner countries and ensure ownership by local stakeholders and thus enhance policy persistency and accountability on both sides. Due to the substantially larger number of developing countries compared to the number of industrialised countries, this would result in the need for every industrialised country to enter into a bilateral deal with a group of developing countries.

This paper provides an initial attempt to understand the role conditionality provisions could play within cooperative climate policy, and as such does not claim to offer solutions to the current problems of conditionality mechanisms. The paper aims to explore some of the possible characteristics of climate policy cooperation. Section 2 describes the theoretical framework of conditionality. Sections 3 to 6 review conditionality provisions applied by the IMF, the World Bank, bilateral development assistance, and EU enlargement. Section 7 sums up what can be learnt from this review and section 8 concludes with a checklist of important design aspects for cooperative climate policy.

2. General framework

Conditionality has been used in a growing number of programmes and plans – the most prominent among them being conditionality tied to loans by the IMF or the World Bank. Conditionality has also been applied in bilateral development aid programs, and in different processes of European integration – from NATO expansion to EU enlargement.

2.1 The framework of conditionality

In the past the concept of conditionality has been described as a 'principal-agent framework', which follows the concept of neo-realism from political science. Killick (1997) puts the underlying question as follows: "the essential problem is how principals (in the present case, donors) can design contracts which embody rewards that make it in the interests of agents (recipient governments) to further the principals´ objectives" (p487). In this framework conditionality can also be understood as the "exercise of financial leverage, requiring governments to do things they wouldn't otherwise do or to do things more quickly than they would choose to do" (Killick 2005b, p1).

This formulation faces an inherent dichotomy: country sovereignty is essential to the ownership and successful implementation of programs; however, in the settings analysed, conditionality requirements reduce the level of ownership of programs by recipient countries.

An alternative perspective on conditionality is offered by the theory of 'social learning'. Constructivist thought, also based in the political science literature, expands on the role of dialogue, persuasion and negotiation in the strategic behaviour exhibited by human and state action (Checkel 2001). Conditionality can offer the basis for such a dialogue, as is suggested by the use of a mix of soft and strong policy instruments.

These perspectives may fall short of explaining cooperative climate policy, where conditionality could possibly be a tool to align mutual responsibilities. Cooperation can, however, be understood through the principal-agent framework, which suggests that the principal could at the same time be an agent –

and vice versa. This is also reflected in what Killick (2005b) sees as the International Financial Institutions own description of conditionality: “an instrument of mutual accountability” (World Bank 2005b).

The conditionality mechanism is also defined by its institutional setting, e.g. bilateral development cooperation between two countries, or multi-lateral bodies like the IMF or the World Bank acting as counter parties for individual countries.

A trade-off between efficiency and inclusiveness of programmes is frequently observed. Selectivity of cooperation partners may lead to more efficient outcomes but may exclude many partners from program participation. The Millennium Challenge Account of the United States is an example of conditionality that strongly favours efficiency over inclusiveness and puts a high emphasis on institutional aspects.

2.2 Implementation

Conditionality can be designed in different approaches: ex-ante, ex-post, desired action conditionality, or a mixture of these approaches. Ex-ante conditionality provides support only after certain conditions have been met. Ex-post conditionality requires support to be conditional on the ongoing implementation and monitoring of certain criteria. There are also approaches that do not create immediate links between the success of the programme and future support. In this case conditions are listed, but not necessarily binding. In the World Bank context for example, these are referred to as “desired actions”. Lastly, in the programs analysed, a mixture of these forms is common: pre-conditions must be met before financial transfers or accession negotiations start, and trigger conditions have to be fulfilled during the programme to enable the next tranche of financial transfers or to move to the next step of accession negotiations. Programmes are often accompanied by less-binding policy provisions.

The differences between “negative conditionality” and “positive conditionality” are sometimes highlighted (Rich 2004, 326f). Negative conditionality punishes the failure to meet conditions; in the case of cooperative climate policy for example by industrialized countries interrupting transfers or by developing countries stopping emissions reduction policies. Positive conditionality creates incentives to meet conditions by rewarding good performance, for example by supplying additional support. Implicit conditionality can be observed where there is an understanding that future funding of projects depends on their current performance.

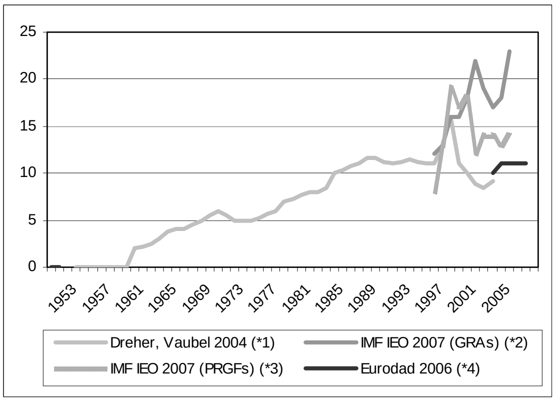
Continuity of programs is frequently cited as an important requirement for their successful implementation. As for the conditional aid system, discontinuities create uncertainties that compromise successful implementation of reform (Adam et al. 2004; ChristianAid 2006; Collier et al. 1997; Eurodad 2006,).

2.3 Results / Success

Conditionality has become a much debated topic. Criticism of conditionality emerged mainly in the IMF and World Bank context. These criticisms relate to the institutional setting, particularly the implicit paternalism of conditionality, as well as to the objectives of conditionality. Program implementation has also been criticised due to the formalism and multiplicity of conditions. It is argued that these problems, in combination with a lack of coordination between donors, resulted in a lack of ownership of reforms by recipient countries. There is a debate on whether conditional transfers in development aid had the desired positive impact on economic growth in recipient countries, and whether these effects depended on the prevalence of good governance in the recipient country (Burnside, Dollar 2000; Easterly et al. 2004).

Based on literature on the use of conditionality by the IMF, the World Bank, bilateral donors, and the European Union, an overview of the effectiveness of conditionality in these different contexts is presented in the next section. The review is structured as follows: First the conditionality program is briefly introduced with its motivation and history. Then cases of compliance with conditionality formulated by the mechanism are analysed. Next the reaction in case of non-compliance is discussed and provides information on the credibility of the mechanism that depends on monitoring and measuring compliance, definition of success, and enforcement of sanctions. Each review concludes with a brief assessment of whether policy objectives were achieved.

Graph 1: Number of conditions with IMF programs



(*1) 1952-94: number of binding conditions (performance criteria) per program started in that year (Gould 2001, Graph 1); 1995-2002: average number of performance criteria per program (1995-99: Goldstein 2000, Table 4; 2000-02: data base ´Dreher/Vaubel 2004)

(*2) there: MONA database and IEO staff estimates

(*3) there: MONA database and IEO staff estimates

(*4) PRGFs; 20 selected countries only

3. IMF Conditionality

In short, the structure of IMF conditionality is as follows: The IMF offers loans to countries that need capital, and countries accept the conditionality clauses that the IMF attaches to these loans. Most bilateral development aid is conditional on recipients accepting the IMF (and World Bank) requirements. This increases the influence of the IMF and World Bank programs.

The IMF and the World Bank offer the most familiar and also the most debated examples of conditionality. When founded in 1944, the IMF focused on stabilising the post-war financial system by providing short-term balance of payment credits to its member countries. Such credits were accompanied by conditionality on monetary, fiscal, and exchange rate policies in order to ensure that the IMF would be able to recover its loans (Buira 2003). Initially, conditionality requirements prescribed monetary and fiscal targets, but countries were free to decide which instruments to use. This changed from the late 1960s onwards, when the level of detail of conditions increased, and conditions started to include specific measures in addition to the targets (Dreher 2002).

The worldwide economic and debt crisis during the 1980s was particularly severe for developing countries. This led to the emergence of structural conditionality in the form of Structural Adjustment Programs (SAPs), which were believed, by the IMF and the World Bank, to be a panacea for developing countries. The IMF and the World Bank intensified and harmonized their cooperation following the lines of the “Washington Consensus”: conditions no longer focused on macro-economic variables, but also on supply-side and institutional issues like government taxation, expenditure plans, labour markets, deregulation of the economy, and privatisation (Killick 1997, p484).[2]

In the 1990s the concept of ‘good governance’ as a form of political conditionality evolved. It emphasised the importance of sound economic policy and efficient administration. From 1999 the IMF promoted the establishment of Poverty Reduction Strategy Papers (PRSPs) produced by developing countries. The PRSPs have to be set up in a participative process, including all relevant stakeholders from business and civil society. They outline a country’s planned macroeconomic, structural and socio-political programmes. PRSPs have become a precondition for IMF, World Bank and bilateral lending. The 2002 UN Conference on Financing for Development in Monterrey then formally established the “new” development paradigms of poverty reduction: ownership and development partnership.

[2] Buira (2005) attributes this change to the then emerging policies of the USA and the UK to reduce the role of the state.

Dreher (2004) gives an overview of the rising number of conditions on IMF loans over time: the number of binding conditions per loan climbed from an average of four (1952-1973) to seven (1974-1982) to twelve (1983-1999). Programmes between 1999 and 2001 included a total number of twenty-one conditions, nine of them performance conditions.

The last year an industrialised country applied for an IMF loan was 1976, at about the same time private money ceased to be readily available for developing countries. Dreher (2004) argues that both factors contributed to the increase in conditionality.

3.1 Compliance with conditionality

Analysis by a range of researchers suggests that compliance with IMF conditionality has generally been rather weak. Dreher (2004) provides an overview of this research. He shows that compliance rates have been around 50% and below for credit ceilings or overall fiscal deficit for the years 1969 to 1984. Compliance in the following years ranged between 30% and 50%; with a low of 19% in 1984. The IMF itself reported 61% compliance with trade conditions from 1987 to 1999. Compliance with "prior actions" (ex-ante conditionality) was significantly higher at 80% in the same period. (All: Dreher 2004).

Killick (1997) finds that IMF loans have "decisive and sustained influence" on the exchange rate and reform of other price variables, such as interest rates, agricultural producer prices, and the deregulation of consumer prices (p486). They do, however, have less influence on institutional change, for example, in financial sector reforms and privatization programmes.

3.2 Reaction in case of non-compliance

In case of non-compliance, IMF programmes are interrupted or ended. Mussa and Savastano (1999) studied 615 IMF programs over the period of 1973 to 1997. They found that more than a third of IMF arrangements ended with disbursements of less than half of the initially agreed support, and that in only 43%-49% of analysed cases 75% or more of the negotiated sum was distributed (Mussa, Savastano 1999).

However, new programmes are also concluded for political reasons when non-compliance with the conditionality of previous programmes is evident (Dreher 2002). "A process of program negotiation, breakdown and subsequent renegotiation seems to be accepted by the Fund as an integral part of its relationship with client countries" (Bird 2002, p838).

3.3 Achievement of policy objectives

The question of the effectiveness of IMF aid remains an unresolved issue. Many articles analysed the impact of aid, with the majority focusing on the impact of aid flows on GDP growth and other macroeconomic variables, such as investment or public consumption. These studies implicitly refer to the notion that aid is meant to bridge the savings-investment gap that poor countries face. Although the objectives for IMF lending and other donors include poverty reduction, less research has been conducted on the impact of foreign aid on poverty reduction (Mosley et al. 2004).

The results of research about the impact of aid on growth are mixed. Articles that have identified significantly positive effects face heavy methodological criticisms. In addition, it is always difficult to estimate the counterfactual – what would have happened in the absence of an IMF supported programme (Bird 2002). Surveying existing studies, the Meltzer Commission concluded, that there is no "significant link between IMF involvement and increases in growth and income" (Meltzer 2000, p39). Table 2 shows Dreher's (2006) findings that existing studies do not provide clear evidence on whether IMF loans increase growth, decrease growth or have no effect on growth. However, bilateral aid donors seem to believe in the effectiveness of IMF conditionality: according to Bird and Rowland (2007), bilateral aid flows are positively correlated with a country's involvement in an IMF programme.

Table 2 – Impact of IMF loans: Studies researching the effect of IMF loans on growth

Type of studies	Increase growth	Decrease growth	No effect on growth
Before-after-studies	3	0	6
With-without-studies	1	1	6
Regression-based studies	3	7	5

Source: Dreher 2006, p773.

This observed ineffectiveness has nurtured criticism about IMF conditionality and inspired a process of “Streamlining Conditionality” in 2000. The IMF developed new conditionality guidelines in the review process. While these repeated many of the existing guidelines from 1979, emphasis was shifted to the actual implementation of the guidelines by IMF (Buira 2003).

4. Conditionality applied by the World Bank

The World Bank offers loans to developing countries for infrastructure or sector projects but requires acceptance of the conditionality clauses that are attached to these loans.

Founded alongside the IMF in 1944, the World Bank’s objective was to promote long-term economic growth in its member countries by financing infrastructure and sector projects. Prior to the 1980s the bank was mostly financing investment in roads and dams. Conditionality was applied to loans so as to ensure an economic environment that would allow repayment. World Bank conditionality provisions were similar to that of the IMF (Killick 1997).

As mentioned earlier, the debt crisis in the 1980s led to structural adjustment lending by both the IMF and the World Bank. As a result the focus of World Bank conditionality shifted initially to international trade and the fiscal sector, then to the financial sector, privatisation and institutional reform. The conditions applied by the two Bretton Woods Institutions tended to overlap, leading to ambiguity in their specific roles, and increasing pressure on recipient countries.

Responding to rising critique on structural adjustment lending, in the 1990s the conditionality requirements included requirements of ‘good governance’. For the World Bank, this translated into ‘sound development management’ – i.e. effective, predictable and transparent public administration, efficient accounting, and a binding legal framework for private sector competition. While the statutes of the World Bank and the IMF prohibit tying development aid to specific political conditions, bilateral programmes frequently contain explicit political conditionality including aspects of human rights and democracy.

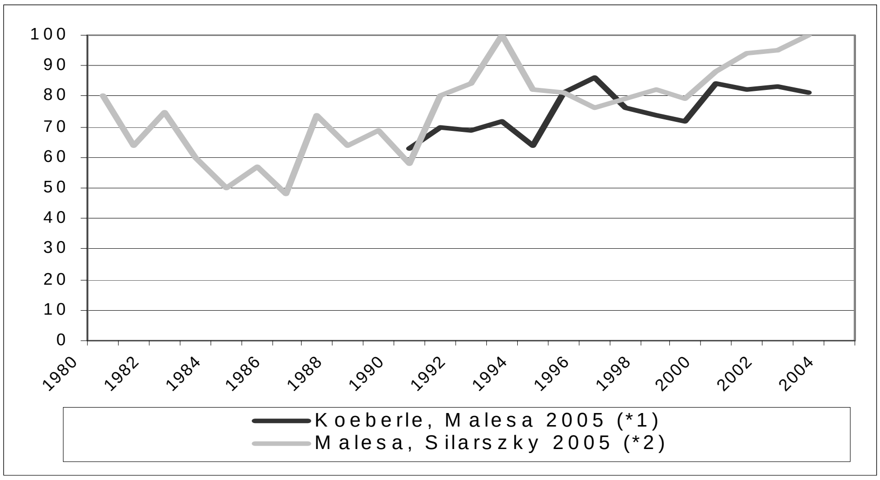
Initially the World Bank used fewer conditions than the IMF. The move from structural adjustment lending to ‘good governance’ requirements, has led to a substantial increase in the number of conditions applied by the World Bank. They rose from an average of 20 in 1980, to between 50 and 60 in the early 1990s, and have since declined to about 40 in 2003 (Koeberle, Malesa 2005). Conditions attached to World Bank loans are less specific than those of the IMF– and the majority of them are not quantifiable (Dreher 2004).

4.1 Compliance with conditionality

Dreher (2002) provides an overview of the compliance with individual conditionality provisions. In the period 1978-1988, according to the World Bank's own evaluation, 60% of conditions have been implemented. Dollar and Svensson (2000) show that, for a data set of 220 World Bank adjustment loans between 1980 and 1995, 36% of adjustment programmes were judged by the World Bank's own Operations Evaluation Department (OED) to be failures. According to the OED, the compliance rate with World Bank conditionality climbed to 95% in 1999 and then dropped again to 75% in 2004. This number might be upwardly biased, as a significant share of loans were not rated for borrower compliance (30% of loans for 2002/2003: World Bank 2005a).

Compliance with conditionality seems to be more frequent in cases of project lending, and has risen over time. While the compliance rate of project lending was 50% from 1980 to1989, it increased to 58% from 1990 to1993, to 58-65% from 1994 to1997 and to almost 80% for 1998/1999 (World Bank various years: Dreher 2002).

Graph 2: Compliance with World Bank conditionality



(*1) % satisfactory outcomes OED rating (exit year), in World Bank 2005;
World Bank Operations Evaluation Department

(*2) % Adjustment Operations, satisfactory outcomes according to OED rating (approval years)

4.2 Reaction in case of non-compliance

The main response of the World Bank in cases where conditionality requirements are not met appears to be delayed assistance. Killick (1997) finds that "on average, adjustment programmes take twice as long to complete as intended, largely because of non-implementation of policy conditions" (p486). However, even though about 50% of programmes were seriously delayed (Killick 1997), in cases of continued non-compliance disbursement rates are near 100%: "the funds are in the end released irrespective of performance" (World Bank 2005a, BP5, p9). Through the analysis of more than 200 structural adjustment programmes, Svensson (2003) comes to similar conclusion, that there is no link between a country's reform effort, fulfilment of conditionality, and the disbursement of loans. Easterly (2003) criticises that "the success of past aid to follow conditions and the failure of past aid to follow conditions are both taken as justifications for future aid" (p38).

It has been suggested that non-compliance may even go hand in hand with additional resource inputs by the World Bank: Dollar and Svensson (2000) found that “the World Bank devotes far more resources to the failed programmes. Once a bad loan is made, there is a tendency to put a lot of resources into salvaging it, and our evidence shows that this is fruitless” (p896). Furthermore, the World Bank has not responded consistently to large economic policy changes with increased finance provision (Collier, Dollar 2004).

4.3 Achievement of policy objectives

The initial policy objective of World Bank credits was to facilitate economic growth, which was complemented by poverty reduction in the 1990s. However, there is dispute about the effectiveness of World Bank aid on growth. Hansen and Tarp (2000) analysed 131 cross-country regressions from a survey that assessed the effectiveness of foreign aid, drawing the conclusion that aid has a positive effect on the growth rate. Prominent studies by Burnside and Dollar (1997, 1998) concluded that aid’s impact on growth depends on a country’s good governance policies. There are, however, many critiques on aid effectiveness that suggest that such clear evidence of the impact of World Bank aid on economic growth does not exist (Easterly 2003 and 2005; Killick 1997; Rajan, Subramanian 2007). Other research finds that World Bank programmes do not have any positive effect on other financial flows, i.e. positive signals are not provided to either bilateral donors or to private capital markets (Bird, Rowland 2001).

Evaluations of program success by the World Bank are more positive. The World Banks OED reports an increase of “satisfactory” programs – i.e. programs that it judges to have achieved or exceeded their main goals. The rate of satisfactory programs has climbed from 60% in the 1980s, to 68% in the first part of the 1990s, to 78% in the second part of the 1990s, to 82% from 2000-2005 (World Bank 2005a).

World Bank conditionality, as part of structural adjustment programs, has been accompanied by adverse effects on poorer parts of countries’ populations. For example, social indicators suggest that living standards have deteriorated (Dreher 2002). This criticism led to a review process for World Bank conditionality in 2004 (World Bank 2005a).

5. Conditionality applied to bilateral aid flows

The conditionality of bilateral aid flows does not, in theory, differ much from that of the IMF or the World Bank. Donor countries offer loans for infrastructure or sector projects, or as budget support. Recipient countries accept the conditionality clauses that the donors attach to these loans.

While many publications assess multilateral aid flows, less research assesses bilateral relationships (Selbervik 1999). Since the 1980s, bilateral development aid usually ties programmes to IMF and World Bank conditionality provisions (‘cross-conditionality’). Frequently, bilateral programs include additional provisions relating to human rights, the rule of law, and democracy (Killick 1997). Alesina and Dollar (1998) argue that bilateral aid flows are related to economic and strategic interests of donor countries[3]. Conditionality for bilateral aid differs in each donor-recipient-relationship – thus preventing a general interpretation. Examples below illustrate the diversity of approaches.

Official development aid from the United Kingdom, as analysed by Erswell for the period from 1974-1990, was characterised by continuity irrespective of achievement of official aid policy goals like gender equality or environmental protection (Erswell 1994). While the majority of aid used to require recipients to spend aid money on products or services from the donor country, this changed with no more UK aid being tied since 2001 (OECD 2001). Changes during the late nineties, and the early part of this decade led to a new partnership policy for development assistance in 2005. This change followed a general trend to increase aid effectiveness by redesigning the aid relationship, in part due to the influence of long-standing criticisms about previous donor efforts that resulted in recipient governments adopting policies with adverse effects on the poor (Mokoro 2005). The UK’s

[3] With the exemption of few countries like Norway, Sweden, Finland, Denmark, the Netherlands, and Canada

partnerships are based on a common commitment for a) poverty reduction and the Millennium Development Goals, b) respecting human rights and international obligations, and c) strengthening financial management and accountability (DFID 2005). Conditionality incorporates these objectives and is complemented by macroeconomic policy assessments. Although direct conditionality in IMF financed programmes was used to facilitate macroeconomic stability, this intervention was formally ceased with the introduction of the new policy (Mokoro 2005).

Another example of bilateral aid conditionality, and one of the few examples of ex-post conditionality, is the recent US aid program Millennium Challenge Account (MCA). The program was announced in 2002 and formally started in 2004. The MCA is operated by the newly created Millennium Challenge Corporation (MCC) and has a strong selection process for candidate countries. It is innovative in that it establishes quantifiable performance criteria to determine country eligibility and makes both that data, and the selection methodology, publicly available (Herrling 2007). The concept is based on the assumption that aid will be more effective when given to well-governed countries and that these countries will respond to such rewards by pursuing sound policies. Certain preconditions concerning the political, social and economic environment have to be met by a country to become eligible to submit a compact proposal to the MCC board.

The MCA is influenced by the hypothesis of Burnside and Dollar (2000), who suggested that aid stimulates growth in countries with effective management policies. This hypothesis, however, has been criticised by Easterly et al. (2004), who find that there is no solid relationship between good policies and growth. Dalgaard et al. (2004) also oppose the Burnside-Dollar hypothesis and identify instead a strong relationship between aid, geographical parameters and growth.

5.1 Compliance with Conditionality

For UK aid, there is no transparent monitoring for compliance with conditionality currently in place. Mokoro (2005) argues that a set of targets has been formulated but it does not directly impact disbursement or conditions for disbursement because of the absence of a clear link between indicators and resources. Therefore DFID expand? is aiming for a better monitoring of the conditions that it is applying. There is a rather cautious approach to defining specific conditions, the violation of which would indicate a breach of the program. This is despite the fact that DFID does not impose specific policy choices on partner governments, but rather aims to monitor partner governments' own development objectives.

So far 25 countries are eligible for funding from the Millennium Challenge Account. By satisfying the performance indicators, the countries have complied with the program's ex-ante conditionality requirements. 15 countries have already signed contracts and 21 countries are eligible for "Threshold Funding" which will help them to meet the selection criteria (MCC 2007).

5.2 Reaction in case of non-compliance

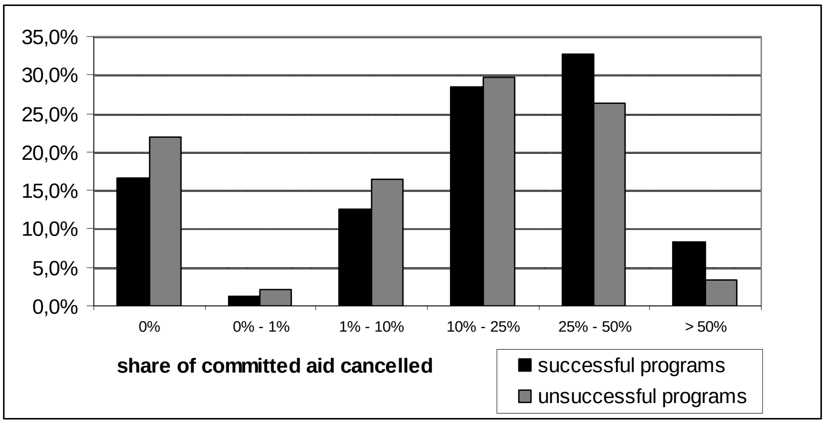
World Bank funding and cross country studies for bilateral aid both demonstrate that the difference between committed and disbursed funds is uncorrelated with reform outcome as measured by the World Bank's OED (Graph 3; Svensson 2003). This is attributed to the incentive schemes of bilateral donors, who disburse funds and allow high volume transfers – irrespective of the quality of programs (Dollar, Svensson 2000; Svensson 2003). Alesina and Dollar (2000) find that there are large differences in the reactions to recipient countries' policy implementation. The Nordic countries tend to respond more directly and Japan's aid is "highly correlated with UN voting patterns" (p54). France "has given overwhelmingly to its former colonies" irrespective of conditions, whilst the United States' pattern of aid is strongly influenced by its interests in the Middle East; "the U.S. has targeted about one-third of its total assistance to Egypt and Israel" (Alesina, Dollar 2000, p33). The authors also find that there is generally a reward for democratisation in a country (Alesina, Dollar 2000).

Human rights are part of the political conditionality of most bilateral aid. There has been some cross-country research to establish to what extent respect for human rights in recipient countries has an impact on the volume of aid they receive. Neumayer (2003a; 2003b) argues that respect for political and civil rights sometimes plays a role at the eligibility-stage, and occasionally influences the volume of bilateral aid flows in some countries, but does not exert a consistent influence on actual allocation of aid volumes by the majority of donors. Personal integrity rights do not generally play a significant role (Neumayer 2003a; 2003b).

Looking at individual donors can provide additional insights. The example of Great Britain may be typical, with the Secretary of State for International Development saying that his department "endeavours not to let the poor suffer by reducing our development assistance as a consequence of their government's political choices or shortcomings" (Benn 2007). The British partnership concept emphasizes the importance of dialogue, convinced that "conditionality which attempts to 'buy' reform from an unwilling partner has rarely worked" (DFID 2005, p6). Consequently, when non-compliance with conditionality becomes evident, proportionate and graduated reactions have to be taken.

Great Britain may delay or stop budget support, or other direct support, for government authorities by altering the channels of aid. For example, by providing humanitarian assistance in conflict areas (Uganda 2005/2006); offering support for an election process (Sierra Leone 2006); provision of basic health care (Palestinian Territories 2006); or direct support of rural access and forestry programmes (Nepal 2005). Interruption of UK aid was considered for Rwanda, as a consequence of threats by its Government to send troops into the Democratic Republic of Congo to attack the bases of hostile militia. After monitoring and assessment indicated that such attacks had not occurred, the interruption was not executed. UK aid was effectively stopped in the case of Uzbekistan because of serious human rights concerns (Benn 2007; DFID 2006a).

Graph 3 – Bilateral Aid: Share of committed aid cancelled in successful and unsuccessful programmes (all countries)



Source: Svensson 2003, p393

Successful reformers as defined by the World Bank OED, which evaluates success of reforms under World Bank programs.

With regard to the Millennium Challenge Account, the reaction in case of non-compliance is refusal by the MCC board to participate in the MCA. Although the selection process is designed to be transparent and objective, the board may deviate from the formal decision criteria and in some cases has done so without explanation. To give an example, in 2004, Georgia was found eligible for MCA funding although it clearly failed to reach several benchmarks in the selection process. This was probably the result of a decision by the board to support Georgia's political transition and then newly elected president, Mikhail Saakashvili (Lucas, Radelet 2004).

5.3 Achievement of policy objectives

The evidence for the effectiveness of bilateral aid on growth is mixed. Some come to the conclusion that bilateral aid performs worse than multilateral aid, due to donors' geo-strategic interests taking precedence over other growth or poverty reduction policies in the recipient country (Alesina, Dollar 2000). On the contrary, Ram (2003) finds an impact of bilateral aid on growth that is not present with multilateral aid. Rajan and Submarian (2007) suggest that neither bilateral aid nor multilateral aid have an impact on growth.

Masud and Yontecheva (2005) are among the few who have examined the impact of bilateral aid on poverty reduction. They look at improvements of two indicators of the Millennium Development Goals, namely infant mortality and illiteracy. They find that bilateral aid has no effect on either (Masud, Yontecheva 2005). Boone (1996) also examined the effect of foreign aid on growth, finding that aid did increase consumption but that this did not benefit the poor.

Research by Johnson and Zajonc (2006) on the effects of the Millennium Challenge Account suggested that candidate countries that had not yet met the selection criteria, but who were striving to do s, performed 25% better on improving policy indicators than a control group of countries. Although this is not the case for all indicators or all countries, and the research was limited to data from the first two years of MCA operation, this work provides some evidence that the programme creates an incentive for good governance. However, the same research also looked for links between MCA funding and economic growth and found no such links (Johnson, Zajonc 2006). As longer time horizons may be required for MCA aid to affect economic growth, these results should not be considered definitive evidence.

6. Conditionality applied during EU Enlargement

Countries that want to join the European Union (EU) have to satisfy several stages of legal and economic reforms as pre-conditions. This process is supported with capacity building and financial resources.

The EU uses conditionality in order to support reforms in its candidate countries. During previous enlargements to include Spain, Greece and Portugal and the Scandinavian countries, conditionality was limited to adoption of the acquis communautaire. In the last enlargement round, to include Central and Eastern European countries, conditionality was expanded to include the 'Copenhagen Criteria' created in 1993. The Copenhagen Criteria was complemented in the following years by the requirement that a country has the "ability to take on the obligations of membership including adherence to the aims of political, economic, and monetary union" (European Council 1993). Examples of the last condition are a well-functioning judicial system in order to implement and enforce the acquis communautaire, creation of administrative units of sub-national government in order to administer EU regional aid, or the presence of an independent central bank in order to be able to join the monetary union (Grabbe 2001). There are, however, no clear benchmarks to measure effective implementing capacity or other conditionality issues (Nicolaides 1999; Dimitrova 2002). This leaves it open to existing Member States to judge whether candidate countries have met the conditionality requirements. According to Grabbe (2002) this is due to the fact that old Member States find it more important that new Member States can be brought into the Union as equal partners, than that they accurately meet specific conditions.

In contrast to development aid, the EU not only offers the candidate countries financial benefits but more importantly EU membership, which is perceived to be accompanied by economic development, national recognition, freedom and political stability (Steunenberg, Dimitrova 2005).

6.1 Compliance with conditionality

While the implementation of the acquis communautaire has been "a consistent feature" of compliance, more recently rule adoption has increased towards the final stages of accession negotiations, due to the prospect of membership becoming increasingly realisable (Schimmelfennig, Sedelmeier 2004, p679;

Grabbe 2001). Dimitrova (2002) finds evidence that candidate countries with few exceptions have introduced new laws and complied with EU criteria (Dimitrova 2002, p182).

Democratic conditionality refers to the fundamental political principles of the European Union, human rights, and liberal democracy. Compliance with democratic conditionality is significantly lower than with acquis condionality (Schimmelfennig, Sedelmeier 2004). The lack of clear benchmarks previously described means it is more difficult to judge whether reforms actually meet the conditions. Countries with authoritarian governments, for example Slovakia under the Meciar government, Romania in the first half of the 1990s, Croatia under Tudjman, and Serbia under Milosevic, preferred not to meet democratic conditionality because of the high political costs of adoption and concerns about loss of office (Schimmelfennig, Sedelmeier 2004).

According to Grabbe (2001), the link between fulfilling particular tasks and receiving particular benefits is uncertain. This uncertainty is more severe for democratic compliance than for other types of conditionality, for example, compliance under the International Financial Institutions. It has been found that the conditions of decentralisation and regional development have been achieved via the enforcement of large decentralising measures in applicant countries in Central and Eastern Europe. (Grabbe 2001).

6.2 Reaction in case of non-compliance

The most powerful conditionality tool in the EU accession process is the European Union’s gatekeeper role; i.e. the ability of the EU to decide which countries can proceed to the next stage towards accession, particularly by achieving candidate status and starting negotiations. Other mechanisms include aid, trade, and other benefits. The gatekeeper role is not a precise instrument that can target specific aspects of reform, but rather a “blunt weapon that has to be used judiciously for priority areas only” (Grabbe 2001, page number?). The enlargement process has thus become a multiple step process that is structured around milestones, at any one of which accession can be stopped (Steunenberg, Dimitrova 2007).

There are a multitude of reasons why countries are not permitted to proceed onto further stages of the accession process: In 1997 Slovakia was not allowed to join the first round of negotiations as it was judged not to have met democracy criteria. Specific standards for nuclear power were imposed on Bulgaria and requirements for economic reform and state orphanages were set in Romania, before either country could join negotiations in 2000 (Grabbe 2001). Croatia’s lack of cooperation with the ICC in The Hague was followed by a delay of its 2003 bid for membership (Steunenberg, Dimitrova 2005). Turkey, which received candidate status in 1999, did not start negotiations until October 2005 due to a lack of compliance with policy reforms required under EU conditionality (Steunenberg, Dimitrova 2007).

6.3 Achievement of policy objectives

The policy objective of EU enlargement conditionality is EU rule transfer and the institutionalization of these reforms by future Member States. This includes “transposition of EU legislation into domestic law, the restructuring of domestic institutions according to EU rules, or the change of domestic political practices according to EU standards” (Schimmelfennig, Sedelmeier 2004, p670).

The most tangible effect of democratic conditionality has been the introduction of minority rights and protection in accession countries (Schimmelfennig, Sedelmeier 2004). However, in general, compliance with democratic conditionality has been reported to be poor due to the authoritarian nature of some governments. Still, EU conditionality may have contributed to electoral change in these countries, and so can claim to have brought in to power the reform-orientated governments that finally implemented democratic reforms (Schimmelfennig, Sedelmeier 2004). Considering specific Maastricht fiscal policy criteria and acquis rules concerning competition policy and industrial policy, which restrict the payment of subsidies to loss-making enterprises (i.e. policies to harden soft budget constraints), Brücker et al (2005) find that EU enlargement conditionality did help accession countries to resolve soft budget constraint problems.

Steunenberg and Dimitrova (2007) find that EU conditionality is not equally effective throughout the period of preparation for accession. Conditionality decreases sharply as soon as the accession date is set; a sharp decline in the number of conditions set by the EU suggests that the Union is aware of this trend (Steunenberg, Dimitrova 2007).

Questions have been raised about whether EU conditionality actually contradicts its own policy objectives. Applicant countries know that implementation of the acquis communautaire is non-negotiable. Since joining the European Union is their primary foreign policy goal, they usually fast track implementation of the acquis. This leads to a lack of debate and very limited involvement of the parliament (Dimitrova 2002). This may result in a democratic deficit, which is contrary to the EU's conditionality policy objective of 'stable democratic institutions'. With regards to decentralisation, certain EU requirements produce incentives and constraints that exclude sub-national actors from the accession process (Grabbe 2001). Thus, as Schimmelfenning and Sedelmaier (2004) discuss, short-term effectiveness may be partnered with long-term inefficiency, since rule adoption generally means formal transposition into national laws, but implementation and enforcement in everyday policy making is not enforced.

There is some research that analyses the theoretical model that best explains conditionality in the EU enlargement process. Checkel has found that in the case of minority rights, as promoted by the Council of Europe, the rationalist model of cost/benefit calculations better explains compliance for unified Germany, while the constructivist 'social learning model' fares better in explaining compliance by the Ukraine. The author suggests that the structure of domestic institutions explains this variance in compliance mechanisms: pluralistic institutions and extensive historical legacies in Germany, compared to a transition state with more centralized structures and many "novice" political agents in the Ukraine (Checkel 2001). More generally, Schimmelfennig and Sedelmeier (2004) have shown the 'social-learning model', as well as the 'lesson-drawing model' to be less important for the effectiveness of EU rule transfer (Schimmelfennig et al. 2003).

7. Lessons learnt

In this section we draw some lessons from the above review of various conditionality mechanisms. We try to highlight crucial points that might be taken into consideration when orchestrating south-north cooperation on climate policy.

7.1 Formulation of conditions and evaluation

The formulation and definition of conditions, alongside devices for monitoring compliance within these conditions, are key characteristics of a conditionality mechanism. From our analysis, the following aspects seem to have a major influence on the success of a mechanism:

Table 3 – Defining conditions, monitoring and evaluating performance

(Measure of relevance: ++ = most relevant, O = neutral, - - = irrelevant)

Aspect / Factors for success	Relevance	Experience from	Source
Define the "right" conditions[4]	++	IMF, World Bank	Dreher 2002, p40f.; Buira 2003, p10; Allegret, Dulbecco 2004, p4; Killick 1997, p488, 492f.
Combine conditions with recipient country priorities (to create local ownership)	++	IMF, World Bank	Bird, Willett 2004, p438; Checkel 2000, p3; IMF 2001; Khan, Sharma 2003, p227; Killick 1997, p492f.; Leandro et al. 1999. p294

[4] Avoid uniformity, take domestic political factors into account, bring conditions into harmony with recipient country priorities, avoid having a difference in policy objectives between donor and recipient

Clarity and limited number of conditions	- to +	IMF, World Bank, bilateral aid, EU Enlargement	Buira 2003, p10; Dollar, Svensson 2000; Grabbe 2001, p1013; IMF 2001, p18; Mokoro 2005, p11; Schimmelfennig, Sedelmaier 2004, p672
Clear indicators for success	O to ++	IMF, World Bank, bilateral aid	Adam, Gunning 2002; Johnson, Zajonc 2006; Mokoro 2005,. p11
Independent monitoring and evaluation of performance[5]	+	IMF and World Bank, bilateral aid (negative example)	Allegret, Dulbecco 2004, p7; Dreher 2002, p19 – there: Vaubel 1991, p211; Killick 1997, p488; Marchesi, Sabani 2007, p663; Selbervik 1999, p53; Svensson 2003,. p383

Complexity and specificity

Several authors argue that a lack of clarity in formulating conditions, in addition to a wide range and scope of provisions, has had a negative effect on compliance with the conditionality programs of the IMF, the World Bank and the EU Enlargement processes (Buira 2003; Grabbe 2001; IMF 2001b). In contrast, other authors argue that complexity per se does not negatively affect the success of World Bank and EU conditionality (Dollar and Svensson 2000; Schimmelfennig and Sedelmaier 2004).

While there is some argument for a reduction of complexity and harmonization of conditions in order to enhance transparency and predictability, research on World Bank and IMF conditionality warns that oversimplifying conditions may have negative effects. Uniformity of conditions and a failure to take domestic political factors into account may have negative effects on compliance (Dreher 2002.; Buira 2003; Allegret, Dulbecco 2004; Killick 1997).

Ownership

Experiences with IMF and World Bank conditionality suggest that a lack of shared ownership of projects and policies is believed to reduce effectiveness and persistence (Bird, Willett 2004; Checkel 2000; IMF 2001b; Khan, Sharma 2003; Leandro et al. 1999). Ownership can be achieved when conditions are formulated through dialogue, while a lack of ownership can result from a lack of equity in the institutional setting, leading to perceived donor country dominance, amongst other factors.

Indicators

In order to transparently monitor compliance with conditionality, indicators are required. They can measure a whole range of micro and macro outcomes. Outcomes can include the allocation of targets for a specific policy sector, or the act of designating responsibility for the development and implementation of policies and measures. This was the case with IMF conditionality until the 1960s, when it followed macroeconomic policies and used macroeconomic indicators (IMF 2001a). In the 1960s, the IMF started to define conditionality in more detail and added specific measures to the overall targets.

Associated with the Poverty Reduction Strategy Papers, a new layer of conditionality emerged at both IMF and World Bank that introduced so-called ‘process conditionality’. This involves creating stipulations that the government will do things in certain ways, for example, adopting participatory approaches. This is seen as a way of embedding conditionality more deeply into institutional and political structures (Koeberle, Malesa 2005).

EU conditionality is mostly aimed at a country’s implementation of certain jurisdiction. The indicator for compliance is passing certain laws. This approach is criticized as it does not track the actual implementation and enforcement of such laws (Schimmelfennig, Sedelmeier 2004).

[5] In order to overcome pro-transfer biases of donor staff and to avoid the incentive to defend past transfers, or to delude past monitoring-failures

Evaluation

The process of monitoring conditionality is not only dependent on the parameters used to indicate compliance, but also on the monitoring process and the institution conducting the monitoring. For example, World Bank experience suggests that if staff evaluate their own program success, a lack of objectivity may cause them to overestimate program achievements. It has been suggested that this is because they might not want their lenders to think they have been unable to judge programs in the first place (Dreher 2004). Both the difficulty of monitoring, and concern about monitoring failures, reduced the response of the IMF and the World Bank to failed programs (Killick 1997; Marchesi, Sabani 2007). Independent evaluations of conditionality programs may deliver better results.

7.2 Reaction in case of non-compliance

The reaction in case of non-compliance does not always follow the theoretical principles of conditionality, for example due to the 'Samaritan dilemma' or geo-strategic interests. Reactions in cases of non-compliance have to take into account both the need for credibility of the conditionality mechanism, and the need for continuity of programs that are pursued.

Table 4 – Credibility and continuity

Aspect / Factors for success	Relevance	Experience from	Source
Credibility derived from stringency in reaction to non-compliance	++	IMF, World Bank, bilateral aid, EU Enlargement	Collier 1997; Bird 2002; Killick 1997; Schimmelfennig, Sedelmeier 2004; Selbervik 1999; Svensson 2000; Ramis 1996; Mosley et al. 1991.
Overcome (geo-) political donor interests	++	IMF, World Bank, bilateral aid (negative example)	Alesina, Dollar 2000; Allegret, Dulbecco 2004; Bird, Willett 2004; Burnside, Dollar 2000; Headey 2005; Killick 1997; Spiro Clark, Elizabeth 2005; Steve Radelete 2007.
Avoid 'Samaritan dilemma'	+	Bilateral aid (negative example)	Selbervik 1999; Svensson 2000.
Continuity of programmes [6]	+	World Bank, EU enlargement	Leandro et al. 1999; Steunenberg, Dimitrova 2005.

Samaritan dilemma

The 'Samaritan dilemma' describes a donor's difficulties in imposing threatening sanctions, because donors want, and are expected, to help (poverty alleviation). Svensson (2002) finds the 'Samaritan dilemma' to be prominent in bilateral aid relationships. The dilemma is associated with the failure of conditionality, as it prevents donor credibility.

Strategic interests

Donors have at times put their strategic interests before the negotiated conditions. This is frequently the case when suspension would not advance the donor country's geopolitical interests, i.e. when the financial transfers actually promote objectives other than the conditional policy reforms. Such behaviour is widespread with bilateral aid, but also with IMF and World Bank programs (Alesina, Dollar 2000; Allegret, Dulbecco 2004; Bird, Willett 2004; Burnside, Dollar 2000; Headey 2005; Killick 1997; Lucas, Radelet 2004). Pro-lending biases in donor staff have been observed in both the IMF and the World Bank. There is an incentive to always disburse money as the income, prestige and power of donor staff depends on the amount of money transferred (Dreher 2002; Killick 1997).

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[6] E.g. patience of both partners, long-term perspective.

Credibility versus continuity

Credibility and continuity are two requirements for a conditionality mechanism which are partly contradicting. Credibility results from the enforcement of conditionality i.e. contingent action in case of non-compliance.

It is suggested by the conditionality mechanisms reviewed, that when a failure to meet conditions does not have an impact on future programs, a lack of credibility arises. In all cases reviewed, this is associated with overall failure of the conditionality mechanism (Collier 1997; Bird 2002; Killick 1997; Mosley et al. 1991; Ramis 1996; Schimmelfennig, Sedelmeier 2004; Selbervik 1999; Svensson 2000). There seems to be some argument for the use of ex-ante conditionality as it has been more successfully applied both in the contexts of IMF conditionality (Dreher 2004), and EU Enlargement (Steunenberg, Dimitrova 2007).

In the case of EU enlargement, enforcement is more credible because existing Member States have a vested interest in the compliance of new member countries with the accession criteria because of their own involvement in the EU. In contrast, in bilateral aid programs, conditionality criteria are often deliberately weakly formulated and as a result are frequently not enforced.

On the one hand credibility plays a key role for the success of a conditionality mechanism, on the other hand it is common sense that continuity and predictability of programs and policies is an important factor determining the success of cooperation.

7.3 Country specifics and institutional setting

The public perception of a mechanism in a country can influence its success. For example, if there is strong opposition against a conditionality mechanism in the donor country, this negatively effects the success of such a mechanism in the case of the IMF and EU enlargement conditionality (Dreher 2005; IMF 2001b; Schimmelfennig, Sedelmaier 2004). The same may be true in cases of strong opposition in the recipient countries.

Capacity-building and long-term relationships

Research on the World Bank and EU enlargement conditionality suggests that success is associated with patience from both partners and viable long-term perspectives (Leandro et al. 1999; Steunenberg, Dimitrova 2005).

Furthermore, from the international institutional level there is often a lack of capacity to design and implement programs suitable for the regional and local level. Bilateral settings may be better suited to implement the subsidiary principle, by linking institutions with similar capabilities at the national and sub-national level, rather than linking international bodies and individual countries.. This may result in a wider engagement in both countries, which could help to ensure ownership by local stakeholders and supports policy consistency.

Institutional setting

The institutional setting has a strong impact on the potential success of a conditionality mechanism. Essentially, the institutional setting of a cooperative climate policy can either be bilateral, multilateral or comprise of both bi- and multilateral elements. When setting up a conditionality mechanism under cooperative climate policy, the following aspects may be considered:

Table 5 – Donor and recipient country characteristics

Aspect / Factors for success	Relevance	Experience from	Source
Lack of recipient´s capacity to implement conditions	+	IMF	IMF 2001
Political and social opposition in donor countries (veto players)	O	IMF, EU Enlargement	Dreher 2005; IMF 2001; Schimmelfennig, Sedelmaier 2004.
Strong special interests, lack of political stability, inefficient bureaucracies, lack of political cohesion	O	IMF	Ivanova et al. 2003.
Sound institutions and policies in recipient country [7]	-- to ++	IMF, World Bank, Bilateral Aid, EU structural funds	Allegret, Dulbecco 2004; Beugelsdijk, Eijffinger 2005 (corruption only); Boone 1996; Burnside, Dollar 1997; Burnside, Dollar 2004b; Burnside, Dollar 1998; Ederveen et al. 2006; Hansen, Tarp 2000; Ivanova et al. 2003; Johnson, Zajonc 2006; Mosley et al. 2004 (vice-versa); PSRA 2003, (corruption); Svensson 1999 (democracies).

Implicit political conditionality

As has been shown, there is a risk of implicit political conditionality in bilateral settings. Firstly, bilateral conditionality tends to include ‘unofficial conditionality’. Donor countries may tie aid flows to strategic interests not explicitly formulated in the conditionality. The financial flow thus creates a dependency that is used to exert political pressure. Secondly, conditionality in bilateral settings is likely to gradually extend to include additional policy aspects that may not directly be linked to the initial policy objectives.

Coordination versus competition

Table 6 – Institutional setting

Aspect / Factors for success	Relevance	Experience from	Source
Donor Coordination / Harmonization	++	World Bank and other conditionality mechanisms	Killick 1997, p488; Leandro et al. 1999, p294
Recipient Competition	+	EU Enlargement and bilateral aid (MCA)	Grabbe 2001, p1015; Johnson, Zajonc 2006, p22

Bilateral agreements create a risk that partner countries might swap between partners, which would lead to individual countries feeling less responsibility to comply with conditions. However, the bilateral setting may also enhance accountability on both sides, as both countries may feel more responsibility for their partner country than in a more ‘anonymous’ multilateral setting.

Competition can also arise between candidate countries in their attempt to comply with conditionality. Such competition has been associated with the success of the conditionality mechanism in the cases of EU enlargement and bilateral aid of the Millennium Challenge Account (Grabbe 2001; Johnson, Zajonc 2006).

[7] For example, reform oriented environment, low inflation, protection of property rights, efficient administration, corruption, openness

8. Conclusions for south-north cooperation on climate policy

The parties involved in cooperation define the conditionality requirements. Each party hopes to achieve something it wants or needs. The question therefore is who needs what in the case of global climate policy and what arrangement could help achieve these goals?

Industrialized countries fear the consequences of climate change. For them success of climate policy also requires developing countries' contributions to mitigation. Developing countries face more pressing short-term social and economic needs and devote more resources to addressing these immediate needs than to preventing long-term risks and a decrease of living standards caused by climate change. Thus international support is required for the implementation of domestic policies with climate (co-) benefits.

Neither party is willing to engage in one-sided activities. However, as the Bali roadmap outlines, parties are willing to engage on the condition of engagement of all other parties. Thus linking international support to domestic policies may be the tool for mutual and measurable commitment in south-north cooperation for climate policy.

This may create a strong sense of ownership by all partners. Firstly, south-north cooperation on climate policy will require equitable participation of all parties involved and therefore will have to respect each country's domestic policy sovereignty – a key precondition for ownership. Secondly, the own interest of industrialised countries in emissions reductions may be higher than their interest in poverty reduction in developing countries with traditional development aid. This can increase the commitment of both industrialised and developing countries and thus improve the consistency and persistency of the cooperation.

Regarding the institutional set up, there are benefits of both multilateral and bilateral elements in south-north cooperation on domestic climate policy. Bilateral relationships include country to country cooperation as well as interaction at the sub-national level. The bilateral setting creates the potential to enable capacity-building, long-term dialogue and development of real partnerships. This could ensure responsibility and shared ownership and thereby increase effectiveness, stability, and predictability. However, bilateral settings in general face a bigger risk of falling subject to strategic interests and implicit political conditionality.

In contrast, a multilateral setting offers less flexibility to respond to the specific national circumstances and requires a large centralised capacity to manage the set of policies required. A suitable combination would be globally agreed, multilateral frameworks within which bilateral relationships could function. Political conditionality in such a framework could be limited by clearly defining both the objectives of the interaction and the scope of conditionality, in order to avoid exploitation of the bilateral relationship. The provision of an independent body for transparent evaluation and review of performance may also be of use. Independent evaluation could protect less powerful parties from political conditionality, as it would allow the enforcement of clearly specified conditionality criteria and evaluation results.

The design of south-north cooperation on domestic climate policy needs to balance a reduction in complexity of conditions and the need for country specificity. Coordination by a multilateral body would also include coordination of the conditions applied, in order to harmonize conditions across countries.

The UNFCCC framework requires actions to be measured, reported and verified, and therefore raises the question of which metrics and indicators can be used in the formulation of cooperation agreements. Robust and transparent evidence of policy effects may well increase support for domestic contributions both in the south and in the north. Furthermore, clear metrics create 'objective' evidence on policy performance and prevent governments from the north from claiming failure of programs in order to reduce funding as a means to exert internal and external political pressure. Finally, clear metrics also allow for evaluation of the performance of south-north cooperation on climate policy itself and may offer impetus for further improvements. Closely linked to the issue of metrics is the issue of 'additionality'. As we know from discussion on the Clean Development Mechanism, additionality of emissions reductions and policies will be crucial. Therefore effective cooperative climate policy might focus on implementation of more ambitious policies, at larger scale, scope or speed than would be possible without international cooperation.

As ex-ante conditionality has proved most effective, cooperative climate policy may tie part of developing countries' domestic policy implementation to the initial disbursement of funds by industrialized countries – and part of its disbursement to the prior implementation of climate or energy policies or even the achievement of more specific climate or energy indicators. However, this instrument has to be balanced with policy persistence and country ownership. Furthermore, the ability of the developing country to implement climate and energy policies is a precondition for successful implementation of negotiated policies. Cooperative climate policy must therefore take into account a country's institutional capacity for climate policy – and in some cases initially support such institution building.

Persistence of good policy, i.e. to achieve policy objectives as long as the conditionality mechanism is in place, and beyond, must be a central goal of cooperative climate policy. Policy success is related to country ownership. Towards this end, mutual social learning, with its softer forms of normal diffusion like dialogue, internal analysis, and negotiation, could be considered as a complement to a purely quantitative conditionality setting.

The trade-off between continuity of cooperation and stringency of conditionality enforcement requires careful consideration. The two cases need to be considered dependent on the objective of the international support. If the international support is aimed directly at the implementation of the policy, then it is clear that it is only required with the successful implementation of the policy and linking is relatively simple. However, one objective of climate policy has to be a move towards less carbon intensive products and services. Thus it might be preferable to devote international resources to stimulating economic activities in new sectors, while domestic policies provide the push away from the carbon intensive sectors. Such domestic policies do not create direct costs for the government, but require support to overcome costs for consumers. The financial support will therefore have to be devoted to different policy areas. In this case the resources should not be directed to essential humanitarian activities so as to avoid the 'Samaritan dilemma'.

We have seen that stringent reactions in cases of non-compliance are essential for the success of a conditionality mechanism. South-north cooperation on domestic climate policy will be most credible where it is on the agenda of national and international decision makers. In this case a stringent response to failures of either party to deliver its part of the deal is more likely to occur and therefore the conditionality provisions will be more credible. There is always the risk with conditionality that cooperation results in an intrusion on domestic issues. It is therefore important to make the mechanism transparent and to base it on a culture of equity, trust and openness. In this process it will be particularly important to look more carefully at the institutional settings of climate cooperation from the perspective of industrialised countries. Effective cooperation requires two partners – as illustrated by the difficulties and discussions about the governance structure of the Global Environment Facility.

Comment [OU1]: Is this supposed to be developing countries?

This discussion focused on aspects of mitigation policy. While some of the insights also apply to adaptation, this does require a separate discussion to reflect the specificities. For example both parties have an interest in delivering the emissions reductions and might pursue efforts towards ensuring targets are met. In contrast, international cooperation for the support of adaptation measures is mainly in the interest of the developing countries that receive support for these measures. Also, the 'Samaritan dilemma' implies that it is more difficult to abandon cooperation programs on adaptation measures to protect the population of a country than to abandon cooperation on a specific mitigation program. After all, abandoning the cooperation on one mitigation policy increases the credibility of the compliance mechanism for all parties involved and can thus contribute to overall emission reductions and policy success.

The conclusions above provide a suggestion of which aspects may be taken into consideration for the design of a conditionality mechanism in climate policy. This topic has not been discussed extensively here, as this article aims be a starting point for further research, practical work and political dialogue.

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