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The European Union and Aid Conditionality

Between Effective Multilateralism and a 'European Vision' for International Development

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Abstract

This study analyses the application of aid conditionality within the EU's supranational development cooperation policy managed by the European Commission. It asks why the EU as a donor in its own right seems so ambiguous in pursuing globally advocated policy prescription on aid conditionality. The Commission has sought to implement some, e.g. results-orientedness and the concentration on joint conditionality assessment frameworks, seems to ignore others, e.g. rigid country selectivity, and fails to pursue featured prescriptions as envisaged, e.g. conditionality on a holistic understanding of governance. It is argued that this ambiguity is the result of a dilemma-like trade-off within the Commission's ambition to justify the existence of a separate EU level development policy. The Commission struggles to reconcile its ambition to pursue a normatively distinctive approach to development ('European vision'), if necessary unilaterally, with supporting effective multilateral cooperation within the existing global discourse, especially around the World Bank ('effective multilateralism'), which often contradicts the Commission's views on development cooperation. This undermines the Commission's attempt to justify its role as a separate donor in international development as long as it remains outside its capacity to consistently influence the content of the global aid agenda.

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List of Abbreviations

ACP	Africa, Caribbean and Pacific
APRM	African Peer Review Mechanism
APT	Annual Performance Tranche
CoD	Cash on Delivery
CPA	Cotonou Partnership Agreement
CPI	Corruption Perception Index
CSP	Country Strategy Paper
DAC	Development Assistance Committee (OECD)
DCI	Development Co-operation Instrument
DFID	Directorate for International Development (United Kingdom)
DG	Directorate-General (European Commission)
DG DEVCO	Directorate-General for Development Cooperation
EC	European Community
ECGIT	European Commission’s Governance Incentive Tranche
EDF	European Development Fund
ESS	European Security Strategy
EU	European Union
GAP	Government Action Plan
GBS	General Budget Support
IFIs	International Financial Institutions
IMF	International Monetary Fund

MDGs	Millennium Development Goals
NIP	National Indicative Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance/Financial Management
PRSP	Poverty Reduction Strategy Paper
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UN	United Nations
WBI	World Bank Institute
WGI	Worldwide Governance Indicators
WTO	World Trade Organisation

1. Introduction

As an aid donor in its own right the European Commission often finds itself in a rather precarious situation. Being 'different' from all other actors in international development is one of the major contemporary justifications of a separate EU level development cooperation policy. Following the respective Treaty provisions which establish that development cooperation in the European Union (EU) is an area of shared competence between the EU and the Member States, the EU institutions, especially the Commission, are unique in that they execute a dual role. They provide direct support to developing countries and play a 'federating role' *vis-à-vis* the Member States' national development policies.

This study is exclusively concerned with the (multilateral) development programme managed at EU level by the European Commission, i.e. the EU's supranational development policy. The creation of a supranational development policy goes back to the Treaty of Rome (Grilli 1993; Lister 1997), but it was not formally included as a competence prior to the Treaty of Maastricht. Since then types, areas, and modes of intervention have significantly changed and constantly, often *ad hoc*, adapted to preferences of new Member States and changing global circumstances. However, the EU has maintained privileged development cooperation relations with countries in (sub-Sahara) Africa, the Caribbean and the Pacific (ACP), most of them former colonies of Member States. These 'special' relations are currently codified in the ACP-EU Partnership Agreement. Within this framework exceptional attention has been given to sub-Sahara Africa, the first region targeted by European Community (EC) aid. As the economically poorest bloc within the ACP group, the 'region' has come back to the fore after poverty reduction emerged as the primary goal of development cooperation globally and on EU level (Article 208 (1), TFEU).

Development finance under the ACP-EU Cotonou Partnership Agreement (CPA) is provided from the extra-budgetary European Development Fund (EDF)[1]. It covers country and regional cooperation with the ACP group, whereas thematic financial instruments and cooperation with non-ACP countries and regions is funded directly from the EU budget. Thus, the Commission manages one of the largest single volumes of Official Development Assistance (ODA). In 2010, the EU as a donor in its own right, a separate member of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), managed the third largest ODA volume among all DAC members (OECD/DAC

[1] The current 10th EDF covers the period 2008-2013 and comprises just under € 22 billion managed directly (or indirectly through the European Investment Bank) by the European Commission.

2012). Within these narrow limits the Commission can be seen *de facto* as a '28th' official EU donor for the sake of this analysis. However, generally, this assumption is theoretically and empirically misleading.

At the academic level, the EU's supranational development policy has increasingly gained attention in areas intersecting with foreign and security policy aspects which have emerged after the end of the Cold War (e.g. enlargement, neighbourhood policy and Common Foreign and Security Policy). However, attention on development policy *sensu stricto* has been comparatively low (Orbie 2008; Birchfield 2011; Holland and Doidge 2012). This study contributes to the literature on the EU's role in international development *sensu stricto*. It analyses the application of aid conditionality within the EU's supranational development policy under the current 10th EDF. The analysis focusses on the Commission's application of conditionality policy. Mainly because of its lower prominence compared to conditionality in the context of enlargement and neighbourhood, there is a gap in the literature about the EU's approach to aid conditionality in the broader developing world. This is surprising given its centrality in contemporary development policies, maybe beyond the significance of aid itself. This study shall shed some light onto the rationale behind the Commission's promotion of aid conditionality.

The question motivating this analysis asks why the Commission seems so ambiguous in pursuing globally advocated policy prescription on aid conditionality. The Commission has sought to implement some, e.g. results-orientedness and the concentration on joint conditionality assessment frameworks, seems to ignore others, e.g. rigid country selectivity, and fails to pursue featured prescriptions as envisaged, e.g. conditionality on a holistic understanding of governance. To examine the rationale behind the Commission's approach to conditionality, the following section offers a theoretically guided framework for analysis drawn primarily from secondary literature on the EU in international development. The section breaks down the EU's distinctively framed approach to development ('European vision') into its components in order to reveal the inherent tension between a normatively distinctive understanding of development policy and the Commission's eagerness to pursue 'effective multilateralism'. Drawing primarily on EU documentation, the third section provides empirical evidence to argue this case for aid conditionality. The section scrutinises the European Commission's Governance Incentive Tranche (ECGIT) and the Millennium Development Goals (MDG) Contract. The fourth section analyses the conditionality behind both instruments. The last section concludes. It is argued that the Commission fails to resolve the dilemma-like tension. This undermines its claim as a separate donor in international and gives nutrition to those calling for 'renationalisation' of development policy in Europe.

2. European Norms for International Development

This section aims at developing a theoretically informed framework for the analysis of the EU's supranational development policy. Mainly drawing on secondary literature, it derives an understanding of the EU's growing aspiration of pursuing a normatively different approach to international development, a 'European vision' on development. The challenge is to demonstrate the tension between the normatively distinctive aspirations behind this 'vision' and the EU's ambition to pursue 'effective multilateralism' in international development, itself an integral part of the former. The section examines the implication of the 'European vision' for the EU's supranational development policy. Afterwards, it explores the pursuit of effective multilateralism and the trade-off which it involves against promoting a distinctive approach to development policy.

European Vision on Development

In the last decade, there has been a growing ambition emerging out of the Commission to play a more distinctive role in international development. This process, identified as a 'new season' (Carbone 2008a), has started to materialise after technocratic reforms of the Commission's aid administration have proceeded in the early 2000s. These reforms have become necessary due to increased criticism about the quality of development policy administration on EU level (Holland 2002; Dearden 2008). With increased administrative quality the Commission aimed at giving its development policy a more visible and distinguishable notion. In this respect, the Commission has been eager to promote policy norms in international development stemming from genuine EU experience (Orbie 2012: 25).

This aspiration has led to the formulation of a common 'vision' on development. The formal label of a 'European vision' goes back to the European Consensus on Development (European Parliament, Council and Commission 2006). The European Consensus, for the first time, explicitly commits the EU institutions and the Member States to a shared political statement on international development. It codifies the principles around which EU development policy has evolved. Moreover, it outlines a common EU approach to development and sketches the particular role of the EU's supranational development policy in implementing this approach. It obliges the EU institutions, especially the Commission, to promote a certain function and to adhere to a certain form of development policy. In other words, the

‘European vision’ formalises the objectives of the EU’s supranational development policy in international development and incorporates how to pursue these objectives. In this sense, it can be understood as an attempt to antagonise the Washington and post-Washington Consensus dominated by the Bretton Woods institutions, especially the World Bank (Grimm 2006; Hout 2010; Orbie 2012).

Although all Western donors share a similar set of fundamental norms which they promote internationally (Hurt 2003), on a more disaggregated level of policy norms approaches can diverge significantly. The dominant feature of the development discourse on both sides of the Atlantic has been the preoccupation with the question of governance and its concrete role in international development (Leftwich 1994; Hout 2007, 2010). The European Commission has found the key to a distinctive, ‘visionary’ approach to development in the normative interpretation and framing of promoting (good) governance in the context of the overarching objectives of international development. Consequentially, the Commission has put governance and the quality of governance at the core of achieving sustainable development and the timely realisation of the MDGs, especially poverty reduction (European Commission 2003b, 2006, 2011b).

The emphasis on the distinctiveness of the EU’s approach to international development has been consecutively reiterated and further institutionalised through key documents constituting the EU’s international identity, such as the Treaty on European Union (TEU), the Africa-EU Strategic Partnership and the Cotonou Partnership Agreement. This suggests that the EU, and the Commission as its agent, seeks to advance beyond the passive role of a norm-taker from international institutions which it has persistently been accused of (Brown 2000; OECD/DAC 2002; Santiso 2003; Hurt 2003; Arts and Dickson 2004; Farrell 2008; Holden 2009). As a reaction the Commission has increasingly been attempting to stress the distinctiveness of its approach by pursuing ‘European norms’, or a specific European interpretation of existing global development norms (Orbie and Versluys 2008; Orbie 2012). Thus, its interpretation of (good) governance goes beyond the conventional, more technocratic and depoliticised framing within the (post-)Washington Consensus and the World Bank, which have set the global agenda on governance quality in the context of development policies (Leftwich 1994: 364; Hout 2007: 24-5, 49).

The objectives of the EU’s supranational development policy have been framed in a way that corresponds to ‘milieu goals’ which aim at serving a ‘common good’ by shaping conditions in the international system (Wolfers 1962). Power and interests are still central (Hyde-Price 2008; Youngs 2008), but it is largely assumed that these concepts have been redefined in more normative terms which traditional international relations theories cannot entirely capture (Bretherton and Vogler 2006; Manners 2008; Orbie 2008, 2012: 30; Birchfield 2011: 143). The Commission's framing of good governance has been based on the vision of a particular global order based on normative principles and bound by legal institutions. This vision has inspired the EU's own creation and development through the process of European integration, which has turned the EU itself into normatively constructed, value-based political system (Duchêne 1972; Manners 2002, 2008; Manners and Whitman 2003). Thus, there are connections between the EU's supranational development policy and the EU's constitutive normative principles (Birchfield 2011; Orbie 2012: 25). In this sense, norms dynamically 'construct' the identity of actors within the EU through socialisation and in this way influence their preferences to include normative objectives (social constructivism). This is assumed to predispose the EU to act in a normative way in international politics. Thus, the EU's constitutive norms are themselves explanatory variables informing and constituting reason for action without necessarily predetermining it (Tonra and Christiansen 2004: 8). As a result, the EU's normative foundation legitimises, qualifies and may even oblige its agents to promote and diffuse 'European norms' beyond its members in the international system. This also translates into the right to influence third countries' domestic affairs (Coombes 1998: 233; Orbie and Versluys 2008: 78; Birchfield 2011: 149).

Following this constructivist logic, founding the 'European vision' on key constitutive normative principles, such as participatory democracy and the protection of indivisible and universal human rights, sustainable and equitable development, the rule of law and international law, including respect for the principles of the United Nations (UN), and strengthening multilateral cooperation, is likely to have translated into the formulation of a normatively different approach to international development. This must be assessed against significant capacity constraints of the EU as an actor in international development (Grimm *et al.* 2012; Holland and Doidge 2012; Orbie 2012). This criticism concerns in particular the Commission's *ability* to promote distinctive development policy norms in the international system. This is, for example, because of a lack of analytical and entrepreneurial capacity (Santiso 2003; Orbie and Versluys 2008; Baroncelli 2011), limited policy space due to Member States' national agendas (Brown 2004; Farrell 2008) or limited internal coherence (Carbone 2007, 2010).

However, there is evidence of a distinctive application of global development norms which corresponds to the 'European vision' as expressed in the European Consensus on Development. Promoting a distinctive, value-based understanding of (good) governance for successful development has emerged as an integral function of the EU's supranational development policy (Carbone 2010; Holland and Doidge 2012; Orbie 2012). In essence, the EU's approach centres on three sets of (partially overlapping) policy norms. First, the promotion of effective governance serves directly the primary objective of eradicating poverty in the context of sustainable development, including the pursuit of the MDGs. This involves strengthening institutional capacity, public accountability and public service delivery. In a wider sense, this also includes promoting regional integration (Coombes 1998), environmental sustainability, and the security-development nexus (Youngs 2008) to endorse a more holistic view on (effective) governance. Second, promoting democratic governance serves the advancement of democracy and respect for human rights (Smith 1998), encouraging gender equality (Bossuyt 2006) and strengthening civil society (Carbone 2008b). Decentralisation, empowering local authorities and non-state actors reflect the pursuit of a distinctive, bottom-up approach to (democratic) governance. Although enhancing democratic governance is a goal in itself, it is understood to actively contribute to sustainable development. Third, the promotion of global governance for international development is to strengthen effective multilateralism and to contribute to a system of institutionalised international cooperation (Holland 2008). This is understood to benefit developing countries directly (e.g. by giving them a representative voice in the international arena) and indirectly (e.g. by reducing transaction costs through improved harmonisation).

To sum up, the Commission understands pursuing its distinctive, normatively framed interpretation of (good) governance as an objective of its development policy. On the other hand, the distinctiveness of the Commission's approach also rests on the way the policy norms behind this objective are pursued. The EU has committed itself to adhering to the principles of 'good donorship' (Molenaers and Nijs 2011: 409) derived from the global aid effectiveness agenda around the Paris Declaration 2005 and its 'associates', especially the Monterrey Consensus on Financing for Development 2002 and the Accra Agenda for Action 2008. These principles can be assigned to the above objectives. Ownership and alignment are understood to increase the effectiveness of governance. Partnership and political dialogue serve the politicisation of the development relations. Harmonisation works for the pursuit of effective multilateralism. In addition, the Commission is committed to deliver more and better aid. All these features have found their way into the EU's supranational development policy to some extent. However, pursuing harmonisation to promote global governance for international development constitutes a particular dilemma for the EU's pursuit of a distinctive approach, which goes beyond missing political will and lacking (institutional and procedural) capacity.

Effective Multilateralism

This section explores the role that supporting effective multilateralism plays for the EU in relation to its overall 'vision' on development. The preceded section has argued that the promotion of effective multilateralism can be understood as a key dimension within the normatively framed EU approach to development. The EU's claim that effective multilateralism is a means and a goal of its foreign and development policy has been, for the first time, explicitly formalised in the European Security Strategy (ESS) in 2003.

Why has the EU chosen to place multilateralism so centrally in its external action? Following Kissack (2010), the answer depends on looking at promoting effective multilateralism as a goal or a means. The norm of effective multilateralism is based on the EU's own nature as the institutionalisation of interstate cooperation in Europe. International organisations and regimes can be understood as strategies deployed by sovereign states to reduce uncertainty in the international system, thus, to enhance the effectiveness of international cooperation, i.e. increase its predictable, efficiency, transparency, reliability, etc. (Farrell 2008; Kissack 2010). This function can be seen as the most visible feature of European integration and constitutes the *raison d'être* of the EU institutions. Following constructivist logic and acknowledging the efforts which the EU has already invested into effective multilateralism suggest the Commission's predisposition to prefer multilateral institutions to bilateralism or unilateralism (Kissack 2010: 19-20). Consequentially, the EU's mandate from the ESS (European Council 2003: 9) is to promote an 'international order based on effective multilateralism' with the objectives of developing a stronger international society, well-functioning international institutions and a rule-based international order, especially in the context of supporting the UN.

The strong institutionalisation within the EU suggests that the understanding of what is an 'effective' way of multilateralism does not need to be universal. As Laatikainen and Smith (2006) argue, there is a difference between European and UN style multilateralism. The European norm stresses the role of supranational institutions as central element to ensure the effectiveness and well-functioning of multilateral cooperation. The UN understanding rather focusses on intergovernmentalism. This shows the Commission's desire of enhancing institutionalisation of cooperation in the international system.

The commitment to enhancing multilateralism is emphasised in all key documents of the EU's external action and development policy. The special rhetorical emphasis of the UN system in these documents has channelled most of the academic attention, which has rapidly emerged after the release of the ESS, to the analysis of the EU within the UN system and the support for the rule of international law (Ortega 2005; Laatikainen and Smith 2006; Farrell 2008, 2012; Kissack 2010). However, all these commitments go beyond the narrow, tentative objective of enhancing cooperation within the UN system. The ESS explicitly expresses the EU's aspiration to further developing key institutions in the international system, such as the World Trade Organisation (WTO), the international financial institutions (IFIs) and regional organisations. This rhetoric commitment has translated into significant practical application as confirmed by the DAC's latest peer review of the EU (OECD/DAC 2012: 61). It acknowledges the EU institution's commitment to effective multilateralism as a central element of their external action and confirms that their promotion of effective multilateralism goes beyond the original objective of closer cooperation with the UN system (European Commission 2003a).

This is especially true for promoting and improving multilateral cooperation between the Commission and the major IFIs, i.e. the World Bank and the International Monetary Fund (IMF). An example of this improved and increasingly institutionalised multilateral cooperation is the launch of a formal process for regular consultations between the Commission and the World Bank on Africa called the 'Limelette Process'. This forum for collaboration is used for exchanging information and improving ways of working together. It produces a joint action plan and joint letters to delegations on implementing the enhanced relationship in the field (OECD/DAC 2007). Additional examples are framework agreements with the World Bank and the IMF (both 2009) and regional development banks. Agreements for a more structured dialogue with the IFIs to coordinate and promote Commission and EU positions on development issues are about to follow (European Commission 2011a). Consequentially, following Smith's (2005) recommendation to focus on what the EU *does*, not what it *says*, it can be assumed that the Commission's promotion of effective multilateralism in international development goes beyond strengthening the UN system.

However, the Commission's enhanced enthusiasm for supporting multilateral structures outside the UN system, especially the IFIs, is not only an objective for more effective development cooperation (e.g. reduced transaction costs, duplications etc.). Moreover, it is highly instrumental (Kissack 2010: 20). The Commission attempts to manipulate the build-up and institutionalisation of multilateral cooperation in order to be able to more effectively promote its own objectives in the international system (European Parliament, Council and Commission 2006; European Council 2007). Conventionally, the EU's influence in the IFIs has been highly erratic and mainly comes through the Member States, whereas the influence of the Commission has been indirect and often weak (Baroncelli 2011). This instrumental understanding explains why the EU appears to be a forerunner in the legalisation of international relations (Kissack 2010: 7).

The approach to use effective multilateralism to promote a specific 'European' understanding of development, e.g. of good governance, implies a tension which is likely to have significantly influenced the form of the EU's supranational development policy. To recall, the function of the EU's supranational development policy is to promote distinctive 'European norms' in international development. The Commission has increasingly been formulating its objectives in international development as a 'vision' based on the (unique) experience of European integration itself. Thus, the Commission has incorporated key normative principles constituting its own identity. This has translated into a normatively different approach to development policy based on a distinctive interpretation of (good) governance. However, this approach is unlikely to be globally shared in the same, i.e. the 'European' way, since it is strongly based on Europe's unique form of integration. Consequentially, good governance, from a normative perspective, is differently interpreted by different actors, especially the World Bank.

However, the form of the EU's supranational development policy attempts to accommodate principles of 'good donorship', very prominently harmonisation. The Commission explicitly seeks to support the World Bank as an objective of its approach because it values its outstanding capacity and influence which make it an effective conductor of multilateral cooperation. At the same time, the Commission lacks the capacity to significantly influence the dominant global development discourse inside and outside the Bretton Woods institutions where the Commission's promotion of a predominantly normative approach may lead to distrust and suspicion (Hyde-Price 2008: 33; Kissack 2010: 3). This can deter the efforts the Commission puts into strengthening multilateral cooperation.

Thus, pursuing the 'European vision' must involve a trade-off: The more important supporting effective multilateralism is perceived of by the EU as a response to international development, the stronger this undermines the EU's claim of a normatively distinctive approach to (good) governance. Predictably, this will lead to tensions in the application of conditionality between the form of conditionality (aligning to the dominant conditionality norm-setter, i.e. the World Bank) and the function of conditionality (promoting a distinctive understanding of (good) governance).

3. Conditionality in the EU's Supranational Development Policy

This section examines how the European Commission accommodates diverging external and internal aid conditionality 'imperatives' within the cooperation with the ACP countries under the current financing instrument. These imperatives have evolved around the question of 'good donorship' (form of conditionality) which has influenced the Commission's pursuit of its objectives in international development (function of conditionality). The Commission has attempted to accommodate these largely diverging drives by 'tranching' its aid to third countries, especially its General Budget Support (GBS), which has become its preferred aid modality according to its own claims (European Commission 2009b: 79).

Aid conditionality is a central element of the EU's supranational development policy. Before turning to the concrete practice, it is necessary to give some brief insights into the conditionality debate. The perceived failure of aid to provide for unambiguous global development has led development scholars and practitioners to look beyond aid and the amount of aid to the context (e.g. political, institutional, socio-economic) into which it flows (e.g. World Bank 1998; Burnside and Dollar 2000). This discourse about the effectiveness of aid centres on the two key issues of governance and conditionality which have become the paramount determinants for most contemporary development policies (Lockwood 2005; Hout 2007: 6). The concept of governance goes beyond the ruling of a government and encompasses the full range of political, administrative and socio-economic structures within a political entity (Leftwich 1994). There has been the general perception that especially African countries have suffered from long-term and systemic failures of governance, e.g. lack of ensuring intrastate security and human rights, endemic corruption, missing capacity of public service delivery, and mismanagement of the economy (World Bank 1989; Lockwood 2005: 776-7). Conditionality, as it is understood here, means attaching objectives for reform, which are desired by the donor and to be fulfilled by the recipient government, to the commitment (*ex ante*) or continued disbursement (*ex post*) of development assistance[2]. This policy has been seen for long as remedy to tackle governance failures (Stokke 1995). Most official donors, the European Commission is no exception, see aid as a leverage to introduce governance reforms.

However, from an empirical point of view, making aid conditional on policy reform has had little success in that recipient governments have often not implemented policy reforms

[2] The terminology of *ex ante* and *ex post* conditionality is sometimes used differently depending on the perspective of the author; see, for example, Hout (2007) and Molenaers and Nijs (2009, 2011).

as they had promised (Killick 1998; World Bank 1998; Doornbos 2001). This has led to an ongoing debate about the form and function of and the relation between conditionality and governance which has produced continuously evolving, at times inconclusive principles of 'good donorship'. Donors are increasingly experimenting with new approaches to aid allocation and conditionality (see Table 1), such as results-oriented (country) selectivity, and less radical approaches, such as reform-oriented process approaches. The latter can be either in the form of selectivity in volumes and aid modalities, e.g. linking additional aid to governance progress, or in the form of selecting between more flexible modalities of aid, e.g. process rewarding, especially when countries do not have the capacity to deliver results (Molenaers and Nijs 2011). While this leads to the parallel application of combinations of different approaches, basically all donors continue to use conventional conditionality in aid disbursement to some extent (Lockwood 2005; Chhotray and Hulme 2009: 37).

Table 1: Conditionality on Governance

	New approaches to conditionality		*Conventional approach to conditionality*
	Results-oriented selectivity-approach	*Reformer-led process-approach*	
Interference with governance	Hands-off Pulling results	Hands-on Engaging in capacity building	Hands-on Pushing reform
Disbursement based on	Measurable outputs and outcomes only	Combination of intentions, inputs and outcomes	Intentions, promises
Verification of conditions	*ex ante*	*ex ante*	*ex post*
Quality of Conditionality	Incentivising (for strong performers)	Incentivising (under limited capacity)	Adversarial
Examples	Cash on Delivery	Drivers of Change (DFID)	Structural Adjustment Programme

Source: Adapted from Molenaers and Nijs (2011)

The EU does not engage in country selectivity in the most radical sense (Hout 2007). However, the Commission has been attempting to apply a combination of less radical branches of contemporary aid approaches, i.e. 'positive' or incentivising approaches to conditionality. The Commission's conception of 'effective partnerships' (European Commission 2003b) aims at incentivising governance reforms. It aims at rewarding 'good performers' with (relatively) more and better aid ('positive conditionality'). This commitment, which has been primarily promoted by the Commission, has translated into concrete policy within the 10th EDF. The policy contains different mechanisms to accommodate different principles of 'good donorship' primarily by 'tranching' aid. Committing or disbursing aid in tranches, especially budget support, is neither new, nor unique to the EU's supranational development policy (Santiso 2003). However, the Commission's specific approach helps to reveal its attitude towards aid conditionality. The principle instruments in this context are the ECGIT ('more' aid) and the MDG Contract ('better' aid). The reminder of this section concentrates on these two instruments.

European Commission's Governance Incentive Tranche (ECGIT)

The 10th EDF puts forward a stronger emphasis on governance based on both, a holistic and an incentive approach. Holistic approach means that governance issues are integrated as focal or non-focal areas of the cooperation with ACP countries and targeted directly. The incentive approach on governance has been put into practice by the Commission for the first time. The Commission created the 'Governance Initiative for ACP countries and Africa' (European Commission 2006a) which was endorsed by the Council (Council 2006). At its heart lies the European Commission's Governance Incentive Tranche (ECGIT) which has been implemented within the programming of the 10th EDF national development plans, i.e. the Country Strategy Papers (CSPs). Despite its central position in the programming of EU development assistance, the ECGIT has received only scant scholarly attention. A major exception is Molenaers and Nijs (2009, 2011).

The ECGIT are designed to provide incentives in the form of additional aid to strengthen the recipient government's commitment to governance reform based on dialogue and consensus instead of conventional forms of conditionality. The Commission has aspired to embark on a radically new path of positive conditionality through incentivication. This approach fits the Commission's continuing preference for a positive, incentive-based conditionality approach towards governance (Smith 1998: 259; Hilpold 2002). The operational set-up of the ECGIT explicitly follows the ambition to link aid to issues of the recipient's (internal) governance, especially its democratic governance, in a way which promotes country ownership (European Commission 2011b). Within the 10th EDF a part of the total programmable country allocation is set aside for the governance incentive tranche to be allocated on the basis of the quality of the recipient country's reform agenda (€ 2.7 billion, i.e. around 1/12 of the total 10th EDF). This incentive allocation is 'added' to the initial allocation (€ 10.8 billion), which is based on quantitative needs and performance criteria[3] to form the National Indicative Programme (NIP) for each country. The incentive tranches are assigned as a percentage of the initial allocation, either basic (10%), intermediate (20%), high (25%) or very high (30%). Additional 5% bonuses can be granted for countries that have completed the African Peer Review Mechanism (APRM), for Portuguese-speaking countries and countries within situations of fragility and post-conflict.

The form of conditionality behind the ECGIT is difficult to assess comprehensively since the instrument suffers from a lack of transparency. The *ex ante* conditionality for the ECGIT, which determines the selection of eligible countries, is relatively low. Principally, all ACP countries are eligible for the ECGIT, but they are not committed funds automatically. The commitment of funds from the Governance Initiative is made conditional on the formulation of a governance reform proposal submitted by the respective ACP government to the Commission. The submission of such a reform commitment, called Government Action Plan (GAP), qualifies the country for aid from the ECGIT scheme. In fact, 67 of 70 ACP countries with country programming under the 10th EDF decided or were able to submit a GAP, hence, qualify for an additional allocation of at least 10% of their initial allocation. The three exceptions are Bahamas, Côte d'Ivoire and Somalia (European Commission 2009a: 6).

The size of the aid allocation is made conditional on the outcome of the Commission's evaluation of the GAPs. In this process the Commission assesses the *political will* for reform of the applicants as expressed in the GAP (European Commission 2009a: 7). The political will is 'measured' in nine categories based on political, institutional, economic and public service delivery indicators. The assessment of the reform intentions in these categories happens in relation to a governance profile which the Commission has created for all ACP countries assessing the *status quo* and trends in their governance systems. These governance profiles are not negotiated or agreed with the ACP governments (European Commission 2006b). Instead,

[3] The Commission's initial aid allocation is based on a statistical model which develops the needs and performance criteria, based on data published by recognised international institutions and financial performance data extracted from the Commission's accounting system; see Commission (2007c) for further details.

they are unilaterally created by the Commission in Brussels. Their main purpose is to serve as the benchmark for the relative assessment of the reform commitments.

The Commission bases its profiles on existing indicators and studies, primarily the governance indicators developed and monitored by the World Bank Institute (WBI) since 1996 in order to avoid creating excessive additional conditions and to harmonise donors' approaches to conditionality on governance (European Commission 2006a: 11). All six existing sets of WBI indicators, the so called Worldwide Governance Indicators (WGI), are used for assessing ACP countries' governance. These indicators cover the areas of democratic governance (WGI 'Voice and Accountability'), rule of law, control of corruption, government effectiveness, economic governance (WGI 'Regulatory Capacity'), and internal and external security (WGI 'Political Stability and Absence of Violence'). These areas are complemented with components specific to EU policy in the areas of social governance including labour law, combat of HIV/AIDS and gender equality, international and regional context including regional integration, trade and migration issues, and the quality of partnership including the conduct of political dialogue and civil society participation (European Commission 2006b).

The Commission has advised its staff to rely on the externally provided indicators where available (European Commission 2006b). This means that the conditionality behind the ECGIT mainly rests upon indicators stemming from the World Bank, above all in the wider field of economic governance. This area receives comparatively the highest weight in the overall composition of the governance profiles. Consequentially, the conditionality on the reform promises, which rests on these profiles, focuses predominantly on narrow technocratic and economic issues of governance with a strong proneness towards managerial and neo-liberal indicators. The primary indicators in the four central issue areas are respect of law, equality before the law, and access to justice (rule of law), strategy for combatting corruption (control of corruption), institutional capacity and public finance/financial management (PFM) (government effectiveness), and market-friendly policies and management of natural resources (economic governance).

Moreover, the Commission has advised its staff to use the World Bank indicator 'Voice and Accountability' to evaluate the reform promises on democratic governance. This indicator reflects the relatively 'apolitical' nature of the World Bank's mandate and therefore, has a very limited focus on democratic governance, mainly covering the electoral process and freedom of expression, association and media (Kaufmann *et al.* 2010: 4). Although the Commission Staff Working Paper (European Commission 2006b) goes beyond these restricted indicators, it remains tentative and technocratic. In addition to the WGI, the Commission has advised its staff to assess the legal status of international conventions on human rights, the death penalty and minority rights, the existence of 'watchdog' institutions and political parties, and the constitutional order of the separation of powers and parliamentary oversight. The Commission's 'own' indicators have in comparison to the World Bank's indicators a rather low prominence. They have at most a complementary character. However, these additional areas and indicators indeed cover distinctive European objectives in the area of governance, which enjoy high importance within the Commission. The Commission's additional indicators mainly cover the areas of gender equality, civil society engagement, regional integration and migration.

In the programming process at country level, using the governance profiles, the Commission points out which reform promises it wants to be included in the GAPs. Within the programming dialogue with the ACP governments, the latter are invited to present their reform plans to the Commission's delegations which in turn reveal their desired reform commitments. The European Commission (2006b; 2009a: 8) insists that in order to get allocated a higher quality tranche, compliance with international agreements and the 'essential elements' of the CPA (see below) have to be safeguarded in the plans, and existing (multi-donor) policy and governance strategies have to be used to formulate the GAPs. However, most governments do not rely on strategies, such as the Poverty Reduction Strategy Papers (PRSP) and the APRM, but use the opportunity to present own reform proposals (European Commission 2009a).

The Commission compares the submitted targets for reform in these categories with what it has prior identified as weaknesses according to relevance, ambition and credibility. The evaluation of relevance is to avoid that commitments diverge from its desired reform objectives. The conditioning on ambition serves to avoid understatement which does not match the potential for reform that the Commission has envisaged. The inclusion of credibility is to avoid unrealistic promises. Upon this evaluation, the Commission makes a decision on access to one of the four incentive tranches. The GAPs are annexed without further comment to the current CSPs and individual assessments and the incentive tranche level allocated to each country have not been made public. Eventually, five plans are allocated to the 10% incentive tranche, twelve plans to the 20% incentive tranche, 47 plans to the 25% incentive tranche, and three plans to the 30% incentive tranche, excluding potential bonuses (European Commission 2009a: 9).

The analysis of conditionality within the Governance Initiative reveals two decisive features concerning the function and form of conditionality. The European Commission (2011b) argues that the ECGIT is an innovative instrument in that it has good potential to promote ownership and is an appropriate approach for supporting democratic governance.

First, under the Governance Initiative aid is primarily made conditional on ACP government's political will in the form of promises to follow the Commission's desired governance reforms. Aid has neither been made conditional on the governance status during the programming of the 10th EDF (selectivity-approach), nor has disbursement been adjusted according to the actual implementation of the promised reforms (process-approach). In this sense, ECGIT conditionality resembles very much conventional adversarial conditionality, i.e. the Commission pushes for specific reform commitments and aid is committed/disbursed upon the recipient government's underwriting of these donor wishes (Molenaers and Nijs 2009: 569; Hout 2010). This form of conditionality runs the risk of undermining ownership (Killick 1998). Indeed, the incentive effects seem to be hardly effective (European Commission 2009a, Molenaers and Nijs 2009, 2011).

Second, aid is made conditional primarily on technocratic and economic issues of governance which mostly stem from outside, first of all the World Bank. This means that the perception of what is important about governance is mainly downloaded from the dominant international discourse, which is less comprehensive and to some extent distinctive from what the Commission has envisaged with it Governance Initiative. This alignment in the function of conditionality is particularly crucial for the area of democratic governance because the World Bank's rather technocratic, depoliticised interpretation runs the risk of undermining a more politically salient view.

However, there are some qualifying remarks to be made. The Commission acknowledges that there are shortcomings in the implementation of conditionality due to a lack of time. This has not allowed for providing for the highest level of ownership (European Commission 2011b). The Commission stresses that its approach allows for continued dialogue on governance issues which rigid country selectivity does not allow. In addition, the contractual nature of the GAPs, as they are included into the country programming document, aims at increasing the recipient's commitment to the made promises. In summary, the ECGIT rather represents a tentative attempt (given its relatively low overall financial volume) for reallocating EDF resources towards ACP countries which show political will to cooperate with the Commission. Especially the inclusion of distinctive European objectives of governance is remarkable. This is true for the three sets of indicators that the Commission has included in addition to the six WGIs. They reveal the desire to include a distinctive European perception of good governance (e.g. social governance) into conditionality. A similar attempt to go beyond the limited conception of governance at the World Bank level can be seen with the inclusion of additional indicators for democratic governance, even though these remain tentative.

Millennium Development Goals (MDG) Contract

Although bilateral donors have started to lose confidence in general budget support (GBS) (Faust *et al.* 2010: 2), it is a central aid modality within the Commission's programming under the 10th EDF. Budget support is the direct transfer of financial resources to the national Treasury of a country on the fulfilment of agreed conditions. GBS is expected to rise to around 30% of the total 10th EDF (European Commission 2011b). This supports the Commission's rhetoric. The Commission is convinced that, to achieve sustainable development, the MDGs in general and poverty reduction in particular, (general) budget support is an important and effective aid modality which is in line with principles of 'good donorship' of the international aid effectiveness agenda and the overarching objectives of EU external action (Article 21, TEU) and development policy (Article 208, TFEU) (European Commission 2011b, 2011c). Precisely, GBS can help to increase ownership, promote harmonisation, and encourage alignment, while reducing transaction costs. Furthermore, it can help to strengthen recipient country's institutions and domestic accountability, promote a more stable macroeconomic framework, and provide a better framework for public expenditure and policy-making (European Commission 2011b: 16). Therefore, the European Consensus on Development (European Parliament, Council and Commission 2006) specifically calls for greater use of budget support where circumstances permit.

Following a Communication on budget support in 2000, the Commission has started a process pioneering a results-oriented approach based on outcome indicators leading to a progressive evolution of its standard design for GBS (European Commission 2000, 2005, 2007b, 2011c). The so called MDG Contract of 2008 is the Commission's most recent active method of delivering GBS to further improve the application of GBS by enhancing predictability, ownership and accountability. However, this modality has received very little (if any) scholarly attention. The MDG Contract constitutes a first-generation 'budget support contract' and does not constitute a new financial instrument. It remains based on the relevant Cotonou provisions for budget support (ACP-EC 2000, 2005, 2010) and is compatible with the current, overarching internal guidelines for GBS (European Commission 2007a). Essentially, the MDG Contract constitutes a medium term, more predictable form of GBS which combines different elements of budget support practice. The objective of the MDG Contract is to improve the effectiveness of budget support in accelerating progress towards the MDGs by increasing its predictability and focusing on results (European Commission 2007b, 2008). This makes it an explicit part of the Commission's enhanced claim to respond to international commitments to provide more predictable assistance to developing countries and enhance aid effectiveness. In their current form MDG Contracts are open to eligible ACP countries under the 10th EDF. MDG Contracts[4] have been agreed with 8 countries, all of them in sub-Sahara African, i.e. Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, Zambia and Tanzania. Collectively these account for over 40% of all GBS commitments in the 10th EDF national programmes (European Commission 2011b), which represents around 1/8 of the total amount of the 10th EDF.

The longer term commitment of budget support distinguishes this modality from conventional forms of GBS under the CPA or other financing instruments, e.g. the Development Co-operation Instrument (DCI). All budget support resources programmed in the Country Strategy Papers (CSPs) were committed in the first year of the 10th EDF in 2008 for disbursement over the full 6 year timeframe of the EDF instead of the usual two three-year periods. The only exception is Tanzania which followed in 2009. Since the Member States decided in 2006 not to take part in a multi-donor, EU-wide MDG Contract (European Commission 2007b), the Commission has pursued its approach unilaterally. The second outstanding feature of the MDG Contract is that, in addition to a standard fixed base component tranche and a variable annual performance tranche (APT), the MDG Contract includes a variable, MDG-related tranche component. This MDG-based tranche is set to be at least 15% of the total commitment. In practice, it is usually higher at around 20%. This tranche is used specifically to reward performance against MDG-related outcome indicators.

With regard to conditionality, there are two issues which need to be addressed. Differently from the ECGIT, not all ACP countries are generally eligible for the MDG Contract. There are very high *ex ante* conditions determining the selection of countries (eligibility criteria). These conditions rest on purely technocratic, i.e. 'managerial' criteria. In addition, there is *ex post* conditionality triggering disbursement of the tranches which rests on different sets of criteria. The selection criteria (European Commission 2008) consist of three elements which are targeted at 'strong performers'. First, the potential recipient must fulfil standard GBS conditions judged using the Commission's latest guidelines for GBS (European Commission 2007a). These criteria consist of having in place a well-defined national development strategy, usually a PRSP, stability-oriented macroeconomic policies, usually approved by the IMF, and a credible and relevant programme to improve public financial management (PFM), usually in accordance with the multilateral Public Expenditure and Financial Accountability (PEFA) framework. As a result, eligible countries are those that already have

[4] The content of the MDG Contract is annexed to the respective country's Annual Action Programme (AAP) in the so called Action fiches for 2008 and 2009 (Tanzania). It contains, *inter alia*, information about the disbursement profile and the disbursement criteria; available at http://ec.europa.eu/europeaid/work/ap/index_en.htm [last access: 31.08.2012].

GBS programmed in their 10th EDF CSPs. Second, eligible countries must have a successful track record in implementing GBS without significant difficulties with the eligibility or delay in disbursing the fixed or variable tranche components of earlier arrangements. They must have showed improvements in budgetary performance and domestic accountability for financial resources in the recent past, e.g. improvements in PFM performance. Third, potential recipients must have showed sufficient commitment and provided a clear plan for monitoring and assessing performance, i.e. a joint, multi-donor Performance Assessment Framework (PAF). This must serve especially the assessment of MDG-related outcomes, but also macroeconomic progress and improvement of domestic accountability for budgetary resources.

The *ex post* conditions which apply to eligible countries that have concluded an MDG Contract play two roles. On the one hand, some conditions serve as a means for sanctioning ('negative conditionality'). This means that noncompliance with these conditions triggers suspension of GBS disbursement. On the other hand, some of these conditions serve as incentives encouraging desired behaviour ('positive conditionality'), which refers to performance. Conditions are assessed annually within the context of joint, multi-donor reviews of PRSP and PAF regarding both, continued general eligibility for budget support and performance on all indicators (MDG-related results, public financial management (PFM) reforms and macroeconomic stability). This ensures that eligibility is continuously monitored, coordination with other budget support donors and dialogue with the respective country is maintained, and risks are controlled (European Commission 2008).

The base component tranche (at least 70%) is disbursed subject to standard provisions of the CPA (ACP-EU 2000, 2005, 2010). These standard provisions constitute that there is no breach in the eligibility conditions for GBS, or in the essential and fundamental elements of the cooperation as set out in Article 9 of the CPA ('political emergency exit'). This covers, on the one hand, human rights, democratic principles and the rule of law ('essential elements'). A breach with these essential elements would either lead to immediate suspension or a delay of any budget support disbursement (European Commission 2008). This is very likely in the case of a violent coup d'état or gross human rights violation (Bradley 2005; Hazelzet 2005). On the other hand, Article 9 covers good governance including serious cases of corruption ('fundamental elements'). A serious incidence of corruption emerging before an MDG Contract payment is due can also lead to a suspension or delay of the disbursement according to Article 97 of the CPA, which in practice has almost never been invoked. As long as progress with the improvement of financial accountability continues to be made as required by the eligibility criteria for budget support, the Commission attempts to avoid suspending, reducing or delaying the disbursement of the base component (European Commission 2008: 14). Instead, the Commission attempts to engage in political dialogue. That means that the disbursement of the lion's share of GBS is virtually granted as long as certain *sine qua non* conditions ('political emergency exit', sever accountability deterioration) are not violated.

When serious cases of corruption come to light, the annual performance tranche (APT) allows for providing a response in financial terms in addition to political dialogue. Generally, the APT focusses exclusively on administrative performance with respect to the implementation of the PRSP, performance monitoring (notably data availability), progress with PFM improvements, and macroeconomic stabilisation. The APT allows for a short-term response to performance in these areas, which are assessed during the joint annual review of the country's PRSP, typically based on an assessment of mostly input and process PAF indicators (European Commission 2008: 11). In the case of specific and significant concerns about performance in these areas, e.g. following a serious case of corruption or problems with the implementation of an IMF programme, the APT disbursement can be withheld or delayed until performance improves, but only after the attempt to engage in political dialogue. In cases in which underperformance persists or dialogue is not possible, the APT will be withheld and usually deductions are permanent for the rest of the period.

The willingness to use the APT as a means to respond to corruption depends very much on the perception about the relationship between corruption and administrative performance. The Commission recognises that an improvement in a country's PFM system and domestic accountability makes it 'likely that *more* cases of corruption will come to light' (European Commission 2008: 14, emphasis in original). This view is not necessarily shared with other budget support donors. This has been revealed in 2009 when a major case of fraud in the Zambian health sector became public. This led to the immediate suspension of Swedish and Dutch budget support disbursements. For both donors it was a sign of deteriorating governance in Zambia. The Commission, however, acknowledged it as a sign of progress because the detection and subsequent prosecution of the fraud was perceived to be a consequence of strengthened regulations and oversight bodies (Molenaers *et al.* 2010; Faust *et al.* 2012). Consequentially, the Commission did not suspend any budget support at first. Instead, the Commission engaged in political dialogue with the government of Zambia in which it called the government to promise adequate response. Thus, the Commission sidestepped the policy dialogue with the World Bank and others GBS donors who planned to address the problem in this permanent, institutionalised multilateral forum. This severely undermined multilateral cooperation and harmonisation efforts (Molenaers *et al.* 2010).

Eventually, during the further process of multilateral coordination and upon the conclusion of the political dialogue, in 2010, the APT was only partly disbursed in Zambia (European Commission 2011b). However, given the fundamentally different views on the relation between performance and corruption, it seems that from the Commission's point of view, the APT component is mainly an instrument to ensure the functioning of multilateral donor coordination within a country. Although the APT can consist of up to 15% of the total budget support commitment, the Commission has attempted to keep it consistently below this threshold at around 10% in all MDG Contracts. This reduces the financial adjustment effect of the APT which the Commission can offer for harmonised multi-donor responses to administrative underperformance. On the other hand, the Commission recognises the need in the context of multilateral cooperation and donor harmonisation to provide at least a 'signalling effect' of making a financial adjustment in order to reduce the damage on donor coordination (European Commission 2008: 11).

The MDG-based tranche is used specifically to reward achieving results, notably in health and education (European Commission 2008; Oxfam 2008). The applied indicators explicitly focus on performance in outcomes, such as school enrolment or vaccination rates, but, as a mid-way evaluation confirms (Beynon and Dusu 2010), input indicators such budget allocation to health and education (e.g. in Burkina Faso) and output indicators such as opening of additional classrooms (e.g. in Mali) are also used for measuring performance (European Commission 2012). Additional indicators are directly linked to the MDGs, for example in the areas of food security (e.g. Burkina Faso), water and sanitation (e.g. Ghana, Rwanda), and social vulnerability (e.g. Rwanda). Other indicators are only indirectly linked to the MDGs as they relate to growth and wealth creation, which are increasingly highlighted in second and third generation PRSPs. Examples are indicators relating to business climate, private sector development and infrastructure (e.g. Burkina Faso, Rwanda, Zambia), agriculture and land management (e.g. Rwanda, Zambia) and PFM reforms which are part in all MDG tranche conditions.

These indicators are locally and jointly agreed within the country's PAF which is drawn from its PRSP (or equivalent) (European Commission 2008: 10). Performance on MDG-related indicators is also monitored annually, but the potential disbursement of this tranche is deferred to the second half of the programme. The decision, which determines the disbursement of the MDG-based tranche over the last three years of the arrangement, follows a mid-contract review (different from the general mid-term review) of progress against the determined indicators after the first three years. The decision about the disbursement of the MDG-based tranche is based on the combined results of the first three annual reviews. The decision is made in consultation with budget support partners and in line with the foreseen procedures within the country budget support harmonisation arrangement (European Commission 2008: 11).

The conditionality behind the MDG tranche rests exclusively on development performance within the wider context of the MDGs. This excludes performance on democratic issues of governance since the MDG framework represents a technical approach to poverty reduction sidestepping questions of politics and democratic governance (Chhotray and Hulme 2009: 36). Thus, the Commission, similar to multilateral development banks, has remained closer to the technocratic budget support design following the DAC guideline of 2005 which states that 'political conditionality should not be specifically linked to budget support' (OECD/DAC 2005: 29). Instead, budget support is primarily linked to supporting the MDGs and more technocratic governance reforms, e.g. public financial management and accountability. This excludes any direct positive leverage on democratic governance in financial terms and leaves these open political issues to the political dialogue. However, it also leads to situations in which countries that perform high on technocratic conditions (e.g. low level of corruption), but low on democratic governance (e.g. persistent human rights abuses) enjoy the enhanced predictability of the MDG Contract, e.g. Rwanda. This does not say that the MDG Contract is indifferent to human rights violations or violations of democratic principles. As stated earlier, the general CPA provisions provide for the potential to suspend assistance, including any MDG Contract payment ('political emergency exit'). The major difference is that GBS in general and its performance-based tranches in particular are triggered on technocratic grounds and are only suspended as a whole ('negative conditionality') if necessary. This marginalises the positive incentive effect for many sub-Sahara African countries in 'grey areas' of democratic governance.

To sum up, the conditionality behind the MDG Contract provides a complex and mixed picture. Some have hailed its form as a sort of 'Cash on Delivery' (CoD) (Green 2009). Particularly the MDG-based tranche can be seen in a way that funds are 'automatically' triggered on the achievement of transparent and precisely framed results in development outcomes. In a way, MDG contracts combine a CoD element with more traditional budget support. However, the number of indicators is larger than desired under CoD because the MDG-based tranche indicators are drawn from the PRSPs and the multilateral PAF which both contain usually large numbers of indicators. In addition, many applied indicators are input indicators and are not suitable to assess results-based performance on outcomes. Moreover, the MDG-based tranche only represents a fraction of the entire MDG Contract. Although the Commission has attempted to keep the share of the MDG-tranche component significantly above the minimum of 15%, the overall financial weight of this component remains relatively low so that the principle part of the MDG Contract conditionality resembles conventional conditionality. Furthermore, the scope of this instrument remains highly limited with only eight participating countries. This further decrease the tangible volume of aid that is subject to 'positive' conditionality and which theoretically has the potential to influence recipient's governance systems to the objectives desired by the Commission.

Many indicators of the MDG-based tranche are only indirectly linked to the MDGs which can undermine the precise focus on the MDGs, especially health and education. This is because the indicators and the assessing procedures are taken from the PRSP and PAF. This is supposed to enhance harmonisation. However, the ambition for harmonisation is not absolute as the APT conditionality reveals. The Commission keeps this component, which explicitly serves donor harmonisation, deliberately small. In addition, its ambition to first engage in a separate political dialogue further undermines harmonisation. The function of conditionality behind the MDG Contract is clearer. The conditionality of the MDG-tranche focuses on promoting technocratic, narrowly defined objectives towards achieving the similarly defined MDG benchmarks. The managerial focus of the APT conditionality does not intent any incentivication of promoting a more holistic view of governance, either. Democratic governance is only 'safeguarded' through the standard provisions, i.e. political dialogue and the opportunity of a 'political emergency exit' according to the CPA.

4. Tensions in the Commission's Conditionality Policy

The two presented instruments constitute the Commission's attempt to embark for the first time on (relatively) new 'positive' approaches to conditionality. At the same time, these instruments have enriched the arsenal of the Commission's existing conditionality mechanisms. These traditional forms of conditionality are, on the one hand, what has been left of conditionality under the impression of the World Bank's structural adjustment programmes. This most traditional form of conditionality has gone through some transformation since its first inclusion into European Community policy in 1990 (Grilli 1993: 117; Lister 1997: 115). However, it remains an important component under the current CPA (Hurt 2003; Brown 2004) in the form that macroeconomic and financial performance criteria influence the initial country allocation to some extent together with an assessment of a country's needs (Commission 2007c). The other 'traditional' conditionality policy is the so called 'political conditionality' which is attached to the adherence of the 'essential elements' of the CPA around human rights, democratic principles and the rule of law. This form of conditionality is in effect since the early 1990s (Smith 1998: 264; Santiso 2003: 160; Brown 2004: 28).

In order to explain the tension behind the Commission's conditionality policy, one has to ask why the Commission has introduced additional conditionalities which have led to an opaque blend of various types of conditionality. Section two has developed a method of looking at conditionality in two ways, i.e. to ask for its function and its form. In other words, it is necessary examine the objectives that the Commission wants to achieve with its approach to conditionality and how the form contributes to that. Function and form have been driven by different imperatives which have significantly, but not exclusively, influenced the Commission's approach to conditionality. This has been mainly done by 'tranching' aid, but it has led to an increasingly complex system of conditionalities which is likely to have rather adverse implications for developing countries and the Commission's position in international development. The influence of these imperatives on the Commission and their translation into policy is assessed in the reminder of this section.

The function of the Commission's aid conditionality policy encompasses the ambition to promote a holistic view on (good) governance in order to make aid more effective and contribute to poverty reduction, but also to promote good governance as end in itself. Thus, it represents at least a partially different understanding of governance in contrast to the dominant discourse. Crucially, there is no accepted definition of (good) governance (Doornbos 2001). This has allowed donors to pursue different objectives under the umbrella of the good governance terminology which have increasingly diverged from the narrow World Bank definition around technical and managerial connotations (Killick 1998; Hout 2007: 49). However, this specific interpretation has set the global agenda (Leftwich 1994). As many commentators have noticed, this dominant understanding of (good) governance fails to recognise the essentially political character of governance issues (Leftwich 1994; Doornbos 2001; Hout 2010: 3). In this sense, all conditionalities on governance are political and involve making normative judgements. Consequentially, to promote a holistic view on good governance requires making normative judgments and goes beyond a purely technocratic approach.

The Commission, in theory, has embraced a more holistic view on good governance, especially concerning specific elements of governance which are seen as important from a European perspective, e.g. democratic and social governance. This study has revealed some evidence for this different interpretation although, in practice, the Commission's implementation has turned out to be more tentative. The discussed 'positive' approaches to conditionality have revealed a rather technocratic orientation aligned with World Bank and IMF interpretation of good governance for the end of economic growth and development. Indeed, the Commission follows the World Bank's indication of the quality of governance to a significant extent, even on democratic governance. However, the Commission has expanded the scope of areas under its conditionality approach which allows for promoting a more distinctive interpretation of governance quality, even though these approaches remain tentative. Especially remarkable is the inclusion of indicators on social governance, e.g. gender equality, and the emphasis on a grassroots approach to governance by promoting decentralisation and strengthening civil society and non-state actors. These areas are central to the Commission's understanding of governance because they are seen as inherent to the EU's identity.

Although these are important indications of a more holistic understanding of good governance, currently, no strategy has been put into practice on how conditionality, especially on budget support, can be used as an incentive to leverage political change and promote democratic governance (Faust *et al.* 2012). Although there are tentative approaches within the ECGIT, a similar ambition cannot be found (yet) in the MDG Contract. The MDG Contract has been exclusively intended and designed to serve achieving the MDGs in all their narrow and technical conception. Consequentially, the conditionality of the MDG Contract is not suitable to promote the Commission's objective of strengthening democratic governance. The commitment to improve democratic governance and incentivise reforms has not been a prominent feature of any Commission budget support. Instead, the Commission (European Commission 2010) has explicitly relied on the DAC's guidance which refers political issues to the political dialogue (OECD/DAC 2005: 29) away from the 'hard core' of conditionality (Killick 1998: 11).

The political conditionality on democratic principles and human rights behind the MDG Contract rests on the conventional mechanism of 'negative' conditionality, i.e. it is mainly a punitive instrument. Since its inception, it has predominantly served as 'political emergency exit' in cases where other means have not been considered politically justifiable. This is not a form of incentivising democratic governance in a positive sense. Merely relying on a punitive conditionality framework runs the risk of undermining the desired improvements and reforms (Smith 1998: 258; Vanheukelom 2012: 11). A more sensitive form of incentivication indeed exists and is increasingly applied within the strategies for the gradual resumption of cooperation after suspension of cooperation under the CPA (Santiso 2003: 167). In summary, among the new approaches under the 10th EDF, only the ECGIT has had the potential to incentivise democratic governance reform, but its design has reduced this potential significantly.

(Political) conditionality on corruption may have gained more leverage to incentivise improvements in public finance management systems and accountability, especially among administrative strong performers. Thus, it has the potential to promote effective governance to some extent. The Commission frames corruption in the technocratic context of the quality of effective governance. With this approach, the Commission has continued to draw its conception of corruption from the technocratic interpretation of the World Bank (Brown 2004: 35) although it seeks to promote a distinctive, political handling of incidences of corruption based on dialogue. On the positive side, i.e. selecting and assigning the MDG Contracts, the state of transparency and accountability has played a highly significant role. In addition, the selection of MDG Contract recipients does not include directly coercive elements. The selection of Rwanda, for example, indicates the relatively one-dimensional application of technocratic governance criteria, especially transparency and accountability over, say, human rights record.

What can be seen as distinctive is the Commission's approach on the negative side, i.e. the Commission's reaction to emerging cases of corruption. Through political dialogue the Commission attempts to promote democratic governance through a more consensual and less coercive way. In theory, it allows the Commission in cases of emerging corruption to go beyond the reliance on narrow technocratic responses onto a higher, more political level of interference. The Commission can use its advantage of being able to act differently from (relatively) apolitical multilateral donors (such as the World Bank), on the one hand, and bilateral donors which are often politically constrained by domestic constituencies and politics, on the other hand (Vanheukelom 2012: 11-2). Thus, the Commission can base its reaction in the context of GBS disbursements less on the emergence of corruption, but more on the assessment of the government's response to dealing with the problem as assessed during the political dialogue. However, political dialogue is often not effective or simply feasible in practice and its application has been criticised as turning into a coercive means of conditionality itself (Santiso 2003; Orbie and Versluys 2008: 79), e.g. by threatening to withhold the APT.

It seems safe to conclude that the Commission follows at least a (partially) different understanding of the function and objectives of conditionality because of its different, generally more encompassing interpretation of (good) governance for successful development. Concerning the form of conditionality, the Commission's approach seeks to accommodate the insights from principles of the global aid effectiveness agenda, on the one hand ownership, which pushes for more incentivication, and on the other hand stronger harmonisation, which pushes for closer alignment with the dominant global agenda-setters. Consequentially, the Commission has sought to follow these imperatives of 'good donorship', especially through results-orientedness and dialogue to improve ownership and increased multilateral cooperation to improve harmonisation.

In the dominant discourse, (country) selectivity on the basis of good governance criteria has emerged as the principle tool to ensure adequate ownership of the recipient government (Hermes and Lensink 2001; Doornbos 2001; Adam *et al.* 2004). This approach together with an increased emphasis on results-oriented performance on these governance criteria represents an attempt to use aid as an incentive for reforming the policies and institutions of developing countries (Killick 1998). However, radical strategies of aid selectivity are basically unavailable to the Commission (Santiso 2003: 157; Hout 2007: 108) and have not been witnessed by the empirical evidence presented here. Thus, the principle of selectivity can only be applied to the modalities and amount of aid. As Molenaers and Nijs (2009) argue, the layout of the ECGIT conditionality fails to respect these recent insights of the aid effectiveness agenda. Instead, it continues with conventional habits. Regarding the MDG Contract, its selectivity component is based on granting a preferred aid modality and not on country selectivity. It is not yet clear in how far the MDG Contract can be seen as a mechanism of Cash on Delivery given the limitations discussed above. Nevertheless, it seems safe to conclude that the form of the conditionality of the MDG Contracts does not constitute a radical reorientation. The Commission's efforts rather reveal a tentative ambition to include more innovative forms of conditionality to play an active role in the contemporary aid conditionality discourse.

The efforts towards stronger harmonisation are considerable. These efforts aim at improving conditions for development, thus benefiting developing countries directly through more effective multilateralism. On first sight, following the dominant global discourse seems a functional necessity for this objective. Providing budget support requires the assurance of effective financial and policy management which explains its close alignment to the conditionality (oversight) of the Bretton Woods institutions and have established their gatekeeper role (van Reisen 1999: 111-3). The original focus on structural adjustment conditionality has been transformed into conditionality on the total compliance with the World Bank's process of the Poverty Reduction Strategy Papers (PRSPs) with its central objectives and procedures. Developing countries have usually laid down their priorities in the PRSP format, which has been required for getting support from the World Bank and IMF (Hout 2010: 6). This has led to 'cross-conditionality' (Brown 2004: 20) so that compliance with the Bretton

Woods institutions has become similar to a condition *sine qua non* and recipients usually do not long for antagonising the World Bank (van Reisen 1999: 70). This functional logic seems to be confirmed given that the PRSP are the basis of all EU aid (European Court of Auditors 2010: 66). For the ECGIT, for example, the Commission has insisted that the PRSPs are used where available. Looking at performance assessment, there is an emerging global consensus on the 'measurement' which allows assessing the risk of GBS provision, and which stems from established global systems around the Bretton Woods institutions. This is in line with the Commission's aim to reduce the conditionality burden on recipients and to reduce transaction costs from imperfect harmonisation. Thus, the MDG Contracts rely heavily on the technocratic conditionality which is in its form and procedures mainly adopted from the Bretton Woods institutions. Although the Commission's efforts to promote more effective multilateralism may allow conditionality to function more smoothly and equitably, these efforts do not necessarily serve the aim of promoting country ownership. On the contrary, increasing multilateral cooperation in the sense of stronger alignment to World Bank procedure deprives the Commission of the opportunity to promote distinctive approaches to enhance ownership. Enhanced engagement in dialogue with recipient countries as discussed earlier can most likely not make up for this.

However, the Commission's support of multilateral cooperation in development also serve as a means to attain larger influence within the dominant global development discourse which diverges from the Commission's view on development in many respects (van Reisen 1999; Holland and Doidge 2012). The creation of a joint financial accountability performance system (PEFA) and the 'Limelette Process' show that the Commission has been increasingly attempting to co-shape the internationally shared set of technocratic conditionalities. The PEFA system, which is hosted by the World Bank but commonly operated by a number of donors including the Commission, allows its members to make aid conditional on PFM performance measured through a common indicator-based assessment tool. PFM conditionality is a central element of the MDG Contract. Most EU Member States are not members of the PEFA system which increasingly shows that the Commission is prepared to advance in the international system without them. The Commission has explicitly stated taking forward more active and direct collaboration with the World Bank (e.g. 'Limelette Process') and the IMF on issues of country programming and (technocratic) performance assessment (European Commission 2008: 14).

The drawback of this strategy is that the global discourse and its constituting 'rules of the game' have already settled when the Commission entered the stage in the late 1990s (van Reisen 1999: 70). Since then Member States' coherent support has been consistently lacking (Farrell 2008; Carbone 2010; Holland and Doidge 2012: 199). Thus, enhancing asymmetrical collaboration between the Commission and the Bretton Woods institutions bears the risk that the Commission's approach to international economics becomes largely consistent with the mainstream policies of the Bretton Woods institutions (Holland and Doidge 2012: 199). To reduce this risk, the Commission has attempted to 'shield' its (partially) distinctive approach and understandings to some extent, while at the same time trying not to undermine its harmonisation efforts all together. The generally low size of the MDG Contract's APT and the Zambian case, in which 'internal' political dialogue has been preferred to larger scale but less politically salient policy dialogue, reveal this intention. Despite their vague effectiveness, these strategies contradict the Commission's efforts for harmonisation. Beside this 'protectionism', the practically unilateral promotion of increased predictability of budget support through the MDG Contract illustrates another, normatively distinctive strategy the Commission applies when tangible capacities are lacking, i.e. leading by virtues example.

In summary, the Commission's 'new' approaches to conditionality have promised a way to reconcile different Commission's objectives in international development, especially incentivising governance reforms. However, this has also created additional tensions within the Commission overall approach to conditionality. The result is a highly tentative and reactive application of conditionality (form of conditionality) which does not leave much space for the Commission to use conditionality modalities to influence third countries' domestic governance independently towards the objectives enshrined in the European vision (function of conditionality). On the one hand, the Commission seeks to support harmonisation through multilateral conditionality frameworks. On the other hand, it remains reluctant to pursue these efforts in full because they diverge from its (partially) different understanding of the function of governance for development. The attempts to accommodate these diverging imperatives are diverse, but they pose a serious challenge to the Commission which is enhanced by its capacities constraints to influence the global development agenda towards its own objectives.

5. Conclusion

The Commission's ambition to promote 'positive', i.e. incentivising approaches to conditionality in addition to its 'traditional' forms has led to an opaque mixture of diverging modes of conditionality. This makes the Commission's application of globally advocated policy prescription on aid conditionality seem highly ambiguous. The Commission has sought to implement some, e.g. results-orientedness and the concentration on joint conditionality assessment frameworks, seems to ignore others, e.g. rigid country selectivity, and fails to pursue featured prescriptions as envisaged, e.g. conditionality on a holistic understanding of governance.

To shed light onto the underlying motivations behind the Commission's specific approach to conditionality, the second section has derived the Commission's development policy as a function of a normative tension between the desired objectives and form of development policy against existing capacity constraints. The third section has presented two recently promoted approaches to aid conditionality under the contemporary policy on EU level, the European Commission's Governance Incentive Tranche (ECGIT) and the MDG Contract. The forth section has analysed the application of conditionality against the background of the EU's role in the global development discourse and has illustrated how different imperatives of aid conditionality have led to the ambiguous practice of the Commission's current policy.

It is argued that this ambiguity is the result of a difficult, dilemma-like trade-off. The Commission seeks to justify its role as a separate donor in international development. With regard to aid conditionality, this translates into the attempt to reconcile its ambition to pursue a normatively distinctive approach to international development ('European vision'), if necessary unilaterally, with supporting effective multilateral cooperation within the existing global discourse ('effective multilateralism'). Although 'effective multilateralism' is part of the 'vision', the global discourse on development, especially around the World Bank, often contradicts the Commission's views on development cooperation. This makes trade-offs necessary as long as it remains outside the Commission's capacity to consistently influence the content of the global aid conditionality agenda. These trade-offs undermine the Commission's efforts to justify its role as a separate donor in international development.

The Commission's approach to conditionality is a moving target. Although many measures of the 10th EDF have not yet been implemented, the Commission has already reacted to increasing criticism with its 2010 Green Paper process about the future of budget support (European Commission 2010). This resulted in the 2011 Communication on the future of budget support with stronger emphasis on democratic governance (European Commission 2011c) which was endorsed by the Council in 2012 (Council 2012). Suspicion against general budget support grows among many bilateral donors. This increasingly politicises the application of GBS (Faust *et al.* 2012: 2-3). Several EU Member States have already included more politically salient issues of governance in their eligibility criteria and linked budget support disbursement explicitly to democratic governance reforms. The new Commission Communication will oblige the Commission to open up its budget support approach to promote democracy and human rights more actively and rigidly, alongside the goal of reducing poverty.

This development has been partially inspired by the 'Arab Spring' which has pushed human rights and political governance higher on the agenda in the EU and has revealed some systematic failures (Vanheukelom 2012: 11). However, enhancing the emphasis on political conditionality and democratic governance does not solve the discussed tension within the application of conditionality more generally. Increasing the number of conditionalities and diversifying its forms will render harmonisation globally more difficult. Neither effort will fully please the EU's Member States so that the pressure on the Commission to proof the value added of a supranational development policy will continue while it gives nutrition to those calling for 'renationalisation' of development policy in Europe.

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