

A history of conditionality: lessons for international cooperation on climate policy

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This article surveys the experience of conditionality provisions applied by the World Bank, the IMF, bilateral donors, and the European Union's accession process. Ownership is essential for effective cooperation and requires domestic climate policies to be country-driven and decision-making to be equitable. Bilateral cooperation allows for a direct exchange of expertise and long-term relationships. A multilateral umbrella or multilateral institutions can avoid complexity and detrimental competition between multiple supporters of one developing country, limit the ability of individual countries to abuse the mechanism to exercise geo-strategic interests, and allow for more stringent reactions to non-compliance. In all cases, independent monitoring and review create transparency and objectivity, enhance effectiveness, and protect the interests of all parties.

Policy relevance: Past conditionality provisions offer many negative experiences, particularly where international organizations have imposed the prevailing economic paradigm on countries that were in desperate need of finance. The situation for international cooperation on climate change mitigation is fundamentally different. Developing countries can choose whether they want to access international support to enhance the scale, scope or speed of their mitigation actions. Developed countries or international bodies also retain some discretion to choose among possible mitigation actions based on the carbon impact. This creates a double conditionality and the opportunity to jointly design appropriate incentive schemes. Several lessons from the use of conditionality provisions are identified in order to inform the process, institutional setting and design of such incentive schemes.

Keywords: bilateral aid; climate policy; conditionality; domestic policies; EU; IMF; international support; North-South; World Bank

Cet article examine l'expérience des clauses de conditionnalité appliquées par la Banque Mondiale, le FMI, les donateurs bilatéraux, et l'Union Européenne dans le processus d'adhésion. L'autonomie est indispensable à une coopération effective et exige que les politiques climatiques intérieures soient guidées au niveau national et que la prise de décisions soit équitable. Les coopérations bilatérales facilitent l'échange direct d'expertise et des relations à long terme. Un cadre multilatéral _ ou institutions internationales _ ont comme avantages d'écartier la complexité et une concurrence nuisible entre multiples alliés d'une nation en développement; limiter l'aptitude de certains pays à abuser des mécanismes dans le but d'exercer leurs intérêts géostratégiques; et faciliter une réaction plus rigoureuse face à la non-conformité. Dans tous les cas, le contrôle et la revue indépendants facilitent la transparence et l'objectivité, accroissent l'effectivité et protègent les intérêts de toutes les parties.

Pertinence politique: Les clauses de conditionnalité passées présentent beaucoup d'expériences négatives, en particulier là où les organisations internationales imposent le paradigme économique qui prévaut à des pays désespérés d'obtenir des fonds. Les circonstances pour la coopération internationale dans la lutte contre le changement climatique sont fondamentalement différentes. Les pays en développement ont le choix d'accéder ou non au soutien international pour augmenter l'étendue, l'échelle ou la rapidité de leurs actions de mitigation. Les pays développés et organismes internationaux conservent aussi un certain pouvoir quant au choix des actions de mitigation

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possibles en fonction de l'empreinte carbone. Ceci entraîne une double conditionnalité et la possibilité de concevoir en commun des systèmes incitatifs appropriés. Plusieurs leçons sont tirées de l'emploi des causes de conditionnalité pouvant influencer le procédé, le cadre institutionnel et la conception de tels systèmes incitatifs.

Mots clés: aide bilatérale; Banque Mondiale; conditionnalité; FMI; Nord-Sud; politique climatique; politiques intérieures; soutien international; UE

1. Introduction

Developing countries play an important role in stabilizing CO₂ concentrations in the atmosphere. This will require domestic climate actions. However, with limited responsibility for historic emissions and priority being given to other development objectives, domestic action with climate benefits (or ambitious actions with climate co-benefits) in developing countries are contingent on support by developed countries. This is the basis of a mutual conditionality of climate cooperation between developed and developing countries – developing countries can only pursue ambitious mitigation action with appropriate international support, and developed countries can only provide such support if it is expected to contribute to climate action.

This raises questions about how such cooperative climate policy can be realized, and what we can learn from other policy fields and the broader literature. This special issue of *Climate Policy* tackles this question in three steps. The first question is: What type of policy indicators are suitable for the measurement of domestic action (see Cust, 2009)? This is followed by the second question, on how to define policy targets using such indicators (Lester and Neuhoff, 2009), and leads to the final question on how to reflect the mutual conditionality in the mechanisms of international climate cooperation.

This article provides a structured overview of the performance of previous cooperation between countries that links international public finance to the implementation of domestic policies. This linkage is often referred to as 'conditionality'. The article provides an overview on factors that scientists have found to be associated with the performance of conditionality in different settings. The article does not judge or evaluate the pursued policy objectives or instruments. In order to inspire a discussion of the possible role of such conditionality provisions, it provides some preliminary ideas about the possible characteristics of cooperative climate policy.

Conditionality has been used in multilateral settings such as the IMF or the World Bank, in bilateral development aid, and in EU enlargement. While the effectiveness and scope of World Bank and IMF conditionality may be highly controversial (Burnside and Dollar, 2000), conditionality in the EU enlargement process is frequently acknowledged as an effective policy instrument (Schimmelfennig and Sedelmeier, 2004). Table 1 presents an overview of the effectiveness of conditionality applied by the IMF, the World Bank, bilateral donors and the European Union.

The analysis includes (1) the level of compliance with conditionality, i.e. whether policy reforms required by the conditions were implemented; (2) the reaction in the case of non-compliance; and (3) a brief assessment of whether policy objectives were achieved, i.e. whether policy reforms under the conditionality mechanism have achieved the envisioned results.

Conditionality can be designed by using different approaches. *Ex-ante* conditionality means that financial transfers or accession negotiations start only after certain conditions have been met. *Ex-post* conditionality requires that conditions have to be fulfilled during the programme in order to trigger continuation. A mixture of these forms is common. Programmes are often accompanied by less binding policy provisions.

TABLE 1 Qualitative comparison of conditionality provisions in different programmes

| | IMF | World Bank | Bilateral aid | EU enlargement |
|--|-----|------------|---------------|----------------|
| Compliance with conditionality | X | X | | XXX |
| Stringency of reaction to non-compliance | XX | X | | XXX |
| Competition (donor-side) | | | XX | |
| Competition (recipient countries) | | | XX | XX |

The greater the number of Xs, the higher the score.

Source: authors' findings

The theoretical literature on conditionality provisions is broad. Killick (1997) describes the concept of conditionality as a 'principal-agent framework':

the essential problem is how principals [...] can design contracts which embody rewards that make it in the interests of agents [...] to further the principals' objectives (Killick, 1997, p. 487).

In contrast, Checkel (2001) highlights the role of dialogue, persuasion and negotiation. Principal-agent framework better explains cooperative climate policy where mutual responsibilities need to be aligned. Here the principal would at the same time be an agent – and vice versa.

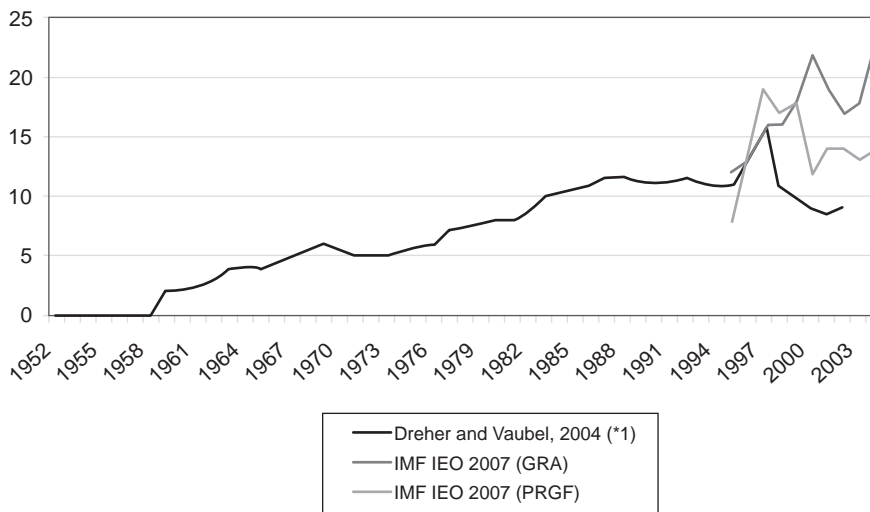
Sections 2–5 of this article review conditionality provisions applied by the IMF, the World Bank, bilateral aid and EU enlargement. Section 6 presents explanations that are offered in the literature for the performance of the reviewed conditionality mechanisms. Based on these factors for success and failure, we conclude with some design aspects for cooperative climate policy in Section 7.

2. IMF conditionality

The IMF offers loans to countries that need capital, and countries accept the conditionality clauses that the IMF attaches to these loans. When founded in 1944, the IMF provided credit to its member countries in order to stabilize the post-war financial system. Conditionality prescribed monetary and fiscal targets, and should ensure the repayment of loans. From the 1960s onwards, the level of detail and the number of conditions increased (Figure 1). Now addressing developing countries exclusively, structural adjustment loans in the 1980s started to include conditions on supply-side and institutional issues such as deregulation (Killick, 1997). In the 1990s the concepts of poverty reduction and good governance (e.g. protection of property rights, efficient administration, the fight against corruption) emerged. From about 2000 the IMF (and the World Bank) promoted the preparation of Poverty Reduction Strategy Papers (PRSPs) by member countries in a participatory process. These later developments show that the IMF (and the World Bank) now attaches much more importance to the role of domestic stakeholders.

2.1. Compliance with conditionality

Dreher (2004) provided an overview of research on compliance with IMF conditionality, and found that compliance has generally been rather weak. He showed that compliance rates were around 50% or below for credit ceilings or overall fiscal deficit for the years 1969–1984. Compliance



(*1) 1952–1994: number of binding conditions per programme started in that year; 1995–2002: average number of performance criteria per programme.

FIGURE 1 Number of conditions with IMF programmes

in the following years ranged between 30% and 50%. Compliance with ‘prior actions’ (*ex-ante* conditionality) was significantly higher, at 80%, in the same period.

2.2. Reaction in the case of non-compliance

In the case of non-compliance, IMF programmes are interrupted or ended. Mussa and Savastano (1999) found that more than a one-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 was 75% or more of the negotiated sum distributed. However, new programmes are frequently concluded even though non-compliance with the conditionality of previous programmes is evident (Bird, 2002; Dreher, 2002).

2.3. Achievement of policy objectives

Research usually measures the impact of IMF loans on growth, and not on poverty reduction (Mosley et al., 2004). Table 2 shows Dreher’s (2006) findings that existing studies do not

TABLE 2 Studies researching the effect of IMF loans on growth: number of studies found in the literature

| Type of study | 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, p. 773)

provide clear evidence on whether IMF loans increase growth, decrease growth, or have no effect on growth.

3. World Bank conditionality

The World Bank offers loans to developing countries for infrastructure or sectoral projects and requires acceptance of the conditionality clauses attached to these loans. Founded alongside the IMF in 1944, the World Bank's objective is to promote long-term economic growth by investment in infrastructure projects such as roads or dams, and conditionality attached to these loans should ensure repayment. In the 1980s the World Bank first started policy-based lending or 'structural adjustment lending', which now makes up about one-third of World Bank lending. Conditionality in policy-based lending in the early years included conditions on policy reforms that were believed by the World Bank to be essential for a country's social and economic development. In recent years, the World Bank has increasingly relied on policy reform projects driven by borrower countries themselves under their poverty reduction strategies. At the same time, a shift to *ex-ante* conditionality could be observed, with loans as rewards for the implementation of policy reforms: the focus of policy-based lending shifted from traditional multi-year and multi-tranche operations to single-tranche operations, with 90% of World Bank policy operations being single-tranche in 2007. Single-tranche loans are conditional on 'prior actions' which are to be met before approval of the loan (Koeberle, 2005; World Bank, 2007).

The number of conditions in policy-based lending has increased from an average of about 12 in 1980, to above 40 in the early 1990s, followed by a decline to below 20 in 2003, and 10–12 in 2005 and 2007 (Koeberle and Malesa, 2005; World Bank, 2007).

3.1. Compliance with conditionality

The World Bank itself provides evidence on the outcome of programmes. According to these evaluations, the share of 'satisfactory' policy-based lending projects has fluctuated but increased since the 1980s. From 2000 onwards, it has constantly been between 80% and 90%. Single-tranche credits in general, and poverty reduction credits in particular, are evaluated as even better – with the latter showing 100% successful outcomes in 2006 (Koeberle and Malesa, 2005; World Bank IEG, 2008).

3.2. Reaction in the case of non-compliance

In cases where conditionality requirements are not met, the main response of the World Bank appears to be delayed assistance. Killick (1997) found that 'on average, adjustment programmes take twice as long to complete as intended, largely because of non-implementation of policy conditions' (p. 486). In cases of continued non-compliance, disbursement rates are still nearly 100%. Svensson (2003) concludes that there is no link between a country's fulfilment of conditionality and the disbursement of loans.

3.3. Achievement of policy objectives

The World Bank's own evaluation of programme success has been mentioned above. On a programme or 'micro'-level, conditionality programmes are mostly considered to have reached their policy objectives. To evaluate conditionality performance on the 'macro'-level, the effect of World Bank loans in terms of economic growth and poverty reduction may be analysed, as these are the primary policy objectives of the Bank. While there is little meta-information available on the links between World Bank loans and poverty reduction, the effect of World Bank loans on

growth has been analysed in a number of cross-country studies. There is dispute about the effectiveness of World Bank aid on growth. While Hansen and Tarp (2000) found that aid had a positive effect on growth, Burnside and Dollar (2000) concluded that the impact of aid on growth depends on a country's good governance policies. Many critiques have suggested that such clear evidence of the impact of World Bank aid on economic growth does not exist (Killick, 1997; Easterly, 2003; Rajan and Subramanian, 2007). Notably, conditionality attached to structural adjustment programmes has been accompanied by adverse effects on the poorer sections of countries' populations (Dreher, 2002).

4. Conditionality applied to bilateral aid

Donor countries offer loans for infrastructure or sectoral projects, or as budget support. Recipient countries accept the conditionality clauses that the donors attach to these loans. Since the 1980s, bilateral development aid usually ties programmes to the IMF and World Bank conditionality provisions ('cross-conditionality'). While the statutes of the World Bank and the IMF prohibit political conditions, bilateral programmes frequently contain political conditionality on human rights and democracy (Killick, 1997). Alesina and Dollar (2000) argue that the economic and strategic interests of donor countries determine bilateral aid flows with few exemptions. Conditionality for bilateral aid differs in each donor-recipient relationship. Two examples illustrate the diversity of approaches.

The majority of official development aid from the UK used to require recipients to spend aid on products or services from the UK. This has changed, and the UK does not tie aid any more since 2001 (OECD, 2001). Since 2005, the UK's development partnerships have been based on a common commitment towards the Millennium Development Goals (MDGs), respecting international obligations, and strengthening financial management.

Another example of bilateral aid conditionality is the recent US aid programme, Millennium Challenge Account (MCA). Started in 2004, it establishes quantifiable political, social and economic performance criteria to determine a country's eligibility for aid beforehand, and makes both the data and the selection methodology publicly available. The concept is influenced by Burnside and Dollar (2000), who suggested that aid is more effective in well-governed countries.

4.1. Compliance with conditionality

For UK aid, there is no transparent monitoring for compliance with conditionality currently in place (Mokoro, 2005). For the MCA, in early 2009, 26 countries had complied with the programme's requirements and were thus eligible for funding (CGD, 2009).

4.2. Reaction in the case of non-compliance

Cross-country studies for bilateral aid demonstrate that the difference between committed and disbursed funds is uncorrelated with reform outcome as measured by the World Bank's Operations Evaluation Department (OED) (Figure 2). Neumayer (2003) found that respect for human rights does not exert a consistent influence on the allocation of aid by the majority of donors. Alesina and Dollar (2000) concluded that the reactions to recipient countries' policy implementation depend on the geo-strategic interests of the donor countries.

To explain the 'Samaritan dilemma', the example of the UK may be illustrative. Secretary of State for International Development Benn prefers '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 UK may alter the channels of aid, e.g. to humanitarian assistance or support for election processes.

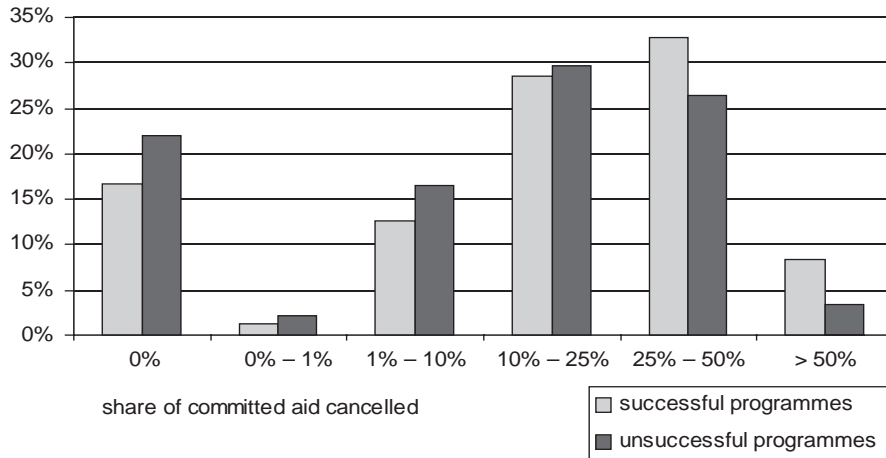


FIGURE 2 Share of committed bilateral aid cancelled in successful and unsuccessful programmes (source: Svensson 2003, p. 39; successful reformers as defined by the World Bank OED)

In the case of the MCA, the reaction in the case of non-compliance is refusal to participate in the programme. Although the selection process is transparent and objective, exemptions appear. For example, Georgia was found eligible for MCA funding although it clearly failed to reach several benchmarks. This was probably to support Georgia's political transition (Lucas and Radelet, 2004).

4.3. Achievement of policy objectives

Evidence for the effectiveness of bilateral aid is mixed. Some have come to the conclusion that bilateral aid performs worse than multilateral aid, due to donors' geo-strategic interests taking precedence over growth or poverty reduction policies in the recipient country (Alesina and Dollar, 2000). On the other hand, Ram (2003) found an impact of bilateral aid on growth that was not present with multilateral aid. Rajan and Subramanian (2007) suggested that neither bilateral nor multilateral aid impact on growth. Preliminary research by Johnson and Zajonc (2006) found no links between MCA funding and economic growth. However, they suggest that candidate countries that had not yet met the selection criteria, but who were striving to do so, performed 25% better on improving policy indicators than a control group of countries.

5. EU enlargement conditionality

In contrast to development aid, the EU not only offers candidate countries financial benefits but, more importantly, EU membership. EU membership is perceived to be accompanied by economic development, national recognition and political stability (Steunenberg and Dimitrova, 2007). Candidate countries have to satisfy several stages of legal and economic reforms as preconditions. Capacity building and financial resources support this process.

During previous enlargements, conditionality was limited to the 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 and the requirement that a country has the ability to take on the 'obligations of membership' (Grabbe, 2001). There are,

however, no clear benchmarks, which leaves it open to existing Member States to judge whether candidate countries have met the conditionality requirements (Dimitrova, 2002).

5.1. Compliance with conditionality

While implementation of the *Acquis Communautaire* is very widespread, compliance with democratic conditionality (e.g. human rights, liberal democracy) is significantly lower. Countries with authoritarian governments, such as Slovakia under the Mečiar government or Serbia under Milošević, feared the high political costs of adopting democratic conditionality (Schimmelfennig and Sedelmeier, 2004). In general, rule adoption has increased towards the final stages of accession negotiations, when the prospect of membership becomes increasingly realizable (Grabbe, 2001). It decreases sharply once the accession date is set (Steunenberg and Dimitrova, 2007). A sharp decline in the number of conditions set by the EU in this final phase suggests that the Union is aware of this trend.

5.2. Reaction in the case of non-compliance

The most powerful conditionality tool is the ability of the EU to decide which countries can proceed to the next stage towards accession. Thus the enlargement process has become structured around milestones, at any one of which accession can be stopped. For example, Croatia's lack of cooperation with the International Criminal Court in The Hague was followed by a delay in its 2003 bid for membership. Turkey did not start negotiations until 2005 due to a lack of compliance with the policy reforms required (Steunenberg and Dimitrova, 2007).

5.3. Achievement of policy objectives

The policy objective of EU enlargement conditionality is EU rule transfer to future Member States, and it is widely judged to be effective (Grabbe, 2001; Schimmelfennig and Sedelmeier, 2004). There is some debate on whether the way that rule adoption is fast-tracked by national governments, without much democratic discussion, has a negative effect on policy persistency (e.g. Dimitrova, 2002). Furthermore, Schimmelfennig and Sedelmeier (2004) suggest that rule adoption generally means formal transposition into national laws, but implementation and enforcement in everyday policy-making are not enforced, and compliance with conditionality may therefore be 'lip service' only. They conclude that the short-term effectiveness of EU conditionality may be partnered by long-term inefficiency. Their argument is supported by the current debate about corruption and lack of rule of law in new EU Member States Bulgaria and Romania (Noutcheva, 2006; Alegre et al., 2009).

6. Explaining the performance of conditionality

The academic literature on the conditionality mechanisms reviewed above provides explanations for the performance of these mechanisms. Table 3 provides an overview of factors for success frequently cited in the conditionality literature, along with references to some of the scholars who mentioned them, and the context in which they were observed (IMF, World Bank, bilateral aid or EU enlargement). Note that there is not necessarily a consensus among scholars on all of these success factors and their relevance.

A lack of shared ownership of projects and policies reduces their effectiveness and persistence, as experienced with IMF and World Bank conditionality (Bird and Willett, 2004). Conditions which are based on the implementing country's priorities encourage ownership. A lack of ownership

TABLE 3 Factors for success as presented in the conditionality literature by scholars to explain the success and failure of conditionality provisions (see also Sippel and Neuhoﬀ, 2008)

| Factors for success | Experience from | Literature |
|---|---|--|
| Ownership | IMF, World Bank | Killick, 1997; Leandro et al., 1999; Checkel, 2001; IMF, 2001; Khan and Sharma, 2003; Bird and Willett, 2004; World Bank, 2007 |
| Country-specific conditionality, customization | IMF, World Bank | Killick, 1997; Leandro et al., 1999; Checkel, 2001; IMF, 2001; Dreher, 2002; Khan and Sharma, 2003; Bird and Willett, 2004; World Bank, 2007 |
| Stringency in reaction to non-compliance | IMF, World Bank, Bilateral aid, EU enlargement | Collier et al., 1997; Killick, 1997; Bird, 2002; Svensson, 2003; Schimmelfennig and Sedelmeier, 2004; Noutcheva, 2006 |
| Overcome geo-political donor interests | IMF, World Bank, bilateral aid (negative example) | Killick, 1997; Burnside and Dollar, 2000; Bird and Willett, 2004; Lucas and Radelet, 2004; Alegre et al., 2009 |
| Continuity and predictability of programmes | World Bank, EU enlargement | Leandro et al., 1999; Steunenberg and Dimitrova, 2007; World Bank, 2007 |
| Donor coordination and harmonization | World Bank, other conditionality mechanisms | Killick, 1997; Leandro et al., 1999; World Bank, 2007 |
| Recipient competition | EU enlargement, bilateral aid (MCA) | Grabbe, 2001; Johnson and Zajonc, 2006 |
| Good governance in 'recipient' country | IMF, World Bank, bilateral aid, EU structural funds | Burnside and Dollar, 2000; Hansen and Tarp, 2000; Ivanova et al., 2003; Mosley et al., 2004; Johnson and Zajonc, 2006 |
| Transparent and objective monitoring and evaluation | IMF, World Bank, bilateral aid (negative examples) | Killick, 1997; Selbervik, 1999; Dreher, 2002; Svensson, 2003; Marchesi and Sabani, 2007; World Bank, 2007 |

can result from perceived donor dominance, among other factors. In the EU context, ownership seems to be less important, probably as a result of powerful sanctioning: the incentive of EU membership is very attractive, and non-compliance with EU conditionality credibly leads to the EU refusing accession. However, a lack of ownership may also lead to ineffectiveness of conditionality in the long term (Noutcheva, 2006).

A lack of stringent reaction in the case of non-compliance with conditionality is associated with overall failure of the conditionality mechanism in all the programmes analysed – regardless of the attractiveness of the incentives (Killick, 1997; Selbervik, 1999; Svensson, 2003; Schimmelfennig and Sedelmeier, 2004). In bilateral relationships, geo-strategic donor interests and the 'Samaritan dilemma' may have prevented such stringent responses (Alesina and Dollar,

2000). The international financial institutions' lack of stringent response is partly explained by the pro-lending bias of donor staff, whose income, prestige and power depends on the amount of money transferred (Dreher, 2002; Bird and Willett, 2004). While stringency of reaction in the case of non-compliance is important, the continuity and predictability of programmes offer long-term perspectives, which are also associated with programme success (Leandro et al., 1999; Steunenberg and Dimitrova, 2007).

Donor competition is considered to impact negatively on the performance of conditionality. This arises where donors approach countries with a variety of agreements. This may lead to countries abandoning programmes prematurely in order to engage with other partners, or to conflicting policy objectives by different donors. Furthermore, donor competition causes additional transaction costs for recipient countries. By contrast, competition arising between countries in their attempt to comply with conditionality by one donor has been associated with success in cases of EU enlargement and the MCA (Grabbe, 2001; Johnson and Zajonc, 2006).

Good governance is believed by many to have a positive influence on the effectiveness of conditionality programmes (e.g. Burnside and Dollar, 2000; Hansen and Tarp, 2000). Careful selection of cooperation partners, like that performed by the MCA, is expected to lead to more efficient outcomes. However, it may exclude many partners from programme participation. Programmes focusing on capacity building can help countries improve their governance in the first place.

Evaluation of programme success by the organization's own staff can result in an overestimation of programme achievements. This is because staff members have the incentive to hide previous failures when judging programmes, as discussed in the context of the World Bank by Dreher (2004). Both the difficulty of monitoring and concern about monitoring failures reduced the response of the IMF and World Bank to failed programmes (Killick, 1997; Marchesi and Sabani, 2007).

7. Lessons for international cooperation on climate policy

The principle of common but differentiated responsibility for climate change action creates many opportunities for international cooperation. This article focused on the implications for joint efforts on the mitigation side. The frequently stated objective to retain at least a 50% chance of global temperatures not exceeding 2°C can only be achieved if both developed and developing countries pursue strong mitigation actions. Capabilities (resources, technology capacities etc), priorities and historic responsibility differ between developed and developing countries. This leads to the differentiated responsibility of developed countries towards supporting developing countries in their mitigation actions.

This support will be tailored towards contributing to emissions reductions. The Clean Development Mechanism (CDM) offered the first example of such cooperation, where financial flows are specifically linked to reductions in CO₂ emissions at the project level. This type of support can be expanded from projects to policies. It can also target transformational activities towards low-carbon infrastructure, decarbonization of the energy system, or shifting of industrial activities towards low-carbon growth. With such transformational policies it is difficult to measure the direct CO₂ impact, and other indicators might be used to determine success. What is likely to be the basis of any such mechanism is some type of mutual conditionality – e.g. some actions are only pursued if developing countries can get international support for incremental costs, and developed countries will only provide such support if the mechanism provides some level of reassurance that the action will be pursued.

This article asks: What are the historic lessons from the use of conditionality that might inform the design of such cooperation? In the previous section, success factors of conditionality were presented. From these success factors, the following paragraphs draw some conclusions concerning the design of cooperative climate policy.

7.1. Importance of domestic ownership

The basis of conditionality on domestic climate policies in developing countries needs to be true ownership. Imposed policy reforms have widely been reported to be failures in the context of World Bank and IMF loans. The only exception is the case of EU enlargement – after their initial decision to join the Union, accession countries had to transcribe and implement a large set of rules (even beyond the *Acquis Communautaire*). Despite the sometimes rather limited domestic ownership of this process, it succeeded because of the strong incentive (next step in the graduation towards EU Member State). Due to the absence of such attractive incentives, domestic ownership building on domestic initiatives will be crucial for international cooperation on climate action. This equally applies to the ownership and level of engagement on the side of the developed countries.

Developed countries have a large self-interest in climate protection, hopefully resulting in more widely anchored engagement than for poverty reduction. Developing countries may find it acceptable to implement climate policies, as there is a common understanding of the importance of trying to prevent dangerous climate change. However, one could imagine that ownership on the part of developing countries would depend on mitigation achievements in industrialized countries.

7.2. Importance of tailoring to country-specificities

Country-specificity of conditionality on domestic climate policies is essential in order to achieve ownership. Therefore, country-driven approaches to define domestic climate policy agendas seem promising. In this context, experiences from the country-driven formulation of PRSPs under World Bank and IMF loans may be considered. This is now reflected in proposals from many developing countries, starting from technology needs assessments, and leading towards the formulation of National Adaptation Programmes of Action (NAPAs).

One might assume that bilateral relationships allow for a better customization of programmes to national circumstances than multilateral settings, because they follow the principle of subsidiarity and are more flexible. This would argue for some component of bilateral cooperation between developed and developing countries under the umbrella of the UN framework.

7.3. The tough trade-off: credible response to non-compliance versus programme continuity

While bilateral relationships may prove more effective in responding to specific national circumstances, multilateral settings seem to perform better regarding the stringency of reaction to non-compliance with conditionality. A multilateral setting may help to overcome geo-strategic interests or the ‘Samaritan dilemma’, which are common in bilateral relationships and seem to prevent stringent reactions to non-compliance. Therefore, one could imagine a multilateral framework for the design of cooperative climate policy, in which bilateral relationships can function. An equitable decision-making structure of the multilateral body and transparent reporting could further help to prevent the prevalence of geo-strategic interests of individual countries or groups of like-minded countries.

However, there is also the opinion that continuity and predictability are supportive for programmes, and bilateral relationships might better allow for the development of long-term

partnerships. Cooperative climate policy would probably face a trade-off between stringency in reaction to non-compliance and continuity of programmes. Further research may explore the two concepts further and inform a balanced position on this issue.

7.4. Implications for bilateral approaches: donor harmonization and recipient competition

Donor competition is a factor associated with the failure of conditionality provisions. In cooperative climate policy, a multilateral framework could provide some guidance and monitoring for bilateral cooperation. To reduce the distortions from donor competition, bilateral cooperation on a specific action could be registered in the UNFCCC framework. This also contributes to transparency, which creates accountability of both parties towards the objective of a joint mitigation action. Further research could explore the question of what type of activities an independent source of funding (e.g. from taxes on international air or sea transport, or from a finance mechanism such as the CDM's adaptation levy) would be most valuable in preventing distortions from donor competition.

Unlike donor competition, recipient competition has been reported to promote the success of conditionality. Recipient competition could be achieved by selectivity of cooperative climate policy. Selectivity could mean that countries that fulfil certain conditions beforehand are rewarded for their reform efforts with international support.

7.5. Independent monitoring

Both the experience from conditionality in this study and the UNFCCC framework highlight the importance of measurable, reportable and verifiable results. The issue of monitoring and evaluation of domestic climate policy implementation therefore deserves special attention. Based on a country's internal accountability mechanisms, an independent body within the multilateral framework could provide for a transparent and objective evaluation of performance. It would help to prevent overly positive evaluation of performance by staff members who were involved in project management. As cooperative climate policy should probably not finance domestic climate policies that are business-as-usual, experience from additionality in the context CDM and GEF projects should be considered. Additionality of emissions reductions is difficult to measure and verify, and even more so at the policy rather than at the project level (Michaelowa, 2005).

This article has focused on lessons from conditionality for the design of international cooperation on climate policy. Obviously these have to be balanced against several other objectives, and constraints, of international climate cooperation. We hope that this review encourages further research, practical work and political dialogue on the conditionality issue and its integration with other issues that influence cooperative climate policy.

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