



# Performance-Based Conditionality: A European Perspective

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**Summary.** — The critique of conditionality has led to the recent emphasis on “ownership” by the recipient government. To promote ownership it has been suggested that traditional *ex ante* conditionality based on (promises) of policy changes be replaced by *ex post* conditionality in which aid is based on performance in terms of ultimate objectives. In this spirit, the European Commission has reformed its adjustment aid. This article reviews early experience with the EU initiative in four countries: Benin, Burkina Faso, Madagascar and Uganda. We find a shift toward intermediate indicators, which are too distant from the final impact of the policies.

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## 1. INTRODUCTION

In recent years, the European Commission has embarked on a radical reform of the conditionality underpinning its budgetary support to ACP countries. Since 1999, financing conventions signed with these countries have included a “variable financing tranche” whereby the disbursement of aid is no longer conditioned on the implementation of specific policy measures or actions, but rather on outcomes in key economic and social sectors.

This European reform of conditionality has occurred against the background of a broader international debate on aid effectiveness from which has emerged a consensus in a number of areas, but residual tensions in others. For example, there is a widespread acceptance that if recipient governments are committed to good economic policies then untied aid appears better able to support a consistent program of public expenditure management than aid allo-

cated to targeted spending initiatives or to projects. Nonetheless, the international community remains of the view that it would be inappropriate to relinquish conditionality altogether, regardless of whether aid was in the form of loans or grants. While there was agreement on the need for the reform of conditionality, there is less consensus over how best, and to what extent to replace traditional

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forms of conditionality. The European Commission contributed significantly to this latter debate.<sup>1</sup>

There are three recurrent themes in the critique of conditionality. The first was the concern that the formalism and multiplicity of conditions, combined with a lack of coordination between donors, generated a conditionality that was discordant, lacked credibility, and encouraged recipient governments to accept negotiated conditions in order to obtain money, without having either the conviction that the agreed economic policy reforms were useful, or having any real intention of implementing them.<sup>2</sup> Second, the “all or nothing” character of aid payments which emerged from this system generated discontinuities in and raised the uncertainty of aid flows, further compromising the successful implementation of reforms.<sup>3</sup> The third, and in many senses the overarching element in this critique, was that traditional conditionality undermined the aid recipient’s claim to “ownership” of policy reforms.

All multilateral and bilateral aid institutions accepted the idea that the efficiency of budgetary aid requires ownership by the recipient countries. Ownership operates at a number of levels. First, as is shown in the literature on agency theory, strong domestic ownership can work in the interest of both donors and recipients (Khan & Sharma, 2001; Tirole, 2001). Since the principal (here the donor) has only limited control over the government of the recipient country it is obviously in the principal’s interest if the agent’s objectives are similar to his own (Adam & O’Connell, 1999). Second, strong ownership may provide for quick and efficient response from the government to unexpected events and problems not identified when the economic policy programs are drawn up. Most fundamentally, however, ownership of reforms is indispensable if local democratic accountability is not to become devoid of meaning in the recipient country and if the legitimacy of its government is not to be called into question.

Although the objective of policy ownership is well defined, the means of achieving it remain uncertain. Some authors have argued for a greater level of selectivity among recipient countries in favor of countries committed to policy objectives favored by donors. Others have recommended the use of “floating tranches,” according to which recipient countries retain the ability to choose the date for the

implementation of reforms which are likely to trigger aid disbursements. This practice effectively gives the recipient a degree of freedom but also moves the donors away from having to confront the dilemma of either brutally interrupting the aid program, or waiving the condition not satisfied at the risk of removing all credibility from the sanctions. It has been used in Africa by the World Bank since 1995 in the framework of “high impact adjustment lending” and is considered with interest by the International Monetary Fund (IMF).

A third approach, recommended and implemented by the European Commission, has been to link aid to performance (*ex post*) rather than to the adoption of policy changes. Performance is measured, as much as possible, in terms of ultimate objectives (e.g., reduced child mortality) rather than intermediate targets (such as the number of children inoculated). The idea is that a performance-based approach allows for better ownership of reforms, since the choice of instruments would reside with the country; it avoids arbitrary judgement on multiple heterogeneous economic policy measures; and it facilitates gradual and progressive support according to the degree of progress of performance relative to outturns; and by eliminating the scope for discordant conditionality, it supports better coordination between donors.

Europe has moved ahead rapidly to implement these ideas.<sup>4</sup> This paper reviews the design and the initial experience with the EU’s reforms. By the end of 2001, 28 European financing arrangements with the ACP countries included some element of performance-based conditionality. But, the gradual nature of the reform in all these countries meant that in some cases traditional conditionality (based on policy measures) was maintained alongside the new conditionality and that in a number of programs, the new conditionality sometimes only required the *definition* of the outcomes indicators rather than their evaluation (see Table 1). Our review therefore draws principally on experiences in four countries where the new conditionality has been applied most completely, although even here, the experiment is still very much in progress. The four are Benin, Burkina Faso, Madagascar and Uganda.<sup>5</sup>

The structure of the paper is as follows. Section 2 sets the scene and provides a brief sketch of the program design in each country. The remainder of the paper is concerned with two aspects of the reform. In Section 3 we

Table 1. *Classification of programs 1999–2001*

New conditionality	Traditional conditionality	
	Maintain	Abandon
Definition of indicators	CFA**	Kenya**
	<i>Gabon</i> <sup>a</sup>	Papua New Guinea**
Use of indicators	<i>Côte d'Ivoire</i> <sup>b,*</sup>	<i>Ghana</i> *
	<i>Gambia</i> <sup>c,*</sup>	<i>Jamaica (SERP II)</i> *
	Cameroon**	Benin***
	Guinea Bissau**	Benin**
	Lesotho**	Burkina Faso***
	Mozambique**	Burkina Faso**
	Niger**	Djibouti*
	Rwanda**	Gabon*
	Sao Tome and Principe**	Madagascar***
	Tanzania**	<i>Mali</i> ***
	Zambia**	<i>Mali</i> <sup>d,*</sup>
	<i>Ethiopia</i> <sup>c,*</sup>	<i>Mauritania</i> <sup>f,*</sup>
<i>Republic of Guinea</i> <sup>g,*</sup>	Uganda**	
	Sierra Leone**	
	Chad**	

In italics: *programs 2001*.

<sup>a</sup> Variable tranche determined by progress achieved in satisfying certain budgetary performance criteria and the availability of indicators of results in the social sectors.

<sup>b</sup> One tranche paid upon approval by the IMF of new FRPC program and one tranche linked to meeting conditions of this program and arriving at an agreement on performance indicators for the social sectors and public administration.

<sup>c</sup> Payment in one tranche in accordance with the objectives of the PSRP.

<sup>d</sup> Payment linked to performance indicators in public administration, health, education and governance.

<sup>e</sup> Payment according to results in public administration, social sectors, and private sector enabling environment.

<sup>f</sup> Payment of variable tranche linked to performance in public administration and the social services.

<sup>g</sup> Fixed tranche according to World Bank and IMF evaluation plus a variable tranche based on performance in public administration and an agreement on the indicators of health, education and road maintenance.

\* Financing proposals 2001 (10).

\*\* Financing proposals 2000 (19).

\*\*\* Financing proposals 1999 (3).

consider the extent to which the new practice meets the objectives which motivated it, namely the promotion of greater ownership of reforms by recipient countries, improved coordination between donors, and greater consistency and predictability in resource flows. In Section 4 we focus on the operational question of how performance indicators should be identified and performance assessed.

## 2. NEW EUROPEAN CONDITIONALITY IN FOUR COUNTRIES: ISSUES IN PROGRAM DESIGN

Madagascar was the first country in which a new type of program was adopted. The program was rapidly developed and underwent

substantial modification during its implementation. By contrast, in Burkina Faso the ground for a move toward performance-based conditionality was prepared at length by the so-called "conditionality test,"<sup>6</sup> which took place over 1997–2000. The test emerged from a sequence of five meetings or "missions" in which the donors and Burkinabe authorities developed a set of outcome indicators designed to reflect policy implementation and defined the modalities by which these indicators could serve as budgetary aid payment criteria. Following this, two "new formula" support programs had already been implemented and evaluated in this country. In Benin, the new European conditionality was developed within the context of a broader World Bank supported reform program for the entire public expenditure system.

The World Bank chose Benin (and Jordan) to launch their own budgetary reform based on the development of expenditure programs for major ministries incorporating explicitly defined objectives and outcome indicators. Finally, Uganda is widely seen as a standard-bearer in the process of reforming economic policy dialogue and is considered as having internalized the reform process. As a consequence, outcome indicators have been part of the policy dialogue for some time, although not as explicit instruments for aid disbursement. The new European procedure is less advanced in Uganda than in the other three countries, with only one program having been implemented which had still not been evaluated at the time of writing (Table 2).<sup>7</sup>

In each country performance indicators were chosen following dialogue between the countries and the European Commission. This ensured that they were consistent with initiatives taken either by the government or other donors. Thus in Benin, the indicators were drawn from the budget program and were selected during negotiations between the authorities in Benin and the European Union, while in Madagascar, the determination of indicators was part of the conditionality in the very first tranche of the program. In Burkina Faso, the indicators were determined based on the "conditionality test" and the *Poverty*

*Reduction Strategy Program (PRSP)*, which includes a list of priority indicators. A similar process occurred in Uganda, where the indicators came from the *Poverty Eradication Action Plan (PEAP)*, the forerunner of the PRSP.

Once indicators have been selected, the new procedure then relates aid payments to actual performance relative to target levels for these indicators disbursement is graduated according to a three-level scale of (0%; 50%, and 100%) depending on the level of performance, thereby avoiding the "all-or-nothing" feature of traditional conditionality.

Practice varies across countries in terms of the number and domain of the indicators (see Table 3). For Benin, Burkina Faso and Uganda programs were based on between 9 and 15 conditions. Indicators concern budget administration, education and health sectors, except in the first Benin program where disbursement was linked to indicators concerning the health sector only. In contrast in Madagascar disbursement was initially tied to no fewer than 54 indicators, but similarly concerned with public finance administration, with education and with health. The number of indicators adopted later fell to 34. Despite the variation across countries, programs shared many common indicators. For example, all countries' programs included measures of the extent of the decentralization of budget expenditures; mea-

Table 2. *Comparable progress of the programs*

	Program number	Years and designation of the program <sup>a</sup>	Status of the evaluation
Benin	2	PAS 3 1999–2000 PARE 2001	In progress during mission (complete)
Burkina Faso	2	PAAS 1999–2000 ABRP 2001 New program in preparation	Evaluated Evaluation in progress during mission (complete)
Madagascar	1	PAS 2 Initially 1998–99 (signed in October 1999) and then designated PAS 2 1999–2000	Evaluated
Uganda	1	PABS 4 signed in August 2000	Still not evaluated at the time of the mission (payment of the variable tranche envisaged for November 2002)

<sup>a</sup>PAS and PAAS: Programme d'appui à l'ajustement structurel, PARE: Programme d'appui aux réformes économiques, ABRP: Appui budgétaire aux réformes économiques. PABS: Poverty alleviation budget support.

Table 3. *Nature of the indicators of results for European budgetary aid in four countries*

	Number of indicators			Nature of the conditions			Weighting of each sector			Weighting within each sector	Global success threshold (bonus)	Rate of disbursement after evaluation	
	Total	of which		Definition, collection and analysis of indicators	Favorable change	Target achieved	GB	Ed.	Health				
		GB <sup>a</sup>	Ed. <sup>b</sup>										Health
<i>Benin</i>													
PAS III 1999–2000	9	–	–	9	4	5	–	–	1	No <i>ex-ante</i> equals <i>ex-post</i>	No	67%	
PARE 2001	13	3	5	5	3	1	10	1/3	1/3	1/3	Equal	No	–
<i>Burkina Faso</i>													
PAS 1999–2000	15	5	3	7	4	1	11	0.5	0.15	0.35	Equal	No	79%
ABRP 2001	13	3	5	5	3		9	0.5	0.25	0.25	Equal	No	60%
<i>Madagascar</i>													
PAS II	54 <sup>c</sup>	25	19	10	54 <sup>c</sup>			1/3	1/3	1/3		80%	71.4%
<i>Uganda</i>													
PABS4	(12)	(3)	5	4							Equal	80%	–

An indicator is said to be “neutralized” when it has not been taken into account to determine the sum of the variable tranche.

<sup>a</sup>GB = budgetary management.

<sup>b</sup>Ed = education.

<sup>c</sup>Of which 15 “neutralized” and one indicator of the percentage of road funds allocated to rural tracks.

asures of implementation rates for priority sectors; utilization rates for health facilities; and vaccination coverage rates.

The weighting given to each sector (public finance administration, education, health) in determining overall disbursement also varies. In Benin, Madagascar and Uganda performance in each is equally weighted (although this is implicit in Uganda where no explicit weights are provided). Only in Burkina Faso has there been an attempt to discriminate between sectors.<sup>8</sup>

Importantly, the graduated design of the new conditionality meant that from the start disbursement was modulated according to performance. In Benin, for example, the EU's assessment of performance against the targets led to 67% of the variable tranche of the first Benin program to be disbursed. In Burkina the 79% and 60% of the variable tranche of the two Burkina programs were disbursed in the light of performance respectively, and in the Madagascar program the rate was 71%. But, since the performance-related "variable tranche" itself accounted for a relatively small proportion of the total aid flow from Europe, the volume of aid withheld through this mechanism was not substantial. In Burkina Faso, for example, the 21% of the first variable tranche which was withheld accounted for only about 4% of European budgetary aid, which itself represented just under half of total European aid in 2000: the "retention" rate under the variable tranche thus represented about 2% of total European aid in 2000 (which itself accounted for only a fraction of total aid to Burkina). Similar calculations for other programs reveal similarly weak "withholding effects."

### 3. NEW CONDITIONALITY AND ITS OBJECTIVES

The new European practice aims at stronger domestic ownership of reforms and better donor coordination. In this section we consider how close actual practice in the four countries has come to meeting these objectives.

#### (a) *Ownership*

There was no substantial shift in ownership as the result of the recent implementation of its new conditionality by the European Commission. This is not surprising. The four countries are all defined by the UN as least developed

countries, where the managerial capacity of the public sector is perceived to be limited. In addition, the new conditionality is still limited to a very modest proportion of the total European support received by the country.

#### (i) *A culture of results*

The new European practice has experienced greater success in promoting a "culture of results" than in actually shifting responsibility for policy formulation to recipient governments. The evidence of a cultural shift of ideas can be seen in many areas. For example, in Burkina Faso the preparation of the "conditionality test" has contributed to this shift as witnessed by the involvement of the National Institute for Statistics and Demography, both in conducting surveys and opinion polls, especially with the parents of pupils and health center patients, which influenced the design of the variable tranche of European aid, and in creating a National Poverty Observatory. The "conditionality test" also played an important role in the preparation of the PRSP with the matrix of indicators adopted by the PRSP corresponding exactly to the conclusions of the test.

Anecdotal evidence suggests some positive response. For example, when evaluations highlighted low utilization rates for rural health centers in Burkina Faso it was decided to postpone the construction of new centers in order to re-equip and improve service provision in the existing ones (medicines, material, personnel). Similarly, it was judged more appropriate to improve the functioning of poorly frequented existing schools than to increase the number of schools built.

#### (ii) *Accountability*

Ownership also requires governments to exercise their responsibility, both in terms of the decisions taken and their implementation. As with the culture of results it is, of course, difficult to differentiate between the impact of the new European conditionality and that of the simultaneous changes in the practices of the other donors.

First, the reality is that the new conditionality has not yet created the space for governments to exercise discretion over policy choices. A large number of the indicators which served as payment conditions are still concerned with specific actions to be taken, rather than actual outcomes: this is certainly the case for indicators relating to budgetary

management, but it also applies in the health and education sectors, for example the indicators relating to staffing levels and provision of equipment. This incompatibility with the intentions of the new conditionality reflects in part the difficulty in collecting genuine indicators of the final outcomes for the policies. It has also been encouraged by a certain distrust with respect to the desire or capacity of the national leaders to conduct their own education and health policies efficiently—itsself reflecting a deeper conflict about ownership on the one hand and the alignment of the interests of recipients and donors on the other. The observed retreat from performance indicators is not specific to the new European procedure. In the case of Uganda, where the government is very much in the “driver’s seat” and where systems of allocating donor funds to the health sector on the basis of performance indicators existed prior to the redesign of European aid, a similar tendency can be noted for the donors to request particular measures and to return to the very practice that performance-based conditionality was designed to avoid. We return to the difficult but central issue of the nature of the indicators in the next section.

The third important factor of efficiency of the ownership procedure is the *credibility* of financial sanctions in the event of poor performance. In Benin it was the evaluation of the first program containing a variable tranche (and the withholding of part of the tranche) which made political leaders aware of the financial stake of obtaining the programmed results. The experience of Uganda demonstrates well the problem of implementing sanctions when there is doubt about the validity of targets. The education sector review of 2001 indicated significant performance shortfalls but the response of the donors was to question the targets rather than the performance and, indeed, in some instances to *increase* disbursement in order to improve the target-setting process itself.

#### (b) *Donor coordination*

The European initiative has been accompanied by an improvement in donor-coordination, supported in particular by the Special Program for Africa (SPA), a key forum of the principal donors to Africa. It was here that the European Commissions proposals for the reform of conditionality were first presented (in 1996) and that the idea for the joint pilot

experiment in Burkina Faso—the “conditionality test” mentioned above—was mooted. The “conditionality test” brought together all the donors to Burkina Faso, regardless of whether they provided budget support or not, allowed competing points of view to be assessed and demonstrated the utility of combined work on the objectives to be pursued and the indicators to be adopted.

The World Bank prefers a global appraisal of policy results over performance-based conditionality with disbursements tied to indicator-specific progress. An obvious concern is that the co-existence of a dual practice undermines the effectiveness of the new European conditionality to promote greater policy ownership by recipient governments. It is not immediately clear that this concern is too severe since the combination of support, some conditioned by a dialogue on policies, some by a dialogue on results, may well be complementary, with the Bank seeking to influence economic policy choices, and the European Commission requiring governments to pay permanent attention to the results of these policies. To a certain extent, this resolves the problem of coordination, albeit in an unbalanced manner such that in the limit the division can result in the evaluation of results by the Commission becoming an evaluation of the policies recommended by the World Bank. It is also true that the national government then finds that it has an increased power of negotiation, for it discusses policies with one partner exploiting the expected results on which it will be judged by the other, while with the second partner it evaluates the results with regard to policies for which the first partner is, in part, responsible. Thus, if the procedure of the European Commission contributes to making the governments more responsible in implementing their economic policy, it should also contribute to improving the quality of the dialogue these governments hold with the Bretton Woods Institutions.

#### 4. MEASURING OUTCOMES

Since the new conditionality is supposed to be based on performance indicators, the choice of these and the manner in which their evolution is evaluated are essential to the success of the new procedure. The choice does not only relate to the technical quality of the indicators; it should also reflect the priority objectives of economic

policy. In the light of this, we consider three dimensions of this choice: the number and coverage of the indicators; the level at which the results are observed—intermediate or final; and finally, how indicators should be used to modulate the level of budgetary aid.

(a) *The number and coverage of the indicators*

The European Commission has concentrated on indicators relative to education and health, directly linked to the evolution of poverty.<sup>9</sup>

While most countries focused on a relatively small number of indicators to manage the variable tranche of new European support arrangements, there were exceptions. In Madagascar, the large number of indicators (54) seems to have been desired by the government itself, who felt that progress against some of the many indicators would limit the risk of no disbursement at all, although it may also have reflected the interest of the European Commission delegation to establish a relatively complete vision of the sector considered. But, the increase in the number of indicators causes extreme complexity in the evaluation, which itself runs counter to the objective of rapid disbursement. By contrast, limiting the number of indicators has the advantage of establishing clear priorities and rejecting indicators whose meaning is too specific. Thus the choice of the number of indicators is closely linked to that of the level of observation of the results.

(b) *The level of observation*

The “conditionality test” classified health and education indicators into four categories, defined according to their increasing proximity in relation to the final result: (i) indicators relating to actions undertaken by the government (*input indicators*), for example the sum spent on the construction of schools or health centers; (ii) indicators of implementation (*output indicators*), for example the number of schools or health centers opened in rural areas or the number of school books per pupil; (iii) intermediate indicators of result (*outcome indicators*), such as the rate of passage from primary to secondary education or the rate of frequentation of the health services; and finally (iv) indicators of final result (*impact indicators*), such as the rate of literacy or the rate of child mortality.

Performance-based conditionality is supposed to be based on impact indicators. In practice, however, the new European conditionality has relied heavily on outcome and output indicators. There appear to be three reasons for this. First, the output and outcome indicators seem to highlight policy deficiencies which donors are concerned about. Secondly, typically these indicators can be collected more easily administratively than indicators of impact. Finally, they are considered to be less dependent on exogenous factors, outside the influence of public action. It may be noted that the second reason is pragmatic whereas the other two question the very essence of performance-based conditionality.

We exclude from the discussion indicators of income poverty, which are very difficult to collect. On the other hand, in the health and education sectors, it is possible to identify a small number of impact indicators which can be collected fairly easily and which enjoy a universal meaning.

In the field of health, the most pertinent indicator for low-income economies is incontestably the rate of child mortality. These data are currently supplied on a regular and reliable basis, but with a frequency of three to five years, by the DHS (Demographic and Health Survey).<sup>10</sup> This indicator is preferred to life expectancy at birth due to the absence of equivalent information for the mortality quotients at the different stages of life. But, it is seen to reflect relatively well the level of health of the whole population including, to a certain extent, the impact of AIDS through the transmission of the infection from mothers to newborn children. It is an indicator which is relatively variable in the short term as it relates to the most vulnerable part of the population. For example, for Madagascar during 1997–2000, it falls from 159% to 142%, whereas in Burkina Faso it rises from 204% to 219% over 1993–99, which doubtless represents the major basic data for the PRSP.

A second and complementary set of health-related indicator includes measures of childhood nutritional status (weight for age or, more easily, weight for height). Although these are relatively easy to collect by means of surveys, they are more a reflection of the nutritional situation, thus economic, than the level of health in its broadest sense, and by the same token reflects the efficiency of health policy less well than the rate of child mortality, which remains more universally applicable.

In the education sector, the impact indicator used most often is the adult literacy rate. This indicator, however, remains both highly unreliable and slow to evolve as it results from the past rates of schooling and the possible schooling of adults, which is always limited. To get a better dynamic perspective on educational achievement, it may be better to focus on rates of schooling for children. They are obviously closer to measures of impact than are utilization rates in the health sector, since school is the necessary condition for access to knowledge, which is not true to the same extent for the utilization of public health care centers for a good level of health. Nevertheless, rates of schooling are not indicators which are directly representative of the acquisition of knowledge by children. Since they are contaminated by absenteeism and drop-out effects, more appropriate measures are primary-level exit or completion rates for children in any given age cohort. Even then, this does not adequately reflect the quality of the education received: for example, in Madagascar, while the schooling conditions for children were disrupted by political upheaval, the success rate for the certificate of primary studies increased, no doubt due to a drop in the levels required. Generally, the increase in school attendance includes a risk of reducing quality if it is obtained at the price of an excessive increase in the number of pupils per teacher (either by double sessions, or by the increase of pupils in the classroom) or of the recruitment of underqualified teaching staff: thus in Uganda, during 1991–99, independent testing for knowledge in mathematics and English highlight a significant reduction of the quality of education, as well as extreme dispersion from one school to the next.<sup>11</sup>

Monitoring the progress in education requires indicators which relate directly to the acquisition of knowledge by children who have received schooling. As hard as it is to establish knowledge testing and as much as these tests are subject to a cultural relativity when it is a question of secondary and higher levels of education, it nonetheless seems possible to have tests which are simple to administrate and interpret for knowledge acquired in primary education (reading, writing, basic arithmetic). Tests of this type do, indeed, exist (for example, through the Conference of Education Ministers in francophone countries). Moreover, as the Madagascar and Uganda reports indicate, such tests are already effected in these countries.

Calculating impact indicators is not outside the domain of a strategy of collecting statistics based on a hierarchy of information.<sup>12</sup> Relying on impact indicators of necessity implies stretching out the evaluation interval upon which disbursement of variable tranche support is based, which means re-situating the budgetary support in a medium-term perspective. For example, three-yearly evaluation based on the evolution of the impact indicators would lead to the annual total of the variable tranche being determined for the subsequent three years.

It should be noted that under performance-based conditionality, donors focus on impact indicators but input, output and outcome indicators do not disappear. These are still the tools for monitoring state action, understanding the evolution of its impact and encouraging a modification of the policy. They are however, relevant for the recipient government rather than for the donor (which at most may wish to encourage the government to collect such indicators).<sup>13</sup>

(c) *From observation of indicators to the evaluation of results*

The success of the reform of conditionality requires the credibility of the sanction. This implies that the evaluation of results is effected according to principles or rules known in advance. European Commission financing conventions provide a weighting of each indicator and a target that these indicators are supposed to achieve, as well as a scale of disbursement for the level of progress achieved relative to each target. This is typically from 0% to 50% to 100% disbursement, although 100% disbursement may be achieved for outcomes that are close to but do not fully achieve the target. But whatever the specification of the rules fixed in advance, a certain discretionary margin inevitably remains in the hands of the evaluator.

While it is essential that the weighting of the indicators be determined and known in advance, the actual weights accorded to education and health (or any other major component which is adopted) are ultimately a political choice which should logically result from the strategy of the fight against the poverty specific to each country. Within each of these two large domains, the problem of weighting is posed differently according to the nature and the number of indicators. If they are composite impact indicators, there are very few of them

(sometimes only one per domain) and the problem of weighting can be resolved easily.<sup>14</sup> The question becomes thornier when there is a rather large number of indicators, which is generally the case with intermediate indicators aimed at outlining the different aspects of the policy implemented in the sector. The solution adopted has been, implicitly or explicitly, to give equal weight to each of them for reasons of simplicity, but with no logical foundation.<sup>15</sup>

## 5. CONCLUSION

The European Commission has introduced a particular form of performance-based conditionality. This represents a bold and important contribution to the international debate on aid effectiveness. The underlying principles of this initiative attract a broad consensus of support: thus the necessity for an ownership of their economic policy by the recipient countries, a more efficient coordination of the different international donors and greater attention to the results of action undertaken, especially with regard to the reduction of poverty are also recognized.

In the paper we have reviewed the initial experiences with this new form of conditionality in four countries. We have found that the EU still relies heavily on output and outcome indicators rather than on the impact indicators which measure progress in terms of ultimate objectives. Some civil servants interviewed in Burkina Faso have underlined that, since the intermediate indicators are close to economic policy instruments, the new conditionality is not very far from the traditional conditionality. Furthermore, the state of health and education depends on a multitude of actions implemented outside the corresponding sector. For example, the rate of

child mortality can be reduced not only by improved access to health services, but also by, e.g., actions to improve the quality of drinking water. Hence the focus on intermediate indicators may easily give a distorted picture of overall government policy. Moreover, intermediate indicators, insofar as they directly reflect the action of certain actors, lend themselves more easily than impact indicators to manipulation.

We would argue therefore that the new EU conditionality must return to basics. It must be based on real impact indicators and applied to future triennial aid commitments rather than to current payments. Intermediate indicators should be used for the annual monitoring of policy implementation by the government rather than by the donor.

It is also clear that the capacity of recipient governments to collect impact indicators is still limited. The EU should continue to support the capacity for data collection and policy analysis in recipient countries in order to render the new procedure more efficient.

In this final perspective, a normal complement to the new conditionality would be long-term support for a strategy of priority information collection (in particular for DHS data generation and isometric testing for the acquisition of knowledge). This could occur under the auspices of institutional support (for example, to the new national poverty observatories) and would allow the improvement in quality and regularity of the impact indicators. Thus established with a certain international guarantee, the impact indicators would serve more easily to guide European support and, more broadly, the different sources of aid for the improvement of health and education.

## NOTES

1. The European Commission's promotion of a reform of conditionality proceeded in several stages: interventions in the framework of meetings of the Special Programme for Africa (SPA); the commissioning for academic work; preparation of a document on the reformulation of conditionality (October 1995); developing a Communication on the issue to the Council of Ministers; and publication of a Communication from the Commission to the Council and to the European Parliament: *Community support for economic reform*

*programmes and structural adjustment: review and prospects* (2000).

2. Mussa and Savastano (1999), for example, note that during 1977-97, almost half of IMF programs were disbursed at less than 75% of the loan.

3. Several of the authors of the present study contributed to this criticism. See notably: Guillaumont and

Guillaumont Jeanneney (1994, 1995a (Chap. 8), 1995b) in conjunction with the European Commission, Collier, Guillaumont, Guillaumont Jeanneney, and Gunning (1997), Collier and Gunning (1999), Gunning (2000).

4. The World Bank and IMF have had reservations about introducing a greater degree of performance-based conditionality into their lending arrangements. But, a recent IMF document, *The Modalities of Conditionality—Further Considerations*, Policy Development and Review Department, January 8, 2002, provides a favorable presentation of outcomes-based conditionality and payments according to a floating tranche. For their part, Lerrick and Meltzer (2002) have suggested that the IDA should accord grants to low-income countries and releases its aid according to social results (health, education).

5. This examination was conducted at the request of the European Commission between March 2001 and June 2002. The report appeared as CERDI (2002).

6. Burkina Faso had already been chosen as early as 1996 by the Special Programme for Africa (SPA) as a test case for the new approach to conditionality.

7. Table 2 summarizes the state of progress of the programs during our missions in the four countries. The case of Uganda is discussed in greater detail by Adam and Gunning (2002).

8. Thus public finance indicators were given a weight of 50% in the two successive programs, while the weight on education indicators increased from 15% in the first program to 25% in the second, and that on the health sector fell correspondingly from 35% to 25%. Within each sector, however, all the subindicators were equally weighted.

9. It has also used indicators of budgetary efficiency but clearly these cannot be considered as performance.

10. The Uganda report notes that this indicator curiously does not figure in the HSSP (Health Sector Strategic Plan 2001–2004).

11. In Ghana the high rates of completion appeared to go hand in hand with poor results in the knowledge tests (information supplied by F. Orivel).

12. The cost of information necessary to establish impact indicators should not be overestimated. In a country like Burkina Faso, according to the informa-

tion collected by the National Statistics and Demography Institute, a DHS costs approximately twice the sum spent for only the realization of the surveys relating to budgetary efficiency (like the prices of public markets) and opinion polls (for example among users of public education and health services and among economic operators on the State markets), which figure as a payment condition in the variable tranche and the interpretation of which has proven difficult.

13. As for the choice of intermediate indicators (outcome, output) which would be adopted for this public action monitoring (and which the state would undertake to produce), it could itself be guided not only by acquired experience but also by simple principles: relatively simple collection, low cost and reliability, and especially pertinence with regard to the final objective of improving health and education. It would therefore be justified to test the relevance of this structure by estimating the impact exercised by the variables corresponding to the effective acquisition of knowledge and the reduction in mortality (or morbidity).

There is a problem of transition between the current system, with an annual evaluation of results triggering the payments, and the new system of a triennial evaluation founding future undertakings. We see that for the first three years of the new system, the aid will be defined then paid on the basis of the countries' commitment to achieve certain results at the end of the three years, the incentive to implement adequate policies being constituted by the risk of losing all future aid. The selection of the countries benefiting from the new procedure could be made on the basis of results obtained since 1999 within the context of the current procedure, which in some ways serves as a test.

14. For example in the domain of education, if we have an indicator for the acquisition of knowledge, it could simply be used to correct the completion rate for primary education.

15. There is also the problem of knowing if the past reference should be the last known year or an average of the two (three) last known years, or even a value calculated using the estimation of the past trend. If we exclude this last possibility due to the large number of years of statistical information required and the debates which the functional form of the estimation inevitably raises, the choice between two and three reference years, preferred to one, can be justified with a view to reducing the influence of past exogenous factors on the evaluation of performance.

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