

Patrick Watt's Presentation (edited by Harold Bedoya)

Partnerships in Policy-based Lending

There is a problem in the rather loose way in which partnership is used in the development discourse. It is an over-used and under-analyzed piece of terminology without an operationally useful definition out there. It is clear from Monterrey, which really set in motion a lot of the thinking about partnership and the need for partnership, that partnership is regarded as important. It says that achieving MDGs requires a new partnership and that effective partnership has got something to do with leadership and ownership of development plans, but its not clear this definition really helps us a great deal. The purpose of this presentation is to try to define partnership in a little bit more detail. Then to think about what sorts of conditionality would be appropriate under a partnership approach, and what sort of conditionality would not be appropriate.

Defining Partnerships

There are three fundamental aspects of partnerships: first, it is pretty clear that one cannot really have a partnership unless there are some basic shared objectives and that there is agreement on certain shared goals; second, there needs to be a degree of mutual accountability, and it is very difficult to get that accountability unless you have transparency, and that accountability has to flow two ways; and third, there needs to be some shared learning and an openness to a two-way exchange of knowledge and learning--a kind of iterative process by which you identify your shared objectives.

Perhaps it would be helpful to just eliminate some relationships that aren't actually partnerships. Lets consider the following cases: teacher/pupil relationship--it's very clear that the teacher has the knowledge and the pupil is expected to receive the knowledge; Parent/child--I don't have a partnership with my two-year-old daughter, more or less I tell her what to do, and I hope that she will take notice; and Charitable giver/deserving poor--now I don't want to caricature the aid relationship, but there are elements of these relationships in a lot of what goes on in terms of donor/recipient practice.

We need to recognize that the balance of power between the donor and recipient is critical, and a lot of what we are talking about when we talk about conditionality is actually power. The balance of power depends very heavily on both parties' options and needs, so partnerships are pretty unlikely where a country can't afford not to take money from the donors, and the donors can afford to walk away. An example of this might be Malawi, where the new government has signaled very clearly that its number one priority is to resume lending with the IFIs. A contrasting example might be that of India, where very recently the Indian Government decided it was only going to stick with the donors that were really bringing in significant benefits to the Indian Government, and it was going to boot the rest of them out unless they shifted their funding to NGOs.

Conditions Appropriate For Partnerships

If we go back to those three aspects of partnership, starting with shared objectives, there obviously need to be jointly-agreed policy targets. But we need to ask whether – if those targets are really nationally-owned (even if they are not home-grown, as Oliver suggests they need not be), then are they actually conditions? Is conditionality a useful nomenclature for those kinds of shared objectives?

In terms of mutual accountability, it is recognized that any funding relationship requires a degree of financial accountability, and requires some fiduciary conditions that allow money to be accounted for. ActionAid finances a lot of local NGOs in countries in Africa and Asia and Latin America, and we expect some minimum fiduciary accountability. Where you employ fiduciary conditions, following on from what was said this morning, it is extremely important to reinforce the accountability between recipient governments and the population. Thus, conditionality around budget transparency might be quite a good way of satisfying certain basic fiduciary accountability concerns on the part of the donor, but at the same time enabling populations to better hold their own governments to account.

Going down the shared learning route, we really need to see some significant changes in donor practice around policy advice and TA. The current knowledge gap approach, which assumes that donors have the knowledge and countries need to receive it, doesn't really accommodate iterative two-way policy dialogue, which is what we need if we are going to have genuine partnership.

Shifting from Donorship to Ownership

It is clear from what has been said today, and it is clear from the literature that conditionality – where it's understood to mean policy leverage - has failed. But at the same time there are still some very mixed signals coming out from donor agencies. For example, we are told policy conditionality doesn't really work, but at the same time we hear that strategically deployed conditions can tip the balance and lock in reforms. We also hear that aid only works in a sound policy environment, but the policy environment also has to be owned. This is not a very helpful guide to action if we have a country owning an unsound policy environment. And the prevailing donor view is that in weak policy environments, knowledge gaps need more attention than finance gaps.

I don't want to go into the validity or otherwise of those positions, but I want to say that while we have certainly moved away from coercion, we are still with a suasion model, and that the dominant approach being deployed by donors on the ground is still seeing aid money as a reform inducement. That carries with it some underlying assumptions, and what follows isn't intended primarily as a criticism, but is really by way of saying that we need to be very clear about what we are assuming when a donor comes into a country and applies the principle that aid is there to induce reform. As long as aid is about improving policy, donors have to remain in the reform vanguard. If a country presents the donors with a development strategy that simply contains things that the country would have done anyway in the absence of the donors, then donors cannot accept that strategy at face value as long as their job is to add reforms at the margins.

Adding Reforms at the Margin

Even in very reform minded countries - countries that are regarded by the Bank and the Fund as reform exemplars - the task managers often are still adding conditions at the margins that they can identify as 'their' reforms. A lot of this has to do with the self-definition of donors, as to what they understand their purpose is in the country. Some of these underlying assumptions behind this behaviour are that donors know better or know better than the recipient; that donor's policy course is somehow more constant than recipients and is less prone to interruption or diversion; and the notion that donors are in

some way insulated from political pressures in a way that recipient countries aren't. Finally, and you do hear this a lot - particularly in the UK, is the assumption that donors have the interests of the poor at heart in a way that recipient governments don't.

Not all of those assumptions necessarily are in play with a particular donor at a particular time. Nonetheless those assumptions are very prevalent and underpin a lot of donor practice. There are lots of reasons to question these assumptions, but I don't want now to go into whether or not they are true (maybe sometimes they are). However, we need to recognize that the aid for reform model is not about partnership—it is instead a deeply paternalistic approach to delivering aid. As I said, it may be an approach that works, but it's not partnership. It is also intensely political, because from what has already been discussed around the room today, it is very clear that ownership doesn't mean universal agreement.

Actually what ownership is really about is about donors intervening and identifying a critical mass of reformers who they believe they can work with—it is about tipping the balance. Once you start doing that, once you start intervening in internal domestic policy debates you get very heavily involved in politics. This needs to be recognized.

Toward a True Partnership Approach

What would some of the implications be of a move to a true partnership approach? If you have a true partnership approach, you would have to have an *end to highly specific economic policy conditions*, by which I mean policy conditions that are leverage conditions, designed to elicit policy reforms that donors believe wouldn't otherwise be undertaken.

There needs to be an *end to one-size-fits-all conditions* in areas other than economic policy as well. If you have a genuine partnership approach you will inevitably see much more heterogeneity emerging in terms of the routes the policy dialogue takes, the sorts of reforms the donors have to support.

No more micro-management—if you have partnerships, you have trust; if you have trust you need, to a much greater degree than currently happens, to allow countries to get on with it themselves. No more micro-management means not strategically placing TAs in finance and planning ministries to control the budget process because you don't really believe that if you don't put those TAs in, the government will do as you would like them to do.

There has to be much *greater transparency about how compliance is judged*, and that is a real difficulty at the moment. It is very hard to foster partnership when judgments about compliance and non-compliance seem to be made for very opaque reasons, in a way that allows a lot of political considerations to intrude.

If we are really serious about partnership then we have to *be serious about mutual accountability*, and that means donors being held to account in quite an active way for the quality of their development assistance. Maybe you could use a forum like the consultative group to do that, and hold donors to account for the quality of their aid and the degree of coordination, for the degree of predictability, and for the extent to which donors are actually delivering the money they have committed to deliver.

Holding donors to account could also go wider than that, and touch on issues like trade policy for example, and actually start looking at some of these issues of the coherence of development assistance. For instance, are the things that donors are doing through their aid programmes being in any way contradicted or undermined by what they are doing in other areas?

Finally, I would be more orthodox than Tony Killick on the issue of the involvement of parliaments, particularly as we see increasing democratization in lower income countries. We have got to *respect domestic decision-making processes*. Ultimately donors have to be prepared to work through domestic decision-making processes, and allow those domestic decision-making processes to have some effective sanction over what donors would like to see happen.