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## Implementing DFID's conditionality policy

### Foreword

On 2 March 2005 Hilary Benn launched the UK policy paper [\*Partnerships for poverty reduction: rethinking conditionality\*](#). The policy sets out how DFID intends to strike a balance between ensuring aid is used effectively for poverty reduction, strengthening countries' leadership of their own development and making aid more predictable so that governments can rely on it when making their public expenditure plans.

It makes clear that we should use conditions to ensure aid is used effectively, and for the purposes intended. However, when we use conditions we should seek to minimise any negative effects on country leadership and predictability. In particular we will not attempt to impose policy choices on partner governments by making aid conditional on specific policy decisions (including in sensitive economic areas such as privatisation and trade liberalisation).

Although we will not use conditionality to impose policy choices on partner governments, policies and the process of policy making are important for poverty reduction. We should promote the sharing of evidence about the impact of policy reforms and support analysis of policy options when policies are being formulated.

This draft how-to note spells out the practical implications of the policy and it aims to provide more detailed explanation of the thinking underlying the March 2005 policy paper. The principal aim of the UK policy on conditionality is to make our own aid more effective, but it also seeks to contribute to the wider international debate about reforming conditionality. Other agencies are also considering and reviewing their approach to conditionality and trying to find the right balance between country-led development and accountability to their shareholders or Parliaments. We may not all come to the same conclusions – multilateral agencies for example may need a more rule-based approach while bilateral agencies may rely more on judgements by Ministers – but we should work closely and constructively together to ensure the best overall impact for partner countries.

This draft how-to note will be reviewed in mid-2006 in response to feedback from those using the note, and our donor, multilateral and NGO partners. Your feedback is welcome.

**Suma Chakrabarti,**  
Permanent Secretary

## How to navigate this note

The table of contents below has been included to help users navigate this how-to note. When viewing this document electronically, click on a heading listed below to go straight to that section.

**Introduction** explains the role of conditionality in our aid programmes.

**Terminology** sets out some definitions of key terms used in the policy and this how-to note.

**Agreeing and recording partnership commitments** sets out what agreements all country programmes need to reach with partner governments and where those agreements should be recorded. This has implications for Country Assistance Plans (CAPs) and may also have implications for long term partnership agreements.

**Assessing progress within partnership commitments** provides guidance on assessment of each of the three areas – poverty reduction, human rights and international obligations, and public financial management and accountability. This covers how to agree and monitor progress benchmarks.

**Breaches of the partnership commitments** sets out guidance on how to determine whether there has been a breach of the partnership commitments and appropriate action to take, including graduated and proportionate responses.

**Working with other donors** covers issues such as co-financing and working through harmonised approaches with others.

**Implications for aid instruments** covers the implications for conditionality within aid instruments including the implications for Poverty Reduction Budget Support (PRBS) and Technical Co-operation (TC). This will be particularly helpful for those designing new projects and programmes.

**Monitoring and evaluation** sets out how we will monitor the policy and how we will publish conditions – a key commitment in the policy is to increase transparency. This has implications for the format of programme documents and the annual country review process. Changes have been made in the Blue Book and other guidance to reflect this.

**Key implications of the policy** sets out the practical implications that the policy will have.

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## 1. Introduction

1.1 On 2 March 2005 the Secretary of State launched the UK policy paper *Partnerships for poverty reduction: rethinking conditionality*. The policy makes an important contribution to increasing the effectiveness of our own aid, and also aims to influence the reform of conditionality in the wider international community. It sets out a framework within which aid partnerships are likely to be effective – namely a shared commitment to poverty reduction and the MDGs, respecting human rights and other international obligations; and strengthening financial management and accountability.

1.2 The policy is based on the recognition that it does not work to try to use conditionality to force through policy choices that governments do not want. We also know that using conditionality to micro-manage government reforms can undermine the predictability of our aid and prevent governments developing flexible and responsive approaches to policy implementation. We therefore do not use conditions to impose specific policy choices or to micro-manage government reforms.

1.3 But we do use conditionality to help ensure that aid is used effectively for the purposes intended, is not misused through corruption, and can be accounted for to the UK Parliament. We also link future aid allocations to countries' levels of poverty and their ability to use aid effectively. The quality of a country's poverty reduction programme and progress in its implementation will therefore affect the levels of aid that we commit in future.

1.4 The policy applies to all development aid that DFID provides to partner governments at all levels, including national, sub-national and local governments whichever aid modality is used. It does not deal with aid provided to non-government agencies such as NGOs or the private sector nor to humanitarian assistance. It applies to fragile states as well as good performing countries.

## 2. Terminology and definitions

To implement the conditionality policy, it is important to be clear on the difference between indicators, benchmarks and conditions. The following are some key definitions:

An **indicator** is a quantifiable measure of progress. Indicators can be used as conditions or benchmarks.

A **condition** is an action, circumstance or situation which is required for committed aid to be disbursed. If the condition is not fulfilled it will generally lead to aid being interrupted or suspended;

A **benchmark** is an indicator (action, process or target) which is adopted by a recipient government and used to monitor progress against agreed objectives and inform policy dialogue.

Failure to meet individual benchmarks should not lead to interruption of aid flows. It should instead trigger discussion about how we can support government to achieve results. However a persistent failure to achieve results should lead us to review the government's commitment to poverty reduction.

### **3. Agreeing and recording partnership commitments**

#### **3.1 What understandings do we need to record?**

We need to reach an understanding with partner governments that our relationship is based on a commitment to:

- 1) poverty reduction and the MDGs;
- 2) respecting human rights and other international obligations; and
- 3) strengthening financial management and accountability, which reduces the risk of funds being misused through weak administration or corruption.

We need to communicate to our partner governments:

- that a violation of any of these commitments might lead to aid being interrupted, reduced, suspended, or delivered in a different way;
- what, if any, specific conditions are attached to our country programme to underpin these commitments (see section 5.1);
- how we will assess progress on these three partnership commitments, including the use of benchmarks to inform this assessment; and
- how decisions will be taken to reduce or interrupt aid.

#### **3.2 Where should we record these understandings?**

These issues and agreements should all be set out in the Country Assistance Plan (where required) **and** in a text agreed jointly with the partner government to ensure greater transparency in our aid relationships. This might be a multi-donor MOU, an overarching bilateral partnership arrangement (Development Partnership Arrangement), in individual aid agreements, in joint minutes of aid talks, or in other ways.

#### **3.3 How should we work in countries with weak adherence to the partnership commitments?**

3.3.1 In countries where government has weak adherence to the partnership principles we can consider other options for promoting reform and work through others such as the UN and NGOs. However in many difficult contexts even a weak adherence to the partnership commitments might allow some DFID engagement with the government. In countries with extremely weak public systems, capacity constraints may hold back progress with implementation and result in poor outcomes. In other fragile states, even though systems are weak, the trajectory of change might be positive and early engagement might foster the government's commitment to poverty reduction. The scope of DFID supported programmes and the instruments we use to deliver them will also need to reflect the more complex circumstances in these countries.

3.3.2 The DAC draft principles for *Good International Engagement in Fragile States*<sup>1</sup> give useful guidance on working in fragile states. The World Bank's *Good Practice Note for Development Policy Lending* also looks at issues of conditionality in fragile states.<sup>2</sup>

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<sup>1</sup> <http://www.oecd.org/dataoecd/59/55/34700989.pdf>

<sup>2</sup> <http://siteresources.worldbank.org/PROJECTS/Resources/DPOsinfragilestates-June7.pdf>

## 4. Assessing progress within partnership commitments

### 4.1 Why do we need to assess progress?

4.1.1 Periodic assessment of progress is needed to determine whether there is continued commitment to the partnership commitments, to inform discussions with partner governments about progress towards poverty reduction objectives, and appropriate aid instruments to support these, and to assure UK citizens that aid is being used well. It can also contribute to decisions about future aid allocations as DFID may need to reallocate future aid to countries where it will have greater impact.

4.1.2 Overall assessments will be undertaken periodically, informed by sets of benchmarks where we have them. They will also draw on other information generated by partner governments, other donors and civil society. In countries where we provide financial aid to government, through for example PRBS, we will need to update our assessment annually to inform commitment and disbursement decisions. In other country contexts the assessment might feed into the country planning process or into critical decisions to commit aid.

4.1.3 The overall assessment will draw together the three dimensions of the partnership. More detail on how to assess each of the three dimensions is set out below.

**4.1.4 Political governance issues** should be assessed within the context of the three commitments – politics cuts across all three areas. We will need to have a good understanding of the political system, the trajectory of change and the political and institutional drivers of change. We should maintain current assessments of political accountability, rule of law and security-related issues. It is important to keep our political analysis up to date so that we can identify areas of concern and set them within a long term perspective, based on a sound understanding of the trajectory of change.

### 4.2 How will we assess the commitment to poverty reduction?

4.2.1 We will establish benchmarks to assess the partner government's commitment to poverty reduction. In countries where we do not provide PRBS we should not design an elaborate process but should clarify with our partner governments the key issues for poverty reduction. Two or three key benchmarks might be sufficient to monitor progress. We should also draw from the assessments of progress done by other development partners.

4.2.2 A set of benchmarks agreed with government, and often with other donors, will provide a transparent indication of what aid and national actions are expected to achieve and provide a focus for discussions between donors and partner governments. Success with meeting benchmarks should not be used as a mechanism for triggering disbursements. Similarly, failure to meet benchmarks should not lead **automatically** to interruption of aid flows. Instead it should trigger discussion with our partner government about the progress with reforms and how constraints to implementation might be resolved. However a persistent failure to achieve results would lead us to review the government's commitment to poverty reduction. See also section 5.1 of this how-to note on determining whether there is a breach of the partnership commitments.



## Poverty reduction benchmarks

4.2.3 Benchmarks should be drawn from national policy documents and the assessment process should ideally be based on an existing domestic review process. We should monitor a mix of policy actions, outputs, outcomes and impacts to enable a thorough assessment to be made. Where national strategies do not exist, benchmarks should focus on the process of developing a reform programme. Ideally the same benchmarks should be adopted across the donor community to reduce the burden of monitoring placed on the government, and to provide more focus to the collective discussions between donors and the government. Where donors currently set their own benchmarks, DFID should proactively work with donors and governments to work towards drawing benchmarks from national policy processes. The process of agreeing benchmarks must not be used to impose specific policies on partner governments.

**4.2.4 Macroeconomic management issues** should be assessed within the context of the commitment to poverty reduction. We will generally draw on IMF analysis to inform our assessment of macroeconomic performance but our response will not be dependent on the IMF's own financing decisions.

IMF assessments can be provided through various means – programme reviews, Article IV surveillance, Assessment Letters – and need not require IMF Board approval. Where up-to-date IMF analysis is required, DFID can request an Assessment Letter from the IMF.

The UK paper [Macroeconomic Issues Underlying Budget Support and the Signalling Role of the IMF](#) provides more detail on what macroeconomic situation is required for the provision of budget support. The set of [how-to.notes](#) produced by DFID's Pro-Poor Growth team also provide guidance on key macroeconomic issues to consider and on how to interpret macroeconomic analysis produced by the IMF and other institutions.

## 4.3 How will we assess the commitment to human rights and other international obligations?

4.3.1 We need to assess government's level of commitment to human rights and the human rights situation in-country, to identify general trends and areas of concern. We should coordinate with or participate in the human rights dialogue processes led by the EU and UN. In particular we should support EU human rights dialogue where it takes place.

4.3.2 In assessing the human rights situation, we should aim to achieve a balance across the full range of human rights including civil, economic, political, social and cultural rights. It will be important to recognise progress in one area alongside concerns in another.

4.3.3 We also have obligations under the [UK Human Rights Act](#). We need to ensure our assistance is not used in ways that are incompatible with human rights. This means considering decisions taken on country programmes carefully from a human rights perspective. The DFID [Guidance Note on the Human Rights Act](#) provides further guidance.

4.3.4 When assessing the situation, we will take the partner government's existing human rights obligations as our starting point in order to encourage country ownership. To assess formal commitment, we can look at whether international and

regional human rights instruments have been ratified,<sup>3</sup> and the extent to which human rights are incorporated into the national legal framework and formal policy commitments such as the PRS.

4.3.5 Governments have an immediate obligation to respect and protect *civil and political rights*. We can look at the government's own conduct and violations by state agents (e.g. torture of detainees by police). We can also look at the level of political will to protect human rights and address violations by others (e.g. investigating cases of violence against women). We can look at the regulatory environment for NGOs, media, trade unions and political parties, and restrictions on their activities, as well as the nature of elections.

4.3.6 Governments also have an immediate obligation to take steps to progressively realise *economic, social and cultural rights*, subject to their resource constraints. Here we can look at whether a government is taking steps to realise rights (e.g. towards respecting children's right to education). We can also look at discrimination (e.g. against specific groups in access to services and opportunities).

4.3.7 We can draw on a variety of existing sources, including national reporting mechanisms. Sources may include government reports provided to the UN Treaty Bodies and their observations; reports of UN Special Rapporteurs; and reports of national human rights institutions (e.g. human rights commissions or ombudsmen).

4.3.8 Where formal commitment and reporting mechanisms in a country are weak, we can draw on a variety of other sources of information. For example, the human rights situation in all our partner countries is monitored by EU diplomatic Heads of Mission, who send regular reports to the Presidency. DFID country offices may draw on this analysis by arrangement with the FCO.

### **Benchmarks on human rights**

4.3.9 In some partner countries, it may be useful to agree benchmarks on human rights. These should be drawn from existing sources, such as poverty reduction strategies, national human rights action plans, and constitutional or legislative standards. They can provide indications of progress and a useful framework for dialogue.

4.3.10 In the case of ACP countries, the Cotonou Agreement now suggests that within the framework of "intensified political dialogue", benchmarks or targets may be agreed between the EU and each country depending on each country's circumstances. We should use these benchmarks where possible.

4.3.11 Where appropriate, we should explore ways of promoting and supporting the incorporation of human rights benchmarks into national poverty reduction plans, as outlined in the policy paper. DFID recognises that PRSs have generally not given sufficient attention to the importance of addressing human rights for poverty reduction. We can identify opportunities to support a focus on human rights issues under areas such as governance or service delivery.

### **Considering other international obligations**

4.3.12 DFID should consider a country's position in relation to other international obligations, for instance on peace and security. A shared commitment to

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<sup>3</sup> Updated information on ratification of international human rights treaties by all UN member states can be found at <http://www.ohchr.org/english/countries/ratification/index.htm>.



international efforts to build a just and safer world is an important underlying element in a good development partnership. We will need a good understanding of peace and security related issues and trends, and should take them into account as part of our overall assessment of the political governance context.

4.3.13 In considering the country's situation, we need to distinguish between countries that adopt a deliberate policy of breaking obligations and those that lack capacity to ensure full compliance with them. For example, we should draw a distinction between a country adopting an explicit policy of actively supporting terrorism or invading another country, and a country being unable to meet stringent requirements at ports of entry to check all containers for illegal arms export.

#### **4.4 How will we assess the commitment to strengthening financial management and tackling corruption?**

4.4.1 Effective financial management and accountability provide the bedrock for continued donor support and for citizens to have confidence in government programmes. Assessing and strengthening financial management and tackling corruption is therefore a priority for DFID work.

4.4.2 We need to assess commitment to strengthening financial management and tackling corruption and monitor the performance of partners' public financial management and accountability strategies. Wherever possible we should use partner countries' own data sources and/or other public financial management and accountability diagnostic studies to assess this.

4.4.3 Examples of this type of analysis include the partner government's annual financial statements and related external audit reports, parliamentary oversight committee reports, national anti-corruption surveys, and the partner government's own progress reports on public financial management and anti-corruption reform programmes.

4.4.4. Weak government systems and limited capacity may reduce the availability and quality of the partner country's own analysis. In this case, specialised public financial management and accountability diagnostic studies can be useful supplements. To enable a more harmonised and comprehensive approach, we are supporting the development of a common performance measurement framework based on a standardised set of indicators. This framework results from a joint donor initiative known as Public Expenditure and Financial Accountability (PEFA) programme to co-ordinate work by donors in support of country-led public financial management reform. The framework is currently being launched. When implemented, we should use the common pool of information that it provides for measurement and monitoring of public financial management performance and for dialogue.

4.4.5 Specialised public financial management and accountability diagnostic studies include World Bank Country Financial Accountability Assessments, Country Procurement Assessment Reviews, Public Expenditure Reviews and Transparency International National Integrity Studies. Wherever possible, we should draw on existing studies; further diagnostic work should only be considered on an exceptional basis through a joint consultation process.

4.4.6 Assessing public financial management and accountability systems and the risk of corruption should include both an evaluation of how well systems perform, and

of the credibility of programmes to improve such systems over time. This assessment is a key factor for determining appropriate ways of providing aid, including whether we can give PRBS. There is clear [guidance on fiduciary risk assessments](#) where we provide PRBS. This will also be useful in assessing public financial management systems in non-PRBS contexts.

4.4.7 We should monitor the performance of partners' public financial management and accountability strategies to address corruption and delivery of associated reform programmes on an on-going basis, so that we can detect at an early stage any significant weakening of commitment to strengthening these systems.

## 5. Breaches of the partnership commitments

### 5.1 What is a breach of the partnership commitments?

5.1.1 We will consider that the partnership commitments have been breached if:

- i. a country moves significantly away from agreed poverty reduction objectives or outcomes or the agreed objectives of a particular aid commitment; or
- ii. a country is in significant violation of human rights or other international obligations; or
- iii. there is significant breakdown in partner government financial management and accountability, leading to the risk of funds being misused through weak administration or corruption.

5.1.2 In some cases, it might be possible and helpful to define some specific conditions, relating to the three partnership commitments, the violation of which would indicate a breach. Specific conditions allow DFID to provide clarity and predictability on what would give us confidence that the government's commitments remain strong. They can also specify what would constitute a significant breach of one of the three commitments. Appropriate conditions will be country specific, but some examples of possible conditions are set out in Table 1 below.

**Table 1: Examples of specific conditions**

Partnership commitment	Possible conditions
Poverty reduction	<ul style="list-style-type: none"> <li>• % of budget allocated to basic education and health.</li> </ul>
Human rights and other international obligations	<ul style="list-style-type: none"> <li>• Conduct of elections and fair treatment of opposition candidates during an election.</li> </ul>
Improving public financial management and accountability	<ul style="list-style-type: none"> <li>• Establishing an anti-corruption commission</li> <li>• Reducing corruption in the procurement of medicines.</li> </ul>

5.1.3 Specific conditions should not be used to impose specific policy choices on partner governments. Where governments have identified a policy approach to achieve a particular poverty reduction objective, steps in the implementation process that would be critical to the effectiveness of the policy could be used as conditions.

Where such actions are included as specific conditions, it will be important to explain why the action is critical to the achievement of poverty reduction objectives.

5.1.4 Specific conditions can be attached at the country programme level or at the level of an individual aid instrument (see section 7, Implications for aid instruments).

5.1.5 More generally, the assessment of the partnership commitments as outlined in section 4 above will inform our judgements about whether the partnership commitments have been breached.

5.1.6 The assessments and any judgements about whether partnership commitments have been breached, should take a long term perspective supported by drivers of change analysis and underpinned by information gained through discussions with government and non-government organisations as appropriate. Ongoing monitoring should provide opportunities to identify possible areas of concern and raise them early with the partner government.

5.1.7 Exceptionally a single event which was not anticipated as a condition, nor monitored through a progress benchmark, might be considered a breach of the partnership commitments if it is sufficiently serious in nature.

## **5.2 What process should we go through when we are considering whether the partnership commitments have been breached?**

5.2.1 We should agree a process with partner governments in advance and wherever possible we should aim to have a substantial period of assessment and discussion with the partner government to determine whether a commitment has been breached. Early discussions with the partner government will enable us to explain our concerns, better understand the government's position and rationale, explain possible implications of the situation for the amount of aid we deliver and/or the way we deliver it and seek solutions. We should be transparent with our partner government and the public in our partner country and in the UK about our decisions and how we reached them.

5.2.2 Wherever possible, we should agree harmonised approaches with other donors, led by multilateral organisations. On human rights issues, multilateral organisations of which we are a member, such as the EU and UN may have a comparative advantage in raising and discussing concerns and where appropriate we should coordinate our own activities with these institutions. The Cotonou Agreement of the EU specifies that all possible options for dialogue should be exhausted before entering into structured consultations under Article 96, which enables "appropriate measures" to be taken in case of perceived failure to fulfil human rights obligations.

## **5.3 How should we respond to a breach?**

5.3.1 We should respond proportionately and in a graduated way to breaches of the partnership commitments. We have a range of possible responses which are set out in Table 2 below. As we move through the responses, they increasingly lead to partner governments having less responsibility and authority over aid resources. The responses could relate to future aid commitments or, in exceptional circumstances, to in-year disbursements of a particular aid commitment. In the latter case, Ministers will need to make judgements about the balance between the case for an urgent response and the case for predictable aid.



5.3.2 It is impossible to set out in advance the appropriate response to particular types of breaches. The appropriate response will depend on:

- i) The seriousness of the specific event and the circumstances surrounding them, that lead to a breach of the partnership commitments. In particular we should consider the scale, severity and trend of the change.
- ii) The impact that any decision will have on poor people and longer term poverty reduction efforts.

**Table 2: Range of responses to a breach of the partnership commitments**

1.	Signal a possible future response
2.	Delay all or part of a specific aid disbursement to government
3.	Change the way we deliver our aid to government
4.	Switch some or all of our aid away from government to non-government channels
5.	Reduce or stop aid to the country

5.3.3 As the appropriate response will depend on judgement, decisions to cut back aid, or change the form in which it is given, will not be made on the basis of a pre-determined formula and we will not generally use benchmarks as part of a formal process of graduated response. Instead decisions will be based on a careful review of case-by-case evidence and we will use our overall assessment of progress as a basis for discussions with government and to inform Ministers' decisions about how to respond. The EC incorporates a graduated response into budget support instruments by linking disbursement of a variable tranche to achievement of specific service delivery and public financial management targets. If particular DFID country offices want to sign up to multi-donor graduated response systems, they should consult Ministers.

## **5.4 What should we do if we disagree with government strategies and processes to achieve poverty reduction?**

5.4.1 Policies and the process of policy making are important for poverty reduction. That is why an assessment of outcomes, policies and institutions is one factor in how DFID allocates its financial assistance among partner countries. DFID also engages in discussions with partner governments, and shares evidence and experience of the impact of policy reforms. Where we feel that high priority issues are not adequately addressed we should discuss our views with our partners. We should always be transparent about our views and the evidence base which informs them. We should support policy analysis including Poverty and Social Impact Analysis (PSIA) to inform policy dialogue and policy choice. See [PSIA Toolkit](#) for more information. In countries emerging from violent conflict, we should also encourage and support partner governments to use conflict assessments and other conflict-sensitive analysis.<sup>4</sup>

<sup>4</sup> [http://insight/caf/conflict\\_forum/quick\\_links/conflict\\_assessment/conflict\\_assessment.htm](http://insight/caf/conflict_forum/quick_links/conflict_assessment/conflict_assessment.htm)

5.4.2 We should only reduce aid if we judge that the policy choices made by a government move it significantly away from agreed poverty reduction objectives, or breach one of the other partnership commitments.

## **6. Working with other donors**

### **6.1 What to do if donor harmonisation conflicts with full implementation of the policy**

6.1.1 Harmonisation is a guiding principle of the conditionality policy and DFID should continue to work towards closer coordination with other donors, particularly when partner governments request this. Where, in the interests of harmonisation, country offices would like to align with others' conditionality approaches, submissions to senior management and Ministers should explain the rationale for the preferred approach. Different conditionality frameworks should not prevent donors from agreeing with government a harmonised framework of indicators which each donor can then use either as conditions or progress benchmarks according to their requirements.

### **6.2 What to do if other donors apply conditionality significantly differently from the UK**

6.2.1 If other donors apply conditionality significantly differently from the UK we should consider options other than full co-financing, such as parallel financing with an independent disbursement decision. DFID country offices should consult those approving aid (whether Senior Management or Ministers) on the case for co-financing with donors which have a different approach to conditionality. The case for co-financing should take into account other aid effectiveness objectives (alignment, harmonisation, predictability), DFID's wider relationship with the donor community in that particular country and the partner government's own preferences.

6.2.2 For the purposes of this how-to note, co-financing means that we fully delegate responsibility for decision-making to a partner organisation and our resources are delivered according to the other organisation's rules. Parallel financing means that we share project documentation and processes, but that we take an independent disbursement decision.

### **6.3 What to do if an IMF or World Bank programme is suspended, delayed or withdrawn**

6.3.1 If an IMF or World Bank programme is suspended, delayed or withdrawn we should look at the reasons why and assess whether those reasons represent a significant breach of the partnership commitments (as set out in 5.1 above).

## **7. Implications for aid instruments**

### **7.1 What specific conditions should we set in individual aid operations?**

7.1.1 Specific conditions in individual aid operations will be governed by the same principles set out in 5.1 above. A breach of any conditions set at the country programme level could lead to an interruption of any individual aid operation.

7.1.2 Conditions may also be attached to ensure that the aid is used to achieve the objectives agreed between the donor(s) and partner government. Objectives should focus where possible on outcomes and impacts leaving space for our partners to determine how they will achieve those objectives. Conditions will enable aid to be interrupted if the programme being financed is changed in such a way that the objectives will no longer be met. Before disbursing aid, it is reasonable to require from partner governments an annual workplan, budget, human resources strategy or other planning document which indicates how objectives will be met and how aid will be utilised.

7.1.3 Where aid is provided to reimburse the costs of specific activities within a broader reform programme (such as a teacher training programme or procurement of specific drugs) disbursements will only be made when specific actions have been taken by the partner government (such as delivery of the teacher training programme or procurement of the drugs).

## **7.2 What are the implications for PRBS instrument design?**

7.2.1 At the Paris High Level Forum in 2005, DFID made important commitments to greater predictability, especially in PRBS programmes. Over the coming year we will draw on the findings of the DAC Evaluation of General Budget Support to consider when it is appropriate for DFID to make longer term PRBS commitments. The evaluation might also have implications for how we deliver PRBS. The approach set out below shows the direction of travel.

7.2.2 PRBS commitments should be provided in a three year rolling framework. PRBS commitments and disbursement plans for the forthcoming financial year should be communicated to government during the budget formulation process at a time and in the form needed for finalisation of their budget. Once committed, it will only be interrupted in year if our partner moves significantly away from one of the three partnership commitments. Full disbursement should take place in the first six months of the partner government's financial year although in high risk environments we may plan two disbursements.

7.2.3 Future PRBS commitments (for years two and three of the medium term expenditure framework, and the years beyond) will be divided into two components:

- a core component of committed aid which will only be varied if there is a breach of the partnership commitments;
- an indicative component which is not committed aid.

7.2.4 The extent to which the indicative component will be confirmed as a core component in future will depend on performance against benchmarks and the effectiveness in absorbing aid. It will also depend on the overall volume and allocation of resources available to DFID. If we know that progress against specific benchmarks will be particularly important in our decision to convert the indicative component into a core component, we should communicate this to our partners.

7.2.5 The split between core and indicative components will depend on the strength of the partnership we have with the country concerned. The core component will be larger where we have an established relationship and where the partner government has built up a strong track record of implementing pro-poor reforms and achieving positive results. The larger the core component, the more fully our partner government will be able to integrate DFID's PRBS into the Medium Term Expenditure



Framework. Individual DFID country office submissions should set out the rationale for the proportions of the total PRBS commitment that will be core and indicative in each year, as well as the number of years for which a core and/or indicative component commitment will be made. In general, all our commitment for the current financial year should be core.

### **How to work with the EC and WB**

7.2.6 DFID should work with other donors, including the World Bank and EC to maximise the benefits of total budget support to the partner government. Both the World Bank and EC governance and accountability frameworks differ from that of the UK. This has resulted in their different approaches to budget support design. In the World Bank's case, other shareholders' views about conditionality partly explain the continued linkage between policy actions and disbursements. In the EC's case, the need to demonstrate to the European Parliament that budget support has an impact partly explains the approach to linking a variable tranche to achievement of specific outcome indicators.

7.2.7 However all three organisations agree that key principles for budget support are alignment with country systems and ownership. We should be able to harmonise around a country-led process, country-led plans and priorities.

7.2.8 All three organisations agree that it is necessary to monitor both actions and results and are therefore content for a mix of indicators to be included in performance assessment frameworks. All organisations also agree that all indicators and targets should be drawn from country documents, or established through national processes. Where this is problematic, because of weak national processes, DFID should work together with the WB and EC (and other partners active in the country) to ensure that, over time, country systems are able to deliver information for results-based management. Where the World Bank or EC conditionality framework is significantly different from that preferred by the UK, we should consider retaining an independent disbursement decision, rather than co-financing.

## **7.3 What are the implications for technical cooperation?**

7.3.1 The policy commits us to supporting broad-based country ownership of poverty reduction plans. When we provide TC (in the form of specialist personnel, training or research advice) to partner governments, it must not undermine country ownership of policy choices. Partner governments must be responsible for deciding the terms of reference and there should be a shared understanding of the purpose of the TC and monitoring arrangements to enhance accountability. Both donors and partner governments have responsibility for ensuring open and transparent procurement processes for the selection of consultants.

7.3.2 Technical cooperation must not be designed or used to impose specific policies on partner governments. When DFID TC is used to support policy development, it should encourage a full and open debate on the relative impact of different policy options, before the government takes a final decision on the way forward.

## 8. Monitoring and evaluation

### 8.1 What will we monitor and evaluate?

8.1.1 We will monitor compliance with the policy through existing corporate processes: Country Assistance Plans, project/programme documents, and annual reviews. We will evaluate the impact of the policy through an evaluation exercise after about three years.

8.1.2 Monitoring and evaluation of the policy will focus on the following areas:

- (i) What conditions are stipulated at the **country level**, in terms of the overall aid relationship, and/or at the individual PRBS or **project level**?
- (ii) How were these conditions agreed?
- (iii) How were decisions taken by DFID to interrupt, reduce or delay aid?
- (iv) How was the process managed (including how the decision was communicated)?
- (v) How is progress monitored?

8.1.3 The five principles underpinning the conditionality policy<sup>5</sup> have broader implications for aid effectiveness. They will therefore not be monitored as part of the conditionality policy, but through our broader corporate monitoring of DAC aid effectiveness commitments.

#### Country Assistance Plans (CAPs)

8.1.4 CAPs need to include a statement on how DFID country programmes will comply with the conditionality policy: see sections 2.1 and 2.2 about what to record in the CAP.

#### Project/programme documents

8.1.5 Project/programme documents, and not just submissions, need to contain details of conditionality, where these apply. This needs to be done for new projects, but not for existing projects. The Blue Book online formats (B4 and B5) have been revised to reflect this, so that project documents will cover the following:

- any specific conditions which are required for committed aid to be disbursed and which if not fulfilled may lead to aid being interrupted, delayed or suspended;
- a description of the process by which conditions were agreed;
- a description of the process by which conditions will be assessed; and
- a statement of any benchmarks that we will use to monitor progress (or a pointer to where these are recorded elsewhere, eg a PAF)

#### Annual Country Review processes

8.1.7 Within the annual country reviews, country offices and programme managers will be asked to report on the use of conditionality. This requirement will be situated within the broader exercise to gather data on Aid Effectiveness issues and will focus on: whether aid has been interrupted, reduced or delayed; why this was done; and

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<sup>5</sup> i.e. developing country ownership; participatory and evidence-based policy-making; predictability; harmonisation; transparency and accountability (p.2)

what process was followed (including how the decision was taken and communicated).

### **DFID Departmental Report**

8.1.8 The information from country reviews will be aggregated by DFID's Policy Division, with support from the Regional Divisions, to produce a summary statement for the Departmental Report of how DFID as a whole has complied with the policy, and short explanations of why aid was reduced, interrupted or delayed.

### **Evaluation**

8.1.9 The impact of the policy will be evaluated through a discrete exercise, approximately three years after the adoption of the policy. It is proposed that a sample of countries will be selected through two ways:

- (i) a random sample; and
- (ii) a purposive sample, selecting specific countries of interest (e.g. countries where DFID has reduced or interrupted its aid).

## **9. Publishing conditions**

### **9.1 How will we publish conditions?**

9.1.1 To publish conditions we will post CAPs and project documents on the DFID website. Where a country office records its country-level relationship in jointly shared text with the partner government that document will be published subject to the agreement of the partner government.

## **10. Key implications of the conditionality policy**

- You need to consider what document would be most appropriate to record DFID's partnership commitments. This might be a bilateral or multilateral document.
- You do not need to revisit all the existing programme/project agreements with your partner government. They should be reconsidered at natural review points.
- If an existing programme/project experiences problems and you consider reducing or stopping assistance, you should consider this decision in the light of the new policy and this how-to note.
- If the IMF or World Bank programmes go off-track, you should review the reasons and assess any implications for DFID's programme. You should not automatically suspend any UK assistance.
- When revising or reviewing the CAP, a statement on implementation of the conditionality policy should be included.
- When completing the regular DFID divisional performance review process in the autumn, you will need to provide information about cases where aid has been interrupted, delayed or suspended; alongside other information to monitor implementation of the Paris Declaration and DFID's commitments to transparency.



- When preparing new programme documents, you will need to set out any specific conditions attached to the programme so that the conditions can be published on the DFID website.

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