

What Determines the Suspension of Budget Support?

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Summary. — Although Budget Support (BS) was not designed to push political reform in recipient countries, donors have nonetheless used it to sanction democratic regress. An econometric analysis of all BS suspensions by bilateral donors in the period 2000–11 finds that suspensions effectively do reflect downward tendencies in voice and accountability, and in level of democratic functioning. The larger the in-country BS donor group, the more suspensions. Interestingly, ideological alignment between donor and recipient and aid dependence decrease the likelihood for suspensions, while domestic donor economic growth increases it; and multilateral suspensions have the largest positive effect of all.

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1. INTRODUCTION

Since the turn of the millennium, the aid business has witnessed an important shift in the conceptualization and practice of aid delivery. The move toward harmonized and aligned approaches, including the need to make aid more predictable and flexible, introduced the Budget Support modality. Budget Support refers to financial support to a country's budget, using the partner country's own financial management systems and budget procedures, thereby providing regular and flexible funding for country-led poverty reduction efforts. Budget Support, for the recipient, involves augmenting the share of freely available resources without earmarking. Budget Support was supposed to overcome some of the failures of the structural adjustment programs. The latter mostly relied on one-off ex ante conditionality, and it forced recipients to undertake unpopular policy measures (Koeberle & Stavreski, 2006, pp. 4–6). Low ownership in combination with ex-ante disbursement schemes had proven to be ineffective (Dollar & Pritchett, 1998). Moving toward partnership approaches and more medium-term perspectives on reform efforts, Budget Support was supposed to become a more continuous effort to support institutional reforms as a series of programmatic interventions, and making use of ex-post conditionalities based on actions completed (Koeberle & Stavreski, 2006). Given the fiduciary risks, BS was designed to be used quite selectively as a financing modality to support poverty reduction efforts. Only countries with a good policy environment and a government demonstrably committed to poverty reduction were to be granted this flexible aid modality. The focus on poverty reduction also implied that in principle and in design BS was not meant to be used to induce political change (or sanction the lack of it), because the instrument was considered to be unsuitable for this purpose. Indeed, the OECD/DAC guidelines clearly state that 'political conditionality should not be specifically linked to Budget Support or any individual aid instrument, but rather should be handled in the context of the overarching political dialog between a partner country and its donors' (OECD/DAC, 2006, p. 33).

Yet, like in other areas of development policy, a significant gap between rhetoric and reality has been observed. The

practice of Budget Support has strikingly diverged from design prescriptions. From the outset, many donors started channeling large sums of foreign aid through this fashionable, new-millennium flavored aid modality without being particularly selective. This deviation from the blueprint ended up compromising aid effectiveness and predictability, forcing donors to adjust by increasingly using BS suspensions to sanction 'potential breaches' in their trust relationship with recipients (another deviation from the blueprint). We apply the term "suspension" fairly broadly – it is used to refer not only to situations where BS is withdrawn indefinitely, but also to instances where BS transfers have been delayed, reduced or re-channeled, provided these actions were undertaken by donors following a 'troubling event' in recipient countries rather than stemming from factors exogenous to the recipient. Troubling events range from corruption scandals, human rights concerns or electoral fraud, to seemingly more prosaic onsets like the late production of a key report. What these otherwise diverse triggers have in common though is that they refer to a situation where BS transfers were unexpectedly¹ either canceled outright or received later, less of, or in a different form because the donor felt the recipient's performance was demonstrably lacking in some key respect, and applying a sanction (with varying degrees of severity) was a way to communicate this dissatisfaction and press for reform (bearing in mind that frequently the conditionalities attached to reinstating BS went beyond the issue that triggered the suspension). Actually our data show that the largest share of BS suspensions (41%) has been political in the sense of having been associated with regime issues (such as electoral fraud, repression of opposition movements, major human rights violations). In the same vein, corruption concerns have been raised in almost one third (31%) of the cases. In this work, we consider corruption to be more a "political" than a "technocratic" issue because accountability and transparency are increasingly seen by the international community as central to democratic rule; moreover, corruption is a core component of the 'governance turn' in development aid. This evidence thus suggests that the allocation and suspension of BS have been tied in with the use of political conditionalities. Regardless of the original policy intentions and official rhetoric, donors have been strategically

using Budget Support in reference to and as lever for political change (Faust, Leiderer, & Schmitt, 2012; Hayman, 2011; Molenaers, Cepinskas, & Jacobs, 2010).

In this context, this article is motivated by the relative paucity of scientific research into the dynamics of Budget Support in the light of wider debates about political conditionality. We attempt to contribute to the new generation of research on political conditionalities by focusing on a specific, but critical phase of the budget-support process: the logic and drivers of BS suspensions. To our knowledge, this is the very first attempt to empirically document the prevalence and assess the determinants of BS suspensions. By drawing on a new dataset (constructed by one of the authors) which documents episodes of BS suspensions² and reporting the first empirical results on their likely drivers, we seek to stimulate further research in this area.

The empirical effort is supported by the integration of two established scholarly traditions: the literature on economic sanctions and the literature on aid allocation. In relation to the former, we propose that studying BS suspensions as a subset of aid sanctions may have analytical payoffs. Although the literature on economic sanctions and the development literature on Budget Support understandably rely on distinctive rhetoric (the language of coercion and power in the former, the language of partnership and political dialog in the latter), the issues at stake are strikingly similar. For this reason, we are confident our work may contribute not only to the debate on the logic and effectiveness of Budget Support, but also to the buoyant literature on economic statecraft. The engagement with the aid-allocation literature is more straightforward. The idea is to test whether the factors shaping the allocation and suspension of aid are actually the same or not. In addition to the literatures on economic sanctions and aid allocation, we have examined a number of case studies in order to identify potential omitted variables and uncover some of the causal complexity underlying BS suspensions. Due to space limitations, the four case studies are not fully presented here; we only concentrate on the key variables informing our model specification.

Looking at BS suspensions specifically rather than aid suspensions more generally have both analytical and empirical merits. To start with, aid suspensions, in which the donor withdraws all aid, do not occur that frequently. In fact, only gross human rights violations or coup d'états on the recipient side have pushed donors into a full exit strategy.³ This has contributed to the impression that donors are too lax with regard to less drastic economic and political instances of non-compliance; that aid is given and sustained too uncritically; that donors are not committed to the values, norms, and goals they defend so vigorously in their discourse. But prevalence is not our only concern. We also believe that (total) aid suspensions do not fully capture donor practices, because more substantive variation in sanctioning behavior is both theoretically possible and empirically observed. Moreover, our paper shows that in the last decade donors have been very active in sanctioning (perceived) underperformance (albeit often in a misplaced way). Furthermore, as suggested, our data suggest that “political” considerations tend to be the trigger of BS suspensions. The salience of political motivations in a context where technocratic considerations are meant to prevail is strong evidence of the resurgence of political conditionality in the new institutional setting of aid. In this regard, the study of BS suspensions may constitute a crucial case for examining the logic of politically conditioned aid. Looking specifically at modality suspensions provides a very good overview of more

‘nuanced’ forms of aid sanctioning. Where full aid exit often implies the end of the aid relationship, other forms of sanctioning – such as BS suspension – indicate a strong signal from the donor to the recipient: it implies a breach in the trust relationship,⁴ a warning to the incumbent government to address the issues at stake, an invitation to negotiate measures so as to correct what has been going wrong through the political and/or policy dialog. Suspensions of this kind therefore go hand in hand with conditionalities, sometimes negotiated and consensual, which may be arrived at without reaching the public arena and therefore invisible to both the wider public and the research community.

The added value of this paper thus lies in the fact that it is a very first attempt to quantitatively identify which variables push a donor toward suspending BS. In order to do this, we made use of a dataset which captures all BS commitments during the period 2000–11.⁵ We then introduced into this dataset an original variable constructed by us that indicates whether a donor decided to suspend BS in a recipient country in a given year, including in our search both cases where the reason for suspension was a politically troubling event (political meaning related to a deterioration in democratic functioning, respect for human rights, corruption trends) or something else (economic underperformance, off track with IMF, etc). As mentioned previously, this suspension variable captures a range of sanctioning behaviors on the part of the donor including delaying, reducing or re-channeling BS. Empirical results from estimating a linear probability model indicate that progressive donors are more likely to suspend BS, that a multilateral suspension increases the likelihood of bilateral suspensions; and that donor growth, similarity between donor and recipient, the number of BS donors, trade flows, the level of recipient country democracy, trends in voice and accountability, aid dependence and recipient per capita GDP all matter for BS suspensions. These results are robust to alternative estimation methods, the inclusion of country fixed-effects, sample restrictions and the use of an alternative dependent variable. Focusing specifically on suspensions related to political factors, progressive donors and trade flows are no longer significantly associated with Budget Support suspensions while deterioration in government effectiveness leads to more suspensions.

The remainder of this paper is structured as follows. In the next section we review the literature in order to identify the variables which might influence BS suspensions. In Section 3 we review the data and elaborate on the regression model used, followed by a discussion of our empirical results. The final section of the paper draws some conclusions and identifies further avenues for research.

2. WHAT FACTORS MAY PUSH SANCTIONING BEHAVIOR?

In this section, we provide an analytical account of the potential factors driving the suspension of Budget Support by donors. We firstly draw ideas from the International Relations (IR) scholarship on economic sanctions and secondly discuss key findings from research on aid allocation. We then complement the discussion with insights from a set of case studies conducted by the authors. The case studies are not fully exposed here – we only concentrate on the variables supporting model specification. Taken together, these three sources inform the empirical analysis conducted in the following section.

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