

THE AID ARCHITECTURE DEBATE: BEYOND BUSAN

Policy brief 1 - March 2011

BUDGET SUPPORT AND POLITICAL CONDITIONALITIES

The Research Platform on Aid Effectiveness is based at the Institute of Development Policy and Management (IOB, University of Antwerp, Belgium). This Platform studies the 'new aid architecture' (NAA) from four angles: (1) political economy of aid, reform and governance; (2) monitoring and evaluation; (3) gender; (4) macroeconomic and fiscal dimensions of aid. Policy briefs summarise the most important findings of research carried out by the team, and present its key recommendations. This brief sheds light on how donors use budget support and the policy/political dialogue in moments of crisis.

PART I: EVIDENCE

Introduction

General Budget Support (GBS) is considered the modality par excellence for delivering aid in accordance with the principles of the Paris Declaration (PD). It has become an important component in the aid portfolios of the donor community in many aid-dependent low-income countries. Lately, it has also become the subject of sharp controversy. Designed to function as a flexible financing instrument to support technocratic reforms in public finance management, GBS is now increasingly being used to push for democratic governance reforms, as was recently the case in Uganda, Rwanda, Zambia and Mozambique. These cases reveal a growing divide among donors regarding the role of GBS in achieving fundamental political reforms. This divide translates into growing tensions over the conduct of the political dialogue with partner countries and, in particular, with regard to which issues should be discussed where and by whom.

What do donors expect from Budget Support?

GBS is considered the aid modality that best serves the PD objectives of recipient ownership and donor alignment. It is a fast and flexible mechanism for financing poverty reduction strategies while providing donors leverage with which to push for much-needed technocratic reforms in partner countries. Some donors, however, consider it artificial to restrict GBS to the technocratic sphere. In effect, GBS finances the full range of policies of a government. It is therefore perceived, both in the country and abroad, as an endorsement of the political regime in place. These donors feel they have a responsibility to address governance dimensions beyond the purely technocratic. Other donors do not deny the

importance of democratic governance, nor do they deny the legitimacy of the donor community exerting pressure on recipient governments in this respect, but they feel that modalities other than GBS should be used for these purposes.

This diversity of perceptions and preferences regarding the governance focus of GBS has far-reaching consequences.

First, they influence the eligibility criteria of GBS, as well as the frequency and rigour with which donors assess compliance with these eligibility criteria. Some donors maintain high entrance criteria that contain both technocratic and democratic elements. Other donors maintain only a minimal number of technocratic entry criteria. The frequency with which these eligibility criteria are tested for compliance also varies widely within the donor community, as does the level at which the benchmarks are set.

Second, perceptions and preferences regarding the governance focus of GBS influence the relative importance that donors attach to the political underlying principles (UPs) that are specified in the Memorandum of Understanding (MOU). These principles serve as the overall contract of donors with the partner government. Should the UPs be constantly monitored? Does a breach of the UPs affect donor decisions regarding GBS or the whole of their aid portfolio? Should high-level political dialogue with the government regarding the UPs be requested only in cases of severe political crisis (e.g. a coup d'état)?

Third, these perceptions and preferences influence the ways in which donors conceive their role in the more technocratically oriented policy dialogue, as well as the extent to which they wish to address more politically oriented issues at the policy-dialogue table.

These diverging donor preferences manifest themselves most vividly when a grave political incident occurs in a GBS recipient country. Major corruption scandals, flagrant electoral fraud, the violent repression of a student manifestation, the assassination of a gay activist – all of these events trigger bitter discussions among donors regarding the status of the UPs, whether there has been a breach and, whether GBS should be used to sanction the government for its alleged misdemeanour.

Some donors may delay or suspend some or all of their GBS, making future disbursements conditional upon the implementation of reforms. They will do so even when genuine progress is being made on the technocratic front. Other donors may share the concerns regarding the political situation but do not wish to use GBS as a ‘stick’ with which to push for political reforms. These donors believe that democratic governance issues are best addressed in a separate forum (e.g. the high-level political dialogue foreseen in Article 4 of the Cotonou Agreement), with different players, and appropriate but distinct carrots and sticks.

The toolbox that donors use to assess democratic failings is also poorly developed. In assessing technocratic governance they are much better equipped. For example, donors have agreed on a common tool for assessing the quality of public finance management (PEFA), and they accept each other’s assessment exercises. When a political incident of some seriousness occurs, however, donor reactions tend to be ad hoc, and assessment reports are not shared among donors. Our own research suggests that the use of GBS to push for political conditionalities tends to be ‘curative’, aimed at resolving the immediate problem, but unrelated to a well-considered, long-term ‘preventive’ strategy regarding democratic progress in the recipient country.

How effective is GBS as leverage for political change?

It might be argued that the political conditionalities that are implicit in the UPs are negotiated and that they therefore do not share the flaws of old-style, donor-imposed conditionalities. This argument, however, overlooks the fact that many countries that sign MOUs with donors feel compelled to do so because of their aid-dependency situations. Formal commitment to agreed-upon UPs can be easily bought, but such commitment does not guarantee implementation, nor does it forestall violations later on.

The scientific literature regarding the effectiveness of political conditionalities is not very optimistic about its success. Government ownership over donor-driven political conditionalities that are intended to constrain the power of the executive is by its very nature problematic. Political liberalisation cannot be bought with aid money. When, on the contrary, political liberalisation is driven from within the country, aid may be a facilitating factor and tip the balance in the right direction. More positively, there is some scientific evidence to support the idea that significant technocratic progress can occur without prior or concomitant democratic reform. Corruption, authoritarian practices, clientelism and nepotism are often tackled in depth only after growth has taken place and has provoked important societal changes (e.g. the emergence of a free media and an economically powerful middle-class without personal ties to the political elites). This offers donors the opportunity to sequence the reforms they wish to support and to put more emphasis on technocratic reforms.

From the perspective of aid effectiveness, the use of a single instrument (GBS) to address two very different dimensions of governance is problematic as well, particularly when – as argued here – both dimensions are not automatically mutually reinforcing, and therefore need not be pursued as joint objectives. Withdrawing GBS for political reasons may undermine considerable progress achieved with the help of GBS in areas of technocratic reform. It penalises ‘drivers of change’ in government who have successfully backed these reforms. The highest political authority, which is often blamed for the incident that triggered the crisis, is usually not hurt by the withdrawal of GBS.

It is in the very nature of a non-developmental state for the political elite to survive by capturing and distributing the meagre economic rents associated with low levels of development, instead of pursuing growth, the advantages of which it feels unsure of capturing. Political-economic analyses often lead to the conclusion that the withdrawal of GBS is a blunt and ineffective sanction.

Nonetheless, bilateral donors are eager to use GBS to sanction political incidents. One explanation offered here is that GBS is unpopular with the general public, as well as with poorly informed media and parliaments. Using GBS as a political sanction does calm the accountability pressure faced by politicians in charge of aid.

PART II: RECOMMENDATIONS

There are severe limitations to what a strategy of using GBS to simultaneously sanction democratic and technocratic reforms can achieve. These two dimensions should whenever possible be disentangled, and each should be pursued using different policy instruments. By its very nature, GBS is better suited to for technocratic reform. Most aid-dependent countries are characterised by weak governance contexts, and commitment to development should not be assumed. Political institutions are shaped by deeply rooted neo-patrimonial dynamics that produce unsatisfactory economic, social and political outcomes. These contextual factors are unlikely to change in the near future. Donors must accept the fact that, in many cases, tiny steps towards 'good-enough governance' are the best that can be expected of aid.

Starting from a profound understanding of what actually exists, donors must work patiently towards gradual change. A major complicating factor is that the intricacies of effective aid policies are very difficult to convey to taxpayers in donor countries. Although budget support may be the favoured modality of aid experts, it is unpopular with the general public in donor countries. Donor politicians therefore have a tendency to cut back on GBS whenever unpalatable events occur, in order to avoid reputational damage. Another complicating factor is that the rational use of GBS is hampered by the political shift to the right in several European countries that have been major advocates of this aid modality in the past. This testifies to the importance of home constituencies and the close link between aid and public opinion in donor countries. Such pressures stand in sharp contrast to the long-term, complex institution-building goals that aid programmes developed under the Paris Declaration set out to achieve. For bilateral donors, the overwhelming importance of home politics is unlikely to disappear in the near future; a certain level of pragmatism is therefore needed in refining the principles of the Paris Declaration.

These arguments and observations lead to the first recommendation. Because GBS is concerned with institution-building and supporting developmental reforms, it should be provided in a stable, predictable way and from a long-term perspective. This implies that it should be relatively free of the pressures of an ill-informed and easily manipulated public opinion in donor countries. Channelling more GBS through multilateral channels is a possible solution. The World Bank and the regional development banks in particular have a mandate that is more focused on technocratic than on democratic aspects of development, and are better shielded from the

vagaries of public opinion shifts in donor countries. This applies to the EC as well, on the condition that it can sufficiently isolate this modality from the political role it also wishes to play, as well as from the pressures exercised by its many stakeholders.

Bilateral donors who channel GBS through multilateral agencies may nevertheless wish to remain engaged directly in GBS with limited budgets. Even relatively small GBS contributions enable bilateral donors to sit at the highest policy-dialogue tables, to address the issues they deem relevant and to speak up when they perceive imminent problems in the area of democracy. And when they use GBS sanctions as a signal in times of political crisis, the detrimental effect on technocratic reform will be less damaging due to the limited volume of bilateral GBS. But in general bilateral donors should focus more on lower-range modalities (e.g. sector budget support, SWAPs, basket funds, and projects). In financial and economic terms, sector budget support may not be fundamentally different from GBS, but it is easier to convince public opinion that it should be continued even in times of political crisis.

A second recommendation is that GBS should be used more selectively. Although it was initially seen as the aid modality that should overshadow all the others, such pre-eminence has not occurred, and it is unlikely that it ever will. One useful concept is that of an aid portfolio, composed of mutually reinforcing projects, programmes, sector budget support, GBS and technical assistance. In countries whose political elites are insufficiently committed to poverty reduction, GBS should not be used. In the past, it has sometimes been used indiscriminately, particularly by the EC.

A third recommendation concerns the political nature of aid other than GBS. Every intervention (from micro to macro; from projects to policies) re-allocates resources and affects power relations. Even the most technical project or the most technocratic reform produces political consequences: who gets access to what, how and when. Designing interventions in such a fashion that they benefit the poor requires knowledge of the local context, as well as diplomatic skills and considerable political acumen. Technical knowledge without political insight and sensitivity is a recipe for failure. From this perspective, all donors should think politically, even when they are acting technocratically. This requires a fundamental rethinking of professional skills in aid agencies.

The fourth and final recommendation concerns the use of instruments of political pressure other than GBS. Donors have the right and duty to support democratic change that is driven from within. To do so, they should draw on a broader array of

instruments. And instead of merely reacting to political crises, they should develop proactive strategies at different levels. At the highest politico-diplomatic level, a separate high-level forum should address issues of democratic governance. For example, adopting a proactive approach to certain systemic shortcomings that can lead to cyclical crises (e.g. elections) may help to realise gradual improvements in existing political institutions.

Unforeseen events may also be evaluated in this forum. It is important for this forum to have its own set of 'sticks' and 'carrots', unrelated to aid envelopes. Smart diplomatic and legal sanctions that accurately target perpetrators and those responsible for a human rights crisis may have a greater impact than the blunt withdrawal of GBS. The above-mentioned top-down strategy must be combined with bottom-up processes of democratic institution-building (e.g. strengthening parliaments, political parties, the private sector, media and civil society).

References and project information

- Molenaers, N. & Nijs, L. (2011 forthcoming) "Why the European Commission fails to adhere to the principles of good donorship." *European Journal of Development Research*.
- Molenaers, N., Cepinskas, L. & Jacobs, B. (2010) "Budget Support and Policy/Political Dialogue. Donor Practices in Handling Political Crises." (Study commissioned by DGD).

- IOB Discussion Paper 2010.06*, Antwerp, 57 p.
- Molenaers, N. & Nijs, L. (2009) "From the Theory of Aid Effectiveness to the Practice: The European Commission's Governance Incentive Tranche." *Development Policy Review* 27 (5): 561-580.
- Molenaers, N. (2008) "The New Aid Approach: the jury is still out. A reaction to the Special Report on the Dutch Africa Evaluation." *The broker online, connection worlds of knowledge. Issue February 2008*. Available online: http://thebrokeronline.eu/en/dossiers/special_report_the_dutch_treatment/the_right_medicine
- Molenaers N. & Nijs L. (2008) "The bumpy road from Paris to Brussels: Aid effectiveness principles and the European Commission Governance Incentive Tranche." *IOB Discussion Paper 2010.08*, Antwerp, 29 p.
- Molenaers, N. & Renard, R. (2008) "Combine Generous Aid with Clear Signals. Comment on the Special Report: Wobbly Legs." *The broker online, connection worlds of knowledge. Issue June 2008*. Available online: http://www.thebrokeronline.eu/en/dossiers/special_report_wobbly_legs/commentary/combine_generous_aid_with_clear_signals
- Molenaers, N. & Renard, R. (2008) "Policy Dialogue under the new aid approach, Which role for medium-sized donors? Theoretical reflections and views from the field." *IOB Discussion Paper 2008.05*, Antwerp, 42 p.

This brief was prepared by Nadia Molenaers (nadia.molenaers@ua.ac.be) and Robrecht Renard (robrecht.renard@ua.ac.be).

The Research Platform on Aid Effectiveness is financially supported by DGD Belgium through VLIR. For more information about the Research Platform on Aid Effectiveness: http://www.ua.ac.be/dev/aid_effectiveness