

When Good Performers Go Astray: Budget Support and Democratization in Africa

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Introduction

Budget support - that is aid provided directly to recipient government budgets - has become a core instrument of donor programmes in many African countries which have demonstrated a commitment to poverty reduction and good governance. Budget support is intended to provide predictable funds to support national development strategies, based on a strong partnership relationship. However, over recent years there have been several incidents of budget support being frozen, cut, delayed or re-allocated by a range of multilateral and bilateral donors. There are various reasons for this, including slippage on meeting macro-economic conditions, weak financial management, allegations of corruption and decisions about resource allocation made in the donor country. But another reason has been recipient performance with regard to multiparty democracy, including the use of repressive tactics against opposition politicians or parties, flawed elections, or repression of civil liberties. Within Africa, this has happened in countries such as Uganda, Ethiopia, Malawi and Rwanda. Although there is more recognition of the political dimensions of budget support, evaluations of this instrument have paid insufficient attention to the more hidden political aspects, including the implications for the democratic process.

This paper addresses the use of budget support to punish deviation from democratic principles. Drawing on the examples of Ethiopia, Uganda and Rwanda, it questions how decisions to cut or freeze budget support over democratic issues are made, and the impact of these decisions. The public response from African leaders has been to denounce the intrusiveness of donors into political affairs, and the obvious impact is sometimes limited. Again various reasons can be advanced for this, including that donors do not necessarily take a united stance on such matters and their real priorities lie elsewhere, so overall aid flows remain largely unaffected. However, there are important implications in the increased use of political conditionality around budget support. This paper assesses whether budget support can be a viable instrument for pushing governments which appear committed to development but not necessarily committed to democracy in the 'right' direction.

Budget Support and Political Governance

Aid in programme form (as opposed to discrete projects) has come and gone as a favoured instrument throughout the history of aid, manifesting itself in different ways such as balance of payments support or structural adjustment loans. In the mid 1990s programme aid re-emerged in connection with the poverty reduction agenda, leading to the rise of targeted aid delivered directly to central budgets and specific sectors, known as general budget

support and sector budget support respectively. Beyond mere cash flows, however, budget support in its latest manifestation sits within a strategic framework which comprises funds to the national budget, conditions regarding macro-economic stability and pro-poor policy, policy dialogue, technical assistance for capacity building, alignment of aid with national goals and systems, and harmonisation with other donors (Booth and Lawson, 2004). Budget support, therefore, is more than a funding mechanism; rather it is a 'package'. Unlike earlier programme approaches which primarily aimed at providing short-term cash injections to stabilise weak or failing economies, budget support in its contemporary form has a long-term development focus.

The early theorising behind budget support in the 1990s hinged on a number of perceived benefits, including macro-economic effects (economic stability, increased social sector spending and promotion of a conducive environment for private investment), the empowerment of the recipient government, enhanced efficiency of public expenditure, the strengthening of intra-government incentives and capacities, and poverty reduction in terms of pro-poor growth and empowerment (Booth and Lawson 2004). Unwin (2004) adds to this list the benefits of predictability and stability through long-term commitments from donors, the reduction in transaction costs through the integration and coordination of donor support, and the space provided for greater dialogue around governance agendas. For Killick (2004) programme aid is considered to be superior in terms of "stronger influence on the policy environment, superior ownership properties [and] greater overall coherence". And as Barkan (2009) observes, budget support also provides a means of disbursing larger amounts of money with lower administrative costs on the recipient side. In the light of commitments made by donors since 2002 to increase aid, particularly to the poorest countries and Africa, the ability to move money faster and more efficiently without requiring complex management systems makes budget support an attractive instrument.

Over the last decade, budget support has gained in importance as an aid instrument. Budget support now accounts for around half of lending from the World Bank through the International Development Association and around half of grants provided to Africa under the Poverty Reduction Support Credit mechanism (Barkan 2009). It has significantly increased the size of central government budgets in a number of African countries, for example by 23 percent in Mozambique and 18 percent in Uganda in 2004 (Knoll, 2008). With the notable exception of the United States, nearly all OECD-DAC donors now provide either general or sector budget support.

In a further shift from earlier forms of programme aid, budget support is premised upon a strong partnership between donor and recipient tied in with the drive to make aid more effective and efficient.¹ As such, budget support is considered to represent a move away from conditionality-based aid to a more performance-based 'contract' of mutual commitments between recipient and donor. The partnership is based upon the recipient being committed to good governance in the interests of poverty reduction. Donors for their part are investing heavily in building up the capacity of governments to absorb aid, manage their public finances, and effectively account for their use of aid. So although the overt conditionality of past aid approaches is considered to be gone, the budget support framework includes a series of expectations around recipient systems, policies and practices and therefore still revolves around the reform of the state (as we saw under earlier approaches, such as structural adjustment). It is strongly tied, therefore, with demands for better governance.

¹ The drive on 'Aid Effectiveness' is captured in a series of global agreements, most notably the Paris Declaration on Aid Effectiveness (see Hayman 2009a).

The basis of the partnership has come in for heavy critique, however. Given that budget support is largely provided in highly aid-dependent countries where the governments are often weak, this essentially equates to “an immense leap of faith” (Unwin 2004). While donors are actively seeking to strengthen public accountability as part of the budget support ‘package’ outlined above, it is extremely difficult to track exactly where aid provided in this form is going. Consequently donors are placing considerable faith in their partners to use the aid for the intended purposes and to use it well. The concept of ‘trust’ is therefore central to the partnership. As the UK policy on budget support states, this instrument requires “a measure of trust on all sides” (DFID 2004: 11). This issue of trust in relation to budget support is explored by Mosley and Abrar (2005) who highlight that particular ‘signals’ regarding fundamental principles help to maintain the relationship, such as high pro-poor expenditure, low military expenditure, and low corruption, framed by regular dialogue. Trust is won and sustained by a combination of the recipient establishing a coherent pro-poor strategy and doing this in a pro-active way, i.e. demonstrating that the pro-poor approach is recipient-led rather than donor-led. Where these fundamentals are in place, aid – including as budget support – is increasing, and there is more stability to that aid. Moreover, the consensus that exists in these relationships creates a situation where “slippage on some performance criteria are condoned as long as trust concerning fundamentals remains” (Mosley and Abrar 2005). Hence there are countries where some governance concerns have existed, for example corruption in Uganda and Mozambique, but the trust overall remains and so does the support package.

But the problem of trust in an aid relationship return us to the question of conditionality outlined above. Several analysts feel that programme aid should only be provided to governments with a proven track record (Killick 1998; Mosley and Eeckhout 2000; White and Dijkstra 2003), and there are concerns that through this instrument, donors risk bolstering or artificially strengthening poorly-performing states (Clapham 1996: 183). As Renard (2006) observes, without some rethinking of conditions, the provision of “non earmarked budget support associated with non credible conditions amounts to writing blank checks.” Indeed, Renard considers that aid provided as budget support provides a different sort of leverage than was feasible with projects.

Early evaluations of budget support, and there was a raft of these around 2004-05, focused heavily on the technocratic dimensions of budget support - predictability, absorption capacity of recipient governments, its impact on public financial management, the problems of increased dependency, and its potential for enabling poverty reduction.² As understanding about how budget support works in practice grows, the political dimensions are becoming more exposed. For example, there are new concerns about increasing domestic accountability and notably the involvement of parliaments and civil society in budgetary processes (de Renzio, 2006). Budget support, therefore, carries another assumption, namely that “governments of recipient countries are genuine representatives of their peoples chosen through democratic processes” (Hadziyiannakis and Mylonakis, 2006). Inherent within the approach to governance which frames budget support is the notion that a good performing government is bound at least by a commitment to the basic tenets of liberal democracy. This is illustrated within the partnership agreements that have been established to frame budget support relationships. For example, the joint Memorandum of Understanding between the government of Rwanda and budget support donors, signed in 2008, has as its first underlying principle upon which budget support is provided: “mutual commitment to the promotion of: peace and security in Rwanda and the region; human rights; democratic principles; the rule of

² See de Renzio (2006) and Koeberle, Stavreski and Walliser (2006) for good overviews.

law; good governance; and integrity in public life, including the fight against corruption.”³ Adherence to democratic principles is only a small element of the agreement, but it is important.

Central to this paper is how this political dimension of the relationship has become a crucial issue in practice, with an increasing number of instances where flows of budget support have been affected by digression from democratic norms. This has implications for the future of budget support as an aid instrument, as well as much more broadly for external influences on democratic change in Africa.

Going astray: the freezing of budget support

Evidence about the real impact of budget support, and whether the range of benefits it is purported to offer are transpiring, is only beginning to emerge. However, the “political vulnerability of [General Budget Support] in case of governance crises” (de Renzio, 2006) and corruption is raising its head as being of particular concern. Predictable funding might be one of the watchwords of budget support, but there are numerous incidents of budget support being cut or frozen by donor agencies, often with little prior discussion, in response to some transgression on the part of the recipient government. Sometimes these instances are the result of slippage in administrative governance or in response to charges of corruption. For example, this happened in Malawi between 2001 and 2003 when the country went off-track with the IMF thus triggering the suspension of budget support from the United Kingdom, Sweden and Norway. Corruption in Mozambique’s banking system led to a temporary suspension of budget support in 2001. There were delays and reductions in some budget support to Tanzania in 2003-04 over slow progress with the Public Financial Management Reform Programme. Kenya saw the World Bank halt budget support in 2000 over corruption and governance issues and it has not been resumed, while other donors have been reluctant to move beyond sector budget support in Kenya over similar issues. But on several occasions, the reasons behind the halts in budget support have been specifically linked to political governance and in particular to democratisation processes or military activities. Examples of this include Rwanda, Ethiopia, Uganda, Benin, Malawi, Nicaragua and Honduras. In Kenya, the political crisis following the elections of 2008 influenced donor willingness to consider general budget support. In the paper, we will focus particularly on the examples of Ethiopia, Uganda and Rwanda.

Uganda

Uganda depends for around 45 percent of its budget upon donor support. In October 2009 eleven donors (the World Bank, the African Development Bank, the European Commission, the United Kingdom, Denmark, Sweden, Norway, Germany, Ireland, Belgium and the Netherlands) signed a Joint Budget Support Framework, building on a Joint Assistance Strategy which was agreed in 2005 initially involving the African Development Bank, Austria, Germany, the Netherlands, Norway, Sweden, the United Kingdom and the World Bank. Both general and sector budget support are consequently central sources of funding for the Ugandan government, and Uganda has been a front-runner on many aid effectiveness issues. However, several of the above donors remain reticent about the provision of general budget support to Uganda. There have been two clear instances where

³ ‘Memorandum of Understanding governing the provision of direct budget support in the implementation of Rwanda’s economic development and poverty reduction strategy’, October 2008.

budget support was interrupted over governance concerns. The first was in 2002-03 when all budget support donors delayed disbursement over a substantial increase in the defence budget; the UK, Ireland and the Netherlands cut their budget support. The second was in 2005-06 as a direct consequence of political developments.

Up until the early 2000s donors were fairly tolerant of the 'no-party' political system in Uganda. The country was recovering well from conflict and performing impressively in terms of socio-economic development. However, this tolerance began to dissipate in the mid-2000s as manipulation of the political system by a patrimonial elite became more widespread, as corruption began to increase, and as the conflict in the north of the country dragged on. In early 2005 donors began making noises about cutting budget support if there was no progress on political reform. A return to multiparty politics was approved by referendum in July 2005. However, the constitution was also reformed in 2005 to enable President Yoweri Museveni to stand for a third term. The harassment of opposition politicians in the run-up to presidential elections in 2006 proved a step too far for several donors. By December 2005, the United Kingdom, Norway, Sweden and Ireland had all cut back on their budget support to the country, and several had announced that decisions on the release of further funds would be dependent upon the outcomes of the elections in 2006. The World Bank also announced in 2005 that it would consider reducing aid, as did the United States, although this was over corruption in the use of aid; the European Commission entered into an Article 8 dialogue as outlined in the Cotonou Agreement, but did not withhold aid.

Although the results of elections in March 2006 were accepted as reasonably fair, most of these donors have adopted a much more cautious approach since then, citing ongoing concerns about corruption and poor governance. Rather than being cut altogether, most donors redirected the withheld budget support to sector support or to humanitarian assistance for addressing conflict and reconstruction in the north. For example, the United Kingdom withheld £5 million in April 2005 which was not disbursed until late 2006. A further £15 million was redirected from budget support to humanitarian relief in December 2005, making a total cut of £20 million out of a planned £50 million for 2005/06. Budget support remained at around £35 million per year up until 2008/09, significantly below anticipated amounts. In April 2006, Sweden released withheld budget support, disbursing around USD 4.7 million in budget support for 2005/06, which was about half the amount originally planned for the year. Like the UK, much of the cut funding was redirected to humanitarian assistance for northern Uganda. Norwegian budget support remains earmarked for particular sectors of the Poverty Action Fund.

Despite this, aid to Uganda remains high, and it remains a favourite country for donors. For example, the European Commission has given Uganda MDG Contract status. Net ODA for 2007 was USD 1,728 million up from USD 1,195 million in 2005.⁴ There is still some wariness, demonstrated by the provision of earmarked and sector budget support rather than general budget support, and reports by donors on Uganda continue to highlight governance challenges. However, the signing of Joint Budget Support Framework in October 2009 is a clear indication that an increasing number of donors are willing to work in a harmonised fashion to support the Ugandan government's development efforts.

Ethiopia

Ethiopia has been less of a 'donor darling' than Uganda, but it too has received substantial support because of its apparently genuine commitment to poverty reduction and

⁴ OECD-DAC 'Aid at a Glance: Uganda', 2009. From <http://www.oecd.org/dataoecd/12/32/1883200.gif> [accessed 13 November 2009]

socio-economic development with aid increasing throughout the 1990s. Ethiopia's war with Eritrea in the late 1990s saw the first wobbles in the relationship as donors worried about aid being used to fund the military campaign. At this time, while the World Bank continued to fund development activities, bilateral agencies focused more on humanitarian channels. However, from around 2000 the country did begin to receive more budget support from bilateral donors, linked to the country's efforts to achieve the Millennium Development Goals, with aid doubling between 2000 and 2004 (Furtado and Smith, 2009). However, in 2005 – the same year that President Meles Zenawi was sitting on the Commission for Africa and espousing the need for good governance in Africa – a crack-down on the opposition in the wake of controversial elections left 46 people dead and saw thousands detained; budget support was frozen by the United Kingdom and the European Commission. Other donors followed suit, resulting in a very coordinated decision to rethink budget support to the country. The loss in revenue from aid to the government amounted to around USD 375 million, out of a total aid package worth around USD 1 billion, in 2005-06. There had been plans in place by donors to increase budget support to USD 500 million in 2006.

As in Uganda, the frozen budget support was reallocated within the country. For example, the United Kingdom reallocated its aid to sector-specific activities, notably education and water, and to humanitarian activities through multilateral agencies. Others reallocated their assistance to regional authorities. Nevertheless, as in Uganda, aid amounts overall continued to increase rising from USD 1,916 million in 2005 to USD 2,422 million in 2007.⁵ By 2009 no donor had resumed general budget support; instead donors were either providing earmarked sector budget support or contributing to a special programme called the Protection of Basic Services which enables resources to continue to flow to the public sector in the form of federal-regional block grants but over which donors have intense scrutiny. Tensions between donors and government remain with the government clamping down on the activities of human rights organisations in the country in 2008, and restricting foreign funding of local civil society organisations.

Rwanda

Rwanda is a slightly different example to Uganda and Ethiopia. Here budget support cuts and delays have been primarily linked with Rwanda's military actions in the Democratic Republic of Congo (DRC), but they have also been affected by issues related to the democratisation process. In the late 1990s a group of donors, notably the World Bank, the European Commission, the United Kingdom and Sweden, began pushing for more aid to be provided to the Rwandan government in the form of budget support. They argued that Rwanda's unique history and post-genocide challenges constituted grounds for it to be treated as a 'special case' for assistance. Budget support was therefore provided even though some of the conditions for its optimal use were not in place, such as robust accountability systems. However, while these donors began providing budget support, other donors were much more hesitant, citing Rwanda's weak capacity for accountability, human rights abuses, military activity in the DRC, and concerns about the democratisation process as reasons for not engaging too closely with the government. The Netherlands, for example, which did consider the country to fulfil most of the technical requirements for receiving budget support was not able to provide it because of pressure placed on parliament back home by a strong civil society lobby over Rwanda's poor human rights record. Despite this, by 2003 budget support

⁵ OECD-DAC 'Aid at a glance: Ethiopia', 2009. From: <http://www.oecd.org/dataoecd/21/7/1880804.gif> [accessed 13 November 2009]

accounted for around 70 per cent of aid flows reported in the Rwandan budget, totalling around 51 billion Rwandan Francs.

In 2004 and 2005, however, budget support instalments from the United Kingdom and Sweden were delayed. 2003 and 2004 were turbulent years in Rwanda. 2003 saw the conclusion of the constitution-writing process, followed by parliamentary and presidential elections, which were considered to be flawed by many observers including the European Union, but in general the results were accepted given the circumstances. In 2004 tensions resurfaced with the DRC, with accusation of incursions by rebel groups into Rwanda from the DRC and retaliation from the Rwandan army. Poor harvests added to the mix and Rwanda went off-track with the IMF (IMF 2004). Given the cross-conditionality system in place, this of itself created problems for the disbursement of budget support instalments by some donors, notably the European Commission. In 2004 and early 2005 disbursements from the UK were delayed every quarter, with the delays linked to both IMF negotiations and political qualms in the UK about Rwanda's intentions vis-à-vis the DRC.

Between 2005 and 2008 relations resumed and stabilised, with Germany, Belgium and the Netherlands joining the list of general and sector budget support donors. Total budget support accounted for around 20 per cent of the country's budget by 2009. Overall aid substantially increased, rising from around USD 335 million in 2003 to over USD 700 million by 2007.⁶ However, in December 2008, following renewed tensions in the DRC which saw Rwanda accused by the UN of supporting a rebel general, Sweden and the Netherlands froze their general budget support. Despite the Rwandan and Congolese governments reaching agreement in January 2009 on jointly dealing with security issues in the eastern DRC, neither the Netherlands nor Sweden have resumed their budget support. Now they are citing concerns over the political process and are holding off on decisions until late 2010, following the next budget support review. With presidential elections scheduled for August 2010, these donors are also awaiting the outcome of these elections before considering resuming budget support.

Budget support increased in importance in Rwanda up until about 2008, with a new joint Memorandum of Understanding signed between the government and budget support donors in October 2008 to frame the relationship, including outlining a process for dialogue in the case of a breach of 'fundamental principles'. Now the total amounts are stagnating. In the mid-2000s there was an assumption in Rwanda that donors would gradually shift from project aid to general budget support, with sector budget support seen as an interim step along the way. What appears to be transpiring in Rwanda is that donors are increasingly adopting a rather mixed bag of aid instruments, combining projects, earmarked and non-earmarked sector budget support, basket funds, silent partnerships, and earmarked and non-earmarked general budget support. Providing budget support in any form gives donors a seat at the budget dialogue table in Rwanda, a chance for donors to engage government on decisions about how the budget is spent, problems with over-spending and under-spending, and insider knowledge about capacity needs, etc. Donors are fairly frank about the democratisation process in Rwanda, seeing potential risks in a rapid opening of the political system. At the same time, they are increasingly concerned about ensuring that democracy remains the only political option, and are putting more money into bolstering domestic political accountability mechanisms in the country in a bid to boost the process.

Recipient responses and donor ripostes

⁶ OECD-DAC 'Aid at a glance: Rwanda', 2009.

The reaction to the freezing and halting of budget support was very similar across these three countries – frustration at one-sided decisions which undermined partnership principles, and anger at donor meddling in matters which these governments considered to be outside their remits. In Ethiopia, relations became the most acrimonious with the government more or less cutting off communication with donors. Apparently donors and government barely spoke for the six months following the violent clashes between government forces and the opposition in Addis Ababa in November 2005 (BBC News, 1 Aug 2006). The head of the European Commission delegation said that the door was open for dialogue but the Ethiopian leadership was not engaging. The Ethiopian President, Meles Zenawi, for his part stated that “We are eager to engage the donor community in dialogue, but we would want to establish that dialogue on the basis of a number of principles...the first is predictability. Development assistance should not be turned on and off” (BBC News, 1 Aug 2006).

President Museveni of Uganda was equally vocal: “We shall be able to demonstrate that Africa can manage without that aid especially when that aid is arrogantly mixed up with an effort to interfere with our sovereignty” [REF TO ADD] In response to Norway’s cutting of budget support in July 2005, the Minister of Information is quoted as saying: “For a country like Norway that espouses democratic values to then turn round and say they don’t like what we have decided is unprecedented and very unhealthy” (BBC News 19 July 2005). In December 2005 Museveni responded similarly, saying that he would not yield to pressure from donors (Robert, 2005).

Rwanda has long been fiercely critical of donors that apply conditions to aid, employing a national security discourse that reminds the international community of its guilt in relation to the genocide whenever external actors criticize it (Hayman 2009b). In response to the freezing of Dutch and Swedish budget support in December 2007, President Kagame told Rwandans that it was time to think beyond aid and become more self-reliant. Kagame apparently “accused the donors of using the controversial reports that are published for the own convenience, adding that before they cut the aid, they first influence the reports to form a basis for their withdrawal of aid” (Voice of America, 19 December 2008). The Minister of Finance and Economic Planning was adamant that the suspension of aid would not affect the government finances, and that they were not concerned that this would be anything more than temporary given previous such incidents (The New Times, 24 December 2008). The head of the Budget Support Donors Group in Rwanda said in an interview in September 2009 that the government was particularly frustrated with Sweden and the Netherlands for not following the procedures for dialogue outlined in the Budget Support Memorandum of Understanding.

The two key complaints coming from the recipient side are the breach of the commitment to provide predictable aid, which undermines the theory of budget support and aid effectiveness agreements on mutual accountability, and the hypocrisy of donors in interfering in sovereign affairs and particularly democratic processes. The donor rebuttal to this is that under the partnership frameworks for budget support, certain expectations are made of recipient governments regarding governance matters, including political governance. If a recipient is considered to be in violation of fundamental principles, then donors reserve the right to withhold or reallocate budget support. To take an example, at the time the UK delayed disbursement of budget support instalments to Rwanda in 2004, the relationship was framed by a Memorandum of Understanding signed by both governments in 2004. The Memorandum provided for a formal dialogue process prior to any changes in disbursement of budget support funding. This procedure was further outlined in the UK’s policy paper on conditionality related to budget support, which states:

Where it is necessary to reduce or interrupt aid, we will make the decision based on criteria and processes agreed with our partner country in advance. The process will allow for a substantial period of assessment and discussion between the developing

country government and donor agencies. Any planned disbursements will continue during the period of dialogue. Dialogue is particularly important when several donors have conditions in the same areas and there is a risk of countries losing a substantial amount of aid at short notice by failure to adhere to certain conditions. (DFID 2005: 13)

However, when the decision was taken to delay budget support to Rwanda in 2004 this procedure was not adhered to (Killick, Katumanga and Piron, 2005) with the UK taking a unilateral decision to withhold funding. The UK justified its position by claiming that the Rwandan government had been acting in a manner "inconsistent" with commitments, that it was "right and necessary" to withhold budget support, and that "Rwanda's threat posed an immediate and extraordinary hazard to regional peace and security". This was considered to constitute the "exceptional circumstances" under which the UK could renege on its agreement to provide predictable support (Press Release, HMG, 10 June 2005). On the Ethiopian case, British Secretary of State for International Development, Hillary Benn, asserted that:

The UK [Britain] is seriously concerned about governance, human rights and the detention of and serious charges faced by opposition, media and members of civil society... Because of our concerns over the political situation, I have told the Prime Minister that we cannot provide direct budget support under the current circumstances... There has been a breach of trust. (IRIN News 19 January 2006)

Symbolic gestures or a serious drive for political reform?

To what extent have these budget support freezes or cuts made a difference? Museveni remains at the head of a neopatrimonial regime beset by corruption charges. The Ethiopian government continues to repress legitimate political opposition, with a leading opposition figure once again arrested in late 2008. Local elections in 2008 saw many seats uncontested by a seriously weakened opposition (Human Rights Watch, 2009). Rwanda has improved its relations with the DRC but donors are less than convinced that the presidential elections scheduled for 2010 will be truly free and fair. Yet, all of these countries continue to receive huge quantities of foreign aid. None of the donors who froze or delayed their budget support have completely halted bilateral programmes in these countries, and often the total amount affected has been small in comparison to overall packages. So what is the real impact of these actions? Are donors merely making a symbolic gesture, giving a message of their displeasure? Does the shift to alternative instruments seriously affect the recipient government? And can such actions provide a real push for political reform?

Making causal links between such incidents and outcomes is notoriously difficult, as is establishing causal links between any aid instrument and results (Riddell, 2007). Nevertheless, there is some indication that donor pressure did have some effect in these cases. Human Rights Watch, for example, claims that the threat to withhold budget support early in 2005 in Uganda put pressure on the government to hold a referendum on multiparty politics (Human Rights Watch 2006). In Rwanda, donor pressure is considered to have pushed the Rwandan government into dialogue with the Congolese leadership in early 2009.

However, on the whole these governments have been very resistant to pressure from budget support donors. Furtado and Smith (2009) observe that donors have relatively limited influence over the Ethiopian government, due to its history of autonomy from aid and their growing distrust of donor intentions. Because the government remains poverty-focused despite its governance record, donors have remained keen to engage and have just sought other means to do so. Moreover, the strategic position of Ethiopia makes it a key partner of

the United States. As mentioned above, Rwanda has long used the failures of the international community during the genocide to maintain a distance from donor pressure, and donors have limited influence over Rwanda's core security priorities (Hayman, 2009b). What these regimes have in common is their post-liberation status, having taken control on the back of a civil war (Dorman, 2006). These are strong states which, while willing to entertain a degree of opening to political pluralism and while having a serious concern with socio-economic development, also have strong authoritarian or neopatrimonial tendencies. There are, however, other states in Africa which have been subject to donor pressure through budget support which have been less willing to take a strong stance against donors, for example Ghana, Mozambique, Benin, Tanzania and Mali, implying that there might be a 'right' environment where budget support can really work (Barkan, 2009; Whitfield, 2009) or where political conditionality associated with budget support might work.

The examples of Ethiopia, Uganda and Rwanda, however, demonstrate firstly that even though budget support donors provide crucial resources their real influence over domestic political processes is limited, and secondly their willingness to continue supporting these countries through other means remains strong. This begs a series of questions. Firstly, how crucial is democracy and democratisation to these donors? Although assumptions about democratic norms underpin most donor programmes, each donor accords different degrees of priority to governance issues. Moreover, many studies have demonstrated that governance approaches of donors rest upon very different definitions and understandings of governance (see, for example, Crawford, 2001; Abrahamsen, 2000). This emerges within the budget support frameworks where Mosley and Abrar (2005), for example, note how there have been real problems in defining the fundamentals. There is a lot of scepticism about how serious donors are about democracy, and many of the gestures that have been described here reflect a concern with appeasing domestic constituents in donors countries rather than a real engagement with political developments on the recipient side. That said, however, donors do appear to be taking on board the emerging message about the need to engage more with domestic political processes if budget support is to achieve its objectives (de Renzio, 2006). In Rwanda, for example, there has been a rise in new programmes and projects aimed at strengthening vertical accountability mechanisms – between government and parliament, and between government, parliament and civil society. Governance assessments are also increasing as an instrument for arriving at a consensus on understandings and expectations of governance, although Rwanda remains the one country which has achieved a fully coordinated joint governance assessment (DAC Network on Governance, 2009).

Secondly, if democracy is important why do we see inconsistency across recipient countries? Other countries in Africa have equally dubious records on corruption, the rigging of elections and political pluralism, but we have not seen similar freezes in the provision of budget support, for example in Mozambique or Mali. The response of the European Commission has differed even across our three sample countries.

Thirdly, the overarching question is whether budget support is an appropriate tool for pressing for political change. The main basis for the provision of budget support is a government committed to poverty reduction, with good – or at least improving – accountability in terms of public financial management. The governments outlined here all remain developmentally-oriented, and donors are clearly not inclined to walk away from these countries which are performing relatively well in socio-economic terms. The evidence on democracy aid points to limitations to what donors can achieve through democratisation programmes (Carothers, 1999; Brown, 2005). Likewise the evidence on political conditionality highlights how ineffectual it can be (Crawford, 2001; Uvin, 2004). Can budget support be a viable instrument to push for democratic reform? The leverage that it affords, and the dialogue that it engenders should mean that budget support could have some impact.

Policy dialogue is a central component of the budget support package. And that dialogue is changing from “mostly a technical dialogue about capital, technology and organization, to an all-encompassing political dialogue about the structure of society and management of society’s development processes” (Degnbol-Martinussen and Engberg-Pedersen 2003: 41). Through their provision of budget support, donors increasingly expect a place at the policy-making table on a very broad range of areas, including having greater access to negotiations about how public money is spent in developing countries. Budget support donors should also have greater leverage, as the budget support tap is easier to “turn on and off” (White and Dijkstra 2001: 19), and recipients are increasingly dependent on external resources for macro-economic stability.

However, dialogue requires trust, something which emerges again and again as being central to a budget support relationship, a term used repeatedly in the discourse of donor and recipients alike. Mosley and Abrar (2005) – exploring breaks in the delivery of budget support before some of the incidents described in this paper – highlight a moral hazard problem with budget support, namely that once a recipient has been selected to receive long-term budget support on the back of a relationship of trust, then they are essentially insured against punishment for poor performance, and hence there is less incentive to produce good performance. The examples of Uganda, Ethiopia and Rwanda demonstrate that the trust can be easily eroded on both sides of the partnership; here we saw that the slippage was too much for donors to continue condoning. Ethiopia is the one example where there was a real unified donor position on scaling back budget support; in the other countries a lack of donor coherence has undermined the overall message. But even in Ethiopia, there is clearly a limit to what budget support donors can achieve in terms of pushing for democratic reform. Budget support is an instrument that can be used to give a message, but in the instances described here the impact has been limited as the break was only temporary and partial. Moreover, the ongoing flow of resources raises the question of the real incentive for political elites to change. The examples explored here demonstrate that donors are willing to breach the ‘contract’ but are they really serious about punishing poor performance?

Conclusion

Budget support has a range of advantages over project mechanisms, but to borrow from Barkan (2009), it is no panacea. The jury is still out on the real impact of budget support in relation to many of its supposed benefits. And as Knoll (2008) observes, non-disbursement of budget support is not exactly helping to address aid volatility or improve predictability. Budget support is supposed to be provided on the basis of a recipient having a sound strategy and commitment to dominant principles of development and good governance. Ethiopia, Uganda and Rwanda were all considered to be ‘good performers’, and donors consequently invested heavily in these recipients. If we consider the increased aid flows to these countries, it is evident that they are still being considered as good performers which brings out the tension between ‘developmental’ regimes and democratic ones.

As evidence about the real experience of budget support continues to grow, it is becoming recognised that it is a very political instrument, leading to greater intrusion into sovereign affairs and greater expectations around policy dialogue. Governance clearly lies at the heart of the current approach to development, and it is inherent within the budget support paradigm. As de Renzio (2006) observes, the strengthening of domestic accountability mechanisms is necessary for democratisation, but it is also necessary for aid effectiveness where aid is channelled through the national budget. It therefore follows that democratisation

in terms of establishing sound domestic accountability systems is also necessary for budget support to achieve its objectives.

While multiple reasons are given for suspensions of budget support, and often it is a confluence of factors, democratic malpractice is the most controversial dimension and the real instances of tensions around budget support all relate to democratic – or rather a lack of democratic - practices. The reality is that donors have no reticence in taking unilateral decisions about halting budget support, often driven by constituent demands at home. All of this is a far cry from the early assumptions around predictability, ownership, and a partnership based on mutual respect.

2005 was in some respects a crunch year for the budget support mechanism. A first significant multi-country evaluation of budget support was conducted over 2004 and 2005, with the findings published in 2006, and a good number of analyses were published around this time. 2005 was a year that saw renewed commitments to aid for the poorest countries, and budget support was seen as one way of delivering on those commitments. But 2005 was also a year when budget support was frozen in a number of countries, raising the bar about this instrument which previously had been analysed in primarily technocratic ways. Budget support remains the stated preferred instrument of many developing countries, and it is still gaining ground as an instrument of choice for 'progressive' donors. However, recipient governments are not oblivious to the risks, especially as more and more instances of donors renegeing on their partnership agreements occur.

So what does this mean for democracy in Africa? On the one hand, donors have been charged with propping up wayward regimes through the use of budget support, and the evidence presented here does little to refute that charge. Donors appear to be more willing to use budget support as a tool of political conditionality with some very limited impact and success. It will take a lot more resolve and coherence to really use this instrument to push for democratic change on the continent, and the question remains about whether budget support should be used to this end. Donors have their sights fixed elsewhere, and although there is more appreciation of the politics of budget support we seem a long way from having an aid instrument which can take on democracy as its primary objective.

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Press articles (to add)