

**ARTICLE**

# Not such a good bargain for (the evidence on) budget support

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This is a comment on the article by Haley Swedlund and Malte Lierl, “[The rise and fall of budget support: Ownership, bargaining and donor commitment problems in foreign aid](#)” (2020), which appeared in a special issue on “Ownership in a post-aid effectiveness era: Comparative perspectives” edited by Niels Keijzer and David Black.

Swedlund and Lierl seek to explain the rise and fall of budget support from a bargaining framework on aid. This is an interesting area. Applying bargaining models for explaining aid decisions should certainly be further explored. But in my view, this particular bargaining model and the empirical evidence presented are not in line with evidence from other studies, and do not contribute much to advancing our understanding of budget support. In addition, their article does not do justice to the evidence on the positive effects of budget support.

## 1 | INTRODUCTION

Budget support is aid that can be freely spent by the recipient country government, but that is usually accompanied by a so-called “policy dialogue” in which donors attempt to influence policies of the recipient. The increase in budget support in the early and mid-2000s was linked to the popularity of the aid effectiveness agenda. This agenda, for example reflected in the 2005 Paris Declaration, stressed the importance of recipient country ownership and of alignment of aid to domestic systems of planning, budgeting and implementation.

Swedlund and Lierl (2020) start by observing, along with many authors, that the official objective of promoting ownership was often sidelined by donor attempts to influence policy or spending. This is undoubtedly true. Yet, while early assessments on the effectiveness of budget support were inconclusive in terms of the effect on poverty reduction (IDD and Associates, 2006; Koeberle et al., 2006), more recent studies and overviews all conclude that budget support was effective for supporting the Millennium Development Goals, and in particular for improving education and health services and

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outcomes (Dijkstra, 2018; Orth et al., 2017; Ronsholt, 2014). Swedlund and Lierl cite older and more negative or neutral studies.<sup>1</sup>

## 2 | THE BARGAINING MODEL AND ITS TESTABLE IMPLICATIONS

Swedlund and Lierl argue that aid negotiations between donor and recipient are constrained by the fact that donors often fail to honour their aid promises. In their view, the main reason that recipient governments prefer budget support over project aid is that budget support is more predictable than project aid. Although this expectation is formally upheld by donors and recipients alike, it is not so obvious.<sup>2</sup> The authors develop a Nash bargaining model that is based on this assumption. Donors want to maximize influence on spending and on promoting “political inclusiveness.” The recipient government wants to minimize donor interference with political issues, but, strangely enough, wants to maximize both discretionary spending and spending that is influenced by donor preferences. The authors argue that recipient governments will derive positive utility from an increase in any government spending. The authors derive two testable propositions from their model. The first is that an increase in predictability leads to an increase in spending in accordance with donor preferences. In contradiction with the model assumption that recipient government utility increases with more donor-influenced spending, the idea behind this proposition is that recipient governments are willing to give up discretion over spending in exchange for more predictable aid.

The second proposition is that an increase in predictability leads donors to reduce pressure for political inclusiveness. This result is rather counter-intuitive. Why would donors give up the possibility of having political influence if they provide more predictable aid? I would argue that the reverse of this mathematically deduced relationship is more likely to hold: the higher the donor pressure for political inclusiveness, the lower the predictability of aid will become. This is in line with what many authors have found to be the effect of budget support. Increased political conditionalities attached to budget support reduced the predictability of the instrument (Dijkstra, 2013, 2018; Molenaers et al., 2015; Orth et al., 2017; Ronsholt, 2014).

The authors then proceed by defining three “observable implications.” The first is that there should be evidence relating to their basic assumption, namely the importance of credible commitments for the recipient government. And, related to this, there should be evidence that budget support increases this credibility. Second, and in line with the first proposition, this better predictability should give donors more influence on government spending. Third, donors should be willing to give up their push for political inclusiveness in exchange for policy influence on spending. It should be noted that by defining the third “observable implication” in this way, the authors change the content of the—counter-intuitive—second proposition, which was about the effect of *higher predictability* on political pressure.

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<sup>1</sup>They also present some disconcerting data on the volumes of budget support (e.g. USD 98.6 billion in 2002). This is based on [www.aiddata.org](http://www.aiddata.org), but these data include non-concessional loans, which are not aid, as well as non-concessional balance of payment support from the International Monetary Fund, which is not aid either. OECD-CRS data report USD 2.5 billion in general budget support for 2002, and show a gradual increase to USD 8.1 billion in 2008.

<sup>2</sup>IOB (2012, pp. 98–99) lists four reasons why budget support may in fact be *less* predictable than project aid. A first reason is that project aid involves sunk costs that are lost if a project is discontinued, while budget support can be stopped any time without costs (to the donor).

### 3 | IS THERE EVIDENCE IN RWANDA AND TANZANIA?

The empirical part of the article aims to test these three observable implications. It is based on more than 80 interviews in Tanzania and Rwanda. The authors show that the lack of a credible donor commitment is a frustration for government officers. There is no reason to question this. I also agree that there is evidence that after the start-up phase (often early 2000s), the predictability of budget support improved and was often higher than that of other aid modalities. But the article does not prove that this higher predictability is the *main reason* for recipient governments to prefer budget support over project aid. It is more likely that the main advantage of budget support for governments is the fact that they can spend the resources at their own discretion.<sup>3</sup> In turn, this benefit of having freely spendable resources is likely to induce governments to open space for a policy dialogue with donors on spending priorities.

In addition, and as noted above, the good predictability record of budget support disappeared when donors began to suspend it due to concerns related to the Underlying Principles of budget support, i.e. governance issues. As the authors also write, these concerns were not the only reason why enthusiasm for budget support in donor countries gradually waned. The 2008 economic crisis played a role, and the fact that more conservative governments rose to power (see also Koch et al., 2017). The authors conclude that decisions of donor governments to stop budget support meant that “donors can no longer make a credible commitment” (i.e. to disburse budget support). In their view, this then leads recipient governments to close the dialogue fora in which donors can influence government spending decisions. However, apart from a single year in which a suspension leads to a difference between commitment and disbursement, most bilateral donors stopped providing budget support altogether. As a result, there is no commitment at all, and the issue of the predictability of budget support disappears. The reasons behind recipient governments closing the dialogue with donors on spending priorities is more likely to be related to the fact that they no longer receive discretionary resources.

The final part of the article seeks evidence on the—conveniently modified—second proposition: donors should drop their pressures for promoting political inclusiveness in return for their obtained influence on spending. In view of the abundant evidence from other studies on budget support, one would expect that finding proof for this will be difficult. Many studies, including one by one of the authors, found that donors have increasingly used budget support not only to influence policies, but also to push for good governance, including political and human rights issues (Hayman, 2011; Molenaers et al., 2010; Swedlund, 2013).

Yet, Swedlund and Lierl manage to find evidence that donors of budget support are willing to give less attention to political inclusiveness in exchange for their participation in policy dialogues. The authors do so by giving a specific definition of political inclusiveness, namely the involvement of civil society organizations (CSOs) in the policy dialogue. It cannot be denied that policy dialogues on budget support usually just involved the Ministry of Finance and the donors, excluding sector ministries, parliament and civil society. But how worrying is this from a perspective of political inclusiveness? From a democratic perspective, what *is* important is that parliament (arguably the more legitimate representation of citizens than CSOs) has a say on budget decisions, and that civil society is capable and free to influence such decisions. The advantage of budget support is that all resources are included in the national budget so that budget allocations can be discussed and amended in parliament. Furthermore, budget support donors usually provide technical assistance for improved public finance management and greater transparency of budgets, as well as support to parliaments, Supreme Audit Institutions and CSOs in order to improve budget transparency and oversight. This also happened in Rwanda and

<sup>3</sup>This is also confirmed in interviews I conducted with government officers in, for example, Nicaragua and Rwanda.

Tanzania, but is not mentioned by the authors. Supreme Audit Institutions in Mozambique, Tanzania and Zambia are reported to have improved due to budget support (Lawson et al., 2014). In countries like Burkina Faso, Ghana and Sierra Leone budget support contributed to a more active civil society in terms of influencing policies or detecting corruption (Dijkstra, 2018, p. 55). So, the fact that CSOs are not involved in the dialogue between government and donors does not necessarily indicate that budget support donors do not care about democratic participation or accountability. Swedlund and Lierl then state that, after the demise of budget support, it was “more likely” that donors began to advocate again for more inclusive political institutions, but they do not provide evidence for this.

## 4 | CONCLUSION

All in all, I do not think the authors succeeded in explaining the rise or fall of budget support from their bargaining framework. The reason for the demise of budget support is not the fact that donors can no longer make credible commitments. Rather, it appears that donor governments care much less about promoting aid effectiveness than in the first decade of this millennium. Aid policies are increasingly determined by foreign policy and commercial objectives. Despite the positive effects of budget support found in all recent studies and evaluations, most donors no longer provide budget support.

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