Molenaers, N. and Gagiano, A. and Smets, L. and Dellepiane, S. (2015) What determines the suspension of budget support? World Development, 75. pp. 62-73. ISSN 0305-750X , http://dx.doi.org/10.1016/j.worlddev.2014.09.025

This version is available at https://strathprints.strath.ac.uk/60355/

WHAT DETERMINES THE SUSPENSION OF

BUDGET SUPPORT?

Molenaers N., Gagiano A., Smets L. & Dellepiane S.

Nadia Molenaers (corresponding author)

Institute of Development Policy & Management (IOB)

University of Antwerp

Lange Sint-Annastraat 7

2000 Antwerp

Belgium

Email: nadia.molenaers@uantwerpen.be

Telephone: +32 3 265 5932

Fax: +32 3 265 5771

Anna Gagiano

Institute of Development Policy & Management (IOB)

O*Platform Improved Aid Architecture and Aid Effectiveness

University of Antwerp

Lange Sint-Annastraat 7

2000 Antwerp

Belgium

Email: anna.gagiano@uantwerpen.be

Lodewijk Smets

Institute of Development Policy & Management (IOB)

University of Antwerp

Lange Sint-Annastraat 7

2000 Antwerp

Belgium

Email: lodewijk.smets@uantwerpen.be

&

Centre for Institutions and Economic Performance (LICOS)

Catholic University of Leuven

Waaistraat 6

3000 Leuven

Belgium

Email: lode.smets@kuleuven.be

Sebastian Dellepiane

University of Strathclyde

16 Richmond Street

Glasgow

G1 1XQ

United Kingdom

Email: sebastian.dellepiane@strath.ac.uk

Abstract

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 2000-2011 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.

WHAT DETERMINES THE SUSPENSION OF BUDGET SUPPORT?

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 towards 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 programmes. The latter mostly relied on one-off ex ante conditionality, and it forced recipients to undertake unpopular policy measures (Koeberle and Stavreski 2006:4-6). Low ownership in combination with ex-ante disbursement schemes had proven to be ineffective (Dollar and Pritchett 1998). Moving towards 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 and 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

1

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 dialogue 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-channelled, 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 unexpectedly[1] either cancelled 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 shows that the largest share of BS suspensions (41 %) have 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 (Hayman, 2011; Molenaers, Cepinskas & Jacobs, 2010; Faust, Leiderer & Schmitt, 2012).

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 suspensions[2] 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 dialogue in the latter), the issues at stake are strikingly similar. For this reason, we are confident our work may contribute

not to 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 regards to less drastic economic and political instances of noncompliance; 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

4

'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 dialogue. 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 towards suspending BS. In order to do this, we made use of a dataset which captures all BS commitments during the period 2000-2011[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-channelling 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.

(a) Economic sanctions, motivations to punish

Inspired by the seminal work of Galtung (1967), scholars have developed a fertile research program on the logic and effects of economic sanctions. Initially, the literature mainly focused on whether economic sanctions would provide a viable alternative to military intervention. Over time, however, the research agenda has incorporated the wide range of foreign policy tools that may be used as instruments of 'economic statecraft' (Baldwin, 1985), including the suspension of aid. More recently, the literature has moved into the analysis of 'smart sanctions', consciously designed to hurt key elites rather than the target country's mass public

(Drezner, 2011). Our work on Budget Support suspensions – a subtype of economic sanction in its own right – can be informed by and contribute to this growing sanctions scholarship.

Economic sanctions are often defined as 'the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations' (Hufbauer, Schott & Elliot., 1990) and as with Budget Support suspensions they are employed in situations where a breach has occurred ostensibly owing to "troubling" courses of action on part of the sanctionee. In the IR jargon, sanctions are actions initiated 'by one or more international actors (the "senders") against one or more others (the "receivers") and existing models of sanction imposition assume that sanctions may be imposed for a variety of reasons, though two conceptually distinct categories can broadly be discerned. The more common understanding is that the sender wishes to "punish the receivers by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important" (Galtung, 1967, p. 379). This is known as the *instrumental* theory of sanctions which contends that the main purpose of sanctions is 'to bring about policy change in the target nation through imposing the severest possible economic harm' (Kaempfer and Lowenberg, 1988, p. 786). However, the sender's sanctioning behavior can alternatively be understood as an attempt to allay domestic political concerns in the sender's country (Davis & Engerman, 2003, p. 190). This *expressive* (also called *symbolic*) theory of sanctions suggests that 'sanctions might have an altogether different goal – namely, to serve the interests of pressure groups within the sender country' (Kaempfer and Lowenberg, 1988, p. 786). Although these goals are obviously not mutually exclusive, this analytical scheme has forced researchers to be more explicit about the underlying politics behind the extensive use of economic sanctions. If the problem is framed as a bargaining game in which the sender seeks to extract concessions from the target by using the sanction as leverage (Nooruddin, 2002, p. 68), a range of economic and institutional factors may exert an influence on the observed pattern of sanctions, including the degree of proximity and interde-

pendence, the relative ex-ante leverage and credibility of the sender, the regime type of the sender and the target, the geopolitical context, and the level of international coordination (Martin, 1993; Nooruddin, 2002; Lektzian & Souva, 2007).

(b) Aid Allocation, modality selectivity and the logic of suspensions

Aid allocation studies produce insights on donor motivations for providing aid. The elements that motivate a donor to provide aid in the first place might also influence their willingness to withdraw (parts of) that aid. For this reason it is important to consider these variables for our model.

Allocation, which refers to the country choice donors make and the aid volumes they commit to each of these countries, is influenced by both *donor interests* (DI) and *recipient needs* (RN). These were summarized by Clist (2011) under the four Ps: proximity, population, policy and poverty.

Donor interests such as trade and commercial interests, historical factors such as colonial ties, and strategic concerns do influence aid allocation. In line with the sanctions literature, this reflects the ideas of proximity and interdependence which influence the willingness/ability to sanction since sanctions may hurt the sender as well as the target. One would expect the donor not to sanction when significant trade interests and strategic concerns are at stake, since those interests tend to take precedence over other concerns. On the other hand, when significant interests are at stake, donors may be more likely to use sanctions to direct recipient countries towards preferred behavior. Whether we would expect colonial ties to increase or decrease the likelihood to sanction is also unclear. Another element to take into account on the donor side is the economic situation. With a slacking economy in the donor country, aid cuts might happen more readily as the perceived costs of helping the poor increases. But there is an alternative explanation: relative economic affluence in donor countries may favor the use of sanc-

8

tions on purely expressive grounds, as societies are more sensitive to and willing to defend post-material values (e.g. gender equality, minority rights). In general, DIs have surfaced prominently as a determining factor in explaining aid allocation (see for example Alesina & Dollar, 2000; Berthelemy, 2006) but it remains to be seen if they are also determinant in the case of withdrawing BS. The role of multilaterals may also be of importance. A number of donors, especially the smaller ones, require a multilateral to be providing BS before they are allowed to do so in terms of their procedures. Due to risk management and efficiency considerations, these donors then defer to the multilateral on major decisions – including then, presumably, suspension decisions.

Recipient needs relate to factors such as poverty levels. It has been argued that poverty levels should be the determining factor for aid allocation so as to ensure that aid goes to those countries that need it most (Collier and Dollar, 2002). But how might this relate to aid sanctions in general or BS suspensions in particular? It is conceivable that donors might become either more or less reactive to 'troubling events' in relation to a given trend in poverty[6]. If poverty levels are in decline, but a troubling event takes place, donors might react strongly because they feel that the time has come to look beyond the more narrow socio-economic development goals. Alternatively they might refrain from sanctioning in order not to interrupt the growth dynamics in the recipient country or the legitimacy of the economically well performing government. The same goes for worsening poverty rates. When a troubling event occurs, donors might want to send a strong signal that they do not accept the way things are going, or, conversely, they might consider stability more important and therefore refrain from inflicting economic and social damage in the form of a Budget Support suspension.

Beyond poverty rates and tendencies other recipient-side elements which might motivate BS suspensions relate to regime type and institutional setup. The World Bank's 'Assessing Aid'

for instance proved influential in getting donors to take on board the idea that aid is more effective in good policy environments (World Bank, 1998; Burnside & Dollar, 2000; Collier & Dollar, 2002)[7]. Added to this, democracies spend their aid money more effectively than autocracies (Svensson, 1999). Findings of this kind have resulted in (a wide variety of) allocation policies whereby – depending on the donor – the quality of governance has a major influence on aid allocation decisions. Determining governance quality can range from assessing recipient systems (public sector quality), to assessing the quality of recipient policies, including some regime issues – notably, the quality of democracy, human rights, political stability, degree of ethnic fractionalization, etc.

Clist, Isopi and Morrissey (2012) argue that the quality of recipient policy is of particular importance in understanding the choice of aid modality. They argue that BS, when given unconditionally, is the most flexible form of aid because once disbursed the donor has little to no control over its use. This loss of control implies that the donor needs to be able to trust the recipient government, and the quality of policies and/or track record of the government can be a hugely important factor in deciding whether or not to give (a larger proportion of their aid in the form of) BS. Their study looks into the selectivity criteria for BS for the European Commission (EC) and World Bank and comes to the conclusion that indeed governments with better public expenditure monitoring, allocation mechanisms and better service delivery receive more Budget Support. A mapping carried out by the EC (2010) also shows that a number of bilateral donors consider political regime aspects before granting BS. Some of these donors also consider the sustainability of the partnership and the quality of policy/political dialogue with the recipient government. Finally, there are also differences between donors with regards to the benchmarks used for all these recipient characteristics. Some use hard benchmarks with minimum thresholds while others mainly look at tendencies over time (Molenaers et al., 2010). We would expect all these considerations to play a role in deciding

whether or not BS is suspended. We would thus expect that a decline in governance quality (systems, policies, regime) in combination with a troubling event would push a donor to suspend BS more readily than would otherwise have been the case, whereas upward tendencies in governance quality may be expected to have the opposite effect, i.e. ceteris paribus reduce the willingness of donors to suspend BS.

(c) Case studies, digging deeper into factors underlying suspensions

We have examined four country cases (Ethiopia, Rwanda, Malawi and Uganda[8]) where several BS suspensions have taken place and where at least one of the 'troubling' events was related to political regime issues (human rights, elections, etc). The selection of these cases was additionally motivated by the fact that in contrast to many of the other observations contained in our dataset, for these countries qualitative studies on the suspensions which took place there are readily available. We were therefore able to build on these country studies to further identify variables which need to be taken up to complete our model. The most documented cases with regards to BS suspensions are Ethiopia (e.g. Abbink, 2006; Dom & Gordon, 2011; Borchgrevink, 2008; Hackenesch, 2011; Aalen & Tronvol, 2008; Furtado & Smith, 2007; de Renzio, 2006; Hayman, 2011), Rwanda (e.g. Beswick, 2011; Schmidt, 2011; Hayman 2011), Uganda (Cammack, 2007; Hayman, 2011; DfID, 2005; de Renzio, 2006; Fisher, 2011; Dijkstra, de Kemp & Bergkamp, 2012; Tangri & Mwenda, 2006), and Malawi (e.g. Resnick, 2012; DfID, 2012a, 2012b, 2013). The important variables arising from these cases can be clustered according to two main themes, which are explained in what follows.

Expressive motivations for suspending BS: In all four cases, convincing evidence is presented which points to donors using BS suspensions to 'save themselves'. In the cases of Rwanda, Ethiopia and Uganda, various authors argued that donors suspended Budget Support not because they felt that this would have an impact on the government, but rather to soothe public opinion at home (Fisher, 2011; Borchgrevink, 2008; Hayman, 2011). However, in Malawi

11

and Uganda the opposite tendency could be observed in the sense that donors on occasion refrained from employing BS suspensions, because they themselves did not want to be seen as having made a poor choice of partner country. Since expressive motivations vary according to how aid policy is perceived by home constituencies, this points to the need to be sensitive to public opinion dynamics on the donor side. From a theoretical point of view, as highlighted above, the influence of public support for aid can work both ways: it can either push aid agencies to suspend BS because citizens do not want aid to be spent badly (and this is a particular risk for BS), or, it can induce non-suspension due to the Samaritan's dilemma and/or warm glow effects (Gibson et al., 2005) that influence public opinion (and concomitantly lobbying efforts) in relation to aid-giving.

Donor landscape issues: Budget Support goes hand in hand with donor coordination efforts, and the popular donor saying 'everybody likes to coordinate, but nobody wants to be coordinated' points to some interesting collective action problems we need to look into. First, the number of donors matters. Knack & Smets (2013) show that the number of donors needs to be taken into account in understanding donor decisions. Visibility concerns may push BS suspensions. A further consideration is how "progressive" the donor is. The likeminded donors (also referred to as the Nordic+) have often been referred to as the progressive coalition. Initially, they were considered quite forward-thinking and flexible in giving BS, but over the last few years cracks in that coalition have become visible. Beswick (2011, p. 1922) argues that in Rwanda the coalition of the 'likeminded' was broken in that the UK position was fundamentally different from the Netherlands and Sweden. The latter two countries have given more weight to political governance concerns, while the UK has long not wanted to cut Budget Support in order to retain some degree of influence over Rwanda's overall trajectory (Beswick, 2011, p.1923). Nonetheless, the Nordic+ factor might be relevant so we will include it in our model.

A final factor related to donor landscape issues, and which has been highlighted as particularly important for BS, is the structure of the aid agency (existence of an implementing agency) and the level of decentralization (see Faust, this volume; see Winckler, Andersen & Therkildsen, 2007). Since no data exists on these factors, however, we are unable to take up these variables in our model.

3. EMPIRICAL ANALYSIS

(a) The dataset

In the period 2000-2011 we have identified 55 'troubling events' which in total triggered 131 suspensions by different donors. Of the 55 breaches, at least 22 were directly linked to political issues such as elections and human rights concerns while about 15 were linked to corruption cases. Table 1 in the appendix shows some basic information on our dataset of suspensions including the number and share of suspensions per donor as well as per recipient. DfID (the UK's Department for International Development) is the donor that has suspended most frequently, followed by Germany, the EU and the Netherlands. In Tanzania, four events triggered no less than 17 suspensions of which the bulk relates to the major corruption scandal in 2008. In Ethiopia the identified suspensions were all linked to the events surrounding the 2005 elections. At a more general level, the frequency with which BS suspensions occur does seem to suggest that donor threats may be more credible than they are widely believed to be[9].

(b) Data, variables and model

Budget Support suspensions are our key outcome of interest. The conceptualization and measurement of this specific subset of aid sanctions is not without problems. The case studies clearly show that the term BS suspension can cover a wide range of actions. It can mean that a

donor decides to stop with this aid modality in a given country, for an indefinite period of time, but it can also mean that (a part of) BS is re-channeled to other modalities. It can mean that a donor decides to (drastically) reduce its BS envelope, or that BS disbursements are delayed. Moreover, both the case studies and the academic literature on sanctions suggest that suspension 'threats' may be substantively important. Ideally the coding of the dependent variable should reflect this variety of strategies including a diversification in terms of suspended volumes and the duration of the suspension. Given that this detailed, nuanced data is not yet available, we have pragmatically decided to rely on a simple, but intuitively plausible operationalization: the BS dummy basically measures whether a particular donor decided to suspend Budget Support in a particular recipient country in a given year.

It should be stressed that constructing our dataset on BS suspensions has involved a substantive research effort, not least because governments have not usually been forthcoming and transparent in reporting this behavior. Hence, the information has been drawn from a variety of sources, including online news bulletins, donor reports/evaluations, and peer-reviewed articles. General search terms relevant to the object of enquiry were used initially but these were then refined if sufficient details on the specifics of individual breaches could be found, and as many independent sources as possible were drawn upon. However, refinement was not always possible as many of these sources do not go into a great deal of detail on the specifics of the event and indeed, it is not unlikely that there may be a number of suspensions that remain unaccounted for[10]. Another important caveat related to the completeness and representativeness of our dataset is that since we only have been able to capture the actions of those donors that have publicly reported on their BS suspensions, our results might be biased towards the more transparent donors.[11] That being said, our data collection has been as exhaustive as possible taking into account data limitations and the scarcity of previous empirical research. If

anything, this newly assembled dataset has allowed us to estimate the very first models of BS suspensions.

In order to examine which donor and recipient factors determine the suspension of Budget Support, we have estimated the following equation:

$$suspension_{ijt} = \alpha X_i + \beta X_j + \delta X_{ij} + \gamma X_{it} + \theta X_{jt} + \varphi X_{jt-1} + \omega X_{ijt-1} + Y_t + u_{ijt} \qquad (1)$$

where *suspension*$_{ijt}$ is coded 1 if donor *i* decides to suspend Budget Support in recipient country *j* at year *t*. The model includes an extensive set of regressors: a dummy for likeminded donors and – in an attempt to approximate the importance of home constituencies – an index for public support for aid in the donor country as donor varying regressor X_i; ethnic fractionalization as a recipient varying regressor X_j; a dummy coded 1 if a colonial tie exists between donor *i* and recipient *j* (X_{ij}); donor government ideology and donor economic growth as regressors that vary by donor and year (X_{it}); the total number of Budget Support donors, a variable reflecting the level of democracy, the logarithm of population and GDP per capita, the trend[12] in government effectiveness, political stability, voice and accountability and corruption as regressors that vary by recipient and year but are donor-invariant (X_{jt});[13] aid over GNI and share of aid as Budget Support a recipient receives (X_{jt-1}), both lagged one year to address reverse causality concerns; donor i's share in the total amount of aid recipient j receives at year t and the logarithm of total trade between donor i and recipient j, both lagged one year for reasons of reverse causality (X_{ijt-1}); a dummy coded 1 if donor i and recipient j have the same ideology at year t (X_{ijt}); and year fixed-effects (Y_t). Note that all multilateral observations were dropped as a number of the included donor variables do not exist for multilaterals (e.g. donor economic growth, similar ideology).[14] However, to investigate the influence of multilateral agencies on donor suspending behavior, we included a dummy coded one if a multilateral donor (EU, World Bank, IMF, African Development Bank or Inter American

Development Bank) suspended budget support in recipient j at year t. Table 2 in the appendix provides a full list of the variables used and their relevant dataset sources (note that both DI and RN are well represented in this list) while Table 3 provides some basic descriptive statistics.

We began by estimating equation 1 as a linear probability model, correcting standard errors for non-independence within donor-recipient clusters.[15] Coefficient estimates were obtained using 1053 observations covering the years 2000 through 2011. Next, we have also estimated two separate models, one focusing more on recipient-country variables and a second focusing more on donor-country variables. In the former model we replaced all donor-related variables by donor-fixed effects. We estimated the 'recipient-factors' model both as a linear probability model and as a conditional fixed-effects logistic regression. In the 'donor-factors' model we replaced all recipient and recipient-year varying covariates by recipient-fixed effects. Again we estimated a linear probability model and a logistic model. We performed two additional robustness tests. First, we estimated equation 1 dropping from the sample all observations related to 2005, the year with the highest number of budget support suspensions.[16] Second, we estimated our base model with an alternative dependent variable. We presented our dataset to the OECD/DAC with the request to check with all DAC donors if the listed suspensions (as we defined them) were correct. In eight cases a conflict occurred between donor cross-check and the available information (most likely due to misinterpretation of our definition). In the second robustness test these cases were dropped from the sample. As part of this research focuses on political suspensions, we redid these exercises dropping from the sample all suspensions related to macroeconomic and administrative breaches. In the next subsection we discuss our empirical findings.

(c) Empirical findings

16

Empirical results are presented in Table 4. Equation 1 shows the findings of the base model and indicates that multilateral donors exert a large influence: other things equal, bilateral donors are 45 per cent more likely to suspend budget support in case a multilateral agency also suspends, a result significant beyond the one per cent level. Table 4, equation 1 also shows that progressive donors are on average 4.2 per cent more likely to suspend budget support. In addition, an extra BS donor increases the probability of suspension with 0.5 per cent on average (p-value: 0.049). Furthermore, donor economic growth comes in significantly positive: a one per cent growth spurt makes donors 1.8 per cent more likely to suspend BS, holding other factors fixed. Also trade flows are positively associated with BS suspensions, though only with minor quantitative effects. On the other hand, Table 4 indicates that ideological alignment between donor and recipient results in fewer suspensions: a similar ideology decreases the probability of suspending budget support with 3.6 per cent on average. Furthermore, a one point increase in the trend of voice and accountability reduces the probability of BS suspension with 7.4 per cent on average.[17] Finally, aid dependent, democratic, poorer and more populated and countries are less likely to be sanctioned, but coefficient estimates suggest that quantitative effects are small. Note also that some of the usual suspects such as colonial ties, trend in corruption and ethnic fractionalization do not seem to play a significant role in driving suspensions.[18]

- Table 4 around here -

These observed patterns deserve some explanation. The importance of the multilateral dummy can be related to two things. First, as referred to earlier, some donors only give BS if a multilateral is providing BS as well. If a multilateral suspends, this thus may influence bilaterals. But of course this implies a causality which we cannot substantiate at this point because it is not clear whether the bilaterals take the lead in suspending or the multilateral agencies. Second, given the political sensitiveness of BS, and the political pressure on bilateral donors,

which is less of an issue for multilaterals, we would expect multilaterals to only sanction when the situation in a recipient country is quite problematic: like when a country goes off-track, or the government uses unconstitutional means to get/stay in power.   In such cases, bilaterals will surely suspend as well. Here too the direction of causation however requires further research. Most importantly, the clear responsiveness of sanctions to deteriorations in voice and accountability confirms that the use of BS, contrary to the original policy blueprint, has effectively become entangled with political dynamics. The evidence suggests that donors actually use aid sanctions to punish or prevent democratic regress and/or human rights violations. The significance of the political proximity variable, measured in terms of the ideological affinity between donors and recipients, not only confirms the findings of a recent study carried out by Dreher, Minasyan & Nunnenkamp (2013), but is also consistent with the 'politicization' of Budget Support. In this regard, the 'negative' finding regarding corruption, a highly salient variable in qualitative case studies and media reports on BS suspensions, is also suggestive. One possibility is that donors, under pressure from domestic constituencies (including the media), may use corruption scandals as a pretext, a focal point, to punish non-compliance with other policy and/or political commitments. But another possibility is measurement error: aggregate corruption indices may not be capturing idiosyncratic, high-profile corruption scandals.

The behavior of the political economy variables is also interesting. The positive sign and significance of donor growth indicates that, contrary to some expectations, suspensions are more likely when donor countries are experiencing economic affluence rather than hard times. This suggests that expressive motivations based on post-material values may be at work. The fact that Nordic Plus countries suspend more may point in this direction. The non-significance of colonial ties, correspondingly, seems to confirm the mixed incentives embedded in historical legacies. Such proximity may in some cases heighten sensitiveness and the urge to sanction,

18

yet it may in other cases – due to the long standing relationship – keep donors from sanction-ing. The fact that different forces can pull in opposite directions thus probably explains the non-significance of colonial ties in the matter of BS suspension. Aid dependence, a crucial variable on the recipient side, appears to have a moderating effect on suspensions, implying that either donors are more flexible/open- minded in these cases or recipients are more willing to accommodate external demands before an actual suspension takes place. Most likely these two processes are to some extent self-reinforcing: aid dependence forces recipients to listen more carefully to donor concerns reducing the likelihood that donors will actually suspend.

One way to explain the positive relationship between the number of donors and suspensions is to consider the development benefits of providing budget support as a common pool re-source (Knack & Smets, 2013). That is, the more budget support donors that are active in a country, the more diffused the encompassing interest in a country's development. Further-more, donors also have `private' objectives, such as reputational concerns toward home con-stituencies (Birdsall, 2005). Taking a strong stand when things go wrong in a recipient coun-try provides donors with an opportunity to raise their visibility. When many BS donors are present, those visibility concerns might trump the (already diffused) encompassing interest, leading to more suspensions.

Equations 3 through 7 of Table 4 present the regression estimates from the robustness tests we performed. Generally, the results from the base model are confirmed: the Nordics, multilateral influence, donor growth, trade flows and the number of BS donors are positively associated with budget support suspensions while similar ideology, democracy, positive trends in voice and accountability, poverty, large populations and aid dependence lead to fewer suspensions. Note however that recipient GDP per capita comes in significant only in three out of the seven specifications, and population only in two. Also, in equation 6 – when 2005 is dropped from the sample – donor public support for aid comes in significantly negative (at the five percent

level), indicating that donors suspend less when their home constituency takes a more favorable stance towards aid.

As suggested above, it is highly surprising that the colonial tie variable, which has been identified as a major dimension in allocation studies (Berthelemy 2006), remains insignificant across all specifications. At first glance, this (negative) finding defies the expectation of the economic sanctions literature which suggests that ex-colonial powers may be more inclined to use suspensions for *expressive* purposes. This argument is that donor home constituencies are more sensitive towards events in former colonies, and therefore donor governments react more forcefully to those events (to lower pressure from interest groups). This is what Clist (2011) would refer to as the proximity variable coming in. Yet, counterarguments are also plausible. Proximity may imply, as the sanctions literature also suggests, that pulling the plug may be costly for donors, in both economic and reputational terms. On the other hand, it is equally plausible that donors with substantial trade/economic interests in a given recipient country would be keen to get the recipient back on track following the problematic events in question so as not to jeopardize trade relations (Eaton and Engers, 1992). Aid sanctions would in that case be used – instrumentally – to try to alter recipient behavior or policies, and possibly as a precursor to more severe sanctions in other domains (Dashti-Gibson, Davis and Radcliff, 1997).

What is overridingly clear, however, is that the way historical ties, political proximity, economic interests, and even media and public opinion dynamics interact in shaping donors' incentives to suspend BS deserves further scrutiny.

Table 5 shows the empirical results from a restricted sample of suspensions related to political factors.

- Table 5 about here -

20

By and large, these models tend to confirm the results of the unrestricted sample. Specifically, the deterioration in the trend of voice and accountability, the number of donors, multilateral influence and donor economic growth have a positive effect on political suspensions, while aid dependence, ideological proximity, recipient GDP per capita and democracy have a moderating effect. The most significant negative findings, regarding colonial ties, trade and ethnic fractionalization, also stand unchanged. Some of the results are different, though. When it comes to strictly political suspensions, the Nordic Plus and trade variables do not seem to matter a great deal. Could it be that Nordic Plus donors have been more consistent in connecting BS with poverty reduction efforts and less with political issues? This remains an unanswered question. Deterioration in government effectiveness leads to more BS suspensions which seems to suggest that such suspensions, even though the trigger might be a political troubling event, probably also harbor some discontent regarding government performance in other areas.

4. DISCUSSION

Building on a newly assembled dataset, this article provides the very first attempt to quantitatively weigh the determinants of Budget Support suspensions. The good news is that such a measurement is actually possible and that interesting findings surface from the regression exercises. Most of the studies referring to BS suspensions highlight the complex nature of what drives donor decisions. Our research findings point in a similar direction although a number of variables consistently come out as more important. Multilateral influence, the dynamics of voice and accountability, democratic performance, ideological proximity, the number of donors, aid dependence, and donor economic growth tend to be associated with BS

suspensions. On the other hand, some of our 'non-findings' regarding ethnic fractionalization, colonial ties and corruption raise a number of intriguing questions. We should also highlight that the very fact that Budget Support suspensions have actually taken place and that this behavior has been clearly tied to underlying political developments (hence the significance of voice and accountability and political proximity) is clear evidence of the resurgence of political conditionalities in the new institutional setting of aid.

If anything, our main aspiration is to promote further research on this relatively understudied issue. This may include, of course, refinements in the conceptualization and measurement of our dependent variable, taking into account the different suspension strategies so as to better detect which elements drive a delay (and its duration), a rechanneling (how much control is the recipient compelled to give up), a full or partial abandonment of BS. Additionally, in order to fully capture the dynamics of the interaction between donors and recipients, the elusive problem of suspension threats – which raises pervasive credibility issues – should also be accounted for. It would furthermore be illuminating to have better data on a number of elements including: the pressure of home constituencies and how they feel/think about BS and conditionalities; the relationship between media coverage and suspensions; and the quality of the policy/political dialogue.

The findings of our research also give rise to a significant number of interesting new research questions. Further study may for instance be able to shed more light on the expressive dimension of BS suspensions. Another fruitful research topic might reconstruct the dynamics between BS suspension 'leaders' and 'followers', or the so called bandwagon or domino-effect. Who are the leaders in suspending, and who are the followers? Does donor size matter in leading or following? Finally, deepening the analysis of the relationship between the nature of the 'troubling' event that triggered the political crisis and how that relates to the variables that

prove significant may provide key insights into the deeper dynamics at play during suspension episodes.

APPENDIX

- Table 1 about here –

- Table 2 about here –

- Table 3 about here –

REFERENCES

Aalen, L., & Tronvoll, K. (2009). The 2008 Ethiopian local elections: The return of electoral authoritarianism. *African Affairs, 108(430),* 111-120.

Abbink, J. (2006). Discomfiture of democracy? The 2005 election crisis in Ethiopia and its aftermath. *African Affairs, 105(419),* 173-199.

Alesina, A., & Dollar, D. (2000). Who gives foreign aid to whom and why?. *Journal of economic growth, 5(1),* 33-63.

Baldwin, D. A. (1985). *Economic statecraft.* Princeton University Press.

Berthelemy, J. (2006). Aid allocation: Comparing donor's behaviours. *Swedish economic policy review, 13(2),* 75.

Beswick, D. (2011). Aiding State Building and Sacrificing Peace Building? The Rwanda–UK relationship 1994–2011. *Third World Quarterly, 32(10),* 1911-1930.

Birdsall, N. (2005). Seven Deadly Sins: Reflections on Donor Failings. *Center for Global Development Working Paper, (50).*

Borchgrevink, A. (2008). Limits to donor influence: Ethiopia, aid and conditionality. *Forum for Development studies, 35 (2)*, 195-220, Taylor & Francis Group.

Burnside, C., & Dollar, D. (2000). Aid, growth and policies. *American Economic Review, 90(4),* 847-868.

Burnside, C., & Dollar, D. (2000). Aid, growth, the incentive regime, and poverty reduction. *The World Bank: Structure and Policies,* 3, 210

Cammack, D. (2007). 'Big Men', Governance and Development in Neopatrimonial States. *ODI Background Note.*

Clist, P. (2011). 25 Years of Aid Allocation Practice: Whither Selectivity?. *World Development, 39(10),* 1724-1734.

Clist, P., Isopi, A., & Morrissey, O. (2012). Selectivity on aid modality: Determinants of Budget Support from multilateral donors. *The Review of International Organizations, 7(3),* 267-284.

Collier, P., & Dollar, D. (2002). Aid allocation and poverty reduction. *European Economic Review, 46(8),* 1475-1500.

Dashti-Gibson, J., Davis, P., & Radcliff, B. (1997). On the determinants of the success of economic sanctions: An empirical analysis. *American Journal of Political Science*, 608-618.

Davis, L., & Engerman, S. (2003). History lessons: sanctions-neither war nor peace. *The Journal of Economic Perspectives, 17(2),* 187-197.

De Renzio, P. (2006). The primacy of domestic politics and the dilemmas of aid: What can donors do in Ethiopia and Uganda? *ODI Opinions*, 44(February)

DfID Official Press release (2005). UK cuts direct budget aid to Uganda by £15 million (from http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/Media-Room/Press-releases/2005-completed/UK-cuts-direct-budget-aid-to-Uganda-by-15-million-withholdsfurther-5-million-/)

DfID (2012a). 'Britain and Malawi relaunch development partnership', London: Department for International Development, Press release, 31 May 2012.

DfID (2012b). 'Operational Plan 2011-2015, DFID Malawi', London: Department for International Development, May 2012.

DfID (2013). 'Summary of DFID's work in Malawi 2011-2015', London: Department for International Development.

Dijkstra, A.G., de Kemp, A. & Bergkamp, D. (2012). Budget Support: Conditional results; Review of an instrument (2000-2011). *IOB Evaluation369*. The Hague: Ministry of Foreign Affairs of the Netherlands.

Dom, C. (2011). Budget Support in Fragile Situations. Oxfam.

Dreher, A., Minasyan, A. & Nunnenkamp, P. (2013) Government Ideology in Donor and Recipient Countries: Does Political Proximity Matter for the Effectiveness of Aid? Kiel Working Papers, Nr 1870.

Drezner, D. W. (2011). Sanctions sometimes smart: Targeted sanctions in theory and practice. *International Studies Review, 13(1),* 96-108.

Eaton, J., & Engers, M. (1992) Sanctions. *Journal of Political Economy, 100(5),* 899-928.

Faust, J., Leiderer, S., & Schmitt, J. (2012). Financing poverty alleviation vs. promoting democracy? Multi-Donor Budget Support in Zambia. *Democratization, 19(3),* 438-464.

Fisher, J. (2011). Budget Support and good governance in Uganda, *Unpublished*

Furtado, X., & Smith, W. J. (2007). Ethiopia: Aid, ownership, and sovereignty. Retrieved May, 20, 2012.

Galtung, J. (1967). On the effects of international economic sanctions, with examples from the case of Rhodesia. *World Politics, 19(03),* 378-416.

Gibson, C., Andresson, K., & Ostrom, E. (2005). *The Samaritan's Dilemma: The Political Economy of Development Aid.* Oxford: Oxford University Press.

Hackenesch, C. (2011). European good governance policies meet China in Africa: Insights from Angola and Ethiopia. European association of development research and training institutes (EADI).

Hayman, R. (2011). Budget Support and Democracy: a twist in the conditionality tale. *Third World Quarterly, 32(4),* 673-688.

Hout, W. (2007a). The Netherlands and Aid Selectivity, 1998-2005: The Vicissitudes of a Policy Concept. *Netherlands yearbook on international cooperation,* 146-170.

Hout, W. (2007b). *The politics of aid selectivity: Good governance criteria in World Bank, US and Dutch development assistance*. Routledge. Nunnenkamp & Thiele 2006.

Hufbauer, G. C., Schott, J. J., & Elliott, K. A. (1990). *Economic sanctions reconsidered: History and current* policy (Vol. 2). Peterson Institute.

Kaempfer, W. H., & Lowenberg, A. D. (1988). The theory of international economic sanctions: A public choice approach. *The American Economic Review*, 786-793.

Knack, S., & Smets, L. (2013). Aid tying and donor fragmentation. *World Development, 44,* 63-76.

Koeberle, S., Stavreski, Z., & Walliser, J. (Eds.). (2006). *Budget Support as more effective aid?: recent experiences and emerging lessons.* World Bank Publications.

Lektzian, D., & Souva, M. (2007). An institutional theory of sanctions onset and success. *Journal of Conflict Resolution, 51(6),* 848-871.

Martin, L. L. (1993). *Coercive cooperation: Explaining multilateral economic sanctions.* Princeton University Press.

Molenaers, N., Cepinskas, L., & Jacobs, B. (2010). Budget Support and Policy/Political Dialogue: Donor Practices in Handling (Political) Crises. IOB, University of Antwerp.

Nooruddin, I. (2002). Modeling selection bias in studies of sanctions efficacy. *International Interactions, 28(1),* 59-75.

Nunnenkamp, P., & Thiele, R. (2006). Targeting aid to the needy and deserving: Nothing but promises?. *The World Economy, 29(9),* 1177-1201.

OECD/DAC (2006) Harmonizing Donor Practices for Effective Aid Delivery. *DAC Guidelines and Reference Series, Volume 2, Budget Support, Sector Wide Aproaches and Capacity Development in Public Financial Management*. OECD/DAC: Paris.

Resnick, D. (2012). Two steps forward, one step back: The limits of foreign aid on Malawi's democratic consolidation (No. 2012/28). WIDER Working Paper.

Schmidt, A. (2011, June). Ownership for the taking? Strategies for taking ownership in Rwanda. *Unpublished.*

Svensson, J. (1999). Aid, growth and democracy. *Economics & politics, 11(3),* 275-297.

Svensson, J. (2003). Why conditional aid does not work and what can be done about it?. *Journal of development economics, 70*(2), 381-402.Tangri, R., & Mwenda, A. M. (2006). Politics, donors and the ineffectiveness of anti-corruption institutions in Uganda. *Journal of Modern African Studies, 44(1),* 101.

Winckler Andersen O. and Therkildsen, O. (2007). Harmonisation and alignment: the double-edged swords of Budget Support and decentralized aid administration. DIIS Working Paper 2007/4. Copenhagen: Danish Institute for International Studies.

World Bank & Oxford University. (1998). Assessing Aid: What Works, what Doesn't and why. World Bank.

ENDNOTES

[1] Note we do not consider situations where recipients do not meet the performance milestones which trigger further disbursements to be suspensions as here the sanction applied (non-disbursement) results from the routine application of a previously agreed procedure, rather than from an unforeseen event.

[2] For more on how we constructed this dataset, see section 3 (b).

[3] On the donor side, a change in government preferences with regards to partner countries might also lead to an exit strategy. Some donors also exit when a recipient country graduates from the low income category.

[4] In a sense this is a mutual breach in the trust relationship: from the recipient side donor promises of (in-year) predictable flows have fallen away, and from the donor side recipient promises of upholding given partnership principles have not been upheld.

[5] Our dataset can be considered an unbalanced panel with donor-recipient-year combinations as units of observation.

[6] Assuming of course that the poverty outcomes are regarded by the donor as fully attributable to actions or inactions on the part of the recipient government.

[7] The scholarly discussion on whether the quality of recipient policies has driven donors to become more selective remains a debate (eg Hout, 2007a, 2007b; Nunnenkamp & Thiele, 2006; Clist, 2011).

[8] All cases are taken from Sub-Saharan Africa, but this is appropriate given that this region accounts for the vast majority of suspension observations.

[9] Credibility does not mean that donors have been consistent, but the fact that they have suspended does make threats to sanction a lot more credible.

[10] Note, however, that unlike some studies in the sanctions literature we did not consider the commitment-disbursement differential (where committed BS amounts far exceed actual disbursed amounts, or the latter is simply zero) a reliable proxy for suspensions. This is because our breach-centered definition of a suspension relates to motivation, not just hard figures – i.e. a decrease in the expected BS flow can only be considered a suspension if it comes about as a result of donors reacting to what they see as undesirable behavior on the part of the recipient (and in that sense constitutes a sort of reminder of the conditional nature of the aid relationship and therefore carries with it a certain political charge). A significant proportion of the commitment-disbursement differential (which tends to be fairly large as a rule, certainly for bilateral donors – see for instance Svensson 2003: 391) as well as year-to-year fluctuations in commitments can be explained by factors unrelated to actions on the part of the recipient (eg. donor administrative bottle-necks or changes in high level decisions in a donor agencies/ ministries related to allocation models, respectively) and one cannot tell by looking at the figures which factors apply where.

[11] A potential donor transparency bias is of less concern for our 'recipient-factors' model as we explain BS suspensions in terms of variation of recipient-country variables.

[12] One reviewer suggested that the trending variables are multicollinear with the year dummies. However, the trending variables are not time invariant, they vary from year to year. Furthermore, they also vary between recipients in a given year. So there is no problem of perfect collinearity between the year dummies and the trending variables.

---

[13] We have also estimated the model including a dummy coded one if a country held a seat at the UN Security Council. However, this variable did not significantly influence BS suspensions.

[14] We also ran our model including only recipient and recipient-year varying variables, hence including multilateral suspensions. Results – which are available upon request – are similar to the findings of Table 1 and Table 2.

[15] Another way to correct for serial correlation is to estimate a so-called multi-level model. However, a fixed effects model with two-way clustered standard errors is a more robust and efficient way of determining which factors matter for aid suspensions.

[16] The average number of suspensions per year is 11. In 2005, 24 budget support suspensions took place, almost 1.7 standard deviations away from the mean.

[17] Note however that large yearly increases and decreases in voice and accountability are uncommon; the standard deviation for trend in voice and accountability in our sample is only 0.11 and only in 17 countries voice and accountability decreased more than a quarter of a point.

[18] One reviewer suggested that substantive collinearity of the regressors might influence results. However, variance inflation factors remain well below the critical threshold. VIF results are not reported but are available upon request.

Table 1: Dataset overview containing basic information on the suspensions captured

Donor/RECIPIENT	Total number of suspensions, all breach categories	Total number of political suspensions (i.e. related to democracy and human rights issues, and corruption)	Share total suspensions for this donor/recipient represents of all suspensions in our dataset
UK (DfID)	26	22	20%
Germany	17	13	13%
EU	14	11	11%
Netherlands	14	10	11%
World Bank	12	8	9%
Sweden	12	9	9%
Norway	7	5	5%
IMF	6	2	5%
Denmark	5	3	4%
Ireland	5	5	4%
AfDB	3	2	2%
US	3	3	2%
Canada	2	2	2%
Others	5	4	4%
UGANDA	21	21	16%
TANZANIA	17	16	13%
MALAWI	14	7	11%
NICARAGUA	11	5	8%
ETHIOPIA	8	8	6%
ZAMBIA	7	6	5%
RWANDA	6	5	5%
HONDURAS	6	4	5%
MOZAMBIQUE	5	5	4%
KENYA	4	4	3%
MADAGASCAR	3	3	2%
SIERRA LEONE	3	2	2%
MALI	2	1	2%
BENIN	2	1	2%
CHAD	2	0	2%
GHANA	2	0	2%
IVORY COAST	2	0	2%
OTHERS	16	11	12%
Total	131	99	100%

Table 2: List of variables used, short descriptions of these, and their sources

Variable name	Description	Source
Suspension	Dummy coded 1 if donor i suspended budget support in recipient country j at year t	Authors' own calculation
Nordic Plus	Dummy coded 1 if donor is a member of the likeminded donors (Denmark, Finland, Sweden, Norway, United Kingdom, Ireland, The Netherlands)	Authors' own calculation
Multilateral suspension	Dummy coded 1 if the World Bank, the African Development Bank, the Inter American Development Bank or the IMF suspended budget support in recipient country j at year t	Authors' own calculation
Pub. support for Aid	Index of public support for aid	Knack (2012)
D GDP growth	Donor annual GDP growth (in %)	World Development Indicators (WDI)
D gov. ideology	3-point variable for ideology of executive party in donor country	Beck et al. (2001)[1]
Colonial tie	Dummy coded 1 if there exists a colonial tie between donor and recipient	IRIS Center, University of Maryland
D aid share at t-1	Donor i's share in the total amount of aid recipient j receives at year t-1	Based on CRS
Similar ideology	Dummy coded 1 if donor and recipient have similar ideology	Based on Beck et al (2001)
Log of trade at t-1	The logarithm of the total value of imports and exports between donor and recipient at t-1	Based on IMF DOTS
Number of BS donors	Number of budget support donors present in the recipient country	Authors' own calculation based on AidData
Polity IV	Index of Democracy	Polity IV project
Ethnic fractionalization	Index of ethnic fractionalization	Montalvo and Reynal-Querol (2005)
Trend in government effectiveness	Difference between government effectiveness at time t-1 and government effectiveness at time t	Based on World Governance Indicators
Trend in political stability	Difference between political stability at time t-1 and political stability at time t	Based on World Governance Indicators

---

[1] The Database of Political Institutions was constructed in 2001 and initially covered 177 countries for the period 1975–1995. The database is periodically updated: the most recent version dating to 2012 contains information from 1975 through 2012.

Trend in voice and accountability	Difference between voice and accountability at time t-1 and voice and accountability at time t	Based on World Governance Indicators
Trend in control of corruption	Difference between control of corruption at time t-1 and control of corruption at time t	Based on World Governance Indicators
Aid over GNI at t-1	Total aid disbursed over GNI at year t-1	Based on CRS and WDI
Share of BS at t-1	Share of aid as budget support at year t-1	Based on CRS and Aiddata
log of R GDP/cap	Logarithm of recipient country GDP per capita	WDI
log of R population	Logarithm of recipient country population	WDI

Table 3: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Suspension	0.066477	0.249232	0	1
Nordic Plus	0.397911	0.489699	0	1
Multilateral suspension	0.061728	0.240776	0	1
Support for aid	0.10662	0.788864	-1.49068	1.995191
Donor growth	1.752932	2.194483	-8.54	6.59
Donor ideology	1.849003	0.943757	1	3
Colonial tie	0.174739	0.379924	0	1
Donor share of aid in R	0.075925	0.127387	0.00001	0.910433
Similar ideology	0.190883	0.393184	0	1
trade	18.44196	2.339326	9.860825	26.17719
Number of BS donors	5.82716	3.901173	1	17
Polity IV	3.817664	4.751725	-9	10
Ethnic fractionalization	0.640685	0.259636	0.032	0.959
Trend in gov effectiveness	0.001663	0.117826	-0.44938	1.080198
Trend in political stability	0.007795	0.234362	-1.1357	0.999183
Trend in voice and account	0.008355	0.12551	-0.67356	0.676371
Trend in corruption	0.006522	0.145974	-0.5775	0.741061
Aid dependence	0.070522	0.109858	0.000144	1.197012
Share of aid as BS	0.189722	0.222137	0.000001	0.977008
Log of per capita GDP	6.672124	0.983564	4.682131	9.277999
Log of R population	16.80341	1.326266	13.03462	20.92212

Table 4: Results for full sample

Variation equation	Base model (1)	R LPM (2)	R xtlogit (3)	D LPM (4)	D xtlogit (5)	excl 2005 (6)	dep var (7)
Nordic Plus	0.0422*	.	.	0.0229*	0.5816	0.0432*	0.0422**
	[0.0215]			[0.0123]	[0.3570]	[0.0251]	[0.0208]
Multilateral suspension	0.4582***	.	.	0.4409***	3.4737***	0.3948***	0.4210***
	[0.0607]			[0.0557]	[0.4837]	[0.0689]	[0.0610]
Donor public support for aid	-0.0119	.	.	-0.0057	-0.2435	-0.0163**	-0.011
	[0.0084]			[0.0055]	[0.2911]	[0.0083]	[0.0078]
Donor growth	0.0182***	.	.	0.0122***	0.4445***	0.0159**	0.0172***
	[0.0062]			[0.0045]	[0.1257]	[0.0065]	[0.0059]
Donor ideology	0.0031	.	.	0.0004	0.0525	-0.0048	0.0041
	[0.0070]			[0.0050]	[0.1994]	[0.0078]	[0.0071]
Colonial tie	0.0008	0.0258	0.8107	0.0027	0.2424	0.0083	0.0097
	[0.0214]	[0.0225]	[0.7867]	[0.0151]	[0.5402]	[0.0239]	[0.0206]
Donor aid share in R	-0.0238	0.0355	-2.549	-0.0012	1.8215	-0.0471	-0.0225
	[0.0436]	[0.0450]	[2.9085]	[0.0271]	[2.6339]	[0.0461]	[0.0394]
Similar ideology	-0.0364**	-0.0485**	-1.1978**	-0.0339***	-1.0273**	-0.0252	-0.0331**
	[0.0175]	[0.0201]	[0.5129]	[0.0125]	[0.4606]	[0.0189]	[0.0164]
Log of trade	0.0088*	-0.0052	-0.0264	0.0091***	0.2584*	0.0098*	0.0079
	[0.0050]	[0.0056]	[0.2004]	[0.0032]	[0.1404]	[0.0056]	[0.0048]
Number of BS donors	0.0058**	0.0147***	0.2766***	.	.	0.0056*	0.0044
	[0.0030]	[0.0033]	[0.0597]			[0.0032]	[0.0029]
Polity IV	-0.0027*	-0.0039**	-0.0869**	.	.	-0.0037**	-0.0028**
	[0.0014]	[0.0016]	[0.0422]			[0.0016]	[0.0013]
Ethnic Fractionalization	-0.0112	-0.0061	0.1867	.	.	-0.0105	0.011
	[0.0304]	[0.0288]	[0.7901]			[0.0335]	[0.0290]
Trend in gov effectiveness	-0.0155	-0.0624	0.046	.	.	-0.0132	-0.0104
	[0.0503]	[0.0545]	[1.8194]			[0.0578]	[0.0509]
Trend in political stability	0.0205	0.0251	0.9989	.	.	0.0212	0.0076
	[0.0208]	[0.0237]	[0.8412]			[0.0208]	[0.0197]
Trend in voice and account	-0.0740*	-0.1633***	-6.3660***	.	.	-0.0658	-0.0445
	[0.0380]	[0.0499]	[1.9875]			[0.0419]	[0.0356]
Trend in corruption	0.032	-0.0204	0.0291	.	.	0.0551	0.035
	[0.0400]	[0.0423]	[1.3267]			[0.0476]	[0.0387]
Aid dependence	-0.1150**	-0.1913***	-6.9279*	.	.	-0.1360***	-0.1096**
	[0.0485]	[0.0526]	[3.6583]			[0.0479]	[0.0478]
Share of BS in recipient	0.0032	0.0192	0.7551	.	.	0.02	-0.0024
	[0.0393]	[0.0373]	[0.9145]			[0.0421]	[0.0368]
Log of R per capita GDP	-0.0179*	-0.0009	-0.4099	.	.	-0.0219**	-0.0183**
	[0.0095]	[0.0105]	[0.3676]			[0.0109]	[0.0093]
Log of R population	-0.0112**	-0.0066	-0.4969	.	.	-0.0115*	-0.0086
	[0.0056]	[0.0061]	[0.3165]			[0.0061]	[0.0053]
Country fixed effects	No	Yes	Yes	Yes	Yes	No	No
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1053	1102	667	1846	773	893	1053
R²	0.292	0.1724	.	0.4144	.	0.2226	0.2761
Adjusted R²	0.2726	0.1339	.	0.3648	.	0.1984	0.2563
p-value F-statistic	0.00000	0.00000	0.00000	0.00000	0.00000	0.0000	0.0000

Dependent variable is a dummy coded 1 if donor i suspended budget support in recipient country j at year t. The standard errors for the OLS models are adjusted for non-independence within both donor and recipient clusters. The standard errors for the conditional logit models are based on the observed information matrix. Constant not reported. Significance levels:*** p<0.01. ** p<0.05 and * p<0.10

Table 5: Results from a restricted sample of suspensions related to political factors

Variation equation	Base model (1)	R LPM (2)	R xtlogit (3)	D LPM (4)	D xtlogit (5)	excl 2005 (6)	dep var (7)
Nordic Plus	0.0324*	.	.	0.0153	0.4653	0.0334	0.0291
	[0.0192]			[0.0107]	[0.3996]	[0.0235]	[0.0192]
Multilateral suspension	0.4369***	.	.	0.4008***	3.4647***	0.4074***	0.4257***
	[0.0630]			[0.0594]	[0.5356]	[0.0694]	[0.0630]
Public support for aid	-0.0058	.	.	-0.0038	-0.0935	-0.0102	-0.0049
	[0.0079]			[0.0050]	[0.3138]	[0.0079]	[0.0077]
Donor growth	0.0152**	.	.	0.0102**	0.4347***	0.0127**	0.0139**
	[0.0059]			[0.0042]	[0.1377]	[0.0062]	[0.0058]
Donor ideology	0.005	.	.	0.0007	0.0352	-0.0004	0.0072
	[0.0067]			[0.0046]	[0.2302]	[0.0076]	[0.0067]
Colonial tie	-0.0043	0.0166	0.1966	0.0042	0.3069	0.0054	-0.0024
	[0.0190]	[0.0220]	[0.8482]	[0.0144]	[0.6001]	[0.0210]	[0.0190]
Donor aid share in R	0.004	0.0448	-4.0451	0.0122	4.6865	-0.0094	0.0123
	[0.0385]	[0.0407]	[4.1660]	[0.0226]	[3.4186]	[0.0419]	[0.0366]
Similar ideology	-0.0295*	-0.0366*	-1.1252*	-0.0261**	-1.0189*	-0.0267	-0.026
	[0.0167]	[0.0196]	[0.5775]	[0.0110]	[0.5393]	[0.0189]	[0.0165]
Log of trade	0.0065	-0.0055	-0.1324	0.0072**	0.2368	0.007	0.0056
	[0.0046]	[0.0051]	[0.2385]	[0.0029]	[0.1572]	[0.0053]	[0.0046]
Number of BS donors	0.0052*	0.0126***	0.2728***	.	.	0.0060*	0.0044
	[0.0028]	[0.0031]	[0.0703]			[0.0031]	[0.0029]
Polity IV	-0.0036***	-0.0049***	-0.1180**	.	.	-0.0039***	-0.0034***
	[0.0013]	[0.0015]	[0.0487]			[0.0015]	[0.0013]
Ethnic fractionalization	-0.0117	-0.0004	0.6772	.	.	-0.0172	-0.0023
	[0.0298]	[0.0282]	[0.9151]			[0.0337]	[0.0291]
Trend in gov. effectiveness	-0.0605*	-0.1090**	-2.9601	.	.	-0.0519	-0.0533
	[0.0365]	[0.0436]	[2.2855]			[0.0413]	[0.0359]
Trend in political stability	0.0131	0.0127	0.6762	.	.	0.0203	0.0049
	[0.0196]	[0.0224]	[0.9769]			[0.0203]	[0.0193]
Trend in voice and account	-0.0538	-0.1119***	-6.1828***	.	.	-0.0702*	-0.0456
	[0.0332]	[0.0403]	[2.3962]			[0.0371]	[0.0321]
Trend in corruption	0.0487	0.0169	1.4738	.	.	0.0505	0.048
	[0.0328]	[0.0342]	[1.5654]			[0.0402]	[0.0322]
Aid dependence	-0.1188***	-0.2007***	-12.5528**	.	.	-0.1227***	-0.1101***
	[0.0422]	[0.0479]	[4.9892]			[0.0428]	[0.0415]
Share of BS in recipient	0.0161	0.0386	1.6787*	.	.	0.0205	0.0129
	[0.0373]	[0.0355]	[1.0076]			[0.0408]	[0.0362]
Log of R per capita GDP	-0.0158*	-0.0036	-0.7065	.	.	-0.0166	-0.0157*
	[0.0091]	[0.0100]	[0.4571]			[0.0107]	[0.0090]
Log of R population	-0.0062	-0.0019	-0.3977	.	.	-0.0064	-0.0042
	[0.0050]	[0.0056]	[0.3749]			[0.0056]	[0.0048]
Country fixed effects	No	Yes	Yes	Yes	Yes	No	No
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1041	1089	629	1829	636	886	1041
R²	0.2986	0.1654	.	0.4237	.	0.2432	0.2934
Adjusted R²	0.2792	0.126	.	0.3744	.	0.2194	0.2738
p-value F-statistic	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Dependent variable is a dummy coded 1 if donor i suspended budget support in recipient country j at year t for political reasons. The standard errors for the OLS models are adjusted for non-independence within both donor and recipient clusters. The standard errors for the conditional logit models are based on the observed information matrix. Constant not reported. Significance levels: *** p<0.01. ** p<0.05 and * p<0.10

We would like to thank the reviewer for their final comments. We went over all of them (they are repeated in bold below) and made the necessary adjustments where we felt this improved the paper. A list of each individual point can be found below:

On. p.9, is "allowed to do" the right way of expressing this? Are they restricted by domestic law? Yes, this is the sense in which the sentence was intended. For the sake of clarity we have now added "in terms of their procedures" to the sentence in question.

Spell out DfID when first used. We have now done so.

I am confused by the inclusion of a trend in corruption and footnote 17. Given that the trend does not vary within recipients and years, it must be multicollinear with the year dummies. Including them jointly would then be impossible. I assume the estimation is performed by omitting one of the year dummies instead. This makes no sense. We have included a new endnote (endnote 13) which provides more information on our trending variables. It reads, "One reviewer suggested that the trending variables are multicollinear with the year dummies. However, the trending variables are not time invariant, they vary from year to year. Furthermore, they also vary between recipients in a given year. So there is no problem of perfect collinearity between the year dummies and the trending variables".

p.19, typo in "donors active in" The sentence is in fact grammatical and should be read as follows "That is, the more [budget support donors] active in a country, the more diffused the encompassing interest in a country's development", but we have now changed it to "That is, the more budget support donors <u>that are</u> active in a country, the more diffused the encompassing interest in a country's development" to improve the ease of reading ; **p.20**

Eaton an Engers, **period missing in endnote 2, typo in endnote 6.** These three errors have all been amended.

Regarding UNSC membership (footnote 12), I would stress this more and certainly also test for UNGA voting. The former is one of the most clearly exogenous variables and used in most recent aid allocation models, the latter is one of the most widely used variables in this literature. It seems weird to exclude it. Our findings on UNSC voting and their significance are described in the footnote referred to. Since we only have useable UNGA data till 2008 (which doesn't cover the full period we examine in this paper) we were unable to include this variable, though we will bear it in mind for future work if data availability changes.

Tables 3 and 4 use commas where they should use periods. These tables have been amended (as has Table 5, for the sake of consistency), and all commas replaced by full stops (periods). There was no information on the requirements in this regard in the World Development style guide (http://www.elsevier.com/wps/find/journaldescription.cws_home/386?generatepdf=true), but we assume the reviewer's suggestion is fully in line with World Development editing guidelines.