

Dicey Donors: How Donor Commitment Problems Can Explain Changing Foreign Aid Practices

Haley J. Swedlund*

Abstract

Why is foreign aid delivered in certain ways, but not others? For example, why do some donor agencies voluntarily give up control over how their aid money is spent by providing direct budget support? I argue that counterintuitive aid delivery mechanisms need to be understood in light of the fact that donor agencies and recipient governments continually bargain over questions of development policy. One constraint to this bargaining relationship is the inability of donor agencies to credibly commit to future disbursements. If an aid delivery mechanism is perceived as improving the credibility of donor commitments, it opens up new bargaining compromises. Using a simple model of aid policy bargaining, I outline several testable predictions about aid policy bargaining and then test these predictions by tracing the evolution of donor-government relations in Rwanda and Tanzania over the past ten years.

*Assistant Professor, Nijmegen School of Management, Radboud University Nijmegen (The Netherlands). <mailto:h.swedlund@fm.ru.nl>. h.swedlund@fm.ru.nl.

Despite a vast literature on foreign aid, we actually know relatively little about how choices around aid delivery are made. Historically, scholarship has focused on either aid allocation (i.e. “who gives foreign aid to whom and why?”¹) or aid effectiveness (i.e., does foreign aid actually promote development in recipient countries?²). In doing so, it has largely overlooked aid distribution, or how aid is actually delivered in recipient countries. Once donors have made the decision to allocate aid to a particular recipient country, how do they select the manner in which they will disburse the aid? Why do they adopt certain aid delivery mechanisms but not others?

My argument is that understanding aid delivery requires us to understand the bargaining relationship between donor agencies and recipient governments. While aid allocation generally follows political and strategic considerations on the part of the donor country (Milner and Tingley 2013), aid delivery is delegated to donor agencies. At the recipient-country level, the objective of the donor agency is to maximize the impact of foreign aid. For that purpose, the donor agency not only negotiates the terms under which aid is disbursed but also engages in broader policy dialogue with the recipient government. The bargaining relationship between donor agencies and recipient governments is therefore key to understanding why foreign aid is delivered in certain ways but not others, and why the mechanisms of aid delivery change over time.

Take for example, the shift towards direct budget support. Starting in the 2000s, many donors began disbursing foreign aid via budget support; i.e., by directly transferring foreign aid into the recipient country’s treasury, rather than conditioning disbursements on the progress of specific projects. Theoretically, the shift to budget support is puzzling. Given the fungibility of aid, why would donor agencies be willing to cede control over taxpayers’ money to recipient governments with doubtful governance records? If we assume that donors gain something from doing so, what motivates recipient governments to agree to such a deal?

In this paper, I argue that we can understand the shift towards budget support by considering the role of donor commitment problems, or the difficulty donor agencies have making credible promises and/or threats. I argue that donor commitment problems constrain the attainable bar-

¹Alesina and Dollar (2000) first posed the question in this way. Since then many scholars have weighed in (e.g. Alesina and Weder 2002; Claessens, Cassimon, and Van Campenhout 2009; Clist 2011; Collier and Dollar 2002; Heinrich 2013; Reinsberg 2015; Wright and Winters 2010).

²The literature on aid effectiveness is vast. For an overview, see Radelet (2006).

gaining compromises between donor agencies and recipient governments. Seemingly counterintuitive aid modalities, such as budget support, should be understood as a mechanism to mitigate donor commitment problems. By disbursing aid funds upfront and directly into the recipient government's treasury, donors can overcome their commitment problems. As a result, bargaining compromises that leave both sides better off become feasible. Using a simple model of aid policy bargaining, I predict that, if donor agencies are able to make more credible promises, recipient governments will be willing to selectively offer donor agencies greater access and influence over domestic policy decision-making. In exchange for this policy influence, donor agencies will be willing to make concessions regarding the way they address contentious political issues.

I evaluate these theoretical predictions by tracing the evolution of donor-government relations in Rwanda and Tanzania since the early 2000s. To develop the case studies, I use data from over eighty interviews with principal decision-makers on both the donor and government sides, as well as key policy documents and external assessments of donor-government relations, obtained over several periods of research in both countries. The empirical evidence overwhelmingly validates the model's assumption that aid modalities that promise to reduce commitment problems allow for a renegotiation of the bargaining compromise between donor agencies and recipient governments. Interviewees justify the shift to budget support by emphasizing aid predictability and a decrease in donors' ability to 'shift the goal posts'. I further show that, in return for more credible commitments, recipient governments were willing to grant budget support donors greater access to and influence over domestic decision-making processes; something that donor agencies highly value. I also show that providing budget support changes the ways in which donor agencies addressed politically contentious issues. Instead of independently pushing for reform via groups outside central government structures, donor agencies providing budget support work in closer collaboration with central government institutions; something that recipient governments value.

The contribution of the article is three-fold. First, instead of the standard focus on cross-national aid commitments, my approach analyzes the bargaining interactions between donor agencies and recipient governments. Because foreign aid is used to build constituent support for the recipient government, the bargaining processes between donor agencies and recipient governments should

play a role in how aid programs are administered. Second, by unmasking this bargaining process, my approach helps us to better understand choices in aid delivery. Despite the fact that how aid is administered has important implications on whether or not is effective, we know relatively little about why particular aid modalities are selected instead of potential alternatives. Third, my approach focuses on donor agencies instead of donor countries. The preferences of donor agencies do not directly mirror those of donor countries; particularly at the recipient-country level, where aid agencies serve as the key mediator between the donor country and the recipient government (Martens 2002). Therefore, if we want to understand aid delivery processes, it is important to model the interactions between donor agencies and recipient governments.

The article proceeds as follows. First, I describe the empirical puzzle posed by the shift to budget support. I then explain why existing theories of foreign aid are unable to sufficiently account for changes in mechanisms of aid delivery over time, arguing that the role of donor agencies and their ongoing bargaining relationship with recipient governments needs to be considered in order to understand changes in aid delivery. I then formalize my theoretical predictions, outlining a simple model of aid policy bargaining. Next I explain my empirical strategy for testing the predictions of the model and present the empirical findings. I conclude by discussing the sustainability of budget support and outlining the broader implications of my findings.

The Counterintuitive Shift to Budget Support

In the late 1990s, some donors began advocating for a type of development aid, which they called budget support. A type of program aid,³ budget support transfers resources directly into the treasury of the receiving country, allowing the recipient to use its own allocation, procurement and accounting structures (Beasley et al. 2005; Barkan 2009; Koeberle, Stavreski, and Walliser 2006). Sector budget support (SBS) is targeted towards specific sectors, such as health or education, while general budget support (GBS) is un-earmarked⁴ and flows into the general treasury.⁴

For several donors in key recipient countries, a substantial percentage of their aid portfolios

³Program aid is foreign aid that is not tied to a particular project (Hammond 2006).

⁴There is some debate over what constitutes budget support, and how exactly it differs from other aid modalities (e.g., structural adjustment loans or basket funding). However, aid is generally called budget support if it is designed to support the country's poverty reduction strategy program via cash transfers to the recipient country's treasury.

shifted towards budget support in the 2000s. In 1990, donors disbursed an estimated \$11.5 billion in budget support. By 2002, the amount of aid delivered as budget support had risen almost tenfold to \$98.6 billion (Tierney et al. 2011). In Tanzania alone, between 2005 and 2012, donors disbursed over \$5 billion in budget support - or \$16 per citizen per year. Such volumes are equal to roughly 200 projects or common basket fund operations distributing \$3-5 million each and mean that budget support constituted 37% of ODA and 13.7% of public spending in Tanzania between 2005-2012 (REPOA, Fiscus, and ITAD 2013; European Commission et al. 2013).

Budget support and related aid modalities, such as the World Bank's Poverty Reduction Strategy Program (PRSP), are surrounded by extensive policy rhetoric. During the 2000s, a series of global agreements –most importantly the *Paris Declaration on Aid Effectiveness* (2005)– underlined the need to move from “donor-driven” development aid towards “ownership”⁵; a change that was seen as necessary by many to achieve global targets, such as the Millennium Development Goals. Budget support is the aid modality most commonly associated with recipient ownership, because it relies on country systems and limits the number of conditionalities placed on aid disbursements (Armon 2007).

However, from both a theoretical and a policy standpoint, the shift towards budget support is startling. Not only is there is little empirical evidence supporting the claim that budget support is more effective than project aid (Easterly 2007; IDD and Associates 2006; Knack 2013; Koeberle, Stavreski, and Walliser 2006; de Renzio 2006), but budget support also entails a substantial risk for donors. It requires donors to trust the effective use of foreign aid to governments that are often anything but democratic; often fail to implement pro-poor policies; have low levels of institutional capacity; and may have engaged in corrupt and/or neopatrimonial practices in the not so distant past (Faust 2010). The choice is particularly puzzling given that aid, especially budget support, is fungible; i.e., it can easily be used in ways other than how the donor intended.⁶ Given donors' interest in safeguarding their taxpayers' money, why would they be willing to release funds into the coffers of foreign regimes? Shouldn't donors want to keep aid under tight control?⁷

⁵Subsequent meetings were held in Accra, Ghana (2008) and Busan, South Korea (2011).

⁶For more on aid fungibility, see Boone (1996) and Deverajan and Swaroop (2006).

⁷Budget support also stands in contrast to a long-standing debate regarding the impact of foreign aid on regime survival and democratic transition with some scholars arguing that aid can

Aid Delivery and Donor-Government Relations

My argument is that understanding the selection of particular aid delivery mechanisms, such as budget support, requires us to open up the ‘black box of aid’ (Bourguignon and Sundberg 2007). At the recipient-country level, the objective of donor agencies is to maximize the impact of aid. Professionally, both the agency and its staff are rewarded according to how efficiently and effectively they disburse aid. For that purpose, they not only negotiate the terms under which aid is disbursed with the recipient government, but they also engage in policy dialogue with the recipient government. Consequently, to understand why particularly aid delivery mechanisms are selected, we need to understand the logic of aid policy bargaining.

Aid Policy Bargaining and Donor Commitment Problems

At the recipient-country level, donor agencies use the promise of aid to exert influence over domestic policy reform. Given that aid is fungible, donor agencies wish to have a say not only over how their own funds are spent but also over broader matters of development policy and political reform in the recipient country. Recipient governments, on the other hand, may value donors’ technical competence but also value discretion in the use of public funds. Additionally, recipient governments frequently disagree with donor agencies on political and economic issues, such as democratization, human rights, and security. What this means in practice is that development policy is the result of a compromise between donor agencies and recipient governments.

Yet, how likely is it that both parties can credibly commit to upholding their side of the bargain? Insights from institutional economics tell us that although parties may have a strong incentive to strike a bargain, there is always the potential for compliance to be a problem. This is because compromises between parties are often plagued by commitment problems, or the inability to make credible promises and/or threats. When parties anticipate this *ex post* problem *ex ante*, the parties will attempt to alter the incentives by devising institutions that promote compliance with agreed on bargains (North and Weingast 1989; North 1990).

extend the life of autocrats; promote rent-seeking; and decrease incentives for democratic reform (e.g., Ahmed 2012; Bräutigam 2000; Bräutigam and Knack 2004; Bueno de Mesquita and Smith 2009; Bueno de Mesquita and Smith 2010; Dietrich and Wright 2015; Smith 2008; Svensson 2000; van de Walle 2001; Wright and Winters 2010; Yuichi Kono and Montinola 2009).

Applied to aid policy bargaining, insights from institutional economics suggest that the bargaining compromises reached between donor agencies and recipient governments are constrained by commitment problems, and it is the desire to limit such commitment problems that induces change in aid delivery over time. In this paper, I test the argument that institutional innovations like budget support are adopted because they promise to help with donor commitment problems; i.e., the difficulty donor agencies have making credible promises and/or threats to agreed on compromises.⁸ In the case of budget support, donor agencies promise to overcome their commitment problems by disbursing aid funds upfront and directly into the recipient government's treasury. Because donor commitment problems constrain the bargaining compromises between donor agencies and recipient governments, institutional innovations that promise to help with the *ex post* problem of the credibility of donor commitments are appealing to donor agencies and recipient governments *ex ante*.

Although the term commitment problem is not often used in the literature on foreign aid,⁹ there is plenty of evidence that donor agencies have a commitment problem in their negotiations with recipient governments. It is well established, for example, that donors have a difficult time following through on threats to suspend aid when the recipient government does not fulfil the requirements of a loan or grant (e.g., Azam and Laffont 2003; Collier 1997; Collier et al. 1997; Killick 1998; Leandro and Frontini 1999; Stone 2004; Svensson 1999). The Government of Kenya, for example, renegotiated the exact same reform package with donors five times over a fifteen year period (Collier 2007, 109). Because donors cannot credibly commit to suspending aid when a recipient does not meet the conditions of a loan or grant, the recipient continues to put off the reforms (sometimes indefinitely). As Bearce and Tirone (2010) show, the inability of donors to credibly enforce conditions for economic reform can have important implications for aid effectiveness.¹⁰

⁸There is also reason to believe that recipient governments have difficulty making credible commitments; the implications of which are discussed at length in further work by the author.

⁹Notable exceptions include Dunning (2004) and Baccini and Urpelainen (2012). Dunning argues that the end of the Cold War allowed donors to more 'credibly commit' to conditioning aid on human rights and democratization. Baccini and Urpelainen argue that democratic developing countries receive more adjustment assistance, because they can more 'credibly commit' to honouring their treaty commitments.

¹⁰There is some evidence that donors allocate aid less strategically since the end of the Cold War (i.e., Bearce and Tirone 2010; Dunning 2004). This does not mean, however, that donor

At the same time, at the macro-level, it is well established that aid can be very unpredictable; i.e. that donor agencies cannot credibly commit to fulfilling their aid promises. In Sub-Saharan Africa, between 1990 and 2005 aid disbursements deviated, on average, by 3.4% of GDP from aid commitments with some countries reporting deviations of up to 10% of GDP (Celasun and Walliser 2008).¹¹ To account for the differences between disbursements and commitments, the Government of Uganda even goes as far as discounting *all* donor aid projections by an average of 30-40% when preparing its annual budget.¹²

Alternative Explanations

Before formalizing the theoretical predictions, it is important to briefly discuss two potential alternative explanations for why particular aid delivery mechanisms are selected – donor preferences and aid effectiveness. While I do not discount the importance of either mechanism, neither can fully explain why particular aid modalities, such as budget support, are selected.

A pervasive assumption in the literature on foreign aid is that donors drive decision-making. Following this assumption, aid delivery mechanisms would simply reflect the strategic interests and preferences of donor countries. Aid modalities are selected because they are good for domestic farmers back home, advance the diplomatic interests of the donor country, and so on. Recent work by Dietrich (2015), for example, argues that aid delivery patterns are influenced by the economic orientation of donor countries.

While donor preferences no doubt influence aid delivery choices, we cannot assume that they are the only determinant in aid delivery. As Whitefield and her colleagues document, it would be wrong to assume that there is no negotiation between donors and recipients (Whitfield and Fraser 2009; Whitfield 2010). At the very least, a donor has to have the tacit consent of the recipient government to operate in the recipient country (Tsekpo 2008).¹³ Even if the donor holds the commitment problems have been eliminated.

¹¹Low levels of predictability are posited to have a variety of detrimental effects in recipient countries, including lower rates of investment, increased vulnerability to shocks, and lower levels of growth (Lensink and White 2001; Celasun and Walliser 2008).

¹²Personal communication with the Ministry of Finance, Planning and Economic Development, Uganda

¹³While rare, there are examples of recipient governments throwing out donors either individually (e.g., France in Rwanda) or entirely (e.g., Eritrea).

upper hand in aid negotiations, they still are dependent on the recipient government to allow them to operate freely. At the same time, donors rely on governments to provide them with crucial information, such as demographics, and to implement the laws and policies necessarily for the success of their programming in the recipient country.

It is also problematic to assume that aid delivery choices are driven entirely by the preferences of donor countries, because it ignores the organizational incentives of donor agencies. Agencies like the United Kingdom's Department for International Development (DFID) or the United States Agency for International Development (USAID) disburse foreign aid in recipient countries on behalf of donor countries. Although decisions about aid allocation are often centralized, decisions about aid disbursement are typically decentralized to the recipient country or project-level (Svensson 2003). While guidelines about aid commitments are generally issued by parliament in the donor country, donor agencies are responsible for the actual disbursement of aid. This means that donor agencies have a great deal of leeway regarding how aid is actually disbursed in the recipient country, even if aid allocation decisions (i.e. aid commitments) are made by politicians back in donor countries.

Another possible explanation for why aid is delivered in certain ways and not others is that donor agencies and recipient governments simply select the most effective way to distribute aid. By this logic, donor agencies begin distributing budget support because supporting state institutions was determined to be the most effective way to disburse aid. It has been shown, for example, that donors appear to bypass states with extremely poor governance (Clist, Isopi, and Morrissey 2011; Dietrich 2013; Knack 2013). It would be short-sighted, however, to assume that aid delivery mechanisms change and evolve only according to principles of aid effectiveness (which are of course themselves contested).

At basic theoretical level, assuming that aid is driven by principles of aid effectiveness, forces us to assume that the beneficial consequences of a particular phenomenon, in this case the existence of a specific aid delivery mechanism, amounts to explaining why such policies and practices are there to begin with. At the same time, assuming that aid modalities are selected entirely because they are the most efficient way to distribute foreign aid ignores the strategic interests of donors.

Aid is always given with a mix of motives (Lancaster 2007), some of which go against well-known principles of aid effectiveness. There is, for example, broad consensus that tied aid –or aid that must be spent in the country providing the aid– decreases the efficiency of foreign assistance.¹⁴ Yet, many donor countries still tie large proportions of their aid, because tied aid more directly benefits domestic constituencies.

Finally, if the shift to budget support was only driven by aid effectiveness, why has so much budget support been given to African states where institutions are often weak and corruption pervasive? Between 2000-2012 an estimated \$57.5 billion was distributed to Africa with the largest share going to Tanzania (\$8b) and Mozambique (\$4.8b) (Tierney et al. 2011). While these countries may have relatively strong institutions in comparison to a Democratic Republic of the Congo (DRC) or a South Sudan, they still face enormous changes related to transparency and corruption.¹⁵ In both cases, budget support constituted a substantial risk for donor agencies.

A Model of Aid Policy Bargaining

In the following section, I model a situation of aid policy bargaining where donor agencies and recipient governments continually negotiate over aid policy in the recipient country. To this basic bargaining compromise, I introduce a constraint –donor commitment problems– and evaluate how an institutional innovation that promises to reduce donor commitment problems can alter the feasible bargaining compromises between the two parties.

Model Setup

I formalize the bargaining situation using a simple and analytically parsimonious Nash bargaining model. In the model, donor agencies and recipient governments bargain over the amount of aid transfers, the extent to which public spending conforms to the donors' policy preferences, and the manner in which contentious political reform issues are addressed. The Nash bargaining framework is the simplest possible setup that can be used to generate testable predictions about the impact of commitment problems on aid policy bargaining. It abstracts from intertemporal choices and

¹⁴Studies have shown, for example, that tied aid raises the cost of goods, services and works by 15% to 30% and raises the costs of food aid by as much as 40% (Clay, Geddes, and Natali 2009).

¹⁵Both scored, for example, in the bottom third of countries worldwide in the 2014 Corruption Perception Index (Transparency International 2014).

from the macroeconomic effects that aid flows and government expenditure decisions may have on future fiscal revenue. This level of abstraction is advantageous, because it makes it possible to analyze the political consequences of commitment problems within a country in isolation from their impact on macroeconomic and global phenomena.

In the bargaining model, the donor agency's preferences are characterized by the utility function $u_d(A, C, D)$, where A stands for the amount of aid transfers, C stands for the extent to which donors independently address contentious political issues, and D stands for the amount of public spending that conforms to the policy preferences of donors. Donor agencies always prefer to achieve the same policy outcomes with less aid transfers. They also value independent influence over politically contentious issues, which sometimes involves working with civil society organizations or confronting the government. Thus, u_d is decreasing in A and increasing in C and D .

The recipient government's preferences are captured by the utility function $u_g(X, C, D)$, where X stands for the government's discretionary spending. Discretionary spending is any public spending that is not controlled by the donor's policy preferences, including for example military spending or the creation of patronage jobs. The government always prefers to be able to spend more money, regardless of whether the spending is discretionary or earmarked for purposes that conform to the donors' objectives. On the other hand, the government prefers to control how donor agencies address politically contentious issues. Thus, u_g is decreasing in C and increasing in X and D .

The distinction between government spending D that conforms to the donors' policy preferences and discretionary spending X is purely conceptual; no government actually breaks down its public expenditure into these categories. For the sake of the model, however, I assume that any public expenditure can be classified by how much it contributes to each category. For example, expenditures on a small-enterprise development program may serve a purpose that a donor agency finds worthwhile. However, the program may be deliberately targeted at the government's political constituents, reducing its efficiency relative to the targeting the donor agency would have preferred. In such a case, the government expenditure for the program could not be subsumed under D in its entirety; the equivalent of the deadweight loss from targeting the program towards the government's clientele would have to be accounted for as discretionary government spending

X . Analytically, I distinguish between D and X because of aid fungibility.¹⁶

Public expenditure can thus be represented as the sum of D and X . From the government's perspective, expenditures must satisfy the budget constraint, meaning the budget equation is:

$$\underbrace{B_0 + qA}_{\text{Revenue}} = \underbrace{D + X}_{\text{Expenditures}}$$

where the revenue side is composed of the government's own fiscal revenue B_0 and aid flows A . The parameter $q \in [0, 1]$ captures a factor by which the recipient government discounts promised foreign aid in its expenditure planning. Thus, q reflects the extent of donor commitment problems. In the previously mentioned Ugandan example, fiscal planners *actually work with a specific discount factor* on foreign aid commitments in their internal calculations. In other cases, q is hypothetical. A value of q that is close to one indicates high credibility of donor commitments, meaning that the recipient government anticipates that most foreign aid promises will materialize within the next budget cycle. A value of q that is close to zero indicates low credibility of donor commitments.

From a fiscal planning perspective, discretionary government spending is constrained to $X = B_0 + qA - D$. Therefore, donors and the recipient government bargain over the amount of aid commitments A , the amount of development spending D , and the extent C to which donors are independently addressing contentious political issues. In the Nash bargaining framework, this means that donors and governments jointly solve the optimization problem:

$$\max_{A,C,D} (u_d - \bar{u}_d)(u_g - \bar{u}_g)$$

where \bar{u}_d and \bar{u}_g represent their respective threat points. An efficient bargaining solution is an aid policy compromise (A^*, C^*, D^*) that satisfies the first- and second-order conditions of the optimization problem. If a proposed aid policy compromise falls below a donor's threat point, the donor agency would prefer to spend the aid money more efficiently in the next-best country in their portfolio. If a proposed aid policy compromise falls below the government's threat point, the

¹⁶Aid fungibility means that an increase in aid flows A does not automatically result in an equivalent increase in development spending that conforms to the donor's policy preferences. Instead, foreign assistance could lead to increases in both D and X .

recipient government would prefer to stop relying on foreign aid altogether.

Comparative Statics

This model setup helps us to examine how the extent of donor commitment problems q affects the aid policy compromise (A^*, C^*, D^*) adopted in equilibrium. Changes in q should be interpreted as changes in the institutional environment within which donor-government bargaining takes place. In particular, q would increase if a new aid modality is introduced that is perceived as reducing donor commitment problems. In order to assess the impact of such changes, the first-order conditions of the cooperative bargaining problem are obtained and the implicit function theorem is used to evaluate how changes in q affect donor influence D and the extent to which donors independently address contentious political issues C . The model predictions are based on three assumptions:

ASSUMPTION 1: An interior bargaining solution (A^*, C^*, D^*) exists at which the second-order conditions are satisfied. This is not a substantive restriction, because the model's purpose is to explain how aid policy bargaining compromises change in response to new aid modalities, not the conditions under which donor-government relations break down beyond repair. Empirically, such cases are rare and would require an extension of the model.

ASSUMPTION 2: The cross-derivative of the recipient government's utility function with respect to X and D is nonnegative: $u_{gXD} \geq 0$. This rules out the perverse case that the government's marginal utility from discretionary spending is decreasing in the amount of government spending that conforms to the donor's preferences. From the government's perspective, development and discretionary spending should be thought of as complements. The more money is spent according to donor preferences, the greater is the political return the government will be able to derive from additional expenditures over which the donor has no say. For example, a government prestige project may become more popular if, at the same time, necessary investments in infrastructure and public service delivery are also made. Similarly, if a government strategically complements expenditures on development projects, it may be able to claim political credit for their impacts.

ASSUMPTION 3: The cross-derivative of the recipient government's utility function with respect to X and C satisfies $u_{gXC} < -\frac{u_{gX}u_{dC}}{(u_d - \bar{u}_d)}$. The final assumption states that the marginal utility of discretionary government spending substantially decreases as donors get more independent influence

over contentious political issues; i.e., if donors empower civil society, governments may face greater political constraints in their use of public resources or greater fiscal accountability pressures.

With these assumptions in mind, the comparative statics (see appendix) led to the following propositions:

PROPOSITION 1: AN INCREASE IN q LEADS TO AN INCREASE IN D^* .

PROPOSITION 2: AN INCREASE IN q LEADS TO A DECREASE IN C^* .

In practice, these propositions imply that, if donor commitment problems q are reduced: (1) recipient governments will be willing to grant donor agencies greater influence over development policy decision making, and (2) donor agencies will be willing to limit the tools they use to address politically contentious issues. In other words, if donor commitment problems are reduced, a new bargaining compromise –one leaves both recipient governments and the donor agency better off– becomes feasible.

Case Studies: Rwanda and Tanzania

Given the complex bargaining processes describe by the model, case studies of donor-government relations in particular country contexts are the most appropriate way to test the saliency of the theoretical framework. A case study approach allows us to engage in process-tracing, examining the evolution of donor-government relations and the shift towards budget support over a specified period of time. In each country context, I analyze variation between donor agencies and changes in aid modalities over time (rather than variation between the two countries). Some donor agencies give larger amounts of budget support to some countries than others. However, the choice to engage in budget support is specific to the donor agency not the country context. While some donor agencies embraced budget support, others did not. Differences in the adoption of new aid modalities across otherwise very similar donors in the same country context makes it possible to assess if the predictions resulted from changes in donor practices or something else; it also provides qualitative insight into donors' motivations when deciding to adopt budget support and helps clarify the direction of causality. At the same time, variation in aid modalities over time allows us to evaluate how the adoption of budget support altered donor-government relations in each of the two countries.

Foreign Aid in Rwanda and Tanzania

Rwanda and Tanzania make good case studies to test the predictions of the model, because in the 2000s both countries received large amounts of budget support relative to the size of their economies and public expenditure. In terms of total volume, between 2005 and 2010, Tanzania received the highest amount of budget support of any low-income country, according to the Paris Surveys on Aid Effectiveness. Given its smaller economy, Rwanda received lower volumes of budget support but was still one of the top five global recipients of budget support during the same time period (OECD 2011). More importantly, between 2005-2011, budget support constituted, on average, over 27% of public expenditure in Rwanda and close to 18% of public expenditure in Tanzania (Swedlund 2013, 362). See Tables 1 and 2 in the appendix for budget support figures to Rwanda and Tanzania (total and by donor).

However, the two cases are quite different in other respects likely to influence donor-government relations; therefore, if the findings are similar across the two countries, it is easier to attribute the observed outcomes to the introduction of budget support rather than case-specific features. Economically, Tanzania is a large, populous economy with an increasingly autonomous productive base, thanks in part to recent discoveries of natural gas. On the other hand, Rwanda is a small, land-locked country whose economic base was decimated in the early 1990s by a civil war and genocide. While Rwanda has made remarkable strides in recent years, it is much more dependent on aid than Tanzania.¹⁷ Politically, while both countries are currently dominated by a single-party, it is Rwanda that is accused of increasing authoritarianism. In addition, allegations of Rwandan support to militia groups in neighboring DRC frequently strain donor-government relations in the country and even led to a suspension of budget support in the fall of 2012. On the other hand, Tanzania is routinely criticized by the international community for its inability (or unwillingness) to curb corruption, while Rwanda is often held up as a model for its tough stance on corruption.

¹⁷In 2011, ODA as a percent of GNI in Tanzania (10.34%) was almost half what it was in Rwanda (19.97%) (OECD 2013).

Data Collection Strategy

Between 2009 and 2013, over eighty interviews were conducted with key decision-makers involved in aid policy bargaining in Rwanda and Tanzania. In total, I conducted forty-nine interviews with policymakers in Rwanda over three research periods from October 2009 to October 2013 and thirty-four interviews with policymakers in Tanzania over two research periods from May 2012 to October 2013. See Table 3 and 4 in the appendix for a list of interviews conducted in each country.

In each country, I was able to speak with senior government officials and key technical staff, as well as with high-level representatives of donors agencies (both multilateral and bilateral). In addition, I also spoke to NGO representatives and independent consultants working on aid coordination and donor-government relations. Interviews lasted anywhere from thirty minutes to over three hours with the average being an hour. Respondents were selected through snowball sampling based on the need to cross-check and verify new pieces of information. A growing network of informants enabled me to eventually reach nearly all key decision makers in both countries, including senior government and donor officials.

To triangulate the interview data, I also administered a survey to Heads of Cooperation (HoCs) in both countries, which asked a number of questions about aid predictability and donor-government relations.¹⁸ I also collected hundreds of primary documents, including strategic documents and declarations by the government and donors; meeting agendas, presentations, and minutes; and documents specific to identified programs of interest. Finally, I consulted monitoring and evaluation reports and external assessments to verify observations and findings from the interviews.¹⁹

Observable Implications

If the theoretical framework proposed in the previous section is valid, the case studies should provide evidence in support of the model's core assumption and two propositions:

First, the model assumes that *donor commitment problems constrain the bargaining compromises between donor agencies and recipient governments*. For this assumption to be justifiable, we need

¹⁸A HoC is the person responsible for a specific donor agency's development cooperation in a given recipient country. The survey was also administered in eighteen other countries in Africa. For more information about the survey, please contact the author.

¹⁹For a full list of documents consulted, please contact the author.

to see evidence that donor commitment problems not only exist but also that recipient governments actually perceive them to be a problem. Thus, empirically, we should be able to observe a palpable frustration with the inability of donor agencies to make long-term commitments. Such frustrations should be observable not only from government stakeholders but also from donor representatives, who should be well aware of the challenges donor commitment problems pose to the recipient government. If respondents do not mention aid predictability or changing donor priorities as a major frustration in aid policy bargaining, the core assumption of the model would be called into question. At the same time, evidence that donor agencies are able to provide predictable aid or that aid priorities remain stable over time and across donor countries would falsify the assumption.

Additionally, for us to be assured of the applicability of the model to the specific instance of budget support, we should be able to observe that budget support was perceived to be a solution to donor commitment problems. This assumption is plausible because budget support encourages front-loaded disbursements, multi-year commitments, as well as joint strategies and memorandums of understanding. However, what is needed is evidence that recipient governments embraced budget support, *because* they believed it would decrease donor commitment problems. Alternatively, evidence that donors are able to commit to consistent and predictable aid regardless of the aid modality used or evidence that budget support was perceived to increase donor commitment problems would falsify the model's underlying assumption.

Second, the model predicts that, *recipient governments are willing to grant donor agencies greater influence over development policy decision making, if donor commitment problems are reduced*. If this proposition is valid, we should see evidence that budget support donors have increased policy influence over domestic policy decision-making. Empirical observations of policy influence would include donors working in areas previously reserved for domestic policymakers or evidence that donor officials whose agencies participate in budget support have more access to domestic decision-makers and key policy documentation.²⁰ Evidence that donor agencies engage in budget support, because they believe it will increase their policy influence would also support the

²⁰I am not suggesting that aid volumes or a donor's commercial or historical interests in a country will not affect how much influence a donor wields. However, we should be able to observe that the *relative* influence of a donor is higher if they provide budget support.

proposition; such evidence would suggest that increased influence was part of a strategic calculation on the part of donor agencies. Alternatively, the proposition would be falsified if donor officials view participating in budget support as weakening their position, or if we see evidence that donor agencies that do not provide budget support have more policy influence than those who do.²¹

Finally, the model predicts that, *in exchange for more influence, donor agencies are willing to limit the tools they use to address politically contentious issues*. If proposition 2 is correct, we should be able to observe that budget support donors channel less money through civil society and are willing to tolerate the centralization of development policy decision-making in exchange for more influence over such decision-making. Instead of pressing for pluralism and democratic decision-making regarding development policy, we should see that budget support donors are willing to accept the centralization of decision-making. Alternatively, the proposition would be falsified if budget support donors use civil society more than non-budget support donors or are highly critical of government efforts to control development policy management.²² This does not mean that donor agencies who choose to distribute aid through budget support no longer care about democratization or improving domestic accountability. On the contrary, donors' preferences remain stable. However, it does mean that, in practice, decision-making about development policy is largely the domain of state actors, particularly the executive branch, and that the donor agencies engaged in budget support tacitly consent to this.

Empirical Results

Interviews with donor and government officials in both Rwanda and Tanzania provide support for the assumption that the lack of reliable, long-term commitments by donors is a large problem in both countries, and that budget support was introduced to help with this challenge. In ad-

²¹Prediction one is consistent with recent analyses of budget support and PRSPs, which suggests that donors participating in these aid modalities are anything but removed from policy processes (e.g., Harrison 2001; Gould 2005; Hayman 2009a; Hayman 2009b; Knoll 2008; Molenaers 2012; Whitfield 2009). However, unlike previous research, I am suggesting that budget support actually *increases* the amount of influence that donors have over domestic policy processes.

²²Existing analyses of budget support and PSRPs are critical of the degree of citizen participation and amount of domestic accountability inherent in the two modalities (e.g., Beasley et al. 2005; IDD and Associates 2006; de Renzio 2006; Lawson et al. 2006; Hayman 2011). These critiques have largely been explained as a design flaw. Alternatively, I am proposing that they are a *consequence* of bargaining between donor agencies and recipient governments.

dition, the empirical evidence shows that recipient governments were willing to selectively grant budget support donors greater access and influence over domestic decision-making processes, and that donor agencies engaged in budget support were willing to accept that contentious issues be addressed in centralized forums (often behind closed-doors).

Donor Commitment Problems

As predicted, donor and government officials not only frequently mentioned donor commitment problems as a key source of frustration for the recipient country but used these frustrations to justify their preference for budget support. When asked about government frustrations towards donors, the lack of credible commitments was almost always the first, and often the only, frustration mentioned. Respondents justified the shift to budget support by emphasizing that the aid modality was designed to improve the credibility of donors' commitments by (1) improving aid predictability and (2) making the commitments of donors more explicit and visible – and thus policeable.

First and foremost, in both countries, respondents expressed considerable frustration with aid predictability, or the inability of donors to deliver on their promise to disburse a certain amount of aid by a specific time. A senior Tanzanian government official noted, for example, that ‘if the money doesn’t come, the government is in trouble’,²³ while another explained that, “one of the challenges we faced for many years was [aid] predictability.”²⁴ When asked in a questionnaire how difficult it is for their agency to give accurate predictions of aid one year in advance, six out of nine heads of development cooperation in Rwanda reported that it was either moderately or very difficult to do, while five out of eight reported the same in Tanzania. When asked how difficult it is for their agency to give accurate predictions three-years in advance, *all respondents* in both countries replied that it was either moderately or very difficult to do so.

Respondents emphasized that budget support was designed help with aid predictability by making explicit what is required for funds to be released and by disbursing aid in front-loaded tranches. As one donor representative explained, this means that you “don’t have all these approval and objection processes and procurement” that can make other types of aid unpredictable.²⁵ As another

²³Interview with senior government official: 30 October 2013, Tanzania

²⁴Interview with senior government official: 29 October 2013, Tanzania

²⁵Interview with multilateral donor official: 20 June 2012, Tanzania

explained, “one of the bureaucratic arts is to make sure you spend all your money. [...B]udget support is obviously quite good in that regard. It is relatively straightforward, you can send money across, there it is, it’s gone.”²⁶ Whether or not budget support is actually as predictability as proponents claim is a separate empirical question. However, it is quite clear that predictability is often used to justify the aid modality. A 2013 report on budget support to Tanzania, for example, claims that foreign aid distributed as budget support would have been 20-25% less predictable, if it would have been distributed via projects and basket funds (European Commission et al. 2013).

Recipient frustrations with the credibility of donor commitments are not just about aid predictability, but also about donor agencies constantly ‘changing the goal posts’; i.e., changing the criteria for aid disbursement after the government has implemented an agreed on reform. As one respondent explained, changing donor priorities and evaluation criteria makes it hard for the government ‘to steer a stable course.’²⁷ Similarly, a leading Tanzanian economist and government consultant noted that the most frustrating thing for the government is unpredictable changes in donor policies.²⁸ As a donor representative explained, the government is understandably frustrated by the fact that they are frequently “subjected to several requests, sometime contradictory and sometimes popping up out of the mind of somebody living 10,000 kilometers from here.”²⁹

The problem of changing goal posts is only further exacerbated by the fact that recipient governments are dealing not just with one donor agency but with many. Donor proliferation and fragmentation in recipient countries means that recipient governments are overburdened by donor demands that must be met before a donor agency will disburse (Acharya, de Lima, and Moore 2006; Knack and Rahman 2008). It also means that the recipient government has a harder time monitoring and enforcing donor commitments. According to one respondent, aid coordination is like ‘chairing a herd of cats’³⁰ As another interviewee explained, “every donor has their own opinions and so the poor Tanzanians are getting six different, probably more than that, people coming with solutions or lecturing them on what they should be doing.”³¹ As respondents pointed

²⁶Interview with bilateral donor official: 05 June 2012, Tanzania

²⁷Interview with bilateral donor official: 23 May 2012, Tanzania

²⁸Interview with aid scholar and consultant: 27 June 2012, Tanzania

²⁹Interview with multilateral aid official: 29 May 2012, Tanzania

³⁰Interview with bilateral donor official 5 June 2012, Tanzania

³¹Interview with bilateral donor official: 4 June 2012, Tanzania

out, not only does this put incredible pressure on the government's time, it means that recipient governments have to manage many competing demands.

According to respondents, budget support helps with changing and multiple donor priorities by asking donor agencies to make their commitments more explicit and thus policeable. In contrast to project aid, which is often given to pet projects, budget support asks donors to fund a commonly defined development trajectory that is collectively agreed on. When a donor agency decides to engage in budget support, they commit to funding the country's national development plan. The aid modality is therefore asking donor agencies to commit to a specific development trajectory and set of shared priorities.³² At the same time, budget support organizes all participating donor agencies into single group with a single contact point. As government officials in Tanzania explained, with project aid you have many different priorities and thus have to manage multiple competing demands; this is incredible difficult for the government. Budget support, in contrast, is designed to harmonize donor activities.³³ “[I]nstead of fourteen development partners running and signing their own individual agreement or asking for their own individual meeting, it can be done in one go.”³⁴ This makes it easier to monitor donors' commitments and also encourages donors to self-police.

In both countries, budget support donors disburse according to a singular, common framework.³⁵ In Rwanda, donors decide whether or not to release budget support funds based on one or more of the fifty indicators in the framework; if a new indicator is added, one must be replaced.³⁶ While the demands on government are clearly still very high, such frameworks ask donor agencies to *choose and make explicit* the criteria that they will use to make decisions about disbursement. As a respondent explained, the main benefit of budget support for the government is that they get

³²Rwanda, in particular, has made it a priority to get donors to sign on to key policy documents. For example, donors are required to sign the agricultural sector working group reports. According to an informant, this means that donors cannot just ask questions; they have to help (Interview with government official: 5 June 2010, Rwanda).

³³Interview with government civil servants: 29 June 2012, Tanzania

³⁴Interview with bilateral donor official: 20 June 2012, Tanzania

³⁵The Performance Assessment Framework (PAF) in Tanzania and the Common Performance Assessment Framework (CPAF) in Rwanda.

³⁶Interview with government official: 5 June 2010, Rwanda

the views of all donors in one document and there should be no change of plan.³⁷

Collectively, evidence from the case studies supports the model's assumption that donor commitment problems constrain the bargaining compromises between donor agencies and recipient countries. Evidence that would falsify the assumption, such as evidence that donor agencies are able to provide predictable aid or that donor priorities remain stable over time and across donor, was systematically lacking. When asked about government frustrations, respondents mentioned donor commitment problems again and again without being explicitly asked about them, and both government and donor officials justified budget support as a response to commitment problems, noting that budget support was designed to help with aid predictability, as well as to make donor commitments more visible and thus policeable.

Donor Influence

If proposition one is valid, one of the main reasons why donor agencies engaged in budget support is that it allows them to exercise more influence over domestic policy processes. While recipient governments may overwhelmingly prefer to minimize donor interference, I predict they will be willing to trade an increase in donor influence for more credible donor commitments.

In both Rwanda and Tanzania, discussions with policymakers provided substantial evidence supporting the argument that budget support donors believe they have heightened access to government decision-making processes. Interviews also provided clear evidence that donor agencies participated in budget support, because they saw it as strategically advantageous.³⁸ When asked directly, "In your opinion, do donors providing budget support have more influence with the [Government of Rwanda/Tanzania]?", fifteen out of seventeen heads of development cooperation responded affirmatively. And, when asked about the advantages of budget support for donor agencies during interviews, both recipient-country and donor representatives mentioned influence more than any other advantage:

*[F]or donors directly it's the level of influence we have [...]. We're sitting at the top table in the country and we get to help. [...] We have the ear of the Minister of Finance, and we have the ear of the planning people, and **we can influence the direction the government is***

³⁷Interview with GBS Secretariat: 20 June 2012, Tanzania

³⁸[Footnote omitted to maintain author anonymity.]

*heading to some extent at the highest levels.*³⁹

*While if you and I representing a donor, we go to the Ministry of Infrastructure and we agree to build a road, they're very happy, but that's fine. And **if we go to Ministry of Finance and we give 500 million dollars cash and we ask for something, normally we get it.***⁴⁰

*...the reason why most of us are giving general budget support is because we do have our own thoughts on how policy reforms should look like. And **the underlying reason for us to give is to be able to have some kind of influence via dialogue.** [...] if we didn't have that agenda, we would not be giving budget support.*⁴¹

In both countries, donor and government officials stated explicitly that budget support gives donor agencies heightened access to government, allowing them “to influence a much larger set of resources.”⁴² For example, a Rwandan respondent told me that budget support allows donor agencies to have discussions at a higher-level and to access privileged information,⁴³ while a Tanzanian respondent emphasized that what makes budget support attractive is, “the fact that you are part of them, part of their business.”⁴⁴ As another respondent explained, with project funding everything is defined. However, when a donor participates in budget support, they get to ask the big questions, such as what is the impact of all of your poverty programs? As a result, budget support donors get more information than other donors, can make sure that their resources are being used well, and can influence policy.⁴⁵

I also observed that donor agencies that do not provide budget support were aware of the privileged position given to budget support donors. A Rwandan respondent, for example, lamented at their inability to give budget support,⁴⁶ while another told me that, because they do not provide general budget support, the government likes to make them feel like they are not a part of things. The latter went on to explain that there is a big difference between how donor agencies and recipient countries perceived the Paris Agenda.⁴⁷ Recipient countries thought it would garner them more

³⁹Interview with bilateral donor official: 7 July 2012, Tanzania

⁴⁰Interview with multilateral donor official: 29 May 2012, Tanzania

⁴¹Interview with bilateral donor official: 28 October 2013, Tanzania

⁴²Interview with senior government official: 30 October 2013, Tanzania

⁴³Interview with multilateral donor official: 29 June 2009, Rwanda

⁴⁴Interview with bilateral donor official: 28 October 2013, Tanzania

⁴⁵Interview with multilateral donor official: November 2009, Rwanda

⁴⁶Interviews with bilateral donor officials: 24 June and 17 June 2010, Rwanda

⁴⁷Here the ‘Paris Agenda’ refers to the plan of action established by the Paris Declaration.

control. However, when you are a budget support donor there is a need to discuss everything. As a result, you get access to everything.⁴⁸

This does not mean that large donor agencies that do not providing budget support, e.g., USAID, cannot wield considerable influence. However, giving budget support means that a donor agency gets to participate in an *exclusive* policy dialogue around the aid modality. In Tanzania, more than one donor representative noted that the retraction of budget support by the Netherlands and Switzerland was difficult for these donor agencies, because budget support is, “the fore for the main dialogue, this is where we discuss corruption, this is where we discuss political development...the two are now completely excluded from very important discussions.”⁴⁹

In both Rwanda and Tanzania, the budget support group is by far the donor group with the most weight and importance, and donor and government representatives told me time and time again that the policy dialogue tied to budget support allows donors to discuss things that cannot be discussed when donors only give project aid, such as governance and public financial management. These so-called “cross-cutting” issues become important to discuss when a donor agency directly funds the government. Alternatively, with project aid the scope of questions that can be raised and the type of information and access that can be requested is limited. As one donor representative put it, the value of budget support is ‘political contact’.⁵⁰

In Rwanda, the importance of the budget support group is underscored by the outcry amongst donor agencies following threats by the government to dismantle the group after the suspension of budget support in 2012. Despite currently being unable or unwilling to give budget support to Rwanda, the donor representatives I spoke to made clear that they saw the forum as an essential interface with the government. The Rwandan government has made it clear, however, that they are not willing to continue the group without receiving aid via their preferred modality.⁵¹ Similarly, a government representative in Tanzania noted that donor agencies cannot suspend budget support and ‘expect continual engagement with the government’.⁵²

⁴⁸Interview with bilateral donor official: 17 June 2010, Rwanda

⁴⁹Interview with bilateral donor official: 24 May 2012, Tanzania

⁵⁰Interview with bilateral donor official: 29 March 2012, Tanzania

⁵¹Interviews with bilateral and multilateral donor officials: 14 and 15 October 2013, Rwanda

⁵²Interview with civil servant: 24 October 2013, Tanzania

Overall, interviews with key decision-makers in both Rwanda and Tanzania provide clear evidence in support of the argument that, if donor commitment problems are reduced, recipient governments are willing to grant donor agencies greater access to and influence over domestic policy decision-making. Evidence that would falsify the prediction, such as evidence that budget support donors can only comment on a narrow set of policy issues, have less access to policy decision-makers or believe that providing budget support weakens their influence, was systematically lacking. Instead, respondents repeatedly emphasized that the main advantage of budget support for donor agencies was increased influence.

Contentious Issues

If proposition two is correct, the case studies should also provide evidence that donor agencies are willing to change how they try to address contentious issues in exchange for more influence over domestic policy decision-making. Instead of independently pushing for reform via groups outside the state, we should see evidence that budget support donors are willing to work in closer collaboration with central government structures. We should also see evidence that donor officials recognize this as a consequence of the modality.

In both Rwanda and Tanzania, we see clear evidence that budget support donors primarily seek reform through central government structures. In both countries, budget support empowered the ministry of finance, and it is difficult for civil society and other domestic groups to engage with the processes set up to coordinate and manage budget support. Additionally, in both countries, respondents made clear that donor agencies are aware of the limited space for civil society within these frameworks but accept it as a cost of the aid modality (from which they gain).

Under project aid, donor agencies work with a variety of domestic stakeholders from sector ministries to local governments to civil society organizations (CSOs). In contrast, if donors channel money through national systems, the ministry of finance becomes the sole custodian of aid. As the controller of the purse, the ministries of finance in both countries benefit from the shift towards budget support, and it is the leadership from this ministry that is the strongest advocate for budget support in both countries. (In contrast, sector line ministries frequently complain about being left out of the process.) When explaining how the negotiation of their country program affects power

dynamics, one donor representative explained that the process empowers the Tanzanian External Finance Commissioner, because all sectors have to go through him; he becomes the gatekeeper.⁵³

In both Tanzania and Rwanda, membership in the budget support working group is limited to donor and government representatives with discussions taking place behind closed doors. Such restrictions have the benefit of ‘keeping the numbers down, so it more possible to have a discussion’.⁵⁴ But, the costs to broader participation have not go unnoticed by donor officials:

*Especially in the GBS part of the annual dialogue, you see [...] government talking to development partners. **So actually it’s accountability of government to its development partners.** [...] most of us want, first of all government to be accountable to its Parliament, to its own population, to NGOs here. But...for the moment this is how it works...⁵⁵*

*The GBS annual review, in the last years, **became kind of a bilateral discussion between the government and the donors.** The government was saying that GBS contracts were contracts between the government and the donors. So, as it was a contractual issue, all those stakeholders were not able to participate. Which can be questionable.*

As the last quote suggests, in Tanzania, the government has actively sought to separate the budget support dialogue from broader policy dialogues. According to a respondent, donor agencies were originally skeptically about civil society being excluded; however, they found that it allowed them to focus on a narrow set of ‘core GBS’ issues like the budget and financial management.⁵⁶ On these issues at least, broad participation does not seem to be a priority. As one respondent explained, “in the policy dialogue on macroeconomic policies, the role of civil society is very limited [...W]e have a system, we have macro policies which we apply to all our dialogues with everybody...”⁵⁷

To be clear, I am not arguing that civil society and parliamentarians are completely excluded from all processes related to development policymaking nor that donor agencies are not normatively supportive of the role of civil society or parliament. There are examples of CSOs that have emerged to take on budget issues issues (e.g., Policy Forum in Tanzania). Additionally, several of respondents, particularly in Tanzania, pointed to examples of civil society or parliamentarians using spaces such as the national annual policy dialogue between donors and the government to

⁵³Interview with multilateral donor official: 21 June 2012, Tanzania

⁵⁴Interview with bilateral donor official: 05 June 2012, Tanzania

⁵⁵Interview with bilateral donor official: 23 March 2012, Tanzania

⁵⁶Interview with bilateral donor official: 07 June 2012, Tanzania

⁵⁷Interview with multilateral donor official: 29 May 2012, Tanzania

increase their visibility or stress key issues. However, civil society (as well as parliament, local government, and the private sector) is almost always excluded from budget support dialogues. Accordingly, it is not surprising that a CSO representative in Rwanda told me that, ‘budget support leaves civil society vulnerable’.⁵⁸

Proponents of budget support frequently suggest that the aid modality will increase domestic accountability, because donor funds will be subject to the same domestic scrutiny as domestic revenues. However, the degree to which domestic scrutiny is feasible depends on the strength of domestic institutions and on how well local stakeholders can organize themselves in the current political climate. In Rwanda, in particular, several respondents expressed discomfort with efforts to organize CSOs around the aid effectiveness agenda. For example, one interviewee suggested that these efforts represented an attempt to make civil society apart of government, recounting a popular joke that NGO stands for “next government official.”⁵⁹ If indeed this is the objective of the receiving government, then budget support does little to prevent it:

*...depending on whether the government is a democratic government, a representative government, **you put a lot of money into the central government, so you can strengthen.** If there is a central government that is not so credible, and not really anchored or accountable and transparent, they’re sort of supporting a system that can be a bit questionable.*⁶⁰

Another respondent put it more cynically, joking that GBS works best in dictatorships.⁶¹

Overall, the case studies provide evidence in support of the prediction that, donor agencies are willing to limit the tools they use to address contentious issues, in exchange for greater influence over development policy. Evidence that would falsify the prediction, such as evidence that budget support donors are highly critical of government efforts to centralize development policy management or use civil society more than donor agencies that do not provide budget support, was lacking in the case studies. Strikingly, respondents indicated that they were well aware of the limited space for civil society within budget support frameworks but accepted it as a cost of the aid modality.

⁵⁸Interview with CSO representative: 3 June 2010, Rwanda

⁵⁹Interview with bilateral donor representative: 10 November 2009, Rwanda

⁶⁰Interview with bilateral donor official: 20 June 2012, Tanzania

⁶¹Interview with bilateral donor official: 3 June 2012, Tanzania

Is Budget Support Sustainable?

*GBS is like an unhappy marriage. We sleep in the same bed, but we don't dream the same dreams.*⁶²

According to the model, budget support will only be sustainable if both sides adhere to the bargaining compromise. If either party fails to uphold their commitments, the parties will rescind on their promises and the negotiated bargaining compromise will falter. In both Rwanda and Tanzania, there is clear evidence that the bargaining compromise reached in the mid-2000s regarding budget support is breaking down. Since this research began, budget support has been suspended in Rwanda. While some donors have restarted SBS to the country, GBS is likely to remain off the table for the foreseeable future. The suspension in Rwanda came about because of the government's alleged involvement in neighboring DRC. However, the story is not unique. Budget support has been suspended elsewhere,⁶³ and worldwide budget support totals are down considerably. In Tanzania, totals are down from a high of 714.5 million in 2009/10 to 584 million in 2013 (see Table 1 in appendix).

Interviews conducted in both countries support the argument that budget support was adopted because of the expectation it would help with donor commitment problems. However, they also suggest that the faith both parties have in the other side is declining. Exogenous shocks from the global financial crisis, which caused declining aid budgets in many European countries, combined with the election of governments less favorable to budget support in many donor countries, has undermined the ability of donor agencies to make credible promises to delivering budget support. Civil servants from the Ministry of Finance in Tanzania underscored that when budget support began they thought GBS amounts were going to move from 30% to 70% of ODA. Not only did this fail to happen but the number of budget support donors has actually decreased from fourteen to twelve.⁶⁴ In response to declining budget support amounts and increasing conditionalities, both Rwanda and Tanzania are increasingly turning to non-traditional donors and stepping up domestic

⁶²Interview with multilateral donor official: 03 July 2012, Tanzania

⁶³For example, budget support was also suspended in Uganda in 2012 because of a corruption scandal in the Office of the Prime Minister.

⁶⁴Interview with government officials: 29 June 2012, Tanzania

revenue collection efforts in an attempt to bypass donor commitment problems altogether.

Given this context, it is not surprising that the bargaining compromise donor agencies and recipient governments adopted under the expectation that budget support would alleviate donor commitment problems appears to be breaking down. The bargaining compromise is based on the idea that budget support results in credible donor commitments. If the aid modality does not uphold this promise, then the compromise should no longer hold. If the predictions of the model are correct, a break down in the bargaining compromise means that donor agencies who retreat from budget support (either partially or entirely) will no longer be able to exert the same type of policy influence with the recipient government. It also means that donor agencies will expand the ways in which they attempt to push reform and address contentious issues.

In both countries, there is clear evidence that both outcomes are taking place as budget support totals decline. For example, donor representatives in Tanzania frequently complained that their influence is decreasing, while donor representatives in Rwanda are frustrated about losing the budget support forum, which they see as essential to having a cross-cutting discussion on key reforms. Additionally, in both countries, donors are increasingly shifting their money back towards civil society and project aid.

Conclusions

In this article, I argued that donor commitment problems – or the difficulty donor agencies have making credible promises and/or threats – are key to understanding the adoption of new institutions and practices in foreign aid. Commitment problems constrain the space of feasible bargaining compromises between donor agencies and recipient governments. If an institutional innovation, such as budget support, promises to reduce commitment problems, it opens up new potential bargaining compromises. Based on a model of aid policy bargaining, I put forth two predictions about the impact of donor commitment problems on donor-government relations. (1) If donor commitment problems are reduced, recipient governments will grant donor agencies greater policy influence. (2) In exchange for more influence, donor agencies are willing to limit the tools they use to address contentious political issues. I test these predictions through case studies of the shift to budget support and donor-government relations in Rwanda and Tanzania. Interviews with

over eighty key decision-makers in both countries overwhelmingly confirm the key assumptions and predictions of the theoretical framework, and evidence that would falsify the assumptions and predictions of the model was systematically lacking.

The study demonstrates that scholarship on foreign aid has much to gain from examining donor-government relations, and particularly aid policy bargaining, in greater detail. Rather than treating donor-government relations as a black box, as it is often the case in quantitative cross-country studies on foreign aid, scholars need to be more attentive to the fact that, at the recipient-country level, donor agencies and recipient governments continuously bargain over development policy, including the way foreign aid is delivered. Understanding the bargaining relationship between donor agencies and recipient governments is key to understanding why aid is delivered in certain ways but not others.

My findings also highlight that commitment problems, particularly those of donors, constraint aid policy bargaining. A great deal of attention has been paid to the difficulty of getting recipient governments to commit to reform (with little success). It is now time for donor agencies to shine the light more directly on themselves and to more seriously take in to account how their inability to commit affects the political calculations of recipient countries. As one Rwandan interviewee put it, ‘donors are part of the problem, but also a part of the solution.’⁶⁵ New aid modalities are unlikely to permanently solve commitment problems, unless institutions of foreign aid are able to establish self-sustaining compliance mechanisms. Not only does this suggest a theoretical explanation for why the development enterprise has thus far remained so intractable, it also suggests that development practitioners should think more concretely about how self-sustaining mechanisms might be fostered. Without seriously considering how to solve the commitment problems facing donor agencies, it is unlikely that we will make substantial progress in improving donor-government relations – and ultimately aid effectiveness.

References

- Acharya, Arnab, Ana de Lima, and Mick Moore. 2006. “Proliferation and Fragmentation: Transactions Costs and the Value of Aid.” *The Journal of Development Studies* 42 (1): 1–21.

⁶⁵Interview with bilateral donor official: 23 October 2009, Rwanda

- Ahmed, Faisal Z. 2012. "The Perils of Unearned Foreign Income: Aid, Remittances, and Government Survival." *American Political Science Review* 106 (01): 146–165.
- Alesina, Alberto, and David Dollar. 2000. "Who Gives Foreign Aid to Whom and Why?" *Journal of Economic Growth* 5 (1): 33–63.
- Alesina, Alberto, and Beatrice Weder. 2002. "Do Corrupt Governments Receive Less Foreign Aid?" *The American Economic Review* 92 (4): 1126–1137.
- Armon, Jeremy. 2007. "Aid, Politics and Development: A Donor Perspective." *Development Policy Review* 25 (5): 653–656.
- Azam, Jean-Paul, and Jean-Jacques Laffont. 2003. "Contracting for Aid." *Journal of Development Economics* 70 (1): 25–58.
- Baccini, Leonardo, and Johannes Urpelainen. 2012. "Strategic Side Payments: Preferential Trading Agreements, Economic Reform, and Foreign Aid." 74 (4): 932–949.
- Barkan, Joel. 2009. "Rethinking Budget Support for Africa: A Political Economy Perspective." In *Smart Aid for African Development*, edited by Richard A Joseph and Alexandra Gillies, 67–86. Boulder: Lynne Rienner Publishers.
- Bearce, David H., and Daniel C. Tirone. 2010. "Foreign Aid Effectiveness and the Strategic Goals of Donor Governments." *The Journal of Politics* 72 (03): 837–851.
- Beasley, Anne, David Colin, Jeff Malick, Andrew Melnyk, Maxine Pitter-Lunn, Diane Ray, Brian Frantz, and Joseph Lieberman. 2005. "General Budget Support: Key Findings of Five USAID Studies." Technical Report.
- Boone, Peter. 1996. "Politics and the Effectiveness of Foreign Aid." *European Economic Review* 40 (2): 289–329.
- Bourguignon, Francois, and Mark Sundberg. 2007. "Aid Effectiveness: Opening the Black Box." *The American Economic Review* 97 (2): 316–321.
- Bräutigam, Deborah. 2000. *Aid Dependence and Governance*. Stockholm: Almqvist & Wiksell International.
- Bräutigam, Deborah, and Stephen Knack. 2004. "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change* 52 (2): 255–285.

- Bueno de Mesquita, Bruce, and Alastair Smith. 2009. "A Political Economy of Aid." *International Organization* 63 (02): 309 (April).
- . 2010. "Leader Survival, Revolutions, and the Nature of Government Finance." *American Journal of Political Science* 54 (4): 936–950.
- Celasun, Oya, and Jan Walliser. 2008. "Predictability of Aid: Do Fickle Donors Undermine Aid Effectiveness?" *Economic Policy* 23 (55): 545–594 (July).
- Claessens, S., D. Cassimon, and B. Van Campenhout. 2009. "Evidence on Changes in Aid Allocation Criteria." *The World Bank Economic Review* 23 (2): 185–208 (June).
- Clay, Edward J., Matthew Geddes, and Luisa Natali. 2009. "Untying Aid: Is it Working? An Evaluation of the Implementation of the Paris Declaration and the 2001 DAC Recommendation of the Untying ODA to the LDCs." Technical Report, Danish Institute for International Studies, DIIS, Copenhagen.
- Clist, Paul. 2011. "25 Years of Aid Allocation Practice: Whither Selectivity?" *World Development* 39 (10): 1724–1734 (October).
- Clist, Paul, Alessia Isopi, and Oliver Morrissey. 2011. "Selectivity on Aid Modality: Determinants of Budget Support from Multilateral Donors." *The Review of International Organizations* 7 (3): 267–284 (November).
- Collier, Paul. 1997. "The Failure of Conditionality." In *Perspectives on Aid and Development*, edited by Catherine Gwin and Joan M Nelson, 51–78. Washington, DC; Baltimore, MD: Overseas Development Council; Distributed by the Johns Hopkins University Press.
- . 2007. *The Bottom Billion: Why the Poorest Countries are Failing and What can be Done about it*. Oxford; New York: Oxford University Press.
- Collier, Paul, and David Dollar. 2002. "Aid Allocation and Poverty Reduction." *European Economic Review* 46 (8): 1475–1500.
- Collier, Paul, Patrick Guillaumont, Sylviane Guillaumont, and Jan Willem Gunning. 1997. "Re-designing Conditionality." *World Development* 25 (9): 1399–1407.
- de Renzio, Paolo. 2006. "Aid, Budgets and Accountability: A Survey Article." *Development Policy Review* 24 (6): 627–645.

- Deverajan, Shantayanan, and Vinya Swaroop. 2006. "The Implications of Foreign Aid Fungibility for Development Assistance." In *The World Bank: Structure and Policies*, edited by Christopher L. Gilbert and David Vines. Cambridge: Cambridge University Press.
- Dietrich, Simone. 2013. "Bypass or Engage? Explaining Donor Delivery Tactics in Foreign Aid Allocation." *International Studies Quarterly* 57 (4): 698–712.
- . 2015. "Donor Political Economies and the Pursuit of Aid Effectiveness: Evidence from a Cross-Country Survey with Aid Officials (forthcoming)." *International Organization*.
- Dietrich, Simone, and Joseph Wright. 2015. "Foreign Aid Allocation Tactics and Democratic Change in Africa." *Journal of Politics* 77 (1): 216–234.
- Dunning, Thad. 2004. "Conditioning the Effects of Aid: Cold War Politics, Donor Credibility, and Democracy in Africa." *International Organization* 58 (02): 409–423 (May).
- Easterly, William. 2007. "Are Aid Agencies Improving?" *Economic Policy* 22 (52): 633–678.
- European Commission, The Ministry of Foreign Affairs of Denmark, Irish Aid, The Ministry of Foreign Affairs of the Netherlands, and The Ministry of Finance of Tanzania. 2013. "Joint Evaluation of Budget Support to Tanzania Lessons Learned and Recommendations for the Future." Technical Report, ITAD.
- Faust, Jörg. 2010. "Policy Experiments, Democratic Ownership and Development Assistance." *Development Policy Review* 28 (5): 515–534.
- Gould, Jeremy. 2005. *The New Conditionality: the Politics of Poverty Reduction Strategies*. London; New York: Zed Books.
- Hammond, Mike A. 2006. "A Framework for Evaluating General Budget Support." In *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, edited by Stefan Koeberle, Zoran Stavreski, and Jan Walliser. Washington, D.C.: World Bank.
- Harrison, Graham. 2001. "Post-Conditionality Politics and Administrative Reform: Reflections on the Cases of Uganda and Tanzania." *Development and Change* 32 (4): 657–679.
- Hayman, Rachel. 2009a. "From Rome to Accra via Kigali: 'Aid Effectiveness' in Rwanda." *Development Policy Review* 27 (5): 581–599.
- . 2009b. "Rwanda: Milking the Cow. Creating Policy Space in Spite of Aid Dependence."

- In *The Politics of Aid: African Strategies for Dealing with Donor*, edited by Lindsay Whitfield, 156–184. Oxford; New York: Oxford University Press.
- . 2011. “Budget Support and Democracy: a Twist in the Conditionality Tale.” *Third World Quarterly* 32 (4): 673–688.
- Heinrich, Tobias. 2013. “When is Foreign Aid Selfish, When is it Selfless?” *The Journal of Politics* 75 (02): 422–435.
- IDD and Associates. 2006. “Evaluation of General Budget Support: Synthesis Report.” Technical Report, Birmingham, UK.
- Killick, Tony. 1998. *Aid and the Political Economy of Policy Change*. London: Overseas Development Institute.
- Knack, Stephen. 2013. “Aid and Donor Trust in Recipient Country Systems.” *Journal of Development Economics* 101 (March): 316–329.
- Knack, Stephen, and Aminur Rahman. 2008. “Donor Fragmentation.” In *Reinventing Foreign Aid*, edited by William Easterly, 333–349. Cambridge, MA: MIT Press.
- Knoll, Martin. 2008. “Budget Support: A Reformed Approach or Old Wine in New Skins.” Technical Report UNCTAD/OSG/DP/2008/5, Geneva, Switzerland.
- Koeberle, Stefan, Zoran Stavreski, and Jan Walliser. 2006. *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*. Edited by S Koeberle, Z Stavreski, and J Walliser. Washington, D.C.: World Bank.
- Lancaster, Carol. 2007. *Foreign Aid: Diplomacy, Development, Domestic Politics*. University of Chicago Press.
- Lawson, Andrew, David Booth, Meleki Msuya, Samuel Wangwe, and Tim Williamson. 2006. “Does General Budget Support Work? Evidence from Tanzania.” In *Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons*, edited by Stefan Koeberle, Zoran Stavreski, and Jan Walliser, 121–139. Washington, D.C.: World Bank.
- Leandro, Jose E, and Gaspar Frontini. 1999. “Towards A More Effective Conditionality: An Operational Framework.” *World Development* 27 (2): 285–299.
- Lensink, Robert, and Howard White. 2001. “Are There Negative Returns to Aid?” *Journal of*

- Development Studies* 37 (6): 42–65.
- Martens, Bertin. 2002. *The Institutional Economics of Foreign Aid*. New York: Cambridge University Press.
- Milner, Helen V., and Dustin H. Tingley, eds. 2013. *The Geopolitics of Foreign Aid*. Cheltenham: Edward Elgar.
- Molenaers, Nadia. 2012. “The Great Divide? Donor Perceptions of Budget Support, Eligibility and Policy Dialogue.” *Third World Quarterly* 33 (5): 37–41.
- North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- North, Douglass C., and Barry R. Weingast. 1989. “Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England.” *The Journal of Economic History* 49 (4): 803–832.
- OECD. 2011. Survey on Monitoring the Paris Declaration (database).
- . 2013. OECD.Stat (database).
- Radelet, Steven. 2006. “A Primer on Foreign Aid.” Technical Report, Washington DC.
- Reinsberg, Bernhard. 2015. “Foreign Aid Responses to Democratic Transitions (forthcoming).” *World Development*.
- REPOA, Fiscus, and ITAD. 2013. “Independent Evaluation of Budget Support to Tanzania 2005/06-2011-12: Presentation of Conclusions and Their Implications.” Technical Report, Brussels, Belgium.
- Smith, Alastair. 2008. “The Perils of Unearned Income.” *The Journal of Politics* 70 (03): 780–793.
- Stone, Randall W. 2004. “The Political Economy of IMF Lending in Africa.” *American Journal of Political Science* 98 (4): 577–591.
- Svensson, Jakob. 1999. “Aid, Growth and Democracy.” *Economics & Politics* 11 (3): 275–297.
- . 2000. “When is Foreign Aid Policy Credible? Aid Dependence and Conditionality.” *Journal of Development Economics* 61 (1): 61–84.
- . 2003. “Why Conditional Aid Does not Work and What can be Done About it?” *Journal*

- of Development Economics* 70 (2): 381–402 (April).
- Swedlund, Haley J. 2013. “From Donorship to Ownership? Budget Support and Influence in Rwanda and Tanzania.” *Public Administration and Development* 33 (5): 357–370.
- Tierney, Michael J., Daniel L. Nielson, Darren G. Hawkins, J. Timmons Roberts, Michael G. Findley, Ryan M. Powers, Bradley Parks, Sven E. Wilson, and Robert L. Hicks. 2011. “More Dollars than Sense: Refining Our Knowledge of Development Finance Using AidData.” *World Development* 39 (11): 1891–1906.
- Transparency International. 2014. Corruption Perception Index 2014.
- Tsekpo, Anthony K. 2008. “A Game Theoretic Rationalisation of Development Management: From Public Investments Programme to Budget Support.” Technical Report No. 4.
- van de Walle, Nicolas. 2001. *African Economies and the Politics of Permanent Crisis, 1979-1999*. Cambridge; New York: Cambridge University Press.
- Whitfield, Lindsay, ed. 2009. *The Politics of Aid: African Strategies for Dealing with Donors*. Oxford: Oxford University Press.
- . 2010. “The State Elite, PRSPs and Policy Implementation in Aid-Dependent Ghana.” *Third World Quarterly* 31 (5): 721–737.
- Whitfield, Lindsay, and Alastair Fraser. 2009. “Introduction: Aid and Sovereignty.” In *The Politics of Aid: African Strategies for Dealing with Donors*, edited by Lindsay Whitfield, 1–26. Oxford; New York: Oxford University Press.
- Wright, Joseph, and Matthew Winters. 2010. “The Politics of Effective Foreign Aid.” *Annual Review of Political Science* 13 (1): 61–80.
- Yuichi Kono, Daniel, and Gabriella R. Montinola. 2009. “Does Foreign Aid Support Autocrats, Democrats, or Both?” *The Journal of Politics* 71 (02): 704.