The rise and fall of budget support: Ownership, bargaining and donor commitment problems in foreign aid

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Motivation
Budget support is the form of aid most commonly associated with recipient-country ownership. However, a number of scholars and practitioners have criticized the approach as masking new forms of conditionality. Was budget support simply a guise for increasing donor influence in recipient countries? How can we explain the rapid shift towards budget support, as well as the rapid decline in its popularity after only a few years?

Purpose
We use a bargaining framework to explain the rise and fall of budget support. Contrary to explanations that suggest that budget support was a normative decision by donors designed to increase aid effectiveness by fostering ownership, a bargaining framework emphasizes that aid policy is the result of sustained negotiations between donors and recipients. These negotiations, however, are constrained by donors’ inability to deliver aid as promised.

Approach
We use a Nash bargaining framework to formalize the predictions of a bargaining model. From the model, two testable predictions emerge: (1) in exchange for more credible commitments, recipient governments are willing to selectively offer donor agencies greater access to and influence over domestic policy decision-making; (2) in exchange for such influence, donor agencies are willing to exert less pressure on recipients to be politically inclusive. We then test the implications of the model using case study evidence from Rwanda and Tanzania.

Findings

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The empirical data, based on over 80 interviews with practitioners over several periods of research in both countries, provide substantial evidence in support of the model’s core assumptions and predictions. Contrary to claims that budget support increased recipient-country ownership, interviews suggest that, in exchange for more credible commitments, recipient governments were willing to grant donors greater access and influence. In return, donor agencies reduced demands on the recipient government regarding political inclusivity, tacitly accepting arrangements that centralized decision-making and excluded civil society. When donor agencies could no longer provide budget support as promised, these negotiated arrangements broke down.

Policy Implications
The findings challenge a common narrative that donors embraced budget support because of a normative commitment to ownership. They also demonstrate the value of a bargaining framework. To understand why particular forms of aid like budget support rise in popularity, only to quickly fall by the wayside, we need to understand what donor agencies and recipient governments bargain over and why.

Keywords: Budget support, donor–government relations, foreign aid, negotiation, ownership

Introduction
At the turn of the century, a number of donors began advocating for budget support on the grounds that it would foster greater recipient-country ownership (Armon, 2007; Dijkstra, 2013; Orth et al., 2017). Budget support is a type of medium-term programme aid provided directly to a recipient government’s budget, allowing recipients to use their own financial management systems and budget procedures (Koeberle & Stavreski, 2006, p. 5). Once distributed, budget support becomes indistinguishable from other types of government revenue. Therefore, the aid modality arguably allows recipient countries more control over how aid is spent.

Yet, rather than fostering recipient-country ownership, budget support has been critiqued as simply masking new forms of conditionality and increasing donor influence in recipient countries (i.e. de Renzio, 2006; Hayman, 2011a; Swedlund, 2013b). This raises the question of whether budget support was simply a guise for increasing donor control over aid funds. How can we explain the rapid shift towards budget support, as well as the rapid decline in its popularity after only a few short years?

3 Ownership is a contested concept (Faust 2010). Consistent with the other articles in this special issue, we define ownership, as ‘ownership as control’ or ‘the degree of control recipient governments are able to secure over implemented policy outcomes’ (Whitfield, 2009, p. 4).

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In this article, we draw on a bargaining framework to help explain the rise and fall of budget support. A bargaining approach emphasises the need to break open what Bourguignon and Sundberg (2007) call the ‘black box’ of aid policy bargaining between donor agencies and recipient-country governments. Rather than assuming that decisions about aid delivery are donor-driven, a bargaining framework stresses that aid policy is the result of sustained negotiations between donors and recipients (Whitfield, 2009; Whitfield & Fraser, 2010). According to Swedlund (2017), these negotiations are frequently undermined by donor commitment problems; recipient governments are unsure if donors will actually disburse aid as promised. Since both sides anticipate this problem, donors and recipients are constantly seeking out new institutional innovations – like budget support – in order to reduce donor commitment problems and foster more sustainable aid policy compromises. However, if these new institutional innovations do not actually solve commitment problems over the long term, these compromises will eventually break down and the aid modalities will fall out of favour.

We formalize the predictions of a bargaining approach using a simple Nash bargaining framework. In the model, donors and recipients bargain over three things: the volume of aid transfers, the amount of public spending that conforms to the donors’ policy preferences, and how much donors pressure governments to be politically inclusive. We then introduce a parameter that captures the extent to which recipient governments discount aid promises to account for donor commitment problems. From the model, two testable predictions emerge: (1) in exchange for more credible commitments, recipient governments are willing to selectively offer donor agencies greater access and influence over domestic policy decision-making; (2) in exchange for such influence, donor agencies are willing to exert less pressure on recipients to be politically inclusive.

We test these predictions using case study evidence from Rwanda and Tanzania. Drawing on over 80 interviews with principal decision-makers on both the donor and recipient-government side, we look at the rise and fall of budget support as a popular aid modality in both countries. The empirical data provides substantial evidence in support of the model’s core assumptions and predictions. Respondents in both countries not only frequently mentioned donor commitment problems as a key source of frustration for the recipient government, but also used these frustrations to justify their preference for budget support. Donors also reported believing that providing budget support gave them greater access to government decision-making processes and a strategic advantage with the recipient government. In return for such influence, respondents reported that donor agencies reduced demands on the government regarding political inclusivity, tacitly accepting arrangements that centralized decision-making and excluded civil society. Consistent with the model, when donor agencies could no longer provide budget support as promised, these negotiated arrangements broke down.
The findings emphasize that aid policy is the result of bargaining and negotiation between donor agencies and recipient countries. In these negotiations, donors frequently struggle to make credible commitments. Institutional innovations – like budget support – that promise to help with donor commitment problems open up the possibility for new aid policy compromises. However, unless these aid modalities are able to actually solve donor commitment problems over the long term, they will be unsustainable. Rather than being driven by some normative commitment to ownership, the adoption of budget support was the result of an aid policy compromise between donor agencies and recipient countries. This compromise, however, was ultimately unsustainable, because donors were ultimately unable to deliver aid as promised.

1 THE RISE AND FALL OF BUDGET SUPPORT AS POPULAR AID MODALITY

In 1996, the World Bank and the International Monetary Fund (IMF) launched an ambitious program called the Heavily Indebted Poor Countries (HIPC) Initiative. The goal was to provide debt relief and low-interest loans to low- and middle-income countries. Originally, HIPC was strongly conditional. However, towards the end of the decade, there was a stark and surprising change in the rhetoric about conditionality. In 1999, HIPC was reformed to include the requirement that participants draft a poverty-reduction strategy paper (PRSP) (Mosley et al., 2012). The goal was to ensure that recipient countries had in place the proper policies for aid to be effective – without the heavy hand of conditionality.

By 2005, poverty-reduction strategy credits (PRSC), the funding mechanism for World Bank PRSP-based lending, accounted for almost 60 per cent of policy-based lending from the International Development Association (IDA) and a quarter of the World Bank’s total policy-based lending (World Bank, 2010, p. xi). Other donors followed suit and began providing what is now referred to as budget support. In 2002, Aiddata.org estimates that donors disbursed $98.6 billion in budget support worldwide, up almost tenfold from $11.5 billion in 1990 (Tierney et al., 2011).

Budget support was particularly favoured by a group of so-called ‘like-minded’ donors, including the United Kingdom, Germany, the Netherlands, and the Nordic countries, among whom a consensus emerged that sustained poverty action requires effective governments that are accountable to their people. Therefore, aid should explicitly avoid approaches that undermine accountability and ownership (Lawson et al., 2003, p. 26). Proponents of budget support argued that the approach was a way to overcome past failures, because aid was explicitly linked to the governments’ own priorities (via PSRPs). At the same time, the aid modality provided a way to quickly scale up funding to support the achievement of Millennium Development Goals (MDGs), which were approved in 2000. Rather than having to design and implement a number of new programmes and projects, donors could quickly off-load large amounts of aid via direct cash transfers.
Like previous development fads, however, the excitement around budget support did not last. Despite considerable efforts on the part of donors to build structures that would support its implementation, over the course of the late 2000s, budget support totals began to dip globally. In response to the global financial crises, austerity measures were enacted and many European countries elected more conservative governments that were less favourable to budget support (and aid in general). By 2013, the total volume of budget support was down to just over $10 billion annually (Tierney et al., 2011).

The shift towards and away from budget support is interesting, because the aid modality always entailed a substantial risk for donors (Molenaers, Cepinskas, & Jacobs, 2010). There is some evidence that donors give more programme aid to better-governed countries (Clist, Isopi, & Morrissey, 2012; Morrissey, 2015). The evidence is far from conclusive, however. Once disbursed, there is also little evidence that budget support is more effective than project aid (Easterly, 2007; IDD and Associates, 2006; Koeberle, Stavreski, & Walliser, 2006; de Renzio, 2006). Budget support requires donor agencies to entrust aid to governments that are often anything but democratic; often fail to implement pro-poor policies; have weak institutional capacity; and may have engaged in corrupt and/or neo-patrimonial practices in the not so distant past (Faust, 2010). Given donors’ interests in safeguarding their taxpayers’ money, why were they willing to release funds into the coffers of foreign governments?

The narrative regarding budget support suggests that its adoption was driven by aid-effectiveness concerns, and in particular the need for more ‘country ownership’. Budget support is the aid modality most commonly associated with the Paris Declaration on Aid Effectiveness (Armon, 2007), and the approach continues to be justified on the grounds that it provides recipient countries more ownership over where aid dollars are spent (Orth et al., 2017). Empirically, however, there is little reason to assume that the adoption of budget support was driven, at least exclusively, by a normative commitment to recipient-country ownership.

First, as early as the 1960s, there was a strong normative push for increasing ‘ownership’ over development policy (Pearson, 1969). It was not until the early 2000s, however, that donors began embracing the principle and advocating for budget support. Why only then? Moreover, as this Special Issue makes clear, donor agencies did not stop believing in ownership as budget support totals declined. Rather, an active and lively debate continues over the concept.

Second, in practice, budget support has been critiqued as being a new form of conditionality and used strategically by donors to gain more leverage over recipients (i.e., de Renzio, 2006; Hayman, 2011; Knoll, 2008; Swedlund, 2013b). Discussing Uganda and Tanzania, Harrison (2004), for example, notes the development of what he refers to as ‘postconditionality’, or a practice by which donors eschew the more arms-length conditionality of the past, in favour of being more closely involved in
policy-making. He argues that budget support and related endeavours allow this type of close engagement, because they allow donors to become intimately involved in fiscal processes. In the Solomon Islands, Tonga, and Tuvalu, Dornan (2017) argues that donors have used budget support to leverage specific policy reforms.

How, then, can we explain the dramatic rise and fall in the popularity of budget support? Donor preferences (and constraints) undoubtedly play a role in explaining individual donor’s choices in aid modalities (Dietrich, 2013; Faust & Koch, 2014; Knack, 2014). The cannot, however, explain the sudden rise in the popularity of budget support at this particular point in time, nor its dramatic decline. Certain donors may be ideologically predisposed to provide aid through recipient-country systems, but this fails to explain the dramatic rise in the popularity of budget support only in the 2000s. It also fails to explain why its popularity plummeted in the late 2000s.

2 AID POLICY BARGAINING

In this paper, we draw on a bargaining framework to provide a more nuanced account of why budget support rose in popularity at the turn of the century, only to be quickly abandoned it a few years later. In a broad sense, a bargaining framework suggests that all aid is negotiated (Whitfield, 2009; Whitfield & Fraser, 2010; Swedlund, 2017). Rather than assuming that aid is donor-driven, the approach suggests that we have to open up the black box of bargaining and negotiation between donor agencies and recipient countries (Bourguignon & Sundberg, 2007).

In these negotiations, 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 in how their own funds are spent, but also over broader matters of development policy and political reform in the recipient country. They also value certain principles, such as inclusive political institutions. Recipient governments, on the other hand, may value donors’ technical competence, but also value political autonomy and discretion over public spending. Differences in preferences between donor agencies and recipient countries means that aid policy is always negotiated (Whitfield, 2009).

According to Swedlund (2017), negotiations between donor agencies and recipient countries are constrained by commitment problems, or an inability of both donors and recipients to make credible promises and/or threats. While donors and recipients may have a strong incentive to strike a bargain, there is always the potential for compliance to be a problem. 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 & Weingast, 1989; North, 1990). Results-based aid is a good example. The approach tries to incentivize recipients to fulfil their commitments by disbursing
grants or loans in response to the achievement of pre-defined results, such as the number of children who pass the national secondary-school exam or are vaccinated (Janus & Keijzer, 2015).

2.1 A Model of Aid Policy Bargaining

How might a bargaining framework be applied to help explain the rise and fall of general budget support? Below we use a simple and analytically parsimonious Nash bargaining model to formalize the predictions of a bargaining framework. In the model, donors and recipients bargain over the volume of aid transfers, the extent to which public spending conforms to the donors’ policy preferences, and how much donors pressure the recipient government to be politically inclusive. To these negotiations, a constraint in the form of donor commitment problems is introduced.

The Nash bargaining framework is the simplest possible set-up that can be used to generate testable predictions about the impact of commitment problems on aid-policy bargaining. It abstracts from intertemporal choices and 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 analyse 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 volume of aid transfers, \( C \) is a parameter that captures how much donors pressure the government to be politically inclusive, and \( D \) stands for the amount of public spending that conforms to the policy preferences of donors in the recipient country’s budget. Donor agencies prefer to achieve the same policy outcomes with less aid. For both normative and strategic reasons, donors prefer to be able to exert pressure on governments to be politically inclusive. 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 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. To maximize political autonomy, the government prefers donors to minimise pressures to increase political inclusivity. Thus, \( u_g \) is decreasing in \( C \) and increasing in \( X \) and \( D \).

We distinguish between government spending that conforms to the donors’ policy preferences \( D \) and discretionary spending \( X \) because of aid fungibility. Because aid is fungible, 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. For example, expenditures on a small-enterprise development...
programme may serve a purpose that a donor agency finds worthwhile. However, the programme may be deliberately aimed at the government’s political constituents, reducing its efficiency. In such a case, the government expenditure for the programme could not be subsumed under $D$ in its entirety; the efficiency loss from aiming it at the government’s clientèle would have to be accounted for as discretionary government spending $X$. Therefore, for the sake of the model, we assume that any public expenditure can be classified by how much it contributes to each category.

From the government’s perspective, expenditures must satisfy the budgetary constraint, leading to the budget equation, $B_0 + qA = D + X$, where the revenue side comprises 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. For example, fiscal planners in Uganda work with a specific discount factor on aid commitments in their internal calculations. To account for the differences between disbursements and commitments, the government discounts all aid projections by an average of 30–40 per cent when preparing its annual budget. 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 promised aid 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 pressure governments to be more politically inclusive. In the Nash bargaining framework, this means that donors and governments jointly solve the optimization problem:

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

where $\tilde{u}_d$ and $\tilde{u}_g$ 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 allocate its aid more efficiently in the next-best country in their portfolio. If a proposed aid policy compromise falls below the recipient government’s threat point, it would prefer to stop relying on foreign aid altogether.

2.2 Comparative Statics

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4 Personal communication with the Ministry of Finance, Planning and Economic Development, Uganda.
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 like budget support is introduced, and 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 how much donors pressure governments to be politically inclusive \( C \).

The comparative statics are based on three assumptions. First, 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 a decline in donor commitment problems, 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. Second, the cross derivative of the recipient government’s utility function with respect to \( X \) and \( D \) is nonnegative: \( u_{x_d} \geq 0 \). 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.\(^5\) Third, the cross derivative of the recipient government’s utility function with respect to \( X \) and \( C \) satisfies

\[
-u_{c_x} < -
\frac{u_d u_c}{(u_d - \bar{u}_d)}
\]

That is, the marginal utility of discretionary government spending substantially falls as donors exert more pressure over recipients to be politically inclusive, 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 \( D^* \). Or, an increase in the ability of donor agencies to commit credibly leads to an increase in government spending that conforms to the donors’ policy preferences.

\(^5\) 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 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.
PROPOSITION 2: An increase in $q$ leads to a decrease in $C^*$. Or, an increase in the ability of donor agencies to commit credibly leads donor agencies to reduce pressure on the recipient government to be politically inclusive.

2.3 Observable Implications

What are the practical implications of the model, as applied to budget support? First, consistent with Swedlund (2017), the model assumes that donor commitment problems constrain the bargaining compromises between donor agencies and recipient governments. For this to be justifiable, at the recipient-country level we should to see evidence that donor commitment problems not only exist but that recipient governments perceive them to be a problem. This means that we should be able to observe a palpable frustration with the inability of donor agencies to predict future aid disbursements, as well as with their tendency to move the goal posts. Such frustrations should be observable not only from government stakeholders but also from donor officials, who should be well aware of the challenges donor commitment problems pose for recipients.

Second, the model predicts that recipient governments are willing to provide donor agencies with more policy influence, in exchange for more credible commitments. As applied to budget support, this means we should see evidence that budget support was justified in part because it was argued to make aid promises more credible and that – in exchange for providing budget support – donors were given greater access to high-level decision-makers and more influence over domestic policy decision-making. Recipient governments should strategically rescind these advantages, if donors cannot provide budget support as promised.

Third, the model predicts that, in exchange for more policy influence, donors providing budget support will be willing to exert less pressure on recipient governments to be politically inclusive. Rather than pressing for pluralism and democratic decision-making, we should observe that budget support donors (at least tacitly) accept the centralization of decision-making on the government side, while recipient governments, in turn, spend more money in line with donor preferences. If donors can no longer credibly commit to providing budget support, however, they lose their access and policy influence over government spending and will resume pressure on the government to be politically inclusive. Importantly, this prediction is limited to donor efforts to increase political inclusiveness. The model predicts that donors become less likely to pressure for political inclusiveness, if they are afforded greater access and influence over government policy. Independent of that, political inclusiveness can vary between country contexts or change over time for exogenous reasons.

3 BUDGET SUPPORT IN RWANDA AND TANZANIA
In this section, we test the implications of the model using case-study evidence from Rwanda and Tanzania. A case-study approach allows us to engage in process-tracing, examining the shift towards and away from budget support and how it affected the bargaining compromises reached by donors and the government. Variation across the two cases over time allows us to evaluate how the adoption and abandonment of budget support altered donor–government relations in each country. Differences in the adoption of budget support 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. The latter also provides qualitative insight into donors’ motivations when deciding to adopt budget support and helps clarify the direction of causality.

Both Rwanda and Tanzania received large amounts of budget support during the aid modality’s heyday. Between 2000 and 2011, budget support constituted, on average, over 27% of public expenditure in Rwanda and close to 18% in Tanzania (Swedlund, 2013b, p. 362). In terms of total volume, between 2005 and 2010, Tanzania received the highest amount of budget support of any low-income country. Given its smaller economy, Rwanda received less budget support, but was still one of the top-five recipients of budget support worldwide during the same time period (OECD, 2011).

The two cases are quite different, however, in other respects likely to influence donor–government relations. Tanzania is a large, populous economy with an increasingly autonomous productive base thanks to 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. Despite remarkable growth since the 1990s, Rwanda remains much more aid-dependent than Tanzania.

Points of contention with donors also vary. In Rwanda, allegations of government support to militia groups in neighbouring Democratic Republic of the Congo (DRC) frequently strain donor–government relations. In 2012, a United Nations report criticizing the Rwandan government for unlawful activities in the DRC led to the suspension of budget support (and military aid) to Rwanda (Desrosiers & Swedlund, 2018). On the other hand, Tanzania is routinely criticized by the international community for its inability (or unwillingness) to curb corruption. In late 2014, donors suspended budget support to Tanzania following allegations of corruption in the energy sector (Anderson, 2014).

To understand the rise and fall of budget support in both countries, more than 80 semi-structured interviews with key decision-makers involved in aid policy bargaining in Rwanda and Tanzania were conducted between 2009 and 2013. In total, 49 interviews with policymakers in Rwanda over three research periods and 34 interviews with policymakers in Tanzania over two research periods were conducted (see appendix for a list of interviews). Respondents were selected through snowball sampling based on the need to crosscheck and verify new pieces of information. In each country, we

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6 For more on tensions between donors and Rwandan government regarding governance, see Swedlund (2013a).
spoke with senior government officials and key technical staff; high-level representatives of multilateral and bilateral donor agencies; and non-government organization (NGO) representatives and independent consultants working on aid coordination and donor–government relations.

To triangulate the interview data, a survey of Heads of Cooperation (HoCs) was also administered. The survey asked a number of questions about aid predictability and donor–government relations. Moreover, hundreds of primary documents were collected, including strategic documents and declarations by the government and donors; meeting agendas, presentations, and minutes; and documents specific to identified programmes of interest. Finally, monitoring and evaluation reports and external assessments were consulted to verify observations and findings from the interviews.

3.1 Evidence of Donor Commitment Problems

A core assumption of the model is that donor commitment problems constrain the bargaining compromises reached by donor agencies and recipient governments. Is there, however, enough empirical evidence to justify this assumption? And, is there evidence that budget support was adopted on the assumption that it would reduce donor commitment problems?

When asked about government frustrations with donors, the inability of donors’ to make credible commitments was frequently the first, and often the only, frustration mentioned. At the same time, respondents in the two countries justified budget support by emphasizing that the aid modality was designed to improve the credibility of donors’ commitments by improving aid predictability and preventing donors from ‘moving the goal posts’; i.e., changing the criteria for aid disbursement after the government and donors had reached an agreement.

In interviews, respondents frequently mentioned unpredictability and delays in disbursement. A senior Tanzanian government official explained that, ‘if the money doesn’t come, the government is in trouble’. Another noted that, ‘one of the challenges we faced for many years was [aid] predictability’. 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; and 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 replied that it was moderately or very difficult.

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7 A 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, please contact the corresponding author.
8 See Swedlund (2017) for a more extended discussion of the methods.
9 The other frustration frequently noted by respondents was donor interference.
10 Senior government official: 30 October 2013, Tanzania
11 Senior government official: 29 October 2013, Tanzania
With regards to budget support in particular, respondents repeatedly emphasized that recipient governments favoured the aid modality because it was designed to improve predictability by disbursing aid in front-loaded tranches and by making explicit in advance what is required for funds to be released. A donor representative claimed, for example, that budget support means that you ‘don’t have all these approval and objection processes and procurement’ that can make other types of aid unpredictable. Similarly, a widely cited report on budget support to Tanzania claims that budget support would have been 20–25% less predictable, if it had been distributed via projects and basket funds (Lawson et al., 2013).

Respondents also repeatedly complained that donor agencies constantly ‘move the goal posts’. A leading Tanzanian economist noted, for example, that the most frustrating thing for the government is unpredictable changes in donor policies. As a respondent explained, this makes it hard for recipient governments ‘to steer a stable course’. Respondents reported that they initially saw budget support as a way to fix the goal posts. When a donor decides to engage in budget support, they commit to funding the country’s national development plan and disbursing according to a single, common framework; i.e., they commit to a specific development trajectory and a set of shared priorities. In both countries, budget support donors based their decision to disburse funds on a set of mutually agreed-upon indicators. While still demanding a great deal from the government, these performance assessment frameworks (PAFs) required donor agencies to choose and make explicit disbursement criteria. As a respondent explained, the main benefit of budget support for the government is that they get the views of all donors in one document, and there should be ‘no change of plan’.

What donors and recipients underestimated, however, is how politically vulnerable the aid modality was. General budget support was eventually suspended in both Rwanda and Tanzania in response to specific events and concerns. In Tanzania, the concerns were mainly about the mismanagement of funds, while in Rwanda it was mainly about human rights and Rwandan incursions into neighbouring DRC. However, before the official suspension, budget support was already on the decline in both countries (see Keijzer, Klingebiel, & Scholtes, this issue), as well as in several other countries. This suggests that the decline in budget support in Rwanda and Tanzania was part of a larger retreat from the aid modality.

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12 Multilateral donor official: 20 June 2012, Tanzania
13 Aid scholar and consultant: 27 June 2012, Tanzania
14 Bilateral donor official: 23 May 2012, Tanzania
15 Rwanda, in particular, has made it a priority to get donors to commit to key policy documents. For example, donors participating a particular sector are often asked to sign the sector working group reports to demonstrate their commitment to the conclusions. According to a Rwandan government official, this approach means that ‘donors cannot just ask questions; they have to help’ (Government official: 5 June 2010, Rwanda).
16 GBS Secretariat: 20 June 2012, Tanzania
According to respondents, the retreat from budget support came about not because donor officials stopped believing in it, but because exogenous factors made it difficult for them to convince their own governments back home.\textsuperscript{17} In particular, the 2008 global financial crisis resulted in declining aid budgets in many European countries. At the same time, more conservative governments less favourable to budget support and aid in general were elected in many donor countries, undermining the ability of donor agencies to make credible promises to providing budget support.\textsuperscript{18} In other words, donor agencies could no long make a credible commitment to delivering budget support as promised.

The retreat from budget support caused a great deal of frustration among recipient-government officials. The Rwandan Central Bank governor, Claver Gatete, was quoted in \textit{The Economist} as saying that the suspension of funds already promised is a ‘gross betrayal’ \citep{TheEconomist}. Recipient-government officials, however, lack the ability to enforce donor commitments, and rely mainly on shaming techniques to pressure donors into honouring their promises. Donor officials reported being sensitive to such pressures, but donors are ultimately accountable to domestic taxpayers and politicians, not to beneficiaries in aid-recipient countries \citep{Martens2002}.

### 3.2 Donor Influence

The model outlined in Section 2 predicts that recipient governments will be willing to give donor agencies greater policy influence in exchange for more credible commitments. If this prediction is valid, we should see evidence that donors saw the aid modality as a way for them to exercise more (not less) influence over domestic policy processes. When the aid modality broke down in both countries in the late 2000s, recipients should retract such influence.

When asked directly, ‘In your opinion, do donors providing budget support have more influence with the [Government of Rwanda/Tanzania]?’, 15 out of 17 heads of development cooperation responded affirmatively. And, when asked about the advantages of budget support to donors, both recipient and donor representatives mentioned influence more than any other advantage – including recipient-country ownership (see Box 1).

\textsuperscript{17} One respondent, for example, noted that, ‘politically, there’s a pull back on the part of our government, [...] which I think is wrong..I think we need to give it longer, we need to not abandon the process at this point...’ (bilateral donor official: 04 July 4 2012, Tanzania).

\textsuperscript{18} As one respondent explained, in the future they may not be able to give GBS, ‘[n]ot because we have negative experience or a negative evaluation, but simply because there are other priorities at home that are higher than the GBS’ (bilateral donor official: 20 June 2012, Tanzania).
In both countries, donor and government officials stated explicitly that budget support gives donor agencies greater access to government, allowing them ‘to influence a much larger set of resources’.

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. A Tanzanian respondent emphasized that what makes budget support attractive is, ‘the fact that you are part of them, part of their business’. As another respondent explained, when a donor provides budget support, they get to ask the big questions like, what is the impact of all of your poverty programmes? As a result, donors providing budget support get more information than other donors, can check that their resources are being used well, and can influence policy.

Importantly, donor officials working for agencies that do not provide budget support were also very aware of the privileged position given to those which do. A Rwandan respondent, for example, lamented their inability to give budget support, while another said that, because they did not provide general budget support, the government liked to make them feel they were not a part of things. The latter went on to explain that when you are a budget support donor there is a need to discuss everything. As a result, you get access to everything.

Given the heightened access that budget support afforded donors, many of the donor officials we spoke to regretted their country’s decision to retreat from budget support in the late 2000s, as it

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19 Senior government official: 30 October 2013, Tanzania
20 Multilateral donor official: 29 June 2009, Rwanda
21 Bilateral donor official: 28 October 2013, Tanzania
22 Multilateral donor official: November 2009, Rwanda
23 Bilateral donor officials: 24 June and 17 June 2010, Rwanda
24 Bilateral donor official: 17 June 2010, Rwanda
affected the access donor officials on the ground were granted. Following the suspension of budget support, both the Rwandan and Tanzanian governments stopped being willing to meet with donors through special forums set up to support the aid modality. The Rwanda government, in particular, made it clear that it was not willing to meet in an exclusive dialogue without receiving aid via budget support. Following the suspension in Tanzania, the government began refusing to meet with donors in multilateral settings, arguing that these forums gave donors too many opportunities to ‘gang up’ on the government. As a government official in Tanzania explained, donors cannot suspend budget support and ‘expect continual engagement with the government’.  

3.3 Political Inclusivity
Finally, the model predicts that, if granted more influence over domestic decision-making, donor agencies will be willing to exert less pressure on recipient governments to be politically inclusive. As applied to budget support, this means that—in exchange for access and influence—donors should reduce pressures on the government to be more inclusive, tacitly accepting the centralization of decision-making.

In both Rwanda and Tanzania, budget support empowered the ministry of finance, and it was difficult for civil society and other domestic groups to engage with the processes set up to coordinate and manage budget support. Further, in both countries, donor representatives made clear that donor agencies were aware of the limited space for civil society within these frameworks, but accepted it as a cost of the aid modality. 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 benefited from the shift towards budget support, and it is the leadership from this ministry that advocated the strongest for it. (In contrast, sector line ministries complained about being left out.) When explaining how the negotiation of their country programme affects power dynamics, one donor representative explained that the process empowered the Tanzanian External Finance Commissioner, because all sectors had to go through him; he became the gatekeeper.

In both Tanzania and Rwanda, membership in the budget support working group was limited to donor and government representatives and discussions took place behind closed doors. According to one donor official, these restrictions had the benefit of ‘keeping the numbers down, so it [was] more

25 Interviews with bilateral and multilateral donor officials: 14 and 15 October 2013, Rwanda
26 Government official: 24 October 2013, Tanzania
27 Multilateral donor official: 21 June 2012, Tanzania
possible to have a discussion’. The costs to broader participation did not, however, go unnoticed by donor officials (see Box 2). In Tanzania, for example, the government actively sought to separate the dialogue on budget support from broader policy dialogues. Respondents justified this exclusion by noting that it allowed them to focus on a narrow set of ‘core general budget support’ issues like the budget and financial management. On these issues at least, broad participation was not a donor priority. It is, therefore, perhaps not surprising that a civil society representative in Rwanda emphasized that, ‘budget support leaves civil society vulnerable’.

### Box 2: Budget Support and Political Inclusivity

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...

Bilateral donor official: 23 March 2012, Tanzania

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.

Bilateral donor official: 7 June 2012

In the policy dialogue on macroeconomic policies, the role of civil society is very limited [...] We have a system, we have macro policies which we apply to all our dialogues with everybody...

Multilateral donor official: 29 May 2012, Tanzania

Proponents of budget support frequently argue that the aid modality increases domestic accountability, because donor funds face 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 a part of government, recounting a popular joke that NGO stands for ‘next government official’. If indeed this is the objective of the aid-recipient government, then budget support does little to prevent it:

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28 Bilateral donor official: 05 June 2012, Tanzania
29 Bilateral donor official: 07 June 2012, Tanzania
30 Civil society representative: 3 June 2010, Rwanda
31 Bilateral donor representative: 10 November 2009, Rwanda
...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.32

Another respondent put it more cynically, joking that budget support works best in dictatorships.33

Following the decline in budget support, a much more antagonistic relationship between donors and government emerged in both Rwanda and Tanzania. While donor officials still saw the value of working with recipient-government officials, they became more likely to draw on a wider set of domestic actors, including civil society, the media, and parliamentarians to pressure for reforms. In other words, they became more likely to pressure for more inclusive political institutions. For their part, following the suspension of budget support, recipients became much less willing to accede to donor demands and wishes, and where possible sought out financing from ‘new’ donors like China and India. Both Rwanda and Tanzania have also increasingly pushed back at donors. In 2016, the Tanzania government, for example, hired a set of consultants to devise a mechanism that would prevent donors from withdrawing pledged funds (Kidanka, 2016).

4 CONCLUDING REMARKS

Budget support is the aid modality most commonly associated with country ownership. Yet, scholars and practitioners have repeatedly questioned whether the approach really provides more control for recipient countries, noting that the aid modality seems to give donors unprecedented access and influence at the recipient-country level. Was budget support simply a guise for increasing donor influence in recipient countries? How can we explain the rapid shift towards budget support, as well as the rapid decline in its popularity after only a few short years?

Contrary to explanations that suggest that budget support was a normative decision by donors designed to increase aid effectiveness, a bargaining framework emphasizes that aid policy is the result of sustained negotiations between donor agencies and recipient countries. In this article, we formalized the predictions of a bargaining framework in which donors and recipients bargain over three things: the volume of aid transfers, the extent to which public spending conforms to the donors’ policy preferences, and how inclusive the policy dialogue is. Following Swedlund (2017), the model includes a parameter that captures the extent of donor commitment problems.

From the model, two testable predictions emerged: (1) in exchange for more credible commitments, recipient governments are willing to selectively offer donor agencies greater access and

32 Bilateral donor official: 20 June 2012, Tanzania
33 Bilateral donor official: 3 June 2012, Tanzania
influence over domestic policy decision-making; (2) in exchange for such influence, donor agencies are willing to exert less pressure on recipient governments to be politically inclusive. We then evaluated the saliency of the model and its predictions through case-study evidence from Rwanda and Tanzania. Interviews with over 80 key decision-makers in both countries validated the key assumptions and predictions of the model.

Applied to budget support and the debates on ownership, the article challenges the assertion that budget support was merely a normative decision by donors designed to improve aid effectiveness. The findings suggest that budget support was only really feasible because of a negotiated compromise between donor agencies and recipient governments. When donors could no longer provide budget support as promised, this compromise broke down.

More generally, the article illustrates the value of a bargaining approach to foreign aid. At the recipient-country level, donor agencies and recipient governments continuously bargain over development policy. Rather than assuming that aid policy is entirely donor-driven, we need to pay attention to what donors and recipients bargain and negotiate over, and the constraints they face in these negotiations. The bargaining framework presented and formalized in this article provides a way to understand these negotiations and their implications for the types of policy and practices that are pursued. In the future, the model could be extended in a number of ways to account for variations between individual donors and recipient countries, as well as additional preferences and constraints. In this way, the model is a starting point for future research that aims to take bargaining and negotiation in foreign aid more seriously.

References


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Appendix

PROOF OF PROPOSITION 1:
Substituting $X = B_0 + qA - D$ (from the government budget equation) into the recipient government’s utility function $u_g(D, C, X)$, the first-order conditions for the Nash bargaining solution are given by

\[(u_g - \bar{u}_g)u_{dA} + (u_d - \bar{u}_d)u_{dC} = 0 \quad (1)\]
\[(u_g - \bar{u}_g)u_{dC} + (u_d - \bar{u}_d)u_{dC} = 0 \quad (2)\]
\[(u_g - \bar{u}_g)u_{dD} + (u_d - \bar{u}_d)(u_{dD} - u_{dX}) = 0 \quad (3)\]

We are interested in the comparative static $\partial D^*/\partial q$. This relationship is implicitly defined by equation (3). Define $R_q^{D}$ as the derivative of the left-hand side of equation (3) with respect to $q$. Define $R_C^{D}$ as the derivative of the left-hand side of equation (3) with respect to $D$. Then, by the implicit function theorem:

\[
\frac{\partial D^*}{\partial q} = -\frac{R_q^{D}}{R_C^{D}}
\]

By Assumption 1, the second-order conditions are satisfied, which implies that $R_q^{D} < 0$. Moreover, under Assumptions 1 and 2, we can identify the sign of $R_q^{D}$

\[R_q^{D} := Au_{dA} + A(u_d - \bar{u}_d)(u_{dD} - u_{dX})\]

Note that by definition $A \geq 0$, $u_{dA} > 0$, $u_{dC} > 0$ and $u_{dX} < 0$. By Assumption 1, an interior solution exists, so that $(u_d - \bar{u}_d) > 0$. By Assumption 2, $u_{dD} > 0$. It follows that, $R_q^{D} > 0$.

Therefore, since under Assumptions 1-2 $R_q^{D} > 0$ and $R_q^{D} < 0$, it follows from the implicit function theorem that $\partial D^*/\partial q > 0$. This means that in the efficient aid policy bargaining solution, a greater ability of donors to make credible aid commitments should, ceteris paribus, be associated with greater donor influence over policy decisions in the recipient country.

PROOF OF PROPOSITION 2:
In Proposition 2, we are interested in the comparative static $\partial C^*/\partial q$. Similar to the proof of Proposition 1, this relationship can be recovered by the implicit function theorem from equation (2). Define $R_q^{C}$ as the derivative of the left-hand side of equation (2) with respect to $q$. Define $R_C^{C}$ as the derivative of the left-hand side of equation (2) with respect to $C$. It follows that

\[
\frac{\partial C^*}{\partial q} = -\frac{R_q^{C}}{R_C^{C}}
\]

By Assumption 1, we must have $R_q^{C} < 0$, for the second-order conditions to hold. $R_q^{C}$ is given by

\[R_q^{C} = Au_{dA} + A(u_d - \bar{u}_d)(u_{dC})\]

By definition, $A \geq 0$, $u_{dA} > 0$ and $u_{dC} > 0$. By Assumption 1, an interior solution exists, so that $(u_d - \bar{u}_d) > 0$. By Assumption 3,
\[ u_{gCX} < - \frac{u_{gX} u_{dC}}{(u_d - \bar{u}_d)} \]

so that \( R_q^C \) is negative, and therefore \( \partial C^*/\partial q < 0 \).
## LIST OF INTERVIEWS

### Rwanda

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