

**Chairman's Summary of the Budget Support  
Meeting on the Political-Economy of Budget Support  
(8th of April 10am-1pm)**

**Chair: Andy Norton, Director of Research, ODI**

**Speakers:**

**David Booth, Senior Research Fellow and Director of African Power and Politics Programme, ODI**

**Nadia Molenaers, University of Antwerp**

The meeting was the second of the ODI hosted Budget Support meeting series, which aims to encourage prominent researchers and policy advisors to discuss some of the key questions, themes and challenges surrounding Budget Support. The purpose of this second meeting was to examine the political-economy of Budget Support from both recipient country and donor perspectives. Discussion centred on the theory of change implicit in General Budget Support (GBS) and the institutional incentives, particularly on the part of donors, that influence the choice and nature of aid modalities.

*Speakers' Presentations*

The meeting, chaired by Andy Norton, opened with presentations from David Booth and Nadia Molenaers, who focused respectively on the political-economy of recipient government and donor perspectives on GBS.

**David Booth** reflected on evaluations of GBS to date, depicting them as torn between two competing purposes:

- The pull of GBS managers who want to know what they have done right and wrong and how to fix it; and
- A commitment to political-economy analysis, which focuses on understanding implicit theories of change and determining if these are in fact the appropriate theories underpinning GBS.

The tension between these two approaches to evaluation are ongoing, however the managerial approach appears to be winning out. This often limits or excludes an analysis of assumptions and implicit theories of change within evaluations, which are crucial in shaping GBS.

Earlier evaluations of programme aid, for instance, led to the realisation that donors cannot buy change through conditionalities. Rather, there must also be a drive and sense of ownership on the part of the recipient government. This realisation led to a shift in the modalities of development assistance, with a greater focus on Budget Support given its ability to assist country systems in moving ahead, if the recipient government possesses the drive and willingness to do so.

David Booth argued that it is inexcusable that evaluations of GBS to date have done so little to question whether the theories of change within it are accurate and evidence-based. Doing so is the most important task of evaluations and needs to be taken more seriously.

Figure 1 below demonstrates how a political-economy approach can assist in developing a fuller understanding of the implications of the assumptions inherent within GBS.

**Figure 1:** What can a political-economy approach tell us about the assumptions of GBS?

Main channel	Assumption	Comment
'Partner government is empowered'	'Political competition is moving away from patronage towards a focus on results'	Some populist tendencies visible in the best case (Ghana), but otherwise intensified competition is producing the theoretically expected result: intensified clientelism
'Intra-government incentives and capacities are strengthened'	'Government applies pay and performance assessment policies that contribute to incentives'	Happening in Rwanda, especially performance assessment ( <i>imihigo</i> ). It is a feature of 'developmental patrimonial' regimes, but otherwise a non-starter
'Democratic accountability is enhanced'	'There are domestic constituencies and pressures for higher standards of accountability'	Sources of such pressure which are not funded by donors, and are therefore genuinely domestic, are rather few

The 'comment' section in the figure above demonstrates that some of the assumptions in the GBS theory of change are not representative of evidence-based research in large parts of contemporary Africa. As a result, it must be questioned whether GBS along these lines is likely to lead to a reduction in poverty.

### Consequences

Does this mean that the GBS theory of change is wrong? If so, a better theory of change is needed that more accurately reflects reality. Such theories will need to be country-specific, to reflect the different realities present.

Furthermore, if the theory of change is right after all, then another challenge is raised. Donors need to make decisions about GBS allocations on the basis of the theory of change assumptions, rather than on the basis of other criteria, such as aid principles. It is the theory of change that should be at the centre of our operational choices. Selection of GBS recipients to date has not been based strictly on GBS theory of change criteria, and therefore, cannot be expected to be successful.

Finally, David Booth suggests that this debate needs to be taken into the public arena, in order that the public are engaged in understanding how aid can be most effective.

**Nadia Molenaers** shifted the focus of discussion towards donor perspectives on GBS. She noted that while donors have been keen to use political-economy analysis in relation to understanding recipient government incentives, political-economy analysis should also be used to understand donor incentives.

Why is it, for instance, that experts favour GBS as an aid modality and yet donor governments are hesitant to use it? The neo-patrimonial institutions present in many African governments are problematic for donors, who must 'sell' their international aid programme to a public audience. Institutional reform of such governments is difficult and requires significant trial and error. For these reasons, donors find it difficult to abandon project aid, which they have relied upon more heavily in the past and in which they maintain greater control.

Donors are politically-led organisations than manage a division of staff (and incentives) between headquarters and field offices. Politicians operate on short timeframes and are sensitive to direct and visible results. Project aid provides more visible results than GBS, which often have greater resonance with politicians and their publics, despite also having negative impacts on the ownership and local legitimacy of recipient governments.

Aid also accommodates a variety of interests within it – including developmental, diplomatic, democratic and security imperatives. As a result, development assistance is frequently pulled in different directions because of its multitude of purposes and the resultant proliferation of deliverables.

Politicians (and, as a consequence, donors) are incredibly sensitive to risk (especially reputational risk). Yet GBS requires that donors are willing to take risks, as the needs that GBS seeks to address are long-term and the results are incremental. This is not always an easy story to explain to public constituencies and GBS advocates are therefore asking donors and politicians for a risky leap of faith.

### *Consequences*

Donors assess pre-requisite conditions for GBS readiness in different ways and these vary widely, especially in relation to the use of conditions as part of proliferating bilateral aid. The conditions that donors attach to GBS are often monitored closely and a lack of progress in these areas can lead to GBS being cut. This reflects a heightened expectation on the part of donors as to what GBS can or should be able to achieve.

Increasingly, donors are utilising a portfolio approach to aid as a risk avoiding strategy. This has led to a proliferation of policy dialogues around each aid instrument within the portfolio, resulting in high transaction costs for both donors and recipient governments. It has also triggered an increase in strategic buy-in behaviour on the part of donors, who want to be a part of the dialogue in order to wield increased influence. The increasing use of different types of conditionalities in GBS means that recipient governments are required to meet technocratic *and* democratic goals.

### *Looking forward*

The incentives of policy makers and donors are likely to remain, as are the governance challenges in Africa. This is likely to lead to a decreasing and more ad hoc use of GBS, with increasing conditionalities attached. This might be avoided if a division of modalities can be agreed whereby large donors take on the risk of GBS, leaving smaller donors to continue utilising more traditional aid modalities. It is also likely that donors will more frequently rely upon Sector Budget Support (SBS), as there is less risk attached to it than to GBS.

### Discussion

Broader discussion centred around five key issues, to be discussed below.

Significant debate arose on the issue of **theories of change** and how they impact upon GBS configurations. It was pointed out that there is no universally agreed or shared theory of change within GBS and that there is much varied experience across donors. Furthermore, the theory of change implicit in GBS must be more specific than the theory of change within aid more broadly and this needs to be made clearer. A GBS-specific theory of change will need to factor in that progress is rarely linear in practice and that the outputs and outcomes of GBS take different amounts of time to be achieved. One of the most crucial issues related to the theories of change is that GBS is often expected to fulfil a multiplicity of needs within one instrument. Objectives are rarely prioritised and their importance varies across stakeholder and time. Those involved with GBS operations should make their objectives and expectations

clearer and in some instances less ambitious. In addition, they should establish a hierarchy of objectives for GBS operations.

**Policy dialogue** was raised as a crucial benefit of GBS that attracts donors who believe they can wield influence through this process. Such dialogue goes beyond simply GBS and opens up a whole range of related issues, such as governance, development and aid. However the extent of donor influence within these settings was also questioned by some participants. Many felt that the policy dialogue process of GBS had not been invested in sufficiently, and that the relationships built (which are meant to be more long-term than in other aid modalities) were often weak. Furthermore, some donor representatives pointed out that referring to the 'policy dialogue' as a singular process is problematic, as inevitably there are a range of voices, interests and channels within the dialogue that make it complex and multifaceted.

The role of **conditionalities** was also highlighted as a challenge for GBS. What, for instance, is the theory of change implicit within political conditionalities? That improved human rights will make aid more effective? Some suggested that there is little evidence to support such assertions and that GBS should therefore focus more on its technocratic elements. However, it was also pointed out that political conditionality might be more about donors' home publics, rather than recipient governments. If so, while political conditionalities might not improve the results of aid, they may play an important role in making aid palatable to donor publics – a not unimportant factor.

Practical ways to improve the application of conditionalities were mentioned. Such as making sure benchmarks and targets are evidenced and achievable, allowing a forum of continuous dialogue and ensuring there are mechanisms for high level dialogue when things go 'off track'.

The relationship between **donors and their domestic constituencies** was an interesting theme of discussion, particularly related to how donors are limited by what they and their politicians can sell to the broader public. The tensions between technocrats and politicians underlay much discussion. It was suggested that the development community has largely sold aid to the public as project aid and now that the modalities have changed, the public relations must catch up. The development community needs to start selling aid as long-term institution building, rather than quick-wins, such as schools being built and children being vaccinated. It also needs to be bolder about Budget Support's successes and communicate the benefits more effectively.

Finally, the **decreasing use of GBS** was also discussed. This was pointed to for several reasons, including an increase in donor use of SBS, which is considered to contain less risk than GBS. Concerns were raised about what such a shift might mean for expectations of SBS – and whether the myriad purposes of GBS will simply be transferred to SBS, rendering it ineffective. The decrease in use of GBS was also attributed to the increasing orientation of donor funds to fragile states, where GBS is not considered an appropriate modality. In response, the idea was put forward that new aid modalities might combine some characteristics of both Budget Support and project aid to address concerns of both donors and recipient governments.

A palpable need emerged throughout discussion for aid modalities that provide flexible aid that supports local ownership and systems, while still allowing donors to sell their aid to their home politicians and publics in a way that doesn't undermine the effectiveness of the instrument.

Four meetings in the Budget Support meeting series remain. The next will focus on Budget Support in fragile states and will be held at ODI on Monday 9th May 2011.