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Buying Better Governance

The Political Economy of Budget Reforms in Aid-Dependent Countries

Paolo de Renzio

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University College Oxford
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Abstract

The quality of governance and institutions is increasingly seen as a fundamental factor in shaping the development prospects of poor countries. As a consequence, donor agencies have increasingly allocated resources to providing technical assistance for improving governance standards in such countries, with mixed results. This paper investigates the domestic and external factors affecting the outcomes of reforms aimed at improving the quality of government budget institutions across a sample of 16 aid-dependent countries. The analysis starts with a medium-N 'pattern finding' approach, based on a new dataset tracking changes in the quality of budget institutions over the period 2001 to 2007. This is complemented by small-N 'process tracing' evidence from Mozambique and Burkina Faso, looking at both overall reform trajectories and three specific budget reform areas. The results show that among domestic factors, economic and political stability are preconditions for successful budget reforms. A minimum degree of government leadership and commitment to reforms is also a very important factor shaping budget reform outcomes, alongside the centralisation of budget institutions. Surprisingly, among external factors, the level of technical assistance and the use of so-called programme aid modalities were less important for budget reform outcomes than the overall fragmentation of aid flows and the ways in which technical assistance is delivered. Donors' hopes of 'buying' better budget governance, therefore, are more likely to be enhanced not by additional resources, but by better behaviour. Moreover, such a strategy is likely to work only in countries with enough capacity and interest in reforms.

Key words: budget reforms, governance, foreign aid, aid dependency, political economy

[1] Research Associate, Global Economic Governance Programme, University of Oxford, and Senior Research Fellow, International Budget Partnership. I would like to thank Ngaire Woods, Christopher Adam, Nancy Bermeo, John Toye, Mushtaq Khan and Joachim Wehner for comments and encouragement, and participants at various seminars for their inputs and insights. The usual disclaimers apply. Contact: pderenzio@gmail.com.

Introduction

Over the past two decades, economists and political scientists alike have claimed that 'institutions matter' for development (North, 1989; Burki and Perry, 1998; Bardhan, 2005), or more boldly that they 'rule' (Rodrik *et al.*, 2004). The increasing focus on the institutional determinants of development is reflected in the gradual adoption of the term 'governance' by a large number of donor organizations since the early 1990s, who in turn have committed increasing resources to supporting institutional reforms in developing countries. According to the OECD's Development Assistance Committee, aid commitments for the broad 'government & civil society' sector have soared from US$ 1.2 billion in 1997 to more than US$ 16 billion in 2007[2], with the implicit assumption that better governance can be 'bought' with external assistance.

Despite this existing consensus, research on how institutions develop and change over time is still incipient, especially in developing countries[3]. Research on how donors' influence affects governance trajectories and processes of institutional change in aid-dependent countries is even more scarce. The consensus among donor agencies[4] is based on the assumption that an increase in donor effort, built on a shift from project to programme aid to better respond to the priorities of recipient governments, and on the combination of financial and technical assistance, has the power to 'buy' better governance by providing better incentives for reform and affecting the quality of institutions in positive ways.

At the moment, however, these claims are supported by limited evidence. Goldsmith (2001) finds a positive, statistically significant relationship between foreign aid and the strength of democratic institutions across sub-Saharan Africa, but his findings have been questioned by follow-up research. Dunning (2004) shows that such a positive effect is small and limited to the post–Cold War period, while Knack (2004) finds no evidence that aid promotes democracy over a larger sample of countries beyond Africa. More generally, van de Walle (2005) argues that donors still have to come to grips with the politics and incentives that continue to be prevalent in countries receiving aid. In fact, they are often promoting 'ventriloquism', a type of relationship in which donors make clear what their policy expectations are, and governments understand what they need to say and do in order to enjoy continued access to foreign assistance. Moss et al. (2006) call this the 'aid-institutions paradox', underlying how "certain types of aid could undermine long-term institutional development, despite donors' sincere intentions" (2006:4). Brautigam and Knack (2004) and Knack and Rahman (2007) find evidence that the quality of bureaucratic institutions in developing countries is negatively affected by, respectively, overall levels of aid dependency and the degree of donor fragmentation. Some of the assumptions behind the existing donor consensus, therefore, are clearly in need of further probing and testing, in order to better understand how donor interventions affect the dynamics of institutional reforms and shape their outcomes in aid-dependent countries.

This paper aims to contribute to these debates by attempting to explain the outcomes of institutional reforms related to the management of public finances across a sample of 16 aid-dependent countries over the period from 1997 to 2007. Government budgets are a key area of

[2] http://stats.oecd.org/qwids/

[3] As Thelen points out, "despite the importance assigned by many scholars to the role of institutions […] the issue of how these institutions are themselves shaped and reconfigured over time has not received the attention it is due" (Thelen 2003:208).

[4] Such consensus is captured in documents such as the Paris Declaration on Aid Effectiveness (OECD 2005).

government action, through which policy objectives are chosen and acted upon, and the necessary resources are collected, allocated and spent. They have also became a crucial area being promoted by donors, as their quality is important to donors because of their role in guaranteeing fiduciary safeguards (e.g. ensuring that aid funds provided through direct budgetary support will not be misused)[5]. Funding for donor-supported budget reform programmes has increased ten-fold over the decade under consideration (from US$ 170 million in 1997 to US$ 1.6 billion in 2007[6]), covering a range of initiatives aimed at strengthening the rules and procedures which underpin budget processes in aid-receiving countries. How has such external assistance worked? Were donors able to 'buy' better governance? What other factors shaped the outcomes of budget reforms? These are the key questions that this paper seeks to answer.

The empirical analysis is based on a mixed-method design that proceeds in two main stages: (a) a 'pattern finding' stage, and (b) a 'process tracing' stage (Lee and Strang 2006:886). The 'pattern finding' stage focuses on broad cross-country comparisons, using bivariate correlations and descriptive statistics in order to look for significant patterns related to changes in the quality of budget institutions in a sample of 16 aid-dependent countries[7]. The 'process tracing' small-N stage looks at two country case studies, Mozambique and Burkina Faso, bringing into the analysis factors that can only be looked at within each country. In order to shed further light on the intervening mechanisms at play, further 'within-case' analysis is also applied to three specific budget reform areas. This two-stage approach roughly follows the mixed-method approach that Lieberman has termed 'nested analysis' (Lieberman 2005), in which the intensive analysis of a small number of cases is couched within a broader analysis of a larger number of cases.

The next section defines the quality of budget institutions, and presents a new dataset on which the paper is based. Evidence and findings are then presented from both the 'pattern-finding' and the 'process-tracing' stages, before the concluding sections provide an overall explanation of domestic and external factors affecting budget reform outcomes in aid-dependent countries.

Budget institutions and budget reforms in aid-dependent countries

Many have lamented, at different points in time, the lack of a comprehensive theory of budgeting (Key, 1940; Schick, 1988). This is partly due to the fact that scholars have approached budgeting from different theoretical perspectives, which have never been properly integrated. The *public administration* perspective, linked to theories of public management, mostly looks at aspects of planning, accounting and inter-organisational linkages (Coe, 1989; Guthrie *et al*., 2005). It sees the budget as an instrument to organise the way in which public resources are managed, and it defines budget institutions mostly in relation to key budgetary principles (Sundelson, 1935). The *public finance* perspective draws theoretically from the discipline of public economics (Musgrave, 1959; Stiglitz, 1986). It sees the budget as an instrument to achieve fiscal policy objectives such as maintaining fiscal balance, allocating resources and stimulating consumption, and it assesses budget institutions on the basis of those policy objectives. Finally, the *political economy* perspective draws on the insights of new institutional economics (North, 1990; Campos and Pradhan, 1996) and, to a lesser degree, of fiscal sociology (Schumpeter, [1918] 1991; Moore, 2004). It looks at the

[5] World Bank (1997); World Bank (1998); DFID (2004).
[6] http://stats.oecd.org/qwids/
[7] This stage draws on Charles Ragin's Qualitative Comparative Analysis approach (Ragin 1987).

constellation of actors, interests and incentives involved in the budget process, and it sees the budget as an instrument to reconcile competing interests over the use of public resources.

The need to bring together principles, policies and processes in order to come to a better understanding of budget institutions was strongly put forward by Schick (1998). He highlighted how "*even when a government adheres to accepted budget principles, it may fail to obtain optimal fiscal outcomes*", and that "*to achieve its preferred outcomes, a government […] must create an institutional framework that enhances the probability that actual outcomes will conform to professed targets*" (1998: 2). It is therefore at the interface between principles, policies and processes that the quality and strength of budget institutions needs to be defined and tested.

Based on these different elements, I coin and use a new definition of the 'quality of budget institutions' that focuses on three dimensions:

1. *Transparency and comprehensiveness*. This dimension looks at the availability and quality of budget information, from the classification system used to organise budget items to the coverage and clarity of budget documents.

2. *Linking budgeting, planning and policy*. This dimension looks at the extent to which the budget can be considered as a reliable policy instrument, checking the extent to which budgets are implemented as approved, and whether they contain a policy perspective beyond the annual cycle.

3. *Control, oversight and accountability*. This dimension looks at what use is made of existing budget information, and whether adequate mechanisms are in place to guarantee the respect of existing rules and procedures, and to promote overall accountability for the use of public resources.

This definition is related to three of the key functions that government budgets play, namely: (a) act as a source of information on government activities and finances; (b) translate government policy objectives into the allocation of resources and into concrete actions; and (c) provide a system to keep government accountable for its actions. In this sense, it is universally relevant and applicable across different country contexts. Furthermore, the three dimensions are broadly consistent with long-established budgetary principles, and are compatible with different organisational practices and policy objectives. Additionally, and very importantly, they are amenable to operationalisation and measurement.

There are limited sources of cross-country data which can be relied upon to assess and compare the quality of budget institutions. In order to put together my dataset, I started from a series of assessments that were jointly carried out by the IMF and the World Bank in 2001 and 2004 to ensure that countries that qualified for debt relief under the Highly Indebted Poor Countries (HIPC) initiative had budget systems in place which guaranteed an efficient and transparent use of public resources (IDA/IMF 2005). I then complemented that information with more recent data from so-called PEFA (Public Expenditure and Financial Accountability) assessments, designed by a consortium of donors as an assessment tool both to judge the level of fiduciary risk for donor funds flowing through the country budget system, and to identify needed reforms (PEFA 2005). Existing material in the public domain has allowed me to track 11 different indicators for 16 HIPC countries that have undergone all three assessments, providing an overview of how the quality of budget institutions evolved over the period from 2001 to 2007, which is long enough to capture significant changes. As reported in Table 1, the data show half of the countries improving, while for the other half the quality of budget institutions either did not change, worsened or showed an unclear trend over the period from 2001 to 2007. The table further shows how country performance is driven by advances in certain dimensions, and is not necessarily even across the three. For example, Mozambique's good performance (especially after 2004) on transparency and policy linkages is offset by changes in control and accountability. Zambia's overall positive performance hides some backsliding in transparency, while Malawi's deterioration is affected by all three dimensions.

Table 1. Budget reform outcomes in 16 aid-dependent countries, 2001-2007

	a) T&C				b) BPP				c) COA				TOTAL			
Country/Year	2001	2004	2007		2001	2004	2007		2001	2004	2007		2001	2004	2007	
Benin	9	9	7	-	6	7	5	=	9	8	7	-	24	24	19	-
Burkina Faso	8	8	10	+	8	8	7	-	8	9	9	+	24	25	26	+
Ethiopia	8	10	8	=	5	5	7	+	8	8	10	+	21	23	25	+
Ghana	6	8	9	+	5	5	6	+	4	9	10	+	15	22	25	+
Guinea	8	9	8	=	4	4	5	+	7	8	6	=	19	21	19	=
Guyana	9	10	11	+	5	5	6	+	8	8	8	=	22	23	25	+
Honduras	11	9	9	-	5	4	5	=	7	7	9	+	23	20	23	=
Madagascar	10	10	10	=	5	6	5	=	7	7	7	=	22	23	22	=
Malawi	9	8	8	-	6	5	5	-	8	7	6	-	23	20	19	-
Mali	9	10	10	+	6	7	8	+	10	9	8	-	25	26	26	+
Mozambique	7	7	8	+	5	5	6	+	9	7	8	=	21	19	22	=
Nicaragua	7	9	8	=	4	4	6	+	8	7	8	=	19	20	22	+
Rwanda	10	8	9	=	7	7	5	-	6	6	7	+	23	21	21	-
Tanzania	8	9	9	+	7	7	7	=	9	9	11	+	24	25	27	+
Uganda	10	8	8	-	7	6	7	=	8	9	8	=	25	23	23	-
Zambia	7	6	6	-	3	4	6	+	7	8	8	+	17	18	20	+

Source: Author calculations, based on IDA/IMF (2005), de Renzio and Dorotinsky (2007), plus most recent PEFA assessments (www.pefa.org). For more detail, see the Data Appendix.
Note: T&C = Transparency and Comprehensiveness; BPP = Linking Budgets, Policies and Plans; COA = Control, Oversight and Accountability.

The short period covered could introduce some measurement error, as budget reform trajectories in each country might look different if a longer time period were considered. The small number of countries covered, moreover, could introduce a selection bias. In this respect, two factors need to be taken into account. While there are more than 40 countries that can be classified as aid-dependent over the period considered[8], about half of these are countries with very small populations, for which aid relative to income often shows as disproportionately high and therefore is not a good indicator of aid dependency. Many others are countries affected by ongoing or recent conflicts, for which the issue of governance reforms is either less directly relevant or subject to very different conditions and dynamics. In this sense, my sample is large enough to be representative of the sub-set of aid-dependent countries where donors have been supporting budget reforms. Moreover, the period under consideration coincides with the years during which donors have increasingly focused on supporting governance reforms in recipient countries. I also checked the correlation between the total scores I obtained and those derived from the full set of indicators included in PEFA

[8] While aid dependency has been defined in a number of ways (Lensink and White 1999, Riddell 1996, Collier 1999, Lancaster and Wangwe 2000), it is common practice to define as aid dependent countries in which foreign aid represents more than 10 percent of national income.

assessments, and obtained an encouraging coefficient of 0.8, indicating that a limited amount of information is lost through the use of this reduced indicator set.

Looking at broad patterns

As a preliminary step, it is worth examining whether the observed changes in the quality of budget institutions are linked to any basic characteristics of the countries included in my sample that might have had an impact on budget reform outcomes. For this purpose, I use a number of variables drawn from previous analyses such as La Porta et al. (1999), Andrews (2009) and de Renzio (2009). They include: (a) income per capita; (b) economic growth; (c) country size; (d) colonial legal and administrative heritage; (e) level of aid dependence; and (f) quality of budget institutions at the beginning of the period under consideration[9]. These factors might have affected the availability and quality of resources (human and financial) necessary to render budget reforms possible, but also affected their likelihood of success. Table 2 pulls together the data for these different variables, comparing countries that achieved some improvement in the quality of their budget institutions with countries that did not.

What the data show is that none of these basic country characteristics are associated with successful budget reforms. This is confirmed by the very low correlation coefficients reported in the bottom row. Changing the periods considered does not alter the results. This allows me to rule out some simple potential explanations for the success or failure of budget reforms, and to develop a more appropriate framework that can help identify some of the key factors, both domestic and external, that may affect the dynamics and results of processes of institutional reform, including budget reforms.

Table 2. Basic country characteristics and budget reform outcomes

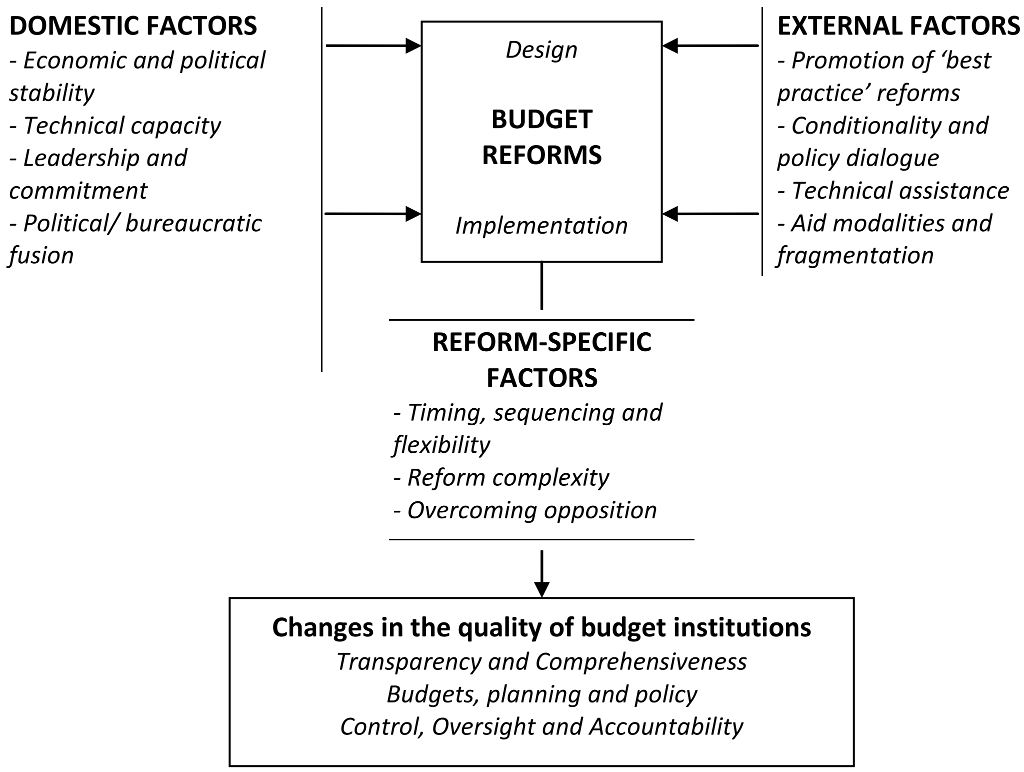
Country	Reform success	Income 1997[a]	Avg. Growth[b]	Population 1997[c]	Colonial Legacy[d]	Aid Dep.[e]	Initial Score
Burkina Faso	Yes	834	5.7	10.9	FRA	13.7	24
Ethiopia	Yes	534	6.0	60.1	N/A	12.7	21
Ghana	Yes	960	5.0	18.8	GBR	10.7	15
Guyana	Yes	2394	1.5	0.7	GBR	18.3	22
Mali	Yes	797	5.7	9.2	FRA	14.6	25
Nicaragua	Yes	1925	3.8	4.9	ESP	18.0	19
Tanzania	Yes	823	5.7	31.5	GBR	13.5	24
Zambia	Yes	1063	3.9	9.7	GBR	17.8	17
Benin	No	1113	4.5	6.6	FRA	9.3	24
Guinea	No	961	3.3	7.7	FRA	7.3	19
Honduras	No	2888	4.3	5.8	ESP	7.4	23
Madagascar	No	823	3.7	14.8	FRA	14.2	22
Malawi	No	710	3.0	10.6	GBR	21.2	23
Mozambique	No	451	8.1	16.9	POR	26.7	21
Rwanda	No	650	7.5	6.4	BEL	20.0	23
Uganda	No	707	6.7	22.6	GBR	13.6	25
	Correlation:	*0.096*	*-0.138*	*0.246*	*0.000*	*-0.005*	*-0.290*

Sources: World Development Indicators and author calculations.
a) PPP GDP per capita in constant 2005 US$.
b) Average GDP Growth, 1997-2007.
c) Total population in millions, 2007.
d) Denotes former colonial power (FRA=France, GBR=Great Britain, ESP=Spain, POR=Portugal, BEL=Belgium).
e) Average ODA/GNI, 1997-2007.

[9] Geographical location (i.e. a dummy variable for the continent that countries belong to) was not included in this analysis as it is highly correlated with income levels.

Drawing on different strands of research looking at the political economy of reforms in developing countries, these factors are summarised in Figure 1. On the domestic side, they include: (a) the degree of stability in economic and political conditions that form the background to reform efforts[10]; (b) the level of technical capacity within the government to design and implement reform measures[11]; (c) the level of government leadership and commitment to reforms[12]; and (d) the degree of fusion between politicians and bureaucrats, or the insulation of the bureaucracy from political interference[13]. On the external side, I look at the various ways in which international agencies can influence reform efforts[14] and at some of the contradictions of donor interventions, linked for example to the use of conditionalities and to the choice of aid modalities[15]. Some reform-specific characteristics also need to be taken into account, such as their timing, complexity and likelihood to generate opposition to their introduction and implementation[16].

Figure 1. Factors affecting budget reform outcomes



[10] See Grindle and Thomas (1991); Bates and Krueger (1993); World Bank (2008).
[11] See Nelson (1990); Haggard and Kaufmann (1992); Robinson (2007).
[12] See Williamson (1994); Heredia and Schneider (2003); World Bank (2008); Goetz (2007); Andrews and Turkewitz (2005).
[13] See Heredia and Schneider (2003); Robinson (2007).
[14] According to the World Bank, these include: (a) providing technical advice; (b) bringing cross-country experience to bear; (c) providing financial assistance; and (d) imposing conditionalities linked to the adoption and outcomes of reform (World Bank, 1997: 14-15).
[15] See Mosley *et al*. (1991); Brautigam (2000); Brautigam and Knack (2004); Devarajan *et al*. (2001); Knack and Rahman (2007).
[16] See Grindle and Thomas (1991); Haggard (2000); Heredia and Schneider (2003).

Ideally, all of the variables in the framework should be included in this stage of the analysis. However, this is not feasible for a number of them, mostly because of their qualitative or country-specific nature for which no easily available comparable sources of information across countries exist[17]. The set of variables that I look at is therefore limited by the availability of cross-country information that can be collected and systematised in a way that allows meaningful comparisons to be made. In order to account for possible lags in the effect of various factors, data cover the period 1997-2007.

The data in Table 3 provide an interesting first snapshot of the different combinations of factors across countries, and if they were associated with successful budget reforms or not. Two results stand out. The first one is that economic and political stability, contrary to some of what the literature claims[18], seem to be preconditions for successful budget reforms. Only countries with a minimum level of stability managed to achieve improvements in the quality of their budget institutions. This is not totally surprising, given some of the characteristics of budget reforms (and of governance reforms more in general), such as their long time horizons and the degree of continuity and leadership that they rely on to ensure successful implementation. On the economic side, the decade under consideration was one of favourable global conditions for growth and stability. Most countries faced similar fiscal difficulties balancing low revenues and high spending, but prolonged episodes of crisis were mostly due to natural disasters (Honduras) or to political turmoil (Madagascar), and in the case of successful reformers countries recovered very quickly (Ethiopia). As far as political stability is concerned, a key factor seems to be the presence of a predominant political party that is able to remain in power without major internal fractures and splits[19]. In a number of cases, party fragmentation combined with electoral politics led to minority governments[20], which faced difficulties in pushing reforms through parliaments, and to frequent changes in cabinet posts (including finance ministries) that hampered the leadership needed for budget reforms.

[17] This mostly applies to reform-specific factors. Among domestic factors, there are clear difficulties in defining, measuring and comparing variables such as 'reform leadership/ commitment' and 'political/bureaucratic fusion' (Heredia and Schneider, 2003). The same holds for some of the external factors related to donor effort, such as conditionality and the focus on 'best practice' approaches. All of these factors, however, are considered in the 'process tracing' stage.

[18] Much of the literature on economic policy reforms, for example, finds that economic crises and changes of government provide important 'windows of opportunity' for reform efforts. See Bates and Krueger (1993) and Williamson (1994), among others.

[19] This was the case, for example, in Burkina Faso, Ethiopia and Mali. In Benin or Malawi, on the other hand, party fractures led to significant political instability, undermining budget reforms.

[20] Again, Benin and Malawi are the countries where minority governments have been most common. In Nicaragua, the Bolaños government in 2002-4 was able to pass significant reforms with support from opposition parties.

Table 3. Factors and outcomes of budget reforms in aid-dependent countries, 1997-2007

		Domestic Factors			External Factors	
Country	**Reform success**	**Economic Stability**	**Political Stability**	**Technical Capacity**	**PFM TA** US$ p/c	**Share of Prog. Aid**
Burkina Faso	Yes	Yes	Yes	Low	0.5	25.4%
Ethiopia	Yes	Some	Yes	Low	0.5	8.2%
Ghana	Yes	Yes	Yes	High	1.6	21.6%
Guyana	Yes	Some	Some	High	38.0	5.8%
Mali	Yes	Yes	Yes	Low	0.8	22.4%
Nicaragua	Yes	Yes	Some	Low	5.8	11.4%
Tanzania	Yes	Yes	Yes	Low	4.2	28.6%
Zambia	Yes	Some	Some	Low	8.8	15.3%
Benin	No	Yes	No	-	3.0	23.2%
Guinea	No	No	No	Med	0.8	5.7%
Honduras	No	Yes	Some	Med	7.9	6.6%
Madagascar	No	Some	No	Low	0.7	16.7%
Malawi	No	No	No	Med	3.2	16.7%
Mozambique	No	Yes	Yes	Low	5.2	20.9%
Rwanda	No	Yes	Yes	-	6.3	22.7%
Uganda	No	Yes	Yes	Med	2.4	23.7%

Note: See the Data Appendix for a detailed description of data and data sources.

The second interesting result is the lack of any clear correlation between reform success and 'donor effort' measured against the amount of technical assistance provided in support of budget reforms and the share of total aid flows channelled as 'programme aid' between 1997 and 2007. Countries with low levels of both, such as Ethiopia, have managed to improve the quality of their budget institutions anyway, while countries with high levels of both, like Mozambique and Rwanda, did not manage to carry out budget reforms as successfully. More generally, higher levels of donor effort were associated with reform success only in some countries, calling for further investigation into some of the other factors that might interact with donor effort in bringing about improvements in the quality of budget institutions.

Finally, looking at capacity, while there is no correlation between levels of capacity and reform outcomes, the fact that the only two countries with a high 'bureaucratic quality' score (Ghana and Guyana) saw the quality of their budget institutions improve indicates that there might be a capacity threshold beyond which successful reforms become more likely.

With such preliminary evidence in mind, I now turn to the 'process-tracing' stage of my research, which looks at further evidence from in-depth country case studies.

Case study evidence

I use two main criteria to select the most relevant case studies. First, given the broad pattern indicating that economic and political stability are necessary conditions for reform success (at least within the sample of countries under consideration), I only consider countries within the sub-sample of stable countries. While possibly reducing the extent to which the results of the analysis can be generalised, this allows me to hold a key variable constant, while retaining sufficient variation on the other key variables, namely whether budget reforms were successful or not, and the level of donor effort in supporting such reforms. Second, in order to select a group of countries that is as representative as possible, I choose cases reflecting a good degree of variance along the main variables of interest[21].

Mozambique and Burkina Faso provide a good combination. In the former, budget reforms achieved limited results despite high levels of donor effort. In the latter, budget reforms were successful even with more limited donor assistance. Their choice is also justified for a number of additional reasons. Mozambique has been at the forefront of donor efforts to strengthen budget systems, receiving some of the highest absolute amounts of technical assistance related to budget reforms over the past decade, and counting the largest group of donors providing general budget support to the government (19 at last count). It also enjoyed substantial political and economic stability over the past decade. In this sense, the lack of clear progress in budget reforms is particularly puzzling. Burkina Faso, on the other hand, regularly scores among the developing countries with the strongest budget institutions[22]. Despite high shares of programme aid, the levels of technical assistance it received were relatively low. This combination of factors allows me to investigate more effectively the interaction between donor efforts and domestic factors. Additionally, both Mozambique and Burkina Faso have been studied much less than some of the Anglophone countries that tend to dominate the literature. In this sense, in-depth case studies of these two countries are more likely to add significant value to existing scholarship and knowledge.

The following sub-sections first look at broad similarities and differences in the budget reform trajectories of both countries, and then delve deeper into three specific budget reform areas linked to the various dimensions of the quality of budget institutions defined above, namely: (a) reforms in budget classification systems for 'transparency and comprehensiveness'; (b) the adoption of Medium Term Expenditure Frameworks (MTEFs) for 'linking budgeting, planning and policies'; and (c) the introduction of IT-based Integrated Financial Management Information Systems (IFMIS) for the area of 'control, oversight and accountability'.

Similarities and differences in budget reform trajectories

Mozambique and Burkina Faso share a number of characteristics that provide an interesting and puzzling background to their different performance in implementing budget reforms. Both countries started introducing budget reforms in the mid-1990s, as part of the 'second generation' reforms linked to structural adjustment programmes supported by the IMF and the World Bank. Over the following decade, both countries adopted a series of reform measures which are quite similar in nature, and which correspond to the standard advice provided by donors in this area and to so-called 'international best practice'. These include, among others, the introduction of new legislative frameworks, the integration of recurrent and capital budgets coupled with the updating of budget classification systems, the introduction of medium term expenditure frameworks and of integrated financial management information systems, and the creation and gradual strengthening of external audit agencies.

Moreover, both countries benefited from a series of shifts in aid delivery modalities from the late 1990s onwards, partly aimed at strengthening country systems and institutions. They

[21] Seawright and Gerring (2008) call this a 'diverse cases' selection strategy, and argue that it has "stronger claims to representativeness than any other small-n sample" (2008: 301).
[22] In the most recent World Bank Country Policy and Institutional Assessment (CPIA), Burkina Faso is one of two countries with the highest score on the "Quality of budgetary and financial management" indicator, over a sample of 75 low-income countries.

were among the first countries to join the HIPC debt relief initiative, to formulate a Poverty Reduction Strategy Paper and to receive budget support from a growing number of donors. All of this coupled with increasingly formalised monitoring and dialogue mechanisms that were supposed to strengthen government ownership, streamline conditionality and improve aid predictability. Finally, both countries enjoyed significant economic and political stability, allowing for the kind of longer time-horizon that the implementation of budget reforms normally requires. In principle, many of these common characteristics would lead one to think that both countries should have achieved a similar degree of success in improving the quality of their budget institutions. On the contrary, while Burkina Faso made significant progress, Mozambique lagged behind.

Budget reforms in Mozambique show a certain mismatch between initiatives undertaken, both by government and by donors, and results achieved. Much of the available evidence shows that despite at least two major new laws (in 1997 and 2002) that revolutionised the legislative framework for budgeting, and a host of other reform measures, improvements in the quality of budget institutions have been limited and unclear. This, in the face of a donor investment in technical assistance probably exceeding US$ 100 million[23]. As I will show in greater detail below, efforts by both government and donors were at best contradictory. On the government side, reforms were mostly adopted following donor assessments and as a consequence of donor pressure, they did not follow a clear plan and were often not adequately followed through. On the donor side, large amounts of technical assistance and an increasingly sophisticated structure for policy dialogue may have ended up making reform implementation more difficult.

Burkina Faso, on the other hand, has made significant progress in improving the quality of its budget institutions over the past decade or so. While the influence of external donors has been strong, over time reforms have shown more and more domestic drive and coordination. The government formulated two comprehensive budget reform plans in 2002 and 2007, putting in place mechanisms for monitoring their implementation and for coordinating technical assistance. Donor support for budget reforms has grown and become more complex. However, while it has been more difficult to assess the overall funding levels for direct donor support to budget reforms in Burkina Faso than in Mozambique, a reasonable estimate does not exceed US$ 25-30 million over the period 1997-2007, much lower than the figure for Mozambique.

In order to unpack and better understand these discrepancies, I look at three more specific budget reform areas related to each of the three key dimensions of the quality of budget institutions.

Budget classification systems

Budget classification systems are the language of public finance, and "*one of the fundamental building blocks of a sound budget management system*" (IMF, 2009: 1). Coding and classifying budget items allows for the interpretation and analysis of what would otherwise be

[23] Swedish support to the Ministry of Finance totalled about $12m (SIDA 2004), while support to internal and external audit functions totalled about $14m. World Bank support between 1998 and 2004 provided at least US$10m in support, while up to the end of 2007, the unit set up to coordinate and implement budget reforms had spent around $60m from its Common Fund financed by several donor agencies (UTRAFE 2009). Reliable figures for other programmes were not available in any sufficient level of detail, but are likely to total more than $10m.

a large amount of unspecified numbers included in budget books and reports. In this sense, the more detailed the budget classification system used, the more transparent a budget will be, in terms of providing a comprehensive and useful picture of government operations. Over the years, a set of common budget classification standards have been developed by international institutions (see IMF, 2001), providing a benchmark for countries pursuing reforms in budget classification systems.

Until the mid-1990s, budget classification in Mozambique was very rudimentary, indicating simply which government institution funds were being given to (administrative classification) and the main items of expenditure (economic classification). The introduction of a revised economic, administrative, functional and territorial classification of expenditure and revenues, following international standards, was a key element of the reforms introduced in 1997/8. Further changes came with the introduction of a new government financial management system (*Sistema da Administração Financeira do Estado*, SISTAFE), which was based on a much wider and more detailed set of classifiers, ranging from sources of funding to particular spending programmes, and the possibility of creating sector-specific classifiers to respond to the management needs of various areas of government. Moreover, the introduction of a government-wide system of programme classifiers that could link resources with development objectives and outcomes has been the focus of more recent Ministry of Finance efforts. Despite all these changes, the general situation in relation to the use of budget classification systems did not change substantially[24]. The two HIPC Assessments carried out in 2001 and 2004 use very similar language in describing the lack of proper implementation of functional classifiers. The roll-out of the SISTAFE system only partially addressed existing problems, as a large percentage of spending ends up falling under the 'non-classified' sub-functional category, rendering this classification virtually meaningless. More recent PEFA Assessments repeat a similar story, highlighting a number of limitations and inconsistencies, and criticizing the government's intention to introduce programme classifiers for being over-ambitious and poorly designed (Lawson et al. 2008).

In Burkina Faso, budget classification systems were modified, updated and improved mostly as a response to regional directives from the West African Economic and Monetary Union (WAEMU), which were meant to facilitate fiscal monitoring and regional convergence. The 1996 reforms introduced a higher level of detail in the classification of budget items, a better distinction between recurrent and capital spending, and a rudimentary functional classification by broad government functions. The 2004 reforms brought additional improvements, including a more detailed functional classification. The 2007 PEFA assessment (Linpico 2007) shows how the five existing classifications (administrative, by title, by nature, economic and functional) allow for a very detailed description and analysis of budget figures, which in the case of the 'economic affairs' function is even more detailed than the prevalent international standard.

Medium-term frameworks

The "*failure to link policy, planning and budgeting*", the World Bank's Public Expenditure Management Handbook claims, "*may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries*" (World Bank, 1998: 31). In the late 1990s, as a number of developing countries were developing poverty reduction plans, medium-term fiscal or expenditure frameworks (MTEFs)

[24] This candid assessment was confirmed in interviews with two senior finance ministry officials.

came to be seen as a way of reconciling aggregate fiscal discipline and public spending for poverty reduction, creating better linkages between the policies and plans that governments were pursuing and revenue and expenditure forecasts over a period of three to five years that could guide the annual resource allocation process.

In Mozambique, the first MTEF was introduced in 1998 with support from the World Bank, alongside a string of other reforms linked to the 1997 Budget Framework Law (*Lei de Enquadramento Orçamental*). While this first version of the MTEF remained an internal document, the following year sectors were involved more deeply, and the resulting document was discussed by the Economic Council, a Cabinet sub-committee, in order to promote a political discussion of fiscal policy options. After 1999, however, sector involvement gradually waned, and the MTEF focused more narrowly on the setting of aggregate fiscal limit. From 2001 onwards, the overall focus of budget reforms shifted from planning and budgeting to financial administration, causing the MTEF process to lose steam and leading to a general discredit over the practical utility of the instrument. In 2003/4, there was an attempt to provide the MTEF process with new impetus. This effort, however, was short-lived, as in 2004 the holding of general elections meant that medium-term planning issues did not receive much attention, and in early 2005 the new government decided to separate the Ministry of Planning and Finance in two separate entities. Responsibility for the MTEF process was given to the Ministry of Planning and Development, further weakening its linkages with the annual budget process.

The origins of the MTEF in Burkina Faso are linked to the World Bank's insistence, in the late 1990s, on the adoption of a tool that could reconcile sectoral resource allocation and the maintenance of macroeconomic discipline. The first MTEF was designed for 2001-2003, immediately covering all ministries. In the first few years, the MTEF process run largely in parallel and without a real integration with the regular budget process, it was often based on unrealistic projections and had weak links with sectoral budgets. In light of these shortcomings, the government included a series of measures aimed at improving and strengthening the preparation and use of the MTEF in its 2002 budget reform plan. These included a more institutionalised dialogue with sector ministries, better integration of donor-financed activities and the elaboration of more detailed manuals and guidelines. The 2005 public expenditure review noted various improvements, including more realistic macroeconomic projections (World Bank 2005). The 2007 PEFA describes the MTEF as "a process of multi-annual budget planning of good quality" (Linpico 2007:63), noting the strict adherence of annual budget figures with MTEF projections.

Computerized financial management systems

With the spread of basic information technology infrastructure across the developing world, the automation and informatization of budget management, from formulation to execution and reporting, has come to be seen as a necessary step in modernising the management of public finances across the world. International institutions supporting budget reforms have made the introduction of Integrated Financial Management Information Systems (IFMIS) a normal component of budget reform 'packages' promoted across the developing world (Diamond, 2002; Allen, 2009). This was meant to address the weaknesses of outdated manual accounting systems, and promote (a) prompt and efficient access to financial data; (b) strengthened financial controls during each stage of budget execution; and (c) improved efficiency and effectiveness of government financial management (Diamond and Khemani, 2005).

Efforts to introduce automated budget management systems in Mozambique had already started by the mid-1990s, with support from Sweden and the World Bank. Using some basic systems, the first set of State Accounts (*Conta Geral do Estado*) since independence, reporting on all spending executed in 1998, was produced in 1999, and sent to the Administrative Court (*Tribunal Administrativo*) for auditing. The following years saw an increasing debate on what model to follow to upgrade the existing system. On one side, Swedish technical assistants called for a gradual and incremental approach, building on existing systems and practices. On the other side other actors, and the IMF in particular, were pushing for a comprehensive and advanced solution that would overhaul the system as a whole. The approval of the SISTAFE Law drafted with IMF help, donor interest in consolidating technical assistance, and heavy IMF pressure on the Ministry of Finance all contributed to opting for the comprehensive overhaul, which was sanctioned by the Government in October 2002. The government unit set up to coordinate budget reforms, UTRAFE (*Unidade Técnica para a Reforma da Adminitração Financeira do Estado*), shifted its functions from reform coordination to reform implementation, housing a large Brazilian technical assistance team, paid for by donors and coordinated by the IMF, for setting up a custom-built IFMIS inspired by its Brazilian homologue. Since the launching of the e-SISTAFE (the name of the actual IFMIS) project, UTRAFE has become the predominant government actor as far as budget reforms are concerned, with an impressive budget that by 2008 totalled more than US$70m in spending.

What has been achieved with the large amounts of money spent on this "Rolls Royce of financial management systems", as a donor official described it? Some results are clear, and they include: (a) the creation of the Single Treasury Account (CUT) in place of the plethora of pre-existing bank accounts, facilitating and tightening control over public spending; (b) the improved timeliness of budget execution reports; and (c) a reduction in cash transactions through direct payments to the bank account of the service provider, limiting the space for fraud and mismanagement. Interestingly, however, the share of total government spending that utilises the direct execution modality is still very low, covering less than a quarter of total expenditure by 2008. Moreover, so far implementation has focused on a few key sub-systems (Treasury, Budget and Accounting), leaving many others linked to state assets, revenue collection, internal control and debt management (Cavanagh and Gustafsson 2009) still pending, limiting the scope and functionality of the system as a whole. Moreover, the fact that SISTAFE functionality so far did not adequately respond to sector needs, for example by developing a planning module, or introducing sector-specific classifiers, has led sectors to keep using or designing separate and parallel systems that better respond to their specific needs.

Burkina Faso was one of the first countries to adopt an IT-based financial management system. In 1994, with support from the World Bank, the government decided to develop a software and database that, in the words of one of its architects, would "bring about respect for procedures, ensure maximum transparency at all levels, produce all necessary kinds of reports and outputs, and be utilised as a real-time network by all actors at different stages of the expenditure cycle" (Cohu 2006:121). In its original version, the CID only covered expenditures for goods and services, transfers and investment projects. Over time, however, not only it grew to include other types of spending, such as salaries in 1999, but it was also linked and integrated with other similar software and databases for public accounting, for revenues or, more recently, for donor-financed activities. Moreover, in 2002-3, the system was updated and revamped in order to respond to new needs, such as compliance with the new WAEMU budget classification, but also to users' feedback and to the results of a system audit carried out by the IMF. The network was also gradually extended to local governments. While a comprehensive estimate of the cost involved is not available, two of the people directly involved have put the price tag of the initial development and implementation of CID at between 2 and 4 million US dollars, mostly financed by a World Bank project.

Over the years, various PFM assessments have looked at Burkina Faso's IT-based financial management system, regularly confirming its quality and reliability. The 2007 PEFA also recognizes that "the quality of the systems and of their interface is indisputable" (Linpico 2007:104, author translation). Most people I interviewed confirmed the general positive assessment of the system, including managers within sector ministries and officials in donor agencies. Many have also highlighted the fact that the software has been copied by a number of countries in the sub-region, and that in quality and reliability it outperforms the systems in place in countries that are relatively much better off, such as Senegal.

Explaining the outcomes of budget reforms in Mozambique and Burkina Faso

As the evidence above shows, both countries introduced a similar set of reforms over the past 10-15 years. While budget institutions certainly improved in both countries, in Mozambique reforms mostly stalled, while in Burkina Faso they were sustained and resulted in greater improvements. How can such difference in budget reform outcomes be explained? Looking at some of the additional factors identified in the framework in Figure 1 that were not included in the 'pattern-finding' phase of my analysis, the one that seems to hold most promise on the domestic side is the level of government commitment and leadership in the budget reform process.

A key signpost of such leadership and commitment is the existence and importance of specific government policy statements detailing an agenda for budget reforms, with its related implementation and monitoring mechanisms. As already mentioned, in Burkina Faso two such statements were produced, both initiated by the government, even though they drew directly from donor evaluations. In this sense, they represent a case of internalisation and translation of external reform agendas, adapting them to fit local priorities and circumstances. In Mozambique, on the other hand, the government always lacked (or refused to put forward) a clear strategy for reforming and improving the quality of budget institutions, relying instead on ad hoc reactions to donor pressure and requests. Donors have been pushing government to produce a new budget reform strategy since at least 2005, with little success.

Stating that leadership and commitment are important for successful reforms, however, immediately begs the question of how they come about. Why is it that some governments are more willing than others to take the lead on reform initiatives, and commit to carry them through? Based on case study evidence, I argue that there are three possible explanations for the origins of Burkina's higher levels of leadership and commitment. These relate to past reform experiences and historical legacies in the relationship between governments and donors, to levels of technical capacity and to the degree of politicisation of the bureaucracy.

In Mozambique, the combination of heavy aid dependence (Wuyts 1996), government's "subservience" to donors with regard to policy decisions (Killick et al. 2005) and growing levels of corruption is part of what de Renzio and Hanlon have called a 'pathological equilibrium' (de Renzio and Hanlon 2009:266) in which the formal compliance with reform conditionalities served to ensure continued donor assistance, while government and the bureaucracy informally pursued different objectives. More generally, early reforms linked to structural adjustment weakened state capacity and promoted corruption (Harrison 1999, Stasavage 1999 and Hanlon 2004), undermining subsequent efforts at pursuing second-generation reforms, including in the management of public finances. Hence the weak leadership shown by government not only in defining its own reform agenda, but also in negotiating and resisting at least some of the policies and reforms proposed (and often imposed) by donors. For example, a member of UTRAFE explained the uneven progress with the various components of the SISTAFE reforms by stating that the government felt forced by donors to introduce the system, and that therefore areas where vested interests are stronger, such as internal control, asset management and procurement, were left to lag behind in reform implementation. Similarly, the government's lack of interest in the MTEF as a planning tool is demonstrated by routine delays in its formulation and approval. Moreover, political lobbying for the redistribution of resources across sectors and ministries continue long after the MTEF is approved by Cabinet, showing the scarce political importance given to its policy directions. The negative effects of such pathological equilibrium are compounded by an acute shortages of qualified personnel (Fozzard, 2002; Sulemane, 2005), evident in the difficulties and by the more predatory attitude that seems to have taken hold within the ruling party over the years (de Renzio and Hanlon, 2009). In fact, since 2005 the party has strengthened its hold on the bureaucracy, in many cases demanding that bureaucrats become party members, therefore limiting autonomy and reform incentives.

On the other hand, Burkina's "tradition" of fiscal reforms and adjustment (Zagré 1994) goes back much further in time, and has shaped its more recent history in a different way. Since independence in 1960, Burkina Faso has witnessed various waves of fiscal austerity and self-imposed adjustment[25]. These early experiences have shaped not only its negotiating stance *vis-à-vis* the donor community, but also its capacity to formulate and implement reform strategies, including those related specifically to the management of public finances. Many observers (including most of the people I interviewed) tend to agree on the main factors behind Burkina Faso's successful reform record. Kevane and Englebert, for example, consider the state that has emerged in Burkina Faso as more developed than its Sahelian neighbours "in terms of institutional capacity and quality of statehood" (1999:268), and characterised by "an institutional culture that stresses the value of hard work and meritocracy" (270). One of the key factors behind such capacity and culture in the area of budget reforms is certainly the presence of a specialised higher education institute devoted to the training of government officials in the areas of public accounting and financial management, the ENAREF (*Ecole Nationale des Régies Financières*), which has existed for more than 20 years, developing a regional reputation. Over this period, there has therefore been a regular stream of well-qualified officials joining the Ministry of Finance, with specific technical training and an *esprit de corps* that is quite tangible. The resulting strong civil service ethos, alongside the fact that "Burkina's political leaders […] have tended to run the state as an ongoing enterprise rather than a source of wealth to be 'looted'" (Kevane and Englebert 1999:270), have created the basic conditions for a relative autonomy of the bureaucracy from excessive political interference, and therefore improved the government's capacity to successfully implement budget reforms.

Another domestic factor affecting differences in budget reform outcomes, which was not identified in the original analytical framework but was clearly relevant from the evidence gathered in both case study countries, relates to the degree of centralisation of budget institutions, or more specifically to the relative power of the Ministry of Finance *vis-à-vis*

[25] For a full account of these various phases, see Zagré (1994), Azam and Morrisson (1999, Chapter 3), Diabré (1998), and Savadogo and Wetta (1991).

sector ministries[26]. This is important because while the finance ministry is usually in charge of designing and coordinating budget reforms, their implementation mostly happens in other ministries. As a consequence, the finance ministry's capacity to convince, coerce or cajole sector ministries into complying with budget reforms is a crucial factor for budget reform success. The negative consequences of the splitting of the finance and planning ministries for the MTEF process in Mozambique were already noted above. In addition, Fozzard noted "the fragmentation of the public expenditure management system and the considerable autonomy granted to line agencies in managing their internal affairs" (Fozzard 2002:28). This was evident from the resistance in sector ministries to adopt and comply with e-SISTAFE, a system that was seen as not responding to the specific needs and priorities of sectors. On the other hand, in Burkina Faso the Ministry of Finance is more generally recognized as having a lot of power over sector ministries. The heads of finance departments in sector ministries, for example, are employees of the finance ministry, which promotes their compliance with centrally-defined reform measures. Moreover, sectors were more widely consulted during the design phase of different reforms, reducing resistance during implementation.

Among external factors, it is the level of aid fragmentation, rather than aid modalities[27], that better explains why reforms were more successful in Burkina Faso than in Mozambique. The presence of a large number of donor agencies implementing a wide range of activities can put a severe strain on efforts to improve budget systems in an aid-dependent country. Lack of transparency and coordination, a multiplicity of implementation and reporting mechanisms, and high levels of volatility and unpredictability can all have a negative impact on the various dimensions of the quality of budget institutions. Data show that aid is much more fragmented in Mozambique than in Burkina Faso. Over the period 1997-2007, Mozambique's three largest donors provided only 32 percent of total aid flows, while in Burkina Faso that percentage was 44 percent. Using another measure of donor fragmentation, which captures not only the overall number of donor agencies present in a country, but also their relative size, Mozambique shows a very high rate of fragmentation (0.92) over the same period, while Burkina's is significantly smaller (0.84)[28].

Fragmentation on the donor side can generate fragmentation in government systems as well, as sector ministries which have direct access to donor funding are able to bypass normal budget procedures. In fact, the issue of donor fragmentation was raised by a number of government officials in Mozambique as being key in creating perverse incentives against budget reforms within different parts of government. Donor-supported budget reforms conceived and implemented within central agencies can be undermined by sector-specific interventions supported by the same donors, which were in contradiction with central ones. This was a clear problem with e-SISTAFE, as a number of large sectors had parallel financial management systems that had been funded by donors through sector programmes.

The perverse impact of donor fragmentation also applies more specifically to technical assistance aimed at improving budget institutions. In Burkina Faso the bulk of technical

[26] A somewhat similar finding is reported by Andrews (2009), who found that reforms that only involve a few concentrated actors are on average more successful than those that involve a larger number of deconcentrated ones.

[27] I have shown above how Mozambique and Burkina Faso faced a similar situation with regard to the use of different aid modalities, of conditionalities and of dialogue mechanisms.

[28] Values range between 0 and 1, with 1 being most fragmented. While it would seem that the difference between the two countries is not large, the actual range of fragmentation measures, which I calculated for a group of 33 low-income countries, varied between 0.78 (Guyana) and 0.92 (Mozambique). For further details, see Knack and Rahman (2007) and Acharya et al. (2006).

assistance for budget reforms was given by the IMF, the European Commission and the World Bank, within the framework of the budget reform strategy designed by the government. In Mozambique there were at least another half a dozen donors heavily involved in supporting budget reforms. A common fund to support UTRAFE was set up in 2005, and had six donors until the end of its second phase. Separate common funds were created more recently for the Audit Court (four donors) and tax administration (four donors). Such multiplicity of support channels, coupled with the lack of an overall budget reform strategy, not only created imbalances in technical assistance resources available for various reform areas (e.g. too much for the IFMIS, too little for the MTEF), but also a series of conflicting priorities and advice for the government to follow.

Finally, some reform-specific factors also contribute to explaining differing budget reform outcomes. For reform areas characterised by technical complexity and longer time-horizons, such as MTEF and IFMIS reforms, issues of sequencing become relevant. In Burkina Faso some of the reasons for the more successful implementation of these reforms lie in the fact that they started small and gradually became more complex and comprehensive. In Mozambique, on the other hand, the choice of more ambitious reform approaches ended up undermining their implementation. The same holds for the issue of overcoming opposition to more politically controversial reforms, like introducing an IFMIS. In Mozambique, limited attention was given to addressing opposition to reform in the early stages of the e-SISTAFE, with resulting problems in more recent years. In Burkina Faso, on the other hand, these issues were tackled earlier on, facilitating reform acceptance and successful implementation.

Conclusions

The main aim of this paper was to investigate the key factors affecting the dynamics and outcomes of budget reforms in aid-dependent countries, as a way to shed light on broader governance reform issues, and with a specific focus on the role that external actors have played.

A preliminary cross-country analysis over a sample of 16 aid-dependent countries for the period 1997-2007 highlighted two main results. First, on the domestic side, a minimum degree of economic and political stability is a necessary condition for successful budget reforms, at least for the countries considered. None of the countries (such as Guinea, Madagascar and Malawi) that suffered low growth, macroeconomic imbalances, fragmented political systems, minority governments and frequent changes in political leadership (including that of the finance ministry) managed to improve the quality of their budget institutions. In the situation these countries face, politicians focus on political survival, while bureaucrats are busy responding to short-term emergencies. Neither can afford the longer time-horizon and commitment needed to implement complex reforms that are likely to generate opposition, and stable coalitions in their support are difficult to build. In such circumstances, donor efforts in support of budget reforms are not likely to have much of an impact, even though a lot of money can be spent trying. Second, looking at external factors, the evidence shows that two important aspects of donor efforts to improve budget institutions in aid-dependent countries, namely the resources available to provide technical assistance for the design and implementation of budget reforms and the share of aid provided through programme modalities, have no clear association with successful budget reforms.

Case study evidence built on these findings to show that, among domestic factors, government leadership and centralized budget institutions are additional key determinants of successful budget reforms. Not just in Burkina Faso, but also in Ethiopia, for example, strong leadership and commitment resulted from a history of ‘home-grown’ reforms and frank, sometimes conflictual donor-government relations, from a competent civil service, and from the relative insulation of bureaucrats responsible for the reforms from political interference[29]. Even if budget reforms themselves were not ‘home-grown’, they were taken on board by these governments and adapted to local circumstances as much as possible. Other successful reformers, such as Ghana and Tanzania, may not be characterized by the same level of government leadership and commitment, but have had systematic budget reform plans in place since the late 1990s, clarifying reform priorities and helping coordinate donor interventions. All of these countries, moreover, are characterized by powerful finance ministries, able to effectively coordinate reform efforts[30]. Among external factors, the level of aid fragmentation, both overall and in the delivery of technical assistance is more important than the amount of resources invested in technical assistance or channelled through programme aid. This finding indicates that in countries where aid is less fragmented across a large number of donors and projects, and where comprehensive programmes and mechanisms for coordinating the delivery of technical assistance in support of budget reforms have been in place for longer, budget reforms are more likely to succeed.

Donors’ hopes of ‘buying’ better budget governance, therefore, are more likely to be enhanced not by additional technical assistance or general budget support, but by better behaviour, reducing the perverse incentives induced by aid fragmentation and increasing coordination in the delivery of technical assistance. Both of these factors, inevitably, might only work in countries that are somewhat stable, and that enjoy a minimum level of government leadership and commitment. Where leadership is strong, the coordination function is more likely to be played by government itself. It is in countries with medium levels of leadership that donor actions have a better chance of influencing budget reform outcomes, and of tipping the balance in favour of their successful implementation.

[29] On the Ethiopian case, see Furtado and Smith (2009).
[30] On Ethiopia, see Furtado and Smith (2009); on Tanzania, see Lienert (2007). On Ghana, see World Bank (2011).

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Data Appendix

<u>*Quality of budget institutions*</u>

Numerical scores in Table 1 are obtained using the same methodology as in de Renzio and Dorotinsky (2007). HIPC assessments provide a letter score (A=best, B=medium, C=worst) to judge whether a country fulfils a pre-defined ‘benchmark’ for each indicator. The original analysis (IDA/IMF 2005) measured the number of benchmarks met and compared them across countries. This scoring methodology, however, does not exploit all possible variation, as changes above or below the benchmark are not counted. For example, if ‘A’ is the score required to fulfil a benchmark on an indicator, countries improving their score from ‘C’ to ‘B’ will not register any improvement. To capture all the relevant changes over time, I converted the original letter scores from HIPC assessments into numbers (A=3, B=2, C=1), and added them up for each individual indicator included in the three dimensions of budget institutions. The coding arrangement is clearly arbitrary, but it still generates broadly comparable aggregate data. Subsequently, I extracted relevant information from PEFA assessments and coded it according to the original HIPC methodology, in order to add a more recent score for the 11 comparable indicators. For more detail on the methodology behind the HIPC and PEFA assessments, see IDA/IMF (2003) and PEFA (2005).

<u>*Economic stability*</u>

This variable records whether over the decade under consideration each country suffered any serious economic downturn or fiscal crisis that could have provided strong incentives for reforming budget institutions. The underlying information is gathered from IMF documents and country profiles and reports compiled by the Economist Intelligence Unit (EIU). I looked at various indicators such as growth rates, fiscal deficits, inflation rates and government debt to provide an overall picture of the economic performance of each country and score their level of economic stability.

Table A1. Economic stability, 1997-2007

Country	**Economic stability**	
Benin	Yes	*No major economic crisis, though budget deficits are a constant problem. Average growth rate: 4.5%.*
Burkina Faso	Yes	*No major economic crisis. Average growth rate: 5.7%.*
Ethiopia	Some	*Some instances of economic crisis in late 90s and 2003 linked to war with Eritrea and droughts. Average growth rate: 6.0%.*
Ghana	Yes	*No economic crisis despite persistent deficits and overspending in election years. Average growth rate: 5.0%.*
Guinea	No	*Protracted economic instability, with high budget deficits and inflation rates. Average growth rate: 3.0%.*
Guyana	Some	*Fluctuating economic performance and persistent fiscal deficits. Average growth rate: 1.5%.*
Honduras	Yes	*Good economic performance throughout the whole period, despite the aftermath of Hurricane Mitch in 1998. Average growth rate: 4.3%.*
Madagascar	Some	*Some economic instability linked to political crisis in 2001-2. Average growth rate: 3.7%.*
Malawi	No	*Fiscal indiscipline, high inflation rates and susceptibility to droughts caused frequent boom-bust cycles. Average growth rate: 3.0%.*
Mali	Yes	*No major economic crisis. Average growth rate: 5.7%.*
Mozambique	Yes	*Stable growth and good macroeconomic performance through the whole period, despite floods and droughts. Average growth rate: 8.1%.*

Nicaragua	Yes	*Good average economic performance, backed by improving monetary and fiscal discipline over the whole period. Average growth rate: 3.8%.*
Rwanda	Yes	*Robust economic performance throughout the whole period. Average growth rate: 7.5%.*
Tanzania	Yes	*Good economic record and improvements in macroeconomic management. Average growth rate: 5.7%.*
Uganda	Yes	*No major economic crisis. Positive economic performance. Average growth rate: 6.7%.*
Zambia	Some	*Uneven performance at beginning of period, then gradually improving. Average growth rate: 3.9%.*

Political stability

This variable combines a number of different factors that are related to each other into a single qualitative judgement of political stability. It looks at general characteristics of political institutions, such as the degree of fragmentation and competition in the political system of each country, the existence of minority governments that need to rely on opposition forces to pass reforms, and the continuity in the political leadership of the finance ministry, to see how these might have affected reform prospects. I gathered country-specific information from country reports and profiles by the Economist Intelligence Unit (EIU), and from various editions of the Europa World Factbook, for the whole decade under consideration.

Table A2. Political stability, 1997-2007

Country	Political stability	
Benin	No	*Politics is very fragmented, and minority governments have been common. Ministers of Finance replaced often. Change in government following elections in 2006.*
Burkina Faso	Yes	*De facto one-party state, with policy continuity and strong commitment to reform.*
Ethiopia	Yes	*De facto one-party state, though government party is internally fractionalised. One single Minister of Finance throughout whole period.*
Ghana	Yes	*Political stability and alternation. Change in government following elections in 2000.*
Guinea	No	*Fragmented party system and protracted social unrest in 2004-2007. Constant Cabinet reshuffles. Elections not regularly held, also because of regional instability.*
Guyana	Some	*Continuity of party in power and of Ministry of Finance leadership. Entrenched party political divisions along ethnic lines are characterised by tension and extreme mistrust.*
Honduras	Some	*Two-party system with democratic alternation. Changes of government following elections in 2002 and 2006. High levels of crime and corruption fuel instability and dissatisfaction.*
Madagascar	No	*Fragmented party system and repeated political crises throughout the whole period. Change in government following elections in 2002.*
Malawi	No	*Politics highly fragmented and unstable. Minority or weak coalition governments are common. Change in government following elections in 2004. Frequent replacements of Minister of Finance.*
Mali	Yes	*Political situation characterised by continuity. Party fragmentation is addressed through consensus.*
Mozambique	Yes	*De facto one-party state, characterised by policy continuity and heavy donor influence.*
Nicaragua	Some	*Broadly two-party system characterised by some instability and fractionalisation within political parties. Minority government in power for some of the period.*

Rwanda	Yes	*De facto one-party state, with policy continuity and strong commitment to reform. Same Minister of Finance throughout almost the whole period.*
Tanzania	Yes	*De facto one-party state. Political stability and good relations with donor community throughout the whole period.*
Uganda	Yes	*De facto one-party state. Politically stable throughout the whole period, despite allegations of increasing authoritarianism.*
Zambia	Some	*Attempted coups and disputes internal to governing party mark instability at beginning of period. Improved stability from 2003 onwards.*

Technical capacity

While government capacity is not an easily measurable variable, I use an existing and widely used cross-country index, the 'bureaucratic quality' index included in the International Country Risk Guide (ICRG). The ICRG 'bureaucratic quality' index is based on expert opinions, and ranks countries on a 0 (weakest) to 4 (strongest) scale, measuring whether the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. I calculated average values over the period 1997-2007 and sub-divided countries into 'low' capacity (average score <=1), 'medium' capacity (1< average score <2) and 'high' capacity (average score >=2).

Table A3. Technical capacity

Country	ICRG Bur. Quality	Technical Capacity
Benin	-	-
Burkina Faso	1.00	Low
Ethiopia	1.02	Medium
Ghana	2.13	High
Guinea	1.95	Medium
Guyana	2.95	High
Honduras	1.95	Medium
Madagascar	1.00	Low
Malawi	1.95	Medium
Mali	0.00	Low
Mozambique	0.62	Low
Nicaragua	1.00	Low
Rwanda	-	-
Tanzania	1.00	Low
Uganda	1.95	Medium
Zambia	1.00	Low

Source: International Country Risk Guide (ICRG) database (http://www.prsgroup.com/ICRG.aspx).

Technical assistance

The Creditor Reporting System (CRS) database maintained by the OECD's Development Assistance Committee (DAC) on aid flows includes a specific item for aid devoted to 'Public Financial Management' (PFM). It records funds committed or disbursed by each donor, each year, in each country for technical assistance aimed at supporting budget reforms. I use the figure for commitments, partly because it has better coverage, but also because it provides a better indicator of 'donor effort' at promoting budget reforms. Using the sum total for the period 1997-2007 eliminates year-on-year fluctuations. Given the distortions that could derive from comparing these figures for countries of different sizes, I then divide the total amount of TA by the country's total population in 2007, to provide an indication of 'per capita PFM TA'.

Table A4. PFM-related technical assistance

Country	Total PFM TA US$m (1997-2007)	Population 2007	PFM TA US$p/c
Benin	26.9	9.0	3.0
Burkina Faso	7.8	14.8	0.5
Ethiopia	42.0	79.1	0.5
Ghana	38.7	23.5	1.6
Guinea	7.8	9.4	0.8
Guyana	28.1	0.7	38.0
Honduras	56.4	7.1	7.9
Madagascar	12.9	19.7	0.7
Malawi	44.5	13.9	3.2
Mali	10.0	12.3	0.8
Mozambique	112.1	21.4	5.2
Nicaragua	32.4	5.6	5.8
Rwanda	61.7	9.7	6.3
Tanzania	171.3	40.4	4.2
Uganda	74.4	30.9	2.4
Zambia	105.4	11.9	8.8

Sources: DAC/CRS database (www.oecd.org/dac/stats), World Development Indicators.

Programme aid

Using data on donor commitments from the DAC/CRS database, I calculated the share of total aid flows to each country that has been provided as 'programme aid' (i.e. including debt relief, general budget support and sector-specific programme aid) over the decade under consideration.

Table A5. Programme Aid as a share of Total Aid, 1997-2007

Country	Total Prog. Aid US$m	Total Aid US$m	Programme Aid as % of Total Aid
Benin	1,185.9	3,840.9	23.2%
Burkina Faso	1,681.8	5,523.3	25.4%
Ethiopia	1,535.8	14,281.5	8.2%
Ghana	2,640.6	11,034.5	15.1%
Guinea	183.7	2,763.1	5.7%
Guyana	74.2	1,449.6	5.8%
Honduras	563.2	6,599.7	6.6%
Madagascar	1,260.6	6,894.1	16.7%
Malawi	1,091.6	5,788.8	16.7%
Mali	1,420.7	5,696.7	22.4%
Mozambique	2,882.4	12,814.2	20.9%
Nicaragua	1,147.4	8,488.2	11.4%
Rwanda	1,195.0	4,659.9	22.7%
Tanzania	5,255.0	15,341.9	28.6%
Uganda	2,659.4	10,303.3	23.7%
Zambia	1,828.2	9,568.6	15.3%

Sources: DAC/CRS database (www.oecd.org/dac/stats).

Working Papers

The following GEG Working Papers can be consulted at www.globaleconomicgovernance.org/working-papers

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The Global Economic Governance Programme
University College, Oxford OX1 4BH

Tel. +44 (0) 1865 276 639 or 279 630
Fax. +44 (0) 1865 276 659
Email: geg@univ.ox.ac.uk
www.globaleconomicgovernance.org