The Europeanisation of budget support : do government capacity and autonomy matter?

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1. INTRODUCTION

The Europeanization literature in general expects that member states adapt to European norms differently. According to some scholars the level of *capacities* - understood as the capacity and effectiveness of administrations and their autonomy- are a key country-specific variable that explains member states' variance (see also Börzel et al., 2010; Schimmelfenning & Sedelmeier, 2006). This paper parts from the idea that member states' capacities are also likely to play a key role in the Europeanization of development policy. To start with, the 28 member states differ substantially with regards to the level of bureaucratic capacity and the administrative structures in place to implement their foreign aid programmes (see e.g. Lundsgaarde, 2013; Hoebink & Stokke, 2004). In addition, even though development policy usually stays under the radar of public limelight and interest, there are nevertheless vested political and institutional interests at stake, not least since development budgets are a key funding source for public implementing agencies and non-governmental organisations (NGOs). We focus on budget support in this paper as we expect those factors to play a particularly relevant role in the potential Europeanization of this specific aid modality. Not only do donors need a certain bureaucratic capacity to do budget support, budget support is also likely to face significant resistance by certain institutions and political groups due to its political connotations and because it touches upon well- established structures and vested interests in aid bureaucracies.

Budget support[i] -that is the direct transfer of aid resources to the recipient's budget- is one of the most popular and most controversial aid modality of European donors over the last decade. Popular because budget support was put forward as the most promising aid modality to make aid more effective and to target state weaknesses which inhibited developmental progress. Budget support also allows donors to negotiate with the recipient government much-needed reforms while minimising administrative burdens and transaction costs (Koeberle, Stavreski & Walliser., 2006; Knoll, 2008). Budget support has first been provided by the World Bank in the 1990s and gained importance with other (regional and multlialteral)

development banks and bilateral donors at the turn of the Millennium against the background of the international aid effectiveness debates which culminated in the 2005 Paris Declaration and the 2008 Accra Agenda for Action (Koeberle, Stavreski & Walliser, 2006; Knoll, 2008). Within the EU, the European Commission (EC) became one of the strongest supporters of budget support, which makes an analysis of the EC's impact on member states particularly relevant and interesting.

From the beginning, budget support was also highly controversial and perceived (particularly by public opinion and parliamentarians) to be a ‚blank cheque’ to a recipient government and a legitimation of the government in power (Hayman, 2011; Faust et al. 2012). From a financial accountability perspective, budget support was perceived as coming along with high fiduciary risks, i.e. the risk that aid resources could be used for unintended purposes (Koeberle & Stavrevski, 2005; Clist, Isopi & Morrissey, 2012).

This controversial nature makes budget support a good study object to get a deeper understanding regarding the drivers of European development policy and of the *dynamics of policy formulation* between the EU and member states. From the beginning, European donors stood divided vis-à-vis budget support. Attitudes towards budget support varied in terms of support for the modality ranging from strong (e.g. the UK or the Netherlands), moderate (e.g. Germany) to reluctant (e.g. Austria, Belgium or Luxembourg). In recent years, however, support for the aid modality has faded among all European bilateral donors (even among those who were initially supportive of the instrument), a factor largely driven by domestic political considerations (Faust & Koch, 2014). The EC was also increasingly pressured by member states into changing its approach and reformed its budget support policy in 2011. Given the member states' and the EC's recent policy shifts, the question of who influenced whom and the extent to which Europeanization tendencies have been at play is particularly interesting.

In order to study the extent to which Europeanization has taken place at the level of European budget support policies we look at two defining ‘turning points’: the inception of the EC’s budget support policy at the beginnings of the 2000s and the EC’s reform of budget support in 2011. In both turning points, we focus on three member states to distill possible EU impcat: Germany, the UK and Belgium. Methodologically, we draw on various sources of primary and secondary data. For one, we analyse the existing policy documents

of the EU and the selected member states. This policy analysis is complemented by semi-structured interviews of representatives (public and private sector) of the EU and the three member states. In addition, the authors of this paper were able to attend a number of budget support workshops at the EU level, instituted by the European Commission, with the aim to discuss the EU's budget support reform of 2011. These workshops were attended by both budget support experts and member states representatives. These insights are supplemented by field research in several[ii] budget support receiving countries, with a focus on the interaction and coordination between the EU and member states.

The paper is structured as follows: we start with a conceptual part that clarifies our understanding of Europeanization and introduces *capacity* as the main independent variable. This is followed by an empirical part, which studies the 'turning points' and the interaction of the EC and three member states. We end with a reflection on our theoretical expectations and concluding ideas regarding the study of Europeanization in development policy.

2. Analytical framework: Translating the concept of Europeanization to budget support

Europeanization as a process

The large bulk of the Europeanization literature conceptualizes and understands Europeanization as the impact of the EU on its member states' domestic spheres (cf. Börzel & Risse, 2006, p. 485) and the extent to which domestic changes in member states have been induced by the EU (see e.g. Ladrech, 1994; Buller & Gamble, 2002). This main focus on „vertical" Europeanisation and „downloading" (EU→MS), and thus on uni-directional change and impact, is complemented by an understanding of Europeanization as a process (Goetz, 2002). If understood as a process, Europeanization captures the complexity of policy adaptation in the EU (e.g. Megie & Ravinet, 2004) as a two-way process, "in which Member States both shape European policy outcomes and adapt to them" (Börzel, 2002, p. 194). This is in line with Radaelli (2004), who argues that "Europeanisation deals with how domestic change is processed, and the patterns of adaptation can be more complex than simple reactions to 'Brussels'" (p. 4). Following this logic, member states can have a distinct interest to "upload" their own domestic policies to the EU level and to promote policies at the Brussels level which suit their national interests and approaches (Héritier 1996), mainly to minimize their adaptation costs by reducing the "misfit" between European and domestic arrangements (Börzel, 2002)

(MS→EU→MS). A third potential direction of Europeanization relates to the policy diffusion among member states (MS→MS) also called "horizontal" Europeanization (Howell, 2004). Horizontal Europeanization considers the policy diffusion between member states, and treats the EU institutions as a contextual factor or normative frame (Radaelli, 2004).

The above also implies that Europe can have differentiated impact on member states, and that Europeanization cannot be equated with convergence or harmonization of policies (Radaelli, 2004). In theory, multiple Europeanization scenarios may produce multiple (and thus uncertain) outcomes. For the purpose of this paper, we understand Europeanization as a process, where outcomes and influences are neither simple, nor uni-directional. Reconstructing the process is thus imperative, identifying the dynamics or the *direction of the influencing process and its respective outcome.*

Why would government capacity and autonomy matter?

The level of *capacities* (defined as government capacity and autonomy) is often cited as a key country-specific variable that determines member states' variance in complying with EU law (Börzel, 2002; Börzel et al., 2010; Schimmelfenning & Sedelmeier, 2006). Government autonomy refers to the number and interest of veto players (which can change over time) in the political system of a member state (see e.g. Tsebelis, 2002). Government capacity captures the financial resources and the bureaucratic structures and quality a government can make use of (Börzel et al., 2010). Even though development policy relies mainly on soft-law and non-legal requirements, we could nevertheless expect the capacities of member states to play a key role for the extent to which they adopt and follow certain European norms and policies or not. The *aquis* requires all member states to set their own development policy in place. Member state's capacities (in both government capacity and autonomy), however, vary significantly not only between old and new member states but also among smaller and bigger and among bigger member states.

We stipulate that with regards to government capacity, a donor needs to have a certain capacity to be able to do budget support. This capacity particularly relates to the size of a donor (aid volume). In order to make a meaningful financial contribution to partner countries' budgets, size matters, and so do the presence of certain administrative structures to manage budget support flows (e.g. the existence of a development bank,

the presence of macroeconomic and public finance management expertise etc.). In addition, we expect that government autonomy in the form of veto players matters a lot in terms of the extent to which European donors embarked on budget support (as practiced by the EU) or not. Budget support is likely to trigger significant resistance by certain institutions and political groups due to its political connotations and because it touches upon well-established structures in aid bureaucracies. In particular organizations focused on technical cooperation and corporatist NGOs see their business model (which heavily relies on project aid and service delivery) threatened by budget support and are thus likely to resist influence from the EU on their position towards budget support (Faust & Koch, 2014). Based on these considerations, we formulate three general expectations:

* 1: The greater a country's government capacity, the more able (likely) it is to respond to Europeanization of budget support
* 2: The smaller a government's autonomy, the less able (likely) it is to respond to Europeanization of budget support
* 3: When capacity and autonomy are high (low), Europeanization is likely (unlikely)

To be able to test these expectations and to distill the EU impact in budget support policy making and implementation, we focus on the *timing and sequencing* of policy formulation and the policy design (Radaelli, 2004). For our empirical analysis, this means that we consider the extent to which EU budget support policy making has preceded domestic policy making and policy reform. Next we study the substance of budget support policies and EU impact (by analyzing the extent to which these policies make references to the EU or not).

3. Has Europeanization taken place in the case of budget support?

In our empirical analysis, we aim to assess the different possible types of Europeanization by analyzing the policies of the EC and three member states: the United Kingdom (UK), Belgium and Germany. Our case selection is based on variations on our independent variable, which is government capacity and government autonomy (see Table 1). Regarding *government capacity*, the UK and Germany are the two largest bilateral donors in the EU (in terms of absolute volumes with Germany disbursing USD 14.1 billion of Official Development Assistance (ODA) in 2013 and the UK USD 17.9 billion ODA[iii]) whereas Belgium is a rather

small donor delivering USD 2.3 billion ODA in 2013[iv]). These differences in financial volumes also closely correlate with the capacities and expertise of respective bureaucracies. In the case of Germany, its dedicated ministry (Federal Ministry for Economic Cooperation and Development (BMZ)), experienced implementing organizations, flexibility in implementation and sound technical expertise are noted that as key strengths of the German aid bureaucracy (OECD/DAC, 2010). Likewise, the UK is praised for its international leadership on global development issues, an effective institutional system with a clear mandate and a well-positioned department (Department for International Development (DFID)) that manages development programs effectively and efficiently (OECD/DAC, 2014). Belgian Development Cooperation, on the other hand, has less administrative structures, a strong focus on sectors and little macroeconomic expertise (OECD/DAC, 2010). The Belgian Directorate General for Development (DGD) is also considered a rather weak player (Molenaers et al, 2014a; Molenaers et al., forthcoming).

The three member states also largely differ in terms of *government autonomy*. Whereas the UK (DFID) and Germany (BMZ) have separate development ministries/departments, the Belgian Development Cooperation (DGD) is a Directorate General within the Ministry of Foreign Affairs, Foreign Trade and Development Cooperation and subordinate to the Minister of Foreign Affairs. In terms of autonomy, this implies that the Belgian DGD - when compared to the UK and Germany - has low autonomy when it comes to aid decisions. However, autonomy in the case of budget support is not only influenced by the institutional set-up but also by the existence and importance of veto-players. Both Belgium and Germany have fragmented aid systems (OECD/ DAC, 2010) and have to take into account the interests of separate public implementing agencies. The Belgian Technical Cooperation (BTC) and the German Kreditanstalt für Wiederaufbau (KfW) for financial cooperation and the Gesellschaft für Internationale Zusammenarbeit (GIZ) for technical cooperation are implementing agencies with substantial political leverage (OECD/DAC, 2010). In both Belgium and Germany, this severely limits the autonomy to develop policies which work against these agencies' interests (Faust & Koch, 2014). The UK, on the other hand, has no such public aid implementing agency with DFID well-positioned to identify priorities and manage development programs autonomously (Barder, 2005; OECD/DAC, 2014).

A government's autonomy is also influenced by the NGO sector. In the case of budget support, veto players are in particular those NGOs who focus on project-implementation and service delivery (and thus see their business model threatened by budget support). Germany, Belgium and the UK all have a very strong NGO scene, with different foci of their work. Whereas Germany (see Nuscheler, 2008; Dreher et al., 2012) and Belgium (Molenaers et al, 2014a/b; Molenaers et al., forthcoming) have a strong corporatist NGO sector, largely focused on the implementation of projects with a strong resistance to budget support, the UK hosts a large number of international NGOs that are rather engaged in advocacy work and campaigning, with some powerful players being in favor of budget support (see e.g. Oxfam UK, 2006[v]; ActionAid, 2012[vi]).

When summarizing the above in a matrix, the following becomes apparent (table 1).

Table 1: Scores of selected cases on govt. capacity and autonomy and predicted effect on Europeanization of budget support

	Germany	UK	Belgium
Government capacity	high	high	low
Government autonomy	low	high	low
predicted effect on Europeanization	unclear	likely	unlikely

Source: Authors

The question is if and how these different scores on capacity and autonomy relate to the likelihood of europeanization of budget support. Given its high capacity and autonomy, we would expect the UK to be most likely to europeanize. Belgium on the other hand is situated on the other extreme, where its low capacity and low autonomy makes it unlikely for Europeanization. The German case presents a puzzling picture as its capacity and autonomy scores vary from respectively high to low. It is unclear how this might affect the likelihood to Europeanize. But it might shed some light on the differential impact capacity and autonomy can have on Europeanization. We now turn to the empirical part of the paper in order to verify our predicted effects on Europeanization.

1.1. First turning point: The rise of budget support and the EC's first budget support policy

Empirically, we identify two distinct periods of budget support in the EU. The first period is characterized by the introduction of budget support into European development policy at the beginnings of the 2000s. The second relates to the period of budget support reforms from the end of the 2000s onwards. Following our conceptual framework, we focus explicitly on the temporal dimension of Europeanization and thus on the extent to which EU norms and policies preceded domestic change. Within our two periods of European budget support, we thus focus on two key 'turning points': the adoption of the EC's first budget support policy in 2002 and the EC's budget support reform in 2011.

1.1. The dynamics of policy formulation

The EC issued its first official budget support guidelines in March 2002, titled "Guide to the programming and implementation of budget support for third countries". This focus on budget support was part of a reform programme for EC aid that started in 2000 (see EC, 2000). As part of this reform, the EC emphasized the need to use partner countries' own administrative capacities for channeling aid, also to ease the EC's significant disbursement pressure which came as a result of an increasing aid budget that had outgrown the EC's own managing capacity (Schmidt, 2006). In the following years, the EC profiled itself as a budget support donor with EC commitments for budget support operations having more than doubled between 2000 and 2004 (ibid.). In 2008, then Development Commissioner Louis Michel issued a policy document as an attempt to explain the advantages and the EC's use of budget support to the wider (skeptical) public: "I am convinced that, where circumstances permit, budget support is the most effective instrument of development" (EC, 2008, p. 1).

What is important to note, however, is that the EC has not undertaken clear steps to guide member state's budget support policies. The Guidelines of 2002 were rather an internal (technical) document of how to best manage budget support in the EC. The EC was also quite adamant in following the 'best practices' approach as stipulated by the World Bank and the OECD/DAC[vii], which emphasized the idea that in terms of objectives, budget support primarily promotes poverty reduction efforts and macroeconomic performance (EC, 2002, 2008) and should not be used to push for political governance reforms (OECD/DAC, 2005; Koeberle & Stavrevski 2005).

The EC translated these international guidelines in its budget support eligibility criteria, resulting in three criteria for budget support provision: (i) a stability-oriented macroeconomic policy (ii) the existence of a poverty reduction strategy and (iii) a credible and relevant program to improve public financial management (EC, 2008). These criteria do not rely on clear thresholds but on a dynamic approach, meaning that the EC assessed the reform trajectory of the recipient rather than its actual performance. This resulted in a not very selective use of budget support, with the EC granting budget support to a much larger number of countries than any member state (Hauck, Hasse & Koppensteiner, 2005).

Let us now turn to the three member states and the extent to which the EC has impacted on their budget support policies.

Germany was a relative latecomer in issuing its first official budget support policy only in 2008[viii]. In addition, its approach to budget support differed substantially from the EC's. BMZ made clear that it is only a modest supporter of the instrument, stating explicitly that it aims to use budget support only selectively in 'good performing' countries. In contrast to the EC, Germany applies threshold criteria in all three eligibility areas (fiduciary, macroeconomic, and governance and democracy), requiring partner countries to comply with pre-defined performance criteria. During its peak in 2008/9, Germany provided general budget support only to eight developing countries (Hermle & Hauschild, 2010). Moreover, Germany underlined the political objectives of budget support much more explicitly than the EC, stating that good governance, democracy and respect for human rights are not only preconditions but outspoken objectives of budget support (BMZ, 2008). In addition to these differences in policy design, there is also hardly any reference to the EU throughout Germany's budget support policy document. It is stated that BMZ aims to cooperate with other multilateral development banks and the EU Commission when providing budget support. In addition, the policy document states that Germany does not aim at setting up its own variable tranches[ix] but would in general be willing to dock on to the Commission's variable tranches (BMZ, 2008). The idea that the EC directly impacted on Germany's policy design and practice of budget support, however, seems unlikely not only on the grounds of the clear differences in policy, but also due to the lack of reference that is made to the EU level. The policy document, however, does make explicit reference to the Paris principles and the aid effectiveness agenda (and thus to international principles).While following international practice and the

debate around aid effectiveness, Germany seems to have designed the details of its policy without reference to either the EC or the OECD/DAC.

Like the EC, DFID has been an active promoter of budget support since the 2000s. DFID's policy was set out in the UK Government's White Paper issued in December 2000, entitled "Eliminating World Poverty: Making Globalisation Work for the Poor". In this document, it is stated that "The UK Government will work with other donors to channel more of our support through developing country budgetary systems […]" (p. 98). In the following budget support policy of 2004 "Poverty Reduction Budget support. A DFID policy paper" budget support is considered "the instrument most likely to support improvements in the accountability and capability of the state" (DFID, 2004, p. 11). As one of the frontrunners of the aid effectiveness agenda, DFID was among the most progressive European bilateral donors to promote a "somewhat radical move away from funding development projects in poor countries towards the direct financing of national development and poverty reduction programmes" (Porteous, 2005, p. 283). According to its 2004 policy, DFID considers three criteria before granting budget support (i) the country's planned budget priorities (ii) the status of administrative, technical and financial systems; and (iii) the specific costs / benefits of budget support against other types of aid. Similar to the EC, the UK applies these criteria in a dynamic way and also emphasizes poverty reduction as the overall objective of its policy without making clear references to political governance. Despite these similarities, however, the UK does not make any reference to the EU in its 2004 policy document.

Belgium did not issue a policy on budget support, but developed a "Vademecum Budget support- Principles and procedures for Belgian Development Cooperation involvement in budget support and pooled funding" in 2008. The vademecum aimed at establishing clear guidelines for the aid administration (much like the EC did in 2002) on how and when to give budget support. In the introduction, there is no reference to EU budget support, but a clear reference to the Paris Declaration and the European Consensus on Development. In spite of the fact that in the introduction, the vademecum speaks highly of budget support and its possible advantages, it also states that general budget support is only a possibility if channeled through the EC or the World Bank. The vademecum states that "as a rule, Belgium should engage in budget support at a sector level" (p.7). Belgium has, however, one general budget support operation to Mozambique channeled through

the EC from 2004 to 2013. Interestingly, Belgium also heavily relies on the criteria of 'other donors' when providing sector budget support. One of the minimum requirements to consider sector budget support is that there has to be a multi-donor approach to budget support: the EU/World Bank and at least one other bilateral donor should be giving budget support before Belgium can consider it. Belgium's domestic policy choices thus seem to be more influenced by the EU than in the case of Germany and the UK, albeit not leading to a similar approach as practiced by the EU.

Taking all these aspects together, the picture that emerges is an interesting one. If we limit our analysis strictly to general budget support: Belgium does not provide general budget support, yet refers and delegates limited amounts to the EU, the UK has a similar policy to the EU but no reference is made to the EU and Germany has a very different approach to budget support than the EU, again making very little reference to the EU. From this perspective we could conclude that only in the case of Belgium, we can see a certain degree of Europeanization. What is interesting, however, is the exact content of this form of Europeanization: Belgium did not europeanize in the way that it shaped its policy design and content according to the EU's influence, it rather decided not have its own general budget support policy but to channel its (very limited) flows through the EU.

1.2. Digging deeper into the issues of government capacities and autonomy

According to our analysis, Belgium is the only country in our sample that europeanized to a certain degree in the first period of investigation. How does government capacity and autonomy matter for this result?

In Belgium, the period 2007-2011 was a period of extreme political instability. With elections in 2007, and again in 2010 (the latter with government formation negotiations that lasted 541 days) the country was in a very deep political crisis. Communal interests and a real danger of a Belgian split took up most of the political attention, with aid policy concerns dangleing at the bottom of the political interest list. Amidst this crisis, and under the political leadership of Charles Michel (Liberal Party), the aid administration came under serious pressure to reform and had to develop a strategy to translate international pressures and agreements (such as the Paris Declaration 2005 and the Accra Agenda for Action 2008) (OECD/DAC, 2010). General budget support was quickly discarded as an option because the law on international cooperation clearly

stipulates that Belgian development cooperation must be deployed at sectoral level. In addition, the vademecum also refers to ‘weak capacity’ and the size of Belgium as a donor, and its important project and sectoral expertise as important considerations for limiting its engagement to sector budget support.

Veto players also had a crucial role. The combination of vested interests of BTC, the NGO-sector and the legal procedural framework monitored by the Inspector of Finance has severely limited DGD in developing a policy for general budget support. The veto-players with their project/sector profile and the legal framework which is particularly fit for project and sector interventions have a-priori limited the possibilities to move into General budget support. All in all, just one general budget support flow was disbursed in Mozambique, through the EU, totaling 12.18 € Mio in 2010-2011.

Even though theoretically, Germany would have had the government capacities to follow the EC and to pursue a progressive budget support policy it never became a supporter of the instrument mainly due to low government autonomy and the influence of veto players. Budget support ran counter to the interests of most German NGOs, which rely on a small project-based aid delivery model and are often heavily supported by public ODA funds (Dreher et al., 2012). Overall, BMZ was confronted with a rather strong opposition against a substantial increase in budget support by most state-owned implementing agencies (in particular German Organisation for Technical Cooperation (GTZ)) and by NGOs embedded in a neo-corporatist structure. In addition, domestic party politics seem to have played a role too. When Germany’s budget support policy was launched in 2008, Germany was governed by a coalition of Social Democrats (SPD) and Conservative parties (CDU/CSU). The Coalition Treaty provided for the use of budget support in well-governed developing countries and the Development Minister, Ms Wieczorek-Zeul, also planned to increase its use. There was, however, strong skepticism in both the Finance Ministry and the Budget Committee, where representatives of the right-wing coalition parties had a majority. They used their influence to demand that every budget support operation has to be subjected to the approval of the Budget Committee, which clearly put a strain on the Social-Democrats idea to expand the use of budget support (Faust & Koch, 2014).

Theoretically, the UK would have been best placed to europeanize (high capacity, high autonomy). But even if the UK comes closest to the EC’s policy, the move towards budget support was not in response to the EC

but largely driven by the ruling Labor party's new direction for development policy, stemming from the mounting criticism on the ineffectiveness of project-based approaches (Warrener, 2004). Already in its first White Paper in 1997, DFID stressed the need for development policy to stronger focus on the strengthening of government capacities through direct support to the budget (DFID, 1997). In addition, DFID faced comparably little resistance from interest groups within the UK or other departments. One reason for this development was the relative *government autonomy* of DFID over its policies and budget and little resistance against this policy shift. As the British aid system does not have public implementing agencies, the lobby for project-driven aid delivery was comparatively weak, even more so since the 2002 International Development Act reduced the role of the private sector and formally abolished tied aid (Barder, 2005). Despite this high government autonomy and capacity, DFID's approach and strong support for budget support was rather driven by party politics and international debates on aid effectiveness than by European norms and practice.

Overall, we find only very limited evidence for Europeanization in this first time period with vertical, horizontal and uploading/downloading all seem to be non-existent. We do find a very limited use of delegation to the EU level in the case of Belgium. Looking at our independent variables, we find that capacities matter a lot for the ability to design a general budget support policy. High capacity however is not a sufficient condition for europeanization, given the different outcomes in the UK and Germany. Less autonomy means that an aid agency is unable to either ‚ignore' or ‚overrule' veto-voices. High autonomy in the case of the UK however does not imply that veto-players can be overruled or ignored, but in this case it seemed rather that important veto-players were also in favor of budget support. Belgium is an interesting case since its low capacity and autonomy led to a (very limited) degree of delegation to the EU level. In sum, capacities and autonomy do not seem to be able to fully explain europeanization or the lack thereof.

2. ***The second 'turning point': the EC's budget support policy reform in 2011***

2.1. Dynamics of policy formulation

On October 13, 2011 the EC published a revised budget support policy (The Future of Budget Support to Third Countries), as part of a larger package of communications outlining a new direction for EU

development policy (An ‘Agenda for Change’ EC, 2011b). Even though the EC had revised its budget support guidelines before in 2008, the reform in 2011 was of a more fundamental nature. In 2008, the main focus was more on technical improvements and a better management of the EC’s approach to budget support. The reform in 2011 was preceded by a public consultation (Green paper) process, launched by then Commissioner for Development Andris Piebalgs at the end of 2010, to revise the EC’s overall development policy and the EC’s budget support policy in particular.

The EC’s new budget support policy constitutes a major change to its previous policy, in particular with regard to the eligibility criteria and objectives of budget support. Throughout the Communication, there is a very strong emphasis on the need to link budget support more strongly to political issues. More concretely, the EC declared to provide in particular general budget support much more selectively, putting more emphasis on the political leadership of the country: “General budget support is seen, by its very nature, as an implicit recognition that the partner country's overall policy stance and political governance is on track” (EC, 2011a, p. 4). To reflect this change, general budget support will be renamed into ‘Good Governance and Development Contracts’ (EC, 2011a, p. 4) x which will only be granted to countries with a good track record in democracy and human rights. In addition, the EC added the transparency of the budget as a fourth eligibility criterion. Compared to the 2002 and 2008 budget support guidelines, the 2011 reform was not only meant to provide guidelines for the EC’s internal policies but included attempts to foster a more European approach to budget support. In this Communication several mechanisms to improve the coordination of European approaches to budget support were made, reaching from information sharing and exchange to the proposal of joint European frameworks for budget support (like Belgium had done from 2007-2013).

How did this reform impact on member states domestic spheres? The answer is rather straightforward: the EC had to adapt to member states’ pressure while member states at the same time shielded their own policies from EC influence (interviews EU budget support experts; DGD permanent representation at EU). Towards the end of the 2000s, the tensions between the EC's and member states' use of budget support started to become visible and documented. While some bilateral European donors tied budget support to issues of political governance from the beginning (e.g. Germany), others started to change their policies gradually in the last years towards a more reductionist and political approach (e.g. the UK) when in a number of budget

support recipient countries (mainly in Africa), political problems started to mount. Budget support became prone to short- or longer-term aid suspensions, as a political signal to the recipient country but also to donor's domestic constituencies (Molenaers et al., 2010; Dijkstra, de Kemp & Bergkamp, 2012; Hayman, 2011; Molenaers, 2012). In addition, several member states not only focused on their own budget support policy reform but started to also question the EC's budget support policy which they considered as too lax and too insensitive to political issues. Over time, the EC's rather apolitical approach became increasingly difficult to sustain. The critique of the EC was even more powerful as those member states that were initially closest to the EC's policy (like the UK and the Netherlands), also changed their original approach and became not only less supportive of the instrument but also emphasized the (domestic) political dimension more strongly. These overall developments among European donors is also reflected our three selected cases: Germany successively reduced its already limited budget support operations to zero by 2013, the UK not only emphasized to halve budget support operations in the future but also announced to work more through sectoral budget support, Belgium ended its delegated budget support operation through the EU and according to some interviewees, DGD has lost its appetite for sector budget support as well (interview DGD, interview member DGD 2014).

Against the background of these domestic changes, and fuelled by the events of the Arab Spring, where the EC was attacked for having provided budget support to the most autocratic governments in that region, some member states (in particular Germany, the UK, the Netherlands and the Nordic donors) increased the pressure on the EC to change its policy. During the Green paper process, those member states made clear that they wish to see a more politically sensitive use of budget support by the EC. In the UK's contribution to the Green Paper process, for instance, it is argued that "the EC needs to provide greater transparency" when it decides to grant budget support to a country, and to "subscribe to the underlying principles of human rights, democracy and rule of law when providing budget support" (UK contribution green paper process).

In sum, the new EC budget support policy was heavily pushed by a number of member states who *uploaded* their own preferences and budget support practices to the EC level. These member states also succeeded to dominate the European wide debate on how to reform the EC's budget support policy. A number of other member states, e.g. Belgium and Portugal advocated for a continuation of the EC's emphasis on poverty

reduction and macroeconomic policies and urged to refrain from making budget support a political instrument. Their lobby, however, was not strong enough against those who insisted on far reaching reforms and on attaching political conditions.

2.2. Digging deeper into the issues of government capacities and autonomy

In *Germany*, already a modest provider of budget support, a new, center-right coalition came to power in 2010 and changed the existing approach to budget support radically (Hermle & Hauschild, 2012). The now Liberal (FDP) led Development Ministry announced that no new budget support operation would be established in that legislative period and that some of the former recipients would see a reallocation from budget support to other aid modalities. The FDP Development Minister publicly declared that his party considered the very idea of budget support as flawed and the wrong approach in development policy (Faust & Koch, 2014). By 2013, Germany stopped literally all budget support flows, with no recipient of general budget support left in their portfolio. The same veto players that were responsible for Germany's critical stance to budget support in the first time period, were now responsible for halting budget support altogether and for lobbying in Brussels to drastically reform the EU's budget support policy as well.

For the *UK*, the major turn in DFID's budget support policy took place under the Tory (centre-right) government, which came to power in 2010. Already in its Green Paper "One World Conservatism", published ahead of the elections, the Tories distanced themselves from the Labour Party's approach to budget support by stating that "we will not be as willing as Labour have been to give the benefit of the doubt to governments where we are not completely clear about the probity of the audit and accountability systems" (Conservatives, 2009, p.17). Subsequently, in 2011, the new Tory government announced that it would halve budget support operations by 2015 and that, in the future, sector budget support would be preferred over general budget support. Subsequently, under a new government, DFID also started to question the EC's approach to budget support and lobbied for reform and greater transparency and political sensitivity.

In Belgium, under the liberal leadership Michel (2011), Chastel (2011) (both liberal party), and later Magnette (2011-2013) and Labille (both socialist party), the aid administration underwent some reforms, but the vademecum remained unchanged. In 2013 a fierce debate broke out in the media regarding budget

support. One MP (green party) published a very critical piece in one of the national newspapers, accusing the Belgian government of being too lax with budget support, in that too many corrupt countries were granted this modality. Political support for the modality, national and internationally was clearly fading which probably explains a clear decline in the provision of sector budget support. Belgium also ended its delegated general budget support funding through the EC in 2013. The intervention of the Inspector of Finance also led to the ending of sector budget support to Uganda (interview DGD, 2014). Interestingly, however, Belgium did not lobby for a reform of EC budget support but rather for a continuation of the emphasis on poverty reduction and macroeconomic stability as budget support's most important objectives.

Summarising our results, we find that a number of member states have been very successful at '*uploading*' their preferences to the EU level in this second time period, pushing for an EC policy change. Interestingly, their *government capacity* allowed them to successfully upload their preferences to the EU level, while member states with less government capacity failed to do so. We also find policy diffusion and likely a certain degree of horizontal Europeanisation among member states. The exact mechanisms and direction of influence of this potential horizontal Europeanization, however, would have to be further assessed empirically.

4. CONCLUSIONS

Looking at the thre potential forms of Europeanization introduced on this paper, we can conclude that we do not find any evidence for downloading from the EU to Member states in any of the two time periods.

What we do find is very limited delegation to the EU level (in the case of Belgium) in the first period, which could be interpreted as a particular form of Europeanization. Contrary to what we expected, neither high capacity nor high autonomy lead to Europeanization, rather the opposite if we interprete delegation as a form of Europeanisation.

In the second period we mainly find that uploading has taking place, and that this is in part made possible by political shifts in member states countries: shifts in political preferences of incumbent governments and veto-players gaining ground, leading to a decline in support for the budget support modality in general across the European continent (a potential form of horizontal Europeanization). The EU itself was not undergoing such

preference changes, but nonetheless shifted its budget support policy solely due to the pressure of member states.

Turning back to our expectations in the first section of this paper, we find that our expectations regarding government capacity and autonomy can explain the general stance of a government towards general budget support but not the degree of Europeanization. With regards to the latter, capacities matter for uploading but not so much for downloading. Weak capacities and low autonomy can - interestingly - lead to delegation (which might be considered a form of Europeanization). Veto-players matter because they affect the design of budget support policies and the general support for the aid modality. In other words, the cases show that policy formulation around budget support is mainly influenced by domestic politics in member states not by influence from the EU level.

So, all in all, none of our expectations turned out to be confirmed. What can we learn from this? Government capacity and autonomy of member states seem important characteristics for their own policy formulation, but cannot sufficiently explain their interaction with the EU level. Since development is a shared competency and intertwined with member states interests and historical legacies (colonialism), member states policies are heavily driven by domestic interests. Member states are also the most important contributors to the EU aid enveloppe which turns them into donors and thus principals. What is particularly relevant in the case of development policy is the fact that the European Commission not only has a mandate to legislate and to coordinate member states but also acts as a development actor in its own right (in contrast to many domestic policy areas). This implies that the EU's capacity and autonomy vis-a-vis the member states matters as much for Europeanisation as the member states capacity and autonomy. If subsequently policy preferences are not aligned between EU and member states, the latter can, if well enough organized in strong alliances, restrict the policy space and thus the autonomy of the EU to formulate policies. This implies that member state capacities matter, but not just in terms of certain levels of technical expertise regarding the policy domain, but maybe even more importantly in terms of buidling political alliances around certain policy preferences.

Endnotes

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[i] Budget support can be divided into general and sector budget support, with the latter constituting of funds that are earmarked to a specific sector. For the purpose of this paper, budget support generally refers to general budget support, using budget support and general budget support interchangeably.

[ii] Countries where field research has taken place include: Vietnam, , Senegal, Uganda, Tanzania, Rwanda, Zambia, DRC

iii http://www.oecd.org/dac/unitedkingdom.htm and http://www.oecd.org/dac/germany.htm

[iv] http://www.oecd.org/dac/belgium.htm

[v] http://www.publications.parliament.uk/pa/cm200607/cmselect/cmintdev/ucdfid/ucd1402.htm

[vi] http://www.actionaid.org/eu/2012/02/aid-given-directly-governments-can-help-end-aid-dependency

[vii] OECD/DAC (2005): DAC Guidelines and Reference Series Harmonising Donor Practices for Effective Aid Delivery Volume 2: Budget support, Sector Wide Approaches and Capacity Development in Public Financial Management

[viii] BMZ (2008): Konzept zur Budgetfinanzierung im Rahmen der Programmorientierten Gemeinschaftsfinanzierung (PGF)

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