

# **What determines the suspension of budget support in Sub-Saharan Africa?**

**Nadia Molenaers, Anna Gagiano,  
Lode Smets & Sebastian Dellepiane**



**IOB**

Institute of Development Policy and Management  
University of Antwerp

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## **TABLE OF CONTENTS**

<b>INTRODUCTION</b>	<b>5</b>
<b>1. LITERATURE REVIEW</b>	<b>7</b>
<b>1.1. ECONOMIC SANCTIONS</b>	<b>7</b>
<b>1.2. AID ALLOCATION AND MODALITY SELECTIVITY</b>	<b>8</b>
<b>1.3. DIGGING DEEPER: REVIEWING SOME CASE STUDIES</b>	<b>9</b>
1.3.1. ETHIOPIA	9
1.3.2. RWANDA	10
1.3.3. MALAWI	11
1.3.4. UGANDA	12
<b>2. EMPIRICAL PART</b>	<b>14</b>
<b>2.1. DATA AND MODEL</b>	<b>16</b>
<b>2.2. EMPIRICAL FINDINGS</b>	<b>17</b>
<b>3. DISCUSSION</b>	<b>20</b>
<b>4. APPENDIX</b>	<b>21</b>
<b>BIBLIOGRAPHY</b>	<b>22</b>

## INTRODUCTION

Since the turn of the millennium the aid business has witnessed an important shift in the conceptualization and practice of aid delivery. The move towards harmonized and aligned approaches, including the need to make aid more predictable and flexible, introduced the budget support modality. Budget support (BS) was designed as a financing modality to support poverty reduction efforts, which was to be used quite selectively. Only countries with a good policy environment and a government demonstrably committed to poverty reduction were to be granted this flexible aid modality. Ownership was considered key because experience had shown that conditionality, particularly the kind that refers to reforms or policy changes which carry some political sensitiveness, tend to be ineffective.

In reality a lot of donors started to channel parts of their aid through this fashionable new millennium flavoured aid modality without being particularly selective. As a result, aid predictability was put under strain almost immediately because donors started to use BS suspensions as a sanctioning mechanism whenever a ‘troubling’ event in the recipient country was considered a (potential) ‘breach’ in the trust relation between donor and recipient. ‘Troubling’ events could range from corruption scandals, human rights violations or electoral fraud to seemingly more ‘prosaic’ onsets like the late production of a key report. Since a number of suspensions were directly linked to regime issues, BS suspensions were thus tied in with the use of political conditionalities and served as a stick to lever for change (Hayman 2011; Molenaers et al 2010; Faust et al 2012).

There is not a great deal of scientific literature that explicitly looks into the issue of BS suspensions as a subset of (aid) sanctions. To our knowledge no systematic review of BS suspensions yet exists, let alone an attempt at (quantitatively) detecting the overarching patterns which determine the use of BS suspension as a sanctioning mechanism. In our attempt to address this research gap we drew on both the economic sanctions as well as on the aid allocation literature. Although the literature on economic sanctions and the development literature on budget support understandably rely on distinctive rhetoric (the language of coercion and power in the former, the language of partnership and political dialogue in the latter), the issues at stake are strikingly similar. For this reason, we are confident our work may contribute not only to the debate on the logic and effectiveness of budget support, but also to the buoyant literature on economic strategcraft. Added to the economic sanctions literature and aid allocation studies we looked at a number of country case studies where BS suspensions have taken place, focusing specifically on the elements that were identified in these case studies which might help to explain why donors make use of suspensions.

But why look at BS suspensions specifically and not aid suspensions more generally? To start with, aid suspensions, in which the donor withdraws all aid, do not occur that frequently. In fact, on the recipient side only gross human rights violations or coup d’états have pushed donors into an exit strategy<sup>1</sup>. This has in part contributed to the impression that donors are too lax with regards to less ‘drastic’ situations such as consistent economic and political underperformance on the part of recipient governments; that aid is given and sustained too uncritically; that donors are not committed to the values, norms and goals they defend so vigorously in their discourse. But prevalence is not our only concern: we feel that aid suspensions are too crude a proxy for studying donor behaviour, because a lot more variation

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[1] On the donor side, a change in government preferences with regards to partner countries might also lead to an exit strategy. Some donors also exit when a recipient country graduates from the low income category.

in sanctioning behaviour is both theoretically possible and actually occurring. More specifically our paper shows that in the last decade donors have been extremely active in trying to sanction (perceived) underperformance (albeit often in a misplaced way). Corruption scandals, electoral fraud, human rights violations, etc have in a large number of cases been the direct trigger for donors to suspend BS. Looking specifically at modality suspensions, and particularly BS suspensions, provides a very good overview of more ‘nuanced’ forms of aid sanctioning. Where full aid exit often implies the end of the aid relationship, other forms of sanctioning – such as BS suspension – indicate a strong signal from the donor to the recipient: it implies a breach in the trust relationship<sup>2</sup>, a warning to the incumbent government to address the issues at stake, an invitation to negotiate measures so as to correct what has been going wrong through the political and/or policy dialogue. Suspensions of this kind therefore go hand in hand with conditionalities, sometimes negotiated and consensual, which may be arrived at without reaching the public arena and therefore invisible to both the wider public and the research community.

The added value of this paper thus lies in the fact that it is a very first attempt to quantitatively detect which variables push a donor towards (not) suspending BS in the case of a ‘troubling’ event in a recipient country. In order to do this, we made use of a dataset which captures all BS commitments in Sub-Saharan Africa during the period 2000-2008. Our dataset can thus be considered an unbalanced panel with donor-recipient-year combinations as units of observation. We added to this dataset a newly compiled variable that indicates whether a donor decided to suspend BS in a recipient country in a given year. This variable captures a range of sanctioning behaviours on the part of the donor including delaying, reducing or rechanneling BS. The results that arise from a ‘recipient-factors’ model – both estimated as a linear probability model and as a conditional fixed-effects logit model – furthermore reveal that ethnic fractionalization and the share of aid that a recipient receives as budget support play an important role. A ‘donor-factors’ model also points to colonial ties as a predictor for BS suspension.

The remainder of this paper is structured as follows. In the next section we review the literature in order to identify the variables which might influence BS suspensions. In section 3 we review the data and elaborate on the regression model used, followed by a discussion of our empirical results. The final section of the paper draws some conclusions and identifies further avenues for research.

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[2] In a sense this a mutual breach in the trust relationship: from the recipient side donor promises of (in-year) predictable flows have fallen away, and from the donor side recipient promises of upholding given partnership principles have not been upheld.

## 1. LITERATURE REVIEW

### 1.1. Economic sanctions

Inspired by the seminal work of Galtung (1967), scholars have developed a fertile research programme on the logic and effects of economic sanctions. Initially, the literature mainly focused on whether economic sanctions would provide a viable alternative to military intervention. Over time, however, the research agenda has incorporated the wide range of foreign policy tools that may be used as instruments of ‘economic statecraft’ (Baldwin 1985), including the suspension of financial aid. More recently, the literature has moved into the analysis of ‘smart sanctions’, consciously designed to hurt key elites rather than the target’s country mass public (Drezner 2011). Our work on budget support suspensions – a subtype of economic sanction in its own right – can be informed by and contribute to this ever growing sanctions scholarship.

Economic sanctions are often defined as ‘the deliberate, government-inspired withdrawal, or threat or withdrawal, of customary trade or financial relations’ (Hufbauer et al. 1990) and as with budget support suspensions they are employed in situations where a breach has occurred ostensibly owing to ‘troubling’ courses of action on the sactionee. In the IR jargon, sanctions are actions initiated ‘by one or more international actors (the ‘senders’) against one or more others (the ‘receivers’) with either or both of two purposes: to punish the receivers by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important’ (Galtung 1967: 379).

Existing models of sanction imposition assume that sanctions may be imposed for a variety of reasons. The crucial distinction is between instrumental and expressive motives. The *instrumental* theory of sanctions contends that the main purpose of sanctions is ‘to bring about policy change in the target nation through imposing the severest possible economic harm’ (Kaempfer and Lowenberg 1988: 786). On the other hand, the *expressive* (often called *symbolic*) theory of sanctions suggests that ‘sanctions might have an altogether different goal – namely, to serve the interests of pressure groups within the sender country’. Although these goals are obviously not mutually exclusive, this analytical scheme has forced researchers to be more explicit about the underlying politics behind the extensive use of economic sanctions. If the problem is framed as a bargaining game in which the sender seeks concessions from the target by using the sanction as leverage (Nooruddin 2002: 68), a range of economic and institutional factors may exert an influence on the observed pattern of sanctions, including the degree of proximity and interdependence, the relative ex-ante leverage and credibility of the sender, the regime type of the sender and the target, the geopolitical context, the level of international coordination (Martin 1993; Nooruddin 2002; Lektzian and Souva 2007).

The consolidated sanctions scholarship offers some important lessons. First and foremost, it underlines our commitment to constructing a dataset on budget support suspensions (‘sanction episodes’) as a crucial building block for stimulating further research interest on the topic. Second, it further confirms that the systematic study of budget support suspensions really matters: in order to better understand the political logic of budget support we clearly need to grasp the different mechanisms and steps of this complex process. Third, empirical models of sanctions imposition may guide model specification, including the selection of key explanatory factors, complementing the ideas drawn from the aid allocation literature. Last, but not least, it stresses the value of combining large-N and case studies. Quantitative analysis is key for documenting general patterns and average effects; in turn, case studies go deeper into the causal mechanisms (complexity) at work and capture the nuances of strategic interaction.

## 1.2. Aid Allocation and modality selectivity

Aid allocation studies produce insights on donor motivations in providing aid. As we explain briefly below, the elements that motivate a donor to provide aid might also in part influence the withdrawal of (parts of) that aid and for this reason it is important to consider these variables in our model.

Allocation, which refers to country choice and aid volumes, is influenced by both *donor interests* (DI) and *recipient needs* (RN). Donor interests refer to trade and commercial interests, historical factors such as colonial ties, and strategic concerns. Recipient needs (RN) relate to factors such as poverty levels. DIs have surfaced prominently as a determining factor in explaining aid allocation (e.g., Alesina & Dollar, 2000; Berthelemy, 2006). Features of the recipient country also influence a donor's decision to give (more) aid: the World Bank's 'Assessing Aid' for instance proved influential in getting donors to take on board the idea that aid is more effective in good policy environments (World Bank, 1998; Burnside & Dollar, 2000; Collier & Dollar, 2002)<sup>3</sup>.

Clist et al. (2011) argue that the quality of recipient policy is of particular importance in understanding the choice of aid modality. They argue that BS, when given unconditionally, is the most flexible form of aid because once disbursed the donor has little to no control over its use. One would thus expect that when donors perceive the recipient to have better policies, they would grant a larger proportion of their aid in the form of BS. The study by Clist et al (2011) looks into the selectivity criteria for BS for the EC and WB and comes to the conclusion that indeed governments with better public expenditure monitoring, allocation mechanisms and better service delivery receive more budget support. A mapping carried out by the European Commission (2010) also shows that a number of bilateral donors consider political regime aspects before granting BS. The quality of the partnership and the quality of the policy dialogue with the recipient government is also considered an important condition for granting BS by some donors.

All the elements that influence the choice of channeling money through BS, might also inform/influence the suspension decision. A 'troubling' event can for example trigger the perception/idea that the recipient might no longer<sup>4</sup> conform to the standards/benchmarks which served as entry points to granting BS in the first place, causing the donor to suspend BS. For this reason our model takes up the key variables identified in the allocation literature.

One such variable is governance quality. We would expect this to influence not only BS allocation decisions but also suspension decisions because the jointly signed Memorandum of Understanding (MoU) contains a number of 'Underlying Principles' to which the recipient 'contractually'<sup>5</sup> commits when signing it. These underlying principles refer to the upholding of the principles of good governance, which includes a range of 'variables' such as open and free elections, respect for human rights, control of corruption, etc... Of course, when an event takes place which could be interpreted as a 'breach' of these underlying principles, donors can, and frequently do, decide to withdraw (part of) their BS.

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[3] The scholarly debate on whether the quality of recipient policies has driven donors to become more selective remains a debate (eg Hout 2007a, 2007b; Nunnenkamp & Thiele 2006; Clist 2011).

[4] If indeed it ever did (see IOB 2012 for a discussion of the (lack of) strictness regarding the selectivity criteria for BS)

[5] The MoU is of course not a legally binding contract.

### 1.3. Digging deeper: reviewing some case studies

We have selected four cases where several BS suspensions have taken place; where at least one of the ‘troubling’ events was related to political regime issues (human rights, elections); and where qualitative studies on these suspensions are readily available. We build on these country studies to further identify variables which need to be taken up to complete our model.

#### 1.3.1. Ethiopia

The 2005 parliamentary elections in Ethiopia were the most contested ever. Although the 2005 elections were preceded by openness and a vibrant political debate, which were interpreted as signals of a bright democratic future for Ethiopia, they ended in sharp disagreement and fierce repression. Dozens of people got killed, thousands were arrested (Abbink 2006; Dom & Gordon 2011). This regress into authoritarian tendencies provoked a reaction from the donor community. The EU and US, both the dominant donors, initiated diplomatic talks but gave mixed signals. The EU made some sharply critical statements, while the US remained more cautious in condemning the electoral process. DFID responded to the incident by cancelling a planned increase in budget support, diverting £20 million to other channels (DFID 2010). The political crisis in the aftermath of the 2005 elections led to a strong joint statement by the donor group known as the DAG<sup>6</sup> saying that it was collectively reviewing development cooperation modalities to Ethiopia because of the direction the events had taken (Lyons cited in Borchgrevink 2008). It was further reported that donors planned to withhold USD 375 million earmarked BS to Ethiopia. The BS donors included WB, EU, AfDB, UK, Canada, Ireland, Germany and Sweden. The amount that was going to be withdrawn equalled 20% of the aid Ethiopia had received in 2004. In early 2006 the DAG took steps and commissioned a group of experts to assess the situation and draw out possible scenarios for donors to follow. Although this looked like coordinated action towards formulating political conditionalities, in reality donors did not withhold funds but instead started reallocating them to other programmes with stricter earmarking and monitoring (Borchgrevink 2008:211; Hackenesch 2011; DAG 2005). One of those programmes was the Protection of Basic Services (PBS), which enables resources to continue to flow to the public sector in the form of federal–regional block grants but over which donors have intense scrutiny. The resulting Protecting Basic Services Programme was a hybrid instrument, effectively sector budget support earmarked to service delivery under the functional mandates of subnational governments. The US (not a BS donor) did not join in with this and their aid package remained unchanged. So notwithstanding strong language on the part of the DAG in December 2005, the conditionalities were watered down and in fact eventually abandoned in the course of the first half of 2006 (Borchgrevink 2008:206–212). By 2010 none of the initial BS donors had returned to granting BS. The PBS donors vary in how they present this modality to their home constituency/board<sup>7</sup>: PBS is considered a project modality for the WB and EC; budget support for the AfDB; budget support ‘with a difference’ for DFID (Dom & Gordon 2011).

Donors thus reacted in very different ways to the crisis/breach and this implies that the various elements or dimensions which influence individual decisions are multiple and weigh differently for different donors, meaning we wouldn’t expect a model quantitatively measuring the effects of these various elements on the likelihood of suspension to necessarily come

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[6] The Development Assistance Group has existed since 2000 and is linked to PRSP processes.

[7] Which is especially interesting when looking at suspension from the perspective of their ‘expressive/symbolic’ value

up with a very large number of consistently significant factors. Ethiopia is not only a country in democratic regress it is also a large country, with a huge (poor) population, a perceived success story in terms of poverty reduction, growth and reform, an important ally in the war on terror and a factor of stability in the Horn of Africa. All these variables influence donor willingness/reluctance to interfere with political governance issues (Aalen & Tronvol 2008:19; Furtado & Smith 2007: 8, 24; de Renzio 2006). Borchgrevink (2008) states that the donors who shifted their untied BS to the PBS programme saw this as a means to achieve objectives: to maintain support to needy sectors and to have continued engagement (policy dialogue) with the government on the one hand and to establish ways of entering into closer dialogue with Ethiopia on governance issues and to directly induce governance reform on the other. In this sense it was seen as a more sophisticated response than the blunt conditionality of withholding aid and could thus be considered to constitute a 'smart' sanction. PBS opened new forums for more unified and less fragmented policy dialogue (Furtado & Smith 2007). Added to this, although Ethiopia is an aid dependent country, which might lead one to expect a higher sensitivity toward 'obeying' donor conditionalities, Borchgrevink (2008) argues that the Ethiopian government has been adept at managing relations with donors in order to minimise their influence. This has been achieved by by for instance inviting new donors (China) to divide and rule and also by, when going gets tough, accepting aid cuts. Donors are aware of their limited influence, but nonetheless they continue to use sanctioning mechanisms to which they then attach conditionalities due the importance of soothing public opinion in the donor country. (Borchgrevink 2008:217).

### **1.3.2. Rwanda**

The Rwandan government has been accused of repressing the opposition and a recent UN report claims that its involvement in DRC (via its alleged support of the M23 military group) destabilizes the region. The Budget Support Harmonisation Group (BSHG) has existed since 2003, but since 2004 the Netherlands, Sweden, Germany and the UK have been cancelling or delaying BS while also shifting from one modality to the other. Sweden completely stopped providing BS from 2008 onwards. Up until 2012 (check) members of this group were the UK, EU, Germany, WB, the Netherlands, Belgium, AFDB. The US and the UK are the largest bilateral donor. Though the US doesn't provide BS, it is considering to do so. The UK, as a BS donor, is being put under heavy pressure to not continue with BS support to Rwanda.

The political situation in the country itself as well as the regional role of Rwanda has led to divergent reactions within the donor group to various high profile events. Beswick (2011:1922) argues that the country succeeded in 'breaking' the coalition of the 'likeminded' (also referred to as the Nordic+) in that the UK position has been fundamentally different from the Netherlands and Sweden. The latter two countries have given more weight to political governance concerns, while the UK has long not wanted to cut aid in order to retain some degree of influence over Rwanda's overall trajectory (Beswick 2011:1923). It has previously been argued that coordination is easier for the likeminded donors given the similarities in their preferences and priorities, but this case study demonstrates that such a coalition in fact easily falls apart when the going gets tough. Nonetheless, the Nordic+ factor might be relevant so we will include it in our model.

In line with the Ethiopian case, Rwanda displays the features of an excellent performer in terms of poverty reduction, growth and reform (Beswick 2011; Schmidt 2011), while on the democracy front, and from a regional perspective, large doubts are expressed with regards to the regime's intentions. An important difference with Ethiopia is that Rwanda was long con-

sidered as a fragile and conflict-affected country. Post genocide Rwanda introduced a rift between donors. The 'old traditional donors' (Belgium and France) were more distrustful towards the regime, while 'new' donors (the UK and the Netherlands) stepped in with larger aid volumes supporting the government in power. Flexible aid was seen as a means to consolidate the regime (supporting political stability) in order to prevent the country from slipping back into conflict. Particularly the UK became a 'critical friend' – it saw support to Rwanda as part of the post 9/11 war on terror in that building peaceful societies and preventing conflict contributes to international security. At the same time, however, Rwanda's involvement in DRC is considered by some donors to be a source of further destabilization of the region (UN report). There Rwanda is thus both a (developmental) 'success' on the one hand, and, on the other, a country with authoritarian tendencies which appears to be negatively affecting regional stability (Beswick 2011). Similarly to the Ethiopia case, suspending BS in a country like Rwanda which has consistently received a very significant proportion of its aid in this form thus forces donors to make difficult choices: between ignoring democratic transgressions for the sake of continued success in the area of poverty reduction and disregarding developmental success due to unsavoury political actions on the part of the recipient<sup>8</sup>. This illuminates, as many donors no doubt realize when deciding whether or not to suspend, the fact BS suspensions run the danger of 'throwing the baby out with the bathwater' and are therefore not a sufficiently 'smart' sanctioning mechanism.

### 1.3.3. Malawi

Ever since the era of one-party rule, Malawi's relationship with the donor community has proved erratic and contentious (Resnick 2012). The fallout between President Mutharika and the international community, which escalated in 2010 and reached a breaking point in 2011, is the latest of these episodes. By July 2011, all major donors had effectively suspended budget support to Malawi due to concerns over economic management, governance, and human rights (DFID 2012).

The issue that broke the proverbial camel's back related to amendment of Malawi's Penal Code (December 2010). It implied further criminalization of homosexuality (extending it to women) and the deepening of measures aimed at repressing the opposition and silencing internal dissent (including a tighter control over the media). A group of major donors (including France, Germany, Japan, Iceland, Ireland, the US, and the UK) expressed 'concern' with the deterioration of human rights (Resnick 2011: 17). In reaction, and as has also been the case in other countries in Sub-Saharan Africa in similar positions, the government played the nationalist card: 'Africa will be developed by Africans'. In turn, the international community remained divided and even confused. Germany's early reactions over revisions of the Penal Code were not initially accompanied by other CABS (Common Approach to BS) donors, not least because the types of conditionality attached to disbursement decisions varied substantially. Whereas the UK, Norway and Germany explicitly stated that human rights, good governance and democratic principles should be upheld, the EU, the IMF, the World Bank and the AfDB put the emphasis on sound public financial management and compliance with economic and social policy targets. By mid 2011, the IMF decided pulled the plug, suspending the outstanding Extended Credit Facility (ECF) programme. This triggered a chain of suspensions from all other members of the CABS group. On 14 July 2011, the UK International Development Secretary, Andrew Mitchell, announced that Malawi would no longer receive general budget support from the UK, the largest donor and key diplomatic player. As always, Britain did not close the political dialogue door. As

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[8] The Tinbergen-rule remains an impossible-to-cope-with-hurdle for most donors.

Mitchell stated: 'I remain willing to reconsider our approach as and when our concerns are addressed'.

The sudden death of President Mutharika in 2012 and the coming into power of Joyce Banda led to a renewal of international aid commitments. Britain and Malawi relaunched their development partnership and Mitchell made a high level visit to renew Britain's deep commitment to Malawi (DFID 2012a, DFID 2012b).

Which potentially noteworthy variables emerge from the Malawian case? Malawi is one of the world's poorest economies, ranking 171 out of 187 in the Human Development Index. Although some progress has been observed in some indicators over the last decade (e.g. infant mortality, HIV treatment, access to water and sanitation), the development situation remains extremely fragile, as very rapid population growth puts severe stress on agriculture and food prices (DFID 2013). In this context the country is highly dependent on international support. As for the political situation, the record is mixed. On the positive side, the country made a decisive transition to multiparty democracy in 1990 and is relatively free of conflict (at least in comparison with its regional neighbors). On the negative side, entrenched patrimonialism and weak democratic accountability are still the rule, mainly at local level. From the donor perspective, it is evident that the international community in general and the UK in particular face incentives for 'selling' Malawi as a development success story in the region, not least because donors have been heavily involved in the country for a long period of time. The 'expressive' aspect of sanctions in that sense work in the opposite direction here: donors refrain from employing them not because of external lobbies but because they themselves do not want to 'lose face' and be seen as having made a poor choice of partner country. Here they are in sense caught in a kind of 'credibility catch-22': either they are vocal about the 'troubling' behavior of the recipient in order to maintain the credibility to be gained by acting in a 'principled' manner by consistently punishing transgressions (which simultaneously potentially causes them to lose credibility in terms how rigorous their selectivity policy was), or they gloss over transgressions in order to show that they were justified in their trust in recipients (and modalities) which tarnishes the record of their credibility but showing that they were badly mistaken.

How can we explain the breakdown of cooperation in 2011? Two key factors might have offered Mutharika greater leverage to resist the demands of donors (Resnick 2012). First, the increasing availability of alternative sources of external support, most notably from China, but also from India, Iran and other Arab donors. Second, the recent discovery of uranium, which could have relaxed the perceived budget constraints. As for the strategies of international partners, lack of coordination has (once again) been an issue, undermining the credibility of successive threats. On the other hand, we don't know whether a more decisive early response from donors would have brought about cooperation or simply precipitated the crisis.

#### **1.3.4. Uganda**

Having previously come under fire from donors for what they felt to be its excessive military expenditure, Uganda once again saw portions of its budget support withdrawn in the run-up to the 2006 general elections when the incumbent Yoweri Museveni not only modified the constitution to enable him to run for a third term, but also imprisoned Forum for Democratic Change's Kizza Besigye, the leading opposition candidate. The political pluralism donors had been pushing for<sup>9</sup> (for these were to be the first multi-party elections since Museveni took office in 1986) was thus not materializing in the desired shape, and Museveni was clearly using

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[9] Albeit in a fairly sotto voce fashion (Makara et al 2007)

his power to mitigate the effects of the political insecurity brought on by this ostensible step towards deepening democratization (Cammack 2007).

Most major budget support donors signaled their disapproval of these developments by withdrawing part of their committed funds and arranging for these to be rechanneled to modalities less associated with regime endorsement, such as sector or humanitarian assistance. These included Norway, Ireland, the Netherlands, Sweden and the UK (DfID 2005). The European Commission instead attempted to exert influence via one of the non-financial aspects of budget support, persevering with political dialogue and entering into Article 8 consultations as set out in the Cotonou Agreement (Hayman 2011).

The donor-side variables of interest in the Uganda case include colonial ties in that Uganda's largest and 'lead' bilateral donor is DfID (which is second only to the World Bank in terms of the size of its contributions) and indeed, as subsequent incidents of suspensions have also borne out, Uganda's former colonizer (and until very recently<sup>10</sup> its largest trading partner) has not allowed this 'proximity' to make it more cautious than other donors in suspending budget support (although the aforementioned factors arguably do make a complete exit from the modality less likely, with 'lower cost' strategies such as redirecting funds remaining the preferred route). While the UK may have initially stuck more closely to the BS design principles of predictability and a narrower poverty-focus, this appears to be changing. The mainstream UK media, across the political spectrum, has certainly not shied away from highlighting revelations of high-level corruption in Uganda that other donors have also reacted to. However, the effects of this visibility in the media (which applies to a similar degree to both past and ongoing developments in Malawi and Rwanda) are difficult to quantify. What has been convincingly argued though is that Uganda's status as aid darling (De Renzio 2006) and quasi-poster boy for GBS (Fisher 2011<sup>11</sup>) may have meant that in earlier years (as was argued in the case of Malawi) donors' reputational investment in seeing it succeed insulated it from criticisms for transgressions other GBS recipients were taken to task on. However this has simultaneously and for the same reason made it instrumental in the loss of popularity of the instrument as a whole in countries such as the Netherlands, where a subsequent shift to the right in the government there has further increased skepticism about the appropriateness of BS in contexts, such as that of Uganda, where major governance concerns persist (IOB, 2012).

Recipient-side factors which we would expect to have played a role in suspension decisions include the fact that Uganda is a fairly populous country which remains largely impoverished, with a poverty headcount ratio of well over one third of the total population (World Bank 2009). While certainly aid dependent, as the example of the conversion to multi-partyism briefly cited earlier illustrates, Uganda carefully negotiates the political conditionalities donors subject it to and frequently succeeds in managing to satisfactorily appear as having acquiesced to them – but only as long as this can be achieved without compromising its current leadership's hold on power (for a similar argument related to lack of progress on tackling corruption, see Tangri and Mwenda 2006).

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[10] It was overtaken by China in 2011 (BBC 2012)

[11] Citation permission pending

## 2. EMPIRICAL PART

**Table 1: descriptive statistics**

Donor	n° of suspen- sions	Share of sus- pensions	Recipient	n° of suspen- sions	Share of sus- pensions
AFDB	3	.0454545	Benin	1	.0151515
Finland	2	.030303	Chad	2	.030303
Denmark	2	.030303	Ethiopia	10	.1515152
European Commission (EC)	5	.0757576	Ghana	2	.030303
Finland	1	.0151515	Kenya	2	.030303
Germany	2	.030303	Malawi	6	.090909
IMF	2	.030303	Mali	1	.0151515
Ireland	4	.0606061	Rwanda	7	.1060606
Japan	1	.0151515	Senegal	1	.0151515
Netherlands	7	.1060606	Sierra Leone	3	.0454545
Norway	5	.0757576	Tanzania	17	.2575758
Sweden	6	.0909091	Uganda	11	.1666667
Switzerland	1	.0151515	Zambia	2	.030303
US	1	.0151515	Zimbabwe	1	.0151515
United Kingdom	17	.2575757			
World Bank	7	.1060606			

In the period 2000-2008 we have identified 27 ‘troubling’ events in SSA which triggered donors to suspend BS. Of these, 11 were directly linked to political issues such as elections and human rights concerns while about 7 were linked to corruption cases. The table below shows the number and share of suspensions per donor and also which countries have experienced BS suspensions (again number of suspensions and share). DFID/UK is the donor that has suspended most frequently, followed by the Netherlands, the World Bank and Sweden. In Tanzania, three events triggered not less than 17 suspensions of which the bulk is situated with the large corruption scandal in 2008. In Ethiopia the identified suspensions were mainly linked to the 2005 elections. The frequent use of BS suspensions does seem to suggest a critique towards the idea that donor threats are not credible<sup>12</sup>.

Table 2 below summarizes the variables we identified and the dataset sources.

[12] Credibility does not mean that donors have been consistent, but the fact that they have suspended does make threats to sanction a lot more credible.

**Table 2: variables and datasets**

Variable name	Description	Source
Suspension	Dummy coded 1 if donor i suspended budget support in recipient country j at year t	Authors' own calculation
Nordic Plus	Dummy coded 1 if donor is a member of the likeminded donors (Denmark, Finland, Sweden, Norway, United Kingdom, Ireland, The Netherlands)	Authors' own calculation
Colonial tie	Dummy coded 1 if there exists a colonial tie between donor and recipient	IRIS
Pub. support for Aid	Index of public support for aid	Knack (2012)
D GDP growth	Donor annual GDP growth (in %)	World Development Indicators (WDI)
D aid share at t-1	Donor i's share in the total amount of aid recipient j receives at year t-1	Based on CRS
Number of BS donors	Number of budget support donors present in the recipient country	Authors' own calculation based on AidData
D gov. ideology	3-point variable for ideology of executive party in donor country	Beck et al. (2001)
democracy	Dummy coded 1 if recipient country j is considered a democracy	Cheibub et al. (2010)
Trans to auto.	Dummy coded 1 if recipient country j transitioned to an autocracy	Cheibub et al. (2010)
Ethnic frac.	Index of ethnic fractionalization	Montalvo and Reynal-Querol (2005)
Trend in corruption	Difference between control of corruption at time t-1 and control of corruption at time t	Based on World Governance Indicators
Trend in conflict	Difference between internal conflict at time t-1 and internal conflict at time t	Based on International Country Risk Guide (ICRG)
Trend in bur. qual.	Difference between bureaucratic quality at time t-1 and bureaucratic quality at time t	Based on ICRG
Trend in pol. stab.	Difference between political stability at time t-1 and political stability at time t	Based on Beck et al. (2001)
Aid over GNI at t-1	Total aid disbursed over GNI at year t-1	Based on CRS and WDI
Share of BS at t-1	Share of aid as budget support at year t-1	Based on CRS and Aiddata
log of R GDP/cap	Logarithm of recipient country GDP per capita	WDI
log of R population	Logarithm of recipient country population	WDI

## 2.1. Data and model

In order to examine which donor and recipient factors determine the suspension of budget support in Sub-Saharan Africa, we have estimated the following equation:

$$suspension_{ijt} = \alpha X_i + \beta X_j + \delta X_{ij} + \gamma X_{it} + \theta X_{jt} + \varphi X_{jt-1} + \omega X_{ijt-1} + Y_t + u_{ijt} \quad (3.1)$$

where  $suspension_{ijt}$  is coded 1 if donor  $i$  decides to suspend budget support in recipient country  $j$  at year  $t$ . The option to use a dummy for a BS suspension is in a sense quite crude. The case studies clearly showed that the term BS suspension can cover a wide range of actions. It can mean that a donor decides to stop with this aid modality in a given country, for an indefinite period of time, but it can also mean that that (a part of) BS is rechanneled to other modalities. It can mean that a donor decides to (drastically) reduce its BS envelope, or that BS disbursements are delayed. Ideally the codeification of the dependent variable should reflect this variety of strategies including a diversification in terms of suspended volumes and the duration of the suspension. At this stage of our research however we have not been able to capture such detailed data and indeed it may not turn out to be readily available for each observation. The gathering of the data on BS suspensions has in itself posed a substantial challenge in this respect. It contains information that was gleaned from online news bulletins, donor reports and peer-reviewed articles but many of the sources do not go into a great deal of detail on the specifics of the event and indeed, it is not unlikely that there may be a number of suspensions that we have not encoded because our search has not yet been exhaustive enough. Another important caveat related to the completeness and representativeness of our dataset is that since we only have been able to capture the actions of those donors that have publicly reported on their BS suspensions, our results might be biased towards the more transparent donors.<sup>13</sup> However, part of our future research agenda includes looking more closely into this issue. Due to data limitations we were also not able to include a number of potentially interesting covariates (such as the quality of policy dialogue). Nonetheless, our current model already includes an extensive set of regressors: a dummy for likeminded donors and – in an attempt to approximate the importance of home constituencies – an index for public support for aid in the donor country as donor varying regressor  $X_i$ ; ethnic fractionalization as a recipient varying regressor  $X_j$ ; a dummy coded 1 if a colonial tie exists between donor  $i$  and recipient  $j$  ( $X_{ij}$ ); donor government ideology and donor economic growth as regressors that vary by donor and year ( $X_{it}$ ); the total number of budget support donors, a dummy for democracy<sup>14</sup>, a dummy for transition to autocracy, the logarithm of population and GDP per capita, the trend in bureaucratic quality, political stability, internal conflict and control of corruption as regressors that vary by recipient and year but are donor-invariant ( $X_{jt}$ ); aid over GNI and share of aid as budget support a recipient receives ( $X_{jt-1}$ ), both lagged one year to address reverse causality concerns; donor  $i$ 's share in the total amount of aid recipient  $j$  receives at year  $t$ , lagged one year for reasons of reverse causality ( $X_{ijt-1}$ ); and finally year fixed-effects ( $Y_t$ ). Variable definitions, sources and descriptive statistics can be found in the Appendix.

We began by estimating equation 3.1 as a linear probability model, correcting standard errors for non-independence within donor-recipient clusters. Coefficient estimates

[13] A potential donor transparency bias is of less concern for our 'recipient-factors' model as we explain BS suspensions in terms of variation of recipient-country variables.

[14] To refine the model we should use a variable that allows for more variation so as to better represent the quality of democracy in recipient countries.

were obtained using 354 observations covering the years 2003 through 2007. Note that all multilateral observations are dropped from this estimation as a number of the included donor variables do not exist for multilaterals (e.g. donor economic growth). Next, we have also estimated two separate models, one focusing on recipient-country variables and a second focusing on donor-country variables. In the former model we replaced all donor-related variables by donor-fixed effects. We estimated the ‘recipient-factors’ model both as a linear probability model and as a conditional fixed-effects logistic regression. The coefficients of the linear probability model were obtained using 572 observations covering the years 2003–2007. The coefficients of the logistic model were obtained using 370 observations, also for the years 2003 through 2007. In the ‘donor-factors’ model we replaced all recipient and recipient-year varying covariates by recipient-fixed effects. Again we estimated a linear probability model that contained 587 observations for the period 2001–2007 and a logistic model that contained 270 observations, also for the period 2001–2007. In the next subsection we discuss our empirical findings.

## 2.2. Empirical findings

Empirical results are presented in table 1. Equation 1 shows the findings of the base model and indicates that budget support suspensions are positively related the number of budget support donors present in the recipient country. A number of explanations come to mind here. Since visibility of donors remains a concern (Birdsall 2005) and because BS as a modality makes attribution (and therefore visibility) very difficult to demonstrate a larger group of BS renders most donors, particularly the smaller ones, invisible. Taking a strong stand when things go wrong in a recipient country, however, provides them with an opportunity to raise their visibility (vis-à-vis the recipient, but also toward home constituencies). Again, given that a number of suspensions are just ‘delays’ this ‘symbolic’ act may indeed increase visibility. Another explanation is that donors react individually because larger BS groups have larger collective action problems (Knack & Smets 2012). The tendency there is to agree on the lowest common denominator, but it is precisely when confronted with clear breaches that some donors might feel compelled to make a clear statement by suspending BS. Another explanation relates to the ‘relative’ damage an individual donor can cause: reducing BS on a large scale can undermine public sector functioning and the realization of development outcomes. As such it might make sense for a donor to suspend BS if they are only one of a large number of BS donors (depending of course on their share of total BS), because one can clearly signal a concern, without damaging developmental and reform achievements made so far.

Equation 1, table 1 also indicates that deteriorations in control of corruption incite donors to suspend budget support as the coefficient on trend in corruption comes in significantly positive at the 1% level. Given the fiduciary and reputational risk BS entails (Koeberle et al 2006) the significance of this variable makes intuitive sense. What is interesting however is that the immediate trigger which led to the suspension of BS is not always linked to corruption. This suggests that donor frustrations with a recipient build up and result in a suspension whenever a crisis event (also not linked to corruption) allows them to rethink the modality.

The linear probability model with donor and recipient variables also indicates that countries receiving a higher share of aid (over GNI) are faced less, on average, with BS suspensions. In theory this finding might actually not be related to BS as more aid dependent countries might get aid through non-BS modalities. On the other hand, if these countries do get BS, a possible explanation for less suspensions is that their public sector/economy is more vulnerable and thus suffer more damage if donors withdraw BS and donors take this into account. Or it is

also possible that BS suspensions are less prominent because governments anticipate possible sanctions and do their utmost to avoid them, either by sticking faithfully to the underlying principles or by using other diplomatic tools of persuasion. It is possible that it doesn't always come so far as an actual suspension because the mere threat of a suspension might in some cases influence government behavior in the direction desired by donors. More research on the use of threats could shed light on this.

Finally, in larger countries suspensions are more likely as the coefficient on log of population comes in significantly positive. Again, the pressure for achieving poverty reduction and pushing the government towards more performance might influence the donor reaction to suspend.

Equations 2 and 3 of table 1 present the results of the recipient-factors model. Generally, results on control of corruption, aid dependence and population are confirmed by these models.<sup>15</sup> Furthermore, equations 2 and 3 indicate that ethnically fractionalized countries and countries with a higher share of budget support relative to their total aid are more likely to face BS suspensions. How might we explain this? Ethnic fractionalization might be related to a higher likelihood of widespread political tensions (without necessarily increasing political instability) and political controversies, which in turn might influence donors to take up certain positions and use BS suspensions to convince the incumbent government to change its attitude. A higher share of BS in the total aid package might push BS suspensions because donors try to increase their leverage. The more BS is given, the more leverage donors assume they have, hence the more they would want to use that leverage.

Finally, equations 4 and 5 of table 1 show the empirical findings of the donor-factors model. Both the linear probability model and the logistic regression confirm that the number of budget support donors matters for BS suspensions. We also find evidence that colonial ties are related to budget support suspensions, as its coefficient comes in significantly positive in both equations 4 and 5. The colonial tie variable has been identified as a major important dimension in allocation studies (Berthelemy 2006). Ex-colonies get more aid than countries that were not colonized, but it is an extremely interesting finding that donor countries also suspend BS more easily in their former colonies. This might be in line with the economic sanctions literature finding that ex-colonial powers use the suspension for *expressive purposes*, because donor home constituencies are more sensitive towards events in former colonies, and therefore donor governments react more forcefully to those events (to lower pressure from interest groups). This is what Clist (2011) would refer to as the proximity variable coming in. Future research might want to try and disentangle the expressive dimensions of the colonial tie variable. We suspect this can be done by looking into (lagged) media-coverage of development cooperation issues in a donor country in  $t-1$  so as to avoid reverse causality. Since we included the share of aid a donor contributes to the total amount a recipient receives, we control for the (financial) leverage colonial powers might have.

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[15] In equation 3, the coefficient on corruption is marginally significant at the 10% level, with a p-value of 0.102.

**Table 1: Empirical results**

variation equation	base model (1)	recipient LPM (2)	recipient logit (3)	donor LPM (4)	donor logit (5)
Nordic Plus	0.0086 [0.0371]	.	.	0.0237 [0.0292]	0.5790 [0.5060]
colonial tie	0.0762 [0.0670]	.	.	0.0727** [0.0352]	1.4520* [0.7563]
public support for aid	-0.0110 [0.0168]	.	.	-0.0057 [0.0140]	-0.3501 [0.4683]
GDP growth (annual %)	0.0156 [0.0148]	.	.	0.0127 [0.0106]	0.1210 [0.1539]
Donor aid share at t-1	0.1922 [0.2915]	.	.	0.0376 [0.1448]	2.3546 [3.7426]
number of BS donors	0.0144*** [0.0040]	.	.	0.0397*** [0.0071]	0.5038*** [0.1106]
Chief Executive Party Orientation	0.0252 [0.0213]	.	.	0.0029 [0.0143]	0.1563 [0.2784]
democracy	0.0210 [0.0336]	-0.0227 [0.0214]	-0.1363 [0.6312]	.	.
transition to dictatorship	0.1320 [0.0978]	0.0282 [0.0568]	0.9679 [11799]	.	.
ethnic fractionalization	0.0796 [0.0963]	0.1221*** [0.0465]	5.3932** [2.3885]	.	.
trend in control of corruption	0.2504*** [0.0957]	0.1698*** [0.0592]	3.872 [2.3660]	.	.
trend in internal conflict	0.0140 [0.0279]	0.0117 [0.0168]	0.4367 [0.4560]	.	.
trend in bureaucratic quality	-0.0696 [0.0830]	-0.0492 [0.0838]	-0.2440 [4.4288]	.	.
trend in political stability	-0.0670 [0.0439]	-0.0187 [0.0370]	-1.3849 [1.5548]	.	.
aid over GNI at t-1	-0.3433* [0.1948]	-0.3461** [0.1547]	-10.2029* [5.6841]	.	.
share of aid in R as BS at t-1	0.1841 [0.1629]	0.2374* [0.1279]	11.5836*** [3.9127]	.	.
log of recipient GDP per capita (PPP)	-0.0110 [0.0203]	-0.0391*** [0.0147]	-1.0249 [0.7619]	.	.
log of recipient population	0.0469** [0.0214]	0.0384*** [0.0119]	0.8036** [0.4060]	.	.
year-fixed effects	yes	yes	yes	yes	yes
country-fixed effects	no	yes	yes	yes	yes
Observations	354	572	370	587	270
R squared	0.2031	0.2334	-	0.2954	-

Dependent variable is a dummy coded 1 if donor *i* suspended budget support in recipient country *j* at year *t*. The standard errors for the OLS models are adjusted for non-independence within both donor and recipient clusters. The standard errors for the conditional logit models are based on the observed information matrix. Constant not reported. Significance levels:\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$  and \*  $p < 0.10$

### 3. DISCUSSION

This paper constitutes a very first attempt to quantitatively weigh the determinants of BS suspensions. The good news is that such a measurement is actually possible and that interesting findings surface from the regression exercises. Although the model still needs refinement and some robustness tests still need to be conducted, the results that emerge do provide interesting food for thought.

Most of the studies referring to BS suspensions highlight the complex nature of what drives donor decisions. Our research findings point in a similar direction although a number of variables consistently come out as most important: number of BS donors is a strong predictor for BS suspensions; population size, ethnic fractionalization and share of BS in aid, including the importance of colonial ties. More aid dependent countries however tend to experience fewer suspensions. The expected link with recipient policies has not come out that strongly, although corruption does seem to further influence a donor to suspend BS. Using alternative measures for policies might still nuance this finding, so additional tests have to be done at this level.

The findings of our research also give rise to a significant number of interesting new research questions. These include the fact that our dependent variable could be refined taking into account the different suspension strategies so as to better detect which elements drive a delay (and its duration), a rechanneling (how much control is the recipient compelled to give up), a full or partial abandonment of BS. It would also be interesting to have better data on the pressure of home constituencies and how they feel/think about BS and conditionalities; the relationship between media-coverage and suspensions. This would shed more light on the expressive dimension of BS suspensions. Another fruitful research topic would reconstruct the dynamics between BS suspension 'leaders' and 'followers', or the so called bandwagon or domino-effect. Are colonial powers the leaders in suspending? Are they the first ones to suspend? Finally, it might be interesting to deepen the study between the nature of the event/breach that triggered the political crisis and how that relates to the variables that prove significant.

## 4. APPENDIX

### descriptive statistics base model

<b>Variable</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
suspension	0,087571	0,2830695	0	1
Nordic Plus	0,483051	0,50042	0	1
colonial tie	0,180791	0,3853896	0	1
public support for aid	0,131714	0,7220007	-1,49068	1,995191
Donor growth	2,174162	1,734266	-3	6,37326
Donor aid share in recipient at t-1	0,056595	0,0756342	0	0,571734
number of BS donors	7,437853	4,478192	1	17
Donor gov. Ideology	1,799435	0,9075695	1	3
Recipient democracy	0,338983	0,4740341	0	1
transition to autocracy	0,00565	0,0750581	0	1
ethnic fractionalization	0,795647	0,1474233	0,05	0,959
trend in control of corruption	-0,01237	0,1366288	-0,57	0,45
trend in internal conflict	-0,05443	0,676998	-3	1,541667
trend in bureaucratic quality	-0,01907	0,0797711	-0,45833	0,458333
trend in political stability	-0,02378	0,2519683	-1	1
aid over GNI at t-1	0,086542	0,0842487	0,001071	0,71553
share of aid as BS at t-1	0,054427	0,0785527	0	0,841463
log of recipient GDP/cap	6,859313	0,6335308	5,22197	9,142426
log of recipient population	16,9152	0,8043003	14,15416	18,83419

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