

IDS RESEARCH SUMMARY

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Aid, Rents and the Politics of the Budget Process

The budget process is, by its nature, a highly contentious policy arena where diverse political actors converge. This Working Paper analyses the impact of political institutions and budgetary procedures on budget governance in aid and resource-dependent countries. The authors address existing conceptual, theoretical, methodological and empirical gaps in the study of the politics of budget processes.

The paper's authors Andrés Mejía Acosta and Paolo de Renzio produce a new data set of low and middle income countries whose economies depend on aid or natural resource. This large-scale data collection effort consists of cross-country time series data on political and budgetary institutions, aid flows and resource rents in aid-dependent and resource-rich countries. Analysis builds on indicators of party competition and democracy, good governance, budgetary processes and institutions, and aid and resource dependency. The notion of budget governance refers to the quality of budget outcomes, such as the governments' ability to produce sustainable public finances over time, make efficient use of government spending, and represent the preferences of citizens. While the paper discusses some of the challenges of measuring budget governance in aid and resource dependent countries, the empirical analysis focuses on one aspect of budget governance: the extent to which countries can produce sustainable fiscal balances over time.

Preliminary findings suggest that greater executive power is positively associated with improved fiscal performance in resource dependent countries, but this is also associated with lower levels of party competition and democracy. Stronger executive power is associated with improved fiscal outcomes in resource dependent countries, but at the expense of party competition and rule of law. By contrast, aid dependent countries tend to have poor fiscal performance even when (and perhaps because) the executive has considerable powers over the policy process. The paper proposes an analytical framework to understand the combined impact of political and budgetary institutions on fiscal outcomes in aid-dependent and resource-dependent economies. Theories surrounding the measurement of the budgetary process are discussed and the paper explores the relation between budget processes and budget outcomes. The authors develop the empirical model by explaining the criteria for case selection and making a comprehensive revision of the independent variables, their measurement and sources.

Determinants of budget governance

Some political variables such as citizens' participation or the level of party fragmentation are found to have a very weak or non significant impact on fiscal performance. The analysis finds that, contrary to established findings for rich countries, politically uncontested executive authority has counterproductive effects on fiscal balances in the context of aid dependent and resource rich countries. Moreover, increased levels of political (partisan) competition have a moderating impact on the size of deficits. Aid flows and resource revenues seem to have opposite impacts on fiscal performance, while a larger share of non renewable resource revenues has a positive and significant impact on fiscal balances, the model suggests that greater levels of aid have the opposite effect. The significance and direction of this impact also appears to be relatively independent of other factors, and interactions, such as corruption, or the quality of the bureaucracy in a given country.

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The findings point to the potential importance of donors focusing on favouring stronger accountability mechanisms in aid-dependent countries where donor-supported executive action goes largely unchecked, and of taking the possible negative impacts of aid dependency more seriously.

Directions for future research

The reported models begin to show the combined impact of political players and institutions on budget outcomes. The authors highlight how more work is needed to collect relevant data to differentiate the factors that influence revenue collection, especially tax revenue, from those affecting government spending, especially in aid recipient and natural resource dependent countries. Another potential extension of this work includes looking at the impact of political variables on the representativeness, coherence and credibility of budgets. The paper details how much of the analysis that can generate interesting and policy-relevant insights into the politics of the budget process in aid and resource-dependent countries needs to be done at country-level, through case study work. This can uncover specific information and generate more detailed data in order to generate the kinds of insights which can be useful in informing the policy choices of donor agencies and other actors alike. Finally the authors argue that more and better quality data is needed to measure the impact of budgetary institutions on budget processes. This then points to the need to develop greater efforts

at collecting reliable and comprehensive data on a number of key variables to study the politics of the budget process in low income countries.

END NOTE: Andrés Mejía Acosta is a political scientist whose research focuses on the impact of formal and informal political institutions on the policymaking process in general and budget politics in particular in Latin America and the Caribbean. Paolo de Renzio is LSE Fellow in the MPA Programme at the London School of Economics, and a DPhil candidate in the Department of Politics and International Relations at the University of Oxford.

Credits

Andrés Mejía Acosta and Paolo de Renzio, 'Aid, Rents and the Politics of the Budget Process, Research Summary of Working Paper 311, October 2008

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