WORKING PAPER **311**

Aid, Rents and the Politics of the Budget Process

Andrés Mejía Acosta and Paolo de Renzio

August 2008

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Summary

This paper analyses the impact of political institutions and budgetary procedures on budget governance in aid- and resource-dependent countries. 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. For this purpose, we have produced a new dataset of 47 low and lower middle income countries whose economies depend on aid or natural resource inflows between 1995 and 2006. The analysis builds on indicators of party competition and democracy, good governance, budgetary processes and institutions, and aid and resource dependency. 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. Conversely, greater levels of aid dependency are inversely associated with both executive power and fiscal performance.

Keywords: budget process; fiscal outcomes; political institutions; aid effectiveness; resource dependency; low income countries.

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1 Introduction

The budget process is, by its nature, a highly contentious policy arena where diverse political actors converge to address distributional conflicts through institutionalised and repeated interactions. Distributive concerns about resource allocation are especially relevant where governments benefit from non-tax sources of revenue such as rents from natural resource exploration and different kinds of aid flows. While there are considerable differences between these two sources of revenue, they both erode governments' incentives to remain accountable to their citizens' policy preferences and spending priorities (Moore 2007). They also contribute to eroding 'horizontal' accountability between the executive and other government branches, as governments have greater incentives to make discretionary use of unearned revenues bypassing the effective checks and balances from control authorities and opposition parties.

The impact of aid and resource rents on the nature of 'budget politics' has been approached from diverse research traditions, but there are no empirical comparisons between types of budget outcomes in aid dependent and resource dependent countries.

On the one hand, domestic policymakers, donors, and development agencies have commissioned studies to understand the political drivers behind the budget process in order to contribute to aid effectiveness and promote sound public financial management reforms (de Renzio and Fritz 2005; Evans 2006; DFID 2007). With few exceptions that discussed the roles of informal institutions in the budget process (Rakner *et al.* 2004), most of the work has focused on the efficiency of aid flows and resource rents, and the formal roles of international aid agencies (de Renzio 2006). Recent evaluations of general budget support programmes and capacity building efforts in Africa (IDD and Associates 2006; Levy and Kpundeh 2005) have raised relevant questions about the adoption of budget reforms and their impact on domestic accountability, but failed to address the underlying political determinants of these shortcomings. An alternative approach to budget politics borrows from comparative political economy, focusing on the roles of budgetary institutions (Scartascini and Filc 2005), mechanisms of budget accountability (Santiso 2006), and the effects of political institutions and constitutions (Stein *et al.* 1999; Persson and Tabellini 2005) on budget outcomes. While the first type of institutional analysis builds on thick descriptions of country experiences and case studies, mostly drawn from aid-dependent countries in Africa, the second type builds on large-N country comparisons to assess the relative impact of political institutions on fiscal performance, focusing mostly on OECD and Latin American countries. This paper is a first step to bridge this theoretical, methodological and empirical gap by exploring the political economy effects of aid and rents on budget outcomes in developing countries. The dataset contains observations for 47 low income and lower middle income countries that have been aid dependent, resource dependent or both, between 1995 and 2006.

Given the colossal challenge of collecting complete and reliable data for the countries of interest, the empirical part of the paper remains a work in progress. Nevertheless, some preliminary findings help clarify the links between strong executives and budget outcomes in aid and resource dependent economies.

While the empirical evidence from OECD countries suggests that stronger executive power is associated with improved fiscal outcomes, we find that this relationship also applies to resource dependent countries, but the effect is reversed when it comes to aid dependent countries, that is, aid recipient countries tend to have poor fiscal performance even when (and perhaps because) the executive has considerable powers over the policy process. Furthermore, findings suggest that strong executives may be associated with improved fiscal performance in resource dependent countries but at the expense of political competition and rule of law. In other words, the paper lends some empirical evidence to the claim that natural resource rents tend to erode democratic competition and accountability in developing countries. Further empirical efforts are required to tease out and evaluate the impact of different modalities of non-tax revenues and their magnitude, on other dimensions of fiscal performance, including for example, the effectiveness of government allocations.

This paper proceeds as follows. The first part reviews the existing literature and proposes an analytical framework to understand the combined impact of political and budgetary institutions on fiscal outcomes in aid-dependent and resource-dependent economies. The second part begins to develop the empirical model by explaining the criteria for case selection and making a comprehensive revision of the independent variables, their measurement and sources. The third section reports the results from the regression analysis looking at the combined impact of political institutions, budget institutions and non-tax revenues on fiscal outcomes. The final section summarises findings, discusses policy implications and identifies an agenda for future research.

2 The analytical framework

2.1 Measuring budget governance

The budget process is, in essence, a political mechanism by which state actors decide on relevant ways to effectively extract and reallocate resources from society. The ability to extract taxes from its own people – as opposed to relying on other sources of revenue – is a critical moment marking the birth of the modern state. Tax collection has direct implications on the quality of representative democracy, since it makes governments more accountable to the preferences of payers; by contrast, accountability is likely to suffer when government finances do not depend on taxpayers' contributions but rather benefit from external aid flows or natural resource rents (Brautigam *et al.* 2008; Gervasoni 2006; Moore 2004).

Through the budget process, the state is able to aggregate diverse preferences, address distributive conflicts, protect the most vulnerable, enforce contracts over time, and remain accountable to the will of the people. We propose the notion of budget governance to analyse the existence of these qualitative-desirable-attributes of the budget process. According to Schick (1998), there are three desirable elements of a budget process: (a) aggregate fiscal discipline, or the aim of keeping the balance between revenues and spending; (b) allocative efficiency, or the objective of focusing spending on high priority areas and on more effective programmes; and (c) operational efficiency, or the need to ensure value for money and a maximisation of impact.

Much of the literature on fiscal policy and fiscal behaviour relies on quantitative measures of budget outcomes linked to indicators of fiscal discipline such as low levels of fiscal deficits or government debt. For lack of a better measure given the lack of reliable data, we keep our attention on the commonly used indicator of fiscal balances as an indicator of *budget sustainability* or aggregate fiscal discipline, which constitutes Shick's first dimension. Evaluating allocative and/or operational efficiency as an indicator of *effective public spending* is a difficult matter for several reasons. First, for most countries in our sample we lack reliable sectoral data to evaluate whether government spending on one sector is likely to produce better returns on investment than spending on a different sector. Secondly, we lack the disaggregated data to evaluate operational efficiency, that is, whether countries obtain better development indicators for every dollar spent (value for money). For example, the best available cross-country indicator of development outcomes, the UN's Human Development Index, reports comparable data for only three of the 12-year period covered by this study (1995, 2000 and 2004), thus undermining the validity of resulting comparisons.

There are other dimensions of the budget process that deserve attention but were ultimately not considered in this study. The notion of *representativeness*, or the extent to which budget allocations represent the preferences of the majority of citizens can be evaluated by measuring the gap between the legislative representation of sub national units (i.e. provinces) and the territorial (provincial) allocation of government spending (Snyder and Samuels 2001; Mejía *et al*. 2006). To measure the *coherence* and *credibility* of government policies, Knack *et al.* (2003) proposed a 'budget volatility' indicator which looks at the variability over time of budgetary allocations. Finally, other indices and assessments such as the Open Budget Index, the Global Integrity Index, the Public Expenditure and Financial Accountability (PEFA) framework and the World Bank's Country Policy and Institutional Assessment (CPIA), which we will look at in more detail below, try to capture not only of the nature and quality of budget processes, but also of specific outcomes related to the functioning and effectiveness of budget accountability mechanisms, such as parliamentary oversight, audit functions and civil society involvement.

2.2 Actors, institutions and budget politics

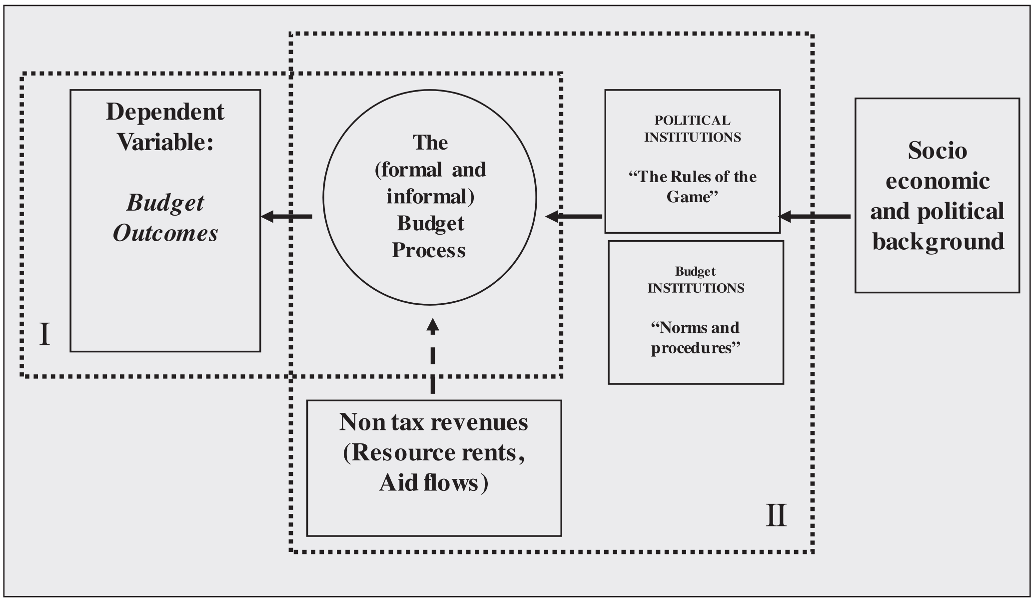
The literature highlights two main explanations for the relation between budget processes and budget outcomes. Political economy approaches have focused on the impact of domestic political institutions and budgetary procedures in shaping budget outcomes. Examples of such approaches look at the effects of different electoral systems and political parties on fiscal discipline, the impact of government cabinets and legislative coalitions, and the impact of budgetary norms and procedures on budgets (Alesina *et al.* 1999; Hallerberg and Von Hagen 1999; Scartascini and Filc 2005). The fundamental claim coming from this literature is that political institutions that tend to centralise decision making ability in the hands of fewer policymakers are likely to induce more fiscal discipline than those institutions encouraging wider participation and inclusion of diverse interests. This literature, however, is not sensitive to the fact that in many developing countries, reforms that promoted greater centralisation of the budget process in the hands of the executive, *without ensuring adequate mechanisms for accountability,* may have increased executive discretion for political gain at the expense of fiscal performance.

A second explanation looks at the impact of exogenous resource flows such as resource rents or aid flows on budget processes and outcomes. Both resource revenues and aid flows can be considered as 'sovereign rents' (Collier 2006) or 'unearned income' (Moore 1998), given that they mostly accrue to governments and they are generated by foreign actors (oil companies or donor agencies). Their nature, and the fact that they are often substantial, may reduce the government's need for directly taxing its citizens, and therefore expand executive authority at the expense of political accountability (Moore 2004). The so-called 'resource curse' has been widely documented, showing that resource-rich countries are often marred by authoritarian regimes, corruption and inefficiency, and poor growth and macroeconomic imbalances (Rosser 2006). The presence of resource revenues, then, interacts in important ways with political and budget institutions and processes to determinate budget outcomes.

Aid flows have often been considered similar to oil (Moore 1998; Therkildsen 2002; Collier 2006), leading to worries that aid dependency can have a negative impact on budget governance. In the words of Auty (2007:1), 'foreign aid shares with natural resource rent […] the property of being a large revenue stream that is detached from the economic activity that generates it, and elicits political contests for its capture'. International aid agencies provide financing for a large proportion of public spending in a number of low income countries, through modalities such as projects, budget support and debt relief. At the same time, however, they seek to improve budget governance by enhancing the state's capacities to plan, prioritise and manage public resources to strengthen fiscal performance and achieve long term poverty reduction. This is not true for natural resource revenues, which accrue directly to governments with no additional conditions and little accountability. As a matter of fact, as we will see below in more detail, the evidence on the potential negative impact of aid is less clear cut than in the case of resource rents. As Collier argues, contrary to resource rents, 'aid comes with various donor-imposed mechanisms of scrutiny, which may […] substitute for reduced pressure from citizens' (2006: 1485). Nevertheless, the fact that aid flows can shift the balance of power within government agencies to increase the executive's discretionary authority and spending power, while at the same time distorting domestic accountability mechanisms (de Renzio 2006) should not be overlooked. Ultimately, the degree to which natural resource rents, and to a certain degree aid flows, impact on budget governance will probably depend on their interplay with other characteristics of the political and institutional environment described in this section.

Figure 2.1 elaborates on existing work on the politics of the policymaking process in Latin America to illustrate the interaction between institutions, actors and resources during the budget process (Spiller and Tomassi 2003; Stein *et al.* 2008). According to the framework, budget outcomes are the result of the presence of formal and informal dynamics shaping the nature of the budget process (I). The nature of the budget process, in turn, depends on the nature of political and budgetary institutions (from electoral systems to rules governing budget transparency and access to information), and on the volume and modalities of revenue flows from aid or natural resource rents (II). Therefore, political actors in low income and lower middle income countries have incentives to produce improved budget outcomes only under a specific constellation of factors. Furthermore, the framework acknowledges and implicitly recognises that there are national, sub-national and international stakeholders affecting the outcomes of the budget process.

Figure 2.1 The budget governance framework



Source: Adapted from Spiller and Tomassi (2003); Stein *et al.* (2008).

2.3 Political institutions

For the past two decades, political economy approaches have made an explicit effort to understand the roles and incentives of political actors and their contribution to the policy process given a set of formal institutional constraints (Alt and Lowry 1994; Persson and Tabellini 2001). The underlying premise is that electoral and party system rules determine different configurations under which policy coalitions are formed. In the budget process, political agents would seek to maximise the gains from cooperation (i.e. seeking budget allocations for their constituencies), while minimising the associated costs (i.e. avoiding tax burdens or transferring them to non constituents). Political institutions can also play a role in creating (dis)incentives for cooperation (i.e. before or after new elections), or in implementing and enforcing policy agreements over time (i.e. through the roles of the bureaucracy and an independent judiciary).

Broadly speaking, political institutions in democratic settings can be grouped under two governance models. The first type, emanating from a Hobbesian tradition, seeks to privilege the will of 'the majority of the people', by delegating decision-making abilities to a centralised authority. The alternative or consensus model, emerging from a social contract tradition, defends the principle that decision making should be made by 'as many people as possible', therefore privileging the notion of representation over resoluteness (Lijphart 1999). Translating this distinction to the study of fiscal outcomes, findings suggest that a greater concentration of political authority in the hands of the executive, tends to produce more disciplined budget outcomes than institutions which favour greater dispersion of power (Alesina and Perotti 1994, 1996; Alesina *et al.* 1999; Hallerberg and Marier 2004; Scartascini and Olivera 2003). For example, majoritarian electoral rules tend to reduce the participation of diverse policy actors while making elected officials more accountable for policy decisions adopted (Persson and Tabellini 2001). Similarly, two party systems tend to produce greater fiscal discipline than multiparty democracies since they contribute to reduce the bargaining costs of assembling budget coalitions. In the context of a presidential regime, a two party system tends to induce lower fiscal spending and more fiscal discipline compared to instances of unified government (Alt and Lowry 1994). Political cooperation around budget outcomes is negatively influenced by the presence of electoral cycles. Vote seeking politicians tend to favour greater government spending before an electoral event, and postpone fiscal adjustment until after the elections (Drazen 2000; Persson and Tabellini 2005: 253). A non-trivial consequence is that budget coalitions produce sustainable outcomes over time when individual politicians enjoy lengthier mandates.

Exploring beyond the sphere of democratic institutions alone, there are certain state capacities that have an impact on the nature of the budget process and the quality of budget outcomes. The first relates to the State's capacity to effectively carry out budget decisions, usually through a professional, independent and merit-based civil service. A highly skilled bureaucracy within the line ministries, planning office and tax authority can contribute to more transparent and efficient (well targeted) budget outcomes. A closely related element is the extent to which the state can monitor and enforce existing budget contracts, through a strong and independent judiciary. Although many other agencies are actively involved in monitoring and overseeing the implementation of budget outcomes, the judiciary has a direct sanctioning role during the budget process and upholding the rule of law. For example, a legal system that remains free from political influence has a greater legitimacy to enforce fiscal responsibility laws and sanction defections. In both cases, the presence of high corruption levels in a given country, for example in the form of patronage-driven or rent-seeking networks, suggest that the state is also poorly equipped to implement and enforce quality budget outcomes. The impact of these political institutions and state capacities are further discussed and operationalised in the following section, and empirically tested in later parts of the paper.

2.4 Budget institutions

As Aaron Wildavsky noted in a seminal paper back in 1961, 'perhaps the "study of budgeting" is just another expression for the "study of politics"' (Wildavsky 1961: 190). In this sense, budget institutions can be considered as that sub-set of political institutions which shape and regulate the process of generating and allocating public resources for carrying out government functions broadly conceived. Budget institutions therefore incorporate the formal system of actors involved in the budget process, their respective roles, and the division of power and responsibilities that determines how governments raise and spend funds. The main actors include the executive, from Cabinet to specific ministries and agencies, the legislative, including its committees dealing with budgets, sectors and public accounts, and other accountability actors including inspection and audit institutions, civil society actors and the media.

Existing work has illustrated how specific budget rules that account for a more hierarchical budget process contribute to greater fiscal discipline (Alesina *et al.* 1999; Scartascini and Filc 2005; Samuels 2003; Von Hagen 2002). These include, for example, a greater level of centralisation of the budget making process in the hands of the executive, the presence of caps on expenditure or constraints to limit ability of parliaments to generate new spending lines, the elimination of off budgetary items, and a greater level of budget transparency. At the same time, however, research carried out on the role played by parliaments (Wehner 2004; Wehner 2006) in the budget process highlights the important accountability function that they perform, and how their impact depends on other characteristics of the political and institutional environment in which they act.

Campos and Pradhan (1996) look at how institutional arrangements in different countries affect incentives that govern the size, allocation and use of budgetary resources, with the aim of assessing the strengths and weaknesses of different systems in terms of maintaining overall fiscal discipline, allocating resources to priority areas, and achieving operational efficiency. For the three low-income African countries analysed (Ghana, Malawi and Uganda), they find that donors have a strong influence on budget institutions. While providing positive incentives for short-term fiscal discipline, donors imposed spending cuts that undermined prioritisation and promoted fragmentation of budget systems through multiple projects. The lack of adequate systems for transparency and accountability, moreover, undermined the credibility of the budget and the predictability of flows of resources to line agencies.

Another important factor shaping budget outcomes is the interplay of formal rules and informal practices in budget processes, which is particularly pervasive in poor countries with limited capacity and low levels of democratic consolidation (Rakner *et al.* 2004). As noted in the DFID briefing note on ‘understanding the politics of the budget’ (DFID 2007: 6), ‘what matters is the interaction between formal and informal institutions, whether they support each other or neutralize each other’.

Despite various past attempts at characterising budget processes and institutions, there exists no agreed framework for doing so. Recent comparative work, carried out by a consortium of donors, has led to the definition of a framework for assessing the performance of budget systems, based on a set of indicators. The Performance Measurement Framework developed by the PEFA (Public Expenditure and Financial Accountability) Secretariat identifies the critical dimensions of performance of an open and orderly PFM system along a series of dimensions, including: (a) credibility, (b) comprehensiveness and transparency, (c) policy-based budgeting, (d) predictability and control in budget execution, (e) accounting, recording and reporting, and (e) external scrutiny and audit.

These dimensions focus on the technical and institutional basis for sound budget governance, and can be useful in attempting to capture the complex inter-relations depicted in our framework, assisting in building an understanding of the influence of political dimensions on budget processes and outcomes, moving beyond mere description to a consideration of the roles, interests and incentives of the different actors involved in budget-making, and the ways in which they interact to determine budget outcomes. PEFA assessments have been carried out in more than 60 countries since 2005, but their results still do not constitute a fully consistent and comparable cross-country dataset.

2.5 Aid, resource rents and the budget process

Aid dependency

Aid dependency has been defined in a number of ways (Lensink and White 1999; Riddell 1996; Lancaster and Wangwe 2000). According to Brautigam (2000: 2), it corresponds to ‘a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise’. According to this definition, aid dependency therefore goes beyond the measurement of the percentage of national income or public expenditure financed by external assistance, but incorporates issues linked to capacity and institutional strength. Somewhat worryingly, and contrary to expectations that aid dependency is a temporary phenomenon, the overall number of aid dependent countries (measuring aid as a percentage of GNP) has seen an increasing trend since 1975, although it seems to have levelled off in more recent years.

Academic research has focused extensively on aid’s impact on macroeconomic variables such as economic growth and poverty levels, but aid’s impact on governance and institutions has not yet received as much attention. While Goldsmith (2001) finds a weak but positive linkage between aid and democracy levels, much of the limited literature on this topic tends to find that aid has a negative effect on governance in aid dependent countries. Knack (2001) and Brautigam and Knack (2004), for example, show that higher levels of aid dependency cause a deterioration in the quality of institutions. The work of Nicolas van de Walle (1999, 2005) also documents how, especially in African countries, countries that receive high levels of aid tend to see not only economic stagnation, but also be fraught by political problems and government ineffectiveness.

Some of the main explanations for this negative impact can be found both at the macro and micro level. At the macro level, aid provides a ‘soft budget constraint’, limiting the accountability of the government to domestic actors and creating a moral hazard problem, whereby governments receiving large amounts of aid may engage in riskier fiscal behaviour, knowing they are likely to be bailed out. In particular, the literature underlines two aspects of the linkages between aid dependency and fiscal behaviour. The first aspect relates to aid’s impact on domestic taxation, assuming that aid-dependent countries will use aid to reduce their reliance on domestic taxation, preventing countries from reaping the ‘governance dividend’ that comes from the social contract that is implicit in the generation of tax revenues (Moore 2004). Yet, there is little clear evidence of a negative impact of aid on taxation (McGillivray and Morrissey 2001; Gupta *et al.* 2003; Fagernas and Roberts 2004).

The second aspect has less to do with a direct impact of aid dependency on government fiscal behaviour, but is linked to the difficulties that aid dependent governments face when managing high and potentially increasing aid flows (see, for example, Heller 2005; Gupta *et al.* 2006; Foster and Killick 2006). Large and sudden increases in aid inflows in the form of foreign currency could provoke a ‘Dutch disease’ effect, causing an appreciation of the exchange rate and therefore harming the export sector. When aid flows are in the form of loans, they can raise concerns about debt sustainability. Aid flows are often unpredictable and volatile, and can therefore negatively influence macroeconomic stability, by triggering inflation, interest-rate and exchange-rate volatility. At the micro-institutional level, aid can provide perverse incentives to avoid reforms, and undermine institutional capacity through fragmented and uncoordinated interventions (Morss 1984; Knack and Rahman 2004). In the words of Brautigam and Knack (2004: 260),

> First, the way large amounts of aid are delivered can weaken institutions rather than build them. This can happen through the high transaction costs that accompany aid, the fragmentation that multiple donor projects and agendas promote, problems of ‘poaching,’ obstruction of opportunities to learn, and the impact of aid on the budget process. Less directly, but just as important, high levels of aid can create incentives that make it more difficult to overcome the collective action problems involved in building a more capable and responsive state and a more effective foreign aid system.

As indicated, budget systems are among the governance areas most prone to some of these negative effects. Large proportions of donor funding are kept ‘off-budget’, and therefore are not transparent and accountable, rendering the allocation of resources according to priorities more difficult, and creating a parallel ‘bargaining arena’ separate from the budget process. Given the large number of projects and programmes using parallel planning, budgeting, monitoring and reporting mechanisms, and government capacity to ensure efficient and effective delivery of public services is often undermined. Clearly, in this respect it is important to distinguish among the different modalities that are used in delivering aid. An important distinction is between so-called project and programme aid. Programme aid modalities, including sector-specific and general budget support, are partly intended to address some of the problems identified above, as they channel resources directly through the domestic budget, therefore utilising government capacity and government systems to implement activities. Project assistance, on the other hand, has traditionally utilised parallel mechanisms, thereby potentially exacerbating some of aid’s negative effects. Technical assistance, another modality through which donors contribute capacity aimed at strengthening government systems, has played an important part in supporting budget reforms, but often with disappointing results (OED 2005; World Bank 2007).

Recent years have seen considerable efforts to address some of these issues, in particular with the introduction of new programmatic aid modalities and with the adoption of the specific indicators and targets enshrined in the Paris Declaration on Aid Effectiveness. However, the effectiveness of such innovations still remains disputed (IDD and Associates 2006; de Renzio 2006; World Bank 2006; OECD 2007).

Resource rents

Low-income countries endowed with non-renewable natural resources also have a mixed track record when it comes to growth and development, with results that are more often than not gloomy. Numerous studies (Warner and Alexander 2005; Auty 2001; Collier and Hoeffler 2000; Collier 2005; ODI 2006; and Rosser 2006) have been undertaken to better understand why resource rich low-income countries perform badly from both economic and social efficiency perspectives. One dimension that is generating increasing attention relates to weak budget governance records (Eifert *et al.* 2003; ODI 2006). Findings suggest that resource revenues create disincentives for good budget governance and compound weak government capacity to manage windfall revenues.

The presence of exogenously determined resource flows in the form of non-renewable natural resources has a significant impact on the domestic budget process. Some existing studies have tried to measure the impact of oil and other natural resource flows for budget outcomes (Collier 2005; Mejía Acosta *et al.* 2006; Puente *et al.* 2006). Arguably, managing oil revenues well is more or less the same as managing for other areas of the budget. Eifert *et al.* (2003) write that:

> Revenue streams can finance productive physical and social investment or fuel unsustainable consumption booms, which can lead to fiscal crises. On the positive side the financing can be used to improve public welfare outcomes through transparent distributional mechanisms, or they can create elite arenas of competition, or they can underpin kleptocratic governments. Negative outcomes associated with poor budget governance results because low income oil rich countries tend to have opaque, highly politicised fiscal systems that lack the checks and balances needed to ensure that resources are well employed and to provide the fiscal flexibility needed to adjust spending in line with changes in resources. On the other hand there are those governments who remain in power only to accrue rents from the oil windfall and who regardless do not even attempt to manage fiscal booms well e.g. the goal is appropriation and not financial management. In the context of weak rule of law, the presence of non-renewable resource revenues offer a wide margin for looting and corrupt government practices.

Similar to aid dependent countries, the weakness of resource rich states would also generate economic and political distortions that retard economic growth in the long run, even if they contribute to short-run booms. Lower economic growth, increased political instability and increasing poverty are other negative consequences (ODI 2006). At the same time, debility can be caused by weak government capacity, which can be compounded by the difficulties of managing the macro implications of large influxes of foreign currency. Managing revenues to reduce budget volatility and stabilise budgets is notoriously difficult even in developed countries. A key issue for revenue management is to reduce the possibility of Dutch disease, an economic phenomenon in which the discovery and exploitation of natural resources results in the deindustrialisation of a nation's economy. The value of the domestic currency rises and domestic spending patterns and other internal resource allocation effects make tradable manufactured goods and other tradable sectors, such as parts of the agricultural sector, less competitive. Imports increase, exports decrease, productivity falls, and there is a shift away from the tradable to the non-tradable sector, e.g. construction (ODI 2006).

Oil and mineral exporters who have windfall revenues therefore need to consider a number of issues including: (i) how much to save for future generations, (ii) how to achieve economic stability in the face of uncertain and widely fluctuating oil revenues and avoid 'boom-bust' cycles, and (iii) how to ensure that spending is of high quality, whether in the form of large investment projects, public consumption, or subsidies (Eifert *et al.* 2003).

3 Measuring determinants of budget governance

For the purpose of testing the impact of institutional variables on budget outcomes, we have selected a cross section of aid and resource dependent countries at different levels of economic development. The selected countries meet the following criteria and fall above the following thresholds:

1.	greater than	1,000,000 total population in 2005
2.	equal to	Low Income or Lower Middle Income World Bank country classification (GNI per capita less than or equal to $3,465 in 2005)
3a.	greater than	25.0 % of aid in total government expenditure (both mean and median greater than threshold over 1995–2004), or (in case data are not available)
3b.	greater than	10.0 % of aid in GNI (both mean and median greater than threshold over 1995–2004)
4.	greater than	30.0 % of non-renewable resources (oil + gas + mineral + ores) in total exports (both mean and median greater than threshold over 1995–2004)

The dataset looks at 47 countries over a period of time between 1995 and 2006, as detailed in Tables A1 and A3 in the Appendix; the unit of analysis is a country per year for a total of 564 observations. From this universe, 12 of the countries are resource dependent, 33 are aid dependent and 2 are both aid and resource dependent. The average per capita income is US$1,094 in 2005. 26 of the 47 countries are HIPC countries. Five of the countries are from East Asia or the Pacific, 6 are from Europe and Central Asia, 6 are from Latin America and the Caribbean, 5 are from the Middle East and North Africa, 2 are from South Asia, and the remaining 24 countries are from sub-Saharan Africa, by far the largest group.

Although the notion of budget governance looks at the quality of budget outcomes across different dimensions discussed in earlier sections of the paper, the empirical analysis focuses at this point on the combined impact of political institutions, aid and resource rents on a country's fiscal balances over time. The independent variables are grouped along three dimensions: (i) political institutions and good governance data, (ii) budget processes and institutions, and (iii) aid and resource rent flows.

3.1 Political institutions and good governance

The amount and quality of data looking at democracy and governance indicators has dramatically improved in the last decade. As data became more publicly accessible, it has also improved the validation and methodological transparency of existing indicators. Some of the most comprehensive datasets to measure governance issues include the World Bank Governance Indicators (Kaufman, Kraay and Mastruzzi 2006; and Kaufman, Kraay and Zoido-Lobatón 2000), the Global Competitiveness Report – an experts' survey – (World Economic Forum 2004, 2005), and the Database on Political Institutions (Beck *et al.* 2001). Relevant measurements of democracy include the Polity IV dataset (Marshall, Jaggers and Gurr 2004), the Freedom House Political Rights and Civil Liberties (Freedom House), the *Patterns of Democracy* dataset (Lijphart 1999), the *Democracy and Development* data (Przeworski, Alvarez, Cheibub and Limongi 2000), and the EIU (2006).

To assess the influence of electoral systems on the budget processes and outcomes, we looked at two indicators. The competitiveness of participation variable reports the degree of citizens' participation in political activities: competitive (5), transitional (4), factional (3), suppressed (2), repressed (1), or does not apply (0) (Polity IV 2004). The other indicator controls for the specific type of electoral system, depending on whether it is majoritarian (1), proportional (2) or mixed (3) (Database of Political Institutions, as cited by the Quality of Government Institute, Goteborg University 2006).

To measure the roles of political parties we look at the degree of political competition, which could be: Repressed Competition (1), Restricted Competition (2), Authoritarian-Guide Liberalisation of Restricted Competition (3), Uninstitutionalised Competition (4), Gradual transition from Uninstitutionalised Competition (5), Factional/Restricted Competition (6), Factional Competition (7), Political Liberalisation: persistent overt coercion (8), Political Liberalisation: limited overt coercion (9), and Institutionalised and Open Electoral Participation (10) (Polity IV 2004). The degree of political fragmentation is simply measured at this point by structure of the party system: multi party (1), two party (2), or dominant party (3) (Polity IV 2004).[1]

1 The conventional measure for party fragmentation would be the effective number of legislative or electoral parties, but such data is inconsistently available for the countries of interest.

We provide data on the constraints on executive authority, as a proxy to measure the executive's influence and discretion in the decision making process: Unlimited Authority (1), Intermediate Category (2), Slight to moderate limitations (3), Intermediate Category (4), Substantial Limitations (5), Intermediate category (6), and Executive party or subordination (7) (Polity IV 2004).[2] For the empirical analysis we reversed the scale into a (strength of) 'Executive authority' index.

Other relevant indicators are collected to measure the capacity of the state to promote sustained cooperation over time, enforce contracts, and produce efficient outcomes. We include the Corruption Perceptions Index, which captures the perceived levels of government corruption, as determined by expert assessments and opinion surveys (Transparency International 2001–2006), and the composite indicator on Control of Corruption in the WBGI. This database also includes a measure of government effectiveness, which focuses on the civil services' ability to remain independent from political pressure, and formulate, implement and sustain quality public services (Kauffman *et al.* 2006).[3] Finally, we measure the presence of the rule of law, or the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence (Kaufmann *et al.* 2006).

3.2 Budget processes and institutions

Data on budget processes and institutions, which are key for the purposes of this research, are the least readily available and reliable for a comparative cross-country analysis. While in recent years more sources of data have become available, often these have limited country coverage and do not stretch back in time. After looking at the various indicators available (see Table A2 in the Appendix), for the purposes of this paper we focused our attention on four indicators which provided the best avenue for assessing two main dimensions of budget institutions: their overall quality, looking at the way in which the budget process is organised, including the quality of the bureaucracy in charge of budget making; and the degree of transparency and accountability around the budget process.

The CPIA indicator on the 'Quality of Budgetary and Financial Management', publicly available for all IDA countries for 2005 and 2006 only, rates countries on a 1 to 6 scale, looking at the extent to which there is: (a) a comprehensive and credible budget, linked to policy priorities; (b) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and (c) timely and accurate accounting and fiscal reporting, including timely and audited public accounts and effective arrangements for follow up. For practical purposes, this is the variable we use in our analysis, but we

2 For future coding, an alternative assessment is the extent to which executives need to share power with the legislative branch (parliamentarism), and the level of territorial decentralisation (federalism), according to the Gerring, Thacker and Moreno theory of Centripetal governance (Teorell *et al.* 2008).

3 For future coding, a more detailed assessment that disaggregates bureaucracy's career opportunities, compensation and meritocratic recruitment is offered by Evans and Rauch (Teorell *et al.* 2008).

nevertheless report other indicators of budget institutions for which more data collection is required in the future.

The ICRG indicator on 'bureaucratic quality', available for a large set of countries and stretching back to 1980, rates countries from 0 to 4, with higher points given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services, are somewhat autonomous from political pressure and tend to have an established mechanism for recruitment and training.

The Open Budget Index developed by the International Budget Project is drawn from a questionnaire with 122 questions on budget transparency and accountability, including the nature of the budget process, the content of budget proposals, access to budget information, legislative oversight and audit processes. It rates countries from 0 to 100, and is available for 59 countries for 2006 only. Similarly, the Global Integrity indicator on 'budget processes' looks at availability of budget information and at the functioning of budget accountability mechanisms. It is available for 43 countries for 2006 only, and again rates countries from 0 to 100.

All of the indicators above are based on so-called 'expert opinions', where individual experts or groups of experts carry out an assessment based on a common methodology, which then goes through a process of peer review in order to validate the findings and ensure consistency and cross-country comparability. For the four indicators above, the methodology can be considered reliable, except for the ICRG indicator, for which little information on the detailed methodology was available. Much more detailed, mostly qualitative information about budget processes and institutions is available through more in-depth country case studies such as HIPC Assessments, PEFA Assessments and Public Expenditure Reviews. These are not very well suited for cross-country analysis, but would provide a wealth of useful information for country case studies.

3.3 Resource dependency indicators

Data on aid are mostly collected through the Development Assistance Committee (DAC) of the OECD, which keeps a database of aid flows stretching back to 1960. While this is an internationally recognised and widely used database, it has the downside of including only limited information on multilateral flows to recipient countries, and its treatment of aid sub-categories is not always straightforward and fully reliable. The three indicators that were collected for this paper are specified below.

Aid dependency ratios. Aid dependency can be defined in a number of ways. The two most widely used indicators include net Official Development Assistance (ODA) as a percentage of Gross National Income (GNI) and net ODA as a percentage of total government expenditure. Following Brautigam (2000), countries that have received average (and median) net ODA flows of more than 10 per cent of Gross National Income (GNI) over the period 1995–2004 are considered aid-dependent for the purposes of this study. As we are interested in the impact of aid dependency on budget governance, where available, we use a cut-off point of 25 per cent of total government expenditure instead. We use the average and median over ten years because both the volume and the long-term nature of aid dependency contribute to shape the institutional environment that we are interested in analysing.

Programme aid as per cent of total aid. We are interested in capturing the share of aid that is channelled using government systems, as this isolates aid components that are meant to strengthen domestic institutions by not bypassing them. There are different aid modalities that fall within the programme category. Balance of payments support, General Budget Support (GBS) and debt relief are the three main modalities in which we are interested, as they provide substantially untied support to the government budget. Certain kinds of sector support (e.g. SWAPs) would also fall within this broad category, but their varied nature and scattered reporting means it is difficult to gather reliable information. The DAC CRS database does have specific items for programme aid as a whole and some of its sub-components. Figures on GBS, however, are not necessarily very reliable, given the different definitions that different donor countries use in defining what counts as budget support. Moreover, the DAC data are only gradually catching up with some of the shifts in the debate which happened over the past few years.

Donor fragmentation. Another important explanatory variable which we include is the degree to which donor activities are fragmented, as this is likely to have an impact on government capacity and on the significance and institutional strength of the budget process. Following a number of authors (Moore *et al.* 2006; Knack and Rahman 2004; and Roodman 2006), and using the DAC aid database, we include a measure of donor fragmentation based on the Herfindahl Index, which corresponds to the sum of the squared shares of total aid received by each country in each year for each donor.

Natural resource dependency. Resource dependency can be measured by three primary methods: (i) non-renewable natural resources as a share of GDP, (ii) share of non-renewable resources in exports and (iii) share of revenue from non-renewable natural resources in total state revenue. For the purposes of this paper we focus on the second and the third measures. The data can be found in the World Development Indicators (WDI) dataset compiled by the World Bank.

4 Some preliminary findings

The availability and reliability of data has been a consistent challenge for the thorough testing of the statistical models. Thus, the reported preliminary results on the political determinants of budget outcomes must be interpreted with caution. The analysis uses STATA's panel-corrected standard error estimation to address conventional problems associated with the use of cross-country pooled time series data.[4] We have controlled for the possibility of autocorrelation across,

4 The first issue is the potential presence of heteroskedasticity in the data, i.e. the error processes may differ from country to country; secondly, the error terms might be contemporaneously correlated, that is, the errors in one country at a specific time point might be correlated with errors in another country at the same time point; and thirdly, the danger of serial autocorrelation within countries (Harrinvirta and Mattila 2001: 509).

rather than serially within panels or contemporaneously in the whole sample.[5] To further decrease the possibility of multicollinearity, we have standardised the independent variables (by subtracting the mean from each data point in continuous variables and recoding categorical variables around zero). The next section reports regressions results on fiscal balances as a proxy for budget sustainability. The following section discusses the relevance of further testing alternative models to evaluate the efficiency of budget allocations and the importance of budgetary institutions on fiscal performance, and highlights the need for country-level case study work to complement cross-country statistical analysis.

4.1 Budget governance and fiscal discipline

The set of models looks at the combined impact of political institutions, aid and resource rents on a country's fiscal balance (see Appendix Table A4). Some political variables such as citizens' participation or the level of party fragmentation (not reported) have a very weak or non significant impact on fiscal performance. Model 1 shows that greater levels of executive influence or autonomy in the decision making process (i.e. fewer constraints on the use of executive power) have a negative impact on fiscal balances. This finding challenges the conventional wisdom derived from OECD countries that executives with greater authority over the budget process are associated with greater fiscal discipline. In the case of low and lower middle income countries, where accountability mechanisms are often weaker, unconstrained executive authority may be actually counterproductive for fiscal discipline.[6] In the context of unchecked strong executives, therefore, a greater influence of foreign aid appears to have a backlash effect on fiscal discipline.

Model 2 illustrates the other side of the story: it suggests that a greater degree of political competition (more institutionalised and transparent) is significantly associated with better fiscal performance. Not surprisingly, the degree of political competition is strongly and inversely correlated with executive authority (r = -0.63), thus the presence of a political opposition effectively appears to counteract discretionary executive power. This effect remains especially valid for low income countries. The negative impact of other factors, including rule of law and aid levels, on fiscal surpluses remains unchanged.

Model 3 looks at budget performance in aid and resource dependent countries. The most interesting finding is that aid flows and resource revenues have opposite effects on budget 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

5 The observed results were comparable with those obtained by running a robust OLS regression. Not reported here, we also tested fixed-effects and lagged DV specifications with no significant improvements to the robustness of the models.

6 Paradoxically here, a greater presence of the rule of law appears to be associated with fiscal deficits, but this might be due to the inverse correlation between executive authority and rule of law.

direction of this impact also appears to be relatively independent of other factors – and interactions – such as corruption (not reported in the model), or the quality of the bureaucracy in a given country. Most interestingly, the presence of political competition in resource rich countries appears to have the opposite effect on fiscal balances: a more competitive political arena has a strong and significant impact on fiscal deficits, perhaps because the abundance of natural resources encourages rentier behaviour from opposition parties.

4.2 Directions for further research

The reported models begin to show the combined impact of political players and institutions on budget outcomes. The variables analysed (such as executive power or political competition), however, are mainly associated with the budget approval stage. 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.

Measuring performance on budget outcomes using fiscal balance as the only dependent variable also constitutes a significant limitation of this paper. As highlighted above, the use of further measures linked to the *effectiveness of public spending,* looking at both resource allocation and impact, would add much more depth and relevance to the analysis. For this purpose, given the limitations of the existing time-series dataset for the Human Development Index, measures that would need to be collected and used as alternative dependent variables could include data on education, health or infrastructure, for example, looking at both levels of spending and outcome indicators. For outcome indicators, however, the usual issue of attribution needs to be highlighted, as changes in health outcomes, for example, might be due to a number of factors that have little to do with changes in public spending.

Another potential extension of this work includes looking at the impact of political variables on the *representativeness, coherence* and *credibility* of budgets. While it would be problematic to include these further dimensions as dependent variables in the context of this paper, given that they somewhat overlap with one of the independent variable used above ('budget institutions'), we still think that it's necessary to keep them in mind for purposes of further research. In particular, country case studies can generate additional data for these dimensions which is not readily available at a cross-country level, allowing us to move beyond the limited view of budgets as purely fiscal instruments to more developmental ones, and from quantitative to more qualitative aspects of budget processes and outcomes.

The rationale for case study work is strengthened when taking a closer look at individual countries which reveal some interesting inconsistencies when CPIA scores are compared with historical fiscal performance. Burkina Faso, for example, has the worst fiscal deficits for a country with an average CPIA score above 4. Mali is another example of a country with a high CPIA score and a professionalised bureaucracy, but with negative fiscal performance. These institutional discrepancies that translate as empirical outliers suggest the existence of non institutional factors that are not captured by cross national data that may in fact shape the workings of the budget process. While there is plenty of evidence showing that conventional rules or ‘parchment institutions’ (Carey 2000) affect the budget process in important ways, there are no systematic theoretical explanations for these irregularities. The cross national data is a useful starting point to chart deviations from theoretical expectations. Further case study work is needed to uncover the incentives that budget players have to disregard institutionalised budget procedures for political gain, or needed to explore the political motivations that move budget players to disregard formal budget procedures, and how do budget coalitions occur despite the absence of constraining legal frameworks.

5 Summary and conclusions

This working paper is a preliminary effort to address some existing conceptual, theoretical, methodological and empirical gaps in the study of the politics of budget processes in aid- and resource-dependent countries. This work makes three main contributions to the field. Firstly, the paper has relied on a large-scale data collection effort of cross-country time series data on political and budgetary institutions, aid flows and resource rents in aid-dependent and resource-rich countries, which created a panel dataset which includes variables for 47 countries for the period 1995–2006.

Secondly, it puts forward and empirically tests a comprehensive theoretical framework for budget governance that looks at the independent and combined impact of political institutions, budget processes and rents from aid or natural resources on budget outcomes, defined as sustainable fiscal balances. 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. Finally, aid flows and resource revenues seem to have opposite impacts on fiscal performance, with resources improving the likelihood of obtaining fiscal surpluses and aid flows increasing the likelihood of deficits. These results however, must be interpreted with caution as we have only been able to measure the impact of resource revenues as a share of total revenue, and aid flows as a share of GNI, while more work needs to be done to collect data and gauge for the impact of alternative sources of revenues – including tax revenues – and different aid modalities. Nevertheless, for example, 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.

Thirdly, the paper points towards some interesting avenues for further research. Rather than limiting the operationalisation of budget outcomes to fiscal balances, it is important to improve the validity of our measurement by testing alternative indicators of budget efficiency, using for example spending and outcome indicators for key sectors such as health, education, nutrition or infrastructure. The same goes for other dimensions of budget outcomes related to issues such as representativeness, coherence and credibility. A complementary approach is to take a closer and more detailed look at cases where the existence of (favourable) institutional conditions for budget governance does not correspond with existing poor fiscal performance. 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 which 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. In particular, it would be relevant to measure the impact of different budgetary institutions on the quality of budget processes, especially before and after the adoption of public finance reforms. This is particularly important for donor agencies who increasingly support public financial management reform in these countries, and rely on domestic systems to deliver aid resources.

Another important conclusion of this study relates to data collection and availability. The statistical relevance of some variables that confirm theoretical expectations (such as the role of strong executive authority) are encouraging signs to motivate further data collection and more rigorous testing. This 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. More and better quality data is needed to measure the impact of budgetary institutions on budget processes. Recent efforts have started to fill some of the gaps, but in a very haphazard way, covering a limited number of countries and limited periods of time, focusing on specific aspects of the budget process, and with methodologies that often lack rigour and prevent comparability. This observation calls for a much more serious and concerted effort, at international level, to collect information which is detailed and comparable, through exercises that can be repeated over time. In the case of Latin America, for example, budget surveys have generated a wealth of information which is being utilised for both research and policy. The same has not happened in Asia or in Africa, where most of our selected countries are located.

Appendix

Table A1 List of countries

Aid dependent countries	Resource dependent	Aid + resource dependent
Afghanistan	Algeria	Bolivia
Albania	Azerbaijan	Zambia
Armenia	Cameroon	
Bangladesh	Colombia	
Burkina Faso	Congo. Rep	
Burundi	Ecuador	
Cambodia	Egypt, Arab Rep.	
Chad	Iran, Islamic Rep.	
Congo, Dem. Rep.	Kazakhstan	
Eritrea	Nigeria	
Ethiopia	Peru	
Gambia, The	Syrian Arab Republic	
Ghana	Trinidad and Tobago	
Guinea-Bissau	Yemen, Rep	
Kyrgyz Republic		
Lao PDR		
Liberia		
Malawi		
Mali		
Mauritania		
Mongolia		
Mozambique		
Nicaragua		
Niger		
Papua New Guinea		
Rwanda		
Senegal		
Sierra Leone		
Tajikistan		
Tanzania		
Uganda		

*El Salvador, Georgia and Sudan are excluded due to unreliable data

Table A2 Data sources on budget processes and institutions

Database	Source	Coverage of budget issues
Country Policy and Institutional Assessment	World Bank	Different indicators are linked to budget variables. These are: Fiscal Policy, Equity of Public Resource Use, Quality of Budgetary and Financial Management Systems, Efficiency of Revenue Mobilisation, Quality of Public Administration, Transparency, Accountability and Corruption in the Public Sector
International Country Risk Guide	Political Risk Services	Political risk ratings include dimensions on corruption, democratic accountability and bureaucratic quality.
Open Budget Index	International Budget Project	The questionnaire contains 122 questions on budget transparency and accountability, including the nature of the budget process, the content of budget proposals, access to budget information, legislative oversight and audit processes.
Global Integrity Index	Global Integrity	The Index includes scores on budget processes and on government accountability and corruption.
Global Competitiveness Survey	World Economic Forum	Survey includes questions on corruption and government inefficiency.
Bertelsmann Transformation Index	Bertelsmann Foundation	The Transformation Index includes ratings on government's steering capability, efficiency in resource use, degree of consensus building and international cooperation.
HIPC AAPs	IMF/WB	Assessment of country systems on budget formulation, budget execution and budget reporting compared to best practice benchmarks.
PEFA Assessments	Various	The methodology covers the whole range of issues linked to budgeting and public finance management, including 3 indicators on donor performance related to predictability and provision of information to government.
Fiscal Transparency ROSCs	IMF	The questionnaire includes detailed information on budget processes and institutions, including execution, accounting and control.
Country Financial Accountability Assessments	World Bank	Information on the legal framework for PFM, decentralisation, the country's fiscal record and an assessment of PFM reforms.
Public Expenditure Reviews	World Bank	PERs look not only at PFM systems, but also at budget policies and issues of allocative and operational efficiency.

Table A3 Variable codebook and summary statistics

Variable	Definition	Source	Obs	Mean	Std. Dev.	Min	Max
Gdp_pct	Rate of economic growth	World Bank	509	4.859311	7.154947	-31.3	106.28
Gdp_cap	Per capita income	World Bank	389	342.5017	223.732	56.52	996.95
debt_gdp	Government debt (%GDP)	World Bank	83	84.76422	54.15341	.21	247.38
bal_gdp	Fiscal deficit (%GDP)	World Bank	284	-2.55331	3.781759	-19.48	21.98
Hdi	Human Development Index	UNDP	127	.5300787	.1543779	.25	.81
Exp_gdp	Government spending (%GDP)	World Bank	291	18.23749	10.80544	0	42.83
cit_par	Citizen participation	Polity IV	427	2.779859	1.073919	0	5
Elec_sys	Electoral system	Dbase of Pol. Inst.	90	1.711111	.8244091	1	3
Pol_com	Political competition	Dbase of Pol. Inst.	257	.3378988	.2709522	0	.9
Pol_com2	Political competition	Polity IV	427	5.473068	2.752907	1	10
Pol_frag	Political fragmentation	Dbase of Pol. Inst.	355	.6521127	.4732563	0	1
exec_inf	Constraints on exec authority	Polity IV	427	3.796253	1.754454	1	7
corrupt	Corruption Perceptions Index	Transparency International	201	2.687512	.7815682	0	5.3
corrupt2	Control of Corruption	World Bank	322	-.7332919	.4151467	-2.13	.41
Gov_effe	Government Effectiveness	World Bank	327	-.6835168	.4582477	-1.96	.61
Rul_law	Rule of Law	World Bank	329	-.7729179	.4677502	-2.37	.43
Cpia_bud	CPIA Budget Indicator	World Bank	36	3.208333	.6587325	1.5	4.5
Bur_qual	Bureaucratic Quality	ICRG	395	1.376608	.7496826	0	3
open_bud	Open Budget Index	IBP	21	31.85714	16.68918	5	77
Bud_acc	GII Budget Processes Indicator	GII	17	62.85882	15.86474	36.8	89.1
Aid_gni	Aid dependency (ODA/GNI)	World Bank	461	12.7798	12.25824	-.08	98.54
Aid_exp	Aid dependency (ODA/ government expenditure)	World Bank	133	43.61857	52.9234	0	319.33
prog_aid	Programme aid (% total ODA)	OECD/DAC	363	20.97463	19.31104	0	93.49
Don_frag	Donor Fragmentation Index	OECD/DAC	363	15.57857	10.48097	6.03	90.19
Nnr_rev	Resource dependency (% revenue)	IMF	87	47.25874	20.80486	1.98	84.86
Nnr_exp	Resource dependency (% exports)	World Bank	109	68.01248	23.48861	14.69	99.67

Table A4 Political determinants of budget governance

	DV: Budge Balance (as a share of GDP)		
	Model 1 Coeff. (S.E.)	Model 2 Coeff. (S.E.)	Model 3 Coeff. (S.E.)
Executive Influence	-0.547** (.29)		
Political Competition		.34** (.17)	-.24** (.10)
Rule of Law	-2.34** (1.18)	-1.96** (1.04)	
Rule of Law* Exec. Influence	-0.04 (.56)		
Low income Countries		1.62* (.94)	-.810 (1.05)
Non renewable Resource (% total exports)			.06*** (.02)
Non renewable Resource* Low Income countries			-.100** (.04)
Aid Levels (as % of GNI)	-0.29*** (.06)	-.34*** (.76)	-.04 (.05)
Quality of the Bureaucracy			.014 (0.69)
Intercept	-4.10*** (.42)	-5.31*** (.84)	-1.90*** (0.63)
N	200	198	58
R2	0.258	0.292	0.348

All standard errors are heteroskedastic panel-corrected assuming no serial or contemporaneous autocorrelation. Standard errors reported in parentheses. Significance levels are indicated as follows: ***p<.01, **p<.05, *p<.1

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