



Submission for input into the On-line consultation to the European Commission Green Paper: “The future of EU budget support to third countries”

Deadline for submissions: 31 December 2010

As a network of autonomous European non-governmental development organisations working towards peace, justice and equality in a world free of poverty, Eurostep welcomes the debate launched on the future of EU budget support to third countries.

The provisions of the Lisbon Treaty (Art 208) and the experience of Eurostep’s membership and their partners working with local communities in some 100 countries across the world substantiates our belief that the root causes of poverty eradication must be the principle objective of any use of aid resources - including Budget support.

This paper is a response to the consultation launched by the European Commission (EC) on “The future of EU budget support to third countries”. The issues raised by the EC in its “Green paper” are therefore referred to in this paper.

The eradication of poverty is the main objective of the EU’s development cooperation. This provision must be at the core of the decisions regarding the allocation of BS. The EC must take into account the objective of eradicating poverty in its overall assessment of recipient countries’ implementation of their national development strategies (for the disbursement of fixed tranches) as well as in its selection of performance indicators (for disbursement of variable tranches).

Ownership & Accountability

Budget support (BS) is a prominent instrument in the context of efforts to improve aid effectiveness. It is argued that it offers the potential to increase country ownership and improve alignment of development aid with national priorities. However it is questionable as to whether BS will contribute or hinder the achievement of these goals without a sufficiently defined enabling environment which promotes democratic accountability and national ownership. The EU tends to focus more on the horizontal dimension of accountability (governments, ministries) and falls short on addressing the vertical dimension (CS, national parliaments). In these circumstances democratic accountability is likely to be inadequate, and national ownership will tend to be limited to the institutions of governance and interests closely associated with these. This has the risk of encouraging corrupt practices.

Transparency

There is a need for transparency in the overall process of establishing and implementing BS, by both partners to a financing agreement. This is essential for enabling the effective and legitimate involvement of all relevant actors. The European Commission and EU member states should be transparent about the analysis of the assessment that forms the basis for decisions on using BS as an aid modality in a specific country. All relevant stakeholders should be engaged in the process that defines financing agreements, including national parliaments and CSOs. This will not only provide a more diverse and comprehensive picture, as well as more information on a country’s actual situation. It will also strengthen the basis on which national parliaments can exercise their role of oversight over the establishment and use of national budgets, as well as an active role in for CSOs and other national stakeholders in the implementation of national development strategies and the use of budgetary means to this end. Parliaments should scrutinize the BS agreements and CSOs in recipient countries should be involved in the

monitoring of national budget implementation. This will increase the accountability of national resource distribution, including the use of aid, to citizens.

The majority of the EC's GBS is included in its country aid programmes in Africa. This means a significant proportion of EU aid is allocated without any direct democratic accountability at EU level. While the EP has been able to scrutinize the EC's country aid programmes to Latin America and Asia under the DCI, the EP plays no part in the process of formulating country aid programmes in the ACP region. European parliamentary scrutiny is an important part of overall budgetary accountability of the EU, and should not be seen as replacing or displacing national democratic oversight in developing countries. The role of the EP is to ensure that the defined conditions under which BS is provided are in place. This will increase accountability of the use of EU aid to European citizens.

Role of policy dialogue, role of conditionality and links to performance and results

BS programmes that require the recipient country to have a macroeconomic agreement with the IMF reduce the country ownership over their autonomous decision making, and national mechanisms of accountability. Moreover, the policy conditionality that is associated with such macroeconomic agreements potentially limits the recipient countries possibilities to invest in social services such as health and education.

The EC's own use of international auditing companies to oversee the implementation of the financial agreements also leads to increased accountability to external technical requirements, potentially at the expense of national processes. While it is understandable that there is adequate capacity in place to ensure technical financial oversight it carries the risk of undermining national processes. Under these circumstances it is critically important that mechanisms of national oversight and accountability are sufficiently in place to ensure democratic ownership.

There is no hierarchy of objectives applied by all donors in the provision of BS to recipient countries. Thus, as donors enter the policy dialogue process with different interests the effectiveness of policy dialogue is often undermined. It is therefore of utmost importance that donors agree on common principles and ways as to how to engage with recipient countries, in regard to BS.

Objectives, indicators, results of BS

The objectives and indicators of the EC's BS programmes are set out in financial agreements agreed with the national governments of the recipient countries. These need to conform to a defined set of expectations regarded as necessary for BS to be an effective instrument that has a chance to achieve development objectives. Even though there appears to be a clear poverty focus in the overall objectives of the programmes this does not often translate into the specific results the EC aims to achieve. In several cases it is not explained how the expected results link back to the overall objective of eradicating poverty.

Again, the environment conducive to the goal – the eradication of poverty - is central to the performance of BS. This not only requires an effective and transparent assessment of the policy orientation, long term predictability and a concise choice of indicators for assessing the performance are essential to determine the extent to which GBS can contribute to poverty eradication.

The EC relies on performance assessment frameworks to measure recipient countries progress in implementing national development strategies. These framework need to contain indicators that are directly linked to the eradication of poverty. This was not at all the case in performance assessment frameworks for GBS analyzed by Alliance 2015 in 2008.¹

¹ 2015-Watch report 5 (2008), p.23.

Recommendations:

- The European parliament should be enabled to fulfil an effective scrutinising role on the establishment and implementation of BS agreements to ensure that they conform to conditions that are accepted as being necessary for BS to be used effectively.
- There must be increased transparency. All documents should be made publically available, including financial agreements, reviews, data concerning these flows, including public access to government-to-government contracts.
- CS organisations should be able to play a role in monitoring BS programmes with financial support to build the capacity of CS to play this role, be made available.
- the indicative 20% benchmark for allocating EC aid to basic health and basic education should be respected, for cooperation with ACP countries, developing countries in Asia and Latin America, and countries in the Middle East and Southern Mediterranean (MEDA).