

Comments on European Commission Green Paper on *The future of EU budget support to third countries* (COM(2010)586), December 2010

Overall thoughts

I am very pleased to see the engagement with the politics of budget support in this document.

The entire document implies the need for robust entry criteria for the provision of budget support: to minimise the risks of aid funds being diverted or misused; to ensure that there is a robust partnership of trust; to mitigate the need for political conditions to be applied; and to ensure that policy and political dialogue are worthwhile. This reading implies that budget support should only be provided under exceptional circumstances, with the need for conditions to be applied in turn becoming exceptional.

The concern with political governance and dialogue throughout the document reflects growing nervousness about the impact and use of BS. But it is also to be expected. After around 10 years of experience of budget support, obviously the initial theories about the instrument are now being put to the test.

The reality is that the basis for the provision of budget support has always been hazy and shaky. It was initially a risky enterprise, a 'leap of faith'. So, do we doubt that 'leap of faith' to the point where the architecture of BS needs to be revised? OR do we accept (and convince the public) that the risk was worth it. One problem lies with the weak evidence base about the impact of budget support.

I have two fundamental questions regarding this paper, which concern several of the consultation questions:

- Are the 'underlying principles' appropriate when considering the provision of BS, especially in relation to the idea of 'ownership' and the reality of how budget support has been provided to date? And related to this...
- What is the overall objective in providing BS?

1. The Underlying Principles

Recent years have seen BS instalments frozen, diverted or cut in response to questions of political governance in some countries. Sometimes this has been over democratic 'slippage' (election flaws, repression of opposition parties/voices), e.g. Uganda, Ethiopia, Madagascar, Nicaragua, Honduras). This only appears to affect a small proportion of budget support but it demonstrates that budget support lends itself to political conditionality in a way that other aid modalities do not. These incidents remind us that we need to look at what is actually happening, not just what donors state their approaches are.

My concern with the '**underlying principles**' is that they capture the contradictions within the BS relationship, notably between the ideas of 'ownership' and the development paths that partner countries are expected to follow. The 'underlying principles' seem aimed at satisfying the home constituent. While these are laudable principles, they essentially dictate the form of

government that partner countries should have in place (i.e. democracy). This assumes a particular path towards development which is by no means proven, and which is not shared by all partners. By making too close a link between BS and the underlying principles the EC may undermine its own credibility given that some recipients of BS are *not* democracies, and some are even seeing reversals or stagnation in their democratic trajectory. It requires honesty between the idea of giving recipients ‘ownership’ and the reality that most donors wish to or need to maintain control over aid resources.

We have seen conditionality applied in some cases. In order to avoid this, either more robust entry criteria are necessary or a clearer strategy is required for the application of political conditions. If the underlying principles were to provide the basis of this, then I would suggest that democracy should not be one of them. Extremely careful definitions would be required for all these principles. Questions then arise. How do we take context into account? What constitutes a ‘breach’? And how do we weigh a breach against progress in other areas?

2. The objectives of budget support

Budget support serves many goals. Political dialogue, conditionality and policy dialogue depend greatly upon what the **primary** objective of budget support is. The two major interconnected objectives are: to induce wide-ranging reforms; and to help bring about specific development outcomes, e.g. the MDGs. This determines whether the use of political conditionality based on the ‘underlying principles’ is valid. The major dilemma which has been evident in many countries is what happens when a government is performing well on say social development but breaches fundamental human rights? This raises the question about what the **primary** purpose of political conditionality is: to achieve a development goal, a political goal or to satisfy donor constituents?

Thoughts regarding particular questions

Q1. Should different aspects of the UPs be negotiated and adapted to the partner context? This might be more in keeping with ownership and reality, but would that mean that some countries are treated more harshly than others leading to inconsistency?

Q2. Firstly, the relationship between the underlying principles and development objectives has to be clear. There also then needs to be clear criteria for assessing any concerns regarding the underlying principles, again in relation to development objectives. Dialogue on the underlying principles is political so it should remain in that domain. However, who should be involved in dialogue depends on the nature of the concerns – so again clear guidelines are necessary – and to the extent possible this dialogue should be transparent and public (to ensure accountability on all fronts).

Q3. This again depends on the relative importance of development over political objectives, and to the appropriateness of the underlying principles. In some of the countries where budget support has been delayed or cut, the aid has been transferred to other channels and the countries remain high aid recipients overall. Often there has been inconsistency in the approaches of different donors. What therefore is the real impact? Our knowledge of the impact of budget support on governance outcomes is limited, and a better evidence base is required.

The response from donors also requires greater consideration of mutual accountability. Are donors clear with recipients about why they wish to engage in political dialogue; have they followed their own stated procedures; are they transparent, honest and consistent? Following these principles might help to prevent the break-downs in communication we have seen in some incidents.

Q4/5. Donors need to understand the limits of their influence over different policy areas in different country political contexts. Donor staff need the skills to be able to recognise where they can influence agendas - and where their influence is unlikely to work – and do so without undermining country ownership and domestic accountability. This is explored well in the African examples analysed in Lindsay Whitfield et al. (2009) *The Politics of Aid*. These examples show that the influence donors can exert and the consequences of that vary across partner countries. These limitations should inform conditions on budget support, i.e. are the conditions realistic?

Q6/7: On performance, evidence of the impact of budget support on ultimate development outcomes (e.g. the MDGs) is extremely weak. Much of the work to date has focused on BS flows, the impact on PFM, the implementation of the principles of the Paris Declaration, etc. There is much less *robust* evidence about the impact of BS on outcome indicators. Part of the problem is the complex chain of causality between inputs and outcomes; part of it is that there has just not been enough research done on this to date to provide a good picture. We have been doing work on the impact of aid delivered under the Paris Principles on MDG5 outcomes (maternal and reproductive health) at the University of Edinburgh (results forthcoming early next year). There is some limited research that claims to show an association between BS/SBS interventions and MDG5 outcomes, but the evidence is very limited and we are wary of drawing any major conclusions from this data. I am very interested to see the results of some of the ongoing evaluation work. In terms of value for money, we are once again back to what the objectives of BS are and what we would consider good results to be.

Q8/9. A starting point is absolute transparency about what aid is provided, the conditions attached, the nature and extent of policy dialogue, etc. and clear commitment to making that information accessible to both partners and the population. Despite some donors signing up to initiatives like IATI, there is still very poor levels of publicly available information about aid flows. And this should apply to policy dialogue also.

Q11/12/13. Whether a country should receive BS and/or SBS goes back again to the overall objectives and primary entry criteria/conditions: commitment of the partner to UPs or other development objectives; capacity of the partner to deliver results; strength of local accountability to trace funds; actual results; robustness of policy, etc.? If there is sufficient trust in the partner's commitment to the UPs and other development objectives, and if there is sufficient capacity, then in the interests of ownership, it should be for the partner government to decide on the proportion of BS and SBS. At one time there was an expectation that aid packages would progress from projects to SBS to GBS; the reality is quite different with increasingly mixed packages in place. This has its own major challenges in terms of consistency and coordination. The reasons for these hybrid packages are diverse but in some cases it relates straight back to whether donors trust recipients enough to give them BS, and therefore whether those countries should receive it in the first place.