

## Budget Support and Social Investment: towards 'Rolling Programming'

### 7.1 Introduction

Traditional development projects accounted for two-thirds of the expenditure under the Lomé Conventions in the 1980s, but declined to less than 40% of all payments in 1994. Increasingly, budgetary aid or the rehabilitation of existing infrastructure replaces the traditional schemes. In Lomé III a sectoral import programme was introduced, followed by a general import programme introduced in Lomé IV, designed to 'meet the needs of ACP states in financial crisis'<sup>118</sup> together with other existing instruments for programme support.

In its Green Paper on the future of Lomé, the European Commission presented the concept that budgetary support should by and large replace project support. Budget support seems to have particular advantages. While project support is a relatively inflexible instrument over which the recipient government has relatively little control, direct budgetary support can strengthen the administration and contribute to sound fiscal and policy management in the recipient country. It could also be an instrument to increase expenditure in social sectors, such as health and education.

However, budget support is also an instrument that, by itself, does not resolve structural problems causing the financial gap in fiscal resources of the recipient country. In particular, it is necessary for there to be an efficient financial administrative capacity. Highly indebted poor countries have often reduced their administrations and subsequently have difficulty in competing with the private sector for scarce, sufficiently qualified personnel. They are often not able to exercise sufficient control over budget expenditure. The implementation of an agreed budget may, therefore, fail, and this may result in an inability to implement budget support allocated to specific sectors.

In countries with a precarious financial and administrative base, budget support requires development policies that help to create a domestic framework for sound governance, including effective financial and policy management. This means that generally for the poorest countries it would seem that budgetary support on its own is not a good instrument and it is unlikely that expenditures in social sectors will be increased. It has to be supplemented with additional finance to ensure that the capacity is available to handle the budget support.

The interest in budgetary support rather than project support is the 'emphasis on the importance of the national policy making and budget processes in the developing countries.'<sup>119</sup>

The differing views on the way in which this can best be implemented demonstrate that there is not a consensus on the question of which policy priorities should be reflected in the national policy making and how it can be guaranteed that these priorities are reflected in the budget. It is exactly this lack of consensus on policy priorities between donors and between donors and recipients which are the major obstacles to successful implementation of budgetary support.

This raises three questions:

- First, is budget support a potentially effective instrument for eradicating poverty?
- Secondly, if budget support might be an effective instrument for poverty eradication, what additional measures are needed to ensure that budget support can be effective?
- Thirdly, what is required for the European Union to be able to deliver effective budget support?

## 7.2 The evolution of financial programme aid

Budget support is a form of financial programme aid. The main characteristic of programme aid is that it is intended to be '*policy-based lending*'. Programme aid is defined as:

'all contributions made available to a recipient country for general development purposes (...), not linked to specific project activities.'<sup>120</sup>

The original form of programme aid was food aid. Food aid has always been an important component of European aid. In the 1970s, financial programme aid was introduced, which mainly took the form of import support – also called 'balance of payments' support. These programmes tied the recipient government to importing specific products, from specific countries. It is clear that donors used this kind of support to open markets for their export products.<sup>121</sup>

As many developing countries became increasingly heavily indebted during the 1980s, it became concomitantly difficult to gain access to foreign exchange. To resolve this problem, loans from the World Bank, originally only destined for projects, were made available for policy reform.<sup>122</sup> Generally, donors sought more flexible conditions on imports, trying to tie less aid, while introducing conditions on macro-economic policies. This was called 'balance of payments support'. The liber-

alisation of domestic markets and the implementation of austerity programmes to reduce the fiscal expenditure of recipient governments were generally central elements in the package of conditions accompanying such support. Increasing the flexibility of import substitution eventually led to retroactive financing; making accounting procedures increasingly artificial.

In the late 1980s, direct support to the government budget was introduced by the United States and followed by other bilateral donors. This ‘budget support’ was also made conditional on carefully specified policies and institutional reforms to be implemented by the recipient government, often in co-ordination with the World Bank.<sup>123</sup>

### *7.2.1 Balance of payment support versus budget support*

Both balance of payments support and budget support are – technically – direct financial contributions to the recipient governments with the objective of reducing the government’s ‘financial gap’. Balance of payments support was given to reduce the gap in foreign exchange of the recipient government. Whether balance of payments support was needed was predominantly determined by the balance sheets of the recipient country’s Central Bank. Through import substitution, such gaps in foreign exchange were rectified and thus frequently the allocated financial resources never reached the bank accounts of the recipient country.<sup>124</sup>

Such gaps evolved where there were fixed exchange rates. During structural adjustment programmes, when exchange rates were liberalised, the foreign exchange gap was ‘resolved’, or no longer existed in economic terms. The liberalisation of the exchange rate led to devaluation of local currencies, which now became convertible. Devaluation implied that the finance required for debt servicing would become higher than hitherto. While the foreign exchange gap was resolved in this way, a gap in the budget appeared, caused by a shortage of fiscal means. Therefore budget support was established, which is considered to be a direct contribution to the domestic budget. As a result an analysis of government policies as a whole has become the central element for deciding whether or not budget support is given.

### *7.2.2 Conditionality leading to cuts in social sectors*

With programme aid, conditionality was introduced. Conditionalities under balance of payments support focused on macro-economic aspects. The condition to liberalise the exchange rates and the subsequent devaluation of domestic currencies led almost automatically to a decrease in fiscal means, since it increased the burden of external payments as trends in trade and capital transfers did not change. Clearly those countries with a high external debt were hardest hit. Governments were forced to make substantial cuts in their domestic budgets. In most

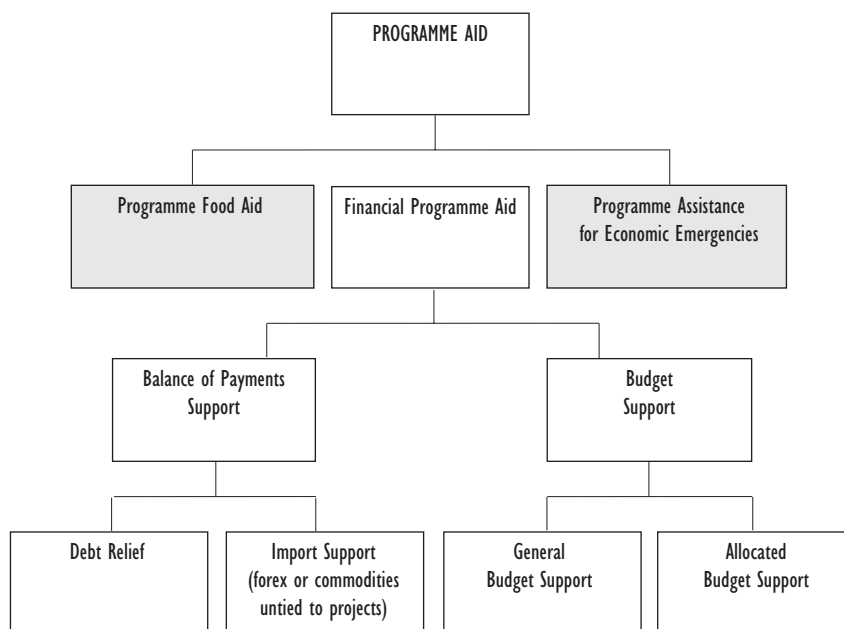
instances savings were made by cutting the administration itself, as well as reducing services in the social sectors.

The potential advantage of budget support is that it can introduce conditions that help to protect social services and, more generally, measures that protect people living in poverty. Through budget support, more emphasis can be put directly on the fiscal expenditure of the recipient. However, it is crucial to take into account that, whether or not the recipient government can actually honour these conditions, will depend on the macro-economic support given to reduce the weight on external debt payments in order to sustain the entire budget.

In the following figure the various kinds of programme aid are distinguished. Cutting across these categories the DAC distinguishes between 'general programme assistance', which does not have a specific allocation and 'sector programme assistance', which is intended to benefit a specific economic or social sector, such as agriculture, health or education.

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### Box 3 – Definitions of Programme Aid and Budgetary Support



Adapted from: H. White, Evaluating Programme Aid, Introduction and Synthesis, *IDS Bulletin*, Vol. 27, No. 4, 1996, Table I, and DAC Principles for Effective Aid, OECD, 1992.

Balance of payments support consists of contributions that are intended to be used for specific expenses in hard foreign currencies; e.g. the repayments of outstanding debts or the imports of commodities.

Budget support consists of contributions made directly to the recipient government’s budget. These can be general allocations to the budget or contributions to specific sectors (e.g. health or education). These are normally fiscal expenses in local currencies.

Often these financial contributions are transferred into counterpart funds. These funds are the equivalent in local currencies of foreign exchange (forex) or commodities offered by the donor. However, when currencies are convertible there is no real difference between balance of payment support and budget support in fiscal terms.

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### *7.2.3 Neglect of social sectors during structural adjustment*

Structural adjustment policies were introduced in the early 1980s since many governments could only sustain their budgets by increasing already large external debts or by exploiting natural resources at an unsustainable pace. The reform policies were based on export-led growth and included the deregulation of markets, so as to integrate the developing countries into the world market in combination with stringent austerity measures including profound cuts in the national administration and in social policy areas.

The impact of this package of economic and budgetary reforms has had important social costs. First, rapid liberalisation resulted in a shift of control over agricultural lands, forests and fisheries from those engaged in subsistence production to property owners. This destroyed rural livelihoods and food security. Moreover shift of agricultural production to non-traditional exports undermined the long-term productivity of agricultural lands and domestic food security. Increased pressure to use natural resources and agricultural lands for speedy economic returns undermined the traditional environmentally sustainable production methods.

Intensified global competition, combined with moves to deregulate labour markets exerted downward pressure on labour standards in many industries;

Secondly, in many countries increased competition on the global market excluded small entrepreneurs from the market and reduced employment, or reduced the returns of employment measured in purchasing power. Thirdly, privatisation resulting from structural adjustment often resulted in increased costs for basic social services, which are vitally important for people living in poverty. This includes basic health care, primary education, and access to clean water and fuel.

Disadvantages for women were disproportionately increased, since it is primarily women who depend on subsistence production. Women in employment often were already less paid and more vulnerable than their male counterparts in industrial sectors. Women, most often responsible for raising children, were also most severely affected by increasing costs for health and education, as well as diminished access to these services. The consequences of environmental degradation, such as the reduction of firewood and fuel or the pollution of water, affected women, and girl children most because they normally have the responsibility to collect those goods for the family.<sup>125</sup>

#### *7.2.4 A new compact between donors and recipients on social investment*

During the 1990s, it became apparent that structural adjustment programmes (SAPs) needed to be changed so as to protect people living in poverty. The neglect of social sectors by donors and recipients as a result of many years of fiscal austerity needed to be redressed. The UN Summit on Social Development in 1995 called upon donor and recipient countries to engage in a compact to increase spending in basic social sectors. In this compact donors would commit 20% of resources and recipient governments 20% of public expenditure to basic social services. The figure of 20% was proposed as an indication of what resources would be necessary to create the desired availability of basic social services for all citizens.

The 20:20 social compact assumes that investment in social sectors can be increased by targeted support to these sectors. This would be an instrument to ensure that macro-economic policies protect key areas for people living in poverty.

However, it could also be argued that budgetary support, being a macro-economic instrument, should not be allocated. If only parts of a country's budget is supported, while the administration does not have sufficient fiscal space to meet all its necessary domestic and external expenses, this would most likely lead to an undesirable distortion of the country's financial base. In order to create more flexibility, the administration would probably have to resort to 'creative' accounting. Such a situation would not guarantee greater investment in social areas.

The 20:20 compact, therefore, should not focus strictly on input targets. The compact is valuable because it expresses the need for donors and recipient to agree on priorities in relation to the budget and the means of making that possible. The compact is also crucial because the priorities are being expressed in quantifiable or measurable contributions from both donors and recipients, manifesting a need to create shared ownership of development programmes. However, the 20:20 compact should also focus on the macro-economic policies that would enable the implementation of such a poverty eradication compact between donors and recipient.

### 7.3 The EU: from programme aid to budget support

Direct financial aid has been part of the various Lomé Conventions through the STABEX and SYSMIN instruments. The aim of STABEX is to promote exports by helping export stabilisation through compensation for losses caused by price or quantity fluctuations, or both. SYSMIN is a special financing facility for mining products, set up for those ACP states whose mining sectors occupy an important place in their economies and which are facing difficulties. STABEX and SYSMIN are not formally regarded as part of structural adjustment support programmes, since transfers under these instruments are, by nature, unpredictable, and, therefore, they cannot support an entire reform process. Also, contrary to structural adjustment support, STABEX and SYSMIN funds are disbursed without conditionalities.<sup>126</sup>

Balance of payments support was first introduced in the third Lomé Convention. It was added to the Convention because structural adjustment programmes in many ACP countries had caused sweeping cuts in government expenditure that led, among other things, to food riots and violent demonstrations. The European Community had not been involved in structural adjustment until that point – partly because of disagreement between member states. The European Community responded to the crisis by approving ‘*quick disbursing*’ aid from a special programme of 600 million ECU for import purchases available to heavily indebted low income African countries.<sup>127</sup>

The European Community adopted a resolution on Structural Adjustment Programmes (SAPs) in 1988.<sup>128</sup> It noted that:

- the mixture and pace of reforms should be suited to each country’s circumstance;
- more attention should be paid to the social dimension; and
- ACP governments should have more say in planning the reforms.

In Lomé IV (1990-2000) for the first financial protocol leading up to the Mid-Term Review an additional fund, amounting to 1 150 million ECU, was established to support structural adjustment.<sup>129</sup> This encompassed:

- sectoral import programmes (SIPs) through direct procurement; and sectoral import programmes in the form of foreign exchange released in instalments for financing sectoral imports;
- general import programmes (GIPs) in the form of foreign exchange released in instalments for financing general imports covering a wide range of products.

Lomé VI *bis* included a structural adjustment facility worth 1 400 million ECU. Direct budgetary support was introduced in the Convention, intended to alleviate domestic financial constraints. These funds could be transferred either directly to ACP states whose currencies are convertible and freely transferable, or indirectly through counterpart funds generated by the various community instruments.<sup>130</sup>

In 1995 the European Council adopted a new Resolution on Structural Adjustment.<sup>131</sup> The resolution applies to all European Union development co-operation policies, including those of the member states. The Council noted:

- the inappropriate allocation of resources which, in particular in the social sectors, penalises basic services;
- that the significant reduction of public expenditure had acted to the detriment of maintaining economic and social infrastructure and, in some cases, the functioning of essential government bodies;
- that investment has stagnated or even declined;
- that imbalances influenced by trends in trade and capital transfers had not been corrected despite efforts to cancel or reschedule debts;
- that the real involvement of representatives of the countries concerned in defining the programmes was inadequate.<sup>132</sup>

With this resolution the Council asked the Commission to implement the Lomé Convention with greater emphasis on the social dimension. The Council demanded that particular emphasis should be given to supporting public finances through an approach that would prioritise social sectors. Counterpart funds should be transparently implemented in national budgets. This was, in reality, the first shift towards sectoral budgetary support. A new resolution on Structural Adjustment Programmes by the Council is forthcoming.

### 7.3.1 *'Rolling programming' in the future Lomé Convention*

The EU negotiating mandate stresses the change in the nature of aid in order to achieve 'ownership' by the South. The EU states that such a change entails an approach

"which is based on genuine partnership, is aimed at replacing the concept of 'conditionality' with that of 'contract', which implies mutual obligations and a shared vision of the policy implemented."<sup>133</sup>

In the negotiations on the successor to the Lomé Convention the EU has been advocating "rolling programming", which is another term for budgetary support. All current instruments would be rationalised into one envelope from which all long-term assistance would be allocated. Rolling programming would be an on-

going process with a constant five-year perspective that is rolled over every two years. The Commission sees rolling over as a way of achieving its objectives and summarises this as follows:

- five year planning perspective leading to security and predictability;
- regular update of Country Strategy providing necessary flexibility;
- need and merit resulting in efficiency in satisfying country needs;
- one co-ordinated programming exercise leading to coherence;
- focal sectors enabling a concentration on country development strategies.<sup>134</sup>

### 7.3.2 *Evaluation of the effects of budgetary support*

An evaluation of EC financial programme aid by the Court of Auditors in 1996 concluded that the European Commission implemented the import programmes with a broad interpretation under the first half of the Fourth Lomé Convention, prior to the inclusion of direct budgetary support in 1995. The EC introduced a system less directly linked to the physical implementation of imports. Therefore, it was, in practice, equivalent to global balance of payments support and direct budgetary aid. The Court, therefore, decided not to focus on aspects relating to imports and the generation of counterpart funds. It focused, merely,

‘on the macro-economic aspects and the impact of the budgetary expenditure of the ACP states in the most deprived social categories.’<sup>135</sup>

What do such evaluations of the EU structural adjustment support programme conclude with regard to the desirability of EU budgetary support? First, the difficulty of evaluating programmes that were part of a global reform process should be taken into account.<sup>136</sup> The principal input to these programmes was not under control of the European Union. Moreover, it was found difficult to evaluate programmes that focused on specific objectives, but did not function as independent projects.<sup>137</sup> However, some specific lessons can be drawn.

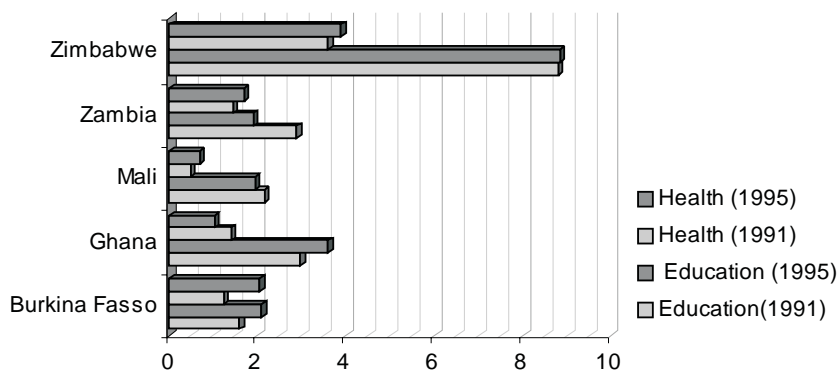
In the first place, the Court of Auditors noted that general import programmes are pointless. They should be abandoned in favour of direct budgetary support. Similarly, when counterpart funds are established, they should be transferred to the central government’s budget and included in the fiscal process.<sup>138</sup> Where direct budgetary support is employed, it is easier to check the real use of aid against the primary objective of poverty eradication.<sup>139</sup>

In its more detailed investigation, the Court focused on 11 countries. It found that the use of counterpart funds differed enormously, ranging from 100% allocated to social sectors in Mali and Zimbabwe to 20.8% in Benin. The Court concluded that, in the case of some countries, the investment did not reflect the priority given by the European Community to social sectors. The Court further noted

that a rate significantly higher than 50% of counterpart funds' investment in social sectors in each country should be considered the minimum. Moreover, within social sectors, greater priority should be given to basic social services, particularly basic health care and primary education.

It is obvious that, when specific funds are allocated to specific sectors, this does not automatically result in increased total spending in these sectors. The government can decide to spend less of its resources in those areas. This is called fungibility. In order to establish whether spending in social areas had actually increased the Court looked at the actual budget expenditure of recipient governments. The Court experienced difficulty in assembling data on actual expenditure and looked instead at budget allocations. It appeared that allocations to social sectors as a percentage of GDP, and even as a percentage of the real budget, had increased only marginally in most countries.

GRAPH II *Budget Allocations to Social Sectors, as % of the total budget\**



\*Adapted from: European Court of Auditors, Annual Report 1995, *Official Journal of the European Communities*, 1996, Table 12.6 (b), p. 302.

In Zambia and Mali, allocations to the education sector decreased as a percentage of the total budget between 1991 and 1995. In Ghana, allocations to the health sector decreased as a percentage of the total budget. On average, the spending on education increased from 3.68% of the total national budget to 3.69%. Spending on health increased, on average from 1.63 to 1.87 % of the total budget. These figures are only allocation figures. In most countries real spending would, in all likelihood, be even less. The figures also do not differentiate spending in primary education and basic health. The European Court of Auditors concluded:

"It is apparent that, despite the support of the Community, the situation of the budget in the priority social sectors has not shown any manifest improvement for certain countries."<sup>140</sup>

In looking at explanations for the lack of increases in actual spending in social areas, the European Court of Auditors observed that the servicing of foreign debt continued to be a major impediment to the effective use of budget support. It found that:

"[t]he structural adjustment loans granted by the IFIs in fact require external assistance in the form of donations which allow new loans to be contracted. The loan conditions stipulate the volume of countries, because the own resources of the country undergoing adjustment are not sufficient to finance both the repayments of the earlier debts and budgetary expenditure."<sup>141</sup>

Most governments of the Highly Indebted Poor Countries (HIPC) spend over one-fifth of their revenues and 15% of their total expenditure on debt servicing. Moreover, the conditionalities associated with structural adjustment loans to which HIPC resort often demand governments to cut budgets in social areas.

The Court suggested that stronger co-ordination between the multilateral and bilateral donors was required to achieve a coherent policy. The key to successful budgetary support is, therefore, not only the negotiation of consistent policies and priorities agreed between donor and recipient, but also among the donors themselves. A recent study on EC programme aid and management reached a similar conclusion:

"Individual donors are tending to target their own assistance on particular budget sectors for accountability reasons. A few are focusing on institutional change in budgetary processes and developing capacities and skills for this. The Commission has sought to exert some leverage on the restructuring of domestic expenditures, with mixed success. This approach is too individualistic. The main need is for a collective multi/donor/recipient agreement on priorities within an expenditure/budgetary framework for each major recipient."<sup>142</sup>

The European Union has an additional role to play, because a common political framework does exist which calls on the member states and the European Union to adopt approaches that are co-ordinated and coherent.

#### 7.4 The EU policy on debt cancellation

A resolution to the debt crisis should be part of an integrated approach associated with budgetary support. The European Commission maintained that, increasingly, almost all aid from the European Community in the Lomé Convention has been disbursed as grants – and this aid has, at least, not exacerbated the debt problem. STABEX resources were also transformed into grants, and sometimes used directly for (internal) debt relief. In an evaluation of STABEX operations in Uganda, this was found to have been useful, but the problem of external debt was also recognised. The conclusion was that debt relief had been a successful element of the STABEX programmes, but that the relief of external debt in particular should be considered as a legitimate use of STABEX funds and the possibility of extending STABEX-based programmes to debt relief beyond the EC was raised.<sup>143</sup>

As a follow up to the 1995 Social Summit the Danish government instigated an investigation into the possibilities of total or partial debt relief for ACP countries.<sup>144</sup> Recently the European Commission has proposed some measures to address the problem of debt owed to the European Community.<sup>145</sup>

As a creditor, the European Community represents 1 460 million ECU, of which 600 million ECU are most likely to require action under the Highly Indebted Poor Countries (HIPC) Initiative. In the Commission's proposal it is suggested that support to heavily indebted poor ACP states would be enhanced by:

- granting additional structural adjustment support on a case-by-case basis;
- considering, again on a case-by-case basis, support for the reduction of commercial debt; and
- strengthening support for debt management.

As a creditor, the debts to the Community come from special loans, risk capital and EIB loans. It is proposed that the Community:

- takes action to reduce the net present value of the eligible countries' debt to the Community.

Assuming that 11 ACP states participated in the initiative, the Commission estimated that the costs of the Communities' contribution to the HIPC Initiative would be 150 million ECU at 1996 values. This would correspond to 5% of the total cost to be borne by multilateral creditors. For the Community, the costs would not exceed a few tens of millions of ECU per year on average. This would be a very small percentage of European Community aid. These figures do not include debts to European Union member states. The Commission proposes that the Community re-finances outstanding debts through the provision of grants.

This should particularly focus on special loans and should be financed by reflows.<sup>146</sup>

However, deeper, speedier and broader debt relief is required. The ACP Finance Ministers believe that it is necessary to:

- adopt greater flexibility to increase the number of eligible countries;
- ensure the availability of debt relief in the initial decision stage;
- speed up the time-frame for decisions on individual countries, given the track-record of many countries in structural adjustment, and the size of the problems in these countries;
- give special treatment to post conflict countries, landlocked states and vulnerable island economies.<sup>147</sup>

Despite initiatives of the Commission and urges from the Parliament and the ACP-EU Joint Assembly, the member states have absolutely refused to discuss this issue in terms of a comprehensive EU solution. ACP countries have raised the question of debt relief with European member states and debt resulting from European Community loans granted in early Yaoundé and Lomé Conventions, but these attempts have to date remained largely unsuccessful, apart from an initiative for exceptional assistance for the HIPC ACP countries, with a reservation of 40 million ECU financed from interest accrued on the funds deposited with paying agents handling some parts of the EDF.<sup>148</sup>

## 7.5 Conditions for successful ‘rolling programming’

Rolling programming, in general, and budgetary support, in particular, require a close co-operation and fine-tuning of activities and approaches between the ACP and the EU. As an initial step to move towards a more ongoing planning and monitoring process between the ACP countries and the Commission, annual reviews have been introduced. These reviews should consider the progress of implementation, and the relevance of the programme as planned within possibly changed circumstances. The new approach to reviewing progress of implementation in an ongoing manner poses a number of related questions regarding criteria for resource allocation and the involvement of civil society. It also raises question in terms of the implementation capacity of the administrations charged with the implementation of the programme.

### 7.5.1 *Resource allocation and selectivity*

The EU proposes that, in the 'rolling programming' methodology, resources would be allocated on the basis of a combination of an "estimate of need" and "an evaluation of performance".<sup>149</sup> It defines 'needs' on the basis of economic and social development indicators, and would envisage special treatment for LDCs and special provisions for island and landlocked states. It defines 'performance' in terms of the commitment to the objectives of sustainable development and poverty eradication, the quality of macroeconomic and sectoral policies, good governance, progress with reforms and the level of utilisation of EC aid resources. The EU proposal adds that the assessment of performance:

"does not imply that the EU would impose an array of specific conditions that should be met!"<sup>150</sup>

It suggests that what is needed is to:

"elaborate a mechanism that will enable a fair evaluation of broad developments and measures the overall development efforts that are undertaken by a country";

"make it possible to support countries that pursue its development strategies effectively";

"include an assessment of the effectiveness in the country's implementation of EC assistance."<sup>151</sup>

In the absence of more specific criteria for allocation, as well as for evaluating whether progress made would be considered satisfactory, the danger is that the assessments will occur on a political basis with rather random justifications. So far, it is certainly unclear what would be the weighting of the different elements of performance criteria if the EU is serious in its statement that it would not "*impose an array of conditions*".

The EU proposal of 'rolling over' leans towards general budgetary support. These funds would not be earmarked for social areas. While this has some advantages, as discussed, the proposal does not identify how increased investment in social areas can be ensured. Moreover, it is unlikely that there are many, if any, beneficiary countries that fulfil all the criteria that would guarantee adequate results. This reality poses some fundamental questions as what indicators can be used to measure progress in this context.

Finally, the EU proposal suggests that, as part of the rationalisation of aid, humanitarian aid would be included in the rolling over programme. However, while humanitarian aid can be employed by a Southern government in response to natural disasters, it also gives assistance in man-made disasters and conflict situations. Clearly, where a government is involved as a party to the conflict, it should not

itself be managing humanitarian relief, since this is based on the principle of neutrality. Humanitarian aid should therefore remain in a separate envelope.

### *7.5.2 The involvement of civil society*

The measures which governments needed to implement under structural adjustment programmes increased income disparities and were extremely detrimental to people living in poverty. In general, administrations resorted to authoritarian means of implementing these policies. As a result, civil society has, by and large, been excluded from participating in decision-making:

“The hardship brought on the people by the implementation of the present Structural Adjustment Programmes made the majority of the people, including organised labour, to oppose them. This has led to the use of force by governments to suppress these protests, resulting in further alienation and in some cases, political instability.”<sup>152</sup>

The Lomé Convention, as an agreement between governments, has also not had much success in involving civil society and its organisations in decisions or in the implementation of the Convention.

Budgetary support pre-supposes a legitimate government which serves its people and implements policies that are supported by a broad consensus. It is, therefore, imperative that governments obtain a genuine legitimacy through respecting democratic principles and human rights. Governments must seek the active involvement of the people in development and allow people to decide for themselves their own development needs, including contributing to policy formulation and planning, as well as to supervising and monitoring their implementation. If these conditions are not fulfilled, the impact of budgetary support on poverty eradication will be severely constrained, and potentially non-existent. Equally, in countries in conflict, or without a proper government, budgetary support cannot be appropriate.

The EU proposes that the parameters for the evaluation of performance in rolling over programming

‘shall be jointly established and subsequent evaluations will be carried out through open and inclusive dialogue.’<sup>153</sup>

It does not identify how such a process could or should be established. Yet this is key to ensuring the credibility of the evaluation process on which resource allocation would be based.

### *7.5.3 Sufficient administrative capacity*

The EU assumes in its proposal that budgetary support might be more efficient and administratively less cumbersome for donors and recipients. However, budgetary

support needs to be carefully planned, in a coherent manner, involving both the beneficiary government and other donors and budgetary support needs to be carefully monitored. This requires that the EU needs to have the capacity and expertise to follow these processes on a continuous basis.<sup>154</sup>

Firstly, for rolling programme and budget support to be effective decentralisation of powers to the EU delegations is very much needed. This will only be feasible if the EDF Committee will delegate powers of approval and implementation to the European Commission. It also requires that the capacity in the delegation be increased and more expertise be made available to make inputs and assessments in specific areas.

Secondly, procedures of financial control need to be changed to ensure that financial resources are released in relation to the annual review process. If the timing of the release is not managed accurately by the Commission, it will upset the budgetary process of the beneficiary country. Experiences with EU financial aid have demonstrated that cumbersome EU procedures often lead to delayed disbursement. While the proposals for rolling over sound excellent, the experience of EC aid is that delivery is unwieldy and procedures for approval of funds are exceedingly slow. The EU proposals do not identify counter measures that could be taken.

Rolling programming, and budget support, should not overburden the domestic administration. It is, therefore, important that accounting requirements for various instruments are harmonised. Preferably the different donors should harmonise accounting requirements, within the framework of accounting in the general budget of the beneficiary government. Assistance should be given to enhance the capacity of the recipient administration to manage its own finances in an efficient, transparent and accountable manner.

The EU proposal does not explicitly address the politically sensitive issue of corruption. However, ACP governments receiving budgetary support must be expected to make a real effort to properly manage all available resources – both domestic and foreign – to contribute to the economic and social development of their societies. In this respect, the EU too must put its own house in order. The EU countries should make the corruption of foreign officials by European firms a criminal offence, and, where it still exists, end tax deductibility for bribes. It needs to hone procurement and contract rules to prevent or sanction cases of corruption. Sound management cannot be justifiably placed as a condition on ACP countries, when the EU tolerates, or even indirectly encourages firms, to bribe foreign officials.<sup>155</sup>

## 7.6 Conclusions

Rolling programming can be an effective methodology, with budgetary support as an effective instrument that contributes to the eradication of poverty, if:

- EU and ACP countries collectively agree that the eradication of poverty is a principal objective of budgetary support; there is a credible plan detailing how this might be achieved; both the EU and ACP are willing to contribute resources to this end, within a single and consistent budgetary policy;
- The EU and the ACP agree on precise programme mechanisms, including planning, the decision-making procedure, the time-frame of disbursements, the monitoring and evaluation of progress, and clear criteria for any suspension of aid;
- Governments are demonstrably legitimate and respect democratic principles and human rights. Governments must seek the active involvement of the people in development and allow people to determine their own development needs; to plan and contribute to the programming; to supervise and monitor their implementation.
- Reliable and transparent processes on fiscal expenditure are put in place as well as measures to avoid corruption, both in the EU and in the ACP countries.
- Greater investments in the ACP's fiscal budgets are devoted to basic social services.

Budgetary support can only be an effective instrument to eradicate poverty if there are other supportive aid policies:

- The EU and the ACP must develop a co-ordinated and coherent positive response to the Highly Indebted Poor Countries Debt Initiative. Activities under this initiative should be accelerated. The EU and the member states' under-spending of approximately 3 billion ECU per year of funds budgeted for developing countries should be allocated to a comprehensive programme to resolve the outstanding debts towards the EU, including the bilateral debts owed to the member states;
- Structural adjustment policies implemented by the EU and the member states should not run counter to the principal objective of poverty eradication and the protection of basic social services;
- Mechanisms must be developed for EU policies to avoid major contradictions in aid policies and programmes; co-ordination is required both between EU bilateral programme aid activities and EU budgetary support, as well as with other providers of funds, such as the International Financial Institutions;

- Measures are taken to avoid corruption, both in the EU and in the recipient countries: to begin with, the corruption of foreign officials by European firms should become a criminal offence and tax deductibility of bribes in EU countries should be immediately terminated.

The EU will need to improve its capacity in terms of:

- adequate expertise in the EU in order to improve policy dialogue;
- providing continuity through multi-annual planning;
- tightening up procedures so as to guarantee timely disbursements of funds and avoid disruption in payments;
- establishing, together with ACP countries, an effective monitoring capacity to supervise the implementation of the mutually agreed plan and to enable adjustments to be made if and when necessary;
- creating transparent procedures for the selection of countries for which budgetary support might be an appropriate instrument;
- maintaining a separate envelope for humanitarian assistance to provide relief in countries that do not fulfil performance criteria for rolling over programming; and
- co-ordination between the EC and the member states' aid programmes.