

BRIEFING ON THE FUTURE OF EU BUDGET SUPPORT IN DEVELOPING COUNTRIES

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Most important aspects concerning the Green Paper

1. Political governance and the role of the political dialogue
2. Role of policy dialogue, role of conditionality, links to performance and results
3. Domestic and mutual accountability
4. Programming of budget support and its coherence with other instruments
5. Strengthening risk assessment and dealing with fraud and corruption
6. Budget support in situations of fragility
7. Growth, fiscal policy and mobilisation of domestic revenues

1. Political governance and the role of the political dialogue

Potentials:

- leverage of budget support dialogue is enormous and regarded as more effective than any other political exchange
- budget support can always be suspended if underlying principles are breached

Risks:

- GBS is used as a donors' tool to impose their governance or human rights understanding which inevitably undermines national ownership
- donors have to be careful to cut budget support if the political stability of a country is in question

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

Potentials:

- budget support policy dialogue improves collaboration of donors and the government and can build on and reinforce partnership
- conditionality supports government to implement reforms and focuses on results

Risks:

- conditionality represents a wish list of donor priorities and undermines domestic political decision-making
- conditionality is too ambitious, unrealistic and achievement is not independently assessed

3. Domestic and mutual accountability

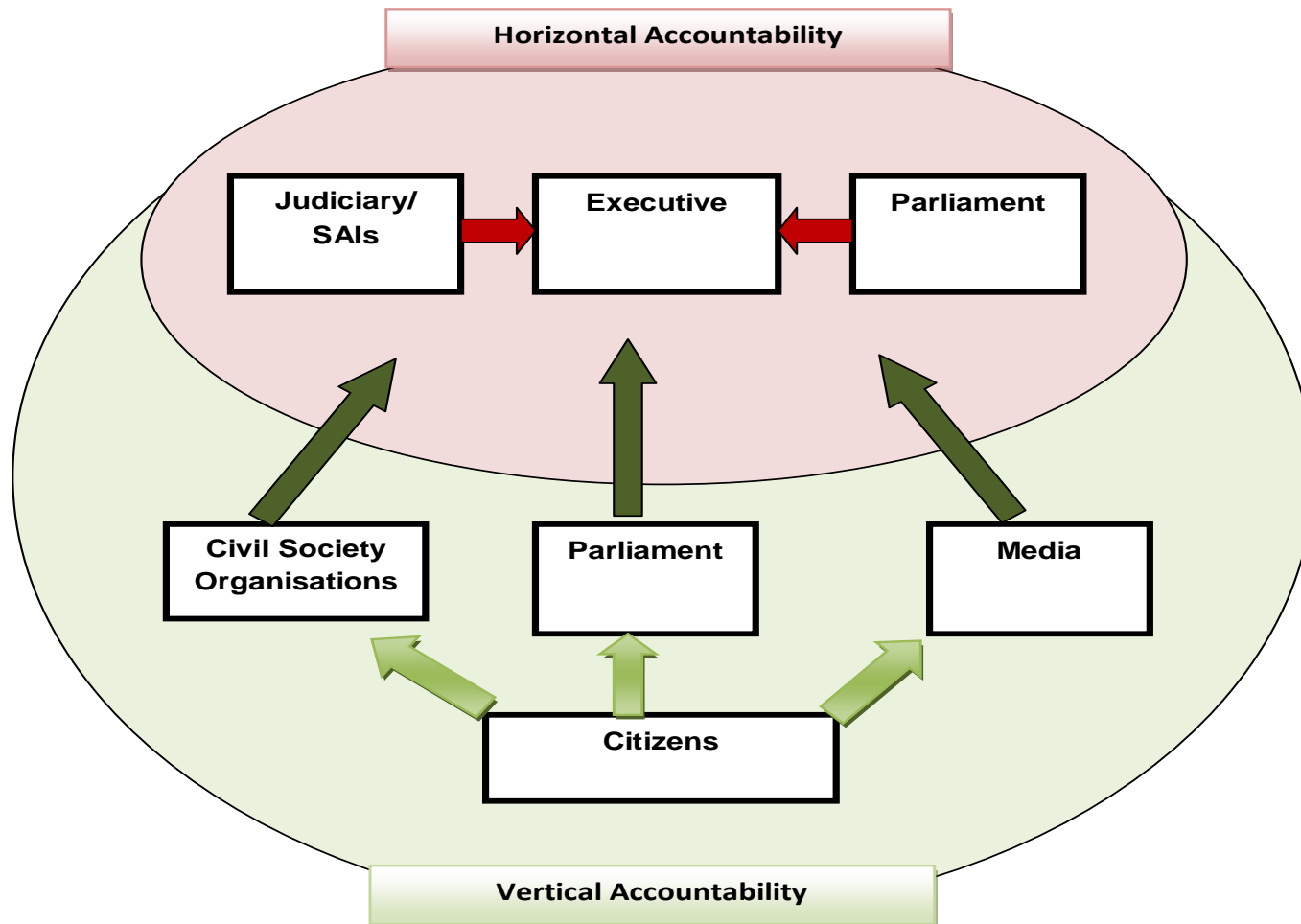
Potentials:

- budget support strengthens domestic accountability and underlies parliamentary control
- budget support reduces parallel management systems and strengthens national audit systems
- external and domestic accountability are complementary and reinforcing

Risks:

- donors do not include civil society or parliament as much as necessary
- support to domestic accountability and budget support are not in reasonable proportions
- external demands for accountability overshadow and undermine domestic accountability

EC Guidelines should include a clear and holistic definition of national control mechanisms



4. Programming of budget support and its coherence with other instruments

Potentials:

- General budget support and sector budget support are complementary. Sector budget support can make cross-cutting reforms more responsive to the needs of sector service delivery
- Project aid targeted at supporting the Supreme Audit Institution, Revenue Authorities or other public financial management institutions can reinforce partner country's capacity to manage budget support
- Funding for civil society and research institutions increase domestic accountability
- Budget support policy dialogue can be used as a platform to address issues arising in specific sectors

Risks:

- Donors continued use of project aid undermines the potential benefits of budget support
- Donors rather use basket funds that sector budget support to minimise risks, but undermine domestic accountability and build up parallel management systems
- Policy dialogue is too ambitious and overloaded

5. Strengthening risk assessment and dealing with fraud and corruption

Potentials:

- Budget support strengthens financial management systems as well as domestic accountability systems and improves the control environment.
- Budget support increases donor's incentives to deal with corruption and fraud in public financial management
- Budget support increases the visibility of corruption

Risks:

- high levels of political corruption are the major cause for bad performance of budget support
- corruption outweighs development benefits
- funds are not used appropriately and do not reach local levels

6. Budget support in situations of fragility

Potentials:

- budget support to fragile states contributes to stability, restoration of institutions, government ownership and strengthening financial management capacity

Risks:

- high fiduciary risks
- very weak government structures
- legitimization of governments unclear

7. Growth, fiscal policy and mobilisation of domestic revenues

Potentials:

- budget support can strengthen tax reforms and administration
- policy dialogue can be used to support transparency initiatives in resource rich countries
- budget support leads increased predictability of aid if planned long-term

Risks:

- budget support minimises government's incentives to mobilise domestic resources
- donors rather focus on the expenditure side and too little on the income side of the budget
- budget support disbursements are often not predictable
- quantitative measurable targets could create unwanted negative incentives

Thank you