



What hope for development without peace? Rethinking budget support to promote peace and EU values

Saferworld contribution to the consultation on the EU Green Paper:
The future of EU budget support to third countries
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'The Union's action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.'

(Lisbon treaty, Article 21.1)

'In line with the fundamental values of the EU, the highest political priority will be given to improving the effectiveness and coherence of its external action in the field of conflict prevention, thereby also enhancing the preventative capabilities of the international community at large.[...] all relevant institutions of the Union will mainstream conflict prevention within their areas of competence...'

(EU Programme for the Prevention of Violent Conflicts, 2001)

Introduction

Saferworld welcomes the Green Paper on EU budget support and appreciates the opportunity to contribute to the associated consultation. This is a very important issue given the trend towards greater use of budget support to meet development goals. The consultation should be commended for providing the opportunity to look at budget support in considerable detail, and the questions it poses are apposite and well-timed.

Saferworld appreciates that budget support can have many positive effects in countries where the leadership is genuinely committed to the long-term peaceful development of the country and its citizens. However, we should not fool ourselves that this is always the case. As such, our primary concern is that budget support should only be used in a way that promotes long-term peace and security, and crucially, that **the EU must avoid fuelling conflict as a consequence of providing major budget support to regimes that show no serious commitment to good governance, human rights, peace and the security of their citizens.**

Currently, while the debate about budget support touches on these issues when it looks at the application of budget support in 'conflict-affected and fragile states', there is little recognition of just how central questions of fragility, conflict and weak governance are in many – perhaps even a majority of – countries where budget support may be provided.

There is a strong correlation between under-development and conflict. According to several different rankings, more than half of the poorest and least developed countries in the world are affected by conflict:

- Of the 34 countries furthest away from achieving the Millennium Development Goals, 22 are in, or have just come out of, conflict.

- Fragile states make up 26 of the 40 countries considered low-income countries by the World Bank.¹
- 29 of the 42 countries at the bottom of the UNDP's human development index are fragile states; and this index does not even rank some of the most fragile states in the world (Iraq, North Korea, Eritrea, Somalia) in terms of their state of development.²

Thus, fragility and conflict are not peripheral issues for development, even if this is defined narrowly in terms of poverty reduction (though we would argue that development should actually address the fulfilment of a broader range of human needs, rights and aspirations, including freedom from violence and injustice and protection of a broad range of socio-economic, civil and political rights). Ensuring that aid – including budget support – contributes to conflict prevention and promotes lasting peace is therefore essential. This is not only because the right to leave a life free from insecurity is, or should be, as fundamental as the right not to live in extreme poverty, but also because there is a great deal of evidence to suggest that it is very difficult to achieve poverty reduction without also addressing conflict.

Far from being seen as a 'technical' method of supporting poverty reduction, it must be recognised that questions of when to provide budget support to third countries, how much, and through what processes cannot be separated from the role of the EU in promoting its underlying principles. Indeed, to ignore the need for budget support to work in support of human rights fulfilment, better governance, democratisation and conflict prevention, would not only be a missed opportunity for the EU to use its power constructively to help communities in developing countries enjoy better lives in greater freedom; it would also seriously undermine its direct efforts in other areas to support peace-building and to empower people to claim their rights.

Q1: Should budget support operations (especially general budget support) be designed to better reflect partner countries' commitment to the **underlying principles** and if so, how? In particular, should budget support programmes make more use of political governance conditionality? Is there a case for adopting a different approach to **political conditionality** for general as opposed to sector budget support?

Q2: How can the budget support process be consistent with the **political dialogue** on underlying principles while maintaining the focus of **policy dialogue** on agreed development objectives?

Q3: How can donors meaningfully **respond** to any deterioration in the underlying principles while protecting the development benefits and predictability of budget support?

Q4: How can **policy dialogue** with partner countries be made more effective and inclusive in contributing to achieving reforms, results and objectives?

Decisions to provide budget support must consider politics and governance

The Green Paper is positive in its acknowledgement that 'EU budget support is not a blank cheque, nor is it provided to every country. "Underlying Principles" matter, and policy dialogue is a central part of the package.' At the same time, the Green Paper acknowledges the OECD DAC's assertion that: 'political conditionality should not be specifically linked to budget support or any individual aid instrument, but rather should be handled in the context of the overarching political dialogue between a partner country and its donors'.³ Following this doctrine, the EU Green Paper argues that 'Policy dialogue is distinct from broader political dialogue on underlying principles', and therefore should be confined to the areas of:

¹ World Bank, 'Country and lending groups', available at: <http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income>. 'Fragile states' as listed in OECD, 'Ensuring fragile states are not left behind', (OECD, February 2010), available at: <<http://www.oecd.org/dataoecd/12/55/45659170.pdf>>

² UNDP, 'Human Development Index (HDI) - 2010 Rankings', available at: <<http://hdr.undp.org/en/statistics/>>

³ OECD, DAC Guidelines on Harmonising Donors' Practices for Effective Aid, Budget support (vol 2, 2005)

growth strategy; macroeconomic stability; fiscal policy (including domestic revenue generation and budget composition at central and decentralised levels); sector policies (especially social sectors); social protection (including use of conditional cash transfer schemes); public financial management; broader governance issues such as the fight against corruption and fraud, public sector reform, including decentralisation.

Broader politics and governance issues should not be omitted from this list, because progress towards human development and security cannot be separated from the struggle to create better governed societies. To support peace, the EU must place its values at the centre of the conditions it attaches to its aid. It should take an incentive-driven approach to conflict-affected contexts that offers:

- real dividends to states that demonstrate their preparedness to improve governance, democratise, fulfil human rights and implement inclusively developed peace and development plans;
- real (legal, political, economic, security sector) disincentives to states that are not.

Because of the potential for inequitable allocation of development resources in partner countries to impact negatively on conflict dynamics, the EU should also tie increased levels of budget support to development plans developed through conflict-sensitive and inclusive processes that meet the needs of all social groups equitably, especially those most vulnerable and in greatest need.

'Dialogue' is not enough

Instead, in its Green Paper the EU is considering tying the offer of support to 'policy dialogue' that specifically excludes political dialogue. As Human Rights Watch persuasively argues in the *World Report 2011*, this approach will be insufficient to ensure progress on the political issues that lie at the heart of underdevelopment and conflict:

repressive governments have become so adept at manipulating these dialogues, and purported promoters of human rights so dependent on them as a sign that they are "doing something," that the repressors have managed to treat the mere commencement or resumption of dialogue as a sign of "progress." Even supposed rights-promoters have fallen into this trap. [...] Dialogues would have a far greater impact if they were tied to concrete and publicly articulated benchmarks. [...] The failure to set clear, public benchmarks is itself evidence of a lack of seriousness, an unwillingness to deploy even the minimum pressure needed to make dialogue meaningful.⁴

The failure to require more than dialogue as a condition of financial support would be a failure to use all means at the EU's disposal to take forward EU values and support peace. The EU can do much more to ensure concrete progress on good governance: its global requirements should be for its resources to incentivise *commitment* rather than mere dialogue, and commitment to *political* progress as much as to economic programmes. Failure to achieve progress on governance could carry serious dangers for ordinary people in most of the world's poorest countries.

Eligibility criteria for budget support should be stricter, as they are for trade

In fact, the EU's Green Paper does acknowledge the need for 'eligibility criteria' for budget support, 'including in countries in situation[s] of fragility'. This is positive, but these criteria should include meaningful progress on democracy, governance, human rights fulfilment, inclusion and participation in development decision making, equitable service provision, and anti-corruption. The EU already monitors implementation of commitments to human rights instruments in determining whether states qualify for the Generalised System of Preferences trade scheme. Similar criteria could and should be applied to budget support. If budget support were governed by legislation conditioning

⁴ Human Rights Watch, *World Report 2011*.

support on progress towards fulfilment of human rights commitments, individual decisions applying the legal framework to specific cases would be less controversial.

Eligibility criteria should also include conditions related to the quality of the planning process (particularly inclusion of the needs and perspectives of vulnerable groups). During implementation, evidence should be collected to inform future decisions on whether resources and services are reaching the communities most in need and whether this is leading to improved perceptions of development and human security.

Budget support should only support *appropriate* development strategies

The Green Paper's assertion that 'Budget support should support a country in achieving its own development strategies' is cause for concern. While it is not the place of donors to define partner countries' development strategies, this does not mean that all development strategies are equally acceptable to donors as long as they are 'locally-owned'. It should matter to the EU what vision of development each and every government is moving towards. If it does not demonstrate movement towards inclusion, equality, democracy, responsiveness and accountability, in the long-term the vision is unlikely to lead to genuine human development or peace, and is not a vision consistent enough with EU values to deserve EU support.

Hence, a more appropriate formulation might be that 'budget support can support a country in achieving its own development strategies, but such support should only be given where these strategies are in line with basic principles of good governance and backed with genuine commitment.'

Make it possible to override 'predictability' where the situation deteriorates

In the same way, there may be value in the EU providing a greater degree of predictability in its budget support as the Green Paper suggests, but it cannot be offered unconditionally. Predictability should not be made a primary objective in cases where EU criteria (on a broader set of issues than the recipient government's fiscal and economic performance) are not being met: the EU should not be locked in to supporting governments who are playing a negative role in conflict dynamics on such technical grounds. A 'deterioration in the underlying principles' will in itself erode development benefits and increase the risk of conflict over time. In such cases, to be an effective promoter of peace and development, the EU will need to demonstrate the kind of operational flexibility to deliver aid through other means – and keep the options of off-budget support and shadow alignment in reserve as part of this flexible approach.

As a step towards operationalising a flexible approach, the EU should integrate into its procedures for granting budget support decision or review points where donors can match progress against criteria for maintaining/dropping support if aid is not reaching beneficiaries equitably and other key elements of a vision for peace are not being pursued (in terms of improving governance, tackling human rights and international humanitarian law violations and democratisation).

The Green Paper asserts more than once that there are 'limits of conditionality as an effective means of promoting reforms.' While there is indeed a great deal of evidence that various forms of 'conditionality' have had limited impact, there are a vast range of different conditions and means of placing and upholding such conditions, and it is an over-generalisation to suggest that conditionality is always or usually ineffective. It depends on what conditions are being applied and how. Conditions regarding structural adjustment have been rightly criticised because of the availability of other viable models of achieving growth. This does not prove one way or another that forms of conditionality regarding good governance, democracy and human rights are either inappropriate or ineffective.

Furthermore, while some have asserted that conditionality is ineffective, others have argued that it has never been meaningfully applied:

Larry Diamond observes that development agencies continue to give aid to the most corrupt and unaccountable African states, with known authoritarian and corrupt governments. His list includes Cameroon, Angola, Eritrea, Guinea and Mauritania, each receiving aid equalling or even exceeding the African average of US\$20 per capita. [...] A 1992 study conducted by the World Bank's Operations Evaluation Department concluded that the release of aid tranches was close to 100 per cent, even when country compliance rates on conditions were below 50 per cent. Another World Bank study, in 1997, shows that between 1980 and 1996 72 percent of the aid the World Bank allocated to adjustment lending went to countries with poor track records on compliance with conditionality.⁵

Working with others to link budget support to good governance

In addition to making renewed efforts to make its financial support to partner governments support progress in good governance, to enhance the effectiveness of its principles, the EU will also need to convince other donors of their benefits. The EU should be much more pro-active in building consensus among other donor partners and international institutions to ensure that governance issues are not neglected by some donors, diminishing the leverage of others.

Q5: How should donors use budget support **conditionality** to help improve performance, and how should they respond to failure to meet agreed conditions?
Q6: How can performance monitoring frameworks be improved and **result indicators** be best used in budget support operations in order to address the challenges identified above?

The EU's concern about accountability in the Green Paper, and the proposed responses to it, are positive. However, support to the development of accountability is a key area where a balanced approach is required. The Green Paper strongly emphasises assistance to states to develop their capacity to govern. However, this approach, which emphasises the 'supply' side of statebuilding, is unlikely to succeed without the right balance of support to the demand side: long-term progress in government institutions cannot be sustained without support to public and civil society voices that can demand better from their governments. Support to these voices is where the EU has most added value and influence as a development and conflict prevention actor. By contrast, too much budget support in the wrong political contexts would tend to work in favour of states that are less accountable to their citizens.

Q8: How can budget support (including capacity building) be designed to further enhance **domestic accountability** and ownership in partner countries, including the participation of civil society?
Q9: How can **mutual accountability** better contribute to enhancing effectiveness of budget support operations in both donor and partner countries?

Please refer to the answer to Questions 5 and 6 above, which also applies to these questions.

Q10: What kind of visibility/communication activities should be carried out both in donor and partner countries to enhance mutual accountability?

It is perhaps not the right question to ask 'what kind of visibility/communication activities' can help to strengthen mutual accountability. In fact, it is vibrant, independent civil society, a high-capacity media and an empowered and well informed public who provide accountability. Supporting this requires much more than funding support to government departments, technical advice and awareness campaigning. Rather, it requires the EU to undertake more advocacy of human rights and good governance, and offer more clear incentives for those who commit to them: this is the kind of integration of conflict prevention into the work of the EU that is aspired to in the Gothenburg

⁵ Dambisa Moyo, *Dead Aid*, (Allen Lane, 2009), p.55.

Programme. It would also be a worthy way to pursue the EU's intention to integrate politics better into its international co-operation with the development of its External Action Service.

Q12: What are the advantages and disadvantages of providing both **general and sector budget support** within the same country, or having one single budget support instrument? In which context would SBS be considered a more effective type of budget support?

The EU's Green Paper states that:

Sector budget support (SBS) is at times perceived as less vulnerable to political risk because it supports the implementation of a specific sector policy instead of the overall development policy of the partner country.

Saferworld believes that these political risks apply to any form of budget support that is not conditioned on criteria related to good governance and human rights. This is because even sectoral budget support can have the effect of freeing up recipient government resources to spend in other areas. In the worst case scenario, SBS thus has the potential, for example, to pay for hospital beds, while the recipient government increases spending on a military campaign in which its forces are using child soldiers, perpetrating violent attacks against civilians, using rape as a weapon of war, and so on.

Q13: What are the advantages and disadvantages, as well as the practical arrangements to ensure consistency and efficient coordination, of using a broad palette of aid instruments alongside GBS/SBS?

Despite the weaknesses of off-budget support, its use may still be essential in fragile and conflict-affected states

The EU's Green Paper highlights the 'weaknesses of the traditional project approach', noting: 'high transaction costs, fragmented parallel systems[...] that, particularly in heavily aid-dependent countries, inhibited the development of coherent policies by partner governments, further weakened the limited capacity of national institutions, and undermined the sustainability of aid.' Off-budget support *may* have these weaknesses, but its strong points should also be mentioned as part of a balanced consideration of different options.

In fact, Saferworld believes that rather than a simplistic, black-and-white argument between the merits of budget support versus off-budget support, both have their place and the important thing is to find the right balance in EU assistance. In particular, in contexts where the partner government is not committed to good governance – where it is playing a negative role in conflict dynamics, where it is failing to plan in a participatory, accountable, conflict-sensitive way, where it is wasting aid resources through corruption and/or failing to reach communities – donors should make more use of interim alternatives to aligning its aid with recipient government policy, national ownership and using partner country systems.

Off-budget support can be used to increase *demand* for good governance

At times, the Green Paper describes the benefits of budget support in overly positive terms. It is said to be 'a means of fostering partner countries' ownership of development policies and reform processes'. However, budget support is in fact likely to foster the *recipient government's* ownership of development policies, but this should not be conflated with ownership by the whole country or its people.

Budget support is also said to be a means of 'strengthening national accountability institutions and systems'. Yet it is equally possible to argue the exact opposite: that budget support might over time weaken the accountability of the government to its citizens, since it receives a considerable proportion of its resources not through taxes but from external donors, and thus is more accountable to the donor than to its own people.

There is thus a need to find an appropriate balance between resources provided to the state and resources provided to civil society and the wider public (through off-budget support) which aim at increasing *demand* for good governance. In any developing society where governance and growth of institutions is a challenge, it is important to support the capacity of the public and civil society to demand better from their governments. The importance of INGOs and local civil society in providing a witness and helping to empower the voiceless and vulnerable is, however, increasingly under threat. Civil society should not simply be seen as 'service deliverers'. As well as providing essential resources and services in contexts of emergency and underdevelopment, many relief and development agencies have an impressive bottom-up approach to empowerment and developing the relationship between citizens and the state. Many work towards sustainable outcomes and have an exit strategy from the outset. Where the government is playing a negative role in conflict dynamics, off-budget support to such actors will have a particularly important contribution to success in development and statebuilding - and should never be automatically assumed to be a bad choice.

Off-budget support to relief actors can also be critical in meeting emergency needs for food and services when the state is unable to perform this function well. When justified by the context in the way described here, the EU should deliver more aid off-budget through non-governmental actors, in a way that supports better links between the public and government and builds domestic capacity to demand better governance.

Lastly, although this falls beyond Saferworld's core focus on conflict prevention and co-operative approaches to security, in the context of a discussion of the positive and negative sides of on- and off-budget support we would also like to see further discussion and analysis of the evidence regarding the balance between aid and trade in promoting poverty reduction, since this can have a huge, if indirect, impact on peace and security. Budget support is said in the Green Paper to have a role in 'facilitating growth, poverty reduction'. However, budget support has been negatively contrasted with measures such as reduction of the trade tariffs and subsidies that prevent developing countries from competing fairly on international markets. A level playing field in terms of trade would help developing countries to increase their foreign currency reserves, and provide rewards to their development of competitive productive capacity. By contrast, budget support has been criticised for creating inflationary pressures and causing currency appreciation – damaging the economic outlook in developing countries.

Q17: Should budget support be used to promote stability in fragile states , and if so, how?

As discussed in this submission's Introduction, the question of budget support in fragile states is much more central than is commonly recognised: far from being an occasional issue, over half of the world's least developed states are fragile and affected by conflict, and the option of using (much greater) budget support is certainly on the table in many of these countries. There therefore needs to be much more serious consideration of when, how – and when not – to provide budget support in a way that supports conflict prevention and builds long-term peace and good governance.

Take context as the starting point

The first principle in the OECD DAC 'Guidelines for Engagement in Fragile States and Situations' should also be the most important: Take context as the starting point. This is not just good practice in fragile states, but in all development practice. However, it often seems to be overridden by donors' preference for rules, structures and institutions that they apply equally across the board. In the context of budget support in fragile states, this is especially concerning: there are often serious risks of budget support failing to achieve development goals and in fact fuelling conflict and insecurity, and these must be carefully considered before any decision about budget support can be made.

Understand that providing budget support can have a major impact on conflict dynamics

In any fragile state or conflict, the government/ruling regime/state is not a neutral actor, and usually has significant interests in – and impacts on – the conflict or instability. In

such circumstances, supporting the government effectively means supporting one conflict actor over others, altering the balance of power between the actors. This can have, of course, a stabilising *or* destabilising effect, depending on the political will of the government in question to address key conflict dynamics and progress towards human rights fulfilment for all its citizens. The EU in its Green Paper recognises that:

A serious deterioration of political governance in a partner country receiving budget support, could significantly reduce the role of the national budget as expression of the common interest, and undermine accountability mechanisms.

This point is well made, but the additional point should be made that such serious deteriorations are not the exception; they are closer to being the norm in many heavily aid-dependent contexts, especially those where conflict is present.

Consider 'what kind of state' external aid will be supporting

One of the most important questions to ask as a development actor approaching a country that appears to be moving away from conflict is 'what kind of state' would external aid be legitimising and financing. If aid is provided when there is no political will to enter a phase of positive transition, budget support risks smothering the social evolutions that may need to take place. If the development community continues to assert the norm of alignment in all fragile contexts, it will continue in many cases to support the status quo and weaken the hand of more progressive actors. This can undermine the prospects for accountable, responsive government, which entrenches frustration against the unaccountable state which over time can turn into violence. In some cases, access to aid resources is also an incentive to capture the power of the state through conflict.

Base decisions on conflict analysis and clear criteria

The EU needs an approach that understands and works against the occurrence of these sad but common problems. The EU's proposed response in its Green Paper is to assert that: 'Assessing political risks requires an intensified political dialogue that covers aspects relevant for budget support'. As already noted, however, dialogue is inadequate without criteria relating to the policies and actions of recipient governments, and these criteria need to cover political as well as economic-technical aspects. In contexts where EU criteria are not met, alternatives to budget support should be very much on the table. In order for context to be genuinely taken as the starting point, conflict analysis could offer a key tool both for identifying the criteria for support and for analysing the degree of compliance with criteria.

The EU can promote the right kind of flexibility to the context if it acknowledges – and persuades others in the aid effectiveness debate – that alignment and ownership are not always appropriate in conflict contexts. In practice in relation to partner countries, it can achieve this flexibility by developing strategies on the basis of conflict analysis that takes into account the role of different actors in conflict dynamics.

The Green Paper observes that 'many donors lack the right human resources' to make the most of opportunities for 'effective policy dialogue'. The paper is correct in stating that this 'requires renewed investment in appropriate skills'. This point is especially important in fragile and conflict-affected states, where it is important to have sufficient staff to analyse the context and respond flexibly to it – operationalising in doing so the key points made elsewhere in this submission.

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About Saferworld

Saferworld is an independent, international NGO that works to prevent violent conflict and promote cooperative approaches to security. We believe everyone should be able to lead peaceful, fulfilling lives free from insecurity and armed violence.

Through our work in the Horn of Africa, South Asia and Central and Eastern Europe we aim to understand what causes violence by talking to the people it affects and then bringing together communities, governments, civil society and the international community to develop solutions. Using this experience, we also work with the UK, EU, UN and others to develop ways of supporting societies address conflict and insecurity.

