

**Committee on Economic Cooperation and Development
Hearing on Wednesday, 16 March 2011, 11.00 - 13.00 hrs**

on Budget Support

A. Introduction

Budget support has now been an instrument of German development cooperation for a good decade. Germany provides both general and sector budget support (in some cases together with other donors). With regard to the United Nations Millennium Development Goals and the Paris Declaration on Aid Effectiveness, budget support can foster poverty reduction and development cooperation on equal terms. It requires trustworthiness, reliability and transparency on both sides. Budget support is based on the concepts of ownership, participation and responsible aid. The main prerequisite for the success of budget support programmes is for developing countries to have structures in place which can show, reliably and transparently, how financial resources are used. In this context, the specific design of budget support is under discussion in Germany, as well as at EU level and in other donor countries. This discussion is focusing, firstly, on the conditions and criteria for the provision of budget support, and, secondly, on effective correction and sanction mechanisms in the case of budget support being misused. Regarding the future design of EU budget support, an EU-wide consultation process has, in recent months, helped to foster a discussion on budget support and the possibilities it offers.

Strict criteria relating to transparency, governance and ownership are applied in the provision of budget support. A contentious issue in the political debate is when and to what extent the rule of law, legal certainty, democratic infrastructure (e.g. political parties and trade unions) and state infrastructure (e.g. public administration) should be a precondition for cooperation and, in particular, for budget support. The EU's Green Paper asks whether a comprehensive package of support can foster strong parliamentary involvement in the budget process, good governance, and civil-society ownership, a question which arises particularly in the case of weak or fragile states and their governments, parliaments and civil societies. Budget support is intended to strengthen national budgetary procedures which ensure greater government accountability to parliaments and citizens. In the framework of sustainable development and effective development policy, budget support could and should help to strengthen democracy, elected parliaments, and the involvement of the population.

The German Bundestag's Committee on Economic Cooperation and Development has examined the issue of budget support in depth on several occasions in recent years. The hearing is intended to help the Committee to determine what advantages are offered by budget support and where there may be potential for improvement. Both national and EU programmes are to be examined in detail. In addition, there will be a discussion on what new approaches to the provision and design of budget support hold the prospect of achieving greater effectiveness and coherence in the use of this instrument.

B. Structure

The hearing will be divided into two sections (each lasting 60 minutes). Three experts will be heard in Section I, followed by two in Section II; each expert will be asked to speak for seven to ten minutes. Following this, the parliamentary groups will pose questions.

I. Budget support, governance and civil society

The first section will examine the use of criteria, such as good governance, to determine whether budget support is provided, and the question of whether and how the fulfilment of these criteria can be measured. New, innovative approaches to budget support are also to be put forward and discussed. How much budget support from external sources can, responsibly, be provided in developing countries? There is also the question of whether, in the framework of a coordinated approach to budget support with clearly defined interim objectives, corruption can be prevented and good governance and ownership achieved through supportive measures, for example in the development of transparent budget management with parliamentary oversight, of efficient public administration and of local involvement. What is the potential impact of an approach to budget support in which disbursement is linked to the achievement of interim objectives and thus tranches are only disbursed once results are achieved?

The involvement of civil society and the strengthening of democratically elected parliaments is an important aim of German development cooperation. Recent developments in North Africa and the Middle East show the strengths and weaknesses of civil-society efforts to achieve democracy and move in the direction of good governance. In the case of societies of this kind with well-educated but unemployed young people, with people who want to change their country, the question of whether budget support can foster a process of transformation must also be posed.

Experts:

Stefan Leiderer (German Development Institute – DIE), EU Evaluation of Budget Support in Zambia

Andrea Kolb, Desk Officer for West and Central Africa, Konrad Adenauer Foundation

Adriano Novunga, Center for Public Integrity, Mozambique

II. Budget support and donor harmonisation

The second section will discuss what contribution budget support can make, or is already making, to donor harmonisation. Even between the EU and its Member States, and between departments in the individual Member States and at EU level, information-sharing and coordination on development measures has been difficult to date, despite international agreements. How can national and EU programmes be better coordinated? Does the use of many different approaches not undermine the desired effectiveness of development cooperation? Do developing countries have the capacities required to translate support from many different donors and their programmes into national programmes? How much time and energy is spent on donor coordination, and how could agreements be implemented more efficiently and in a less resource-intensive manner? And, against the background of the international agreements reached in Paris and Accra, the following question must also be posed: is budget support tailored to the structures, strategies and systems of partner countries, and are improved structures taken into consideration? What best practices can be identified, including in other countries?

Experts:

Christoph Rauh, Head of the Development Policy Division, Permanent Representation of the Federal Republic of Germany to the European Union, Brussels

Anthony Smith, Department for International Development (DFID), UK