

31<sup>st</sup> January 2011

Re: CEE Bankwatch Network contribution to the public consultation process of the Green Paper on the Future of EU budget Support to third countries.

**Bulgaria:**

Centre for Environmental  
Information and Education  
(CEIE)  
For the Earth

**Czech Republic:**

Centrum pro dopravu a  
energetiku (CDE)  
Hnutí Duha

**Estonia:**

Estonian Green Movement–FoE

**Georgia:**

Green Alternative

**Hungary:**

National Society of  
Conservationists – Friends of  
the Earth Hungary (MTVSZ)

**Latvia**

Latvian Green Movement

**Lithuania:**

Atgaja

**Macedonia:**

Eko–svest

**Poland:**

Polish Green Network (PGN)  
Institute of Environmental  
Economics (IEE)

**Serbia:**

Center for Ecology and  
Sustainable Development  
(CEKOR)

**Slovakia:**

Friends of the Earth – Center  
for Environmental Public  
Advocacy (FoE–CEPA)

**Ukraine:**

National Ecological Centre of  
Ukraine (NECU)

CEE Bankwatch Network's  
mission is to prevent  
environmentally and socially  
harmful impacts of  
international development  
finance, and to promote  
alternative solutions and public  
participation.

Dear Commissioner,

CEE Bankwatch Network thanks you for the opportunity to participate in the consultation process regarding future European Union budget support to third countries. During the last several years Bankwatch has monitored EU budget support in east European Neighborhood Partnership (ENP) countries, and with this submission we reflect on how our experiences with such lending can make EU budget support more effective and efficient for countries within the ENP/ENPI framework.

**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?**

The joint ENP action plan between the EU and beneficiary countries focuses on priorities that, if fulfilled, ensure that the respective country and the EU move towards closer diplomatic relationships. Therefore commitments from partner countries to the underlying principles are already there. The progress of implementation of underlying principles related transparency, accountability and sustainability are of great concerns still. We will welcome further elaboration of the concept of political governance conditionality that will consider processes and measures to ensure progress on implementation and integration of the underlying principles in the planning, negotiation and implementing budget support.

ENP "positive conditionality" engages best performers by incentivising through the Governance Facility. While this "positive conditionality" has the potential to stimulate and deepen the EU integration processes, it is important that political conditionality within the ENP action plans is defined with clear, measurable, and time specific indicators related to the development of democratic institutions, human rights protection and environmental sustainability.

**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? What could be the relevant fora and the appropriate level involving donors and partner country to raise and discuss concerns regarding underlying principles?**

The budget support process should be the best examples for enforcement of the development objectives. As we mention above we see as key issue the implementation of the underlying principles. Stimulating good practice, capacity and awareness building through the budget process could be of key importance for increasing transparency, accountability and effectiveness and sustainability of the budget spending.

In the east ENP region only some countries are signatories to the Paris Declaration on Aid Effectiveness. In theory the Paris Declaration, and the Accra Agenda for Action specifically, imply that developing country governments will engage more with parliaments and civil society organisations. However in east ENP countries the situation is far from ideal. The Eastern Partnership could be the appropriate forum to discuss at all levels issues of governance and long-term development for bilateral as well as regional agencies. It is important that both general and detailed discussions be open and transparent.

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

Budget support is typically assumed to be the best way to ensure aid delivery that gives the most opportunity to recipient governments to ensure implementation of nationally driven policies. However budget support is also more vulnerable to corruption than other forms of aid, as in the absence of effective domestic accountability mechanisms, there is a substantial risk that budget support resources are siphoned by elites or allocated in partisan ways i.e. to specific ethnic groups or political cronies<sup>1</sup>. We consider therefore that improving public participation, transparency and accountability (specifically evaluation and monitoring) it is needed on first hand to improve effectiveness of the development benefits. Despite the fact that EU budget support in practice mainly focuses on public financial management systems, in order to build financial integrity and prevent corruption there are still many problematic areas.

As such there is a need to strengthening anti-corruption measures in ENPI regulation and related budget support mechanisms by making obligatory

- routine access to relevant documentation and final agreements by civil society organisations in country;
- increased public participation in setting priorities; and
- participation of self-selected NGO representatives in joint Monitoring/Steering committees.<sup>2</sup>

The results of monitoring and evaluation should be open to the public without reservation to highlight existing shortcomings within institutional, legal and political frameworks to ensure increased responsibility and operation effectiveness.

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

Generally in most east ENP countries NGOs have problems accessing information regarding EU budget support processes and monitoring results, and often NGOs are not consulted regarding budget support priorities.<sup>3</sup> Considering that 90 percent of ENPI funds go directly for budget support it is important that general or sector budget

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<sup>1</sup>UNCAC and the Introduction of Budget Support, U4 expert support, [www.U4.no](http://www.U4.no)

<sup>2</sup> Following the example of monitoring committees in pre-accession funds, in the case of Moldova, one NGO is represented in an external budget monitoring committee. However according to research neither these NGOs nor others like think tanks are aware about selection procedures or the existence of NGO representatives in the Committee.

<sup>3</sup> Assessment for ENPI funding in Moldova, [www.viitorul.org](http://www.viitorul.org)

support preparation, implementation, monitoring and evaluation is participatory. Civil society organisations and national parliaments should play an increased role in budget support preparation and implementation.

EC delegation staff should receive clear instructions to facilitate public participation on the budget support processes outlined above. Our experiences vary substantially even within a single country e.g during budget support preparations for the environmental sector in Ukraine, the relevant EC delegation staff had recognised as necessary consultations with civil society. However in the case of budget support for the transport sector, there was a clear lack of such recognition which resulted in the full exclusion of environmental NGOs from the preparation process and environmental and health issues being considered in the strategy.

Regular information from the preparation of budget support should also be widely disseminated by local EC delegations to media and civil society to provide an opportunity for wider public involvement.

A proper understanding is also needed about the importance of wider public involvement within the national bodies responsible for public consultations as it relates to the preparation of sectoral strategies and/or projects to be supported with budget support. Attention should be given to both technical and human capacities of such bodies to properly organise public consultations. EC technical assistance can be used as one of the tools to address both this general understanding and sufficient capacities for national bodies to conduct effective public consultations.

**Q5: How should donors use budget support conditionality to help improve performance, and how should they respond to failure to meet agreed conditions?**

The European Neighborhood policy should base ‘positive conditionality’ on clear, measurable, time-specific list indicators within action plans related to the development of democratic institutions, human rights protection and environmental sustainability. Reaching these indicators should be a prerequisite in performance reviews and planning annual allocations for particular countries.

It is important to ensure trilateral dialogue among the civil sector, national governments and the EU, where civil society is placed on an equal footing with national governments in EU-government dialogue and policy development processes. For effective public dialogue at this level it is timely to restart processes especially in the case of sectoral support.

**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?**

Currently performance monitoring frameworks and result indicators are based on formal criteria like adoption of laws and/or bylaws, reform sector and each. There is a need however to better correlate budget support indicators with measurable outcomes that demonstrate the impact of the measures such compliance with EU law and/or international law and best available practices, improvements of social and environmental standards and practices, improvements in transparency and accountability measures available to the public.

Increased public involvement in development and scrutiny on the indicators would help ensuring that government sets more qualitative criteria and thus provide more incentives and obligations to governments to achieve concrete results.

**Q7: How can the performance of the public financial management system, including fraud prevention measures, and the value for money of budget support funds be best enhanced?**

While EU budget support in practice mainly focuses on public financial management systems to build financial integrity and prevent corruption, there are still many problematic areas. For example Georgia is far from full budget transparency, at revenue source, sector and every expenditure level. Even most information regarding budget income was announced as confidential, irrespective of the fact that budget information is not in an easily accessible format for the average citizen. One of the most vulnerable public policy issues in Georgia is national procurement standards and practices.

In Ukraine its system of managing public funds according to the SIGMA assessment<sup>4</sup> was not in line with international standards and remains so to the present. The process of harmonizing Ukraine's system with international norms is currently underway with the support of several international technical assistance programs.

In both cases there is ongoing support from donors like the EU and World Bank to respond to this situation. It is therefore important to strengthen anti-corruption measures in ENPI regulations and related budget support mechanisms by making obligatory routine access to relevant documentation and final agreements by civil society in country, increased public participation in setting priorities and participation of self-selected NGO representatives in joint Monitoring/Steering committees.<sup>5</sup>

Additionally in cases where a country fails to implement Paris declaration principles and related EU budget support criteria, the EU should be ready to withdraw budget support from the country in a manner that does not impact ordinary citizens while sending appropriately strong signals to political elite.

**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?**

As we mention above development of budget support framework should be the best example for accountability, Public participation and transparency.

**Q9: How can mutual accountability better contribute to enhancing effectiveness of budget support operations in both donor and partner countries?**

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

Domestic accountability and ownership in partner countries should be based on the following principles:

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<sup>4</sup> 1) Assistance to the Main Oversight Administration of Ukraine in instituting a new system of internal financial control (Twinning Program), 18.09.2007–17.12.2009; donor: EU Commission.

<sup>5</sup> Following the example of monitoring committees in pre-accession funds. In the case of Moldova, one NGO is represented in an external budget monitoring committee, however, according to research neither NGOs nor Think Tanks know either about selection procedure nor the existence of NGO representative in the Committee.

- Transparency and accessibility of all relevant documentation in appropriate languages (including National Indicative Plans , Regional Indicative plans , Action Fishes and eventual agreements)
- Public participation in decision-making, implementation and monitoring

In line with ENPI regulations, the Partnership principle is applicable to any ENPI activities - “The partnership shall involve, as appropriate, national, regional and local authorities, economic and social partners, civil society and other relevant bodies”. Furthermore it requires that, “The beneficiary countries shall involve, as appropriate, the relevant partners at the appropriate territorial level, in particular at regional and local level, in the preparation, implementation and monitoring of programmes and projects.” However the regulation does not provide foundations to ensure the implementation of such partnership principles in practical terms nor does it establish clear and common minimum standards for participation.

Implementing partnership principles in the case of budget support is still uncommon. While the detailed design of partnership structures should be left to neighboring countries, the Commission should publish guidelines on partnerships in order to ensure universal standards for the involvement of civil society in all stages of ENP and ENPI programming and disbursement. NGO participation must be compulsory in all recipient countries and clear and common minimum standards for participation must be developed.

In addition, both EU and partner countries should ensure wide distribution of information regarding budget support aims, means and results to the media in order to ensure higher visibility among citizens in countries where programs are ongoing. Making funding available for the development of civil society and independent media outlets is therefore one of the key milestones to ensure mutual accountability between countries.

**Q11: What criteria should the Commission use to inform decisions on how much if any budget support to provide to eligible countries?**

Conventionally economic development is understood simply as the growth of Gross Domestic Product - GDP. Defined as the total market value of all final goods and services produced in a country in a given year, the original purpose of GDP was to serve as a statistical econometric indicator to illustrate the performance of any national economy in terms of money. Currently the widespread use of GDP by politicians and the vast bulk of mainstream analysts for measuring standard of living is highly controversial as various aspects associated to societal development are in this way reduced to one very rough economic number.

That way the concept of (ever increasing) GDP is - and has been in recent decades - incorrectly used as an indicator for identifying and describing progress in society. Moreover, even in cases when environmental and social indicators complement GDP, decision-makers default to giving GDP higher importance, so that GDP growth is now the most prominent indicator not only for the economy but for the overall development of human societies.

We will welcome therefore that the EC consider other criteria when assessing countries stage of development and weakness. Certainly environmental criteria such as climate vulnerability should be also taken into account when defining the scope of budget support.

The criteria used for the selection of the scale of budget support should be also linked with the indicators for progress which as mentioned above should be measurable and clear.

**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?**

**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?**

GBS should be provided only to countries that:

- develop National Sustainable Development Strategies through democratic and participatory processes;
- demonstrate well-functioning public management systems; and
- respect human rights and maintain anti-corruption records, characterised by independent media and judicial systems.

Meanwhile, it is important to ensure usage of SBS instrument to address areas to improve country's environmental and social standards, it could include the streamlining measures that will improve energy efficiency investments, waste management, promote sustainable transport solution and / or air quality improvements. E.g. Energy efficiency measures bring savings in energy costs, competitiveness, employment and social benefits, contributing in a significant way to the achievement of the general goals of the EU Development policy.

It should also be noted that in both cases GBS and SBS should be accompanied by capacity building.

Harmonized and united donor coordination needs improved. In some instances EU institutions are critical of liberalisation reforms to the environmental, consumer rights, anti-monopoly and labor sectors. Yet at the same results are often applauded and even supported by other institutional donors like the World Bank and IMF.

Disadvantage that might turn in advantage is the that broad pallet of instruments is that different instruments are managed by the different sectoral austerities. In this cases coordination, monitoring and reporting might be more complicated. However, advantages are enforcement/ awareness raising of EU principles in different structures of the recipient countries. Decentralization and local level management could be also see as a positive development that will bring EU funding closure to the final beneficiaries that are target with the EU funds.

**Q14: How can the above risks be best assessed within a comprehensive framework and managed to improve the effectiveness of budget support?**

Technical assistance and capacity building for sectoral, local authorities in the process of programs/ project development will be important to make then practice EU principles.

**Q15: What kind of measures should the EU apply if the risk level is considered high with regard to fraud and corruption?**

Corruption occurs on many levels – it includes diverting money to the private accounts or business interests of senior government politicians and officials, the allocation of money to favoured areas and posts to selected groups, bribery to gain contracts for businesses and theft and graft at local levels, nepotism and so on. As a response it is important that ENPI regulation includes protective mechanisms to prevent corrupt government spending, including within elements of the EU’s anti-corruption policy, with an emphasis on anti-corruption measures in dialogue with partner countries.

**Q16: How can donors meaningfully respond, including with financial corrective measures, to cases of large scale corruption or fraud in the implementation of policies benefiting from budget support?**

There are a number of successful corruption investigations involving OLAF in countries outside the EU. Instances of large-scale corruption or fraud do not appear suddenly in “clean” countries, meaning that better pre-assessment is needed to define whether a country is eligible in the first instance for budget support. EC’s decision-makers who deals with deciding on country’s eligibility should fully understand their responsibility ( or should be imposed responsibility to) for the cases of budget support program failure due to a large scale corruption.

In ENPI countries, budget support is not always an appropriate tool to address governance issues. Therefore funds should be allocated to other actors (to deliver services, develop independent media and civil society, ensure free elections) in order to base the grounds for reforms driven by society.

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

Fragile states may be given budget support in order to address issues of peace-building and the macroeconomic stability phase. However increased capacity building, tighter conditionality, coordination between donors and employment of partnership principles should as well be strictly incorporated. The EU should also ensure that funds and capacity to permanently monitor how a country’s government then uses that money on the ground is monitored on a regular basis.

**Q18: How can budget support programmes be designed and implemented to best promote inclusive and sustained growth?**

In order to ensure Inclusive and sustainable development it is essential that budget support programs have on place:

- necessary procedures to ensure integration such as 1) Strategic Environmental Assessment , 2) consultations and public participation, 3) planning where assessment of alternatives is made and 4) selection process based on sustainability criteria.
- capacity and awareness such as 1) sustainable development specialists / units working for Governments and local authorities and 2) awareness raising programs for public and media

**Q19: How can budget support policy dialogue and conditionality promote more domestic revenue generation and terminate dependency on aid? What form of an exit strategy should donors include in their budget support operations, and how to arrange it?**

In almost all east ENP country action plans the development and implementation of the National Sustainable Development Strategies is a free-standing exercise rather than a specific framework that lays the foundation for the country's overall development. ENP countries' policy integration and reforming processes should address the real needs and aspirations of the ordinary citizen rather than serve the so-called strategic interests of the EU and ENP countries. Therefore each relevant budget support exercise should mainstream environmental sustainability, ensure development of low carbon-based economies through enhanced capacity of developing countries to mainstream environmental and climate mitigation and adaptation measures across sectors and economic development plans.

The National Sustainable Development Plans and strategies should be based on developing local low-carbon economies through the attraction of funds from multilateral financial institutions and investment banks and developing the real SME sector to directly address needs of local people (like green energy sources, energy efficiency, resource efficiency, agriculture and so on).

Special support in the format of sector budget support and technical assistance should be given for development of win-win solution for creating jobs and improving social and environmental conditions for the people in ENP. The cases of EE, waste management, public transport investments described above are clear cut cases of bringing double social dividend (decreasing the bills and increasing health benefits), while improving environmental standards and creating economic development

**Q20: How can budget support be used to assist partner countries and regional organizations to further the process of regional integration?**

The Eastern Partnership provides the framework to ensure regional integration based on shared values and principles including “in the fields of the rule of law, good governance, the respect for human rights, including minority rights, promotion of good neighborly relations, and the principles of market economy and sustainable development”.

**For more information, please contact:**

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