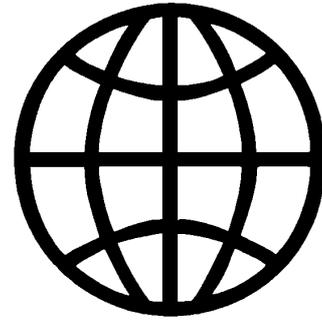


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Joint Conference Church  
and Development

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## **Good Governance and Democratic Budget Policies**

New tasks for parliaments and civil society

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*GKKE is committed to draw up joint statements on the questions of North-South policies and to enter into dialogue with political and social institutions.*

## **Good Governance and Democratic Budget Policies**

New tasks for parliaments and civil society

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## Introduction

Good governance has been a major issue in development debates over the last years. Emphasis is placed on various aspects by international institutions, governments of donor and partner countries and by civil society. Mainly the civil society in developing countries led attention to wider aspects of good governance, perceiving good governance in the context of democracy. Thus, higher attention was given to other institutions of the political system aside the executive, namely to parliaments and to the public.

Perception of good governance along these lines is overdue in the context of the recent discussion on aid effectiveness. The high fragmentation of aid institutions leading to high transaction costs and the failure to significantly improve living standards in developing countries, in particular in Africa, has led to an agreement on new aid mechanisms in the Paris Declaration on Aid Effectiveness (2005), followed by the Accra Agenda for Action (2008). Their principles of ownership, harmonization and alignment aim at putting the governments of developing countries into the driver's seat – to use a common phrase. The favoured instrument to implement these principles is budget aid, making budgeting processes in developing countries more central.

Budget policies are the central tool of governments to rule their countries. But governments have to be held accountable for what they are budgeting by parliaments and by the public. Do political systems in Africa comply with this requirement? Are there perspectives of improvement through a closer exchange between civil society and parliaments? On the other hand, can budget support be given in a way that improves capacities and responsibilities of parliaments?

The Joint Conference Church and Development (GKKE) took up these questions together with partner organisations in African countries. In September 2008, GKKE in cooperation with the Catholic Parliamentary Liaison Office (CPLO/Cape Town) and the Ecumenical Foundation of Southern Africa (EFSA/Stellenbosch) invited researchers, representatives of NGOs and members of parliament from African countries and from Germany for a

workshop on democratic budget processes. In March 2009, a follow-up meeting on strengthening of parliament and civil society in budget processes took place in Berlin. Some of the contributions to both these conferences are included in this publication.

The first chapter deals with some general aspects of good governance in national and international debates. Bishop Paul Bemile outlines the historical evolution of the idea and the current strive of African countries for good governance. Thereby, he identifies failures by African governments as well as international partners, but sees an overall progress over the last decade, in particular in the NePAD context. Walter Eberlei states, that development cooperation has seen far reaching changes in recent years and discusses new aid mechanisms related to budget support.

Part two begins with an empirical overview of budget mechanisms in Sub-Saharan Africa. Judy Müller-Goldenstedt's survey examines the role of civil society in budgetary processes. The number of NGOs involved in budget monitoring has increased considerably during the last decade. Tina Nayangwe-Moyo looks at the correlation between budgeting and human development in Zambia. Participation in the budget process, she states, should aim at focussing human development but this has rarely been exercised. Len Verwey in his paper outlines the high level of budgetary transparency in South Africa, but also points to the challenges still remaining. Hereafter, the Ghana HIPC watch-project as a strategy for promoting social budgetary policies is being explained by Eugene Yirbour. Adriano Nuvunga highlights the Mozambican experiences in participatory budgeting. Finally, Michael Brzoska looks in some detail at the role of military spending and resultant challenges for the budget process.

In the last section, Brunhilde Irber explains the role of parliament in the German budget process. She encourages African parliamentarians to enhance their fields of activity. Ronald Meyer outlines structural effects of Germany's budget support in partner countries.

Within the controversial debate on budget support, most of the authors agree on the usefulness of this mechanisms and its potential to strengthen democratic institutions and processes. They also agree that certain minimum standards of democratic governance, such as participation and

transparency, are a necessary prerequisite to assure successful implementation. And, finally, there is some evidence that budget support should be combined with special measures of strengthening parliaments and civil society.

This publication is meant as a contribution to the discussion about budget support. It wants to encourage parliamentarians to use their mandate effectively, that is to have their priorities reflected in the budget and to hold the government accountable for spending on what was agreed on. It also wants to support civil society organizations to raise their voice when budgets are planned and executed - in cooperation with parliamentarians where possible and in confrontation with them where necessary.



*Part I:*

*Good Governance – an Outline*



# **Good Governance: Africa's Responsibility**

*Most Rev. Bishop Dr. Paul Bemile*

## **Introduction**

The theme for the Workshop - Democratic Budget Policy - amply echoes the call in recent times by civil society organizations, governments and development partners for increased participation, transparency, and accountability in the budget process. Budgets indicate commitments to national development priorities, and it is important that they reflect the voices of the citizenry. This can be achieved if the budget process is transparent and all inclusive, involving as many stakeholders as possible. These principles of transparency and participation are the foundations of good governance.

I subscribe to the definitions of governance and good governance put forward by the United Nations Economic Commission for Africa (UNECA). UNECA explains governance as the manner in which responsibility is discharged. Such responsibility may be acquired through election, appointment or delegation in the public domain or in the area of commerce related governance.

Good governance refers to a condition whereby a responsibility acquired through election, appointment or delegation is discharged in an effective, transparent, and accountable manner. Good governance entails the existence of efficient and accountable institutions - executive, judicial, administrative, economic, corporate - and entrenched rules that promote development, protects human rights, respects the rule of law, and ensures that people are free to participate in, and be heard on decisions that affect their lives.

## **Historical perspective**

During the 1960's most African leaders regarded the international community as a threat to their newborn and weak states. As a result, rather

than promote good governance by awarding sovereign rights to those regimes that administered a given territory, African diplomatic principles, epitomized by the Organization of African Unity (OAU), accepted whatever regime occupied the presidential palace, regardless of how (or even whether) the regime governed. During this period the idea of noninterference in the internal affairs of sovereign states was reinforced not only by the OAU, but also by the international community. The OAU was established to, among other things, accelerate the decolonization process of the continent, and promote development and cooperation among African states (OAU Charter and Rules of Procedure, 1992). Thus, the OAU was not primarily a good governance promotion institution.

Over time the principle of non-interference in the internal affairs of a state came under scrutiny. A number of crises (exchange rate, oil price shocks, capture of profits from exports, etc.) forced African countries to accept structural adjustment and direct outside interference in economic policy in exchange for desperately needed international assistance. International financial institutions took control of a significant proportion of the continent's economy and forced a programme of devaluation, privatization, market pricing, and macroeconomic stabilization. Furthermore, structural adjustment challenged the political as well as the economic sovereignty of African states by limiting the resources available to leaders who would provide patronage. In due course the international community added political accountability to the economic constraints imposed by structural adjustment. Domestic sovereignty lost moral legitimacy as regimes such as Jean-Bedel Bokassa (Central African Republic), Idi Amin (Uganda) and Fernando Macias Nguema (Republic of Equatorial Guinea) demonstrated the depths of state brutality. These political and economic failings caused some people to conclude that African's are incapable of ruling themselves.

## **Africa's quest for good governance**

Africa's quest for good governance has traversed several frontiers. The international community only brought up good governance as a condition for giving aid in its dealings with Africa. Such aid-related discourse of good governance, a matter between aid givers and aid seekers, often dis-

cussed in an arrogant and patronizing manner, discredited the subject in the eyes of most Africans.

Almost all African countries have initiated some type of political reform that contains at least some elements of multiparty or electoral competition. Elections are not the same as democracy, of course, and no one claims that elections are a panacea. But the movement of institutions of governance toward achieving greater public participation and taking on more accountability represents what may be the early signs of a locally rooted and thus sustainable form of sovereignty, and thus the emergence of an African responsibility.

Civic groups and opposition politicians seized the opportunity created by the weakening regimes and a more supportive international atmosphere to push for political change. Sovereignty was transformed further in the 1990s by nonstate institutions that took an ever larger part in the affairs of the continent. The transformation of sovereignty has also been impelled by the humanitarian tragedies created by internal conflicts.

## **Africa in the 21st century**

Africa's failure to assert itself on the world stage is embroiled in two failures - bad leadership and bad governance. Recognizing these failures, African leaders have accepted the challenge and are steadily pushing forward to turn the tides around. Spurred on by the Africa Union (AU) and the New Partnership for Africa's Development (NePAD), Africa in the 21st century is not like the Africa we read of in the past decade.

The AU is seeking to address the challenges facing Africa through the broad framework of NePAD. As a partnership programme established between Africa and the G8 countries, NePAD emphasizes three dimensions of governance; namely, economic and corporate governance, political governance, and peace and security. NePAD is seen as a moral contract between African countries and the G8 under which the former strive to improve governance and promote democracy by undertaking political reforms and market-friendly economic policies, while the latter undertakes to assist African countries committed to good governance, the promotion

of human rights, poverty eradication, and economic growth. However, the G8 aid to African countries under the partnership, is again contingent on the latter meeting stated conditions, reminiscent of the conditionalities under the Structural Adjustment Programmes. The partnership of “equal partners” with mutual respect and accountability envisaged under the New Partnership is therefore neither guaranteed nor automatic.

Notwithstanding the criticism leveled against NePAD, I firmly believe Africans can make it work for our common good. This belief is premised on the African Peer Review Mechanism (APRM) by which African governments are assessed in terms of their progress towards good governance.

The criticism against NePAD as regards lack of consultations with the populace before its adoption, is laid to rest with the APRM where broad based consultations are being held with the citizenry, thereby deepening public acceptance and promoting its legitimacy.

Progress has been made in increasing accountability in the public sector. Mechanisms employed to ensure this include presentation of annual and semi-annual progress reports by public sector actors. Public accounts committees of parliament are being capacitated to effectively perform their oversight responsibilities. A test case is the recent public sitting of the Public Accounts Committee of the Parliament of Ghana. This historic case reoriented the minds of the populace to the fact that corruption is not the exclusive preserve of politicians and top management, but has eroded into all levels of public life. As we praise the efforts by the public accounts committees, parliaments across Africa have not been sufficiently effective at representing the citizenry and holding the government to account. Only a few parliamentarians have a deep understanding of budget issues.

Another important accountability system is budget defense, where parliamentary sub committees come down to the Ministries, Departments and Agencies (MDAs) level for budget hearings as well as peer review of the various MDAs. Other mechanisms for accountability are the General Audit Service, budget presentations, and the APRM.

It must be indicated that African government's attempt to improve public financial management systems are undermined by the actions of development partners. While there is increased use of national procurement systems by development partners, a major concern lies with project financing. Here, most development partners do not use the national budget executing system. Rather, project funds are controlled between the project management unit and the donor supporting the specific project.

Progress has been made in sector level dialogue and linking it to national development priorities. There are a growing number of reports indicating that slowly but steadily, African governments are opening up political and economic space for the citizenry to effectively participate in national dialogues. The major challenge has been the capacity of civil society to constructively engage governments. Both still carry the suspicions of the past decade in their dialogues.

In this new dispensation, civil society has been granted greater space to engage in public discourse and demand accountability from public officials. It is in view of this genuinely critical arena that African leaders are challenged to clearly articulate the nature of their democratic principles and commit themselves explicitly to pursuing them even in the midst of ambiguous situations.

## **Conclusion**

Through the NePAD framework document, African leaders have recognized the importance of good governance for achieving sustainable development in Africa, and they have set out principles pertaining to the strengthening of democracy and good political governance, as well as economic and corporate governance. They have reinforced this importance with their commitment to the African Peer Review Mechanism.

Today, there are more democratic regimes on the continent than was the case a decade ago. An increasing number of African leaders are subjecting themselves to the principles of accountability, transparency and popular participation. African leaders are tackling the issue of poverty, diseases and corruption within the limits of their domestic budgets.

Conditionalities stressed by development partners especially on governance matters cause recipient countries to account to them at the expense of accounting to their citizens.

There are a number of challenges to be overcome but the progress made over the past decade are comforting and worth supporting and encouraging.

# Democratic Budgeting Processes and New Aid Mechanisms

*Prof. Dr. Walter Eberlei*

## Introduction

The development cooperation between Africa and the western donor community has seen rapid and far-reaching changes in recent years. The Accra Agenda for Action that has been declared in September 2008 in the Ghanaian capital, in continuation of the Paris Declaration on Aid Effectiveness, includes all the ingredients of the new approach. The crucial question is, if all the new and nicely formulated principles and all the fascinating innovations in new aid mechanisms will be implemented in the tough and complex African reality, and, even more important: If all this pays off for the poor.

While this paper can be seen as a contribution to the specific topic of democratic budget policy we have to keep the broader framework in our minds. Discussing "democratic budgeting processes" and "new aid mechanisms" is the result of major developments in the last 20 years:

- The ongoing democratisation processes in African countries since the early 1990s;
- the failure of the neo-liberal structural adjustment approach in its pure market-oriented version;
- the focus on poverty reduction as the overarching aim of development cooperation as expressed in the MDGs and the Poverty Reduction Strategy approach;
- the newly inspired debate about the state's role in development;
- a new function for parliaments in multi-party environments;
- the emergence of a lively and politically influential civil society.

According to these aspects, this analysis is outlined along four basic questions:

1. What is democratic budgeting in the Sub-Saharan African context?
2. What is meant by "new aid mechanisms"?

3. Why is democratic budgeting a precondition for new aid mechanisms?
4. What can be done to strengthen democratic budgeting?

## **1. Democratic budgeting processes in Africa**

Budgeting processes are not just one element of the governance framework within countries. Budget policies are the central tool of governments to rule their countries.

Discussing *democratic* budgeting processes reflects a tremendous change in African societies. About ten years ago, an academic colleague in Kenya told me that in his country – like in Britain in earlier days – the budget document was secretly prepared by the government. Nobody would have a chance to discuss a draft before the Minister of Finance carried the finalized paper to the Parliament on the so-called Budget Day.

Well, things have changed. Within less than ten years, budget policies have become a hot topic in public debates as well as in parliaments. If one follows the newspapers in Zambia, in Ghana or in Kenya during the phase when the budget draft is discussed in the national legislatures, she or he will find plenty of reports, analyses or statements on the budget.<sup>1</sup>

During the last 10 to 15 years, a number of African NGOs, church groups and networks have made the governments budget policy to one of their main fields of lobbying and advocacy work, for example to push for more gender-sensitive expenditures. The majority of these actors get involved through budget analyses, monitoring of public expenditure, public relations work and lobbying with government and parliament.

Looking specifically to the legislatures, a similar picture emerges. While it is still difficult for parliaments in Africa to change the executives' budget draft extensively, recent years have seen a number of hot debates in parliaments on budget issues which influence the drafting process. Nowadays, parliaments are very keen to follow the actual implementation of the budget. For example: During a visit to Zambia early in 2008, I could see

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<sup>1</sup> cf. Judy Müller-Goldenstedt, Participation of Civil Society Organizations in Budgetary Processes in Sub Sahara Africa, in this publication.

how intensively the Auditor General's report on budget implementation was discussed in parliament. The government was forced to explain a number of issues and some ministers got really into trouble. It is a real progress that the Zambian Auditor General's report is nowadays available 12 months after the end of the budget year and it is published on a website. This strengthens transparency and accountability. Compared with the situation ten years ago, the oversight function of the parliaments in Africa has been considerably improved.

Having said all that, we can argue that democratic budgeting processes are a new reality in many African countries. At the same time one has to state that they are still weak. Parliaments' means are limited to oversee budget implementation. NGOs lack the sufficient access to information and have limited capacities to deal with the complex budget systems. Academic resources to contribute with independent budget analyses are still very scarce. Social movements or community-based organisations reflecting the interests of the poor are hardly involved in budget debates. All this is true. Nevertheless, a new reality of democratic rule is emerging – and has to be strengthened.

## **2. New aid mechanisms**

In the following the role of development cooperation in budgeting processes will be examined. Does the new aid architecture that was discussed so intensively at the high-level meeting in Accra foster democratic budgeting processes? Some important features of the new aid regime are:

First: The stakeholder perspective has changed strongly.

During the first decades after independence, African governments successfully held the complete monopoly over aid resources. "Donors aided governments, not their populations", the political scientist Nicolas van de Walle wrote. This elite-orientation of development aid perceived the poor as recipients or target groups of interventions only. As governments' budgets were mainly financed by external resources, there was no need for domestic legitimacy or domestic accountability. The new principles of *country ownership* and *participation* do not grant governments alone the responsibility for development work but emphasise the close connection

with various societal stakeholders, especially within civil society. A few years ago, an OECD document formulated it as follows: "The active participation of a range of partners and the empowerment of the poor are vital." This new approach seems to embed a concept of good governance in a broader democratic sense and a clear departure from the technocratic view prevailing in the 1990s and – in some minds – until today.

Secondly: Donors align their work with country strategies.

The traditional development cooperation was based on policy blueprints imposed by the donors, especially regarding macro-economic frameworks and structural economic issues. The implementation of donor plans, ideas, programmes and projects was rewarded by an enormous flow of aid money over the years, serving the interests of the elites and supporting their political survival, but with little impact on the lives of the poor. The new principle of donor alignment with national development strategies, e.g. the *Poverty Reduction Strategies*, allows a complete different approach – in terms of procedures, but also as regarding content. While the traditional scheme was predicated on the premise that economic principles determine development strategies, the new approach is, at least theoretically, based on a poverty analysis within the respective country and the question, how poverty reduction efforts can show meaningful results.

Thirdly: New aid modalities have been introduced.

The traditional aid approach was characterized by its focus on projects and small programmes following donor priorities, limited coordination and, moreover, its chaotic diversity of conditionalities, rules and procedures. All this raised abundant criticism in the past. According to the new approach, the development assistance of single donors is not only to be coordinated with other donors, but to be harmonised with the work of all other 'external development partners' to support the implementation of national development plans jointly. To realize these important principles of the Paris Declaration is a difficult thing, as the discussion in Accra has shown. There is still a big need to reform donors' strategies, procedures and practices, e.g. by stronger coordination, more flexibility, strengthening of governments to take the lead in poverty reduction, harmonisation of donor procedures, developing joint financing instruments and others. However, especially the direct budget support as one of the key innovations in this

context offers plenty of opportunities to improve the way development co-operation is implemented.

Are new stakeholder perspective, new operational basis and new modalities a new reality or just theory of public relations? Nevertheless, I would like to risk the hypothesis that new aid mechanisms are available and that their implementation for the benefit of the poor is possible – however, this relies strongly on the development orientation of actors in the south as well as in the north.

### **3. Democratic budgeting as a precondition for new aid mechanisms**

Direct budget support (DBS) is one of the most important new aid instruments. It includes a number of advantages compared with the old-style project aid. However, DBS is not a panacea in every situation. Democratic budgeting is a crucial precondition for the new aid mechanisms, especially DBS. Research studies on budget support focus on four essentials:

1. *Ownership*, this means influential actors, especially within the executive bodies, identify with the official political goals and have the political will to pursue them.
2. The *transparency* of government actions.
3. *Accountability* of the government towards its citizens embedded in the country's political structures.
4. Institutionalised opportunities for the *participation* of parliaments and civil societies.

Unfortunately, these four elements of good governance can hardly be found in any low income country to a fully satisfactory degree.

One could mention Zambia again as a case in point. A recently conducted analysis of the Zambian Poverty Reduction Budget Support Programme (PRBS) underlines the weaknesses in ownership, transparency, accountability and participation (Gerster/Chikwekwe 2007). This specific report confirms the more general results of an academic research project in which I had the privilege to participate. The research describes the persisting neopatrimonial features of Zambian political processes – while not

neglecting some progress that has been made in recent years (Eberlei/Meyns/Mutesa 2005). According to our findings, Zambia is an example for “hybrid regimes” in Africa with emerging rational and democratic elements on the one hand but a still strong neopatrimonial rule on the other (including personalism, clientelism and the misuse of public funds for personal or political purposes).

Donors argue that budget support also contributes to improve good governance. First studies are supporting this argument (e.g. University of Birmingham 2006). But what minimum degree of good governance is necessary to start with budget support? Efforts by donors (e.g. the World Bank) to gain comparable perspectives through more or less quantitative rankings ought to be viewed with scepticism. Even those responsible for the comprehensive system for measuring the quality of governance advise against making quantitative indicators a precondition for the allocation of development aid, for they see the results as being too sketchy.

The solution for this dilemma can only lie in defining qualitative minimum standards for entering into budget support (in particular standards for transparency, accountability and participation).

The responsibility for improving the four elements, however, does not rest alone with the governments of the recipient countries. In concrete reference to budget support, the donors can strengthen the four elements as follows:

- Ownership for example needs the limitation of donor conditionalities. Policy conditionalities weaken the governments’ ownership; they further limit the public will formation and its mediation through parliaments and civil societies. The Performance Assessment Framework (PAF) used in a number of African countries in the context of budget support, for example, is not even publicly available and is not discussed in Parliament. Conditionalities should be restricted to process standards, but should not include policy prescriptions.
- Transparency can be strengthened by supporting the governments in all their public information work. Even more important might be the creation of transparency about the donors’ own activities in recipient countries. It has been recommended, for example, that donors could

publish all relevant documents related to budget support on a specific website.

- Accountability can be strengthened by accepting that governments are accountable to parliaments and the general public – not to the donors. There are still a number of practices that run counter of this basic insight. The meeting of the Joint Annual Review (JAR) in Zambia for example – in which important decisions on budget support are prepared – takes place without any participation of the parliament and with marginal inclusion of civil society. This strengthens the upward accountability instead of the domestic downward accountability. In addition, donors on their part should give account for their own work to the societies of recipient countries.
- The strengthening of participation requires the inclusion of parliament and civil society in the country's budget policy processes wherever and whenever possible. Donors on their part should hold dialogues as intensive as possible with parliaments and civil societies on aid flows, on budget support and other issues.

In general: Good governance in a broader sense of “democratic governance” is a precondition for the new aid mechanisms, especially effective budget support serving the needs of the poor. Governments in the south, but also the donors in the north are jointly responsible to improve this framework.

#### **4. Strengthening democratic budgeting**

What can be done to strengthen democratic budgeting? Various possibilities exist. Many opportunities are already used, for example to foster adequate legal structures or central auditing authorities. This is important. However, there are areas which have been (mostly) neglected so far:

##### Strengthening parliaments:

Parliaments in low income countries are weak institutions which are often embedded in a country's neo-patrimonial power structures. We cannot expect a change of this overnight. In the medium-term, however, elected

institutions can and must take up their roles which are – in many countries - already constitutionally granted. Their legislative and controlling functions in the system of government, particularly in budget policy processes, are crucial. Some donors are supporting parliaments in African countries, e.g. by capacity building or financing modern information technology. However, this is not enough. Amongst others, more resources, political support and the inclusion of the parliaments in all important decision making processes is necessary.

#### Institutionalisation of civil society participation:

The participation of civil society actors in their country's development policy processes suffers above all from a weak legal base, weak structures for continued dialogue as well as weak and uncertain resource situations. Some donors have done exemplary work for the strengthening of civil society work (e.g. the GTZ support to the network Civil Society for Poverty Reduction in Zambia). Regrettably, such individual programmes have not been adopted generally. What can be done?

The capacities for budget analysis should be strengthened in civil society organisations, but also in the national academic institutions and the media. Information flows between government or parliament and civil society should be supported, including assistance for the media. Civil society efforts to track government's expenditures should be financially covered. The representation of civil society groups in national macroeconomic fora should be encouraged, e.g. by ensuring good information flows. And, last but not least, initiatives to empower the poor themselves need full support from all involved political actors.

#### Interplay between civil societies and legislatures:

In the debate about democratic budgeting processes, the links or interfaces between civil society organizations and democratically legitimized parliaments have been neglected so far and have to be strengthened in future. Parliaments are (or should be) the constitutionally based and democratically legitimized forum for domestic debates. Civil societies can initiate "communicative power" (German social scientist Jürgen Habermas) to inspire, influence or even publicly criticize those who are in charge of the legal "administrative power". Both sides need - and can benefit from each other.

To realize this is especially a task for parliaments and civil societies themselves. One approach would be to create and to institutionalise mechanisms for information exchange and discussion between legislative institutions and country stakeholders (e.g. hearings, open forums, participation of civil society representatives in committee meetings, etc.).

## **Conclusion**

Democratic budgeting is an emerging reality in many African countries. This is an encouraging development. The potential positive impact on the lives of the citizens in these countries cannot be overestimated.

New aid principles and new aid mechanisms going hand in hand with democratic budgeting are available. The Accra Agenda for Action has formulated many important objectives and tasks. Their proper implementation is essential. Civil society representatives and parliamentarians – in Africa as well as in the northern partner countries – are called upon to hold their governments accountable as regards the Accra commitments.

Effective poverty reduction is possible. To create and to shape the necessary governance framework is a challenge for all political stakeholders.

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***PART II:***

***BUDGET PROCESSES AND BUDGET  
MONITORING IN  
AFRICAN COUNTRIES***



# Participation of Civil Society Organisations in Budgetary Processes in Sub Sahara Africa

*Judy Müller-Goldenstedt*

## Introduction

The participation of civil society organisations in budgetary processes in developing countries has increased considerably over the last years. In Sub-Saharan Africa a massive increase of budget groups<sup>1</sup> can be observed. They try to take more influence on the respective (financial) policy of their countries and to promote a fair social policy with a particular focus on poverty alleviation. In addition, participation in budgetary processes is a means to fight corruption and to strengthen democratization processes.

The preliminary study commissioned by the GKKE working group on good governance wants to analyse and describe the participation of civil society (especially church) organisations in budgetary processes in Sub-Saharan Africa. This preliminary study is based on extensive internet research, an analysis of relevant literature, interviews of staff of Misereor, EED, Brot für die Welt<sup>2</sup> as well as on inquiries of African organisations to gather specific information and relevant material. Particularly comprehensive investigations were made into the priority countries South Africa, Nigeria, Ethiopia and Tanzania. Countries of Sub-Saharan Africa being in an active process of PRS (criteria: countries with Full-PRSP and at least two progress reports<sup>3</sup>) were taken into consideration as well. Relevant information from countries south of the Sahara that do not belong to the categories mentioned above (Angola, Kenya, Namibia, Chad and Zimbabwe) were given secondary attention. Evaluation of the gathered information was in accordance with the set country priorities.

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<sup>1</sup> The *International Budget Project* uses this term for civil society organisations participating in budgetary processes.

<sup>2</sup> The staff of the various development organisations have been very cooperative and have contributed to the preliminary study by mentioning organisations or initiatives.

<sup>3</sup> This is also valid for 15 further countries in Sub-Saharan Africa. It has been assumed that civil society's framework conditions for a participation in political processes are comparably good in these countries.

Following is an analysis of the participation of African organisations in budgetary processes based on the information gathered. Central questions were:

1. Who participates in budgetary processes (organisations)?
2. When and on what level do they participate in budgetary processes (participation stages and levels)?
3. How do they participate (forms of participation)?
4. What are the respective legal, constitutional and political conditions for a participatory budgeting (general conditions)?

## 1. Organisations

For some years now, civil society organisations in developing countries have played a major role in budgetary processes. According to the *International Budget Project*, it was already in the 1990ies that a rapid increase in civil society involvement in this field was observed, which was closely related to the political trend towards democratization. In addition, the introduction of new instruments of budgeting (as for example medium-term financial strategy) also contributed to the creation of many new civil society organisations in Sub-Sahara Africa which participate in budgetary processes (cf. *International Budget Project 2001*, p. 1/4). As from 1999/2000, this trend markedly intensified with the introduction of Poverty Reduction Strategies (PRS) as this approach on the one hand provided for a civil society participation and on the other hand considered budgetary policies to be a central element of poverty reduction strategies.<sup>4</sup>

The present preliminary study listed a total of 55 organisations and institutions in 17 countries of Sub-Sahara Africa which are committed to participatory budgeting. It seems that there are many other organisations, but they are not present in the internet and up to now did not answer (e-mailed) inquiries. This is particularly true for the French-speaking PRSP countries (Burkina Faso, Mali, Niger, Senegal).

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<sup>4</sup> An increasing civil society involvement in this field is to be observed even in countries with limited public access to budgetary processes and information, which are governed by authoritarian regimes (Malawi), severe corruption (Nigeria) or political unrest (Ethiopia).

Most organisations committed to budgetary policies work independent of governments or political parties. Despite sometimes great conceptual differences, most of them fight for transparent and participatory budgetary processes and poverty oriented decisions in accordance with the respective financial possibilities (cf. International Budget Project 2001, p 2).

Most of the listed organisations are NGOs (39 out of 55, not affiliated to networks). Of these 39 NGOs listed here, there are:

- **six church organisations**

Example: *Catholic Commission for Justice and Peace* (CCJP, Zambia) analyses budgets, organizes training courses for local groups, is engaged in advocacy work, in budget monitoring, i.e. to make expenditure policy transparent and public. To this end, CCPJ publishes a quarterly newsletter and annual statements at the beginning and end of every fiscal year (cf. CCJP website).

- **two international NGOs**

*Action Aid Tanzania* and *Water Aid Zambia* are international NGOs whose work on the national level is focused on Budget Tracking or Expenditure Tracking. Action Aid Tanzania's work in the process of PRS concentrates on budget monitoring. Water Aid Zambia's work is also based on the PRS process when it tries to advance and improve water supply and sanitary facilities by means of budget monitoring and expenditure tracking. In addition to the mentioned NGOs, which have international relations but work on a national level, there are some international institutions which promote participatory budgeting in their programmes and individual projects (e.g. UNIFEM and International Budget Project).

- **nine research institutions**

Example: *Community Agency for Social Enquiry* (CASE/ South Africa) is a NGO engaged in socio-economic and political research with the aim to promote democratization in South Africa. Together with IDASA, CASE contributes to the *Womens Budget Initiative* (especially with the expertise and commitment of Debbie Budlender, the author of numerous publications on this subject area).

- **ten gender or women's organisations**

Example: *Tanzania Gender Networking Programme* (TGNP) concentrates on macroeconomics with a particular focus on budgetary processes to realize gender equality and promote the empowerment of women. In 1997, structural adjustment measures motivated TGNP to launch the *Gender Budget Initiative* (GBI) together with FemAct partners to design budgetary policies and to introduce gender mainstreaming.

In addition to these organisations, 13 networks were listed, in which many (also church) NGOs are represented. The *Poverty Action Network of Civil Society in Ethiopia* (PANE) places great importance on monitoring and advocacy work concerning the national budget and political processes (cf. PANE website). In 2006, it therefore founded a budget group to strengthen its commitment in this area, although this is very difficult, given the political situation in Ethiopia.

Finally, three state institutions were also listed, which fight for more transparency and participation of civil society in budgetary processes. Very interesting in this context is the *Rwanda Gender Budget Initiative*, a government initiative sponsored by the British DFID. The Ministry of Gender Equality and the Ministry of Finance closely cooperate in implementing this initiative. The process of PRS and the medium-term financial strategy served to introduce gender mainstreaming in budget processes (cf. BRIDGE website).

## **2. Participation stages and levels**

Civil society organisations participate on different levels in budgetary processes. Most of the budget groups and state institutions inquired for this study work on a national level. In addition to the international NGOs, four African organisations work on an international level, of which IDASA is the only one offering services beyond Sub-Saharan Africa, especially further education courses, cooperation and counselling. *Development Initiatives Network* (DIN, responsible for the Lagos Gender Budget Project) and *Centro de Integridade Publica* (Mozambique) are two organisations operating exclusively on a regional level.

The activities of budget groups cover several stages of budgetary processes (budget proposal or budgeting, parliamentary debate and decision-making, implementation / expenditure; monitoring and evaluation).<sup>5</sup>

The sphere of influence and activity of budget groups at the different stages of budgetary processes vary considerably and strongly depend on the respective national general conditions (see point 4). Given the governmental dominance in the draft stage, the possibility to exert an influence is considered to be very moderate (cf. Liywalii 2005, p. 6; International Budget Project 2001, p. 8). At this stage, an influence can be exerted through contacts with ministries and public authorities as well as public campaigns. The most effective influence can be exerted during the parliamentary debate on the budget (legislature stage).

At this stage, many organisations give budget assessments and analyses and try to exert an influence by offering counsel and training courses on budgetary items for members of parliament (e.g. CDD in Nigeria or SANGOCO in South Africa). During the budget implementation stage, many civil society organisations try to make expenditure transparent (budget tracking) and to monitor the appropriate expenditure of funds (e.g. PSAM in South Africa or GRAMP-TC in Cameroon). These information and analyses are then used in advocacy and lobbying work. At the final stage, the audit stage, civil society organisations do not yet fully utilize their participatory potential (cf. Liywalii 2005, p. 7; International Budget Project 2001, p. 8). Due to the fact that the availability of information on auditing is very limited and that many developing countries publish audit reports one to three years after the end of the fiscal year, this is indeed very difficult (cf. International Budget Project 2001, p. 17 f.).

The majority of the listed organisations cannot definitely be assigned to one of the stages described. This may be explained by the already mentioned limited access to information on the one hand, and on the other hand by the fact that many budget groups started to work in this field not long ago and give priority to public relations work with civil society, members of parliament and political decision makers as target

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<sup>5</sup> The analyses of the activities is based nearly exclusively on internet investigations (and information available there). So this report can only give a first assessment.

groups. The descriptions of activities were not clear as to whether public relations for example in political education or advocacy and lobbying work also directly addresses members of parliament or government staff to take an influence on budgeting.

As specialist literature states, too, participation in the draft stage is markedly less than in the implementation and evaluation phase. Evaluation in this context means analysing government expenditure policies and not auditing. Many more NGOs are committed to these fields of work. Nevertheless, there are some budget groups which explicitly focus their activities on budgeting, as for example the Nigerian NGO *Integrity*. With the financial support of the EU and of DFID, this organisation carries out a budget monitoring project aiming at an understandable and effective media information of the public on aspects of financial policy. In addition to this, training programmes were launched in six federal states to enable civil society to take an influence on budgeting and to monitor public expenditure (see *Integrity* website). The project wants to be a kind of budget watchdog and tries to promote dialogue between civil society, political decision-makers, members of parliament and others.

Another example of civil society participation in budgeting is the *Pro Poor Advocacy Group* (Pro-PAG) in Gambia, a very young NGO. Its strategy for 2006 to 2010 shows a very comprehensive approach in concentrating the organisation's activities on research, advocacy and lobbying work, training programmes, budgeting and expenditure tracking (cf. Pro-Pag 2006, p. 5). Pro-PAG has contacts with the government, donor organisations and local communities and with its knowledge from budget monitoring and expenditure tracking is able to exert a certain influence on budgeting (cf. Pro-Pag 2006, p. 5). During the Budget Interface Forum, the annual highlight of the participatory budgetary process, development priorities and needs of a certain region are presented to government representatives<sup>6</sup> to prompt them to take the presented facts into consideration. This shows that cooperation between budget groups and government are not necessarily conflict-ridden, but can be quite positive and useful. Budget groups strengthen government competence by

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<sup>6</sup> The this year's meeting was attended by a representative of the *Department of State for Finance and Economic Affairs* (DoSFEA).

organising training programmes, studies or fora as well as by promoting the legislative potential (cf. International Budget Project 2001, p. 5).

### **3. Forms of participation**

Budget groups try to play a part in budgetary processes and with their activities they directly or indirectly contribute to ameliorate budgetary decision-making processes.

In addition to public relations, research and analysis, the activities of some groups also include counselling of members of parliament and the creation of permanent dialogue structures with the government or parliament. Participation thus has two forms, i.e. the transmission and publication of information on the one hand, and counselling and dialogue between civil society and government or parliament (cf. Eberlei/ Henn 2003, p.21) on the other hand. Participation in budgeting will be limited to a participation in decision-making processes as the constitutional responsibility for the budget rests with the respective government or parliament.

The activities of most of the listed organisations involved in budgetary processes also include public relations (48 out of 55 organisations). Public relations usually comprises a broad range of activities. In our study we distinguish between advocacy and lobbying, campaigning, political education (budgetary basic knowledge) and courses (such as workshops and trainings for members of parliament). The analysis of the activities of the listed organisations revealed the following:

- The majority of the organisations (42 out of 55) are involved in advocacy and lobbying. Example: The Nigerian NGO *Social and Economic Rights Action Center* (SERAC) protects and promotes social and economic rights. This organisation is part of a growing number of human rights organisations using budget analyses to support advocacy for human rights (cf. SERAC website).

- Only four NGOs state that they are involved in campaigning.<sup>7</sup> Example: The South African National NGO Coalition (SANGOCO), in cooperation with the *Congress of South African Trade Unions* (COSATU) and the *South African Council of Churches* (SACC) has launched the People's Budget Campaign. People's Budget is poverty-oriented and tries to take an influence on economic and social debates on a government level (cf. SANGOCO website).
- Twenty of the listed organisations are involved in political education to inform the public on budgetary processes and its participatory potential. Example: The Tanzanian NGO *Hakikazi Catalyst* focuses its work on the transmission of knowledge and skills to the poor to enable them to express their needs and thus opens possible ways to political participation (cf. *Hakikazi Catalyst* website). To this end it publishes among others leaflets, for example on expenditure tracking.
- Twenty-three budget groups organise courses for civil society organisations as well as for government staff and members of parliament. Example: *Gender Education and Training Network* (GETNET) offers gender education and training for persons holding key positions in government and non-governmental institutions. The organisation works in all provinces of South Africa and beyond national borders. With its work GETNET wants to strengthen civil society and to enable governments to promote gender equality by adequate strategies (cf. GETNET website).

Many of the listed NGOs (38 out of 55) do research and analysis work. Example: The South African NGO *Public Service Accountability Monitor* (PSAM) monitors the budget and strategic government programmes, and analyses policy guidelines as well as basic and strategic policy programmes (cf. PSAM website). In addition to this, it gathers information on the management of public funds and corruption in government departments. PSAM carries out inquiries among government officials (in Eastern Cape) about cases of corruption.

Only six organisations participate in established dialogue structures (such as fora or regular meetings. Example: The *Catholic Parliamentary Liaison*

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<sup>7</sup> Classification was made according to the organisations' reports. It was not possible to check whether the activities meet the criteria for campaigning.

*Office (CPLO) of the Southern African Catholic Bishops' Conference* promotes access of the Church – as part of civil society – to discussions on public policy in order to exert an influence on political and legislative developments. CPLO offers an information service including, among others, briefing papers on budgetary items.

Ten organisations advise and inform members of parliament and political decision-makers (with Hearings or *Inputs*) on budgetary decisions. Example: The *Centre pour la Gouvernance Démocratique* (CGD) in Burkina Faso studies the effects of government policies on the country's development and tries to advance it by promoting civil society participation and democracy. The budget work calls for more transparency and civil society participation in budgetary processes. In addition to public relations, CGD discusses different budgetary items with the government, parliament and audit office, thus trying to gain an influence (cf. CGD website).

#### **4. General conditions**

The participation of civil society organisations depends on the specific national conditions which can encourage or limit their activities. This means that general conditions are important factors for the participation and sphere of activity of an organisation and not only its capacities.

The legal basis for participatory processes is very different in the 17 countries examined (four countries chosen and 13 further PRS-countries). Responsibilities and budgetary proceedings are generally recorded in the constitution of each country. In a few countries, Ghana, for example, enactments and regulations encouraging participation are not applied (cf. IDASA 2002, Ghana). In addition some are obsolete and do not support the medium-term financial strategy introduced in Ghana in 1999 (cf. IDASA 2002, Ghana). According to ISODEC<sup>8</sup>, the executive does not have sufficient budgetary knowledge necessary to fulfil its budgetary responsibilities. Due to lack of staff the monitoring institutions do not publish timely information about public expenditure. This is also reflected

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<sup>8</sup> ISODEC made the Ghanaian contribution to the study „Budget Transparency and Participation: Five African Case Studies“ (2002).

by the low percentage in the Open Budget Index 2006 for Ghana, which is being calculated by non-government organisations on the basis of publicly accessible audit reports. Thus, budgetary processes are not transparent in Ghana. (cf. IBP 2006, Ghanaian country report).

In Nigeria, which has been ruled by a military dictatorship for thirty years, the constitutional general conditions for budgetary processes are considered to be most urgently in need of reform (cf. IDASA 2002, Nigeria). Moreover, access to budget information is very limited. The public has access only to the pre-budget statement and the budget proposals, whereas access to audit reports is rejected (cf. IBP 2006, Nigerian country report). The Open Budget Initiative criticized budgetary processes in Nigeria as being too intransparent which seriously impedes civil society participation.

One negative factor which in many African countries impedes participatory budgeting is the weak role of parliaments (cf. Eberlei/ Henn 2003, p. 3). Parliaments usually have little resources and only a few members of parliament have got sufficient knowledge. Many political systems in Sub-Saharan Africa favour the executive and a democratic culture in many countries is only inadequately developed.

The activities of civil society organisations also depend on the political situation of a country. Participatory budgeting of the Ethiopian network PANE for instance is gravely impeded by the current political situation. The same is true for other countries with repressive governments.

The participatory potential of NGOs varies greatly and depends above all on the described general conditions. Another fact is the financial dependence of most organisations on external, mostly foreign sources. There are also big differences with regard to the expertise of NGOs. In South Africa, Ghana, Uganda, Zambia and in parts of Tanzania and Nigeria there are some institutions with remarkable specialist knowledge, whereas organisations in Mali, Malawi, Gambia, Mozambique or Namibia seem to have less expertise.

## 5. Summary

During the last decade, the number of civil societies in Sub-Saharan Africa participating in budgetary processes has considerably increased. Even in countries, where budgetary processes are not very open to the public (for example Nigeria, Burkina Faso and Chad) and access to information is very limited, NGOs committed to budgeting were established. An impressive example here is Nigeria, which has been ruled by a military government for decades, has a high corruption rate and ranks behind many other African countries with regard to the Human Development Index. Up to now, eight NGOs being involved in budgetary policies were identified in Nigeria.

In other, especially French-speaking countries (for example Senegal) only a few organisations were active in this field. This is possibly due to the fact that in these countries internet access is very limited and thus access to information is very poor. It seems that there are less budget groups in French-speaking countries than in English-speaking countries, although this could not be substantiated in this preliminary study.

The study answers the central questions mentioned at the beginning as follows:

1. The majority of the 55 organisations are (individual) NGOs established between 1995 and 2000. Six of them have an obvious church background. Many organisations are committed to gender equality and with their budgetary activities try to establish sustainable gender mainstreaming. Even organisations involved in education, human rights work and agriculture try to improve conditions in their respective fields by expenditure tracking and/or advocacy and lobbying work.
2. Most organisations work on a national level. Their activities could not be clearly assigned to the different budgetary stages in this preliminary study as the websites consulted were incomplete (or did not exist at all).

3. Most NGOs participate in budgetary processes by public relations or research and analysis. A more direct form of participation in budgetary decision-making processes is almost non-existent. Only a few organisations seem to have established dialogue structures with parliaments or governments. A definite evaluation of the quality of participation would require a more detailed study.
4. The general conditions vary greatly from favourable constitutional conditions as in South Africa to very difficult conditions as in Burkina Faso. The examples of Nigeria and Burkina Faso show, however, that even most difficult conditions cannot prevent civil society organisations from getting involved in budgetary items. In general, parliaments play a minor role in budgetary policies. Budget groups, however, can contribute to strengthen the parliaments by providing expert support (workshops, trainings, etc.) to members of parliament.

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# Budgeting for Human Development in Zambia

*Tina Nanyangwe-Moyo*

## Introduction

Immediately after celebrating new-year in the month of January, speculations and predictions over what the government has prioritised in the national budget in a given year become the order of discussions. Investors are worried about an upward shift in taxation and other remittances, workers are expectant of a reduction in income tax, commonly referred to as Pay As You Earn (PAYE), while several government departments are hopeful of a positive rise in the allocation relative to previous years. Anxieties grow more and more intense as the day for Minister of Finance and national planning to present the budget draws close.

The apprehensions illustrate how important the national budget is to the development process of an economy or state. A national budget specifically spells out how government intends to raise and spend money over a specified period of time, usually one year. It translates a national vision and plans into figures of revenues and expenditures and shows government's priorities and commitments through allocations to various competing needs in the nation.

Year in and out, exciting, meaningful, and at times misleading themes are drafted for the national budget depicting any explicit role that the instrument is envisaged to fulfil. There have been themes such as "*From Sacrifice to Equitable Wealth Creation*" – 2006 National Budget, "*From Stability to Improved Service Delivery*" – 2007 and recently (2008), "*Unlocking Resources for Economic Empowerment and Wealth Creation*". Do these flamboyant themes assure a downward trend in levels of impoverishment? Certainly not! Several years with strong budget themes have come and gone, habitually leaving a marginal increase in poverty levels and hardly negligible reductions in poverty levels are observed.

Since the coming of the IMF and World Bank economic reform programmes in the late 1970s, there has been a growing emphasis on issues

of good governance and improvement in macroeconomic performance but little or no fuss about microeconomic performance. The country in 2006 recorded achievements in macroeconomic indicators, including an upward GDP growth rate of 5.8% (though it fell short of the 6% target); single digit end year inflation of 8.2% compared to the previous year's end year inflation of 15.9%; and the within target domestic borrowing of 1.5% of GDP. The performance is indeed smart for the economic outlook of the country but are we going to be pro development that overlooks the basic needs and participation of the citizenry? It is disheartening to mention that Zambia has a stunning two-thirds (7 million) of its population living in abject poverty. The UN in its 2007 Human Development Index report ranks the country at an all time low of 166 from 177 poor countries in the world. Rural poverty has increased from 78% to 80% - as reported 2008 by the Central Statistical Office, LCMS. Employment levels continue to decline and small scale producer trapped in supply side constraints to access markets.

For the country to make a remarkable positive shift from this state of affairs, a proactive approach in the formulation and implementation of policy instruments should be pursued. One such instrument is the national budget. The government should endeavour not to merely budget for economic growth but more importantly for human development.

## **What is budgeting for human development?**

Budgeting for development entails investing in the human resource of a country. Because of the reducing levels of employment during the last years against a rising number of unsatisfactory labour conditions, the need of budgeting for human development is beyond any doubt: More people were employed in 2004 than in 2006, 54 percent and 43 percent respectively, while more people were classified as unpaid family workers in 2006 (12 percent) compared to 2004 (5 percent).

It has further to provide robust strategies for absorbing the extra labour force and to improve service delivery for the larger population. For human resource found in the overall population are the conveyer belts for sustainable development. Budgeting for development is necessary because

empirical evidence shows that when the majority of people's ability to engage in economic activity is enhanced, the prospects for integral sustainable development are improved.

Macroeconomic stability is not an end in itself, but a means to an end, budgeting for human development implies progressive improvement in service delivery which is a cornerstone to poverty reduction. It focuses on access to affordable quality education, health, water and improved infrastructure. Social sector allocations fall far short of levels that can guarantee improved social service delivery and hence human development. Real economic growth does not co-exist with incredible levels of poverty. Prerequisites to human development include citizens democratic participation in policy formulation, implementation and monitoring, essentially at all levels of decision making. This approach is effective as it provides first hand information on the needs of citizens to be served through formulated policies.

## **Monitoring budgeting for human development**

In 2003 Zambia decided to adopt the Activity Based Budget System (ABB system). It itemises activities to be undertaken over time with an outline of the costs attached to these activities. ABB system breaks down programmes into specific activities in various geographical areas and presents the costs of them. Better than the old budgeting system which only showed blocks of amounts for various programmes it is possible to check if the money is spent as approved in the budget.

To understand the various options for influencing and monitoring budget policy it is helpful to have some insights in the Zambian budgetary cycle: From May to June (drafting stage) the budget call is issued to the ministries and spending agencies by the Ministry of Finance and National Planning (MoNFP). During the legislative stage from June to November the ministries and spending agencies submit their budget estimates and proposals to MoNFP. Estimates are debated by controlling officers with the Minister of Finance as chair. Amendments are made and sent to cabinet. During these stages from May to November it is rather easy to influence decisions. Subsequently, this period is an area of high participation. In

November or December a draft is submitted to cabinet, the yellow book and budget speech are printed and approved. When the draft is presented to parliament and debated for 90 days, it will be quite difficult to influence the budget. After the budget is approved by parliament the implementation stage begins. It is followed by the auditing stage, where civil society also participates.

Participation in budget process is not only possible during different stages of the budgetary cycles but also at different levels. Next to consultations with parliament and MP's it is possible through District Development Coordinating Committees (DDCC) at community levels. Furthermore, participation is possible through the Provincial Development Coordinating Committee (PDCC). Major hiccups for broader participation are mainly twofold: First, the low economic literacy levels and limited access to information. Second, consultation and feedback between constituencies and MPs is very poor.

## **Adverse practices**

Albeit the sounding themes of the national budget mentioned in the beginning (2008: Unlocking Resources for Economic Empowerment and Wealth Creation), adverse practices in budget implementation are still serious. The 2007 budget set aside K129.3 billion for external debt service but paid K244.8 billion with a supplementary allocation of K115.5 billion. To prevent fraud budget execution, the 2007 budget promised improvements in budget execution through public quarterly reports from Ministries, Provinces and Spending Agencies (MPSAs). But no single report has been produced to date.

## **Conclusion**

Macroeconomic stability as a tool for economic development is a fallacy if it co-exists with stunning levels of poverty and deprivation. Real economic growth can be gained through human development, because it assures citizen empowerment and democratic participation at all levels of decision making.

# Transparent Budgeting and Budgetary Control: South African Issues

*Len Verwey*

## Introduction

The focus of this paper are the challenges that South Africa still faces with regards to budgetary transparency, also in respect to budgetary control. Since Idasa is an NGO whose primary focus is the promotion of good democratic governance, aspects of the question that relate to this focus will be emphasised. Budget work, as done by an organisation such as Idasa, has three potential areas of focus: One can engage with the content of budget policy, advocating for example for more resource allocation to free schooling, one can promote budget literacy through training and the like in order to deepen and broaden discussions on the budget within society and its institutions, and lastly one can advocate for changes and improvements in the budget system and its processes, in order that they may be more effective and more responsive to the needs of citizens as they themselves understand them. The topic of budget transparency then falls clearly within this last focus area, since it is concerned with one necessary condition for a responsive and effective budget, that is to say a truly democratic one.

After providing what seems to be a useful working definition of budget transparency there will be further comments on why transparency matters. In the following, some key challenges and issues need to be identified which remain to be addressed in South Africa in this regard. Although the focus will be on challenges that are still faced today, it is only fair to state at the outset that there have been made huge strides in democratic South Africa towards high levels of budgetary transparency and all the actors involved in that process should be commended for it. There will also be a brief comment on what can be regarded as a landmark in this regard.

## Need for Transparency

I understand budgetary transparency to refer to a state of affairs in public finances where both government and non-government actors possess adequate information to participate and hold decision-makers accountable for the use of funds given to them. Clearly in providing this definition, I am also already stating one of the reasons why budgetary transparency matters, namely because it is a necessary, though of course not sufficient, condition for participation both in the making of budget policy and the oversight therefore by both parliament and civil society. Without adequate information such engagement on a broad front by various social grouping is clearly impossible, and the making, execution as well as evaluation of policy are likely to remain secretive and the preserve of high-level politicians and technocrats. In any governance context where civil society as well as legislatures want more say in budgeting, the first step is and must be the insistence on improved transparency, specifically more transparency on the part of the executive which is largely responsible for the making and execution of the budget in virtually all governance systems in the modern world. It is only where basic transparency has been achieved that a broader engagement with the content of budget policy can be realised.

The obvious question then is: What is adequate? Various multilateral institutions have done work on this topic, work which has informed the basic understanding of budgetary transparency which Idasa also employs. Fundamentally, this approach identifies three aspects of transparency: Availability of information, clarity of roles and responsibilities, and systemic capacity to both generate and use information to improve outcomes.

### Availability of information:

This requirement refers most directly perhaps to the nature of the budget documentation that is released by the executive. Such documentation needs to be comprehensive, timely, accurate, and, as far as possible, provided in an accessible format. It should also be disseminated reasonably, by which I mean that copies should be available free of anything but a nominal charge, should be on the internet but not limited to the internet, and so on. A 'people's version' of the budget, such as the South African government releases, is laudable. The basic evaluative criteria here is a simple one: In a given country, if citizen x wants to find out what is being

spent on education in the next year, how this might change in the near future, and how this amount compares to spending on other items, how easy or difficult would it be to obtain and comprehend the budget figures in this regard?

Clarity of roles and responsibility:

This refers primarily to the allocation of roles and responsibilities of institutions engaged directly in the budget process. It is a necessary aspect of administrative performance, of course, but it is also a key requirement for the kind of transparency which generates higher levels of accountability. Civil society and legislatures can only do their work to ensure that officials and politicians are held accountable if a clear sense exists and is communicated as to who is in fact responsible for what in budgeting.

Systemic capacity:

This point simply emphasises that adequate transparency is not a matter of the right rhetoric only, nor can it be limited to the existence of adequate legislation, but that it requires a level of administrative performance and political support which ensures self-improvement and which feeds back concerns into a continuously improving system.

The above remarks have already sketched out the main sense of why transparency matters, but some other reasons can be added as well. Firstly, the South African constitution's Bill of Rights explicitly establishes access to information as a right and requires legislation to give effect to this right, which is realised in the Access to Information Act. Secondly, transparency is a necessary – or even the necessary – condition for democratic participation and accountability. Thirdly, and from a more pragmatic perspective, transparency in public finances has a significant stabilising influence on the macro-economy, for two related reasons. First of all, all else being equal it provides both the private sector and government departments with a clearer sense of what government is doing. This in turn creates predictability and helps promote longer-term economic investment, which is notoriously skittish in uncertain economic and public finance environments. In addition, it tends to curb the kind of destabilising speculation which accompanies basic uncertainty over what fiscal policy might be like in the next year or two. Transparency, in conjunction with

predictability, means we all know more or less this year what next years budget will look like and can gamble for high returns elsewhere.

## **Improvement in budget transparency**

Turning now to the current South African context, three positive components of the improved budgetary transparency environment in South Africa should be outlined:

Firstly, there exists a credible medium-term expenditure framework and its annual October articulation in the medium-term budget policy statement (MTBPS). This has provided a broader medium-term sense of budget priorities and shifts in priorities, as well as a fairly clear and detailed sense of the medium-term projections and assumptions on broader economic developments which underly the viability of the budget. The fact that all spending agencies need to compile their budgets, down to programme and sub-programme levels, for not only coming year but also, indicatively, for the two years after that creates much better opportunities for civil society to engage and advocate for shifts in prioritisation.

Secondly, the Public Finance Management Act (PFMA) lays down clear and specific transparency requirements and links them specifically to accountability on the part of government for the attainment of measurable objectives. In other words, it represents a shift from mere line-item or procedural accountability, where transparency might mean simply showing how much is to be spent on this, that and the other, without trying to articulate what all this is *for*, to the requirement that transparency in fact means being clear about what you aim to achieve, how you intend going about it, and how you are to be evaluated by those exercising oversight over you.

Thirdly, the use of reasonably clear formulae to determine the so-called horizontal division of revenue between provinces and between local governments has reduced uncertainty and gamesmanship in inter-governmental fiscal relations. The fact that the national treasury engages publicly with the financial and fiscal commission in this regard (it re-

sponses to FFC recommendations as an appendix to the budget review) is also welcome.

## **Remaining Challenges**

What then are the challenges regarding budgetary transparency and the related dimension of budgetary control in South Africa at present? A brief discussion of five challenges should be useful for further discussion. Not all of these challenges stem from or are necessarily mainly the responsibility of government. Some are of course, but some can equally be regarded as failures of civil society, political parties, or the various legislatures.

A first challenge, perhaps not surprisingly, concerns the extent to which the vision of transparency and accountability which informs the PFMA has in fact been realised. There are at least two dimensions to this challenge. Firstly, the extent to which national and provincial departments provide strategic plans which clearly link objectives to resource allocations and enable monitoring and evaluation of their performance remains uneven. The extent to which their annual reports reflect clearly on the extent to which in fact they did do what they undertook to do also remains uneven. There are, again, a number of reasons for this. It is admittedly not always easy to conceptualise government operations in terms of a framework of performance budgeting and performance management and a fair amount of capacity as well as political drive is required to effect this kind of change in mindset. It is unfortunately also true that South African legislatures are not necessarily applying enough pressure on departments and other spending agencies to ensure that their planning and reporting does meet these PFMA requirements in letter and in spirit. Whilst some of the parliamentary oversight committees are doing increasingly strong work in this regard, others still appear unsure of what their mandate is, how departments should be reporting to them, and what options they may have where these requirements are not met. Active oversight of a department by a committee using strategic plans, budget information and annual reports need not be rocket science. It consists of firstly insisting that departments conceive of and articulate their activities in this manner, and

secondly asking the right questions at hearings to ensure that these documents do represent the underlying facts plausibly.

A second challenge can be found in regard to the medium-term expenditure framework approach to planning. Many departments have entered into this approach superficially only. Their outer-year budgets tend to be no more than incremental adjustments to the budget being tabled, whereas of course the idea is that they budget over the medium-term to reflect medium-term shifts in priorities and to allow for them in terms of resource allocations. Neither legislatures nor civil society have really taken up the medium-term approach sufficiently either. All too often our preoccupation and emphasis remains with the budget tabled in February, reducing our role to ad hoc commentary because our own research and advocacy time-horizon is so narrow. The existence of a medium-term expenditure framework means we know, in rough terms, what the budget priorities will be two years from now, and should be engaging with that now - if we mean to effect changes.

The quality of budget documentation and more broadly the degree of effective transparency also varies markedly between provinces and between local governments. As always, this can partly be attributed to issues of capacity. But it also reflects a lack of political will and a lack of incentives to many of these jurisdictions to ensure that their decision-making around resources is participatory and that the implementation of these decisions can be scrutinised and evaluated.

A fourth challenge concerns the relative lack of transparency about the so-called vertical division of revenue in South Africa, by which I mean the determination of the share of nationally raised revenue to the national, provincial and local spheres of government. It is only after this vertical division that the horizontal division between jurisdictions in the same sphere takes place. Whilst it would be mistaken to submit the vertical division to a formulaic approach, there are too few discussions currently about this division and the extent to which it most effectively contributes to the development of governments broad social and economic programme.

A fifth challenge concerns the matter of legislative budget amendment power in South Africa, that is the procedure and related matters governing

the authority of parliament and the provincial legislatures to amend the annual budget proposed by the executive. This is not, per se, a matter of budget transparency, but is clearly one of budgetary control or budgetary oversight. If one adopts the useful distinction between ex ante and ex post oversight, then clearly the ability to amend the budget is a key aspect of meaningful ex ante oversight. Legislation giving effect to this is of course also required by the constitution. Parliament is currently reworking a draft bill of this piece of legislation. The challenge here will be to find, both in the legislation and in the way it is interpreted and operationalised in future, a healthy balance between a reinvigorated legislative space and the need to maintain a viable long-term fiscal stance. Whilst I am sceptical of the view that equates parliaments in some inherent way with the risk of populism, it will be necessary for parliament to significantly improve its capacity as well as its institutional structures if it is to add value to fiscal governance through the use of budgetary amendment.

# Strategies for Promoting Social Budgetary Policies in Ghana

*Eugene Yirebour*

## 1. Introduction

The economic indicators of Ghana as of 2001 manifested a dwindling economy with serious economic management implications. For instance, inflation was estimated at 40.5% and the Cedi (national currency) had depreciated by over 150% with domestic and external debt situation constituting 166% of GDP.

These, among others, motivated the government at the time to access the Heavily Indebted Poor Countries Initiative (HIPC). This decision, however, generated intense debate especially among politicians and many social commentators with regards to the significance of accessing the HIPC initiative. The opponents of the initiative cited, among others, the stringent conditionalities associated with HIPC initiative as the basis for their opposition.

Admittedly, the political environment as of 2001 was stable and the philosophy of decentralization had created a suitable political space for broad based participation in governance even though it was punctuated with difficulties. Notwithstanding this, there was no mechanism then to shape government – civil society engagement. Government did not have the framework to work with civil society (CSO) nor did civil society have the capacity or the skills to work with government although the political decentralization system favoured such government-CSO partnership.

Hence, in the mist of the raging debate about the decision to join HIPC, SEND initiated the HIPC Watch to mobilize CSOs to brainstorm on how to broaden education on the HIPC initiative and monitoring the utilization of resources accruing to the state and influence pro-poor or poverty focus policies and programmes. Therefore, it adopted mixed strategies to promote social budgetary policies, including such approaches aimed at building the capacity needs of CSOs to work with government and to create a

mechanism from which government could engage with CSOs. Other strategies include participatory monitoring and evaluation, advocacy and policy dialogue, and the use of multi-media approach.

## **2. Strategies of promoting social budgetary policies**

### **2.1 Education and sensitization of government policies**

By the capacity building approach, SEND foundation collaborated with key state actors to educate and popularize government poverty focus policies such as the Growth and Poverty Reduction Strategy (GPRS) and the Ghana Schooling Feeding Programmes (GSFP) documents. This took the form of simplification of the policy documents, policy education of all stakeholders and targeted sensitization of the vulnerable. SEND undertook the education because the fundamental requirement of engagement and advocacy is creating the awareness of people. These training sessions brought together women leaders, youth leaders, organizations for people with disabilities (PWDs), Community-Based Organizations (CBOs) and state actors at the regional and district level who replicated the training in their respective organizations and agencies. The involvement of state actors and institutions was necessary because they are the mandated government agencies responsible for the development of these policy documents and are the custodian of its implementation.

### **2.2 Participatory monitoring of government policies**

Participatory Monitoring and Evaluation (PM&E) of pro-poor public funds and programmes is a major approach of the Ghana HIPC Watch project (GHW). SEND Foundation through the Ghana HIPC Watch initiative used the bottom-up capacity building approach to mobilize and empower CSOs in districts with poor resources to undertake a participatory monitoring and evaluation of HIPC funded programmes and projects as a means of promoting good governance, transparency and accountability and ensuring the success of poverty reduction policies. Through the PM&E framework, a cross section of civil society such as PWDs, food crop farmers, youth groups, women, faith based organizations and district assembly officials have been mobilized into District HIPC Monitoring Committees (DHMC). These committees were trained to apply a participatory monitoring and evaluation manual to monitor public policy impacts on people with

pour resources. The monitoring steps include information gathering, information sharing and regional quarterly review meetings. By this framework, it has been learnt that where ordinary people are educated on public policy, they are able to monitor and identify policy gaps, give constructive feedback and development alternatives to their policy makers.

### **2.3 Policy advocacy and lobby**

A major approach of the GHW in promoting social budgeting is advocacy and policy dialogue. The advocacy and lobby engagements with public office holders at regional, district and national levels have been acknowledged and are yielding some results with respect to social protection policies. This process starts with the formation of lobby teams. For instance SEND in collaboration with other CSOs has formed women and PWD lobbying teams in all operational districts, regions and at national level.

### **2.4 Multi-Media approach**

The use of a multi media approach for policy engagement has proven useful to the GHW project. The GHW developed a media strategy in order to amplify key monitoring findings and advocacy issues using the internet ([www.sendfoundation.org](http://www.sendfoundation.org)), GHW newsletter and community radio among others. The community radio has effectively targeted people in diverse local languages such as Dagaare, Waale, Ada and Ga. Given the level of discussions, incites generated and the number of persons independently engaging their assemblies it can be said that the radio programmes are achieving their desired impacts. Thus, where citizens have access to well packaged and reliable information, they are able to engage their public office holder on their own for social inclusion.

## **3. Outcomes and impact**

### **3.1 Capacities of civil society organization**

Through activities such as participatory monitoring and evaluation training, many CSO members have been trained as trainers and have thus acquired useful facilitation and organizational skills. These have been demonstrated through the successful organization of their own district-level workshops identification of policy implementation gaps, constructive feed

back, and recommendation of alternative policies to policy makers at their district levels. For instance, almost all 24 DHMCs in northern Ghana identified shoddy work by contractors and reported to their respective district assemblies for actions to be taken to improve the quality of such projects. A case in point was when the DHMC mobilised Sakai, Kowie, Kong, Sakalu and Dangi communities in Sissala East District in the Upper West Region of Ghana to engage with the district chief executive and the district planning officer to explain to them the whereabouts of six new market structures supposedly completed in their communities as mentioned in the vice president, Alhaji Aliu Mahama's speech delivered during Kanton Senior High speech and prize giving day on the 7<sup>th</sup> of August 2007. The result of these engagements were the awards of these projects on contracts.

### **3.2 Enhanced capacities of CSOs resulting in effective policy dialogue**

CSOs have gained confidence in their ability to effectively engage in policy dialogue with the state on issues of social budgeting. The advocacy and lobby engagements with public office holders at regional, district and national levels have been acknowledged and are yielding some results with respect to social protection policies. This is contributing towards a number of positive changes for the benefit of people with poor resources.

#### **3.2.1 Increased engagement of PWDs**

The needs of PWDs are mirrored in the budgetary policies of the country. The district assemblies in the various districts through the advocacy efforts of the DHMC are responding to issues affecting PWDs. Notable initiatives include for example: Ten PWDs have benefited from a financial management workshop and micro finance package of GH¢50 each to undertake small scale income generating activities. In the Savelugu/Nanton district PWDs have been provided with office accommodation pending the construction of a permanent resource centre for them. The Gushegu District Assembly (DA) has procured furniture for the resource centre for PWDs, given financial assistance to attend conferences where issues of PWDs are discussed. The Saboba DA has provided GH¢2,000 for PWDs to celebrate international day of the disabled where issues of PWDs would be highlighted and attention given to them. In the East Gonja District, a PWD has been nominated as government appointee to the general assembly to

support and strengthen the course of PWDs while lending support to the various groups of PWDs to undertake annual events.

The beneficiaries of the credit support, which was given to various groups of PWDs by district assemblies, are gainfully employed in different economic activities including basketry, grain banking and other small scale businesses within their communities. In the Upper West Region of Ghana, all DAs, especially Nadowli, Siisala East and Wa municipal now compel contractors to make all new physical structures disabled accessible. Tender boards have been tasked to consider building plans with design to make the structure disabled friendly as one of the condition for awarding contracts.

### 3.2.2 Increased engagement of women leading to positive social interventions

The advocacy engagements with the appropriate Millenium Development Authorities (MDAs) resulted in the initiation of steps to address gender equality issues in development programmes. At the district level a total of 204 women from ten groups have benefited from a microfinance package with each woman receiving GH¢60 cedis in the Yendi district. In addition, the Gushegu district assembly gender desk has animated five women groups and facilitated their access to credit for income generation. Such efforts on the part of the GDO would lead to widening credit opportunities to women to increase their incomes and reduce poverty. Indeed, the beneficiaries of these loans are engaged in agribusinesses such as grain banking, small scale farming and fish mongering. This is contributing towards improving their economic well being through income generation and increasing market access conditions in the local economy.

In addition, key women leaders have emerged from the DHMCs and are championing the course of women and children in their societies. For example Hon Saratu Issa, a DHMCs member who is also a district assembly woman, leads her community to pressurize the metropolitan assembly and secured a 20 seater toilet facility for her community called Tishigu in Tamale. This follows a series of budgetary allocations by the metropolitan assembly for the project that failed to be realised since 2004. Her effort contributed immensely towards the construction of the facility in 2007. Hon Saratu has outlined and clarified her priority to improve sanitation in

her electoral area which is in line with government's priority in the GPRS II.

### **3.3 Advocacy leading to changes in public policy benefiting the poor in recent times**

The advocacy activities of the Grassroots Economic Literacy and Advocacy Programme (GELAP) and its partners have contributed to changes in government public policies and programmes targeting poverty reduction. For example the report entitled "Where did the HIPC funds go" by SEND made a strong case for the three Northern regions. In line with this advocacy, government has proposed in the 2008 budget statement the establishment of a school feeding fund, agricultural investment fund and the northern development fund.

The agricultural investment fund will leverage financial resource to farmers and improve upon agricultural productivity and their livelihood. The northern development fund is also an important pro poor policy initiative of government that will have a lot of benefits to the people of northern Ghana who are lacking behind not only in terms of social infrastructure but also the needed human resource requirement to move the area forward. The establishment of the northern development fund with a seed capital of GH¢25000 will provide a medium term development strategy to bridge the development gap between northern and southern Ghana, thereby contributing to poverty reduction in the three regions with high incidence of poverty in Ghana. This will however call for CSO monitoring to ensure the effective implementation of the fund.

The Ghana school feeding programme is another important pro poor policy intervention that is enhancing governments to drive towards educational development and strides in meeting of the Millennium Development Goals two and three by 2015. It has been estimated that over 500,000 school children have benefited through the programme. Thus, the school feeding fund further demonstrates governments resolve to sustain the programme and this will hopefully contribute towards ensuring regular flow of funds for effective implementation of the Ghana school feeding programme. Given the contribution of the programme in increasing school enrolment, retention, improving nutrition and boosting food production, there is a pressing need for key public institutions and agencies to remain focused

on implementing all aspects of the programme. The resultant effect will be increased livelihood and welfare of the rural poor, as it will enhance their income levels.

Additionally, government is funding a significant proportion of the National Youth Employment Programme (NYEP) with HIPC funds. The programme has provided employment to the youth. Under this Programme, about 10,000 youths have been employed and as at September 2007, the NYEP has disbursed GH ₵ 8.37 million for implementation of the programme. However, a key challenge of the programme has been irregular flow of funds for payment of salaries of beneficiaries and the gender inequity, skewed in favour of the men. It is against this background that government has proposed a mobile phone talk-time tax to raise sufficient funds for supporting pro poor policy interventions like the NYEP.

#### **4. Challenges**

Keen interest at the community level to engage with the district assembly to improve accountability, promote good governance practices and ensure equity is undermined by the top down approach by the Accra bureaucracy to delivering key policy instruments and programs. Feedback from state institutions such as parliaments and others that are expected to promote social budgeting and accountability tend to be low. A big challenge to CSOs engagement in promoting accountability is the unwillingness of some key civil servants to give what is genuine public information. There exists a deep culture of suspicion and mistrust of the intentions of CSOs within the government bureaucracy.

#### **5. Conclusion**

It can be concluded that given the experience of Ghana from the days of military dictatorship to this current era of democratic governance, the policy space for CSOs has been increasing. The experience of the GHW of SEND foundation therefore has been deepening to the extent that the project has made strides in influencing government to formulate social policies that response to the needs of the poor in society. However, there is the need for civil society to work more and more in coalitions and networks to build a bigger voice for effective public policy engagements.

# Experiences and Trends in Participatory Budgeting in Mozambique

*Adriano Nuvunga*

## Context

The machinery of government in Mozambique combines a unitary state with some level of administrative and democratic decentralization. It consists of 11 provinces, 128 districts and 43 local governments. After independence in 1975, the government followed a socialist system, a one party state and a centrally planned economy. In mid 80s, after realization of economic failures which led to (internal) political pressures triggered by the 16 years long bloody and devastating civil war, the country commenced lots of reforms at one go, namely from a war torn society to a peaceful polity; from a mono party to a multiparty state; from a centrally planned economy to a market based economy.

For institutionalisation of above reforms, a first multi party constitution was approved in 1990. This constitution paved the way for the 1992 peace accord which ended the civil war and paved the way for democratization with the democracy founding general elections taking place in 1994. Since then, two other general elections were held in 1999 and 2004 respectively for the positions of state president and parliament. Also, there have been two local government elections for the 33 local governments, in 1998 and 2003.

Following the above more institutional building oriented reforms, the government initiated the more qualitative oriented reforms which later were embedded in the global strategy for the public sector reform (2001-2011) with five components, namely: Restructuring and decentralization of the structures and services provider's proceedings, improvement on the process of establishing and monitoring public policies, professionalization of civil service, improvement of financial management and render accounts, good governance and the fight against corruption.

The global strategy for the public sector reform, particularly the State Financial Administration System (SISTAFE)<sup>1</sup>, has impacted remarkably on governance, with particular focus on planning and budgeting. With it, national budgeting has become more transparent, in terms of accessibility of budget information, i.e. although limited distribution, the methodology for executive's formulation of budget and the subsequent budget documents are available on internet. More structures were created, and people's participation (consultation) processes were institutionalized, i.e. although still limited to local initiative funds, the creation of the district consultative councils and local forums which resulted in more structurally bottom up national planning. However, budgeting, in sharp contrast with planning, has firmly remained centralist and state based with no space for participation of non state actors, apart from the donors.

Some local governments are pioneering participatory planning and, more recently, participatory budgeting which are breaking with the historically entrenched top down budgeting institutional setting and 'consultation' culture. Interestingly, participatory planning and budgeting are not mandatory by law but voluntary based approaches. The current experiences in Mozambique resulted either from visionary mayors or from donor conditionalities. Of the existing experiences only the Maputo municipality is implementing a participatory budgeting – in line with Porto Alegre – which reserves 15% of its annual budget for participatory budgeting initiatives.

Although with limitations, participatory planning and budgeting has an in-built potential to boost popular vibrancy in local governance which can bring significant contribution towards democratic deepening and consolidation in local governments. Additionally, it has a progressive potential to break with the historically entrenched top down budgeting institutional setting and 'consultation' culture through building a democracy from below in relation to the machinery of government which suffers from the syndrome of dominant parties in new democracies.

The purpose of this paper is to outline and briefly unpack the existing participatory planning and budgeting experiences in Mozambique, focusing on

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<sup>1</sup> Lei 9/2002 de 13 de Fevereiro Boletim da República, Imprensa Nacional de Moçambique, Maputo e seu regulamento, Decreto 24/2004 de 20 de Agosto.

Dondo municipality, the Swiss Development Cooperation supported municipalities, particularly Cuamba and Pemba and Maputo municipality.

## **Nature, phases and timing of the national budgeting process**

The five-year government plan and the action plan for poverty reduction are the main instruments providing the framework for the subsequent annual planning. With regard to the budget process, the multi-annual framework is provided by the mid-term expenditure framework. The SIS-TAFE describes the budgetary process. Although the regulation does not include the role of donors, the high dependence on external resources to finance the state budget turn the development partners into key actors in the budget process. Below are the steps, timing and main actors of the budgeting process:

- March/April: Donors are required to indicate their commitments to the state budget by specifying whether the support is for direct budget support to the government or bilateral funding or through common funds to the recipient sector. This allows the government to announce the budget ceilings to the sectors and provinces.
- May: Sector and budget units at central and local level gather and analyse information on their prospective revenues and expenditures in a 3-year timeframe. This process involves relevant donors which participate in the preparation of the sectoral mid-term expenditure framework under the leadership of the relevant sector.
- By May 31: Based on the declared revenues, internal and external, the Ministry of Planning and Development, in coordination with the Ministry of Finance, presents the budget ceiling for all relevant budget units from central to local levels, which includes ministries, public enterprises, provincial and district governments, as well as local governments. At the same time, the Ministry of Planning sends details on the methodology to be adopted in budget preparation.
- June to July: Ministries and provincial governments consolidate the budget of their multiple units in a single document that is sent to the Ministry of Planning before July 31.

- August: After the receipt of the annual plans and budget proposals, the ministries and other actors negotiate details of their budgets with the ministries of planning and development and of finance.
- August to September: After the negotiations with the sectors and the approval of the proposed plans and budgets, the ministries of planning and development and of finance present the economic and social plan and budget to the council of ministers for approval. At the same time, members of parliament undertake visits to the provinces and promote meetings with various groups and actors including civil society groups (CSOs), to discuss the level of implementation of previous budgets, gather information about the provincial needs and undertake analysis to determine the extent to which the needs were included in the budget proposal.
- September: The council of the ministers submits the economic and social plan and the state budget to the legislative. The proposal contains a brief report on the execution of the last year budget, the revenues (with sources - internal and external properly defined) and the expenditures.
- October: Legislative debate on the budget begins. Annual plans and budgets are sent to the legislative committees for analysis.
- October to December: Relevant committees, with the budget and planning committee taking the lead, analyse internally the government plan and state budget and might call ministries or CSOs to discuss some points. After this process, they must come out with their analysis of the plan and budget that has to be presented to the plenary.
- December: The legislature approves the budget through a law
- January onwards: The execution of annual plan commences.

As described in the law, planning and budgeting in local governments is hierarchically top down with no substantial citizenry participation but only vaguely expressed 'consultation'. However, in 10 years of local governance there are some insightful participatory approach experiences which range from participatory planning to participatory budgeting.

## **Dondo municipality**

The Quarter Planning Nuclei<sup>2</sup> (NDBs) inform the communities that it is time for planning and its technical branch launches a door to door campaign to collect people's views on the priorities for the following year. The technical branch systematizes the priorities and presents them to the political branch which discusses, calls public hearings and further prioritizes and/ or short lists them. The prioritized list from each of the 10 NDBs is channeled to the planning & studies office for compilation and systematization. The systematized compilation is submitted to the consultative forum for assessment of the needs based on the relevance and urgency. In most cases, the presidents of the NDB – who are members and participate in the consultative forum – are asked to stand and substantiate their priorities. Through a hand method, the consultative forum has to vote for each priority and the final document is presented to the council to be considered in its planning and budgeting session. The draft annual plan and budget is tabled at the local assembly for enactment.

The participatory planning only covers the investments which directly impact on the services for the people but no specific budget is allocated for local initiatives. After the consultation at the consultative forum it is up to the council to decide whether or not to include certain priorities identified by the communities and further supported by the consultative forum. Institutionally, the process is embedded within the council which, in fact, has the leading role.

## **The Swiss Development Cooperation supported municipalities**

The SDC experience in participatory approaches in planning in Cuamba and Pemba municipalities involves all actors in a particular context but mainly the traditional authorities, community leaders, religious leaders, political party representatives, civil society organizations, district authorities, council, SDC technicians and assembly.

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<sup>2</sup> It is a voluntary based organ aimed at contributing for mobilizing of human, material and financial resources for the quarter's development. It has two branches, technical and political. The technical branch consists of 4 to 5 young activists and the political branch consists of 7 to 10 adult people, Roque et al. (2000: 13).

The process commenced with baseline surveys, consultation and trainings by SDC technicians, where several workshops were held to explain the importance of participatory planning and mainly the importance of community involvement. With this done, the planning commenced which starts with the council issuing invitations to all stakeholders to a planning meeting at the premises of the council. An average of 70 people participate in each of these meetings since 2003 but farer areas – coincidentally the poorer – and women have, respectively, no and deficient representation.

The meetings – led by SDC technicians – start with the technicians presenting the logical framework matrix with the key activity areas where the three priority areas have to be drawn from. Since most participants are illiterate, the various priority areas have to be illustrated through pictures. Six objects are distributed per participant and these objects can either be bean grains or maize grains, and to each grain corresponds one priority. In most cases, it happens that participants put all six objects in one priority area but also there are instances where there is balanced distribution of objects per priority area and also instances where project areas are withdrawn which results in repetitions of the process.

The outputs of meetings are short listed priority areas where specific projects and/ or actions will be designed by the council at the request of the SDC technicians. The designed projects or activities are either included in the annual plan for approval by the assembly (in case the above planning coincides with normal planning) or an extraordinary session of the assembly will be called for the same purpose. After the approval, the projects are submitted to SDC for financing.

Apparently, the process is entrenched within the council but, in reality, it is led by SDC technicians. The priority areas from which the participants have to choose the three priorities to be funded by the donor result from donor-council relations with no input from communities. Additionally, it is not known what happens to the minor priority areas. SDC receives a ceiling of \$40,000 per year for each municipality for the three projects resulting from the top three prioritized project areas in the planning meetings. There is no evidence of monitoring which involved the aforementioned stakeholders but accountability after project execution. The council has to

account for the implementation of the funded activities in the following years' participatory planning meeting.

## **Maputo municipality**

Since 2004, Maputo is pioneering a participatory budgeting (PB) experience, but only in 2007 it started operating as below description, – which is conceptual and methodologically in line with Porto Alegre experience but informed by local specificities. Foremost to Maputo experience is that it is originated from within and benefits from what is happening in this sphere in Mozambique and abroad. The designing of the PB methodology benefited from the Dondo experience, the SDC supported municipalities and some field trips to Brazilian experiences. The participatory budgeting covers all territory – it is territory based – with the quarter (bairro) being the planning and implementation unit (UT) and municipal district (DM) the budgeting unit. The criteria for definition of PB projects (which are later integrated in the council's plan) include economic viability, source of funding, maintenance cost, expected results, beneficiaries and risks.

The leadership of the mayor was instrumental, first, for the setting up of the architecture and, second, for its operationalisation. Institutionally, it is embedded in the council's structure. The council makes provision for 15% of its annual budget for participatory budgeting initiatives to be shared amongst the seven DM based on the following criterion: Population, territory extension and fiscal performance of each district. Project implementation monitoring is primarily done by but not limited to the delegates of the planning and budgeting unities.

## **Final remarks**

The Dondo experience is an interesting and inspiring exercise towards participatory planning which assembles more to an institutionalized and far-reaching consultation mechanism than to a participatory planning mechanism. However, it has shown lots of potentials to evolve to both participatory planning and participatory budgeting.

The experience of the SDC supported municipalities appears to be an interesting case of participatory budgeting but with significant limitations, mainly because it is not embedded in the structures of local governments and is set as parallel mechanism to ordinary planning and budgeting (which is based on own revenues). Additionally, it is donor driven (executed and led) and only focused on donor funded projects. Thus, continuity sustainability concerns after project termination and has substantial representation limitations, mainly women and farer residential areas.

The Maputo experience is an evolving and important experience of participatory budgeting in Mozambique which is in line with the Porto Alegre model. It appears to be a purely home grown initiative and thus embedded in the structure of the council which in turn may be conducive to sustainability.

The three aforementioned experiences have specific limitations which are characteristic of pioneering experiences. The description reveals that only Maputo municipality is implementing a participatory budgeting, but all experiences have inbuilt potential to boost popular vibrancy in local governance which, on the one hand, has significant contribution towards democratic deepening and consolidation in local governments and, on the other hand, has a progressive potential to break with the historically entrenched top down budgeting institutional setting and 'consultation' culture. In this perspective, these experiences are maybe pioneering a sort of democracy from below in relation to the machinery of government which suffers from the dominance of a hegemonic dominant party.

# Transparency and Control of Military Budgets

*Prof. Dr. Michael Brzoska*

## Introduction

For anybody interested in public accountability issues, military budgets and monitoring military policies provide important challenges.

For one, military spending and military exports are quite sizeable budgeting categories. About 2.5 % of global national income and about 10 % of all public spending are for military purposes. Second, there is a widespread perception that transparency is particularly low and difficult to achieve in the military sphere. Secrecy requirements are particularly stringent. In addition, the sector has a history of attracting corruption through intransparent procurement practices. Finally, the military sector is apart from other policy sectors for political reasons. The military often sees itself as special, because of its role in national security, a view that is shared by wider parts of the population in many countries. In addition, it has the physical power to remove a government, thus messing with the military, and its funding, may not be without dangers.

Having made the case that there are differences between the military sector and the rest of government, this chapter will argue that these differences do not suffice to exempt the military, or decisions on arms procurement and exports, from principles of accountability. While some special provisions, particularly for accommodating legitimate secrecy, need to be made, the same requirements for comprehensiveness, transparency, accountability, contestability and so on need to be applied to the military sector which are applied to other sectors. If this is not done, and the military sector is treated separately, this not only opens up 'black holes' of wasteful spending and corruption, it also implies that the military sector is favoured in the allocation of public funds. This violates the basic principle of public spending that all sectors, including the military sector, should justify their spending on an equal footing.

This chapter first illustrates the extent to which intransparency is a problem in the military sector, using some examples of military budgets and military exports. It then discusses what elements need to be put in place for better military budgeting and what are the major obstacles.

## **Who knows what and not?**

On first sight, there seems to be a lot of information on military budgets. For instance, there is data available on global military spending. The global military spending in 2007 was given as 1230 bn US-Dollars. Military spending in Sub-Saharan Africa in 2007 amounted to 10 bn US-Dollar, while the total for all of Africa was 16.5 bn US-Dollar.

There are two problems with this data from the point of transparency and accountability of budgets. The first is that the data is far from exact. Indeed it is built on a mixture of fairly reliable data and estimations. The organisation that produces the data, the Stockholm International Peace Research (SIPRI) is an independent research institution which collects information from a wide variety of sources, including budgets. In addition, it estimates data where no good national data is available.

Market exchange rates of currencies may not reflect the actual cost of military spending. While arms imports usually have to be paid for with international currency – so market exchange rates are appropriate – other parts of military spending, such as salaries have to be paid in local currencies. Here, Purchasing Power Parities (PPP), which measure the actual buying power of currencies, are more appropriate.

The second problem is that organisations such as SIPRI and the International Institute for Strategic Studies (IISS) need to construct data. Contrary to many other economic data, they cannot be constructed by aggregating national data because, as said, national data is unreliable. A good number of countries actually do not publish any relevant data at all.

The reliability problems of national data on military spending have been demonstrated in a number of studies. One of these studies was done in

2004 by the current author together with a number of associates<sup>1</sup> for the German Kreditanstalt für Wiederaufbau (kfw), which administers Germany's financial data. It looked at the budgets of four African countries, comparing different sources on military spending with each other and also with other relevant information such as the size and structure of armed forces and the import of arms. Its main findings include:

- **Ethiopia:** Official budget data generally reliable, but some major procurement items (e.g. aircraft) seem to be excluded.
- **Burundi:** Official budget data unreliable, contradictory numbers, some expenditure/ income seems to be outside of budget.
- **Uganda:** Some items seem to be „hidden“ in civilian budget lines, extra-budgetary income/ expenditures, official budget unreliable.
- **Tanzania:** Official budget generally reliable but some items seem to be „hidden“ in civilian budget lines.

In the case of military budgets, it is not only national data which often is unreliable (or non-existent), there is also a lack of reliable official international statistics, at least to the extent that they are publicly available. The International Monetary Fund collects data on military spending but does not publish them in detail. So it is not possible from the outside to know how reliable that data is. The United Nations publishes a dataset on military spending, but it is very incomplete. Even though the member states of the United Nations decided to establish this military reporting instrument, many do not report. Reporting is particularly poor in Africa. In 2006, the latest year for which data was available, only two African states – Namibia and Burkina Faso - reported data to the United Nations<sup>2</sup>.

If we now turn to arms exports, the situation is not much better, in fact, it is worse. Again, we do have numbers for the overall trade. In the case of arms exports, the two most widely used datasets are SIPRI and a dataset

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<sup>1</sup> Michael Brzoska et al, Incorporation of Defense Expenditures into Public Expenditure Work. Short Assessment of the Situation in Ethiopia, Burundi, Kenya, Tanzania and Uganda, BICC 2004, [http://www.bicc.de/publications/papers/paper38/paper-38\\_english.pdf](http://www.bicc.de/publications/papers/paper38/paper-38_english.pdf).

A recent study with similar findings is Wuji Omitogun and Ebo Hutchfu, Budgeting for the Military Sector in Africa: The Processes and Mechanisms of Control. Oxford University Press: Oxford, 2006.

<sup>2</sup> See United Nations, <http://disarmament.un.org/cab/milex.html>.

which comes from the US government but are published by the US Congressional Research Service. The data is collected by many sources from within the US government, including intelligence services. The sources or methods of this data are not revealed. It is therefore not possible to establish how reliable this data is.

A look at data on German arms export shows that the difficulty of establishing the level of German arms exports is not only an issue in the comparison of different sources. It is a more fundamental one. It is simply not possible to say, without a long list of qualifications and specifications, what the level of German arms exports in a given year is.

What is lacking is data for the actual export of armaments, that is weapons of war plus non-lethal military equipment and components. The government warns, in particular, against using the data on general licences, as these are said to often not result in actual exports. However, the government claims that it cannot report data on the actual exports of armaments due to an incompatibility between customs statistics and its data on licences.

The German government is, despite this and other shortcomings, among the more transparent ones. Its annual report contains information on destinations, including by major weapon categories. However, it does not report on individual deals. It is thus helpful for a review done on general trends in German arms export policies, but not on the crucial questions on whether or not the German government is following its own guidelines, or those set by the European Union (EU). In this it is similar in its reporting to the majority of EU member states, but less open than a few states such as the United States and Sweden. These two states also have mechanism for informing parliamentarians about a planned arms transfer before a licence is issued.

But in order to get information on individual deals, parliamentarians and NGOs have to rely on other sources. Particularly useful is media reporting on arms trade which is generally fed by the arms industry who is interested in touting about its export success. In addition, investigative journalists have uncovered many details of controversial arms deals.

Parliamentarians also have, in many countries, the right to ask questions on particular deals, and to initiate, if a sufficiently large group deems these necessary, special enquiries. If enough parliamentarians take an interest, they can challenge the general reluctance of governments to provide transparency and accountability. Without such interest, the role of parliament in arms export policies remains marginal, even where the legal possibilities for a more active role are present.

## **Requirements of good governance in military budgeting<sup>3</sup>**

Good governance in the military sector is not fundamentally different from good governance in other sector. In terms of budgeting, this means that the same principles and institutions of sound budgeting should be applied that are applied in other sectors.

Principles of budgeting need to be enshrined in national laws and regulations. In turn, these need to be enforced on the ground. In the security sector, where direct accountability is difficult and costly, institutional frameworks are particularly important to ensure the enforceability of these principles. The primary principles are those of transparency and accountability which is the foundation both for effective oversight and sanctions for misbehaviour. The one important difference between the military and other sectors with respect to budgeting are the secrecy requirements of the military sector. However, these need to be thoroughly controlled in order not to become instruments of political power over budget decisions.

The primary actors of sound budgeting are governments and parliaments. Governments have the privilege and responsibility to elaborate and cost policies. Parliaments have the prerogative to weigh the numbers and make the final decisions on budgets. However, parliaments cannot function properly unless governments prepare budgets well. They also need input from civil society in order to base their decision on broad bases of public support. In addition to these more political

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<sup>3</sup> The following is based upon Nicole Ball and Michael Brzoska with Kees Kingma and Herbert Wulf, Voice and accountability in the security sector, BICC Paper, Bonn, July 2002.

bodies, auditors and the judicial sector have important functions in sound military budgeting based on principles of good governance.

## **The government's budget**

The budget is the central instrument for transparency and accountability. There are four crucial, inter-related components to managing military expenditures:

- Identifying the needs and key objectives of the security sector as a whole and the specific missions that the different security forces will be asked to undertake.
- Determining what is affordable.
- Allocating scarce resources according to priorities both within and between the different elements of the military sectors.
- Ensuring the efficient and effective use of resources.

As in all other areas of the public sector, security policy must be affordable. This requires setting an overall budget envelope for the public sector and, within that, prioritising expenditures among different portions of the public sector and then within the security sector as a whole (defence versus intelligence versus public security) and within each portion of the security sector (armed forces, police forces, intelligence services, paramilitary forces and so on). This allocative process involves political bargaining among a wide range of actors. It is essential that this process be informed both by a set of sector strategies and information on past performance.

The central budget office should assess the appropriateness of the defence ministries' budget requests. This means that finance minister need to have the capacity to analyse security programs, just as they should have the capacity to analyse other sectoral programs. It is particularly important in those countries with weak public expenditure management systems, where budgetary frameworks are often modified during the course of the year, that the budget office have the capacity to engage in the defence policy debate. By being able to argue the merits of proposed changes in the defence budget, the budget office helps strengthen fiscal accountability.

## **Parliamentary oversight**

Parliaments are the central element of systems that impose civil control over military forces, make decisions about the size, structure, roles, missions, and budgets of these forces, and produce the laws that regulate the behaviour of military forces.

For legislative bodies to perform these functions effectively, they require first and foremost that a wide range of information on the conduct and behaviour of military forces be at their disposal. Subsidiary bodies, such as committees on defence and budgeting, need to receive information on a regular basis from the security forces and be able to authorize audits of all aspects of their behaviour. In some cases it makes sense to form special committees with specific rights and obligations, for instance to investigate specific matters, such as troubled procurement decisions, or for the oversight of particularly secretive parts of the security sector, such as intelligence services.

Members of defence-related committees need to have knowledge about a wide range of issues related to armed forces in order to be able to properly discharge their functions. Much of this can be learned "on the job" particularly if defence ministries and armed forces are willingly supplying the necessary information. However, it can be helpful for parliamentarians to receive additional information, for instance from fellow parliamentarians in other countries, or in courses on security matters conducted outside of their countries.

## **Auditing bodies**

Internal and external auditing comes at the end of the budget cycle. Such auditing is important not only to verify that money was spent for the purposes and amounts agreed by the executive and the legislature. It is also important to provide information on outcomes and outputs, which will feed into future planning.

External auditing, which needs to be done by bodies independent of the executive, is of crucial importance in the security sector with its many

claims to special treatment because of security considerations. External auditing should address financial issues, but also assess effectiveness of public spending. Although many countries have auditing bodies in name and nature, their actual powers to investigate defence-related matters is limited. Statutes for central audit bodies should give them the right to search for every unit of currency paid out of the public purse. Restrictions on the publication of auditing reports should be limited to very few cases of secret weapons programs. Even in such cases, however, auditing bodies should be allowed to publicly report aggregated results.

## **Civil society and media**

Civil society has three critical roles to play in increasing the accountability of the security sector: demand change, act as watchdog, and provide technical input. In its monitoring or watchdog function, civil society actors can engage the government on topics such as overall defence policy; expenditure and procurement proposals and decisions; the doctrine, size, structure and deployment of the different security forces; and, where relevant, the sale of weapons and weapon technology abroad and foreign deployments of national forces. Such independent analyses are meant not only to challenge government policies, but also to inform the debate and provide useful input into the decision-making process. It can fulfil these functions at the local, national, regional and international levels.

## **Secrecy and exclusion**

Secrecy and exclusion in military matters have a long tradition. Many military campaigns have been spoiled when strategies became known to the enemy or when commanders decided not to follow supreme orders. Secrecy and hierarchy remain trademarks of military forces even today. However, not all of the reasons for secrecy in the security sector are functional, and if information is to be kept secret, the military and intelligence services must nonetheless be accountable for their decisions and their actions. Otherwise, secrecy becomes a means to protect the power and prerogatives of the rulers, rather than to provide genuine security for the state and its citizens.

Access to information is a fundamental precondition for strengthening accountability. Information needs to be available on a timely basis to relevant stakeholders within the executive, the legislature, and civil society. This is often problematic in the military sector. Information about the military is among the most tightly held information in all societies, but often much of what is secret can be revealed without negative consequence for state or personal security.

In many countries, including some OECD countries, power is concentrated in the executive. This means that legislatures frequently do not receive the information they need to participate fully in decision making on security issues. However, information does not necessarily flow freely throughout the executive. Decisions on military policy and budgets are frequently made by very few individuals. Civil society is routinely kept in the dark about military matters in many societies.

## **Summary**

The military budget and military exports continue to be a troublesome area for good governance in many parts of the world, including many industrialized countries. Governments often seek to monopolize control, but lack long-term planning and popular support. Parliamentarians, in many cases, lack important information as well as expertise on military matters. Auditing bodies as well as the judiciary and civil societies are only given limited access to relevant data. The prime reasons for this lack of transparency, both in military budgets and military aspect, is that it isolates governments from scrutiny of their policies. There are legitimate reasons for not making all information on military matters public, but these are often overstretched. Intransparency has, in addition to limiting accountability, also other negative consequences, including corruption and mistrust among neighbouring states. Above all, it negates democratic principles of parliamentary control over budgets.

The improvement of transparency on military budgets and exports has long been an issue in many countries, as well as on the international level. Some advances have been made, for instance with respect to data availability on the international level, as well as in individual countries, but in general, the situation remains highly unsatisfactory.

*Part III:*

*Budget Support and Responsibility of  
Parliaments*



# Parliamentary Scrutiny of Public Budgets and its Role in the Context of Development Cooperation

*Brunhilde Irber*

How important is the role played by parliaments in the scrutiny of public budgets to a nation and to development cooperation between donors and partner countries? I would like to share with you some of the experience I have gathered in this field in more than thirteen years as a Member of the German Federal Parliament, the Bundestag. Let me begin with a few words about the system of public budgets in Germany before turning to the role of modern budgetary management in partner countries as an instrument of development cooperation.

To put it in a nutshell, the German Federal Government is not given a penny without the consent of the Bundestag. Consequently, the Budget Committee may be regarded as the most influential committee in the German Bundestag. It scrutinises the expenditure policy of the Federal Government and acts as the lead committee in the discussions on the annual federal budget. It is always chaired by a Member from the largest opposition party in the current legislative term. The federal budget itself is adopted by means of an Act of Parliament. Budgetary debates attract close attention within Parliament and in the media. The plenary budget debates in Germany are downright notorious, especially the debate on the budget for the Federal Chancellery, which is traditionally used by the Opposition to settle scores with the Government and *vice versa*.

From a purely formal point of view, the presentation of the draft budget is the sole prerogative of the Federal Government. The preparation of the budget, however, takes place months before it is presented to the Bundestag. Even at that early stage there is already a constant stream of coordination meetings between the Government and the various experts from the parliamentary groups. So you will see that we Members of the Bundestag have a great deal to say in practice a long time before the Government presents its draft budget to Parliament. This early cooperation naturally serves the interests of the Government too, since it will ultimately need the consent of the Bundestag for its draft.

While the Government is responsible for the drafting of the budget, the execution and scrutiny of the budget are another matter entirely. The continuous scrutiny of government activity through the work of the Bundestag committees naturally includes the monitoring of public finances. One of the main means of scrutiny available to the Budget Committee is the freezing of appropriated funds, in other words the stipulation that particular money cannot be spent without the consent of the Bundestag.

Another factor of equal or even greater importance is the work of the Public Accounts Committee. Whereas the Budget Committee is primarily responsible for approving the allocation of funds, the Public Accounts Committee tracks the execution of the budget and monitors the economic and budgetary stewardship of the Federal Government. The Public Accounts Committee relies on excellent specialised input, which is provided by bodies such as the Federal Audit Office. As an independent body for the scrutiny of public finances, the Audit Office is subject only to the law; no other state institution can instruct it to conduct an audit. On the other hand, it has no power to pass judgement on any political decision taken in accordance with applicable law. The Federal Audit Office is one of the supreme federal authorities. In the hierarchy of federal authorities it is on a par with the Office of the Federal President, the Federal Chancellery and the federal ministries. Its annual reports must be presented to the Bundestag and debated in the plenary chamber.

It is not only at the national level that budgetary scrutiny plays an important and powerful role. Germany is a federal republic. This means that the federal, state and local authorities are largely autonomous and independent of each other in their budgetary activity. While the federal states – the *Länder* – use something akin to the federal system of budgetary planning and scrutiny, a special system has evolved for the local authorities. In accordance with the principle of local budgetary sovereignty, the execution of the local budget and the legal and economical use of funds are verified by audit offices which are directly responsible to the local council but not subject to its authority. In my home state of Bavaria this system has been further refined, and the local authorities are scrutinised by a public corporation known as the Bavarian Local Authorities' Board of Audit.

The status of the Board as an independent self-governing corporation is unique in Germany and reflects the priority attached by the Bavarian legislature to the principle of local self-government. Let me illustrate the importance of budgetary scrutiny in the *Länder* and municipalities in relation to the scrutiny of the national budget by comparing the total volume of budgetary funds at each of the three tiers of government. While federal expenditure amounted to 283 billion euros in 2008, the 16 German *Länder* spent 274 billion, and the expenditure of the 12,300 or so communes came to the tidy sum of 166 billion euros.

From a historical perspective, the assertion of the right of parliaments to sanction taxation measures and the budget can perhaps be regarded as the breakthrough to the parliamentary systems of government that prevail in the Western world. This process assumes equal significance for African countries. And let me say that the continuing systematic pursuit of this process is a categorical imperative of efficient development cooperation, conducted in a spirit of mutual trust between donors and partner countries.

The quality of public budgetary management is immensely important as a means of achieving governmental development aims; it makes a major contribution to the pursuit of the Millennium Development Goals as well as providing a firm anchorage for modern instruments of development funding. The degree of efficiency with which public budgets are managed is a key factor in determining the success or failure of budgetary aid and similar instruments in the context of programme-based development cooperation. As the importance of programme based community financing, or budgetary aid, has grown, closer attention has been focused on public budgetary management. In the Paris Declaration on Aid Effectiveness, donors and partner countries recently made a joint pledge to improve partner countries' public budgetary management systematically and comprehensively and prevent the emergence of 'parallel implementation structures' designed to circumvent shortcomings in the management of the public budget.

I find it particularly gratifying to see the emergence of a new institutional landscape in Africa. With regard to budgetary scrutiny by national parliaments, I wish to make special mention of the SADC Organisation of Public

Accounts Committees (SADCOPAC), which was established back in October 2003 with the help of the German Friedrich Ebert Foundation. SADCOPAC is a union of the national public-accounts committees from 13 countries of the Southern African Development Community. Its aim is to strengthen the institutional capacity of national parliaments to perform their scrutinising function and to wage an effective fight against corruption and mismanagement of public resources. Since being founded, SADCOPAC has developed into an incisive organisation.

Initiatives such as SADCOPAC not only speed up the sustainable development of the participating countries themselves but also instil confidence among donor states. And this brings us back to the German Bundestag and to Parliamentarians like myself. The fact is that we, who represent the people of donor countries, are responsible only to the sovereignty of the people. The tax revenue that we channel into development cooperation – chiefly through the federal budget – has to be justified by us to our voters. And there is scarcely a better means of justification than conveying credibility to the electorate that we can trust our partner governments. This credibility can best be ensured by furnishing proof that the governments of the partner countries are using aid funds wisely, effectively and efficiently for the benefit of their populations. The basis of all governmental activity comprises good governance, transparency and accountability.

This does not apply solely to partner countries. In order to guarantee good governance and proper funds allocation the donor countries have to do their bit as well. They have to make sure that African parliamentarians can effectively exercise control over their national budget and the income from foreign development assistance. Thus, it is desirable to let parliamentarians participate in the government to government negotiations about general budgetary aid. Only if parliaments - and especially the Budget Committees - are informed about the conditions and volume of the external funds they are able to supervise the transactions and to prevent the money from being misused. Mock budgets and other kinds of parallel structures could be easily prevented.

The continent of Africa is our neighbour, and its development prospects are closely linked with the way we live in Europe. For all the problems that still exist, very many encouraging developments are taking place in the

African nations and in their development partnerships with donors. May I warmly encourage the representatives of African states, and especially the parliamentary representatives of the African peoples, to continue their pursuit of the path towards stronger parliaments. As the former German Chancellor and Nobel peace laureate Willy Brandt wisely observed, "Just as it takes freedom to create democracy, it also takes more democracy to create the space in which freedom can be exercised". I can promise that the German Bundestag, together with the Federal Government, will continue to lend its vigorous support to any efforts to strengthen African parliaments – and I am certainly determined to play my part.

# Structural Effects of Budget Support in Partner Countries

*Ronald Meyer*

Budget support as a modality in development cooperation is almost a guarantee for discussions, sometimes heated debate. Depending on the actors and audiences discussing, more emphasis is put on one or the other dimension of its expected effects. Quite often critics emphasize the fact that the financing dimension aimed at supporting partner country poverty reduction strategies seems to be at the center of interest of development partners. In its more sceptic version, budget support is seen as an easy way out for development agencies to better perform on disbursement pressures. In the following, I will argue that this is not nearly giving the approach its full merits, which in fact aims at long-term structural effects.

## **Expected (structural) effects of budget support**

Budget support performs an important function in allowing partner countries to implement their poverty reduction and economic development strategies. This is not possible without sufficient financing, financing that is available not just in projects but in the budget, be it from internal or external sources. As German government, we have always argued the financing dimension of national poverty reduction strategies to be only one dimension of the structural effects we are looking after in this new type of budget support different from past structural adjustment efforts. In our strategy on budget support as part of programme financing of December 2008, we look for the modality to result in:

- governance,
- efficiency and effectiveness,
- financing and
- other cross-cutting (poverty reduction, gender, participation of civil society etc.)

effects. The strategy also does not see budget support solely as a financing avenue for scaled-up assistance to achieve the Millennium Develop-

ment Goals (MDGs) or as a mere duty to fulfil targets set in the Paris Declaration on Aid Effectiveness (PD) in 2005<sup>1</sup>. The strategy BMZ drafted and that is also supported by the foreign office, deliberately didn't look at budget support as the panacea that would create all the structural effects, partner countries and development agencies have been seeking for decades and would solve all the aid effectiveness problems encountered in many developing countries today. Rather it is seen as part in a mix of modalities that could help to achieve the desired structural effects, albeit one with big potential especially in aid dependent low-income countries.

Our backing for budget support has a lot to do with our intention to support countries that have chosen a path towards democratic governance. It has a lot to do with creating or strengthening independent institutions that allow a democratic government to function. It has a lot to do with creating checks and balances inside government, between parliament and government, between government and civil society. And it also has a lot to do with the potential of sorting out interaction inside government and between different government levels. We can provide funds and strengthen institutions to target the multitude of different challenges a least developed country (LDC) has to deal with. But at the end of the day this will only lead to sustainable improvements, if governance in the country improves, if state institutions function properly and according to established rules and regulation, if all state finances – not just the development partner's money - are better managed by the government(s) themselves (including decentralized governments), not by development partner agencies and if there is a parliament that assures transparency, accountability and political dialogue over the political choices that have to be made. In this regard, budget support is probably the one modality of support that puts both our partners and the development partner side under the biggest pressure to move into the right direction.

BMZ has a clear expectation that budget support as an aid modality can provide a big incentive to move forward on aid effectiveness, both on the development partner side as well as on the partner's side. Budget support in this context is viewed as a new powerful tool for harmonization and

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<sup>1</sup> This is an argument also oftentimes cited in the public discussion in Germany. However, the PD does not directly refer to budget support. It sets an indicative target on Programme-based Approaches (PBA) that includes different categories of support (budget support, basket-financing, programme-based, coordinated projects).

alignment. From all we can see, the budget support modality does create a stronger incentive to avoid duplication, to put the partner in the driver's seat, to align to its strategic plans, to increase predictability (with budget support showing that it is less volatile than other modalities), to strengthen mutual accountability mechanisms and to use country systems. We know from our own systems, that the budget can be a strong disciplining force. Policy without budgets usually does not work (as it doesn't work the other way around either). Development partners that have just invested heavily in mechanisms of alignment and harmonisation, in making the budget more transparent and reassuring parliament and auditors back home that budget support funds are well invested, are not amused, if other development partner's continue to bypass and disregard alignment and harmonization. A recent study in Mozambique<sup>2</sup> showed that despite of a sector-wide approach in the health sector, 40% of all aid going into the sector was not recorded in the budget, thus could not be discussed between Ministry of Finance and the Ministry of Health regarding the latter's budget, nor in cabinet or in parliament. Just imagine if the German Bundestag or the German Finance Minister were in that situation. Obviously, aid effectiveness is much more than transparency, but transparency is the first step and the place where democratic institutions need it the most is in the budget process.

The financing dimension of budget support also plays an important role as development partners have an interest to assure the achievement of the Millennium Development Goals (MDGs) and targets through scaled-up resources. If there are sufficiently reliable strategies and implementing structures that can implement more funds under a justifiable fiduciary risk, it can make a lot of sense to scale up through budget support rather than going into ever more projects. In many cases a helpful division of labour is important also with regard to different modalities; budget support, technical assistance and the strengthening of civil society can and should go hand in hand. Fiduciary risk is somewhat offset by the opportunity to engage in an enhanced policy dialogue with the government and to link further budget support commitments to government performance.

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<sup>2</sup> IMF Programs and Health Spending: Case Study of Mozambique by Paolo de Renzio and David Goldsbrough (Center for Global Development 2007).

Obviously, budget support through its link to national development strategies and the budget process is also important to assure cross-cutting issues are sufficiently taken account of. Budget support does not come without expectations for reforms and performance. It is clear that development partners are only willing to provide it in the context of a credible poverty reduction plan, reform efforts and some kind of implementation record. Budget support is only granted in a situation of clear partner commitments and action towards the assurance of basic human and women's rights, democracy, peaceful relations with neighbour countries. These basic preconditions that govern budget support are usually set out in the underlying principles of memoranda of understanding. It is an expectations that they are both a precondition of budget support and at the same time profit from its implementation. As with the more technical targets laid down in the performance assessment frameworks (PAFs) of budget support programmes, they should reflect targets of the partner side. Another cross-cutting issue is the support to private sector development. Without private sector growth, the risk that non-aid income stagnates or even decreases is high. And one could (rightly) argue that budget support allows governments to neglect their non-aid income and therefore sets the wrong incentive. Therefore, Germany deliberately expects the countries benefiting from its budget support to focus in parallel on increasing tax and other domestic revenues. Nevertheless, it is as important to learn from the structural adjustment programs in making sure the partner has full ownership of the targets set and that the number of targets or conditions are limited.

## **Structural effects and risk-taking**

The potential leverage effect of budget support funding can be high. Just to selectively mention some quotes from the Spier Workshop of GKKE in 2008: *"led to an increasing interest in budget policies and good governance", "transparency and citizen involvement", "instrumental to get priorities right", "responsible government"* etc.. But we all know that the modality involves risks. Although I must add: other modalities are neither risk free. We need to keep in mind that development co-operation per definition is working in high-risk environments and requires appropriate risk assessment and risk management and mitigation strategies. Before

entering in a financing engagement we need to make sure that certain minimum standards are met. But we don't and shouldn't set the prerequisite that everything is already working perfectly. We should be willing to take some risk, where positive trends in governance and potential development effects justify these. Germany only works with budget support in countries with a minimum of a medium-governance performance as against an internal set of governance criteria (BMZ criteria catalogue). This modality is only applied where sufficient financial management and fiduciary standards are assured and where there is a stable macroeconomic environment. Seeing a positive reform tendency is important. But even in the best of cases we have to be realistic and must not forget, that our partner countries have to be in the lead. Let's also not forget that other support modalities are neither risk-free.

## **Putting partner countries and their systems in the lead**

One of the effects pursued by Germany when granting budget support is to increase the ownership of our partner countries and strengthen their position in the "driver's seat". 40 years of development cooperation have proven over and over again this basic premise for the success of development support. At the same time, because development partners have to be fully accountable to their parliaments and constituencies back home, there is an inherent risk that accountability mechanisms that should be directed towards partner countries' own parliament and public tilt towards the development partners. Existing budget support processes show that this is a real danger and a tight-rope walk between accountability needs back home and disregard for democratic processes in partner countries. On the other hand, coming back to the often high percentages of aid funds not recorded in a given sector's budget, budget support certainly is more transparent than the multitude of individual projects, each demanding policy changes, counterpart funding and attention from government, and thereby also predetermining the course of government, without any democratic accountability mechanisms taking place.

## **Short to long-term (structural) effects**

One of the challenges regarding the ongoing debate on budget support is the fact that some of its expected benefits are not short- or even medium-term, but will only be achieved in the long run. Therefore in the meantime, it is necessary to use proxy-indicators and be realistic enough to accept that while there are certain results that can be achieved comparatively quickly, e.g. substantial improvements in public financial management, others will take time to show. If budget support contributes to giving important institutions like the National Audit Office the necessary political backing and financial means to move from rather meaningless reporting on the budget (in many cases with substantial delays) towards presenting the report on last year's budget in time before parliamentary discussions on the new budget – a movement I have myself witnessed in Mozambique in a period of two to three years – this is real change, even if the report itself still may need lots of improvements and parliamentary review can also still be improved. And if then the opposition in parliament as well as civil society are enabled to use this report to question some of the government's policies and spending – another thing I could witness in Mozambique – this certainly is an important step forward towards increased domestic accountability. And let us be clear on this, no other aid modality can have such leverage over difficult political processes such as the budget process. Short-term progress can therefore also give important information on the success of the general programme, whether it sets the stage or already is changing habits.

There are also other evident positive effects on political processes in governments. Increasingly countries are using joint performance assessment frameworks, annual joint reviews between partner countries and development partners look at the progress, reliability of funding has improved with budget support and transparency and opportunities for participation of civil society have increased. While more cases of corruption are coming up, this can also be regarded as a sign, that financial management and auditing processes are improving. Budgetary implementation figures also seem to be improving. While sector ministries have a greater need to cooperate, allocation between sectors is debated more openly and exchange of information increases. The gap between planning, budget and implementation is getting smaller in several countries receiving budget support,

which is an important step. In several countries the budget support dialogue proves to be an important platform to discuss the existing national reform paths, the speed and focus of implementation.

Traceable effects are not just limited to process and institutional improvements or inputs. There are measurable increases in poverty-reducing spending in countries receiving substantial budget support like Ghana, Tanzania and Mozambique (in Tanzania for example + 30% from 2006 to 2007). National income also oftentimes increases like in Ghana (fourfold between 2002 and 2007). Defence spending has come under increased scrutiny in the past (like in Uganda). Budget support *"...has proven itself an efficient and effective modality in the Ghanaian context and has made important contributions which could not have been made through other modalities"* according to an external evaluation in Ghana.<sup>3</sup>

However, it is also obvious that there are methodological challenges when it comes to evaluating the long-term effects of budget support. Attributing results at outcome or impact level to budget support inputs is no easy task. Data needs to be reliable, clear results-chains have to be drawn out etc. In many instances, the limited years of budget support may prove far too short a timespan to reliably monitor impacts and effects. This is obviously difficult for development partners' internal needs to show the particular value and results of this modality. But the first larger OECD-DAC-evaluation in 2006 already pointed out that budget support can be a relevant response to improve aid effectiveness, macroeconomic stability and financial management, to increase poverty-reducing spending and to foster harmonisation and alignment. The same evaluation showed that the effects on income poverty could not yet be established clearly (for example it was questioned whether the financed PRSPs were sufficiently addressing the growth agenda). Also it was too early to tell whether in the end the transaction costs for development partners for this type of aid would – as planned – fall from a particular point in time. Acknowledging the need to deliver on these important aspects and establish evidence on the impacts of budget support on sustainable poverty-reduction, a long-term evaluation lead by the EU-Commission and other development part-

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<sup>3</sup> External Evaluation of budget Support in 2006/2007, conducted by "Overseas Development Institute" (ODI) in cooperation with the Ghanaian Think-Tank "Centre for Democratic Development".

ners including Germany is currently in its preparatory stages and is hoped to bring about more clarity.

## Conclusions

From the above it should have become clear, that budget support in its modern form is not just a "quick and easy" measure to channel funds from a development partner to a partner country to finance gaps in its poverty reduction or economic growth strategy. The financing dimension is one necessary condition for success, but others are as important. I have argued that if the preconditions are set right in the selection of countries and while allowing the partner country the room to steer and drive its reform agenda, budget support can become a powerful tool in combination with other modalities (such as accompanying technical assistance) towards development in aid dependent low-income countries. It will need commitment and continuity on all sides, steering the modality through policy fashions. And it will need a lot of effort to avoid some of the risky traps like assuring accountability does not shift even stronger towards development partners (rather than the national parliament and public), not expecting democratic accountability changes - that have taken us a century or more (and some catastrophes on the way) - to come about in the matter of the lifeline of a logframe matrix or balancing the need for a joined-up approach by development partners with the need to send out clear signals when it is needed and reacting swiftly in crisis like the economic and financial crisis we are in now.

Most of all, we should look at budget support as an interesting modality that broadens our options to improve aid effectiveness, to improve governance and to support poverty reduction, rather than an ideological battleground. Budget support can create room for the parliament and the public in developing countries, the use of which also depends on the maturity and capacities of the players involved. And it forces development partners to become more serious and disciplined. It allows us to do what we do far too rarely: Harmonise our efforts, promote ownership and the strengthening and use of country systems in a more systematic way. German development support is well placed to support this approach, be it via financial or technical cooperation or the support provided to civil so-

ciety and church organisations or political foundations. Long-term capacity development, going beyond some short-term fixes some donors prefer, will remain crucial. We can see first signs of positive effects that we need to continue to monitor closely to make sure the envisaged structural effects will take place.

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