

**BUDGET SUPPORT AND AFRICA-EU RELATIONS:
FREE MARKET REFORM AND NEO-COLONIALISM?**

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Introduction

Budget support - government-to-government financial transfers from donor to recipient - has been hailed as a progressive instrument for development in the global South. Ostensibly aligning with norms of 'country-ownership', general budget support (GBS) and sector budget support (SBS) are viewed as a means of supporting indigenous pro-poor policies (OECD 2005). In particular, this aid modality nominally enables poorer states to achieve humanitarian aspirations free from tied project aid. In addition, budget support is understood to be a more reliable form of assistance that facilitates progressive policy dialogue on good governance and human rights.

The European Commission is prominent as an enthusiastic advocate of such '*poverty reduction*' budget support in its engagement with African states, whether those north or south of the Sahara (2008a; 2008b; 2013a emphasis added).¹ Commissioner Michel notably promised African countries that budget support would be substantially enhanced under the 10th European Development Fund (EDF): 'budget support and more of it is the only answer. For this reason I have decided to increase the proportion of budget support from 20% of our funding to 50%' (European Commission 2008b: 4). This confirmed an upward trend in EU budget support contributions to the global South which grew from €1 billion to €3.8 billion from 2000 to 2008, with a lion's share distributed to Africa (Kitt 2010: 14).

This article argues, however, that while the European Commission discursively places budget support on a pro-poor development terrain that, nevertheless, much of its finances go towards the implementation of regressive trade opening and economic liberalisation in Africa. While the European Commission, in alignment with a broader Post-Washington Consensus, argues that it has learnt the lessons of past structural adjustment programmes (SAPs), nevertheless, its current budget support arrangements do much to extend developmentally dubious free market reforms. The article thus examines EU budget support in the cases of Tunisia, Uganda and Ghana to illustrate the regressive utilisations of this aid modality within Africa. Moreover, the article considers ensuing theoretical questions as to the position of developing countries in the Post-Washington Consensus, with exploration of Nkrumah and his warnings concerning 'neo-colonialism'. It contends that Nkrumah's critique of foreign aid bears much resonance in the evaluation EU budget support. Set alongside more recent scholarship that questions the relevance of an 'internal-external distinction' in the examination of 'neo-liberal'

¹ It is relevant to examine countries both north and south of the Sahara to guard against what Nkrumah highlighted as the 'tendency to divide Africa into fictitious zones north and south of the Sahara which emphasises racial, religious and cultural differences' (cited in Wallerstein 1967: 521).

policy in Africa – notably Harrison’s (2001) and Bayart’s (2007) respective critique of governance states and extraversion – Nkrumah’s treatise more usefully captures the coercive/co-optive nature of EU budget support. The article is structured as follows. The first section examines budget support as a preferred aid modality within the Post-Washington Consensus. The article then considers European institutions and narrative linkages of budget support to poverty reduction. Thereafter, it explores EU actors’ role in promoting developmentally regressive free market reforms via this aid modality. The final section then considers the ‘internal-external distinction’ (qua Harrison and Bayart) and the relevance of Nkrumah’s analysis of neo-colonialism for a modern understanding of EU budget support.

Budget support and the Post-Washington Consensus

Budget support has become increasingly popular within donor circles in the Post-Washington Consensus. UNCTAD (2008: 1) explains that ‘budget support is on the rise, particularly in Africa. In 2005, 17 African countries received approximately US \$2.6 billion in budget support from the donor community’. This emphasis reflects the fact that many donors view budget support as possessing several advantages over project aid. Primarily, budget support is understood to enhance country-ownership in alignment with the OECD Paris Declaration.² Donors’ allocation of monies directly to recipient treasuries is seen to respect developing countries’ sovereignty and to enable them to freely pursue their own social and economic objectives. Whereas project aid had often been ‘tied’ – notoriously to the employment of contractors from the donor country – budget support has instead apparently ‘contributed to increasing partner countries’ control over aid funds’ (Caputo et al 2011: 1).

Budget support is, furthermore, promoted as an aid modality that allows for faster and more predictable allocations of larger amounts of aid monies. Upon meeting *ex ante* conditions concerning human rights and good governance, recipients receive a substantial proportion of budget support upfront (World Bank & African Development Fund 2010: 4). This fixed tranche regularly ranges from between 50% to 70% of EU budget support. The remainder is then granted upon regularised reviews of progress towards agreed targets (the variable tranche). This is applauded by certain non-governmental organisations (NGOs) such as Oxfam who welcome donors’ disbursement of aid to ‘country systems’ (cited in UK Parliament 2012). In addition, budget support is seen as preferable to project aid in that it allows for on-going policy dialogue regarding good governance, human rights, and macro-economic policy. More pragmatically,

² De Renzio et al (2008: 1) usefully define country-ownership: ‘recipient governments are urged to take ownership of development policies and aid activities in their country... and only to accept aid that suits their needs’.

donors recognise that past forms of project aid were often forms of budget support in all but name (Collier n.d.)

It is important to note, however, that budget support is not a 'new' form of assistance. This aid modality in fact dates back to structural adjustment reforms implemented in the 1980s and 1990s as part of the Washington Consensus. International financial institutions (IFIs) gave direct payments to stabilise developing economies in the aftermath of the petrodollar debt crisis. Donors now, however, consciously seek to differentiate modern 'poverty reduction' budget support from SAP predecessors via discursive emphasis on country-ownership and poverty eradication. This reflects broader attempts to 'learn the lessons' of structural adjustment. Namely, donors recognise that the tying of budget aid to economic conditionalities was often done at the expense of social indicators. IFIs granted aid to national budgets under SAPs while stipulating the need for rapid tariff liberalisation, state divestment from parastatals, and deregulation of the private sector. In Mozambique, for example, the Economic Rehabilitation Programme (PRE) initiated in 1987 with IMF support resulted in an average fall of tariff rates of 7.9% (Falck 2001: 174). In many cases such reforms resulted in social hardship for the poorest. Indeed, many African states experienced high redundancies as vital sectors floundered in free market contexts. Pomerantz (2005: 53) explains in a World Bank report, for instance, that SAP reforms in the case of Mozambique's cashew sector led to deindustrialisation and collapse. Interestingly, Pomerantz was Country Manager and Country Director of Zambia and Mozambique (1994-2000) for the World Bank and thus oversaw implementation of such reforms.

Significantly, such economic decline was repeated in countries such as Kenya where relaxation of import controls under SAPs led to the flooding of the domestic textiles market with cheap, second-hand clothes from Europe. This resulted in job losses for approximately 70,000 workers (Republic of Kenya 2001). A number of recent IFI reports consequently admit that SAP reforms often had regressive impacts upon the poorest in African countries. Koeberle and Walliser (2006: 267) of the World Bank explain that '[economic] conditionality was critical for the advancement of first-generation reforms. However, at times, the reforms were insufficiently owned by the country, subject to policy reversals, and perceived as excessive or intrusive'. Pomerantz (2005: 53) goes further and explains that the opprobrium associated with SAP reforms make second-generation economic liberalisation all the more difficult for donors to pursue in the Post Washington Consensus.

It is in this historical context that the donor community claims that modern *poverty reduction* budget support will be geared towards fulfilment of the UN Millennium Development

Goals (MDGs) through support to national poverty reduction strategies orientated towards health, education, and vital infrastructure. While certain macro-economic conditions will still have to be met – notably in terms of IMF approval of anti-inflationary measures – nevertheless, there is marked emphasis on budget support as an untied and pro-poor aid modality. Mike Hammond of the UK Department for International Development (DfID 2006: 92), for example, explains that budget support is now geared towards the ‘fight against poverty’ since donors have now focused payments ‘on pro-poor spending and, in particular, on protecting spending in social sectors’. Donors stress, moreover, that respect for country-ownership will ensure that they will not pressurise governments to undertake premature trade opening and economic liberalisation. In the wake of SAPs, Koeberle and Walliser (2006: 224) in fact claim that ‘trade policy issues... have become less important, following the... reduction of tariff barriers across the world... conditionality on trade has declined significantly since the mid-1980s’. Overall, therefore, *poverty reduction* budget support will enable developing countries to fund social programmes rather than be used as leverage for trade opening and economic liberalisation.

EU budget support and poverty reduction in Africa

The European Commission has been one of the most enthusiastic advocates of this broader donor turn to budget support. Notably, its *Budget Support Guidelines* state that ‘the general objective of budget support is to contribute to eradicate poverty, pursue sustainable economic growth and build and consolidate democracies’ (2012a: 2). In alignment with wider donor narratives, the European Commission (2013) also favourably contrasts ‘poverty reduction’ budget support with forms of project aid that were tied to commercial conditionalities (European Commission 2008b: 4). Commissioner for Development Michel notably articulated a moral case for a shift towards progressive budget support:

[Budget support is the] best way to apply what is for me the sacred principle of ownership. Only by respecting this principle can we enable our partners to decide on their priorities for themselves, to feel that they are masters of their own destiny and to ensure the success of their actions (European Commission 2008b: foreword).

Insisting upon country-ownership, moreover, the European Commission rejects the notion that budget support can be used to ‘buy’ liberalisation in developing countries. With clear implications for a discursive distancing from SAPs, Commissioner Ferrero-Waldner explained that budget support is ‘a more credible means of promoting ownership and, therefore, of [guaranteeing]... greater effectiveness’ (European Commission 2008c). EU officials also make clear that evaluations of budget support will be based on evidence and not upon ‘ideology’, again

with clear resonance for downplaying past concerns surrounding SAP neo-liberal reforms (European Commission 2008b: 62). They also make clear that Europe's 'approach upholds the principle of ownership of policies by countries themselves and leaves space for a national democratic debate' (*ibid*). Furthermore, the European Commission (2008a: 13) assures recipients that 'policies and agendas are no longer dictated from outside'.

Somewhat in tension with country-ownership, however, the European Commission simultaneously makes clear that there are 'no blank cheques'. It emphasises the contractual nature of budget support and maintains that there must be 'shared commitment to fundamental values of human rights, democracy, and the rule of law' (European Commission 2011a: 3). EU actors cite here the variable tranche as a means of holding recipients to account. Rather than solely rely upon full suspension as means of ultimate sanction, actors may withhold a proportion of budget aid. According to EU officials, this 'steers a middle course' between loss of donor credibility and dramatic reduction of aid monies (European Commission 2006: 85). More broadly, policy dialogue ensures that EU donors can warn recipients if they appear to stray too far from (ostensibly shared) fundamental values.

In terms of macro-economic policy, moreover, the European Commission (2008a: 9) states that budget support must go towards a poverty strategy 'targeting growth and improvement in general living conditions'. Consequently, the recipient government must demonstrate commitment to 'a stability orientated macroeconomic policy, seeking for example improvements in indicators, such as inflation, debt and the exchange rate' (*ibid*). The European Commission goes on to explain that IMF reviews play an important role in budget support processes, but that this is not necessarily a pre-condition for disbursement. Crucially, however, the European Commission continues to avoid discursive linkage between budget support and trade opening and economic liberalisation. Demonstrating the success of this pro-poor emphasis, Oxfam (2008: 3), a long-term critic of the EU's pursuit of market-opening in the global South, in fact praises Europe for avoiding free market conditionalities in its provision of budget support:

By tying budget support to outcomes in health and education, the Commission stands in contrast with some of the other providers of budget support, such as the World Bank, which include many economic policy conditions in their aid packages. Oxfam believes aid should not be tied to potentially harmful economic policy conditions, such as privatisation of companies and services or trade liberalisation.

Interestingly, Oxfam's concerns in relation to IFIs reflect scepticism among certain academics and NGOs as to whether 'new' *poverty reduction* budget support departs from aid conditionality. A report by Nilsson (2004: 49), for instance, warns that while 'indications seem to

show that... there is a growing [policy] dialogue... [nevertheless] conditionality has by no means disappeared and reports have even warned that it may be increasing'. This is supported in more explicit terms by Hauck et al (2005: 15) who argue that while this aid modality may grant recipient governments more autonomy in the implementation of agreed priorities that, nevertheless:

Countries lose some measure of autonomy over the overall budget allocation process because of the close involvement of donors through dialogue and a certain push towards accepting and executing wider reforms at the macro-level by the partner government... [there are] also worries that governments may become subject to political pressures and leverage exercised through joint donor approaches.

This view of creeping conditionality is corroborated by Alvarez (2010: 3) who explains that since this form of aid is granted to governments whose institutional capacities are already weak, that domestic officials' vulnerability in terms of political co-optation is markedly high. Moreover, conditionalities are, for Knoll (2008: 12) ideologically motivated in terms of a free market orientation not dissimilar from SAPs in the 1980s and 1990s. In tension with Oxfam's statement, however, it would be misguided to suggest that EU budget support is somehow immune from the free market policies pursued by the IFIs. Rather than stand apart from its donor partners, there is mounting evidence that the European Commission has utilised budget support to push for fulsome liberalisation, with regressive consequences for poverty reduction and political sovereignty in African contexts.

EU budget support and free market reform in Africa

The European Commission has regularly stated its preference for African countries' 'smooth and gradual' integration into global markets. Through the pursuit of far-reaching Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) states, in particular, EU actors have made clear that trade liberalisation and wider free market reforms are central to poverty reduction.³ As stated above, however, the European Commission has carefully avoided any discursive emphasis on the utilisation of this aid modality for second-generation liberalisation. EU officials deny that budget support is used to 'buy' liberalisation and state that this modality is not tied to ideological/neoliberal conditionalities. When the utilisation of budget support is more closely examined, however, it becomes clear that EU aid monies are being linked to trade opening and economic liberalisation, with regressive consequences for 'the poor'.

³ See, for instance, speeches of Peter Mandelson, former Commissioner for Trade, on the benefits of EPAs. His letter to anti-poverty campaigners is particularly interesting in terms of free market discourse (European Commission 2007c).

Notably in the case of Tunisia, one of Europe's long-standing strategic partners in North Africa, a recent evaluation by consultancy firm DRN (2011: 8) makes clear that EU GBS and SBS disbursements of around €732 million from 1996 to 2008 have been fully linked to economic and trade liberalisation. As Table 1 indicates, the bulk of this budget support aid has been committed since 2000, in a Post-Washington Consensus setting. Moreover, budget support assistance is significant in relation to total EU aid flows, accounting for 61% of a total €1,197 million of EU aid to Tunisia in this timeframe. The DRN report explains that EU budget support promoted tariff dismantling in the context of Tunisia's accession to free trade agreements. Moreover, it facilitated privatisation of state companies in the early 2000s as part of National Indicative Programmes (NIPs) that sought to 'support economic reforms [including]... privatisation, deregulation' (*ibid*: 5). EU budget support channelled through successive "MEDA" programmes, furthermore, sought to prepare ground for the creation of a 'Euro-Mediterranean free trade area' (European Commission 2007a). In the second MEDA initiative from 2002-2006 this prioritised the 'liberalisation of foreign trade' as well as 'economic reforms', including further tariff reductions (DRN 2011: 6). As recently as 2005, meanwhile, EU budget support towards the fourth Tunisian Structural Adjustment Facility (SAF IV) sought to 'improve... competitiveness in the Tunisian economy, *in order to encourage its integration in the Free Trade Agreement with the EU and in global markets*' (*ibid*: 10; emphasis added). This is confirmed by Caputo et al (2011: 3) who state that EU budget support has been utilised in pursuit of far-reaching liberalisation in Tunisia.

INSERT TABLE 1 HERE

In contrast to modern narratives of '*poverty reduction*' budget support, however, Europe's promotion of economic liberalisation has created greater social uncertainties in Tunisia. As Kouboub (2012: 306) explains, economic turbulence, including youth unemployment rates of around 25%, are 'the culmination of... neoliberal economic policies that have contributed to a rise in income inequality, the lack of upward mobility for educated youth and the removal of social safety nets for the working class'. This view is upheld by Amnesty International (2008: 1-5) with reference to foreign direct investment in the liberalised phosphate sector, which brought about significant opportunities for regime enrichment in open markets. Few gains, however, accrued to poorer Tunisians denied employment in the industry by fraudulent recruitment processes. Local communities, meanwhile, faced the environmental consequences of such operations without adequate investment into schools, water supplies, or education. This dislocation led to protests in the Gafsa region in 2008 (where extraction takes place) as unemployment levels reached between

30-40% (*ibid*). These events foreshadowed the Arab Spring in which protestors demonstrated clear capacity to resist free market models seemingly imposed by a regime and its foreign patrons.

Moreover, EU-sponsored liberalisation has encouraged Tunisia's over-reliance on exports which led to substantial vulnerability in the global recession of 2008. By 2009 the value of Tunisian world exports fell by 22%, exacerbating the existing jobs crisis and increasing tension in the lead up to the events of the Arab Spring (Hanieh 2011: 21). Europe's sponsorship of further Tunisian liberalisation within a Euro-Mediterranean Free Trade Area, meanwhile, threatens to cement income inequalities in the agricultural sector. Smallholders will be least able to cope with influx of cheap agricultural produce from EU countries, compounding pre-existing anxieties concerning the privatisation of state farms and the withdrawal of state subsidies:

[Agricultural] workers have become beggars... you find people with one thousand hectares while others won't have one hectare... Those who got fired like me always go the administration asking for work. We tell them: "you fired us, so give me something to buy bread". Nothing happens. The cooperative used to employ eighty people, now only thirty work there. Those thirty are almost always women because they are paid less (interview cited in King 2003: 1).

Worryingly, these uncertainties extend to Tunisia's manufacturing base. War on Want (2009: 18) explain that the achievement of a full Euro-Mediterranean Free Trade Area 'is predicted to cause the near collapse' of key manufacturing sectors. The food, beverages and tobacco sectors in Tunisia, for instance, are expected to experience a fall of production of around 94.1% (*ibid*). In addition, it appears that the European Commission has recently utilised budget support as leverage – incentivising the new government's commitment to further liberalisation. Notably, the European Commission pledged an additional €68 million of budget support for 'economic recovery' in 2012 – only one week on from the Tunisian government's signing of a so-called Privileged Partnership mandating further movement towards the Euro-Mediterranean FTA (European Commission 2012b). Despite EU support, however, free market agendas remain highly contested, with local activists criticising the new government's compliance with neo-liberal norms during the World Social Forum held in Tunis in March 2013 (Common Dreams 2013).

Uganda also provides much insight into the utilisation of EU budget support for pursuit of regressive liberalisation, in this case in a least developed, 'donor-friendly' East African state. Interestingly, budget support has been high in this country context, at around 50% of government expenditure at its peak (World Bank 2005). EU budget support itself, meanwhile, accounts for around 55% of a total €460.9 million earmarked for Uganda under the 10th EDF (European Commission 2007b: 28). This reflects a considerable increase in budget support

provisions, particularly in relation to historical EDF monies, as Table 2 shows. Uganda has also recently been awarded ‘MDG Contract’ status - receiving a high fixed tranche of 70% of total EU budget aid. Nevertheless, there has been disquiet concerning President Museveni’s authoritarian tone, particularly in light of 2011 presidential elections in which the opposition alleged that state resources had been used to skew campaigning (Human Rights Watch 2011). Meanwhile, the EU suspended budget support in 2012 in relation to corruption concerns - although aid was soon resumed in 2013 (URN 2013).

INSERT TABLE 2 HERE

Notwithstanding these issues, there are mounting concerns surrounding EU budget support’s promotion of premature trade opening and economic liberalisation in Uganda. The most recent Uganda-EU Country Strategy Paper (CSP), which governs budget support, makes clear that EU actors expect Uganda to deepen liberalisation reforms. The CSP states that poverty alleviation can be only achieved through ‘economic growth supported by sound governance and macroeconomic policies’ while praising the Museveni regime for undertaking ‘policies promoting economic liberalisation and private-sector-based, export-led growth’ (European Commission 2007b: 8-12). The document also outlines that budget support is granted in expectation of Uganda’s acceptance of a full EPA involving far-reaching tariff dismantling. Moreover, the CSP makes clear that budget support towards Uganda’s trade capacity is important to sustain ‘in the context of the EPAs’ and that such support will ‘be important in terms of justifying the successful implementation of the EPAs’ (European Commission 2007b: 24). Furthermore, the CSP acknowledges that support to trade capacity, predominantly in terms of budget support, will provide necessary ‘leverage’ for stimulating Uganda’s ‘sustainable economic growth’ involving, crucially, its ‘progressive integration in the region *and in world markets*’ –(*ibid*: 29; emphasis added)

This promotion of trade opening and economic liberalisation is concerning when evidence is considered in terms of predicted impacts. Notably, Stevens and Kennan (2005) find that African countries will lose up to 40% of total tariff revenues under a full EPA. Hinkle et al (2003) state that this is particularly worrying given that many states are dependent upon tariff revenues for around 7-10% of total governance resources. – rising to between 15-20% for least developed countries. The situation is even more alarming for Uganda given that 31.5% of all government revenue is derived from import tariffs (Boysen & Matthews 2009). EU budget support would thus appear as a substitute for lost tariff revenues and as leverage for premature EPA liberalisation rather than as ‘new’ money for poverty reduction. The United Nations Economic Commission for Africa (UNECA), meanwhile, predicts that full EPAs will increase

European manufacturing and non-manufacturing exports to the ACP grouping by up to 20% (cited in Perez 2006). Nevertheless, in the Ugandan context, there are grave reservations as to the impact on sensitive sectors including poultry, textiles, and cereals. Kwa (2007) explains that Ugandan agricultural smallholders will be particularly impacted:

Apart from certain agricultural products for which exports are projected to remain robust, namely fish, coffee, tea, tobacco and horticulture, certain food exports look set to shrink significantly. In cereals, exports from Uganda are projected to decrease from the US\$ 104,000 a year (calculated from 1998-2002 figures) to US\$3,000 a year by the end of the EPA implementation period. Exports of oil seeds and oleaginous fruits to the EU are also projected to decline to about a third of exports pre-EPAs from US\$233,000 to US\$78,000.

There are also serious concerns that further trade liberalisation will exacerbate food insecurity in Uganda, heightening pre-existing tensions among ethnic groups (*ibid*). Accordingly, there is significant resistance from many Ugandan trade unionists and civil society representatives who oppose the imposition of EU-sponsored free trade agreements. With parallels to Tunisia, this has involved mobilisation of disenchanted youth. Notably, the Makere University Development Studies Association has liaised with SEATINI-Uganda (a prominent Trade Justice NGO) to arrange student dialogues on EPA impacts (SEATINI 2013).

The European Commission's (2010) utilisation of budget support to promote regressive liberalisation is further illustrated in the case of Ghana - a middle-income West African state which recently signed a MDG Contract involving EU budget support of €174 million in 2009-2010 alone. Again, this is significant in terms of historical aid flows outlined in Table 3. In this country context, EU actors hold significant influence as a high disbursing institution within the Multi Donor Budget Support (MDBS) group, alongside the World Bank.⁴ Contrary to norms of country-ownership, however, the MDBS group actively opposed the Ghanaian government's attempts to re-orientate poverty reduction plans towards enhanced state interventionism in the economy as part of an ambitious growth strategy in the mid-2000s. This attempted policy volte-face took place following the re-election of President Kufuor in 2004. European officials alongside MDBS colleagues especially opposed interventionist policies proposed under the 'President's Special Initiatives' (PSIs) that sought to enact public-private partnerships in leading

⁴ The Multi-Donor Budget Support (MDBS) group comprises eleven 'Development Partners' (DPs). These are: the EU, African Development Bank, World Bank, Canada, Denmark, France, Germany, Japan, the Netherlands, Switzerland, and the UK. In 2010, the MDBS donors contributed over US\$400 million to Ghana's budget (Republic of Ghana 2013).

export sectors. Further contravening free market norms, Kufuor's government also sought to establish a comprehensive Trade Sector Support Programme geared towards an enhanced interventionist stance in promoting key industries (Whitfield & Jones 2009: 202-206).

INSERT TABLE 3 HERE

Crucially for an understanding of European budget support, Whitfield and Jones (2009: 205) explain that leading donors (including the EU) utilised their position to actively discourage this policy shift in Ghana. In practical terms, the MDBS group opposed the financial priorities of key ministries and withheld budget support until government subsidies on kerosene (a symbolic point of donor-recipient contention) were removed. Whitfield and Jones (*ibid*) state here that '[donors] openly disagreed with the way that the [Trade] Ministry prioritised funding for 2006, and Ministry Staff went round in circles trying to get a prioritisation that the donors would approve'. In the case of the kerosene subsidies, meanwhile, Gerster (n.d.) confirms that 'a conflictual tug of war took place in 2004/05' which eventually resulted in the Ghanaian government's capitulation. This in turn led to fuel price hikes and citizen riots in Accra – again demonstrating resistance to the imposition of free market policies, with parallels to Tunisia and Uganda. Gerster further explains that EU officials refused to disburse budget support when the Ghanaian government narrowly missed a deadline for a disbursement trigger (*ibid*)

Convincingly, Whitfield and Jones (*ibid*) argue in this context that budget support is 'not a step towards greater democratic debate over public policies: it emphasises accountability to donors, and economic policy is decided in closed arenas'. This view is echoed by Gerster (n.d.) who argues that Ghana's policy dialogue with EU and MDBS donors regularly resulted in power plays in which the recipient was left at a considerable strategic disadvantage. Somewhat oddly, however, the European Commission (2008d) sufficiently reconciled itself towards the Ghanaian government's performance to grant that country a MDG Contract in 2009. This is significant given that the MDG Contract grants the recipient country a fixed tranche of 70% - an increase from the 50% ordinarily granted. Notwithstanding past disagreements, Ghana was awarded this status in 2009 – only one year after its agreement to initial a controversial EPA. Again, this raises significant questions as to the utilisation of budget support as a de facto leverage mechanism.

As in the cases of Tunisia and Uganda, moreover, there is much evidence that the promotion of liberalisation has seriously undermined poverty reduction in Ghana. Notably, Ghanaian trade unions and civil society bodies have protested tariff liberalisation in the poultry sector undertaken since 2003. Trade union officials state that up to 200,000 jobs have effectively

been ‘exported’ upon the removal of tariffs that previously shielded domestic producers from cheaper imports from the EU (Bagooro 2011: 9-13). Trade unions fear that further tariff reductions under a region-wide EPA will seal the fate of the industry. Moreover, the European Commission’s own Sustainability Impact Assessment (SIA) finds that Ghana will stand to lose up to \$27.3 million upon the removal of import tariffs. Budget support would once more appear to be less ‘new’ money for poverty reduction than as a means of subsidising losses that will be felt upon premature free market reforms. As demonstrated by kerosene riots on the streets of Accra, moreover, such reforms engender social unrest and broader dislocation for vulnerable peoples.

EU budget support and neo-colonialism in Africa?

It is important to restate that the use of budget support to exert donor pressure on economic governance has raised concerns about violations of country-ownership. Whitfield and Jones (2009: 201) remark that ‘while these [budget support] structures may facilitate working across government ministries... they also increase donors’ access to policy discussions’ and hence increase their power in policy-making processes. This perspective is confirmed by De Renzio and Hanlon (2007: 26) who state that this aid modality increases donor involvement ‘in all stages of the policy process’ and puts pressure on recipients ‘from within’. Danielson and Eriksson-Skoog (2005: 155), meanwhile, theorise about a ‘soft state... a state that is not independent of the pressures from the influence of interest groups’. They explain that developing country governments become dependent upon budget support and thereafter are passive in the formulation of policy. This creates a vicious cycle in which budget support leads to recipient passivity, which in turns encourages greater donor penetration of governance processes.

This discussion of budget support has significant parallels to wider debates surrounding developing country sovereignty in the Post-Washington Consensus. Harrison (2001), notably, has had marked impact upon recent Africanist studies in terms of his concept of a *governance state*. This is defined in terms of deep donor penetration of recipient governance networks to the extent that the ‘*internal-external distinction*’ becomes redundant. With emphasis on structural reforms, Harrison (2001: 661) explains that African governments internalise neo-liberal agendas to such a degree that the internal-external distinction is no longer analytically useful. Donors operate *within* the state and should not be conceptualised as an external force violating sovereignty. Instead, we must consider the symbiosis that exists between donor and recipient as officials from both sides work together to enact free market agendas. Such debates are clearly relevant in the context of EU budget support. Indeed, it might be argued that budget support helps to construct governance states in Africa. In the case of Tunisia, for instance, where the Ben

Ali regime supported liberalisation, the internal-external distinction might at first seem somewhat redundant.

Harrison's theoretical contribution, meanwhile, itself has certain parallels to Bayart (2007) and his concept of *extraversion*. Again downplaying more traditional Africanist accounts that assume the existence of an internal-external conflict between donor and recipient, Bayart emphasises that African officials actively seek out aid as a means of maintaining patronage networks. African elites' manipulations of external donors should therefore be understood in terms of deliberate power strategies (2007: 217). This concept of *extraversion*, meanwhile, also bears some relevance for analysis of EU budget support. Indeed, it might be argued that African elites seek out budget aid in order to buttress their own governance structures. Again, in the case of the Ben Ali regime, Tunisian elites consciously mirrored European language of free market growth in order to demonstrate suitability for budget support.

However, in cases such as Ghana where government elites attempted to enact more interventionist approaches that contradicted donor free market norms, it would seem that the so-called internal-external distinction does in fact (re)gain significance. In this case, Ghanaian elites sought to dilute donor liberalisation agendas and to (re)state the need for a more proactive industrial policy geared towards government assistance for prioritised enterprises. Accordingly, donors stated their antipathy towards the President's Special Initiatives, in particular, since this programme appeared to 'pick winners' contrary to free market norms. Moreover, they actively posed barriers to ministries' interventionist agendas, utilising budget support as leverage.

Given the realities of a conflictual internal-external dimension in this Ghanaian case, it is arguably the work of Ghana's first President, Kwame Nkrumah, on *neo-colonial states* which provides the most useful theoretical insights for an analysis of EU budget support. Nkrumah's (1965) *Neo-Colonialism: The Last Stage of Imperialism* highlighted the internal-external distinction and denounced the strategic machinations of external powers in attempting to maintain control over African former colonies. It defined the neo-colonial danger in the following terms: 'the essence of neo-colonialism is that the State which is subject to it is, in theory, independent and has all the outward trappings of international sovereignty. In reality, its economic system and thus its political polity is directed from outside (*ibid*: ix). Focussing on European 'Association' with Francophone former colonies – and with parallels to Kautsky's exploration of ultra-imperialism -

Nkrumah further asserted that ‘the limited neo-colonialism of the French period is now being merged in the collective neo-colonialism of the European Common Market’ (*ibid.* 19).⁵

Primarily, Nkrumah argued that erstwhile colonial powers would seek to reconfigure political influence over newly ‘liberated’ territories via the activities of their corporate entities. European private sector agencies, in particular, would seek to maintain strategic access to key raw materials in the Cold War. Once entrenched within their host nation, foreign business would sway indigenous elites either through the lubrication of patronage networks or through the funding of rebel groups deemed to be more compliant. Importantly for an analysis of EU budget support, however, Nkrumah also anticipated the usage of formal European aid as a ‘Trojan Horse’ for continued external manipulation. With much resonance for an understanding of contemporary budget support, he predicted that ‘control over government policy in the neo-colonial State may be secured by payments towards the costs of running the State’ (*ibid.* x). In this vein, he maintained that it was ‘unreasonable to suppose that *any* foreign power, affluent enough to give aid to an African state, would not expect some measure of consideration of favour’ (cited in Wallerstein 1967: 519). Namely, aid payments would be tied to economic interests, facilitating later corporate penetration. This would entrench external donors and private sector entities capable of demeaning Africa’s political sovereignty.

Nkrumah’s diagnosis of neo-colonialism has much resonance in the current analysis of EU budget support to Ghana. While his tendency to emphasise the pre-eminence of corporate entities requires qualification in light of government-to-government budget support, nevertheless, the EU does appear to exert a *neo-colonial* control through this aid modality. Interestingly, Vengroff (1975: 236) describes this direct mode of neo-colonial influence as an ‘older’ and ‘more parochial form’ compared to a so-called ‘more modern form’ in which the indirect influence of corporate power prevails. It might be more accurate in the Post-Washington Consensus, however, to describe these as simultaneous and complementary processes – with direct government aid and indirect corporate influence both reinforcing the hegemony of Western neo-colonial interests in states such as Ghana. In terms of the more direct form of influence exerted via budget support, the EU alongside the IFIs utilised policy dialogue to pressurise Ghanaian ministers to jettison an interventionist economic strategy. This instance of a collective (neo)colonialism overrode the Ghanaian government’s original priority to build the competitiveness of key export sectors prior

⁵ Kautsky argued that a higher phase of capitalism might be reached in which leading capitalist powers sought to move beyond national economic competition and engage in joint enterprise for penetration of developing countries. This co-operation would be governed and regulated by international financial structures set into position by leading capitalist powers, thereby uniting capital and sharing accumulation processes. This thesis of ‘ultra-imperialism’ was denounced by Lenin as counter-revolutionary (Salvadori 1990: 188-192).

to full integration into globalised markets. EU donors proactively utilised budget support as leverage here – challenging ministries’ spending priorities and ultimately withholding aid until government plans fell into line with donor free market norms. Furthermore, European donors appeared to pursue a neo-colonial economic agenda predicted by Nkrumah (1965: x-xi) – that is, opening up the Ghanaian market for entry of European imports and foreign investment, while diminishing that country’s attempts to build up domestic agriculture and industry (such as poultry) that might compete with European commerce.

Even in the cases of Tunisia and Uganda, however, where a conflictual internal-external dimension is less immediately visible, Nkrumah’s concept of the neo-colonial state still helps us to make sense of EU leverage via budget support. Significantly, Nkrumah warned of elite co-optation and a divorce between leaders participating in the neo-colonial regime and the economic interests of their citizenry. This echoed Fanon who warned of a ‘comprador class’ that would share in ‘some of the profits which imperialism drains from Africa’ (cited in Biney 2012: 133). Specifically, Nkrumah (1965: xv) explained that elites would benefit from European patronage and that there would thus be a convergence of mutual economic interests in maintaining colonial patterns of trade and finance. Asymmetric trading arrangements, in particular, would continue if co-opted elites benefitted from graft and corporate payments. In this sense the internal-external dimension became less explicit in terms of open confrontation between neo-colonial forces and co-opted African elites. Nevertheless, it remained analytically valid (and important) to make a distinction between the external economic interest (in maintaining exploitative economic patterns) and the internal economic interest of the wider domestic citizenry (in building autonomous economies based on thriving domestic agriculture and industrial development).

In the case of the Ben Ali regime in Tunisia, for instance, it can be argued that a co-opted elite sought to implement market-opening in alignment with the priorities of EU donors regardless of negative economic consequences for poorer citizens. This can be explained by the fact that the Ben Ali regime actively benefitted from this neo-colonial arrangement – namely from corrupted liberalisation and privatisation processes – combined to budget support payments. This view is supported by Harrison and Mulley (2007: 19) who argue that ‘economic liberalisation has allowed some to use their political positions to enter emerging markets or engage in opaque deals with external investors’. In this fashion, direct neo-colonial influence via budget support may encourage the forms of indirect corporate influence predicted by Nkrumah. Contrary to Vengroff, it appears that direct and indirect forms of neo-colonial influence work in tandem.

Similarly in Uganda, a co-opted elite championed Europe's free trade agenda – in this case not only in terms of its own domestic policy but also within its regional neighbourhood. Notably, Uganda has pressurised its fellow members of the East African Community (EAC) to go ahead with the agreement of an EPA. This is despite Uganda's status as a least developed country that could rely upon an alternative trade system - Everything But Arms (EBA) - to maintain low-duty access to European markets irrespective of liberalisation commitments. This is contrary to the position of more prosperous neighbours such as Kenya that would default to the Generalised Scheme of Preferences (GSP), a much less generous system. Crucially in terms of pressure within the EAC, President Museveni 'applauded... the European Union for initiating the EPA' while his government threatened that it would consider unilateral enactment of the EPA should other EAC members continue to stall (*The Daily Monitor* 2010a). In this vein, Nelson Gagawala, the Minister for Trade, stated that 'Uganda attaches a lot of importance to regional integration. We believe that favourable trade, not aid, will enable sustainable economic development for Africa. In this regard, we are anxious to see that the impediment to early conclusion of the economic partnership agreement are speedily dealt with' (*New Vision* 2010).

The Museveni regime's manoeuvring for the EAC's signing of a full EPA is, however, despite concerns from Ugandan trade unions and private sector organisations that prerequisite trade capacity building initiatives have not been fulfilled. The Director of Trade for the Private Sector Foundation of Uganda, for instance, has expressed grave about a competitiveness gap in the wake of premature trade liberalisation (*The Observer* 2009). The regime's stance is also despite calls from eminent Ugandan political economist, Yash Tandon, for an embargo on 'destructive' EPA trade negotiations in order to allow policy space to consider alternatives to premature market-opening. Policy space for such re-evaluation is rightly understood by Yandon to be dependent 'on the political will of the leadership and the extent to which they can be pressurised by the people and those economic interests that will be hurt by the EPA. It's a political question' (*The Daily Monitor* 2010b). Again, this underscores resistance to free market agendas on the part of concerned citizens, trade unions and civil society activists.

It is doubtful, however, that such policy space can soon be achieved owing to the strategic position of EU budget support and its role in entrenching neo-colonial relations. Crucially, budget support mechanisms do not merely impose expectations on the Government of Uganda to implement further liberalisation but they also strategically disburse 'capacity-building' finances to the key negotiating ministry, the Ministry of Trade. Specifically, EU budget support has gone towards the EPA Trade and Private Sector Support (EPA TAPSS) programme under

the Ministry of Trade from 2009 onwards. The ministry explains that this programme ‘aims at enhancing the capacity... to *fulfil its mandate* in respect to development of trade, and enabling the country to develop sufficient capacity to exploit the trade opportunities available under the EPA’ (Government of Uganda 2013; emphasis added). This programme is anchored within the CSP which states that around €7 million will be made available for capacity building aimed at ‘trade and EPA related activities’ (European Commission 2007b: 29). Importantly, the EPA TAPSS is only one such initiative - following predecessors including the Ugandan Programme for Trade Opportunities and Policy (UPTOP, 2003-2007), and the Technical Support for Economic Partnership Agreement Finalisation (TSEPAF, 2008-2009), all funded by EU budget support. This key ministry is therefore expected to defend Uganda’s interests from its major financier – a paradox predicted by Nkrumah (1965) in terms of neo-colonial arrangements.

Furthermore, the Museveni regime is enriched via the premature liberalisation promoted by EU budget support. Indeed, it is widely held in Uganda that the Museveni family has taken advantage of market liberalisation to invest in the emerging floriculture sector, despite prevalent concerns about workers’ rights. In particular, it is held that the President’s wife has invested in an Israeli-owned flower farm in Rubaare (*The Daily Monitor* 2011). Significantly, the flower industry is sustained by continuing low tariff access to European markets - protected in the long-term by Uganda’s accession to an EPA - despite regressive consequences for traditional agricultural and manufacturing sectors. As Nkrumah (1965: xv) argued, there is little incentive for the Museveni regime, or others in a similar neo-colonial state, to ‘challenge the colonial pattern of commerce and industry’ from which it itself benefits. Furthermore, as Nkrumah predicted, budget support, by providing leverage for the conclusion of EPAs, is ‘merely a revolving credit, paid by the neo-colonial master, passing through the neo-colonial State and returning to the neo-colonial master in the form of increased profits’ (*ibid*). In this context, it is perhaps not surprising that Harvey Rouse of the European Union Delegation to Uganda has boasted of Europe’s ‘deep and constructive’ relationship with the Ugandan Ministry of Trade while praising ‘His Excellency the President [Museveni] and the Honourable Trade Minister... [for their] great leadership within EAC as regards the Economic Partnership Agreement discussions with the EU.’ (cited in European Commission 2011b).

In the country contexts of Ghana, Uganda and Tunisia, it is therefore useful to utilise Nkrumah’s diagnosis of neo-colonialism in the analysis of EU budget support, albeit in terms of neo-colonial arrangements at various stages of development. African countries with de jure sovereignty, such as Uganda and Tunisia, appear to have participated in a de facto surrender of

policy autonomy on matters of economic governance and trade strategy. In these more entrenched forms of neo-colonial arrangements, there is a discernible *quid pro quo* where regimes enjoy a foreign aid patronage capable of maintaining their power status while becoming simultaneously delinked from questions of wider national economic interest. Such regimes demonstrate compliance to EU donors' interests in relation to vital economic affairs owing to the fact that their own political survival becomes more dependent upon sustaining foreign aid patronage (and corrupted liberalisation processes) than upon the construction of a viable domestic economic base. In cases such as Ghana, meanwhile, the government elite may seek to dilute or even to contest donor free market pressures, only to eventually bow to external neo-colonial pressures buttressed by budget support as strategic leverage.

This examination of the role of the European Commission in constructing neo-colonial states through the dissemination of budget support is certainly open to contestation. As discussed, Harrison (2001) is sceptical of what he terms this 'internal-external distinction'. Nevertheless, it is possible within this article's arguably more 'orthodox' assessment to acknowledge a subtler interplay between external agents and internal actors. Indeed, it is almost a truism now to acknowledge that African elites engage in a manipulation of external preferences. Moreover, the fact that African officials may endorse policies that are detrimental to 'the poor' does not negate the need to critique the internal-external dimension— for instance, in terms of budget support interventions that work to strategically delink African elites from the economic interests of their citizens. Nor does it nullify the nature of a creeping neo-colonialism facilitated by budget support – promoting asymmetric trade arrangements such as the EPAs. Indeed, administrators within historical colonial states willingly implemented policies derived from the metropole but this did not negate the realities of what might euphemistically be described as the colonial 'internal-external' dimension.

Conclusion

Budget support has been hailed as an effective means of supporting developing countries to implement home-made development policies, thereby facilitating country-ownership and poverty reduction in the Post-Washington Consensus. Donors have sought to shift greater financial emphasis onto budget support and move away from 'tied' forms of project aid. Moreover, contemporary 'poverty reduction' budget support is distinguished in donor discourse from SAP predecessors. Donors emphasise that modern budget aid will go towards health, education and other social sectors. Ostensibly learning the lessons of the Washington Consensus, donors

promise that economic policies and trade agendas will not be dictated to from outside and that modern budget support will not be tied to liberalisation reforms.

As discussed above, the European Commission has been one of the most enthusiastic advocates of *poverty reduction* budget support. Examining the case of EU budget aid to Ghana, Tunisia and Uganda, however, it appears that the strategic utilisation of this aid modality facilitates premature economic liberalisation and trade opening - with regressive consequences for 'the poor'. Rather than give these countries' national elites the means to pursue interventionist policies conducive to genuine economic development, budget support gives rise to a divorce between the economic interests of co-opted regimes and their most vulnerable citizens. In the cases of Tunisia and Uganda, EU budget support appears to lubricate corrupted liberalisation processes and to compensate the recipient regime for lost tariff revenues upon the implementation of free market reforms. Nevertheless, by facilitating premature liberalisation it damages the economic interests of local industrial producers and agricultural smallholders. Moreover, a discernible conflict of interest becomes discernible as key negotiating ministries, such as the Ugandan Ministry of Trade, receive capacity-building assistance while, ostensibly, defending the national interest in negotiations with the European provider. Governments such as that of Ghana, meanwhile, that seek to dilute or to contest donor free market norms are thwarted amidst neo-colonial interventions – with budget support playing a strategic role as leverage.

In this context, it is necessary to engage with theoretical evaluations of African sovereignty in the Post-Washington Consensus. Rather than dismiss the value of the 'internal-external' dimension as per Harrison, however, it is necessary to focus upon external leverage and neo-colonial interventions in the analysis of EU budget support channels. As Nkrumah warned, a collective (neo)colonial influence seems to be exerted from within forums such as the Ghanaian MDBS group as EU donors, among others, seek to entrench donor norms of free market liberalisation. Moreover, the realities of such neo-colonial relations underscore the paradox of 'poverty reduction' budget support as regressive liberalisation closes down genuine avenues for poverty alleviation. Indeed, the promotion of premature liberalisation facilitates deindustrialisation in sectors such as poultry and textiles, or else predatory forms of foreign direct investment in sectors such as phosphates. An appropriate response, following Nkrumah, would appear to lie in collective mobilisation with the auspices of the African Union to engender self-reliance among African states - and to reject forms of aid that sponsor policies detrimental to the needs of 'the poor'. This would do much to respond to on-going social protests surrounding the impact of premature free market reforms. This would require, however, substantial political and

economic convergence between African states - a task made all the harder given the current realities of direct, and indirect, forms of neo-colonialism.

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Table 1: EU-Tunisia aid flows and GBS (1996-2008)

GBS Programme	Year of decision	Amount committed (€ millions)
Structural Adjustment Facility (SAF) I	1996	100
SAF II	1999	80
SAF II	2001	80
SAF IV	2005	78
Competitiveness Support Programme (PAC)	2006	41
Goal Oriented Budget Support Management Programme (PAGBO)	2007	30
Integration Support Programme (PAI)	2008	50

Source: DRN (2011: 1)

Table 2: EU-Uganda aid flows and GBS (1995-2013)

	8 th EDF amended after ETR*	9 th EDF amended after ETR	10 th EDF
National Indicative Programme Envelopes A and B (€ millions)	210	316	461
Macroeconomic Support – General Budget Support	0%	33%	42%
Transport	52%	47.1%	39%
Agriculture/Rural Development	8%	6.3%	14%
Social Development	26%	0%	0%
Other non-focal sectors	14%	13.4%	5%
TOTAL	100%	100%	100%

*End of term review

Source: European Commission (2013b)

Table 3: EU-Ghana aid flows and GBS (1995-2013)

	8 th EDF	9 th EDF	10 th EDF
National Indicative Programme Envelopes A and B (€ millions)	130	311	373.6*
Transport and Infrastructure	-	24.6%	21%
Macroeconomic Support – General Budget Support	-	26%	48%
Other Sectors	-	49.4%	31%
TOTAL	100%	100%	100%

*Indicative

Source: European Commission (2002; 2007d)