

Administering aid differently

A review of the European Commission's general budget support

Executive Summary

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Author
Mirjam van Reisen

Project supervision
Ben Moore

Research
Eleonora Avagliano

Proofreading
Cathy Leech

Layout
Benny Gommers
Filip De Keukeleere

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Executive Summary

1. Introduction

The European Commission is set to significantly increase the amount of aid which it provides as budget support in the coming years. In December 2007, the European Commission stated its intention to provide almost half of its aid under the tenth European Development Fund (2008 – 2013) in the form of budget support.¹

Despite concerns raised by both the European Parliament and civil society organisations, the European Commission is set to prioritise general budget support over sectoral budget support, especially in its cooperation with countries in the African, Caribbean and Pacific Group of States.

As a leading proponent of general budget support, the European Commission argues that this aid modality contributes to the goal of poverty eradication by enabling donors to provide aid which is long-term, predictable and aligned to the principles of the 2005 Paris Declaration on Aid Effectiveness.

The purpose of this study is to determine whether the European Commission's general budget support lives up to this vision. Based on an analysis of general budget support contracts (known as "financing agreements") and interviews with European Commission officials, this study aims to establish whether:

1. the goals of the European Commission's general budget support programmes are compliant with the overall objective of European Community development cooperation: poverty eradication and the realisation of the MDGs;
2. the mechanisms and conditions for disbursing general budget support are compliant with the above-mentioned goals;
3. it is both long-term and predictable; and
4. it is in line with the principles of the Paris Declaration.

2. Main findings

Eligibility for European Commission general budget support

According to official policy, the European Commission bases its decision to provide general budget support to a partner country on a set of criteria relating to public financial management, macroeconomic stability and the existence of a national development plan. However, rather than measuring whether the situation in a partner country is adequate for handling general budget support, the European Commission's use of indicators for eligibility appears to measure the scope for progress towards such a situation.

The fact that the European Commission is interested in progress in various sectors rather than the existence of a suitable environment for the handling of general budget support raises serious doubts about whether the situation in its partner countries is always conducive to the provision of general budget support.

Goals of the European Commission's general budget support

The European Commission's budget support programmes must comply with the overall objective of European Community development cooperation: poverty eradication. There is an implicit assumption that the European Commission's so-

1. Intervention by the European Commission during the roundtable meeting on the European Commission's aid programming to African, Caribbean and Pacific countries (2008 – 2013), in Eurostep, (2007), Assessing EU cooperation with ACP countries 2008-2013 – Roundtable discussion, 4 December 2007, p. 2

called "eligibility criteria" for its general budget support programmes, although not specifically focused on poverty eradication, are fully compliant with this objective. However, the European Commission's budget support financing agreements provide little, if any, evidence to substantiate this assumption. There is also little clarity about how the European Commission's general budget support programmes fundamentally differ from the traditional structural adjustment programmes which were heavily criticised for their lack of delivery for people living in poverty.

Release mechanisms and conditions for the European Commission's budget support

Despite the fact that the European Commission has a legal obligation to ensure that general budget support contributes fully to the goal of poverty eradication, which is established in the European Community Treaty, the financing agreements do not include indicators for partners to measure progress on poverty reduction or on the Millennium Development Goals as a whole. Furthermore, the European Commission does not appear to take into account indicators related to issues such as gender or child labour in its budget support programmes.

Long-term predictability

The long-term predictability of the European Commission's general budget support programmes varies between countries and even between programmes within the same country.

The incentive-based nature of the European Commission's approach to general budget support raises a number of difficulties in terms of ensuring long-term predictability as it needs to make a certain proportion of its budget support conditional on partner countries' performance in selected areas. The sudden reduction or suspension of aid which can occur as a result of poor performance significantly reduces the predictability of the European Commission's budget support.

Ownership

Although the European Commission's general budget support programmes appear to be well-rooted in its partner countries' national development strategies, a number of other factors limit national ownership. For instance, both national parliaments and civil society organisations are largely excluded from relevant processes. In addition, the European Commission's conditionality related to IMF-agreed macroeconomic policies also limits partner governments' ownership of their countries' national development strategies. Partner-country dependency on the IMF through debts could, therefore, now be replaced by dependency through European Commission aid grants, a situation which would run contrary to the claim of increased ownership.

The European Commission's provision of technical assistance may also have implications for national ownership of development strategies.

Finally, it is unclear why the European Commission continues to provide extensive direct financing for the transport and infrastructure sectors. The European Commission argues that general budget support enhances partner countries' ownership of national development strategies. If this is the case, the European Commission's support for transport and infrastructure should also be integrated in its general budget support programmes.

These concerns culminate in a serious question about the real increase in fiscal space for partner governments to finance priorities for people living in poverty, including paying the salaries of teachers and health workers.

Mutual accountability

The European Commission's budget support programmes are virtually devoid of any effective parliamentary scrutiny. This has resulted in a situation in which the allocation of significant volumes of the European Commission's aid (and of partner countries' national budgets) is conducted in a manner which is unaccountable to citizens. This problem is critical both in relation to the citizens of partner countries – vitally reducing the political ownership over the programmes there, and in Europe, where the European Parliament is not being facilitated or encouraged to use its right to scrutinise the European Commission's country aid programmes.

MDG contracts

The European Commission's proposal for so-called "MDG contracts" could offer the potential to further increase the long-term predictability of its budget support in a limited number of countries for the purpose of addressing the chronic shortage of teachers and health workers. Whether this design to complement the European Commission's general budget support programmes is meaningful essentially depends on whether these contracts will be focused on the specific objective of increasing the fiscal space for paying the salaries of teachers and health workers.

Since MDG contracts are only currently foreseen for the small number of countries which the European Commission deems to have both a sufficiently strong track record on budget support and a multi-annual monitoring framework, the European Commission also needs to develop alternative approaches to ensure that all of its general budget support fully contributes to the objective of poverty eradication and to create fiscal space for increased salaries for much-needed teachers and health workers.

3. Recommendations

The objectives of the European Commission's budget support programmes must comply with the European Community Treaty which provides the legal basis for European Community development cooperation

The overall objective of European Community development cooperation is the eradication of poverty and the achievement of the Millennium Development Goals. All of the aid which the European Commission provides as budget support must be fully compliant with this objective.

Provide clarification about the criteria used to assess partner countries' eligibility for budget support.

The European Commission bases its decision on whether or not to provide budget support to a particular country largely on the basis of its own assessment of that country's potential for progress. The European Commission should increase the transparency of the budget support programming process by providing clarification about the basis of this assessment.

Provide general budget support only when the situation is assessed as conducive to the achievement of European Community aid objectives.

The European Commission intends to significantly increase the amount of general budget support which it provides under the tenth European Development Fund (2008 – 2013). It is, therefore, crucial that the European Commission has a clear idea of whether the situation in its partner countries is actually conducive to general budget support – as opposed to there being 'progress towards' that situation. The latter scenario involves significant risks

in terms of inefficiency - and even corruption, in the use of aid. The European Commission should only switch from sector budget support to general budget support if it is satisfied that the situation in its partner countries renders it appropriate to do so.

The European Commission's choice of indicators in its general budget support financing agreements must reinforce the objective of its development cooperation.

The European Commission argues that its general budget support programmes contribute to the goal of poverty eradication in partner countries. However, the indicators included in the financing agreements do not measure the impact of the European Commission's budget support on poverty. Furthermore, despite the European Commission's stated commitment to the promotion of gender equality, sexual and reproductive health and rights, and the eradication of child labour, evidence from two recent studies shows that indicators relating to these issues are not included in general budget support financing agreements.¹

The European Commission must not use its general budget support programmes as a conduit for forcing its partner countries to open up their procurement systems to foreign companies.

The European Commission should avoid the conditionality of forcing the opening up of public procurement, especially when applying to most or all procurement, including goods, works and services, and going beyond the requests about 'transparency principles' in procurement which were rejected in the 2003 WTO Cancun Ministerial as 'contrary to the right to development'.²

Ensure that general budget support strengthens national administrations in partner countries.

The inclusion of technical assistance appears to be a standard feature of the European Commission's general budget support programmes. The involvement of international consultancy companies in the management of the national budgets of the European Commission's partner countries may run contrary to the principle of national ownership. It is vital that all of the European Commission's technical assistance is fully aligned with its partner countries' national priorities and that it serves to build capacity in those countries.

Integrate support for the transport sector in general budget support programmes.

The European Commission is set to provide almost a third of its aid under the tenth European Development Fund as direct financing for infrastructure (transport and communications). If it is to be consistent in its argument for providing general budget support as a means of increasing partner countries' ownership over their national development plans, the European Commission should also support the transport sector through this aid modality.

Guarantee the longest possible duration of budget support programmes

The European Commission's budget support programmes typically cover a period of three years. However, the European Commission's budget support

programme in Mali had an initial duration of five years and its sector budget support programme in India covered a six-year period. By increasing the duration of its budget support programmes, the European Commission could assist its partner countries' efforts to execute long-term budget planning. This may serve to increase the effectiveness with which they are able to implement their national development plans.

Undertake multi-annual assessments of partner countries' performance.

The sudden reduction in funding which can occur as a result of a lack of identifiable progress can seriously limit the ability of the European Commission's partner countries to implement their national development plans. The approach proposed in the framework of the MDG contracts could help to minimise disruptions in the transfer of the European Commission's general budget support by assessing performance on a multi-annual basis. By allowing the European Commission to delay its financial responses to (temporary) poor performances, MDG contracts could enable partner governments to finance long-term costs, including in the health and education sectors, which are ill-suited to the "stop-go" nature of general budget support in its current form.

Maintain a balanced approach between the need to guarantee predictability and the decision to promote an incentive system based on performance.

As stated above, the use of performance-based assessments involves an inherent risk to aid predictability. However, this approach can provide an incentive for partner countries to improve their performance in selected sectors and, as such, it should be maintained. An appropriate balance between the need for predictability and an incentive approach based on performance as well as careful selection of indicators is crucial in this regard.

Ensure genuine parliamentary scrutiny over budget support programmes

The Development Cooperation Instrument includes a clear obligation for the European Commission to support its partner countries in developing parliamentary scrutiny. This provision should be fully implemented in those countries which fall under the scope of the Development Cooperation Instrument and extended to the European Commission's budget support programmes in all regions. By allowing parliaments to scrutinise budget support financing agreements, the European Commission could increase the accountability of its aid to citizens both in its partner countries and in Europe.

Increase the involvement of civil society in the design and implementation of budget support programmes.

The European Commission is well aware of the limited capacity of civil society organisations to engage in monitoring budget processes and social sector outcomes.³ By encouraging the involvement of civil society organisations in its partner countries in monitoring national budget execution, the European Commission could help to increase the accountability of its partner governments to their populations.

1. Alliance2015, (2007), *The European Commission's commitment to education and the elimination of child labour*, p. 3.

EEPA, (2007), *Gender and Sexual and Reproductive Health Indicators in EU Development Aid*, p. 7.

2. Bissio, R., (2008), *Paris Declaration on Aid Effectiveness*, p. 12.

3. Letter from the President of the European Commission, José Manuel Barroso, to President of Alliance2015, Vagn Berthelsen, 6 November 2007.