



## European NGO confederation for relief and development

### Position on EU budget support

March 2012

The European Union (EU) is the biggest provider of budget support and has a longtime expertise in this area, notably through the Millennium Development Goals (MDG) contracts. Over the period 2003-2009, the European Commission made budget support commitments totaling over €13 billion (about 25 % of all commitments)<sup>1</sup> and this aid modality represented around 6% of total bilateral aid in 2010<sup>2</sup>.

However, questions about how to improve the quality and impact of budget support are raised by several actors. CONCORD welcomes some aspects of the European Commission (EC) communication<sup>3</sup>, especially the commitments towards greater transparency, improved predictability and the willingness to give a greater role to civil society. However, we would like to draw attention to specific issues that remain of concern to us.

**Poverty eradication is the intended purpose of EU ODA according to the Lisbon Treaty.** Despite difficulties with attribution, studies have shown that budget support can deliver results from increases in public expenditure and expanded service delivery to improved pro-poor outcomes. But budget support agreements must ensure that expected outcomes match the objectives contained in the national development plan.

**Budget support arrangements remain characterized by a lack of citizen and parliamentary oversight of agreements,** implementation and monitoring, with few civil society processes established to influence decision-making and frameworks, monitor implementation or assess the impact of budget support funds.

CONCORD welcomes the fourth eligibility criteria of the European Commission related to transparency. In accordance with the commitment by donors in the Busan Partnership to publish the terms and conditions of their development activities, **we call on all European donors to make budget support transparent and open to citizen influence and scrutiny.**

**There is a widespread and legitimate fear that giving budget support to developing-country governments is a risky business.** CONCORD recognizes that no method of providing aid is

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<sup>1</sup> Annual Report 2011 on the European Community's Development and External Assistance Policies and their Implementation in 2010

<sup>2</sup> OECD/QWIDS data for 2010

<sup>3</sup> The communication; <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0638:FIN:EN:PDF>

without risk and studies show that project aid is no less prone to corruption than general budget support<sup>4</sup>. The EU should use budget support as a tool to help build mechanisms to fight corruption and as a catalyst for change at the state level. The policy dialogue process that comes with budget support also provides an important tool for discussing these issues between governments; donors; civil society and parliamentarians (though currently all too often in practice these two last groups are left out).

### **Recommendations:**

CONCORD is recommending the following actions to the EU to increase the impact of budget support on poverty reduction:

- The European Commission should maintain its leadership on budget support and should continue to provide it through mixed funding policies by taking into consideration the advantages of all aid modalities. The appropriate mix of financing mechanisms should be decided from a bottom-up perspective, based on a country's needs.

#### ***On the use of budget support***

- Long-term goals of budget support should aim at reducing poverty, strengthening developing countries' own economic resources, including strengthening the national public finance management and taxation systems of developing countries;
- EC and Member State budget support should be considered as a long-term aid instrument. It must be given in a long term, predictable way and should be committed for at least three years. Donors should use the results of 'light' annual assessment exercises to feed into multi-year assessments while keeping open the possibility to stop aid in case of major corruption or human rights violation.

#### ***On budget support and eligibility criteria***

- While budget support should be in line with promoting democratic governance, fight against corruption and accountability of public spending, it should essentially focus on the primarily goal of development assistance, poverty reduction;
- The EC should commit to use budget support as a poverty reduction tool and not tie the use of this aid modality to economic policy conditions, such as trade liberalization or privatization. In any case, conditions and outcomes should be mutually agreed by the recipient government, donors and national stakeholders like CSOs and Parliamentarians;
- EC and EU Member States should ensure that the eligibility criteria and conditionality do not undermine partner country ownership of development co-operation, and that in case of cuts or suspensions in general budget support, the EU adopts a progressive and proportional approach to limit the negative impact on poor people;
- The EC should promote greater cooperation and coherence with Member States in the use of budget support to increase impact.

#### ***On strengthening accountability and transparency***

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<sup>4</sup> IDD and Associates (2006) 'Evaluation of General Budget Support: Synthesis Report', OECD/DAC, Birmingham, UK.

- All EU donors who have not signed up to the International Aid Transparency Initiative (IATI) should do so and all EU donors should ensure that their budget support agreements are incorporated into their IATI publication;
- Strengthening domestic accountability should be included in the EC guidelines on budget support, currently being revised. For that purpose, the EC must ensure that an inclusive group of Parliamentarians, local governments, Civil Society Organizations, audit institutions and the media are involved in different stages of the budget support process (design, definition of benchmarks and conditions, monitoring and evaluation); Parliamentarians, being directly elected by citizens, should have a specific and formal responsibility in the overseeing the national budget;
- Donors should set aside a proportion of their budget support to finance the ability of the aforementioned stakeholders to facilitate their role in holding governments and donors to account and making aid work; capacity development and consultations of civil society actors. The EC could for example allocate 5% of its budget support to support CSOs doing budget tracking and monitoring on local, regional and national level;
- EU donors should recognize and promote the fact that increased budget support needs the establishment and strengthening of proper performance management frameworks in each of the partner countries, especially regarding the improvement of M&E systems. This will also contribute to boost mutual accountability;
- In cases of a rapid deterioration of human rights in a certain country, EU donors should ensure a process to address the issue - on a case by case basis – providing an opportunity to address the issue in a coordinated, transparent and participatory way.

#### ***On general versus sector budget support***

- The European Commission should utilize general budget support or sector budget support depending on a given country situation, and which instrument it believes will deliver the best results;
- If a country's public finance management system is not solid, if the overall government environment is more risky but a particular ministry is functioning well, or if the country needs support to develop and implement a particular sector strategy, it may be more advisable to give sector budget support rather than general budget support;
- However, general budget support has its own advantages as it allows developing country government's greater room to decide for themselves which priorities in their poverty reduction strategy they wish to focus on.

#### ***On the role of EU delegations in partner countries***

- EU delegations have a central role in designing and managing budget support, and their resources should be ensured correspondingly. As the 2007 DAC Peer Review of European Communities noted, 'good understanding of the appropriateness of budget support in the local context' is important;
- In addition, EU delegations resources should be ensured correspondingly to give higher consideration to cross-cutting issues such as gender, HIV & AIDS, Governance and Human Rights and civil society empowerment, it will allow them to engage with relevant actors and effectively participate in the policy dialogue with the government;

- In line with the Cotonou agreement and the EC reference document on Engaging Non-State Actors in New Aid Modalities<sup>5</sup>, the EU delegations should undertake a comprehensive mapping of CSOs and ensure that a broad range of NGOs and CSOs including local grassroots and community based organizations are invited to participate in the policy dialogue process.

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<sup>5</sup> Tools and Methods Series / Reference document no 12: Engaging Non-State Actors in New Aid Modalities For better development outcomes and governance