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The future of EU budget support to developing countries
(2010/2300(INI))

Committee on Development

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CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT	13
OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS	19
OPINION OF THE COMMITTEE ON BUDGETS	23
OPINION OF THE COMMITTEE ON BUDGETARY CONTROL	32
RESULT OF FINAL VOTE IN COMMITTEE	36

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

The future of EU budget support to developing countries (2010/2300(INI))

The European Parliament,

- having regard to the commitments on aid volume, aid to sub-Saharan Africa and aid quality made by the G8 at the 2005 Gleneagles Summit and all subsequent G8 and G20 meetings,
- having regard to the Millennium Declaration adopted by the United Nations on 8 September 2000,
- having regard to the European Consensus on Development¹ and the European Union Code of Conduct on Complementarity and Division of Labour in Development Policies²,
- having regard to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action,
- having regard to Article 208 of the Treaty on the Functioning of the European Union, which stipulates that ‘the Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries’,
- having regard to Article 25(1)(b) of Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (the ‘Development Cooperation Instrument’³ (DCI)),
- having regard to Article 61(2) of the Cotonou Agreement,
- having regard to its resolution of 6 April 2006 on aid effectiveness and corruption in developing countries⁴,
- having regard to its resolution of 5 May 2010 with observations forming an integral part of the decision on discharge in respect of the implementation of the budget of the Seventh, Eighth, Ninth and Tenth European Development Funds for the financial year 2008⁵,
- having regard to its resolution of 3 February 2011 on the Council position at first reading with a view to the adoption of a regulation of the European Parliament and of the Council

¹ OJ C 46, 24.2.2006, p. 1.

² Council Conclusions 9558/07, 15.5.2007.

³ OJ L 378, 27.12.2006, p. 41.

⁴ OJ C 293 E, 2.12.2006, p. 316.

⁵ OJ L 252, 25.9.10, p. 109.

amending Regulation (EC) No 1905/2006 establishing a financing instrument for development cooperation¹,

- having regard to Court of Auditors Special Report No 11/2010 entitled ‘The Commission’s management of general budget support in ACP, Latin American and Asian countries’,
 - having regard to the Green Paper from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the future of budget support to third countries (COM(2010)0586),
 - having regard to the Commission’s 2007 document entitled ‘Guidelines on the Programming, Design & Management of General Budget Support’,
 - having regard to the Commission’s 2008 report entitled ‘Budget support: The effective way to finance development?’
 - having regard to the report of the ACP-EU Joint Parliamentary Assembly’s Committee on Economic Development, Finance and Trade on budgetary support as a means of delivering official development assistance (ODA) in ACP countries,
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on Development and the opinions of the Committee on Foreign Affairs, the Committee on Budgets and the Committee on Budgetary Control (A7-0206/2011),
- A. whereas the reduction and ultimate eradication of poverty is the European Union development policy’s primary objective under the Lisbon Treaty,
- B. whereas budget support has become one of the key forms of aid,
- C. whereas many donors consider general and sectoral budget support as a means of fostering partner countries’ ownership of development policies and lasting reform processes, strengthening national accountability institutions and systems, and facilitating growth, poverty reduction and the achievement of development objectives,
- D. whereas operational capacity development is needed in order to create in the first place the preconditions for programme-based approaches, including budget support or more far-reaching models,
- E. whereas budget support helps to overcome certain weaknesses of the traditional project-based approach (high transaction costs, fragmented parallel systems) and thus increase the coherence and efficiency of EU measures, aims which are stressed in the Lisbon Treaty,
- F. whereas budget support should help to improve the quality and effectiveness of aid, with particular reference to the principles of ownership and harmonisation, given that political

¹ Texts adopted, P7_TA(2011)0030.

dialogue between donors and recipients makes it possible to tailor contributions to the priorities countries have set in their national poverty reduction strategies,

- G. whereas, despite the risks mentioned by the European Court of Auditors in its reports on budget support, the ‘dynamic approach’ in the general conditionality of budget support is still a very important instrument of political dialogue; whereas budget support must nevertheless under no circumstances be considered as a ‘blank cheque’,
 - H. whereas the range of commitments made by beneficiary countries to all their partners may, in some cases, make their use difficult, given that the conditions imposed by donors are sometimes contradictory,
 - I. whereas the European Union has hitherto referred more frequently to violations of human rights (‘first-generation rights’) in partnership agreements rather than violations of social, economic and cultural rights (‘second-generation rights’),
 - J. whereas all the donors should consult one another in order to prevent inconsistencies in conditionality,
 - K. whereas, pursuant to Article 2(3) of the Lisbon Treaty, it is an objective of the European Union to work for a sustainable social market economy, and whereas this should also apply with reference to development policy and relations under the neighbourhood policy,
 - L. whereas making a partner government publicly accountable for its budgetary management is an essential factor in the country’s capacity building process through the exercise of scrutiny by its parliament and the provision of information to civil society in the field of public finance,
1. Welcomes the Commission’s initiative through the Green Paper on budget support, which is aimed principally at promoting the development of partner countries from within, and calls for the numerous types of undesirable development and the wastage of money which have been noted in recent years in relation to budget support at the expense of European taxpayers and which in most cases did not result in any penalties, to be exposed and in future also prevented by means of independent assessment and appropriate penalties (e.g. by means of a percentage deduction from future instalments);
 2. Welcomes the European-level consultation process; hopes that budget support award practice will be objectively analysed and improved in order to increase its effectiveness;
 3. Recalls that, according to the Lisbon Treaty, poverty reduction and eradication is the EU’s primary development policy objective; emphasises that poverty has multiple dimensions such as human, economic, socio-cultural, gender, environmental and political, which all need to be tackled by the EU development policy;
 4. Is of the opinion that EU aid should generate real quality change in the partner countries and recognises budget support as an effective tool for achieving this goal, provided that, as well as implying conditionality, it is used alongside effective political and policy dialogue;

5. Emphasises the crucial and compulsory role of policy coherence in the implementation of a high-impact development policy; further calls for the EU foreign and security policy to focus on the promotion of democracy and human rights, peace and security, all key preconditions for sustainable development; calls for more systematic efforts to mainstream climate change adaptation and disaster risk reduction measures;
6. Takes the view that taxation guarantees an independent source of financing for sustainable development and provides an important link between the governments and citizens of developing countries; calls for the development of a viable fiscal administration and a comprehensive tax infrastructure to be made one of the highest priorities of budget support; recommends that budget support policy should incorporate measures to combat tax havens, tax evasion and illicit capital flight;
7. Stresses the need to use sectoral budget support wherever appropriate in order to ensure better targeting of basic social sectors, particularly health, education and assistance for the most vulnerable groups, especially persons with disabilities;
8. Points out that budget support must not be used to reinforce the EU's particular economic and strategic interests, but to reach development objectives of and for developing countries, especially to eradicate poverty and hunger;
9. Draws attention to the innovative role played by the EU in the field of budget support and the added value which the Commission brings, owing to its expertise in this area;
10. Notes that budget support can enhance not only the accountability of governments but also donor coordination through the necessary dialogue on budgetary issues; points out that this a possible way forward for better coordination with emerging donors;
11. Calls on the Commission to make budget support its principal form of aid and to promote the setting of a collective EU target for budget support;
12. Stresses that the Union has a responsibility to pass on its experience to other institutional stakeholders, in particular at the High-Level Forum on Aid Effectiveness in Busan;
13. Stresses that the dynamic approach adopted by the Commission and a majority of budget support providers entails a number of risks which must be duly taken into account; calls on the Commission to carry out national assessments of the likely risks and benefits of budget support in partner countries;
14. Calls on the EU to administer budget support in such a way as to take full advantage of its complementarity with other forms of aid;
15. Stresses the need to strengthen both the Commission's monitoring mechanisms and parliamentary scrutiny and the provision of information to civil society in countries in receipt of budget support; stresses also that optimum procedures must be established for auditing the public finances of recipient countries as a precondition for any disbursement of funds;

16. Recalls that clearly defined, widely supported and closely monitored indicators are essential in order to demonstrate the concrete effects of budget support in third countries and that the relevant budgetary authorities should be updated regularly on the indicators and guidelines that shape the decision-making process in relation to budget support; emphasises that these indicators must be better tailored to the specific needs of partner countries in order to avoid the ‘one size fits all’ approach taken by the Commission, which is potentially counterproductive;
17. Calls for budget support to be made contingent on democratic parliamentary scrutiny of the budget in recipient countries; calls for the broad participation of parliaments and consultation of civil society in partner countries, so as to ensure that decisions about the use of budget support funds can be taken democratically;
18. Calls on the Commission to ensure, before budget support is granted, that the aims of the intervention are part of the national programmes of the recipient country and that the principles of coordination, complementarity and coherence in relation to other donors are respected, as well as additionality to the resources allocated by the recipient country;
19. With a view to ensuring the relevance of EU budget support, calls on the Commission to streamline its programming and design process by improving the preparation and documentation of decisions to launch budget support operations and, given resource constraints in Delegations, which often limit their capacity to perform certain activities, calls on the Commission to provide sufficient qualified staff for the implementation process, as budget support requires different analytical skills from project and programme financing;
20. Insists on the leading role that national parliaments of recipient countries, civil society organisations and local authorities should play as they are best placed to identify priority sectors, prepare Country Strategy Papers and monitor budget allocations; demands that national parliaments adopt Country Strategy Papers and the multiannual budget in consultation with civil society, prior to policy dialogue with donors on budget support, in order to empower parliamentary scrutiny;
21. Emphasises the importance of the effectiveness of EU development aid; calls on developing EU-level independent evaluation systems and a complaints mechanism open to those affected by EU aid, as well as supporting in-country accountability mechanisms;
22. Calls on the Commission to supply a comprehensive financial analysis of general and sectoral budget support granted to local government and to consider whether part of budget support should be decentralised with a view to ensuring genuine ownership by local government stakeholders, as well as to assess the risks involved in doing so;
23. Calls on the EU to respect and promote genuine ownership of developing countries over their development strategy and to refrain from crowding out national policy-makers through policy dialogue surrounding budget support, which undermines democratic accountability and contributes to depoliticising domestic political realities;

24. Considers that budget support should focus as a priority on the government departments that have the greatest impact on poverty reduction, in particular health and education ministries;
25. Considers, furthermore, that there is a need for gender mainstreaming in budget support, with attention being paid to gender issues at all stages in the budget process, dialogue being promoted with women's associations and gender-differentiated indicators being introduced;
26. Stresses that, with a view to enhancing mutual accountability, the Commission should step up its role as a facilitator between government, members of parliament and civil society, and considers, to that end, that a percentage of the budget support earmarked for technical assistance to sectoral ministries could also be used for capacity building in parliaments and civil society in order to enable them to play their budget support oversight role to the full;
27. Stresses the prominent role of donor organisations in supporting partner countries in their capacity development and the positive influence of local project aid on reducing poverty and promoting inclusive growth and sustainable development in partner countries;
28. Is concerned at the effects of macro-economic destabilisation and the impact on the most vulnerable sections of the population which a sudden break in budget support might cause; proposes that, on the basis of concerted action by donors and following consultation of the civil society and parliament of the partner country concerned, a mechanism be set up for the gradual reduction of budget support payments, which could attenuate such impacts, encourage political dialogue and enable concerted solutions to be found to the difficulties encountered;
29. Believes that budget support just like programmed aid should be treated as a transitional instrument and should not hamper efforts to strengthen countries' capacities to raise own resources, such as taxes, in order to become independent from third country donations;
30. Calls on donor countries to coordinate budget support more effectively and make such support more predictable, and points out that they need to be willing to enter into long-term commitments with partner countries;
31. Calls on the EU to take the appropriate measures, so that there is commitment from the third countries that they will be investing in a mechanism which promotes their financial stability;
32. Insists on the effective implementation of the requirement contained in Article 25(b) of Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (the DCI Regulation)¹, which stipulates that the Commission shall consistently use an approach based on results and performance indicators and shall clearly define and monitor its conditionality and support efforts of partner countries to develop parliamentary control and audit capacities and to increase transparency and public access

¹ OJ L 37, 27.12.2006, p. 41.

to information’; urges the Commission to extend these provisions to budget support to beneficiary countries of the European Development Fund(the ACP countries), for which – so far – only the more technical criteria of Article 61(2) of the Cotonou Agreement apply;

33. Considers that, since the use of budget support is an important strategic decision in the Union’s relation with its partner countries, Article 290 TFEU (delegated acts) must apply to the definition of the eligibility criteria for this aid modality, giving the Council and Parliament, as co-legislators, full codecision powers over its adoption, including – if necessary – the right of revocation of the delegated act;
34. Recalls that major deficiencies in capabilities, in particular weak governance, are liable to deprive many developing countries of budget support;
35. Takes the view that financing decisions on budget support must be driven not only by expected benefits but also by the short-term and long-term risks incurred in both donor and partner countries; notes that the Court of Auditors, in its Special Report¹, is in full agreement with this assessment by highlighting that a sound risk management framework is still to be developed and implemented;
36. Is concerned that the Court of Auditors (‘the Court’) in its Annual Report on the activities funded by the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2009 found budget support payments to be affected by a high frequency of non-quantifiable errors due to the lack of formalised and structured demonstration of compliance with payment conditions; at the same time takes note of and welcomes a substantial improvement in the demonstration of eligibility noted by the Court under the Tenth EDF owing to the clearer assessment frameworks that are now routinely used;
37. Points out that public investments in public goods, such as education, social security, infrastructures and productive capacities, especially with regard to smallholder farming and support to local markets, are crucial for successful development strategies;
38. Calls on the Commission to ensure that the specific conditions for performance-based variable tranches clearly specify the indicators, targets, calculation methods and verification sources and that Delegations’ reports provide a structured and formalised demonstration of public finance management progress by clearly setting the criteria against which progress is to be assessed, the progress made and the reasons why the reform programme may have not been implemented according to plan;
39. Calls on the Commission to take all necessary measures in order to combat corruption in the recipient countries, including suspension of disbursements if necessary; in this context calls on the Commission to maintain a close and regular dialogue with partner governments on corruption issues and pay sufficient attention to the capacity-building needs of particular recipient countries in terms of accountability and anti-corruption mechanisms;

¹ European Court of Auditors Special Report No 11/2010: ‘The Commission’s management of general budget support in ACP, Latin American and Asian countries’.

40. Considers the predictability of aid flows to be one of the most important factors for ensuring the quality of spending, as it enables the partner countries to undertake long-term expenditure planning and to sustain improvements in sectoral policies; advocates that such an approach be reinforced by partner countries' fiscal policies and mobilisation of domestic revenue which, in the long term, should reduce aid dependency;
41. Recalls that the lack of progress as regards the management of public finances still disqualifies many countries from receiving budget support;
42. Takes the view that budget support should be introduced gradually in developing countries, starting with a limited amount and increasing it as the partner countries build capacity;
43. Reiterates that budget support should be spent in pursuit of poverty reduction, including the pursuit of the Millennium Development Goals and to principles such as partnership, aid effectiveness and policy coherence for development; expresses its support for results-based incentives but emphasises that variances of disbursement must be predictable as far as possible so as not to impact negatively on budgetary planning; reiterates that budget support should only be granted to countries meeting and upholding minimum standards of governance and respect for human rights; underlines that conditions linked to macro-economic reforms must be compatible with human and social development;
44. Encourages developing countries and the Commission to promote participatory development, in accordance with the relevant provisions of the Cotonou Agreement and of Articles 19 and 20 of Regulation (EC) No 1905/2006, in particular with regard to the promotion and consultation of civil society and local and regional authorities;
45. Points out that, when granting budget support to banana-supplying ACP countries benefiting from accompanying measures in this sector, it is important to include in the variable tranche based on governance indicators the specific conditions contained in the new Article 17a that Parliament is proposing be inserted in Regulation (EC) No 1905/2006 (DCI Regulation), as set out in an amendment in the position of the European Parliament adopted at second reading on 3 February 2011 with a view to the adoption of Regulation (EU) No .../2011 of the European Parliament and of the Council amending Regulation (EC) No 1905/2006 establishing a financing instrument for development cooperation¹;
46. Demands that the Commission publish the agreements with developing countries on budget support and MDG contracts;
47. Underlines that sectoral budget support can constitute under certain circumstances a useful intermediary option to give the concerned governments and parliaments more ownership over aid funds while earmarking them for the MDGs;
48. Considers that oil and mineral rich countries have the potential to finance their own development and fight against poverty through transparent tax collection systems and fair redistribution of wealth;

¹ Texts adopted, 3 February 2011, P7_TC2-COD(2010)0059.

49. Takes the view that, in principle, MDG contracts are an example of high-quality, results-oriented budget support (long-term, predictable, targeted at social sectors, etc.); calls accordingly on the Commission to publish an assessment of MDG contracts in 2011 and to look into the feasibility of extending them to a larger number of countries;
50. Calls on the Commission also to publish the conditionalities and performance indicators in Country Strategy Papers on the occasion of the mid-term review; takes the view that budget support performance should be measured in terms of progress towards poverty reduction targets and the MDGs;
51. Reiterates its previous calls on the Commission to move from control over inputs to the checking of results against indicators, by improving its reporting system so that it concentrates on the effectiveness of the programmes;
52. States that the effectiveness of development-policy measures in the partner countries must fully take into consideration local conditions and respect the EU values as stated by the Treaty including the principle of rule of law and democracy; stresses that needs must remain a crucial criterion for the allocation of EU development aid;
53. Calls on the Commission and the Member States to create a public register in which budget support agreements, procedures and development indicators are transparently listed, with a view to reinforcing the domestic democratic institutions and to ensuring mutual accountability;
54. Calls on the Member States to show greater consistency at national and Community level as regards development aid policy; calls on the Member States to make use of the European External Action Service to strengthen their coordination with the Commission as regards budget support so as to avoid duplication and inconsistency;
55. Reminds the Commission and the Member States to harmonise their development cooperation and to improve mutual accountability;
56. Is firmly convinced that a thorough analysis of the future of EU budget support to third countries must address the issue of budgetisation of the European Development Fund; is aware of the historical and institutional background to the current situation but believes that the time has come for the Council, the Member States and the ACP countries to acknowledge that this situation is detrimental to the efficiency, transparency and accountability of EU budget support; emphasises, however, that budgetisation must not entail a decrease in the overall financial envelope for development policies;
57. Calls on the Member States, the Commission and the European External Action Service (EEAS), in line with the practice established in other policy fields, to improve the coordination of their respective budget support to third countries in order to avoid overlap, inconsistencies and incoherencies; deplors the reviews showing that, at sectoral level, weak policies, institutions and service delivery systems have prompted donors to use their own systems to implement projects, and to act bilaterally rather than in a coordinated manner, a situation which is all the more unacceptable in a context of scarce funding and which also makes it very hard for the EU to live up to its promises on making aid more predictable; maintains that a focus on specific areas offering the greatest

added value should drive EU budget support throughout all phases of preparation and delivery;

58. Calls on the Commission to raise public awareness of the risks entailed by the practice of budget support and to highlight the positive impact of budget support on partner emancipation;
59. Calls on the EU and its Member States to continue to promote and preserve their financial support and at the same time to provide consultative support for technocratic management of public finances;
60. Emphasises that the aims of improved coordination are to optimise the allocation of resources, enhance the exchange of best practices and boost the efficiency of budget support;
61. Considers that the Union should recognise and utilise the added value generated by its huge political weight and the potentially broad scope of its action, ensuring political influence proportional to the financial support given;
62. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

1. Introduction

Budget support is the transfer of financial resources from an external funding agency to the national treasury of a partner country, subject to the latter's compliance with agreed conditions for payment. The funds thus received are part of the partner country's overall resources, and are consequently used in accordance with its public finance management system.

Although budget support has been granted for some time (since the Marshall Plan, in fact), it became popular in the 1980s and 1990s when the World Bank and various bilateral cooperation structures began to provide such support in the form of balance-of-payments aid.

A second wave of such support in the period from 2000 to 2005 introduced a new, coordinated approach based on general budget support. This form of budget support was intended to further the policies and strategies of partner countries with a view to developing the concepts of ownership and closer partnership more fully.

Lastly, budget support is now becoming established as the most effective means of achieving the objectives of the Paris Declaration and Accra Agenda. It is an approach based on strong government leadership, the specification of reciprocal commitments and of a *modus operandi* for the partnership, and mutual accountability. Donor countries have also done more to harmonise their procedures, criteria and disbursement arrangements.

The EU grants budget support solely to countries in which the following three elements are in place or in the process of being put in place: a) a well-defined national development policy and strategy, b) a stability-oriented macroeconomic framework and c) a credible and appropriate programme for improving public finance management.

Over the 2003-2009 period the Commission made budget support commitments totalling more than EUR 13 billion (about 25% of all commitments in that period). About 56% of these commitments were made in ACP (Africa, Caribbean and Pacific) countries, 24% in countries covered by the European Neighbourhood Policy, 8% in Asia, 6% in Latin America and 5% in South Africa.

2. Impact of budget support: results unclear as yet

The 2006 evaluation of budget support in Burkina Faso, Malawi, Mozambique, Nicaragua, Uganda, Rwanda and Vietnam commissioned by the OECD Development Assistance Committee¹ concluded that budget support had had a positive impact in terms of the efficient use of public funds and building governments' capacity, including in the area of public finance management.

¹ IDD and Associates, 'A Joint Evaluation of General Budget Support 1994-2004', May 2006.

The evaluation also found that budget support had positive effects in terms of harmonisation, alignment and greater government ownership and accountability. In addition, recent independent evaluations of the Commission's country programmes have generally confirmed the value of budget support and recommended its continuation.

However, these evaluations voice a number of reservations about the impact of budget support in terms of reducing poverty and strengthening democracy in recipient countries. Generally speaking, it is difficult to assess the impact of budget support on poverty reduction and other key MDG indicators.

At the same time, there are still potential risks associated with budget support, such as greater aid volatility, cumbersome monitoring and painful fiscal adjustments in the event that support is suspended. The suspension of aid can have disastrous consequences for poor populations, especially if the payment of certain fixed costs such as teachers' and health workers' salaries or the purchase of medicines is partly dependent on external aid. The suspension of budget support to a recipient country also has an impact on neighbouring countries.

3. Eligibility criteria that are not necessarily coherent

In order to be eligible, recipient countries must have attained a sufficient degree of ownership in the fields of poverty reduction, macroeconomic management, public finance management and governance. In practice, significant differences have been observed among those countries receiving budget support. According to the evaluations, Uganda, Vietnam and Rwanda had a strong sense of ownership and a sound macroeconomic situation, unlike Malawi, Mozambique and Burkina Faso.

Two issues arise: the first is that countries may be selected to receive budget support on the basis of donors' confidence in their political leadership or the incumbent head of state, even though some of them are not 'ready' according to the criteria laid down. The second issue is that budget support appears to be managed essentially on the basis of diplomatic and (geo)political considerations and 'personal' relationships that are not openly acknowledged, given that the official basis for such support is confined to technical considerations.

As a result, general budget support may become even more political in nature, possibly to a dangerous extent.

4. Budget support and ownership of the development agenda

The Paris Declaration established ownership as the cornerstone of the new system of international aid. However, implementing 'leadership' and the necessary accountability is not necessarily synonymous with making states, elected representatives and civil society self-reliant.

Differing degrees of ownership may be observed in practice, depending on the specific nature of the budget support provided and the maturity of the partner country's democratic system and financial management. There is no compelling evidence to date of a causal link between

budget support and ownership: studies show that budget support does not transform the underlying political situation (an unrealistic aspiration for any form of aid).

Moreover, it appears that, to donors, ownership simply means that politicians and civil servants in recipient countries demonstrate a strong, long-term commitment to the budget reforms and financial accountability advocated by international financial institutions, in particular the IMF.

As regards civil society, donors have not fulfilled their undertakings systematically to include MPs and representatives of civil society organisations in their dialogue with the governments of developing countries.

Such an approach could bring about the establishment of ‘developed’ states with technically effective bureaucracy. The central issue is clearly still one of ‘how’ a sense ownership is acquired (through leadership, stated desire, deployment of energy, etc.), rather than ‘what’ such ownership entails in terms of its scope and content.

5. Budget support granted by the Commission: mixed results

A ‘dynamic’ approach

In a 2008 paper on budget support¹, the Commission says it interprets the conditions set out in Article 61(2) of the Cotonou Agreement² ‘in a dynamic manner’. In its view, weaknesses in public finance management at the time of the financing decision do not preclude the launch of a budget aid programme, provided that the will for reform exists and that the reforms planned are deemed satisfactory. To the Commission, the key concept is the ‘direction being taken by the country’.

This dynamic interpretation of the eligibility criteria, in particular as regards public finance management, is liable to increase the short-term risk. That is a view shared by both the Commission and the Court of Auditors, which states in its Special Report No 2/2005 and its 2009 Annual Report that the Commission should demonstrate recipient countries’ eligibility and performance in a more explicit, formalised and structured manner.

At the same time, Article 25(1)(b) of the Regulation establishing a financing instrument for development cooperation (DCI) provides that budget support shall be granted ‘if the partner country’s management of public spending is sufficiently transparent, reliable and effective’, and that the approach adopted must be ‘based on results and performance indicators’.

¹ ‘Budget support: A question of mutual trust’, European Commission, 2008.

² According to this paper, budget support increases national accountability and parliamentary supervision of public finance management.

Budget support and aid effectiveness

In its latest (2007) review of European Community aid, the OECD Development Assistance Committee (DAC) made a series of observations concerning the role of budget support in promoting the objectives of the aid effectiveness agenda outlined in the Paris Declaration. In short, the DAC maintains that:

- (a) the Commission should guard against using budget support to move funds more quickly in order to scale up its aid effort or to achieve the 50% target;
- (b) it should explore ways of involving local civil society organisations in monitoring the spending and impact of budget support;
- (c) owing to pressure from the European Parliament, it is a political necessity to grant aid only to countries meeting minimum standards as regards governance and respect for human rights.

Moreover, in some cases donors counteract the advantages of budget support over traditional aid projects. A recent review¹ shows that, at the sectoral level, weak policies, institutions and service delivery systems have prompted donors to use their own systems to implement projects, and to act bilaterally rather than in a coordinated manner. This seriously undermines sectoral policies, institutions and service delivery systems, in turn reinforcing the donors' initial response to the situation.

Against this backdrop, it may be very difficult to reconcile such expectations with the EU's objective of increasing its budget support and making its aid more predictable.

6. Accompanying measures aimed at strengthening political dialogue

One focus of the Commission's consultation is the 'role of policy dialogue, role of conditionality and links to performance and results'. In this context, the Commission has outlined three basic ideas:

- (a) the accountability of a partner government to its citizens is a key driver in achieving development outcomes, and budget support is in principle subject to domestic parliamentary and audit scrutiny;
- (b) however, to date there have been only modest improvements in domestic accountability, partly because the capacity of civil society and parliaments to advocate and monitor policy choices as part of a transparent budget process is still weak in many countries;
- (c) supporting national accountability institutions and systems is a major challenge for donors of budget support.

¹ ODI and Mokoro, 'Sector Budget Support in Practice: Literature Review', February 2010.

In this connection, the EP has already highlighted the need to introduce the systematic involvement of parliaments and civil society in political dialogue on poverty reduction and in annual reviews of budget support.

Such a system should also facilitate the flow of information between civil society and the general public, so as to enable civil society, universities and private organisations to express their views as part of the consultation conducted by the thematic groups set up to monitor budget support.

7. Conclusions

Before drawing up its final position, the Committee on Development would like the Commission to clarify the following points:

- given that the EU is the leading donor of development aid, is it in a position to influence other donors – including the IMF and the World Bank – with a view to arriving at a coherent common position on the criteria for granting budget support?
- what compensation is there for countries not eligible for budget support?
- when a country's budget support is suspended, does the Commission take into account the impact of such a decision on regional integration?
- is budget support the best stimulus to development from within? □

Annex 1

List of countries having received development aid in the form of budget support in 2009, broken down by funding instrument

EDF ACP			DCI		
Country	EC Contribution	Funding instrument	Country	EC	
Benin	€51.400.000	EDF	Congo (Democratic Republic of the)	€26.000.000	
	DCI – Thema				
Botswana	€60.000.000	EDF	Bolivia	€7.750.000	DCI – Thema
Burkina Faso	€55.420.000	EDF	Ecuador	€26.400.000	DCI – Geo
Burundi	€14.330.000	EDF	El Salvador	€37.100.000	DCI – Geo
Cape Verde	€11.500.000	EDF	Georgia	€2.000.000	DCI – Thema
Central African Republic	€12.210.000	EDF	Ghana	€15.000.000	
	DCI – Thema				
Comoros	€7.270.000	EDF	Guatemala	€33.800.000	DCI – Geo
Congo (Democratic Republic of the)	€22.620.000	EDF	Guyana	€22.292.000	
	DCI – Thema				
Ghana	€49.020.000	EDF	Haiti	€5.800.000	DCI – Thema
Grenada	€5.290.000	EDF	Indonesia	€145.000.000	DCI – Geo
Guinea-Bissau	€14.950.000	EDF	Jamaica	€16.816.000	DCI – Thema
Haiti	€37.580.000	EDF	Kyrgyzstan	€9.000.000	DCI – Geo
Jamaica	€1.900.000	EDF	Malawi	€15.900.000	DCI – Thema
Liberia	€20.200.000	EDF	Mauritius	€61.984.000	DCI – Thema
Malawi	€33.890.000	EDF	Nepal	€13.000.000	DCI – Geo
Mali	€81.700.000	EDF	Peru	€60.800.000	DCI – Geo
Mauritius	€44.990.000	EDF	Philippines	€36.000.000	DCI – Geo
Mozambique	€12.110.000	EDF	Rwanda	€20.155.000	DCI – Thema
Niger	€6.900.000	EDF	Saint Kitts and Nevis	€10.425.000	DCI – Thema
Rwanda	€41.440.000	EDF	Seychelles	€2.000.000	DCI – Thema
Samoa	€15.300.000	EDF	South Africa	€122.680.000	DCI – Geo
Seychelles	€16.500.000	EDF	Tajikistan	€7.750.000	DCI – Thema
Sierra Leone	€18.420.000	EDF	Trinidad and Tobago	€10.764.000	DCI – Thema
Tanzania	€389.840.000	EDF			
Togo	€15.000.000	EDF			
Zambia	€30.000.000	EDF			

Source: AIDCO 2009. Amounts include sectoral budget support.

18.4.2011

OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS

for the Committee on Development

on the future of EU budget support to developing countries
(2010/2300(INI))

Rapporteur: Gabriele Albertini

SUGGESTIONS

The Committee on Foreign Affairs calls on the Committee on Development, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Welcomes the European-level consultation process; hopes that budget support award practice will be objectively analysed and improved in order to increase its effectiveness;
2. Recalls that, according to the Lisbon Treaty, poverty reduction and eradication is the EU's primary development policy objective; emphasises that poverty has multiple dimensions such as human, economic, socio-cultural, gender, environmental, and political, which all need to be tackled by the EU development policy;
3. Shares the view that budget support can help in building mechanisms to fight corruption if the conditions for a transparent and fully accountable budgetary management are in place and performance indicators have been agreed; otherwise it could – on the contrary – contribute to fanning corruption; stresses the importance, if necessary, of assisting the public authorities and parliaments in beneficiary countries to promote transparency and good governance and to fight corruption;
4. Believes that budget support just like programmed aid should be treated as a transitional instrument and should not hamper efforts to strengthen countries' capacities to raise own resources, such as taxes in order to become independent from third country donations;
5. Is of the opinion that development strategies must be designed by recipient governments themselves, in consultation with a broad spectrum of civil society and local authorities, and in close cooperation with international donors, and must be agreed by national

parliaments; further, that civil society, local authorities and parliamentarians must be involved throughout every stage of implementation, monitoring and the evaluation of results, that this process must be transparent, allowing for a regular and effective dialogue with civil society and that this requirement must be a decisive eligibility criterion for budget support;

6. Emphasises the importance of the effectiveness of EU development aid; calls on developing EU-level independent evaluation systems and a complaints mechanism open to those affected by EU aid, as well as supporting in-country accountability mechanisms;
7. Considers that, since the use of budget support is an important strategic decision in the Union's relation with its partner countries, Article 290 TFEU (delegated acts) must apply to the definition of the eligibility criteria for this aid modality, giving the Council and Parliament, as co-legislators, full co-decision powers over its adoption, including – if necessary – the right of revocation of the delegated act;
8. Reiterates that budget support should be spent in pursuit of poverty reduction, including the pursuit of the Millennium Development Goals and to principles such as partnership, aid effectiveness and policy coherence for development; expresses its support for results-based incentives but emphasises that variances of disbursement must be predictable as far as possible so as not to impact negatively on budgetary planning; reiterates that budget support should only be granted to countries meeting and upholding minimum standards of governance and respect for human rights; underlines that conditions linked to macro-economic reforms must be compatible with human and social development;
9. Underlines that sectoral budget support can constitute under certain circumstances a useful intermediary option to give the concerned governments and parliaments more ownership over aid funds while earmarking them for the MDGs;
10. Is of the opinion that, within the context of the ownership principle of the Paris Declaration, the European Parliament should always try to promote the access to basic education, basic health services and respect for human rights;
11. States that the effectiveness of development-policy measures in the partner countries must fully take into consideration local conditions and respect the EU values as stated by the Treaty including the principle of rule of law and democracy; stresses that needs must remain a crucial criterion for the allocation of EU development aid;
12. Calls on the Commission and the Member States to create a public register in which budget support agreements, procedures and development indicators are transparently listed, with a view to reinforcing the domestic democratic institutions and to ensuring mutual accountability;
13. Emphasises the crucial and compulsory role of policy coherence in the implementation of a high-impact development policy; states that budget support will only have a real and lasting positive effect if development-friendly action is pursued in other EU policy areas such as environment, energy, climate, trade, agriculture, and foreign and security policy; underlines in this context the need for EU trade policy to help creating a level playing field and to support trade capacities in developing countries considering that trade can be

one of the most effective drivers of economic growth and development; further calls for the EU foreign and security policy to focus on the promotion of democracy and human rights, peace and security, all key preconditions for sustainable development; calls on more systematic efforts to mainstream climate change adaptation and disaster risk reduction measures;

14. Calls on the Member States to comply with their commitment to gradually reach the agreed target of spending 0.7% of GDP on development cooperation.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	13.4.2011
Result of final vote	+: 54 -: 3 0: 0
Members present for the final vote	Gabriele Albertini, Dominique Baudis, Bastiaan Belder, Elmar Brok, Arnaud Danjean, Ana Gomes, Andrzej Grzyb, Anna Ibrisagic, Anneli Jäätteenmäki, Jelko Kacin, Ioannis Kasoulides, Tunne Kelam, Nicole Kiil-Nielsen, Maria Eleni Koppa, Andrey Kovatchev, Paweł Robert Kowal, Wolfgang Kreissl-Dörfler, Eduard Kukan, Krzysztof Lisek, Sabine Lösing, Ulrike Lunacek, Barry Madlener, Mario Mauro, Kyriakos Mavronikolas, Willy Meyer, Francisco José Millán Mon, Alexander Mirsky, María Muñoz De Urquiza, Norica Nicolai, Raimon Obiols, Ria Oomen-Ruijten, Justas Vincas Paleckis, Ioan Mircea Pașcu, Vincent Peillon, Hans-Gert Pöttering, Libor Rouček, José Ignacio Salafranca Sánchez-Neyra, Jacek Saryusz-Wolski, Werner Schulz, Charles Tannock, Inese Vaidere, Kristian Vigenin
Substitute(s) present for the final vote	Elena Băsescu, Véronique De Keyser, Andrew Duff, Roberto Gualtieri, Liisa Jaakonsaari, Elisabeth Jeggle, Agnès Le Brun, Barbara Lochbihler, Jacek Protasiewicz, Judith Sargentini, György Schöpflin, Ivo Vajgl
Substitute(s) under Rule 187(2) present for the final vote	Marije Cornelissen, Leonardo Domenici, Birgit Schnieber-Jastram

1.4.2011

OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on Development

on the future of EU budget support to developing countries
(2010/2300(INI))

Rapporteur: Anne E. Jensen

SUGGESTIONS

The Committee on Budgets calls on the Committee on Development, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Is surprised by the modest provision of data and figures relating to budget support in the Commission Green Paper, and wonders how the parties and interested stakeholders can contribute fully to this consultation without shared, available data relating to figures and trends in the area of budget support;
2. Is of the opinion that EU aid should generate real quality change in the partner countries and recognises budget support as an effective tool for achieving this goal, provided that, as well as implying conditionality, it is used alongside effective political and policy dialogue;
3. Considers budget support, if used correctly, to be a very important tool for development, strengthening ownership of development strategies in partner countries, enhancing governments' accountability and making aid more predictable; emphasises, however, that budget support must not be merely a financial transfer, but rather part of a package including policy dialogue, performance assessment, capacity building and other supporting interventions;
4. Recalls that clearly defined, widely supported and closely monitored indicators are essential in order to demonstrate the concrete effects of budget support in third countries, and that the relevant budgetary authorities should be updated regularly on the indicators and guidelines that shape the decision-making process in relation to budget support; emphasises that these indicators must be better tailored to the specific needs of partner

countries in order to avoid the ‘one size fits all’ approach taken by the Commission, which is potentially counterproductive;

5. Takes the view that financing decisions on budget support must be driven not only by expected benefits but also by the short-term and long-term risks incurred in both donor and partner countries; notes that the Court of Auditors, in its Special Report¹, is in full agreement with this assessment, highlighting the fact that a sound risk-management framework is still to be developed and implemented;
6. Considers the predictability of aid flows to be one of the most important factors for ensuring the quality of spending, as it enables the partner countries to undertake long-term expenditure planning and to sustain improvements in sectoral policies; advocates that such an approach be reinforced by partner countries’ fiscal policies and mobilisation of domestic revenue which, in the long term, should reduce aid dependency;
7. Considers effective mutual accountability to be a cornerstone of budget support and a prerequisite for its sustainability; considers not only that governments in both donor and partner countries should be fully accountable domestically, but also that it is equally important for governments, parliamentarians and citizens on both sides to be accountable to their respective counterparts; takes the view, in this connection, that further efforts should be made to enhance public awareness in donor and partner countries of the scope and results of budget support;
8. Emphasises that the accountability of a partner government to its citizens is a key driver in achieving development outcomes; notes that, to this day, there have been only modest improvements in domestic accountability, partly because civil society and parliaments in many countries lack capacity for advocating and monitoring policy choices as part of a transparent budget process; calls, therefore, for the introduction of systematic involvement of national parliaments and civil society in the political dialogue on poverty reduction and in annual reviews of budget support;
9. Emphasises the need to tackle fraud and corruption, considering these factors as a particularly serious threat to development targets and to the effectiveness of budget support, with the potential to undermine the legitimacy of recourse to it;
10. Is firmly convinced that a thorough analysis of the future of EU budget support to third countries must address the issue of budgetisation of the European Development Fund; is aware of the historical and institutional background to the current situation but believes that the time has come for the Council, the Member States and the ACP countries to acknowledge that this situation is detrimental to the efficiency, transparency and accountability of EU budget support; emphasises, however, that budgetisation must not entail a decrease in the overall financial envelope for development policies;
11. Points out that the EU carries more weight at international level than the sum of its individual Member States; calls on the Member States, the Commission and the European External Action Service (EEAS), in line with the practice established in other policy

¹ European Court of Auditors Special Report No 11/2010: ‘The Commission’s management of general budget support in ACP, Latin American and Asian countries’.

fields, to improve the coordination of their respective budget support to third countries in order to avoid and/or eliminate overlap, inconsistencies and incoherencies; deplores the reviews showing that, at sectoral level, weak policies, institutions and service delivery systems have prompted donors to use their own systems to implement projects, and to act bilaterally rather than in a coordinated manner, a situation which is all the more unacceptable in a context of scarce funding and which also makes it very hard for the EU to live up to its promises on making aid more predictable; maintains that a focus on specific areas offering the greatest added value should drive EU budget support throughout all phases of preparation and delivery;

12. Emphasises that the aims of improved coordination are to optimise the allocation of resources, enhance the exchange of best practices and boost the efficiency of budget support;
13. Considers that the Union should recognise and utilise the added value generated by its huge political weight and the potentially broad scope of its action, ensuring political influence proportional to the financial support given.

BUDGET SUPPORT FROM EUROPEAN DEVELOPMENT FUND

**COMMITMENTS AND PROGRAMMING
IN ACP COUNTRIES UNTIL END 2009**

Country	9th EDF (2003-2007) commitments		10th EDF (2008-2013) programming		10th EDF (2008-2013) commitments	
	GBS	SBS	GBS	SBS	GBS	SBS
Barbados		10 500 000		8 300 000		
Burkina Faso	197 000 000	2 000 000	320 000 000	75 000 000	325 620 000	50 000 000
Burundi	84 120 000		90 000 000		68 700 000	
Benin	92 580 000	97 000 000	100 000 000	75 600 000	76 900 000	25 000 000
Bahamas			4 200 000			
Botswana		51 416 000		62 000 000		60 000 000
Belize				10 000 000		
Congo (RDC)	106 000 000				22 620 000	
Central African Republic	18 530 000		34 000 000		29 210 000	
Congo (Brazzaville)	30 450 000					
Cape Verde	21 225 000		33 000 000		16 300 000	11 500 000
Dominica		10 780 000	4 600 000			
Dominican Republic	38 000 000	48 200 000	91 300 000	53 700 000		
Ethiopia	58 273 703	162 464 024	195 000 000	200 000 000		200 000 000
Falkland Islands		4 547 116				
Gabon				10 000 000		
Grenada		10 000 000		5 000 000	5 290 000	
Ghana	111 000 000	5 000 000	175 000 000	83 000 000	216 020 000	8 000 000
Gambia			22 000 000			
Guinea-Bissau	18 100 000		32 000 000		32 950 000	
Guyana	41 196 379		30 200 000	14 800 000		
Haiti	36 200 000		48 000 000	10 000 000	64 580 000	
Jamaica	32 550 000	12 250 000	60 500 000	33 000 000	41 900 000	33 000 000
Kenya	125 000 000		126 800 000	66 400 000		
Comoros		16 465 000			7 270 000	
Saint Lucia				6 900 000		
Liberia	3 500 000		20 200 000		27 000 000	

Country	9th EDF (2003-2007) commitments		10th EDF (2008-2013) programming		10th EDF (2008-2013) commitments	
	GBS	SBS	GBS	SBS	GBS	SBS
Lesotho			53 800 000		26 000 000	
Madagascar	129 500 000		170 000 000	160 000 000	90 000 000	
Mali	156 530 000	87 000 000	150 000 000	106 500 000	155 700 000	
Mauritania			38 000 000	29 000 000		
Montserrat		17 200 000				
Mauritius	28 552 531	44 357 000	43 500 000		44 990 000	16 600 000
Malawi	85 500 000		175 000 000	60 000 000	123 890 000	
Mozambique	149 922 000	92 700 000	311 000 000	181 200 000	315 110 000	30 000 000
Namibia		85 000 000		60 200 000		
New Caledonia		21 500 000				
Niger	181 000 000		150 000 000	135 000 000	93 000 000	15 000 000
Saint Pierre and Miquelon		12 810 000				
Rwanda	101 764 000		175 000 000	35 000 000	184 440 000	78 800 000
Seychelles			7 500 000		15 500 000	
Saint Helena		15 590 000				
Sierra Leone	62 000 000		90 000 000	10 000 000	64 820 000	
Senegal	53 000 000		133 000 000	25 000 000	75 000 000	
São Tomé and Príncipe				13 300 000		
Turks and Caicos Islands	14 635 000					
Chad	23 800 000					
Togo	5 000 000		32 000 000		32 500 000	
Trinidad and Tobago		27 300 000		24 300 000		
Tanzania	201 000 000	43 500 000	305 000 000	139 000 000	314 840 000	70 000 000
Uganda	92 000 000	17 500 000	175 000 000	55 000 000	175 000 000	
Saint Vincent and Grenadines				6 200 000		
Vanuatu	4 750 000		8 600 000			
Samoa				25 500 000		15 300 000
Zambia	179 000 000	93 000 000	232 000 000	136 000 000	255 000 000	35 000 000
TOTAL	2 481 678 612	988 079 139	3 636 200 000	1 914 900 000	2 900 150 000	648 200 000

GBS: general budget support (support for a country's national development strategy)

SBS sector budget support (support for a particular sector)

Source: European Court of Auditors Special Report No 11/2010.

**BUDGET SUPPORT
FROM DEVELOPMENT COOPERATION INSTRUMENT
COMMITMENTS IN ASIAN AND LATIN AMERICAN COUNTRIES
2002-2009**

Country	GBS	SBS	TOTAL
Bangladesh	0	105 000 000	105 000 000
Bolivia	0	96 500 000	96 500 000
Ecuador	0	54 600 000	54 600 000
Guatemala	0	33 800 000	33 800 000
Honduras	60 500 000	34 000 000	94 500 000
Indonesia	0	145 000 000	145 000 000
India	0	340 000 000	340 000 000
Kyrgyzstan	0	65 000 000	65 000 000
Cambodia	23 100 000	30 000 000	53 100 000
Laos	16 200 000	0	16 200 000
Nicaragua	75 500 000	92 900 000	168 400 000
Nepal	0	38 000 000	38 000 000
Peru	0	60 800 000	60 800 000
Philippines	0	59 000 000	59 000 000
Pakistan	0	109 000 000	109 000 000
Paraguay	24 000 000	54 000 000	78 000 000
El Salvador	37 000 000	37 100 000	74 100 000
Tajikistan	0	43 000 000	43 000 000
Uruguay	0	8 000 000	8 000 000
Vietnam	102 000 000	16 000 000	118 000 000
TOTAL	338 300 000	1 421 700 000	1 760 000 000
			breakdown as follows:
			2002-2006, from ALA: 810 125 000
			2007-2009, from DCI: 949 875 000

GBS: general budget support (support to a country's national development strategy)

SBS: sector budget support (support for a particular sector)

Source: European Court of Auditors Special Report No 11/2010

BUDGET SUPPORT PAYMENTS IN 2009
FROM EDF AND EU BUDGET (DCI)

million EUR

REGION	Total budget support	GBS		SBS	
		Amount	% of total BS	Amount	% of total BS
ACP as % of BS to all regions	1 009.0 61%	755.1 97%	75%	253.9 29%	25%
LATIN AMERICA as % of BS to all regions	121.8 7%	6.5 1%	5%	115.3 13%	95%
ASIA as % of BS to all regions	112.0 7%	16.0 2%	14%	96.0 11%	86%
ENPI as % of BS to all regions	415.0 25%	0.0 0%	0%	415.0 47%	100%
TOTAL as % of BS to all regions	1657.8 100%	777.6 100%	47%	880.2 100%	53%

GBS: general budget support (support for a country's national development strategy)

SBS: sector budget support (support for a particular sector)

Source: DEVCO, European Commission

**LINK BETWEEN GBS ALLOCATIONS AND THE COMMISSION'S ASSESSMENT
OF RISK OF NON-UTILISATION OF GBS DUE TO THE NON RESPECT OF THE
ELIGIBILITY CRITERIA**

		LOW RISK	MEDIUM RISK	HIGH RISK
Number of ACP countries <i>with budget support programmes</i> planned in their national indicative programme for the 10th EDF		20	14	8
Number of ACP countries <i>with no budget support programmes</i> planned in their national indicative programme for the 10th EDF		0	8	18
Budget support as % of the national indicative programme for the 10th EDF	Average	73.0 %	63.2 %	35.0 %
	Lowest	48.1 %	39.6 %	19.9 %
	Highest	89.4 %	95.3 %	84.7 %

Source: European Court of Auditors Special Report No 11/2010

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	31.3.2011
Result of final vote	+: 25 -: 3 0: 0
Members present for the final vote	Marta Andreasen, Francesca Balzani, Reimer Böge, Lajos Bokros, Giovanni Collino, Jean-Luc Dehaene, James Elles, Göran Färm, José Manuel Fernandes, Carl Haglund, Lucas Hartong, Monika Hohlmeier, Sergej Kozlik, Jan Kozłowski, Alain Lamassoure, Giovanni La Via, Vladimír Maňka, Claudio Morganti, Nadezhda Neynsky, Miguel Portas, László Surján, Angelika Werthmann, Jacek Włosowicz
Substitute(s) present for the final vote	Maria Da Graça Carvalho, Gerben-Jan Gerbrandy, Jan Olbrycht, Peter Šťastný
Substitute(s) under Rule 187(2) present for the final vote	Ivo Vajgl

31.3.2011

OPINION OF THE COMMITTEE ON BUDGETARY CONTROL

for the Committee on Development

on the future of EU budget support to developing countries
(2010/2300(INI))

Rapporteur: Bart Staes

SUGGESTIONS

The Committee on Budgetary Control calls on the Committee on Development, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Is aware that budget support is a controversially discussed instrument of development, implying opportunities and challenges; acknowledges that it respects development principles by increasing ownership and enhancing dialogue between partners and donors, and provides the advantage of low transaction costs while at the same time involving the risk of misappropriation and unwanted use of funds when public finance management by recipient countries is not sufficiently transparent, accountable and effective; stresses that budget support is not the right answer to every situation and should never be perceived as the sole option;
2. Calls on the Commission to ensure, before budget support is granted, that the aims of the intervention are part of the national programmes of the recipient country and that the principles of coordination, complementarity and coherence in relation to other donors are respected, as well as additionality to the resources allocated by the recipient country;
3. With a view to ensuring the relevance of EU budget support, calls on the Commission to streamline its programming and design process by improving the preparation and documentation of decisions to launch budget support operations and, given resource constraints in Delegations, which often limit their capacity to perform certain activities, calls on the Commission to provide sufficient qualified staff for the implementation process, as budget support requires different analytical skills from project and programme financing;

4. Calls on the Commission to formulate the objectives in a way which makes it possible to measure the effectiveness of the programmes and to hold the Commission accountable; urges the Commission to take due account of a given recipient country's priority capacity-building needs;
5. Reiterates its previous calls on the Commission to move from control over inputs to the checking of results against indicators, by improving its reporting system so that it concentrates on the effectiveness of the programmes;
6. With a view to reducing the risks in public finance management associated with budget support programmes, calls on the Commission to put in place an efficient risk management system;
7. Is concerned that the Court of Auditors ('the Court') in its Annual Report on the activities funded by the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2009 found budget support payments to be affected by a high frequency of non-quantifiable errors due to the lack of formalised and structured demonstration of compliance with payment conditions; at the same time takes note of and welcomes a substantial improvement in the demonstration of eligibility noted by the Court under the Tenth EDF owing to the clearer assessment frameworks that are now routinely used;
8. Calls on the Commission to ensure that the specific conditions for performance-based variable tranches clearly specify the indicators, targets, calculation methods and verification sources and that Delegations' reports provide a structured and formalised demonstration of public finance management progress by clearly setting the criteria against which progress is to be assessed, the progress made and the reasons why the reform programme may have not been implemented according to plan;
9. Calls on the Commission to take all necessary measures in order to combat corruption in the recipient countries, including suspension of disbursements if necessary; in this context calls on the Commission to maintain a close and regular dialogue with partner governments on corruption issues and pay sufficient attention to the capacity-building needs of particular recipient countries in terms of accountability and anti-corruption mechanisms; notes that among the 27 ACP countries that are not in a fragile situation and for which general budget support (GBS) has been planned in the country strategy papers for the Tenth EDF, 12 of them, on the basis of the 2009 Corruption Perception Index by Transparency International, are classified as having 'rampant corruption', and of the six Latin American and Asian countries with GBS programmes, five of them have the same classification;
10. Reiterates its opinion that the involvement of national parliaments, civil society and local authorities in partner countries is indispensable for achieving genuine ownership of the process, and repeats its call on the Commission to make every effort to improve dialogue with these bodies at all the different stages of the programming process;
11. In this respect, insists on the effective implementation of the requirement contained in Article 25(b) of Regulation (EC) No 1905/2006 of the European Parliament and of the

Council of 18 December 2006 establishing a financing instrument for development cooperation ('the DCI Regulation')¹, which stipulates that 'the Commission shall consistently use an approach based on results and performance indicators and shall clearly define and monitor its conditionality and support efforts of partner countries to develop parliamentary control and audit capacities and to increase transparency and public access to information', and urges the Commission to extend these provisions to include budget support to the beneficiary countries of the European Development Fund (the ACP countries), to which – so far – only the more technical criteria of Article 61(2) of the Cotonou Agreement apply.

¹ OJ L 37, 27.12.2006, p. 41.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	28.3.2011
Result of final vote	+: 15 -: 1 0: 0
Members present for the final vote	Marta Andreasen, Jean-Pierre Audy, Inés Ayala Sender, Jorgo Chatzimarkakis, Luigi de Magistris, Tamás Deutsch, Martin Ehrenhauser, Jens Geier, Gerben-Jan Gerbrandy, Ingeborg Gräßle, Ville Itälä, Cătălin Sorin Ivan, Iliana Ivanova, Elisabeth Köstinger, Monica Luisa Macovei, Bart Staes
Substitutes present for the final vote	Monika Hohlmeier, Véronique Mathieu, Derek Vaughan
Substitutes under Rule 187(2) present for the final vote	Karin Kadenbach, Evgeni Kirilov, Brian Simpson

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	25.5.2011
Result of final vote	+: 23 -: 4 0: 0
Members present for the final vote	Thijs Berman, Corina Crețu, Nirj Deva, Leonidas Donskis, Charles Goerens, Catherine Grèze, Franziska Keller, Miguel Angel Martínez Martínez, Norbert Neuser, Bill Newton Dunn, Maurice Ponga, Birgit Schnieber-Jastram, Michèle Striffler, Alf Svensson, Eleni Theocharous, Patrice Tirolien, Ivo Vajgl, Anna Záborská, Iva Zanicchi, Gabriele Zimmer
Substitute(s) present for the final vote	Kriton Arsenis, Santiago Fisas Ayxela, Isabella Lövin, Csaba Óry, Åsa Westlund
Substitute(s) under Rule 187(2) present for the final vote	Ashley Fox, Göran Färm