## Basic information

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|---|---|
| **2010/2300(INI)**<br><br>INI - Own-initiative procedure | Procedure completed |
| Future of EU budget support to developing countries<br><br>**Subject**<br><br>6.30 Development cooperation<br>6.30.02 Financial and technical cooperation and assistance<br>6.40 Relations with third countries<br>6.40.06 Relations with ACP countries, conventions and generalities<br>6.40.15 European neighbourhood policy<br>8.70 Budget of the Union<br>8.70.03 Budgetary control and discharge, implementation of the budget | |

## Key players

### European Parliament

| Committee responsible | Rapporteur | Appointed |
|---|---|---|
| DEVE Development | GOERENS Charles (ALDE) | 26/10/2010 |
| | Shadow rapporteur<br><br>GUERRERO SALOM Enrique (S&D) | |

| Committee for opinion | Rapporteur for opinion | Appointed |
|---|---|---|
| AFET Foreign Affairs | ALBERTINI Gabriele (PPE) | 22/03/2011 |
| INTA International Trade | The committee decided not to give an opinion. | |
| BUDG Budgets | JENSEN Anne E. (ALDE) | 19/01/2011 |
| CONT Budgetary Control | STAES Bart (Verts/ALE) | 01/12/2010 |

### European Commission

| Commission DG | Commissioner |
|---|---|
| Development | PIEBALGS Andris |

## Key events

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|---|---|---|---|

| Date | Event | Reference | Summary |
|---|---|---|---|
| 19/10/2010 | Non-legislative basic document published | COM(2010)0586 | Summary |
| 16/12/2010 | Committee referral announced in Parliament | | |
| 25/05/2011 | Vote in committee | | Summary |
| 31/05/2011 | Committee report tabled for plenary | A7-0206/2011 | |
| 04/07/2011 | Debate in Parliament | | |
| 05/07/2011 | Decision by Parliament | T7-0317/2011 | Summary |
| 05/07/2011 | Results of vote in Parliament | | |
| 05/07/2011 | End of procedure in Parliament | | |

## Technical information

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| **Procedure reference** | 2010/2300(INI) |
| **Procedure type** | INI - Own-initiative procedure |
| **Procedure subtype** | Initiative |
| **Legal basis** | Rules of Procedure EP 55 |
| **Stage reached in procedure** | Procedure completed |
| **Committee dossier** | DEVE/7/04394 |

## Documentation gateway

**European Parliament**

| Document type | Committee | Reference | Date | Summary |
|---|---|---|---|---|
| Committee draft report | | PE460.730 | 16/03/2011 | |
| Committee opinion | CONT | PE458.662 | 31/03/2011 | |
| Committee opinion | BUDG | PE460.617 | 01/04/2011 | |
| Amendments tabled in committee | | PE462.826 | 12/04/2011 | |
| Committee opinion | AFET | PE462.584 | 18/04/2011 | |
| Committee report tabled for plenary, single reading | | A7-0206/2011 | 31/05/2011 | |
| Text adopted by Parliament, single reading | | T7-0317/2011 | 05/07/2011 | Summary |

**European Commission**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Non-legislative basic document | COM(2010)0586 | 19/10/2010 | Summary |
| Commission response to text adopted in plenary | SP(2011)8297 | 15/11/2011 | |

**National parliaments**

| Document type | Parliament /Chamber | Reference | Date | Summary |
|---|---|---|---|---|
| Contribution | SE_PARLIAMENT | COM(2010)0586 | 31/01/2011 | |

# Future of EU budget support to developing countries

2010/2300(INI) - 05/07/2011 - Text adopted by Parliament, single reading

The European Parliament adopted by 614 votes to 20, with 19 abstentions, a resolution on the future of EU budget support to developing countries.

It welcomes the Commission's initiative through the Green Paper on budget support, which is aimed principally at promoting the development of partner countries, and calls for the **budget support eligibility criteria to be clarified** with a view to avoiding any loss of control over or misuse of this type of assistance, with due account being taken of factors such as the **corruption index ratings for the countries concerned**. Parliament 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.

Members point 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.

**Risks of European budget support**: the resolution 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. It notes that budget support can enhance not only the accountability of governments but also donor coordination through the necessary dialogue on budgetary issues. **It 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**.

However, 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. Parliament calls on the Commission to carry out national assessments of the likely risks and benefits of budget support in partner countries, stressing 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. **Optimum procedures must be established for auditing the public finances of recipient countries** as a precondition for any disbursement of funds.

**Specifying the main indicators**: Parliament 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. The budgetary authorities should be updated regularly on the indicators and guidelines that shape the decision-making process in relation to budget support. 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.

**Democratic scrutiny**: Parliament calls for budget support to be made contingent on democratic parliamentary scrutiny of the budget in recipient countries. It wants 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. Members also call 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. They insist 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 and call for the development of EU-level independent evaluation systems and a complaints mechanism open to those affected by EU aid.

**General aims of budget support**: Parliament asks 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. It 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. 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.

Parliament considers the budget support should also:

- integrate gender mainstreaming;
- encourage local project aid on reducing poverty and promoting inclusive growth and sustainable development in partner countries;
- be treated as a transitional instrument and not hamper efforts to strengthen countries' capacities to raise own resources, such as taxes, in order to become independent from third country donations.

**Predictability of budget support**: Parliament 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. They are 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. They propose 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. Budget support should be introduced gradually in developing countries, starting with a limited amount and increasing it as the partner countries build capacity. Budget support should be coordinated more effectively. Donor countries need to be willing to enter into long-term commitments with partner countries.

In addition, Members consider 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.

**Fight against corruption**: Parliament 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, it 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.

**Control and coordination**: Parliament reiterates its previous call 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. It calls on the Commission and 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. Member States are asked 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.

**Delegated acts**: since the use of budget support is an important strategic decision in the Union's relation with its partner countries, Parliament considers that 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.

# Future of EU budget support to developing countries

2010/2300(INI) - 19/10/2010 - Non-legislative basic document

PURPOSE: to put forward a Green Paper on the future of EU budget support to third countries.

BACKGROUND: the Millennium Development Goals (MDGs) set in 2000 galvanised international support for development and triggered other initiatives to increase the volume and effectiveness of aid. One of these initiatives was budget support which was the subject of a Commission communication in 2000.

Budget support has now become an increasingly prominent element of the aid effectiveness agenda. Over the period 2003-2009, the European Commission made budget support commitments totalling over EUR 13 billion (about 25% of all commitments in this period). About 56% of commitments were made in Africa, Caribbean and Pacific (ACP) countries, 24% in neighbourhood countries, 8% in Asia, 6% in Latin America and 5% in South Africa.

However, questions about the quality, value for money and impact of budget support are increasingly being raised by a range of stakeholders, including the European Court of Auditors, European and national Parliaments and civil society. This is why the Commission has published this Green Paper the purpose of which is to gather views from stakeholders in order to improve the Commission's approach on the subject. Contributions from interested parties are to be submitted by the end of December 2010 at the latest.

CONTENT: the Green Paper is divided into several parts. The following aspects are covered: i) definition of budget support; ii) experience gained and key principles for the design and implementation of budget support. The last part sets out a number of more contentious issues that form the bulk of this consultation document.

**What is EU budget support**: budget support is the transfer of financial resources of an external financing agency to the National Treasury of a partner country, following the respect by the latter of agreed conditions for payment. The financial resources thus received are part of the global resources of the partner country, and consequently used in accordance with the public financial management system of the partner country. The EU only provides budget support to countries that meet the following three eligibility criteria, derived from the legal frameworks governing EU support to each region: when there is in place or under implementation a) a well defined national (or sectoral in the case of SBS) policy and strategy; b) a stability-oriented macroeconomic framework; c) a credible and relevant programme to improve public financial management. All disbursements are conditional on continued adherence to these three standard eligibility criteria.

Through budget support, donors help partner governments finance key government functions, such as building schools and hospitals, paying for teachers and health care staff, building infrastructure, improving security and the rule of law, implementing complex reform processes and achieving macroeconomic stability.

**Evolution of EU Budget Support:** early experience with budget support in the 1990s showed the limits of conditionality as an effective means of promoting reforms; the importance of partner countries owning policies; and the limited effect of targeting funds to specific budget lines.

Regarding eligibility criteria for budget support, the Commission (along with most other providers) applies a dynamic approach by requiring **relevant, credible commitment to reform and evidence of progress rather than compliance with minimum standards**. This approach has allowed the Commission to operate in very diverse contexts, including in countries in situation of fragility, where budget support can underpin stabilisation and avoid deterioration of the economic and political situation.

A major 2006 evaluation of general budget support (GBS) in seven developing countries concluded that budget support had been a relevant response to acknowledged problems in aid effectiveness, and can be an efficient, effective and sustainable way of supporting national poverty reduction strategies. It found that GBS had positive effects on harmonisation and alignment, and on strengthening government ownership and accountability. It

also had positive effects on the efficiency of public expenditure, and on government capacity, particularly in public finance management. Budget support had also led to improvements in access to services in most countries. There was no evidence of significant crowding out of private investment or of undermining domestic revenue effort, **nor any clear evidence that budget support funds were more affected by corruption than other forms of aid**. However, the evaluation expressed reservations about impacts on poverty reduction and the quality of basic services.

**Main issues:** a number of challenges remain to improve the quality, value for money and impact of budget support. Key issues where there is less clarity or consensus on the best way forward are related to:

- political governance and the role of political dialogue;
- role of policy dialogue, role of conditionality, links to performance and results;
- domestic and mutual accountability;
- programming of budget support and its coherence with other instruments;
- strengthening risk assessment and dealing with fraud and corruption;
- budget support in situations of fragility;
- growth, fiscal policy and mobilisation of domestic revenues.

These issues are presented in detail in the communication, together with a number of questions to which stakeholders are invited to respond.

These issues will then be analysed, together with work on an agreed set of objectives and principles, in order for budget support to better contribute to:

- the realisation of the Millennium Development Goals,
- sustained growth,
- poverty reduction in developing partner countries, and
- the promotion of closer economic integration and political association elsewhere.

Building on the results of this and other work, the Commission will work to improve the approach to the design and implementation of budget support, with a view to more coordinated approaches within the EU.