Article 17
Addressees

This Directive is addressed to the Member States.

Done at ..., on ...

For the European Parliament
The President

For the Council
The President

P6_TA(2007)0043

Budget aid for developing countries

European Parliament resolution on budget aid for developing countries (2006/2079(INI))

The European Parliament,

— having regard to Article 177 and Article 180 of the EC Treaty,

— having regard to the UN Millennium Declaration of 18 September 2000, which sets out the Millennium Development Goals as objectives established jointly by the international community for the elimination of poverty,

— having regard to the Programme of Action of the United Nations International Conference on Population and Development, Cairo, 1994,

— having regard to the Communication from the Commission to the Council and the European Parliament entitled ‘Community support for economic reform programmes and structural adjustment: review and prospects’ (COM(2000)0058),

— having regard to the Guide to the Programming and Implementation of Budget Support for Third Countries produced by the EuropeAid Cooperation Office (AIDCO) and the Directorates-General for Development (DEV) and External Relations (RELEX), of April 2003,

— having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States (ACP) and the European Community signed in Cotonou on 23 June 2000 (1) (the Cotonou Partnership Agreement),

— having regard to the Joint Evaluation of General Budget Support, Synthesis Report, of May 2006, produced by the International Development Department of the University of Birmingham and associates,

— having regard to the Court of Auditors’ Special Report No 5/2001 on counterpart funds from structural adjustment support earmarked for budget aid (seventh and eighth EDFs), together with the Commission’s replies (2).


— having regard to the Court of Auditors' Special Report No 2/2005 concerning EDF budget aid to ACP countries: the Commission's management of the public finance reform aspect, together with the Commission's replies (1),

— having regard to the communication from the Commission to the Council and the European Parliament entitled ‘Cooperation with ACP countries involved in armed conflicts’ (COM(1999)0240),

— having regard to its resolution of 6 April 2006 on aid effectiveness and corruption in developing countries (2),

— having regard to the Note of the Policy Department of the Directorate-General for External Policies of the European Parliament, on the advantages and disadvantages of budget support as a modality for the delivery of aid, of June 2004,

— having regard to the OECD Development Assistance Committee (DAC) high level meeting held in Paris in March 2005,

— having regard to the Paris Declaration on Aid Effectiveness, dated 2 March, 2005,

— having regard to Performance Measurement Framework of the Public Expenditure and Financial Accountability Programme (PEFA) of June 2005,

— having regard to Rule 45 of its Rules of Procedure,

— having regard to the report of the Committee on Development and the opinion of the Committee on Budgets (A6-0005/2007),

A. whereas there are ongoing discussions on how to obtain the most effective results from development funds in order to benefit people in recipient countries,

B. whereas it must be stated that efforts over the course of several decades to improve the day-to-day living conditions of people in developing countries have failed in many parts of the world, for a variety of complex reasons and circumstances, some of which can clearly be identified as bad governance, misuse of funds and corruption,

C. whereas the need to engage in development cooperation requires continuous justification not only vis-à-vis the general public but also in the context of interaction with other stakeholders in the field of public expenditure,

D. whereas budget support is acknowledged as an essential instrument of European Community development cooperation and whereas approximately one fifth of EDF aid is in the form of untargeted budget support,

E. whereas the importance of providing predictable government-to-government support using recipient countries' own systems, as far as possible, was recognised by the DAC high level meeting held in Paris in March 2005,

F. whereas budget support allows for closer donor coordination,

G. whereas effective recipient state structures, both in terms of a functioning democracy respecting fundamental freedoms, human rights and political pluralism and in terms of budgetary processes, expenditure competency and service provision that are amenable to scrutiny, are crucial to the effectiveness of budget support,

H. whereas budget support can empower the recipient to determine its development process,

I. whereas the budget support process takes place within a framework of partnership, in terms of priority setting and assessment, through continuous donor-recipient policy dialogue,

J. whereas budget support should also encourage the strengthening of democratic processes, affording policy space to civil society, especially through involvement in the shaping of a poverty reduction and development strategy, and promoting parliamentary scrutiny of development policy and budget spending,

K. whereas budget support can be either general budget support, which covers the overall macroeconomic and budget framework, or sectoral budget support,

L. whereas the key considerations in deciding the allocation of budget support funding are: the ‘external financing gap’, the degree of poverty, good governance, past performance, development commitment and a realistic assessment of possible results, in terms of poverty reduction, growth and institutional reform,

M. whereas funds provided as general budget support are fully fungible, as transfers are made directly into the treasury account of a country, which effectively means that control over, ownership of and accountability with regard to the utilisation of those funds rests with the recipient,

N. whereas Articles 61(2) and 67 of the Cotonou Partnership Agreement clearly determine the conditions governing the eligibility of a recipient country for budget support, expressly stating the need for standards regarding public expenditure management, macroeconomic and sectoral policies and public procurement and, furthermore, requiring the donor and recipient to ensure that adjustment is economically viable and socially and politically workable,

O. whereas a functioning parliamentary democracy respecting fundamental freedoms and human rights, including political pluralism, and an effective public financial management system are prerequisites for budget support, and should be assessed in terms of the extent to which the recipient country is characterised by good governance, scrutiny by a democratically elected parliament, the rule of law, government accountability, competence, well-defined macroeconomic, developmental and sectoral policies and the degree of openness and transparency of its public procurement,

P. whereas risk should be measured in terms of the ability of the state bodies concerned to administer and implement funds, good governance, commitment to development principles, the incidence of corruption, democracy and human rights,

Q. whereas effective public financial management and budgetary systems aimed at creating a stable macroeconomic climate are essential preconditions for development,

R. whereas a number of budget support partner countries, especially in the ACP states, have extremely poor public financial management systems,

S. whereas the donor-recipient partnership needs to ensure an effective joint analysis of the results of development policy implementation and reforms which are crucial to the assessment of the viability of budget support,

1. Calls on the Commission and the Member States to use budget support only if the net benefits of such a mechanism can be demonstrated in the light of clearly objectifiable criteria, and only after a full assessment of the risks involved;

2. Stresses that budget support as an aid modality can be successful only if both partners fully assume their responsibilities in a true spirit of partnership and ownership;
3. Calls for budget support to focus, as far as possible, on poverty reduction development priorities, for those priorities to be given a central role in the donor-recipient policy dialogue and for parliamentary scrutiny to be ensured in respect of both the donor and the recipient;

4. Stresses the importance of capacity-building by recipient governments, which have to assume a stronger leadership role in development assistance coordination;

5. Stresses the importance of creating a culture of accountability which fully involves parliaments and the supreme audit institutions; recognises that budget support must go hand in hand with the strengthening of civil society;

6. Regards the equitable application of clear, explicit and realistic conditions, agreed upon by all parties and attached to the budget support programme, as essential to the instrument in question and necessary in order to counteract unpredictable volatility in the granting of aid;

7. Commends the eligibility criteria for the use of budget support with ACP states, as enshrined in Articles 61(2) and 67 of the Cotonou Partnership Agreement;

8. Is concerned about the decision to use budget support in Malawi, where there were considerable known risks, and Kenya, in regard to which all Member States have suspended budget support, thus calling into question the Commission's ability to use this instrument effectively;

9. Is concerned by the findings of the Court of Auditors that, in some cases, the Commission's reasons for granting budget support to countries with poor public financial management systems were insufficient, and that Articles 61(2) and 67 of the Cotonou Partnership Agreement were often given a broad and subjective interpretation;

10. Is alarmed that the Court of Auditors has found inadequacies in the Commission's overall coherence of the budget support instrument and in the controls and monitoring and support for the recipient countries' own budgetary scrutiny mechanisms, namely the parliaments and supreme audit institutions of the countries concerned, and that technical assistance is being underused; all of these elements being indispensable to the instrument;

11. Recognises that there can only be one macroeconomic reform programme in any given country, which is usually directed by the international financial institutions, but in relation to which the Commission and Member States should seek to play an active role in an effort to influence policy;

12. Recalls that macroeconomic reforms can have a sustainable effect only when they fully embrace the objectives of human and social development;

13. Believes that sectoral budget support or sector-wide approaches should be considered as privileged instruments for intervention in the health and education sectors;

14. Reaffirms that 20% of total annual commitments should be allocated to activities in the sectors of basic and secondary education and basic health (including sexual and reproductive health);

15. Calls on the Commission to adopt and apply the new international performance measurement framework in order to assess a country's public financial management, as established by PEFA;

16. Calls on the Commission to react coherently and even-handedly when countries cease to respect the principles of democracy and human rights;

17. Calls on the Commission to assess the prevalence and risks posed by corruption, in line with Articles 9(3) and 97 of the Cotonou Partnership Agreement;
18. Calls upon the Commission to seek coherence in policy and decision-making within donor budget support partnerships and demands that donor funds be administered effectively so as to eliminate the possibility of unpredictable volatility in the granting of aid, and considers that the Commission is best placed to facilitate EU donor coordination;

19. Considers it crucial that the disbursement of funds and the evaluation process be aligned with the recipients' own development strategy, budget and evaluation processes;

20. Calls on the Commission to maintain its strong focus on equity and poverty reduction, concentrating on the most marginalised and poor amongst society;

21. Commends the use of variable tranches, which offer results-based incentives, but notes that any variance of disbursement should be predictable, as far as possible, so as not to impact negatively on budgetary planning;

22. Is concerned about the difficulty inherent in assessing the achievement of performance indicators and especially poverty impact results, and calls on the Commission to support capacity development in statistics, data collection, quality assessment and analysis;

23. Calls on the Commission to verify at regular intervals, in collaboration with all stakeholders, that the economic policies of the recipient countries are in accordance with the objectives and principles of the development assistance and that its conditions are being fulfilled;

24. Calls on the Commission, Member States and the beneficiary countries to provide regular information to the general public in this sector, in order to make the impact of budget aid visible to the European taxpayer and to raise awareness of the need for development cooperation in general and the effects of budget support in particular, to counter general allegations of misuse of funds and to provide information on the basic requirements for the use of budget support and also on the cases where such support has proven ineffective; urges the Commission to improve the visibility of the EU in development aid and to document and demonstrate the progress made by beneficiary third countries in administering budget aid independently;

25. Calls on the Commission to assess at regular intervals the effectiveness of budget aid in combating poverty from the point of view of cost-effectiveness, and to show progress made by the third-country beneficiaries in independently administering the budget aid; in doing so, it should distinguish between general and sector-specific budget aid, so as to achieve greater clarity with regard to the effectiveness of the various aid instruments in reducing poverty; the administrative costs of budget and project aid must also be evaluated; the aim should be to be in a position to give a reasoned account of when each instrument should be used;

26. Calls on the Commission to tackle the shortcomings in control and supervision by introducing an external control for budget aid (for example via the Court of Auditors); the Commission should be encouraged to take the initiative of setting up a joint supervisory institution together with the other large financial donors;

27. Insists that, in order to support the beneficiary’s own budgetary control mechanisms, the parliament of any given beneficiary country should participate in adopting the budget, and the budget law should be published; insists further that budget aid should be evaluated annually by the parliament in terms of the progress achieved;

28. Calls on the Commission to state how budget aid can be limited in time; notes that the ultimate aim of budget support must be to build up the self-sufficiency of the beneficiary country, so the Commission should state over what (reasonable) timescale this can be achieved;

29. Instructs its President to forward this resolution to the Council and the Commission.