

# Fast forward

## How the European Commission can take the lead in providing high-quality budget support for education and health

Developing-country governments desperately need more long-term and predictable aid, given through their budgets, to finance the expansion of health care, education, and other vital social services. The European Commission (EC) is one of the biggest donors providing this kind of essential budget support, and has innovative plans to further improve and increase this aid. European Union (EU) member states must support these ambitious plans. The EC in turn must do more to improve on this good start, delinking this aid from harmful International Monetary Fund (IMF) prescriptions, putting an end to unnecessary bureaucratic delays, and doing more to make its aid accountable to citizens in poor countries.

## Executive summary

Around the world, access to basic health care and education is a distant dream for millions of people, mostly women. Every day, 72 million children, mostly girls, do not go to school. Every minute a woman dies during pregnancy or in childbirth. Every three seconds a child dies, mainly due to diseases that could easily be prevented with access to a doctor.<sup>1</sup> This lack of access to basic services causes needless suffering for millions and perpetuates the cycle of poverty.

Access to basic health care and education are human rights, and governments are responsible for delivering on these rights. Over the past decade, many developing-country governments have made extraordinary efforts to do so: countries such as Tanzania, Uganda, and Malawi, for example, have made education free, allowing millions of children to go to school. However, many governments simply lack the resources to achieve these aims on their own. External aid is still needed to fill the gaps in their budgets for health and education.

Unfortunately, many rich countries not only fail to provide the level of aid that they have repeatedly promised to give, but they also fail to provide the right kind of aid. Developing-country governments need long-term and predictable support that becomes part of their annual budget: this is known as budget support. This they can use to finance their own plans to increase access to public services.

One key factor that deprives people of their right to health and education is the chronic shortage of health workers and teachers in the world. An estimated two million teachers and more than four million health workers are needed to reach the Millennium Development Goals (MDGs) on health and education.<sup>2</sup> The few workers that are there are often grossly underpaid and work in appalling conditions. Adequate levels of budget support would help poor countries to recruit and train the teachers and health workers needed. However, only a small amount of global aid is provided in this way. In 2006, just five per cent of net aid worldwide came in the form of general budget support.<sup>3</sup>

Budget support needs to be long-term and predictable, and tied to clear outcomes on health, education, gender equality, and other targets contained in the MDGs. It needs to be based on plans that are designed by developing-country governments themselves, in consultation with civil society, and agreed by parliaments. It should only be given to countries that are tackling corruption and which can ensure that the money is clearly accounted for.

The European Commission (EC) is the world's largest multilateral provider of aid and is among its biggest providers of budget support. This paper shows that the Commission's budget support goes a long way towards delivering the kind of aid that is needed, but that there is still room for improvement. This analysis draws on extensive research into EC budget support commissioned by Oxfam and carried out by Europe External Policy Advisors (EEPA), as well as a detailed review of 11 general budget support agreements by Oxfam and the European Network on Debt and Development (Eurodad).<sup>4</sup>

The first positive finding is the EC's increasing use of budget support and its strong commitment to it. In the past few years, on average one-fifth of the Commission's aid has been delivered in the form of budget support, and this is likely to increase in the coming years.

The second positive feature is that the Commission links its budget support to developing-country governments achieving positive results in health and education. Oxfam's research shows that over half of the performance indicators tied to the Commission's general budget support agreements call for direct improvements in poor people's health and education, in particular for girls and women, who often carry the heaviest burden of poverty.

Oxfam's research also suggests that this aid does help to make a change in poor people's lives. Government spending on education has increased by nearly a third (31 per cent) in eight of the countries that receive some of the largest amounts of the Commission's general budget support. In all but one country (Rwanda), this has resulted in an increase in the number of children enrolled in primary school. In Madagascar, the proportion of children enrolled in primary school increased from 69 per cent in the period 2001 to 2002, to 92 per cent in 2005. Of course the Commission is not exclusively responsible for these positive results, but the evidence does show that where it is giving large amounts of budget support, headway is being made in reducing poverty.

By tying budget support to outcomes in health and education, the Commission stands in contrast with some of the other providers of budget support, such as the World Bank, which include many economic policy conditions in their aid packages. Oxfam believes aid should not be tied to potentially harmful economic policy conditions, such as privatisation of companies and services or trade liberalisation. These conditions, frequently applied by the World Bank and the International Monetary Fund (IMF), reduce policy space and often do more harm than good. In Mali, for example, the World Bank and IMF tied their aid to conditions calling for liberalisation of the cotton sector despite World Bank research indicating that this could actually increase poverty by 4.6 per cent.<sup>5</sup>

The third advantage of the EC's budget support is that it is fairly long-term. At present, it is usually provided for a period of three years. Furthermore, the Commission is working on a proposal for 'MDG contracts' which it aims to introduce in spring this year. It is likely that up to ten African countries will get these contracts, which will deliver general budget support for a period of six years, with just one mid-term assessment. This ambitious proposal could be a major step forward in terms of increasing long-term predictability of aid.

But while there are several positive aspects to the EC's budget support, it is still far from perfect. First, it is not fully free from harmful conditions. It is particularly problematic that – like most other providers of aid – the Commission generally only gives budget support if countries have an IMF programme in place. Such programmes can limit a government's ability to invest in development by setting unnecessarily stringent targets on inflation and budget deficits.

Second, even though the Commission is doing well in providing long-term budget support it needs to improve on the short term predictability of its aid.

Its own burdensome bureaucratic procedures cause as many as 29 per cent of delays in disbursements.

Third, the Commission's budget support suffers from a severe lack of transparency and genuine ownership by poor countries. It is not common practice for aid agreements to be publicly available, in Niger, for example, the EC refused to disclose its budget support agreement to local CSOs. The Commission also fails to consistently include CSOs and parliamentarians in its dialogue with developing country governments. It is now widely recognised that, in order for development to be effective, it must be fully owned by developing-country governments and their citizens.

In Accra in September 2008, donors and developing-country governments will review the Paris Declaration on Aid Effectiveness: a set of principles and targets that aim to increase the quality of aid, which were agreed in Paris in 2005. The need for enhanced levels of budget support and other government-based approaches lies at the heart of the Paris Declaration. The challenge for the Commission is to set an example of high-quality budget support, both in Accra and beyond.

The challenges for the EC are to:

- Continue to increase spending on budget support, including significantly stepping up sector budget support for health and education, in particular to African countries;
- Continue to tie budget support to gender-specific social sector outcomes, while also adding outcomes that promote women's civil rights;
- Continue to tie its general budget support agreements to targeted increases in spending on health and education. These targets should reflect an ambition to reach the Abuja Declaration target of spending 15 per cent of a national budget on health and the Global Campaign for Education target to spend 20 per cent of a budget on education;
- Continue to tie its budget support to improvements in developing-country government's financial accountability and transparency;
- Delink its aid from the approval of the IMF and at the same time put pressure on the Fund, together with the other major budget support donors, to include in its advice more flexible fiscal targets and more ambitious spending scenarios. In countries that have achieved macroeconomic stability, the Commission should work with other donors to see a rapid exit from the country by the IMF;
- Reduce unnecessary delays caused by the Commission's cumbersome bureaucratic procedures to no more than five per cent of the total delays by 2010;
- Make its budget support more predictable by implementing MDG contracts and expanding the principles of these contracts to more countries and to sector budget support;

- Ensure the involvement of civil society, members of parliament, and line ministries in all steps of the budget support dialogue, including the design, monitoring, and review of the programme;
- Adopt a policy of automatic disclosure of relevant information, with a strictly limited regime of exceptions;
- Strengthen the capacity of local government bodies, parliaments, and civil-society organisations (CSOs) to engage in national policy development and budget processes.

European Union member states must:

- Support the plans of the EC to implement its proposed MDG contracts, including by providing financial support;
- Increase the amount of bilateral aid they provide as budget support and agree on a collective EU target for increasing the percentage of aid they provide as budget support by 2015 to those governments that are committed to poverty reduction and have good systems for domestic accountability;
- Use their collective voice on the board of the IMF to push for the institution to leave countries that are stable at the macroeconomic level, and in remaining countries to press for more flexible fiscal frameworks;
- Use their collective voice on the board of the World Bank to push for it to adopt similar processes to the Commission's best practice.

Developing-country governments should:

- Increase expenditures on health to 15 per cent of the national budget (as recommended by the Abuja Declaration) and expenditures on education to 20 per cent of the national budget (as called for by the Global Campaign for Education);
- Ensure genuine participation of local government bodies, parliamentarians, and CSOs in the development of national poverty reduction policies and enable parliament and civil society to monitor and influence the national budget process and government spending;
- Tackle corruption and ensure full transparency and accountability for government expenditure.

# 1 High-quality aid

With millions of people lacking access to basic health and education, and with many developing countries still reliant on external aid to finance public services, there is an urgent need to scale up quality aid to developing-country governments. Sadly, the kind of aid that is provided today does not sufficiently fit the needs of these governments.

## The current aid system

Today's aid system is extremely fragmented. Developing-country governments have to deal with hundreds of aid providers, including rich country governments, multilateral institutions such as the World Bank, the International Monetary Fund (IMF), or the European Commission (EC), as well as private and global funds. This scattered system is highly inefficient and comes with great costs attached. For example, the government of Mozambique has 1,000 different bank accounts for receiving foreign aid, while every single week the Tanzanian government receives 19 donor missions and every quarter it writes 2400 donor reports.<sup>6</sup>

Moreover, most aid is used to fund short-term projects, often designed by donors rather than to finance plans developed by developing-country governments themselves. Project aid is short-term by nature, it is outside the government's discretion, and often it cannot be used to finance recurrent costs such as salaries for teachers and health workers.

Furthermore, too much aid is still being spent on expensive foreign consultants. As much as 70 per cent of aid for education is spent on technical assistance.<sup>7</sup> Some of this is clearly necessary and useful, but in some countries 100 days of consultancy bills cost the same as employing 100 teachers for a year or keeping 5,000 children in school.<sup>8</sup> A study of technical assistance in Mozambique found that rich countries were spending \$350m a year on 3,500 technical consultants, while 100,000 Mozambican public sector workers were paid a total of \$74m.<sup>9</sup>

Finally, many donors provide aid only on the condition that developing-country governments execute specific economic policy actions, including for example privatisation of public services and liberalisation measures. Such conditions, frequently imposed by the World Bank and the IMF, can undermine ownership as they leave no room for developing-country governments to design their own

economic policies. They can unnecessarily delay aid flows and sometimes they do more harm than good, actually increasing poverty. In Mali, for example, aid from the World Bank and the IMF was tied to cotton sector reforms, which according to the World Bank itself could actually increase poverty by 4.6 per cent.<sup>10</sup>

## The kind of aid that is needed instead

Oxfam believes that, instead of this, poor countries need more long-term and predictable aid, which is provided for at least three years and which becomes part of their governments' budgets. This budget support should be aligned with national plans to increase access to basic services, developed in close consultation with civil society. Furthermore, it should be delinked from economic policy conditions and instead be tied to outcomes related to poverty reduction that do not undermine ownership as they provide space for developing-country governments to design their own policies.<sup>11</sup>

As well as being tied to poverty reduction outcomes, budget support should also only be given to those countries that have good financial management, with plans to improve it further and to increase their own accountability to their citizens. It should of course not be given to corrupt governments that are blatantly mis-managing public resources. Fortunately, the number of countries that have such governments is decreasing, and many more have clear plans in place and a proven track record on expanding social services for all.

### **Box 1: What is budget support?**

Budget support is aid disbursed to the national treasury of the recipient-country government. It becomes part of the budget and it is used in accordance with the country's budgetary processes.

This kind of aid can be provided to support a national development strategy, in which case it is called general budget support. If it is linked to a specific sector programme, for example health or education, it is called sector budget support.

In this paper, the term 'budget support' refers to both sector and general budget support.

## The positive impact of budget support

There is strong evidence that general budget support is helping developing-country governments to increase their citizens' access to health care and education. The World Bank has calculated that countries that have received debt relief – which essentially is a form of general budget support as it frees up money in the national budget – increased investments in poverty reduction from \$6bn in 2000 to

\$17bn in 2006.<sup>12</sup> Largely thanks to debt relief, countries such as Benin, Burkina Faso, Madagascar, Malawi, Mozambique, Tanzania, Uganda, and Zambia have all been able to recruit and train more doctors and teachers to help provide health care and education for their citizens.<sup>13</sup>

A 2005 independent review of general budget support in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Viet Nam, commissioned by the OECD, reveals that recipient countries have stepped up pro-poor spending and have scaled up social service delivery.<sup>14</sup>

Furthermore, a recent evaluation of the impact of general budget support, published by the UK auditing office in February 2008, demonstrates that, as a result of general budget support, in Rwanda, India, Zambia, and Ethiopia many more children go to school and many people have gained access to health. The study notes that in Rwanda, for example, budget support has helped the government to increase vital recurrent expenditures in health, supporting recruitment, training, and salary costs of health workers.<sup>15</sup> In addition, it highlights the fact that defence spending in Rwanda fell between 2003 and 2007, demonstrating that budget support does not necessarily lend itself to abuse.

By assisting developing-country governments to expand basic services, general budget support contributes to improving the lives of women and girls – the people often most affected by poverty. They are the ones who benefit most from universal free service provision, and pay the highest price when services are not available. The burden of disease and of caring for the sick falls disproportionately on women and girls. Girls can be pulled out of school in order to look after a sick relative or to save money to pay for treatment. When provision is patchy, selective, or inequitable, it is always women and girls who miss out most on education, treatment, and care.

There are also ways to further strengthen the potentially positive link between general budget support and gender equality (see Box 2).



### **Box 2: Policies to promote gender-sensitive general budget support**

By helping developing-country governments to build public services, general budget support contributes to gender equality. To strengthen the potentially positive impact of general budget support on gender equality, donors can take a number of measures:

- Link aid disbursements to gender-sensitive indicators: indicators related to social rights such as, for instance, the proportion of girls going to school or the number of deliveries attended by a trained midwife, and indicators related to civil rights including, for example, reduced levels of violence against women.
- Use the dialogue with recipient country governments to ensure that national poverty reduction strategies (PRS) and national budgets are gender-sensitive.
- Support the capacity of civil-society organisations (CSOs) working on gender equality to engage in national policy and budget processes.

Sources: Oxfam GB (2008) 'Gender Equality and Budget Support: Opportunities, Critical Issues and Safeguards', unpublished draft; European Commission (2007) 'Gender Equality and Women's Empowerment in Development Co-operation – Conclusions of the Council and of the Representatives of the Governments of the Member States meeting within the Council'.

## **Risks**

There is a widespread fear that giving aid to developing-country governments is a risky business, and that precious aid money could be mis-managed by corrupt governments.

However, no method of providing aid is without risk. A joint review of general budget support in seven countries, for example, found that project aid is no less prone to corruption than general budget support.<sup>16</sup>

The rationale in providing aid, despite the risks, is that the returns in terms of poverty reduction are very high. Choosing to completely avoid this risk would mean not giving any aid, which is not an option.

Finally steps can be taken to minimise risk. Not *all* countries are well placed to receive general budget support. Oxfam believes that it should only be given to governments that can demonstrate a strong commitment to fighting poverty, in particular to increasing access to health care and education for all and to promoting gender equality. It is equally important that governments have reasonable financial systems to account for the use of resources and that they have plans

in place to continually improve these systems, and in particular to enhance accountability towards their citizens.

In countries where the overall government environment is more risky, but where a particular ministry is functioning well, it may be more advisable to give sector budget support rather than general budget support.

## The challenge for the EC

In 2005, donors and developing-country governments signed the Paris Declaration on Aid Effectiveness, which has at its heart the need to provide more aid through government systems. At a High Level Meeting in Accra in September 2008, the implementation of the Paris Declaration will be reviewed. Being the biggest multilateral donor in the world and a strong proponent of budget support, the EC has a key role to play in the run-up to Accra.

The Commission's added value in the area of budget support is clearly recognised by other providers of aid. A peer review of EC aid, for instance, says that the Commission should be 'commended for embracing what is a difficult but potentially high impact instrument.'<sup>17</sup>

The Commission's budget support goes some way towards the kind of aid that is needed, but it is by no means perfect. If the EC is to lay down a challenge to other donors, both in the run-up to Accra and beyond, it will need to implement a number of key changes.

## 2 Making Progress

The core objective of the Commission's general budget support is to help a country implement its national policy and strategy, usually a Poverty Reduction Strategy (PRS). By providing external finance, the EC aims to contribute to filling the gaps in national budgets and to help countries maintain macroeconomic stability, while at the same time providing an incentive to improve public service delivery and public financial management (PFM).

Sector budget support embodies different kinds of objectives, as it is linked to a specific sector programme, which could be for infrastructure, health care, education or other sectors. While the main objective is to strengthen that sector, it is also quite common for sector budget support to be directed at improving PFM.

The Commission gives budget support only to countries that meet its three entry conditions:

1. Having a well-defined poverty reduction strategy, or in the case of sector budget support, a sector strategy;
2. Having a proven commitment to strengthening and improving the quality of PFM;
3. Aiming for macroeconomic stability.

Finally, a distinguishing feature of the EC's budget support is that in general the main share (called the 'fixed tranche') is disbursed on the condition that a country meets the entry conditions, while the remainder (called the 'variable tranche') is given to the extent that the country performs well on specific performance indicators.

### High levels of budget support

The European Commission is a strong proponent of budget support and it is giving a large and growing share of its aid through this channel. The European Consensus, a key document agreed in 2005 that lays out the development vision of the Commission and the EU member states, declares, for example, that general and sector budget support are 'the preferred aid modality where conditions allow' and that their use 'should increase as a means to strengthen ownership, support partners' national accountability and procedures, to finance PRS and to promote sound and transparent management of public finances'.<sup>18</sup>

The Commission's preference for budget support is reflected in its spending. Between 2002 and 2005, the EC committed a total of €4.9bn to budget support, or 18.6 per cent of all aid committed. Of this total,

€3bn was for general budget support and €1.9bn for sector budget support.<sup>19</sup>

While the share of general budget support in the EC's aid has remained quite stable over the past couple of years – at around ten per cent of total aid – the share of sector budget support has increased steadily, from an average of six per cent in the period 2000 to 2001, to an average of over 11 per cent in the period 2005 to 2006.<sup>20</sup>

**Table 1: Top ten recipients of EC general budget support**

	2002–07*		2008–13**	
	€ millions	% of total EC aid	€ millions	% of total EC aid
Mozambique	311.4	52%	229.1	48%
Burkina Faso	275.5	60%	253.8	60%
Tanzania	192.5	46%	244	55%
Niger	184.9	51%	90	25%
Madagascar	180	35%	139	30%
Zambia	179	48%	185.5	49%
Mali	122.5	29%	119.4	30%
Kenya	115	40%	107	35%
Ghana	102.2	32%	128	45%
Rwanda	101.8	47%	110	49%

\*Based on indicative allocations after end-of-term review, see EEPA (2008).

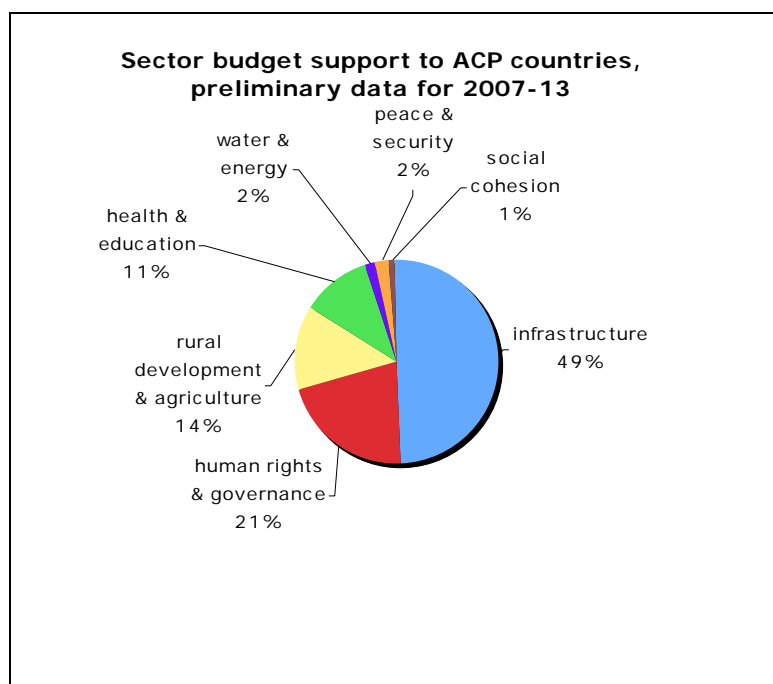
\*\*Based on preliminary data provided by Eurostep, excluding incentive tranche.

### Unbalanced spending

At present, the Commission focuses its general budget support on African, Caribbean, and Pacific (ACP) countries. These countries received over 80 per cent of all general budget support given by the Commission between 2000 and 2005.<sup>21</sup> Sector budget support, on the other hand, is more concentrated in other regions.<sup>22</sup> ACP countries get a small – though steadily increasing – amount of sector budget support, which amounted to more than ten per cent of overall EC aid to ACP countries in 2006. Unlike other regions to which the EC provides aid, in ACP countries most sector budget support goes towards infrastructure (see Figure 1).

It is clearly positive that the Commission is a big spender on budget support and that it is planning to further increase its spending. However, it could further increase this strength by working towards a better balance in its spending on general and sector budget support across the different regions. In particular, there is room to significantly step up spending on social sector budget support in ACP countries, as well as both sector and general budget support in other regions.

**Figure 1**



Source: [www.acp-programming.eu/wcm/dmdocuments/10\\_edf\\_focal-sectors.pdf](http://www.acp-programming.eu/wcm/dmdocuments/10_edf_focal-sectors.pdf); graph by Oxfam

## Focus on health and education outcomes

An important feature of the Commission's budget support is that it is linked to developing countries achieving improvements in health care and education.

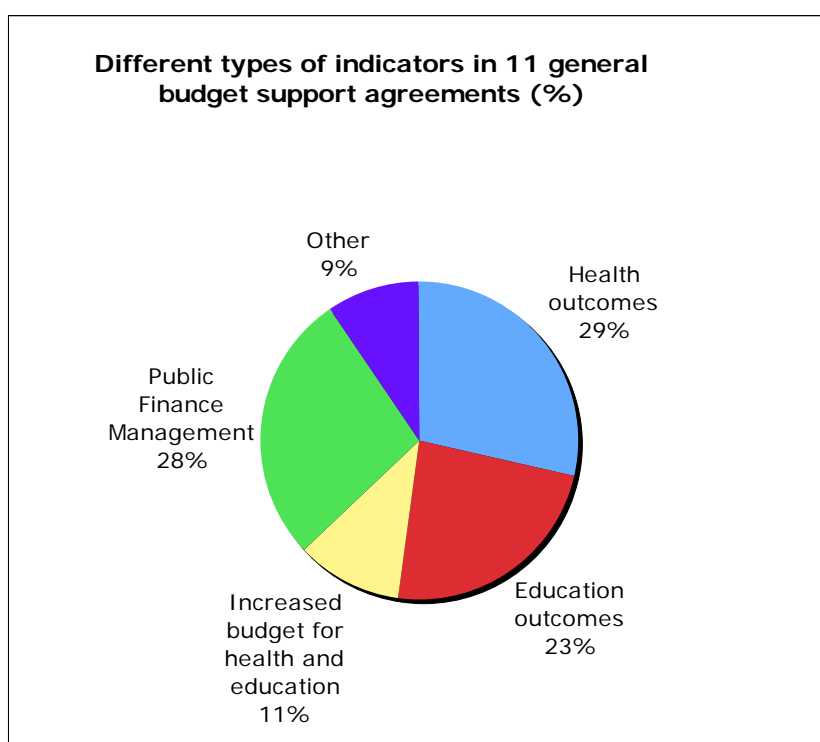
Growing international criticism of economic policy conditions has been a key reason why the EC has moved more towards tying its aid to outcomes in health and education. As a 2005 report by the Commission on its budget support stated: 'A modicum of humility is in order in view of the varied track record of donor policy prescriptions in the past.'<sup>23</sup>

Another key reason why the EC prefers to tie budget support to specific health and education outcomes is that economic policy conditions undermine ownership, as is clear from the Commission's review of its own budget support: 'Instead of donors telling Governments what they must do, using outcome indicators allows the Commission to agree with Government what results are expected, and leave Government the political space to decide how to reach them.'<sup>24</sup>

## Over half of performance indicators cover health and education

A review by Oxfam and the European Network for Debt and Development (Eurodad) of EC performance indicators in 11 general budget support agreements found that all include calls for improvement in health care and education. On average, each agreement contains nine criteria aimed at improving health and education services.<sup>25</sup>

Figure 2



Source: Oxfam/Eurodad (2008, forthcoming) 'Review of Eleven European Commission General Budget Support Agreements'.

Health indicators, such as for example increased vaccination rates, make up 29 per cent of the total number of performance conditions attached in the countries reviewed. Increasing the number of girls and boys who go to school and other education outcomes make up a further 23 per cent of all indicators assessed.

Many of these health and education indicators (40 per cent) are gender-specific. For example, they call for an increase in the number of girls who go to primary school, or an increase in the number of women who give birth with a skilled health worker present. What is still missing, however, is the inclusion of other gender-sensitive

indicators, for example in areas such as civil rights, even though the Commission has acknowledged the need to develop these indicators.<sup>26</sup>

Finally, a further 11 per cent of EC performance indicators call for developing-country governments to directly increase the amount they spend on health care and education as part of their government budgets.

### **Other performance indicators**

Besides linking general budget support to performance in health and education, the Commission also ties it to improving management of public finance. In the countries reviewed, 28 per cent of the indicators are PFM indicators.

In general, such process conditions can be considered important and relevant, in particular if they aim to improve the national budget process and to enhance the role of Parliament and civil society in this process. However, sometimes PFM indicators can be harmful. An example is the requirement to improve procurement, which is not by definition a harmful condition but can be so if it is translated into a requirement to open up procurement to foreign firms, as is recommended by the OECD.<sup>27</sup> It is essential that the EC avoids such conditions.

Finally, the Commission sometimes links budget support to indicators other than health care, education, and PFM. About nine per cent of all performance conditions are linked to, for instance, roads, agriculture, and private sector development.<sup>28</sup> In Ethiopia, the EC required the introduction of a competition law, application for accession to the World Trade Organisation, and revision of urban land lease laws.<sup>29</sup>

Overall, however, the EC refrains from imposing specific economic policy actions. In this respect, it distinguishes itself from other donors such as, for example, the World Bank. Research by Eurodad based on 32 agreements in 16 different countries shows that a quarter of the World Bank's conditions consist of specific and sensitive economic policy conditions, such as privatisation and liberalisation.<sup>30</sup> By moving away from specific economic policy conditions, and instead often focusing on gender-specific outcomes in health care and education, the Commission sets a positive example to other providers of budget support.

### **Positive impact**

Research by Oxfam shows that the countries receiving the most budget support are significantly scaling up spending on health care

and education and increasing access to basic social services. Government spending on primary education has increased by nearly a third (31 per cent) in eight of the countries that receive some of the largest amounts of EC budget support: Ghana, Kenya, Madagascar, Mali, Mozambique, Niger, Rwanda, and Zambia (see Table 2). In Mozambique, for example, the government more than doubled its public expenditure on education, increasing it by 56 per cent (as a percentage of GDP), between 1999 and 2004.

**Table 2: Primary education: increased expenditures and increased enrolment in countries receiving EC general budget support**

Leading recipients of EC general budget support 2002–05*	Total public expenditure on education as % of GDP (UNESCO 2008)		Net primary enrolment rate % (UNDP 2007/08)	
	1999	2005	2001–02	2005
Ghana	4.2	5.5	60	65
Kenya	5.4	6.8	70	79
Madagascar	2.5	3.2	69	92
Mali	3	4.5	38	51
Mozambique	2.5	3.9	60	77
Niger	2.1	2.3	34	40
Rwanda	2.8	3.9	84	74
Zambia	2	2.2	66	89

\* No comparable data are available for Tanzania and Burkina Faso, which are also among the top ten recipients of EC budget support.

Sources: UNESCO (2008) 'Education For All Global Monitoring Report 2008: Education For All by 2015, Will We Make It?', (see regional overview: Sub-Saharan Africa); UNDP (2004) 'Human Development Report 2004: Cultural Liberty in Today's Diverse World'; UNDP (2007/08) 'Human Development Report 2007/2008, Fighting Climate Change: Human Solidarity in a Divided World'.

In terms of delivering improved education outcomes, all but one country (Rwanda) saw increases in the number of children enrolled in primary school. In Madagascar the proportion of children enrolled increased from 69 per cent in the period 2001 to 2002, to 92 per cent in 2005.

There is an equally positive story concerning health care. Of the top ten recipients of EC budget support, seven increased their public health expenditure on average by 46 per cent between 2001 and 2004. In all seven of these countries there has been an increase in life expectancy. In five of them there has also been a fall in maternal mortality rates. In Kenya, for example, the maternal mortality rate



nearly halved between 2000 and 2005, from 1,000 to 560 per 100,000 live births.

Of course, EC budget support is not exclusively responsible for these results, but it does show that where the Commission is giving large amounts of budget support, headway is being made in reducing poverty.

## Long-term

A key feature of EC budget support is that it is fairly long-term. Providing basic health care and education for all requires long-term funding, upon which developing-country governments can depend when financing multi-year plans.

EC budget support is usually granted for a period of three years, with annual reviews. In this regard, it is similar to what other multilateral donors do. Furthermore, the EC is working on a proposal that could significantly increase the long-term predictability of its general budget support in ACP countries: MDG contracts. It is likely that the final details of this proposal will be agreed upon in the spring of 2008.

Essentially, once in place MDG contracts could further increase predictability by providing general budget support for six years instead of three, including one mid-term review rather than annual assessments, and by enlarging the share of funds that is virtually guaranteed from the overall average of 65 per cent to 80 per cent (see Box 3).

### **Box 3: Key features of MDG contracts**

According to the most recent proposal, as of 21 February 2008, the likely features of MDG contracts will be:

- Funds will be committed for six years, instead of the usual three years.
- 80 per cent of the funds will be disbursed on the condition that there is no breach in the eligibility criteria; the remainder will be given to the extent that the country meets performance criteria.
- Annual payments for the first three years will be fixed; annual payments for the next three-year period will be set after a mid-term review of performance with respect to MDG-related indicators.
- There will be annual monitoring of performance; under-performance will not immediately lead to cuts in funding (as is currently the case) but rather to a reinforced dialogue.
- If the country is not performing well on the eligibility criteria, this may lead to a temporary withholding of ten per cent of the annual allocation.
- In addition to the regular entry conditions, there are three further eligibility criteria: countries must have a good track record on

implementing budget support over three years; they must show a commitment to monitoring and achieving the MDGs; and there should be an active donor co-ordination mechanism to support performance review and dialogue.

Source: EC (2008) 'The MDG Contract. An Approach for Longer Term and More Predictable General Budget Support'.

Up to ten African countries are likely to be eligible for MDG contracts.<sup>31</sup> While this is a limited number, these countries are due to receive about 60 per cent of the Commission's general budget support to ACP countries for the period 2008 to 2013.<sup>32</sup>

In terms of long-term predictability, MDG contracts could prove to be a major step forward. If implemented, the proposal could serve as an excellent example of long-term predictable general budget support, tied to outcomes in health and education. It is desirable that the Commission apply similar principles to sector budget support and to other regions besides the ACP countries. It is encouraging that the latest MDG contract proposal offers openings for such an extension.<sup>33</sup>

Some EU member states have been supportive of the MDG contracts proposal although others have raised concerns, particularly relating to governance and financial accountability. However, the proposal has safeguards in place to enable the Commission to withdraw aid when there is a risk that aid might not be spent well. If the country is not performing well on the eligibility criteria, the Commission can temporarily withdraw part of the aid committed. Furthermore, MDG contracts are subject to the Cotonou provisions, which include the possibility to withdraw all aid in cases of serious corruption or if countries fail to respect obligations stemming from respect of human rights, democratic principles, and the rule of law.

The MDG contract proposal is progressive and fully in line with the vision of the member states and the EC outlined in the European Consensus. Member states should support its implementation and should provide additional resources to see it expanded.

### 3 Still far from perfect

By being a big spender on budget support, by tying its budget support to outcomes, and by providing fairly long-term budget support, the EC goes some way to providing the kind of aid that is needed. However, its budget support is still far from perfect. First of all, harmful conditions are slipping in through the back door. Second, the Commission is not doing well on making timely disbursements and there are frequent unnecessary delays caused by its burdensome bureaucratic processes. Third, the Commission can further strengthen the positive link to outcomes in health and education. Fourth, it has major improvements to make in the area of ownership and accountability.

#### Harmful conditions through the back door

Although the EC has moved away from imposing specific economic policy conditions, instead linking its budget support to health and education outcomes, its budget support is not completely free from harmful economic policy conditions. It tends to push for unnecessary and harmful conditions in indirect ways.

#### IMF seal of approval

One of the entry conditions for both general and sector budget support is that countries must aim for macroeconomic stability, which is usually translated into having an IMF programme in place. This in turn leads to harmful economic policy conditions slipping in through the back door. It should be noted that it is less common for sector budget support to be explicitly linked to an IMF seal of approval.

IMF programmes commonly have a series of quantitative conditions, which insist that developing-country governments achieve a series of targets such as reducing inflation to single digits, reducing the budget deficit, imposing a ceiling on the wages paid to public servants, or committing to use aid to build up international reserves.

While these aims may not all be wrong in themselves, the IMF approach tends to be far too conservative and to subsequently act as a barrier to more ambitious spending by governments on poverty reduction. This can be counterproductive. Recent independent assessments have shown, for example, that much of the aid increases to some African countries have been ploughed into increasing international reserves at the behest of IMF programmes, meaning that poverty spending has not increased as much as it could have done.<sup>34</sup>

One example is in Nicaragua (see Box 4).<sup>35</sup> While building up an adequate international reserve is important, there is obviously a trade-off here, and the IMF is unable to adequately make this assessment as its expertise in terms of poverty reduction spending and planning is non-existent. Rather than blindly following the IMF and immediately cutting aid if a country goes off-track, it would be far better if donors were to make their own joint assessment of this trade-off.

**Box 4: The IMF in Nicaragua**

In Nicaragua, budget support donors including the EC, usually only disburse aid if the country is on track with an IMF programme. In 2005, for instance, donors temporarily suspended budget aid because the country was off-track.

The IMF conditions undermine the government's poverty reduction efforts, for instance by freezing spending on education at three per cent of GNP rather than allowing it to increase education spending to 4.7 per cent of GNP – the minimum amount needed to provide education for all. Moreover, by imposing a ceiling on expenditures on civil servants' salaries, the IMF conditions have also negatively affected teachers and health workers.

Source: A. Acevedo: (2006) 'Nicaragua: los Objetivos de Desarrollo del Milenio y el programa con el FMI'.

It should be noted that there are cases where the Commission provides general budget support even when a country has not signed an agreement with the IMF, for instance in Ghana and Jamaica. Also, EC officials claim that it is increasingly common practice to no longer include an automatic link between going off-track with IMF conditions and withdrawing funds in budget support deals. Instead, the standard line is that the Commission will make its own judgement.<sup>36</sup> But in only three of the 11 general budget support agreements reviewed by Oxfam/Eurodad – those for Malawi, Mozambique, and Uganda – does the Commission explicitly state that going off-track with the IMF does not automatically lead to a suspension of aid. While this is encouraging, it does not yet suggest a genuine effort to delink aid from the IMF's approval.

While this is no different from how most donors operate, it should not conceal the fact that this is a contradictory approach and that the strong link to the IMF is a major downside. The Commission should delink its aid from the IMF's approval, and at the same time put pressure on the IMF, together with the other major budget support donors, to include in its advice more flexible fiscal targets and more ambitious spending scenarios. In countries that have achieved macroeconomic stability, it should work with other donors to see a rapid exit from the country by the IMF.

### **Indirect conditions**

Another concern, which is related to EC aid in general, is that the Commission sometimes imposes harmful policies in a more indirect way.

For example, ACP countries that perform well on the Commission's governance scorecard are rewarded with extra money through its 'governance incentive tranche'. Through this, they can obtain a bonus of up to one-third of their initial allocation. The trouble with this incentive is that the scorecard includes issues such as migration, counter-terrorism, and trade liberalisation – issues that seem to have more to do with the EC's own political and economic interests than with creating a good environment for poverty eradication.

Another example is that, as the negotiations on Economic Partnership Agreements (which aim to open up African markets for European exports) have been running in parallel with discussions on EC aid to ACP countries, some of these countries have felt pressured to sign the trade agreements, even though they considered them harmful to their own development.

Clearly, the Commission should not be using its aid as an incentive for developing-country governments to sign trade agreements. The Commission should also ensure all its policies are consistent with and do not undermine its development objective to eradicate poverty.

### **Not so good on short term predictability**

Developing-country governments need to be sure that they will actually get the aid that has been promised to them in a timely manner. Unfortunately, in this respect the Commission's budget support is less predictable than that of most other multilateral donors. According to the latest review of the Strategic Partnership for Africa, from 2004 to 2007, only 79 per cent of the Commission's general budget support arrived on time.<sup>37</sup>

Often there is a good reason why the Commission is not disbursing its aid. Most of the variations are due to the Commission's approach of disbursing part of the funds to the extent that a country meets certain performance criteria.<sup>38</sup> This means that inevitably there is some variation between the maximum level of budget support that the Commission makes available and the actual amount that it disburses.

The Commission encourages and helps developing-country governments to take these variations into account. First, it encourages countries not to count on the full maximum value to be disbursed, but recommends instead that they count on eventually receiving just

two-thirds of the performance-based share.<sup>39</sup> According to an EC review, between 2000 and 2004 on average 71 per cent of this performance-based share of aid was disbursed, so the estimate the Commission asks developing-country governments to work with is in-line with the reality.

Second, in most countries the EC works to a disbursement calendar that enables governments to take the changed level of aid into account when drawing up their budgets for the following year.<sup>40</sup> For instance, the amount of money that Mozambique will get in 2009 is based on the country's performance in 2007, which is assessed in 2008. This way, the government knows well in advance how much money it will get and can take this into account when designing its budget for the year.

However, a large amount of variation is unnecessary. Evidence indicates that the Commission itself is to blame for a significant share of the delays. In fact, according to a 2005 Special Programme for Africa review, as many as 29 per cent of the delays are due to the Commission's own internal procedures. Although this is a major improvement compared with 2004 – when as many as 40 per cent of the delays were related to EC procedures – it is still worrying. As a civil-society representative in Malawi stresses, cumbersome bureaucratic procedures are the main downside to the Commission's aid.<sup>41</sup> The Commission's frequent failure to disburse its budget support on time undermines the predictability of its aid.

While acknowledging that in the past five years the EC has shown 'significant improvement in financial management, contracting and processing of Commission paper work', a peer review of EC aid also stresses that partner country governments feel that the Commission should simplify procedures further still and accelerate programme implementation.<sup>42</sup> The EC must reduce the delays caused by their procedures and bureaucracy from the current 29 per cent to five per cent by 2010.

## Strengthening the link to health and education

While there is evidence that the EC's general budget support contributes to building health and education outcomes, as has been explained in section 2, the Commission could strengthen this link and make it more measurable and more visible.

It is not advisable to do this by enlarging the performance-based share (or the variable tranche) of the aid given. That would undermine the predictability of aid, which is essential for developing-country governments in financing long-term plans for health and

education, and in particular in recruiting teachers and health workers.

Instead, the Commission should continue to tie its general budget support agreements to increased developing country government spending on health and education. These targets should reflect an ambition to reach the Abuja Declaration target of spending 15 per cent of a national budget on health and the Global Campaign for Education target to spend 20 per cent of a budget on education.

Another way to strengthen this link is by making the budget process more transparent and more inclusive. As explained in detail below, it is essential that CSOs – in particular those working on gender equality – as well as social sector ministries are involved in the dialogue.

It is also incumbent on the EC as a donor to find ways to improve how it tracks the actual impact of general and sector budget support, and to find solutions to better measure this impact.

## Accountability and ownership

In contrast with other types of aid, and assuming it is not tied to intrusive economic policy conditions, budget support gives partner-country governments a larger say in the use of resources. This freedom comes with some risks, including the question of whether the recipient government will spend the money responsibly.

Responsible and accountable spending of government funds – including budget support – is first of all a matter between a government and its citizens. Citizens should be able to hold their governments to account on how they spend their budget. Donors also have a responsibility to ensure that their aid money is spent in a pro-poor, gender-sensitive, and accountable way, as they must be accountable to EU citizens with regards to how their taxes have been spent.

The Commission can help to ensure that budget support contributes to improved social service delivery and gender equality in an accountable way. This is an area in which it needs to make big improvements.

### **Box 5: Lack of ownership**

A major concern about the EC's aid in general is a lack of ownership. While it is stated policy that the Commission should consult with partner governments as well as with civil-society actors, both civil-society representatives and governments in Southern countries indicate that ownership is absent. In some cases, for example, consultations between the EC and Southern governments on its Country Strategy Papers (which outline the EC's objectives and focus of support for the next six years) have been seen as a lecture rather than a genuine consultation.

Consultations with CSOs, if held at all, are seen as 'phantom [rather] than genuine consultations', as one Latin American civil-society representative points out. Priorities contained in the country strategies often reflect the preferences of the EC rather than those of the partner country's government or civil society. In the specific case of general budget support, EC aid is generally well aligned with national development strategies, but these are often not genuinely nationally owned. Not only is it doubtful whether national strategies truly reflect the partner country government's preferences and priorities, it is also questionable whether national strategies mirror what the people in the country want. Such strategies should be formally developed in close consultation with civil-society representatives, but genuine consultations that actually impact on their design are still too rare.

Source: Alliance 2015 (2007) '2015 Watch Report'; Eurostep (2007) 'We Decide, You Own: An Assessment of the Programming of European Community Aid to ACP Countries under the 10th European Development Fund'; CIDSE (2007) 'The EU's Footprint in the South'; interview with Camilo Tovar, Asociación Latinoamericana de Organizaciones de Promoción al Desarrollo a.c.

### **Citizens holding governments to account**

The European Commission should work harder to help strengthen domestic accountability processes, in particular to make sure that citizens can influence and monitor national policies and budgets. There are three ways for it to do this.

First, through the dialogue on budget support the Commission could urge the government concerned to genuinely involve parliament, local government bodies, and civil society in the development of national policies, to ensure democratic scrutiny of budget processes, and to promote gender-sensitive budgets.

Along with other donors, the Commission already uses this dialogue to promote accountable budget processes. For example, in Nicaragua in 2007, the government auditing body carried out a public audit for the first time thanks to pressure from the donor community.<sup>43</sup> However, this is not common practice, nor is the need for democratic scrutiny sufficiently reflected in the EC's assessment of PFM systems.

The second way for the Commission to contribute to ownership and accountability is by providing support to CSOs that are working to



hold their government to account, in particular those working on gender equality, through its thematic programme of support to non-state actors.

Again, on paper the Commission stresses the relevance of this role, but currently it is not reflected in actual practice. EC aid for civil society to engage in national policy and budget processes is relatively limited. Zambia is an exceptional case: here the Commission has programmed to support civil society involvement in the national budget process, after demands for this at the mid-term review of the country strategy paper.<sup>44</sup> It is encouraging though that this type of support is likely to increase, as the Commission's delegations in recipient countries are increasingly defining budget monitoring as a priority in providing support for non-state actors.<sup>45</sup>

Third, the Commission could help to strengthen national accountability by including more relevant PFM indicators, such as encouraging greater scrutiny of parliaments in the national budget process.<sup>46</sup>

### **An inclusive dialogue**

Unfortunately, while engagement of civil society in the development of the EC's country strategies is already limited (see Box 5), the involvement of civil-society actors or Members of Parliament in the dialogue on sector and budget support is a rarity.<sup>47</sup> To help ensure that budget support contributes to improved social-service delivery and gender equality, the EC should involve civil society, parliamentarians, and line ministries (beyond the finance ministry) in its dialogue with governments around budget support. At present such issues are all too often discussed exclusively with the finance ministry.

In Malawi, for example, CSOs are sometimes invited to meetings of the joint donor budget support group, which includes the EC, but not to key meetings, and often in any case too late.<sup>48</sup> It is not just CSOs that call for engagement of civil society in the budget support process; the OECD Development Assistance Committee (DAC) peer review also advises the Commission 'to explore how to engage local CSOs in monitoring expenditures and the impact of budget support'.<sup>49</sup>

Contributing to this lack of involvement is the fact that CSOs often have limited access to information. It is not common practice for official documents, such as budget agreements, to be publicly available. For example, the EC refused to open up its budget support agreement with Niger to local CSOs, suggesting instead that they should ask their government for the information.

There are exceptions. In Ghana, for instance, the donor community has created a working group to promote deeper involvement of civil society in the budget support process. In India, the agreement on sector budget support clearly identifies a role for civil society in the implementation process. In Zambia, civil society has been involved in reviews of the budget support programme.<sup>50</sup> Such examples are encouraging. The next step is for the Commission to embark on a more systematic approach by establishing a more formal mechanism to ensure the involvement of civil society and local Members of Parliament in the dialogue on sector and budget support.

## Conclusion and recommendations

Considering the need for increased levels of budget support based on social sector outcomes, the EC is an important player in international development. In particular, its ambitious proposal for MDG contracts constitutes a positive challenge to other donors, suggesting the provision of budget support tied to social-sector outcomes for a period of six years, which goes far beyond current common practice. However, if the Commission is to show leadership and lay down a challenge to other donors to improve the quality and quantity of their aid, both in Accra and beyond, it must implement some key changes.

### The European Commission must:

- Ensure continued high levels of spending on budget support, while in particular aiming to significantly step up social sector budget support to ACP countries and to enhance levels of both sector and general budget support to other regions;

#### **Provide incentives to end poverty, but end harmful conditions**

- Reinforce the incentive to developing-country governments to invest in social service delivery, by continuing to link its aid to progressive health and education outcomes and by requiring that countries have a roadmap to increase social sector investments;
- Strengthen the gender performance indicators attached to budget support, expanding them into areas such as women's civil rights;
- Continue to include in its agreements, targets to increase spending on health and education, including demanding that countries have a clear timeline to reach the Abuja Declaration target of spending 15 per cent of a national budget on health, and the Global Campaign for Education target to spend 20 per cent of a budget on education.
- Immediately and fully delink budget support from economic policy conditions and other harmful conditions imposed indirectly through the governance incentive tranche, the push for EPAs, or the requirement of approval from the IMF. In particular, the EC should delink its aid from IMF approval, and at the same time put pressure on the Fund together with the other major budget support donors to come up with more flexible fiscal targets and more ambitious spending scenarios. In countries that have achieved macroeconomic stability, the

Commission should work with other donors to see a rapid exit from the country by the IMF;

#### **Increase predictability**

- Reduce unnecessary delays caused by cumbersome procedures to no more than five per cent (of all delays) by 2010;
- Implement MDG contracts and lengthen the timeframe of budget support programmes to up to six years, replace annual monitoring with a single mid-term review, and expand the principles of MDG contracts to more countries and to sector budget support;

#### **Strengthen ownership and accountability**

- Continue to tie its budget support to improvements in developing-country government's financial accountability and transparency in poor countries
- Adopt a policy of automatic disclosure of information, with a strictly limited regime of exceptions;
- Ensure that local Members of Parliament, civil society, and in particular organisations working on gender equality, (and in the case of general budget support, also social-sector ministries), are involved in a systematic manner in all steps of the dialogue – including the design, monitoring, and review of the programme;
- Strengthen the capacity of CSOs, local government bodies, and National Parliaments to engage in national policy development and budget processes, by providing more financial support, by pushing for this in policy dialogues, and by focusing on PFM indicators that aim to improve the accountability of governments towards their citizens.

#### **European Union member states must:**

- Support the plans of the EC to implement its proposed MDG contracts as soon as possible, and for the principles behind the contracts to be expanded to all other European general and sector budget support;
- Increase the amounts they give through the Commission, and in particular give additional voluntary contributions to the Commission to help finance the implementation and expansion of MDG contracts;

- Increase the amount of bilateral aid they provide as budget support and agree on a collective EU target for increasing the percentage of aid they provide as budget support by 2015 to those governments that are committed to poverty reduction and have good systems for domestic accountability;
- Use their collective voice on the board of the IMF to push for the institution to leave countries that are stable on the macroeconomic level, and in remaining countries to press for more flexible fiscal frameworks;
- Use their collective voice on the board of the World Bank to push for it to adopt similar processes to the best practice shown by the EC.

### Developing-country governments should:

- Increase expenditures on health to 15 per cent of the national budget (as recommended by the Abuja Declaration) and expenditures on education to 20 per cent of the national budget (as recommended by the Global Campaign for Education);
- Ensure genuine participation of local government bodies, parliamentarians, and CSOs in the development of national poverty reduction policies and enable Parliament and civil society to monitor and influence the national budget process.

## Notes

- <sup>1</sup> UNICEF (2008) 'State of the World's Children', p.1.
- <sup>2</sup> Oxfam (2007) 'Paying for People', Oxfam International briefing paper.
- <sup>3</sup> OECD DAC online database. There are no comparable data available for sector budget support.
- <sup>4</sup> This review by Oxfam/Eurodad (2008, forthcoming) is based on the Financial Agreements between the European Commission and the governments of Burkina Faso (2005–08), Ethiopia (2003–06), Ghana (2007–09), Kenya (2004–06), Madagascar (2005–07), Malawi (2006–08), Mali (2003–07), Mozambique (2006–08), Tanzania (2006–08), Uganda (2005–07), and Zambia (2007–08).
- <sup>5</sup> Oxfam (2006) 'Kicking the Habit', Oxfam International briefing paper, p.24.
- <sup>6</sup> Eurodad (2007) 'Linking Budget Analysis with Aid Advocacy: How Civil Society Groups Can Monitor Donor Budget Support', September 2007.
- <sup>7</sup> World Bank (2005) *Global Monitoring Report 2005*, IBRD/World Bank, p.93.
- <sup>8</sup> World Bank (2006) *Global Monitoring Report 2006*, IBRD/World Bank, p.60.
- <sup>9</sup> Oxfam (2007) *op.cit.*, p.18.
- <sup>10</sup> Oxfam (2006) *op.cit.*
- <sup>11</sup> A concern regarding this approach is that failure to reach certain outcomes can be due to factors beyond the government's control. Oxfam believes that this problem can be addressed by carrying out independent assessments that take account of external factors. Another objection is that data do not exist to measure outcome. While it is essential to improve data collection, this should not be used as an excuse. See: Oxfam (2006) *op.cit.*, p.27.
- <sup>12</sup> IDA/IMF (2007) 'HIPC/MDRI Status of Implementation Review', 28 August 2007.
- <sup>13</sup> Oxfam (2007) *op.cit.*, p.24.
- <sup>14</sup> IDD and Associates (2006) 'Evaluation of General Budget Support: Synthesis Report', OECD/DAC, Birmingham, UK.
- <sup>15</sup> National Audit Office (2008) 'DFID Providing Budget Support to Developing Countries. Report by the Controller and Auditor General', HC 6 Session 2007–08, 8 February 2008. The report notes that utilisation of health services rose from 0.25 outpatient attendances per person per year in 2001 to 0.59 by 2006.
- <sup>16</sup> IDD and Associates (2006), *op. cit.*, p.S14.

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<sup>17</sup> OECD (2007) 'European Community Development Assistance Committee Peer Review', p.56.

<sup>18</sup> EEPA (2008) 'Administering Aid Differently: A Review of the European Commission's General Budget Support', p.21.

<sup>19</sup> J. Beynon (2006) 'Budget Support. EC Perspectives and the Results-Oriented Approach', OFSE Conference, 5 December 2006. European Commission.

<sup>20</sup> Based on interview with EC officials.

<sup>21</sup> Data are based on OECD data and calculated by EEPA (2008), 'Administering Aid Differently', *op. cit.*, p.20.

<sup>22</sup> For instance, in European Neighbourhood countries between 2000 and 2005, sector budget support amounted to 31 per cent of all Commission aid, in Asian countries it was 15 per cent. Data provided in communications with EC official.

<sup>23</sup> European Commission (2005) 'EC Budget Support: An Innovative Approach to Conditionality', European Commission, DG Development, p.13.

<sup>24</sup> *Ibid.*

<sup>25</sup> Each agreement on average includes 3.9 health indicators, 3.2 education indicators, 1.5 indicators on increased investments in social sectors, 3.8 PFM indicators, and 1.3 other indicators. These other indicators include water, roads, energy, food security, governance, and the private sector.

<sup>26</sup> European Commission (2005) 'Gender Equality in Sector Wide Support and Budget Support: Speaking Points for Intervention by Bernard Petit', November 2005, Brussels.

<sup>27</sup> R. Bissio (2008) 'Paris Declaration on Aid Effectiveness', Presentation at Human Rights Council, session of the Working Group on the Right to Development, High Task Force on the implementation of the Right to Development, Geneva 7–15 January.

<sup>28</sup> *Ibid.*

<sup>29</sup> Financing Agreement between the European Commission and the Federal Republic of Ethiopia, Poverty Reduction Budget Support II (ET/7200/005), EDF IX.

<sup>30</sup> Eurodad (2007) 'Untying the Knots. How the World Bank is Failing to Deliver Real Change on Conditionality', November 2007.

<sup>31</sup> EC (2008) 'The MDG Contract. An Approach for Longer Term and More Predictable General Budget Support', 21 February 2008. The countries are Benin, Burkina Faso, Ghana, Madagascar, Mali, Mozambique, Rwanda, Tanzania, Uganda, and Zambia.

<sup>32</sup> *Ibid.*, p.8.

<sup>33</sup> *Ibid.*, p.6.

<sup>34</sup> Independent Evaluation Office of the IMF (2007) 'The IMF and Aid to Sub-Saharan Africa', March 2007.

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<sup>35</sup> CIDSE (2007) 'The EU's Footprint in the South', March, pp.38, 61, [www.cidse.org/docs/200703201810542840.pdf](http://www.cidse.org/docs/200703201810542840.pdf).

<sup>36</sup> Communications with EC officials.

<sup>37</sup> Strategic Partnership with Africa: Survey of Budget Support, 2007, Volume II – Detailed Findings. First draft, January 2008.

<sup>38</sup> If the fixed share is being withheld, the performance-based share is also stopped. Only occasionally does the EC cut all aid. One example was in Ethiopia, where the Commission and other donors suspended budget support in 2005, due to governance concerns following elections. Instead of providing general budget support, the EC and other donors decided to channel aid directly to local governments, through its Protection of Basic Services Programme.

<sup>39</sup> *Ibid.*, p.58.

<sup>40</sup> The EC does this in two-thirds of the countries to which it provides support (based on interview with EC officials).

<sup>41</sup> Interview with Andrew Kumbatira, Malawi Economic Justice Network.

<sup>42</sup> OECD (2007) 'European Community Development Assistance Committee Peer Review', p.18, p.72.

<sup>43</sup> CIDSE (2007) *op. cit.*, p.9.

<sup>44</sup> CIDSE (2007) *op. cit.*, p.44.

<sup>45</sup> Interview with EC officials.

<sup>46</sup> The EC frequently uses the Public Expenditure and Financial Accountability (PEFA) Framework, which includes 28 indicators, including one on public access to relevant fiscal information and two related to legislative scrutiny of the annual budget law and external audit reports (see PEFA (2005) Performance Measurement Framework). It is not common for these indicators to be reflected in specific indicators tied to the fixed or variable tranche of budget support.

<sup>47</sup> EEPA (2008) pp.47-48; CIDSE (2007) p.42.

<sup>48</sup> Interview with Andrew Kumbatira, Malawi Economic Justice Network.

<sup>49</sup> OECD (2007) p.61.

<sup>50</sup> EEPA (2008) pp.47-48, p.58.



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This paper was written by Sasja Bökkerink. Oxfam acknowledges the assistance of Carmen Gonzalez, Tobias Hauschild, Nancy Holden, Hetty Kovach, Isabel Kreisler, Max Lawson, Nuria Mulina, Mirjam van Reisen, Elizabeth Stuart, and Patrick Watt in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

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<p><b>Oxfam America</b> 226 Causeway Street, 5th Floor Boston, MA 02114-2206, USA Tel: +1 617 482 1211 (Toll-free 1 800 77 OXFAM) Email: <a href="mailto:Hinfo@oxfamamerica.org">Hinfo@oxfamamerica.org</a>H <a href="http://www.oxfamamerica.org">Hwww.oxfamamerica.org</a>H</p>	<p><b>Oxfam Hong Kong</b> 17/F., China United Centre, 28 Marble Road, North Point, Hong Kong Tel: +852 2520 2525 Email: <a href="mailto:Hinfo@oxfam.org.hk">Hinfo@oxfam.org.hk</a>H <a href="http://www.oxfam.org.hk">Hwww.oxfam.org.hk</a>H</p>
<p><b>Oxfam Australia</b> 132 Leicester Street, Carlton, Victoria 3053, Australia Tel: +61 3 9289 9444 Email: <a href="mailto:Henquire@oxfam.org.au">Henquire@oxfam.org.au</a>H <a href="http://www.oxfam.org.au">Hwww.oxfam.org.au</a>H</p>	<p><b>Intermón Oxfam (Spain)</b> Roger de Llúria 15, 08010, Barcelona, Spain Tel: +34 902 330 331 Email: <a href="mailto:Hinfo@intermonoxfam.org">Hinfo@intermonoxfam.org</a>H <a href="http://www.intermonoxfam.org">Hwww.intermonoxfam.org</a>H</p>
<p><b>Oxfam-in-Belgium</b> Rue des Quatre Vents 60, 1080 Brussels, Belgium Tel: +32 2 501 6700 Email: <a href="mailto:Hoxfamsol@oxfamsol.be">Hoxfamsol@oxfamsol.be</a>H <a href="http://www.oxfamsol.be">Hwww.oxfamsol.be</a>H</p>	<p><b>Oxfam Ireland</b> Dublin Office, 9 Burgh Quay, Dublin 2, Ireland Tel: +353 1 672 7662 Belfast Office, 115 North St, Belfast BT1 1ND, UK Tel: +44 28 9023 0220 Email: <a href="mailto:Hcommunications@oxfamireland.org">Hcommunications@oxfamireland.org</a>H <a href="http://www.oxfamireland.org">Hwww.oxfamireland.org</a>H</p>
<p><b>Oxfam Canada</b> 250 City Centre Ave, Suite 400, Ottawa, Ontario, K1R 6K7, Canada Tel: +1 613 237 5236 Email: <a href="mailto:Hinfo@oxfam.ca">Hinfo@oxfam.ca</a>H <a href="http://www.oxfam.ca">Hwww.oxfam.ca</a>H</p>	<p><b>Oxfam New Zealand</b> PO Box 68357, Auckland 1145, New Zealand Tel: +64 9 355 6500 (Toll-free 0800 400 666) Email: <a href="mailto:Hoxfam@oxfam.org.nz">Hoxfam@oxfam.org.nz</a>H <a href="http://www.oxfam.org.nz">Hwww.oxfam.org.nz</a>H</p>
<p><b>Oxfam France - Agir ici</b> 104 rue Oberkampf, 75011 Paris, France Tel: + 33 1 56 98 24 40. Email: <a href="mailto:Hinfo@oxfamfrance.org">Hinfo@oxfamfrance.org</a>H <a href="http://www.oxfamfrance.org">Hwww.oxfamfrance.org</a>H</p>	<p><b>Oxfam Novib (Netherlands)</b> Mauritskade 9, Postbus 30919, 2500 GX, The Hague, The Netherlands Tel: +31 70 342 1621 Email: <a href="mailto:Hinfo@oxfamnovib.nl">Hinfo@oxfamnovib.nl</a>H <a href="http://www.oxfamnovib.nl">Hwww.oxfamnovib.nl</a>H</p>
<p><b>Oxfam Germany</b> Greifswalder Str. 33a, 10405 Berlin, Germany Tel: +49 30 428 50621 Email: <a href="mailto:Hinfo@oxfam.de">Hinfo@oxfam.de</a>H <a href="http://www.oxfam.de">Hwww.oxfam.de</a>H</p>	<p><b>Oxfam Québec</b> 2330 rue Notre Dame Ouest, bureau 200, Montreal, Québec, H3J 2Y2, Canada Tel: +1 514 937 1614 Email: <a href="mailto:Hinfo@oxfam.qc.ca">Hinfo@oxfam.qc.ca</a>H <a href="http://www.oxfam.qc.ca">Hwww.oxfam.qc.ca</a>H</p>
<p><b>Oxfam GB</b> Oxfam House, John Smith Drive, Cowley, Oxford OX4 2JY, UK Tel: +44 1865 473727 Email: <a href="mailto:Henquiries@oxfam.org.uk">Henquiries@oxfam.org.uk</a>H <a href="http://www.oxfam.org.uk">Hwww.oxfam.org.uk</a>H</p>	

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**Oxfam International Secretariat:** Suite 20, 266 Banbury Road, Oxford OX2 7DL, UK  
Tel: +44 1865 339100 Email: [Hinformation@oxfaminternational.org](mailto:Information@oxfaminternational.org)H. Website:  
[Hwww.oxfam.org](http://www.oxfam.org)H

**Oxfam International advocacy offices:**

Email: [Hadvocacy@oxfaminternational.org](mailto:Advocacy@oxfaminternational.org)H

**Washington:** 1100 15th St., NW, Ste. 600, Washington, DC 20005-1759, USA  
Tel: +1 202 496 1170.

**Brussels:** Rue Philippe le Bon 15, 1000 Brussels, Belgium, Tel: +322 502 0391.

**Geneva:** 15 rue des Savoises, 1205 Geneva, Switzerland, Tel: +41 22 321 2371.

**New York:** 355 Lexington Avenue, 3rd Floor, New York, NY 10017, USA  
Tel: +1 212 687 2091.

**Linked Oxfam organisations.** The following organisations are linked to Oxfam International:

**Oxfam Japan** Maruko bldg. 2F, 1-20-6, Higashi-Ueno, Taito-ku, Tokyo 110-0015, Japan  
Tel: + 81 3 3834 1556. Email: [Hinfo@oxfam.jp](mailto:Info@oxfam.jp)H Website: [Hwww.oxfam.jp](http://www.oxfam.jp)H

**Oxfam Trust in India** B - 121, Second Floor, Malviya Nagar, New Delhi, 1100-17, India  
Tel: + 91 11 2667 3 763. Email: [Hinfo@oxfamint.org.in](mailto:Info@oxfamint.org.in)H Website:  
[Hwww.oxfamint.org.in](http://www.oxfamint.org.in)H

**Oxfam observer member.** The following organisation is currently an observer member of Oxfam International, working towards possible full affiliation:

**Fundación Rostros y Voces (México)** Alabama No. 105 (esquina con Missouri), Col. Napoles, C.P. 03810 Mexico, D.F.  
Tel/Fax: + 52 55 5687 3002. Email: [Hcomunicacion@rostrosyvoces.org](mailto:comunicacion@rostrosyvoces.org)H Website:  
[Hwww.rostrosyvoces.org](http://www.rostrosyvoces.org)H