

May 2013

## **Position on the use of budget support in European External Aid**

A significant share of EU aid is delivered in the form of budget support, consisting in transferring the funds directly to government budgets in developing countries, coupled with policy dialogue, performance assessment and capacity building.

Over the period 2003-2009, the European Commission made budget support commitments of more than 13 billion Euros, about 25 % of all aid commitments in that period, and set itself the target of reaching 50% of the total aid. This target was challenged by other European Institutions, and in the 2011 Agenda for Change, the European Commission led the reform to make it more effective and efficient in delivering development results by strengthening the contractual partnerships with developing countries.

Although budget support facilitates the disbursement of large sums of development aid, it also entails important risks in the proper use of these funds by partner countries with generally weak control mechanisms. In this sense, the use of budget support should be restricted to very specific countries and sectors that fulfill certain strict governance and accountability criteria. The impact on development of general budget support is extremely difficult to measure, while in sector budget support the funding is conditioned to achieving sector goals that can be monitored through specific national indicators.

European Consulting Engineers are reluctant to extend the use of budget support beyond a small percentage of the total EU development aid. In our experience, the increasing amount of aid channeled through budget support has not resulted in a significant improvement of the country systems or in a growing number of local procurements, as it would be expected. These changes may occur in the long term, but in the meantime we should not accept major inefficiencies.

It is also surprising that, despite the impressive amount of EU aid allocated to general and sector budget support, there has not been any thorough and comprehensive evaluation of the results obtained through this instrument, of its contribution to aid effectiveness and of its impact on development.

**MESSAGE:** Budget support can be one of the instruments in the EU mix of aid, but never the main one. Sector budget support is more effective than general budget support, and it should be used only in sectors that provide consistent and reliable national indicators. The progress in a given sector should be closely monitored and before committing any additional funding.

European External Aid Committee  
Ines Ferguson, Chair