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Subject: The Future Approach to EU Budget Support to Third Countries
- Council Conclusions

At its meeting on 14 May 2012, the Council adopted the Council Conclusions at Annex.

Council Conclusions

‘The Future Approach to EU Budget Support to Third Countries’

1. The Council welcomes the Commission Communication¹ on “The Future Approach to EU Budget Support to Third Countries” and the proposals contained therein to adapt EU budget support to the changing environment and to improve its impact and value for money for achieving development results.
2. The Council is committed to use budget support effectively to support poverty reduction and the use of country systems, make aid more predictable and strengthen partner countries’ ownership of development policies and reforms, in line with the European Consensus on Development, the Agenda for Change, as well as the international aid effectiveness agenda.
3. The Council recalls its Conclusions in response to the Court of Auditors' Special Report No 11/2010: The Commission's management of General Budget Support in ACP, Latin American and Asian Countries.²

More effective budget support

4. EU budget support must be designed and implemented to effectively support poverty reduction and sustainable development. It must be aligned with country strategies and targeted where it is needed most, where domestic resources are insufficient and where it can have the greatest impact. It should strengthen the contractual, reciprocal nature of partnerships between the EU and partner countries and must be based on mutual accountability and a commitment to human rights, democracy and the rule of law. Its design and implementation should reflect the specific goals, benefits and risks, as well as feasibility in each partner country, in the mix with the other support modalities in that context.

¹ Doc. 15561/11 - COM (2011) 638.

² Doc. 10393/11.

5. The Council endorses the objectives set out in the Communication and welcomes the EU's intention to address the challenges that it identifies under the following headings: (i) promoting human rights and democratic values; (ii) improving public financial management, macroeconomic stability, inclusive growth and the fight against corruption and fraud; (iii) promoting sector reforms and improving sector service delivery; (iv) state building in fragile states and addressing development challenges of Small Island Developing States and Overseas Countries and Territories; (v) improving domestic revenue mobilisation and reducing dependency on aid.
6. The EU will adopt the differentiation of Budget Support Contracts proposed by the Communication ¹ to better respond to the political, economic and social context of the partner country. In all forms of budget support the EU will apply a tailor-made and dynamic approach to eligibility, focusing on progress in the implementation of credible and relevant sector reform strategies, to maximise the impact on the ground.
7. The commitment and record of partner countries to democracy, human rights and the rule of law is one of the key determinants of EU development cooperation, including general and sector budget support, and should be assessed to determine if using budget support is appropriate.
8. In providing general budget support particularly, the EU recognises that the partner country's overall governance is on track. Thus, general budget support - in the form of Good Governance and Development Contracts - shall only be provided when and where it is assessed that there is trust that it will contribute to effective development impact and will be spent in accordance with shared objectives and values, in particular human rights, democracy and the rule of law, as well as public sector reform and financial management, including domestic accountability and stronger national control mechanisms.

¹ Good Governance and Development Contracts, Sector Reform Contracts and State Building Contracts correspond to the terminology used in the Commission Communication.

9. Where governance has severely deteriorated, the EU should reassess its budget support cooperation with the partner country, in parallel to an assessment of its overall development cooperation, within existing procedures and decision-making processes. The EU and its Member States will aim at a coordinated response to any significant deterioration in a partner country's situation with regard to human rights, democracy and the rule of law, in coordination with other budget support donors. The response should be progressive, proportionate and developed at the country level. Where the EU's political or financial interests are at stake, budget support may be suspended.

10. The objectives of sector budget support should be clearly defined so as to address sector specific constraints, promoting sector reforms and improving service delivery to populations. Improving governance remains an important objective of such Sector Reform Contracts. However, assessment of governance in connection with EU sector budget support will need to be carefully balanced against the need to provide and protect the provision of vital basic services, in particular to the poor, women and children.

11. Situations of fragility call for action to ensure vital state functions and basic services delivery to populations, to support transition processes and promote human rights, democracy, the rule of law and good governance. Providing budget support in the form of State Building Contracts with partner countries in fragile situations should be based on a case-by-case approach and an assessment of potential benefits and risks, an analysis of alternative aid modalities as well as of the cost of inaction. Such support, including expenditures, should be monitored closely. These contracts will also bring into practice the 'New Deal for Engagement in Fragile States' endorsed in Busan by the EU and its Member States.¹

EU Budget Support: Fit for purpose

12. All forms of budget support should follow a results-based approach. This implies on-going monitoring of progress and regular assessment of outcomes and commitments.

¹ Busan Partnership for Effective Development Co-operation (4th High Level Forum on Aid Effectiveness, Busan, South Korea, 29 November-1 December 2011), paragraph 26.

13. The Council welcomes that, in line with the EU's Busan commitments and the EU Transparency Guarantee, the EU will publicly disclose the relevant information on its budget support programmes. This will support partner country citizens' engagement in the budget process and strengthen domestic and mutual accountability.
14. Transparency and budget oversight will become an additional eligibility criterion, together with the reinforcement of the three existing eligibility criteria covering a stable macro-economic framework, credible national/sector policies and reforms and sound public financial management. A weak public financial management system may well require short term measures before starting budget support operations. Helping partner countries' efforts to prevent and fight corruption and fraud must be given greater emphasis. The partner country's domestic oversight bodies, including parliaments and supreme audit institutions should be strengthened; participation of civil society organisations should be supported. Budget support dialogue should also promote domestic accountability.
15. The EU shall strengthen the risk management framework for EU budget support, in line with the Court of Auditors' recommendations and Council Conclusions in that regard. This should imply stronger risk assessment and on-going risk management as part of the design and management of budget support operations, including development and use of specific risk profiles in each case. The EU should furthermore promote joint risk assessments.
16. An enhanced substantive and continuous political and policy dialogue is central to any budget support programme. It should be complementary to and mutually reinforcing with EU dialogues on other issues. It should be centred on objectives, including on gender equality, on the achievement of results and outcomes and on identified needs for strengthening country systems as well as on eligibility criteria and risks.
17. To ensure a high level political and policy dialogue, it will be necessary to make best use of staff resources in EU Delegations.

Working together better: an EU coordinated approach to budget support

18. The EU and its Member States should strengthen efforts to coordinate their approach to budget support at the country level, including to assess whether it is appropriate to use that aid modality. The overall objective of an EU coordinated approach should be to increase the effectiveness of this modality for development results and reforms, and to provide coordinated and consistent EU responses. This more coordinated approach shall be conducted within existing procedures and decision-making processes, in country and headquarters, and shall be based upon the principles of sovereign decision making by Member States.

19. The EU and its Member States should share assessments of budget support eligibility criteria and risks of partner countries, focusing on government efforts and commitment as well as on performance and results. Furthermore, the EU and its Member States shall continue to coordinate their assessment of the partner country's commitments to human rights, democracy and the rule of law.

20. The coordinated approach should include systematic exchange of information and of expertise in the field, also in the context of division of labour with Member States; it should be supportive of wider donor coordination; it should build on existing mechanisms of cooperation and avoid increasing bureaucracy and transaction costs. It should promote country ownership, including by citizens. It will involve the harmonisation of risk assessment tools, as far as possible and joint assessment and evaluations at country level. The EU and its Member States may, where circumstances permit, decide to work within joint budget support frameworks, including by way of a joint Single EU Good Governance and Development Contract, as relevant. The EU and its Member States commit to working more closely with other budget support donors.

Next steps

21. The EU shall apply these Council Conclusions and the Member States are invited to develop or review their own guidelines in the light of these Council Conclusions and to apply them to support their respective budget support operations.