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Audit preview

Information on an upcoming audit



Performance data for EU budget support in the area of external actions

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Budget support is a means of delivering external aid to the EU's partner countries to support them in their reform efforts and in achieving the Sustainable Development Goals (SDGs).

In 2017, budget support represented 18 % of total EU aid to non-EU countries financed from the EU budget and the European Development Fund (EDF). By the end of the same year, the EU had concluded 270 budget support contracts for an estimated amount of €12.7 billion.

EU budget support is divided into two parts or 'tranches': one fixed and one variable depending on results achieved. For the latter, data on performance plays a fundamental role since it determines whether the variable tranche is paid out.

We are currently conducting an audit to examine whether the Commission has at its disposal relevant and reliable performance data to determine this variable tranche of budget support.

If you wish to contact the audit team, you may do so at the following email address: ECA-budget-support-audit@eca.europa.eu

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What is budget support?

Budget support - delivering aid in support of the UN Sustainable Development Goals

Budget support is a means of delivering financial aid to EU partner countries in the area of external actions. This type of funding is specifically designed to support them in implementing reforms and achieving the Sustainable Development Goals (SDGs) promoted by the United Nations (UN).

Currently, the European Commission provides three types of budget support programmes:

- Sustainable Development Goals Contracts (SDGCs) to support national policies and strategies for progress towards Sustainable Development Goals;
- Sector Reform Performance Contracts (SRPCs) to support sectoral policies and reforms; and
- State and Resilience Building Contracts (SRBCs) to support vital state functions or the process of transition towards democratic governance in fragile situation.

EU budget support payments come in fixed and variable tranches

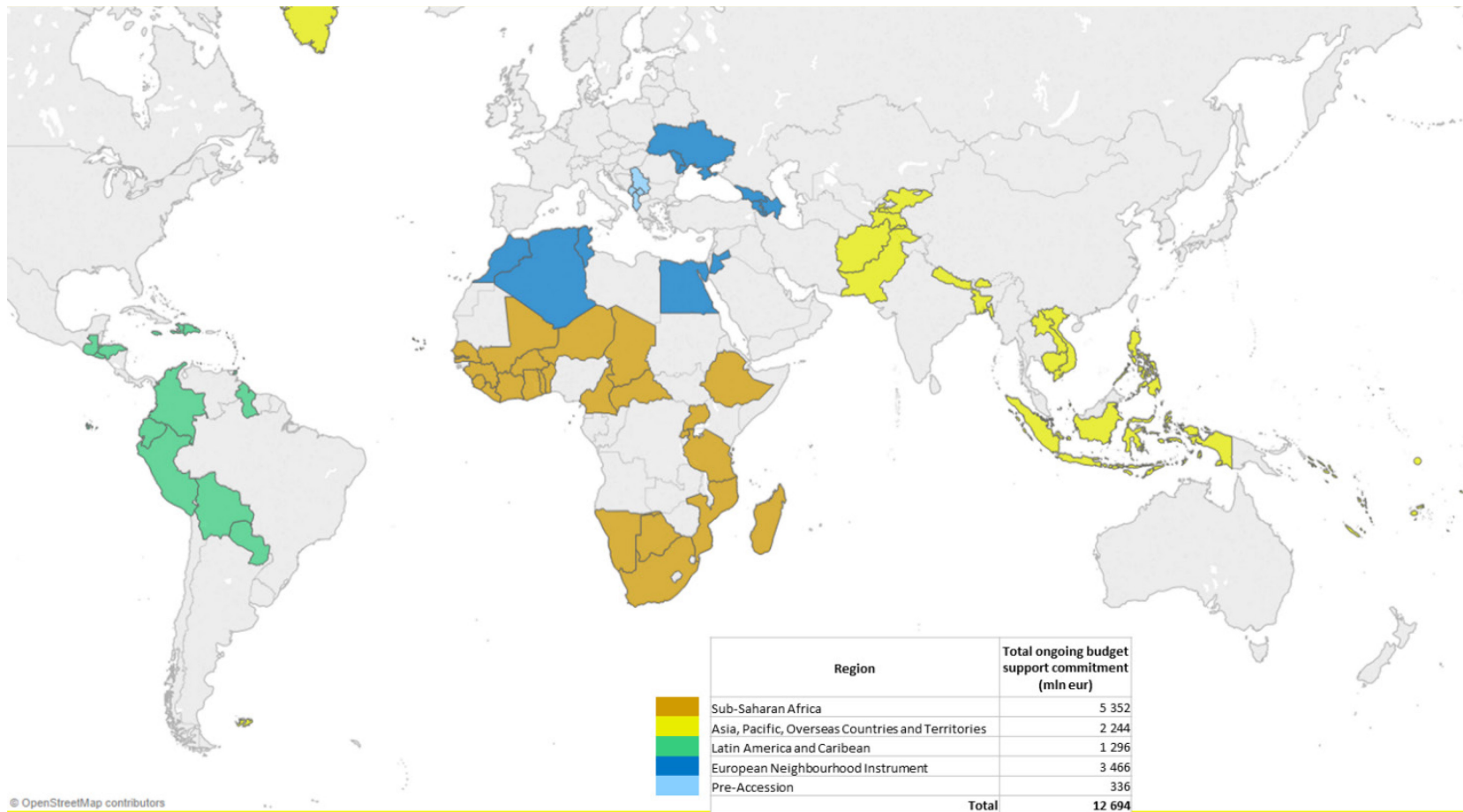
Whereas other forms of aid are mostly paid on the basis of eligible expenditure, budget support payments are results-based. They consist of fixed and variable components or 'tranches', both of which are subject to fulfilment of eligibility criteria. Payment of the variable tranche also depends on performance (progress), measured against an agreed set of performance indicators.

The Commission does not set specific rules concerning the appropriate share of fixed and variable tranches in one budget support contract, but suggests striking a balance between creating incentives (through variable tranches) and avoiding excessive unpredictability (by means of fixed tranches). It considers a fixed tranche of 60 % and a variable tranche of 40 % to be a reasonable starting point.

EU budget support – what was the situation in 2017?

By the end of 2017, the EU had signed budget support agreements with 90 countries worldwide (see ***Figure 1*** and ***Annex I***).

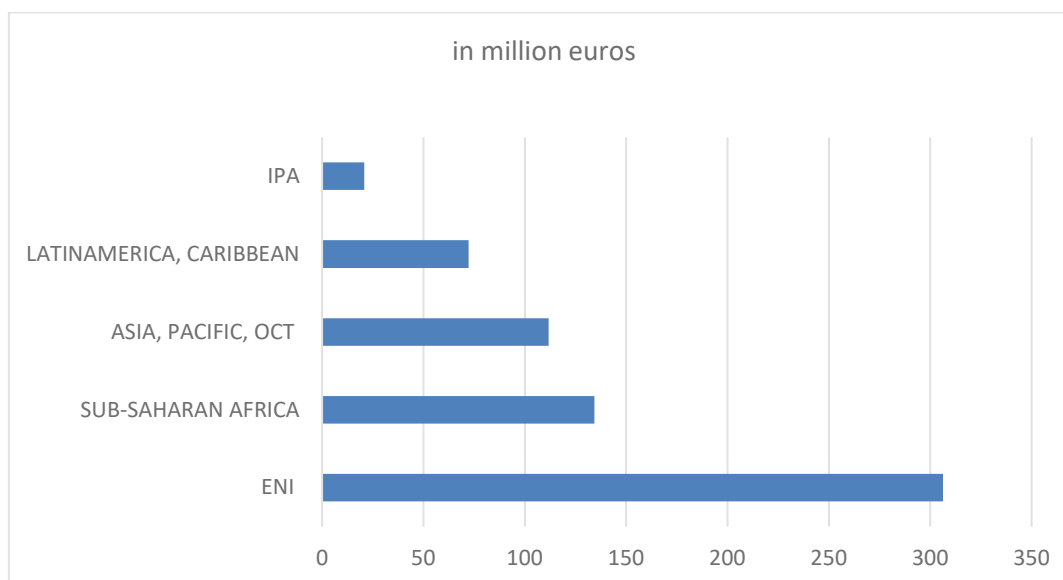
Figure 1 – Countries receiving budget support in 2017



Source: ECA, based on information included in 'Budget Support Trends & Results 2018'.

On average, variable tranches represented 44 % of total disbursements in 2017. This share is particularly high in the European Neighbourhood Instrument (ENI) countries (70 to 90 %) and very low in Sub-Saharan Africa (10 to 20 %). The total disbursements of variable tranches in the neighbourhood context amounted to €306 million (see **Figure 2**).

Figure 2 – Disbursements of variable tranches by region in 2017



Source: ECA.

EU policy and legal framework

Relevant EU policies and strategies

The provision of external aid through budget support is promoted in the UN's 2030 Agenda for Sustainable Development¹, published in 2015. At EU level, the European Consensus on Development², adopted in June 2017, puts this strategy into action. It affirms the Union's commitment to being a frontrunner in the implementation of the UN's 2030 Agenda for Sustainable Development.

Guidelines

The Commission has issued internal Budget Support Guidelines as a reference document for all entities managing budget support programmes³.

As regards the statistical data needed to assess progress, guidance is provided in Eurostat's "Guide to statistics in European Commission development co-operation"⁴. This guidance builds on the ten 'Fundamental principles of official statistics' formulated by the United Nations Statistical Commission (UNSC) to govern official statistics at an overarching level within the international community⁵.

Roles and responsibilities

European Commission

Within the Commission, the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and the Directorate-General for International Cooperation and Development (DG DEVCO) manage budget support contracts. DG NEAR is responsible for pre-accession assistance for EU candidate countries (IPA II) and the European Neighbourhood Instrument (ENI). The regional directors of these DGs are directly responsible for managing all budget support contracts in their regions, in liaison with the EU Delegations.

The Budget Support Steering Committee (BSSC) is chaired by the Director-General of DG DEVCO and includes representatives from the European External Action Service (EEAS) and the Directorate-General for Economic and Financial Affairs (DG ECFIN). The Committee has been introduced to reinforce the preparation and administration of budget support programmes and to ensure their coherence.

Since 2015, DG NEAR has also had an internal governance structure modelled on the BSSC, called the Financial Assistance Steering (FAST) Committee, in which DG DEVCO participates in accordance with the inter-service agreement.

EU Delegations

The EU Delegations manage budget support programmes in the partner countries. In particular, they are responsible for analysing the payment requests (compliance statements) submitted by the country's government and assessing whether to disburse the requested tranche.

Partner countries

The relevant ministries and statistical offices of the partner countries submit compliance statements and are responsible for gathering the data underlying these.

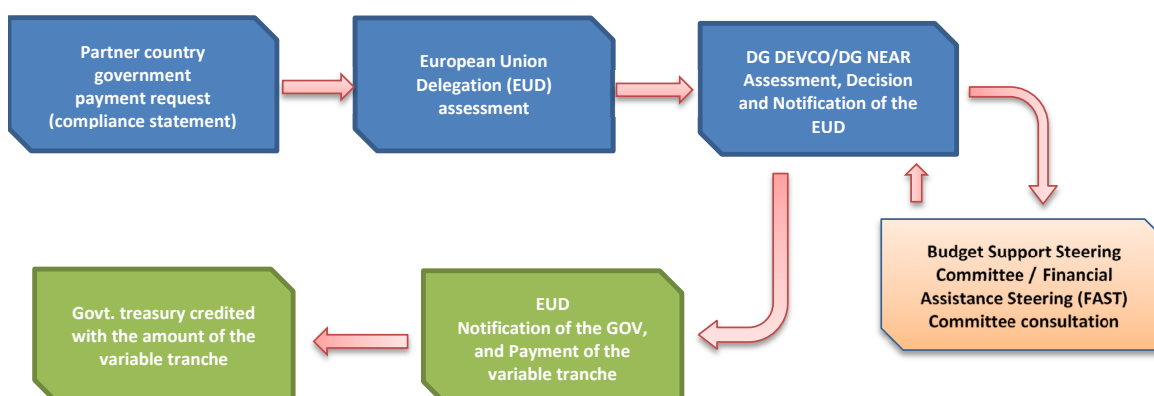
How budget support works?

Providing financial aid through budget support generally involves several components, which are particularly relevant for the variable share of the financial aid:

- dialogue with the partner country on reforms or development results to which budget support can contribute;
- assessment of progress achieved;
- fund transfers to the treasury account of the partner country once those results have been achieved; and
- capacity development.

The procedure for disbursing the variable tranches of budget support is as presented in **Figure 3** below. The government or relevant ministry of the partner country firstly requests disbursement by submitting a ‘compliance statement’. This usually includes a report on progress in a given field (sector), separate reports on the fulfilment of each individual condition and sheets on each indicator, with supporting evidence (such as letters from a statistical office, reports on surveys, etc.). The EU Delegations in the countries concerned then analyse the requests and prepare an evaluation note consisting of the latest developments in the relevant sector, monitoring reports on the general eligibility criteria and an analysis of the fulfilment of specific conditions and targets. If this analysis requires specialist knowledge that is not available in the EU Delegations, they can use an external evaluator. Based on the evaluation note, and after consulting the BSSC, the regional director of DG DEVCO decides whether to disburse the tranche. This is generally an annual exercise.

Figure 3 – Budget support disbursement process



Source: ECA.

Ensuring quality data to assess the progress made

High-quality, timely data is essential in the context of monitoring performance in budget support. Governments base their requests on data stemming from their own monitoring and evaluation (M&E) systems. These systems are therefore a primary source of information for disbursement decisions. In practice, the countries adopt different approaches to M&E, since different sectors tend to have varying capabilities and systems for collecting, storing, analysing and using data. While national statistical offices form part of the system, they do not necessarily produce comprehensive information on results for all areas of the public sector.

Consequently, before starting budget support operations, the existing systems in place for the country as a whole and the particular sector (in the case of a SRPC) need to be assessed. The relevant EU Delegation must appraise whether weaknesses in statistical systems, the availability of data or policy analysis significantly undermine the validity of the relevant country's stated objectives and targets, as well as its overall policy monitoring.

Tools to assess the organisation and effectiveness of national statistical systems

Eurostat has developed a tool for EU Delegations to assess the organisation and effectiveness of national statistical systems and their capacity to produce quality data, known as the 'Snapshot' tool.

The tool consists of around 60 questions on key quality dimensions for the outputs of the statistical systems, at national and sector level. It provides a quick and easy-to-interpret picture of the main strengths and weaknesses, based on internationally agreed principles and criteria. It comprises two modules:

- a diagnostic of the national statistical system as a whole, focusing on statistics infrastructure and organisation;
- a method to assess data quality in specific sectors and data quality of key sector indicators (those used in the country's performance assessment framework, from which the performance indicators for variable tranches are normally selected).

In addition, there are several other tools available to analyse the capabilities of national statistical systems and the quality and reliability of the statistical data produced (see **Box 1**).

Box 1: Tools to analyse the capabilities of national statistical systems

World Bank: The Statistical Capacity Indicator (SCI) country dashboards provide individual country scores for the overall SCI average, as well as for three categories – methodology, source data and periodicity;

United Nations: Country profiles of statistical systems include, among other things, a brief history of the country's statistical system, legal basis and the statistical programme;

International Monetary Fund: The General Data Dissemination System is built around four dimensions: data characteristics, quality, access and integrity;

The UN Economic Commission for Africa - African Centre for Statistics: The African statistical development index currently provides information on the statistical capabilities of 43 African countries;

The Public Expenditure and Financial Accountability (PEFA) program: Public financial management performance measurement framework.

Main issues identified when preparing the audit

When preparing our audits, we carry out an issue analysis of the policy area or programmes that we intend to examine. Since these issues are identified before the audit work commences, they should not be regarded as audit observations, conclusions or recommendations.

In the course of our audit, we will analyse the key issues identified. When examining whether the Commission has at its disposal relevant and reliable performance data to determine the disbursement of variable tranche of budget support, we will examine whether:

- the Commission thoroughly assessed partner countries' capacities to produce relevant and reliable performance data;
- budget support contracts include provisions for effective monitoring of progress in the sectors supported; and
- the Commission verified effectively the data used as a basis for paying variable tranches.

We have already published two special reports on other aspects of the EU's budget support, one in 2010⁶ and one in 2016⁷. In addition, several other reports have covered budget support to differing degrees. This audit will draw on these reports.

Annex I – Budget support programmes by region, at the end of 2017

Region	Number of countries	Number of BS contracts	Types of BS contracts			Total ongoing BS commitment
			SRPC	SDGC	SRBC	
ENI (Neighbourhood)	10	85	80	2	3	3 466.0
Sub-Saharan Africa	27	67	42	10	15	5 351.6
Asia, Pacific, OCTs	32	62	57	1	4	2 244.4
Latin America, Caribbean	17	44	40	1	3	1 295.8
IPA (Pre-Accession countries)	4	12	12	-	-	336.0
Total all	90	270	231	14	25	12 693.8

Source: ECA.

ABOUT ECA SPECIAL REPORTS AND AUDIT PREVIEWS

The ECA's special reports set out the results of its audits of EU policies and programmes or management topics related to specific budgetary areas.

Audit previews provide information in relation to an ongoing audit task. They are based on preparatory work undertaken before the start of the audit and are intended as a source of information for those interested in the policy and/or programme being audited.

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- ¹ The United Nations, Transforming our world: the 2030 Agenda for Sustainable Development, Resolution adopted by the General Assembly on 25 September 2015 (A/70/L.1).
 - ² Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission (2017/C 210/01).
 - ³ European Commission, Budget Support Guidelines, September 2017
 - ⁴ Eurostat, Guide to statistics in European Commission development co-operation, 2017 edition.
 - ⁵ The United Nations, Fundamental Principles of Official Statistics (A/RES/68/261 from 29 January 2014)
 - ⁶ European Court of Auditors, Special Report No 11/2010: The Commission's management of general budget support in ACP, Latin American and Asian countries.
 - ⁷ European Court of Auditors, Special report no 35/2016: The use of budget support to improve domestic revenue mobilisation in sub-Saharan Africa.

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