Budget support
The effective way to finance development?

EuropeAid

EUROPEAN COMMISSION

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FOREWORD

Budget support
The effective way to finance development?

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In an ever changing world, we must constantly evolve and adapt to new and sometimes daunting challenges. In the field of development, for example, globalisation, climate change, and, more recently, increasing oil and food prices, have altered the outlook in the space of a few years.

Governments in developing countries are required to manage new risks and seize new opportunities, while of course steering their countries towards the development that will ultimately make a difference to the lives of their citizens. In turn, developed countries are called upon to support this process, including in the area of development aid.

As such, for both developing countries and international donors, today's reality requires constant change and innovation, both in thinking and in practice. In the European Commission, and specifically the EuropeAid Cooperation Office, we are acutely aware of the need to continuously improve our methods to be able to fully meet the needs and aspirations of our partners.

It is in this context that the European Commission has increased the use of budget support in our aid programmes. Budget support is aid which is provided directly into the national budget of a developing country. We have initiated this change as we believe that under the right circumstances, budget support has the potential to be more effective than other types of aid in supporting development. This is not only because it reinforces the financing available for genuinely home-grown development efforts, but because it strengthens the local capacity and know-how for managing the public services and public investments necessary for development. Furthermore, in time it should reduce the administrative burden that aid can impose on developing country administrations. All of this should increase aid effectiveness.

Of course, budget support involves transferring control of funds to partner governments and so carries risks for the donor. The most obvious of these is the misuse of funds. Ultimately though, the greater risk is that we don't help developing countries achieve their development objectives.

But, let me be frank; the risks so often discussed for budget support operations also apply to other types of aid. In the final analysis, development is an inherently risky business, as the situation in developing countries, by definition, is rarely ideal. Nevertheless, this should not stop us moving forward. Instead, we need to be courageous in the scale of our ambitions while prudent in our assessment of the risks. Above all, we need to be able to take calm and level-headed decisions in full transparency.

At the European Commission, we do not take these decisions lightly. Each decision taken on budget support is made after careful evaluation of the potential risks and benefits, as well as of the appropriate balance between budget support and other types of aid.

More broadly, I'm convinced that we need an open discussion about what works, under what circumstances and where. Indeed it is in this spirit that EuropeAid has produced this brochure on budget support. It outlines how the budget support instrument works, where and how the Commission provides this type of aid, and why we at EuropeAid consider it to be a vital asset in our toolkit.

Ultimately, budget support — like other aid instruments — should not be evaluated on the basis of theoretical discussions concerning its risks and potential benefits. Instead, like other programmes, it should be judged on the results it produces on the ground in developing countries.

INTRO

Against a backdrop of controversy, momentum in favour of budget support has grown steadily over the last twenty years. Between its supporters who lavish praise and critics who can see no merit in it, there has been little room for objective analysis. To complicate matters, unlike traditional aid in the form of individual projects, donors cannot point to the roads or schools they have funded.

Budget support is a direct transfer of funds to the budget of a partner country in support of economic and social reform or poverty reduction policies. If one is to believe its critics, it is more vulnerable to misappropriation than other types of aid. While trust between partners is one important element, a number of safeguards have nevertheless been put in place. Budget support is a complex instrument that is still evolving which requires a balanced approach based on a rigorous assessment of risks and rewards.

The growing success of budget support reflects efforts to improve the general effectiveness of aid. While traditional projects remain a useful and important tool, they are not always well suited to new development challenges, including the Millennium Development Goals, which aim to reduce poverty by half by 2015.[1] It has thus become urgent to offer more appropriate solutions. Today budget support is coming to the fore as a modern and more versatile tool. It addresses the needs of partner countries by aligning with their own national policies and priorities and by supporting their development and economic and social reform efforts.

In 2006, the European Union agreed to increase the use of budget support where possible through the European Consensus on Development, which seeks to improve the quality and impact of its aid. For its part, the OECD's Development Assistance Committee gave it a positive first evaluation in 2006.

In other words, while budget support is not a panacea, neither is it merely an easy option which, if you were to believe its critics, consists of 'pouring money down the drain whilst giving a carte blanche to beneficiaries'. On the contrary, it requires sustained dialogue with partner countries and ongoing support for public financial management.

The discussion should not be framed, however, as a contest between two rival visions, budget support and project aid. Different forms of aid are not mutually exclusive, but are complementary responses to different circumstances.

1 The MDGs, defined by the United Nations at the Millennium Summit in September 2000, are eight goals to be achieved by 2015: eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowerment of women, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability, and developing a global partnership for development.

What is Budget Support?

Budget support is aid which is transferred directly into the national budget of the partner country. In practice, donors transfer budget support into the National Treasury account in the partner country's central bank. At that point, the deposited funds become part of the government budget. The partner government then determines which priorities and programmes the funds will be used to finance, within the framework of an ongoing dialogue with donors. Budget support is usually granted over a period of several years with aid being disbursed in several tranches.

Generally speaking, budget support provides resources to increase funding for national strategies addressing poverty reduction, or economic and social reform, which partners themselves identify.

The European Commission provides two types of budget support, both of which are used to finance the national budget. They are both based on the same eligibility criteria, but differ in their goals.

General Budget Support (GBS)

With GBS, funds are transferred to the general budget without being earmarked for pre-identified expenses. It supports the overall strategy of partner countries. GBS is intended to translate into concrete results at the macroeconomic level, in public finance management, poverty reduction and economic and social reform.

GBS is provided to countries in which European aid plays a central role, such as the poorest African countries, or where the European Commission is able to hold a general discussion with the government on the multiple facets of its development and economic reform policies. In particular, this type of support is provided to countries with poverty reduction strategies (e.g. Burkina Faso, Ghana, Mozambique, Nicaragua, Uganda, Rwanda, and Vietnam) often in the form of a national Poverty Reduction Strategy Paper. But it is also provided to countries engaged in overall economic reform (e.g. Morocco) or those emerging from conflict (e.g. Haiti).

Sector Budget Support (SBS)

Sector budget support also involves a transfer of funds to the general budget without allocation to pre-identified expenses; however it is designed to support policy implementation in specific sectors. Dialogue, conditions, and targeted results are related to the sector concerned.

In particular, in the least developed countries (LDCs), comprising mainly of African, Caribbean and Pacific (ACP) countries, budget support often backs efforts to improve social services, notably in the areas of education and health. If a partner country so chooses, aid may be used for teachers and health workers' salaries or for investment within the specific sector. SBS may also support other key sectors, such as road transport and water supply.

Sector budget support can be used either in conjunction with general budget support, or can be provided independently as is often the case in countries less dependent on outside aid (in Asia, Latin America, South Africa, North Africa, etc.).

In less aid-dependent countries, there is also a trend toward sector budget support targeting 'non-traditional' areas such as professional training, energy, social protection and the judiciary. This is the case in several areas including Central Asia. For example, Tajikistan, the poorest country in the region, has developed programmes to address pressing needs in the area of social protection for the most vulnerable members of society. The Commission has provided €9 million in budget support (2007-2009) to help with this key sectoral reform. The

Commission has also granted €8.5 million (2007-2009) to the national budget of Kyrgyzstan and technical assistance of some €500,000 to the ministries of finance and labour in order to put in place a fiscally sustainable system of social protection that benefits the most vulnerable.

Trends in GBS and SBS

Historically, GBS has formed a larger share of total budget support than SBS. However, the importance of SBS has been gradually growing, with funding for SBS outstripping GBS in recent years.

In 2007, GBS provided by the EU to all its partners amounted to €525 million (compared with €690 million in 2002) and SBS amounted to €1,215 million (compared with € 252 million in 2002).

Over the period 2002 to 2007, total commitments for GBS were €3,729 million, while SBS totalled €4,171 million.

TABLE 1

GENERAL AND SECTOR BUDGET SUPPORT PER ANNUM / COMMITMENTS FROM 2002 TO 2007

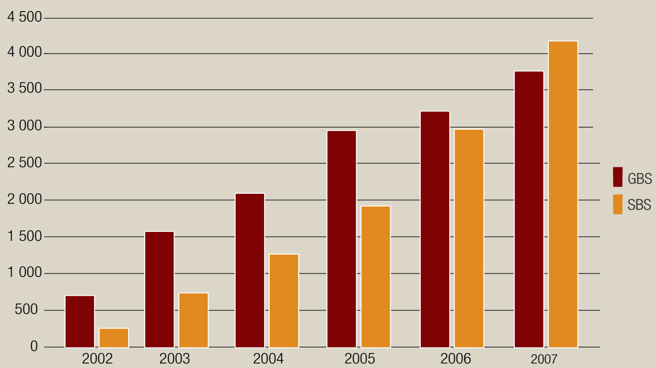
(in € million)

	GBS	SBS	Total
2002	690	252	942
2003	864	478	1 342
2004	534	523	1 057
2005	853	652	1 505
2006	263	1 052	1 316
2007	525	1 215	1 740

GRAPH 1

GENERAL AND SECTOR BUDGET SUPPORT PER ANNUM / CUMULATIVE COMMITMENTS FROM 2002 TO 2007

(in € million)



Ever Larger Geographical Areas of Involvement

Initially, the Commission's budget support benefited primarily African, Caribbean and Pacific (ACP) countries via the European Development Funds (EDF), and four countries in the Southern Mediterranean (Jordan, Morocco, Tunisia, Egypt) through the MEDA Programme. The first Mediterranean beneficiaries received support primarily in the form of sector budget support.

In ACP countries, the EU began providing budget support through the 7th EDF (1990-1995). Its use was widened with the 9th EDF (2001-2007) in which budget support represented approximately 30% of total funding. This upward trend continues, with budget support expected to reach approximately 45% of programmable aid under the 10th EDF (2008-2013).

The geographical coverage of budget support has expanded considerably over time. The Commission's budget support now extends across the globe to countries with widely varying levels of wealth:

- ACP countries, signatories of the Cotonou Agreement (77 countries of Sub-Saharan Africa, the Caribbean and the Pacific).
  The Commission's total budget support to ACP countries increased from €681 million per annum in 2002 to €795 million in 2007.

- Countries benefiting from the DCI financing tool, Development Cooperation Instrument (47 developing countries in Latin America, Asia, Central Asia, and South Africa).

TABLE 2
BUDGET SUPPORT COMMITMENTS BY REGION OVER THE PERIOD 2002-2007 *(€ million)*

Region	2002	2003	2004	2005	2006	2007
Africa, Caribbean & Pacific countries	681	1 154	690	1 120	825	795
South Africa	70	91	61	90	33	0
European Neighbourhood Countries	397	299	325	388	311	635
Asia	97	127	103	484	519	479
Latin America	0	28	111	48	120	66
Overseas Countries and Territories	0	0	22	0	61	0

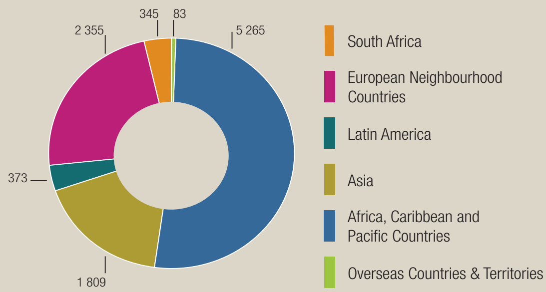
The Commission's budget support to Asia increased from €97 per annum to €479 million between 2002 and 2007.

Latin America did not receive any budget support in 2002, but was receiving €66 million by 2007.

- Countries of the ENPI, the European Neighbourhood and Partnership Instrument (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Moldavia, Morocco, the Palestinian Authority, Russia, Syria, Tunisia and Ukraine). Overall annual budget support for the countries of the European Neighbourhood Policy increased from €397 to €635 million between 2002 and 2007.

GRAPH 2

REGIONAL BREAKDOWN OF TOTAL BUDGET SUPPORT COMMITMENTS 2002-2007 *(€ million)*



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Risk and Effectiveness at the Heart of the Debate

As is the case with all other forms of development aid, there are a number of significant risks associated with budget support. Budget support is the transfer to partner countries of funds that become part of public treasury, to be used in compliance with national planning and financial management systems. In much of the developing world, however, these systems can often be weak and present inherent risks of poor management, and even misappropriation of funds.

The issue is more complex than it appears and cannot be simply summed up as serious corruption, an issue faced by every nation in the world, including developed countries. Minor flaws in daily management can become a serious problem, for instance when a government agency or local administration receives funding to purchase medicine, but spends it, instead, on furniture. Difficult choices must be made: budget support offers the potential to contribute to improving policy and management in developing countries. At the same time however, aid runs the risk of failure if faced with poor policy and administration. Thus there needs to be some confidence that the partner government will demonstrate both the political will and capability to carry out the specified actions.

Countries receiving aid must be selected on the basis of rigorous criteria, have a solid track record in reform, and provide some guarantees against the risks of poor planning and inadequate management, as well as misappropriation of funds, by for instance having their own checks and controls in place.

No Blank Cheques

Prior to selecting a country, the Commission makes an assessment of the risks. Partner countries must fulfil certain criteria, including those defined in the various legal agreements binding them to the European Union.

Specifically, to be eligible for budget support, countries must fulfil three mandatory conditions. They must have:

1) a national development strategy targeting growth and improvement in general living conditions. It is clearly out of the question, for example, to provide budget support to countries that favour luxury expenditure above spending on healthcare services;

2) a stability-oriented macroeconomic policy, seeking for example improvements in indicators such as inflation, debt and the exchange rate. Reviews by the International Monetary Fund (IMF) play a key role in assessing whether countries fulfil this condition, even if the existence of an IMF financing programme is not a necessary prerequisite for receiving budget support from the Commission;

3) an assessment of the public finance management system, and a credible and relevant programme of reform and improvement.

Needless to say, as with all forms of aid, respect for human rights, good governance and the capacity to fight corruption also enter into the equation.

Commitment, but with safeguards

Assessment of the three eligibility criteria is only the first step. Once the criteria are met, the European Commission then is involved in an on-going dialogue with the partner government, addressing the government's priorities and strategies.

The goal is to stay the course on reducing poverty, promoting growth and implementing economic and social reforms in line with national priorities. On this basis, the Commission commits to providing budget support while putting in place safeguards aimed at limiting financial risks.

Budget support implies ongoing monitoring throughout the programme to check that eligibility requirements are adhered to and that the aid is producing visible results. This involves overseeing the managerial capabilities of the partner government, regular examination of progress achieved towards the targeted objectives, and overall improvement at macroeconomic level. In its analysis, the Commission takes into account information provided by the partner countries and from in-depth discussions with other donors.

Budget support is based upon a rigorous approach and dialogue with the partner country, and thus demands continual attention from the donor. While the level of human resources required is comparable to traditional aid, a specific profile and particular skills are required.

The final decision regarding programme implementation and disbursements remains in the hands of the Commission. The implementation of aid programmes is monitored by the Court of Auditors of the European Union, the European Parliament and the Member States.

In the event of the eligibility criteria not being fulfilled or aid being diverted, the 'tap' is turned off. In other words, budget support is not granted arbitrarily.

Discussing Policies

A number of questions are addressed in the meetings between donors and governments benefiting from budget support:

- Does budgetary planning for the coming year take into account the priorities set out in the poverty reduction strategy? Are greater resources allocated to priority sectors (education, water, health, the judicial system, transport, etc.)?
- Were expenditure outturns in the previous year in line with the budget? Were the resources allocated to priority sectors used as intended?
- Has higher expenditure in these sectors resulted in progress, for example, in terms of services provided?

Using data and concrete observations as a starting point, dialogue maintains a focus on results in terms of improvements in living conditions.

In the case of low-income ACP countries, budget support programmes are often designed to provide financial rewards for results. When partner governments achieve their objectives, in childhood vaccinations, education of girls or allocations to health and education budgets, for example, the amount of Commission aid is increased. If the objectives are not achieved, aid is decreased. Disbursements are thus dependent on results, with aid being adjusted according to performance.

Importance of Budget Support in Poor Countries

In some countries that are highly dependent on outside aid (such as Mozambique, Tanzania, Burkina Faso, Mali, etc.), the principal donors (the EU, World Bank, African Development Bank and International Monetary Fund) can finance as much as 45 % of the national budget. In South Africa and Northern Africa, aid is more marginal and is primarily sectoral.

Under the 10th EDF, 54 % of budget support is targeted at 9 countries (Mozambique, Tanzania, Burkina Faso, Ethiopia, Zambia, Madagascar, Niger, Mali and Ghana).

Rigour and Budget Support

Budget support is not the appropriate response to every situation and should not be seen as the only option.

Budget support cannot be granted to unviable states, those characterised by extreme fragility or where the elite is corrupt. In these countries, budget support is unlikely to be the most effective way to achieve development objectives. In contrast, other more targeted instruments and interventions can prove effective in achieving specific goals.

Even in countries where the situation is not critical, instruments other than budget support may be better for addressing specific needs or development objectives.

Furthermore, a country's situation may change during the implementation of a budget support programme, rendering the country ineligible for this type of support.

Amongst ACP countries, for example, around 10 countries have been eligible for a decade or so. But aid has been suspended for long periods in others due to failure to comply with conditions. Such is the case of the Ivory Coast, which in early 2002 received a budget support programme of € 40 million. However following an attempted coup in September 2002 and an ensuing political and military crisis, the funds were never released. Discussions on possible future budget support programmes in this country were only resumed in 2008.

In other countries, there have been shorter-term suspensions of aid. This occurs, for example, when a partner country deviates drastically from its commitments and performance indicators without this underperformance being explained by exceptional external circumstances.

Donors thus suspended budget support in Malawi following substantial financial losses registered in para-statal institutions which put the stability of the national budget under considerable risk. As a result of donor pressure, the authorities made great strides in remedying the budget situation and the country even became eligible for the Highly Indebted Poor Country debt reduction initiative. Debt reduction combined with prudent fiscal policies released funds for increasing subsidies for the purchase of fertilizers and seeds, thereby reinforcing the country's fight against serious food insecurity. Recently Malawi has even had record harvests.

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Strong Potential for Growth and Development in Beneficiary States

Budget support does not claim to be a universal remedy for under-development. But there are many clear advantages.

Budget support aligns with the development or economic reform strategies of the partner government, allowing it to put in place its own policies. Agendas and priorities are no longer dictated from outside. Budget support thus contributes to strengthening ownership on the part of the partner country.

It provides beneficiary governments with the resources necessary for ensuring a balance between operational expenses and investment. It allows governments to fulfil key public functions (justice, administration, health, education, etc.) and helps them meet essential costs such as educational materials, medicine and roads, as well as investments required for increasing access to social services. Some of these costs are expected to rise substantially in areas such as primary education and universal healthcare in order to meet the Millennium Goals.

For countries emerging from major crises, budget support can even be used as a rapid response for governments unable to pay civil service salaries, thus heading off serious social unrest. In 2000, for example, the 'post-conflict' budget support programme in Sierra Leone paid salaries in the health and education sectors.

Budget support can offer more predictability and stability since it covers a period of several years. Through integration into national systems it allows partner governments to forecast the resources they will have available in the medium-term so that they can plan how to achieve national objectives, including the MDGs.

It has a positive effect on capacity building in partner countries. By increasing the funds made available to governments, it allows for improvements in financial management and planning, and can boost the quality of public institutions (e.g. by consolidating the judicial system in order to pursue and punish corruption, etc.).

Beneficiary governments are required to report back to donors, but they are equally required to communicate transparently with those they govern. Budget support must contribute to strengthening the capacity of a legitimate parliament and civil society to take part in debates on the national budget and to monitor public financial management and the proper use of public funds.

Budget support addresses the objectives of aid harmonisation and coordination. These aim to make partner countries more effective at implementing their poverty reduction strategies under their own systems rather than attempting to coordinate a multitude of projects delivered by multiple donors, each of which imposes different procedures sometimes disconnected from local realities. The example of Tanzania is a case in point where the coexistence of 600 projects, most of which had budgets under €1 million, lead to excessive management costs and a loss of effectiveness. Budget support reduces transaction costs and is often delivered by a group of donors rather than by each one individually. It thus appears to be a more effective and rapid system of aid, less costly for the partner country.

Budget Support and the Paris Declaration

Budget support contributes to improving aid effectiveness and thus addresses a serious concern of the international community. With the Paris Declaration (2005), a major hurdle was cleared in improving the quality of aid and its impact on development. The declaration, signed by over a hundred countries and a number of multilateral organisations, sets forth a concrete action plan based on objectives to be achieved by 2010, and defines 12 indicators of aid effectiveness for measuring progress in the areas of policy ownership, alignment of donors on partner country priorities, harmonisation between donors, results-oriented management, mutual responsibility, etc.

Not only did the European Union subscribe to the commitments of the Paris Declaration, but it also established even more ambitious objectives in relation to four indicators. It committed to channelling 50 % of the EU's programmable aid, i.e. aid from Member States and the Commission, through national systems in developing countries and to increasing the percentage of aid provided in the form of budget support and sectoral programmes. It should be noted that programmable aid represents only 50 % of the overall aid provided by the European Commission.

Budget support already plays an extremely positive role in countries such as Mozambique, Burkina Faso, Uganda, Rwanda, Nicaragua, Vietnam, and others. Ghana is another particularly encouraging example in which European budget support has backed the government's efforts to create a long-term virtuous circle of development. A survey on living conditions published in April 2007 by Ghana's national statistics directorate showed clear improvements on poverty-related indicators. Between 1991 and 2005, Ghana reduced its poverty by half, bringing it from 51 % to 29 % of the population, and according to the World Bank, the country is on target to achieve a large number of the Millennium Development Goals by 2015.

Tunisia too offers an interesting example of success in the area of sector budget support. While access to primary education is an absolute priority, there is also an ever greater need for higher education in developing countries. Thus, since 2003, the Commission has granted SBS to Tunisia in support of higher education reform (€48 million for the period 2004-2008), secondary education (€30 million for 2006-2009) and professional training (€30 million for 2007-2010). The SBS approach emphasises effective dialogue with the various educational institutions, businesses and professional federations with a view to improving competitiveness and employment.

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An Obligation to Produce Results

Only reliable information showing the impact of aid, for example on poverty reduction, can confirm if an instrument is suitably adapted to achieve the set objectives. But how is impact evaluated? Indeed, while public finance management may seem to be an abstract notion, the benefits of improved cost-effectiveness are in fact tangible.

The European Commission has developed an ambitious results-oriented approach which links amounts disbursed to performance.

Each agreement to provide budget support is a contract committing the Commission and the partner government, generally for a period of three years. In most cases, aid is delivered in two annual tranches throughout the duration of the programme, the first in the form of a 'fixed tranche' and the second as a 'variable tranche'.

As a general rule, fixed tranches are disbursed if the three general eligibility criteria are fulfilled. Disbursement of the variable tranches, and their amounts are determined by progress achieved in public financial management and in achieving predefined objectives, for example, in sectors that have an effect on poverty reduction (such as basic health, education, and economic and social infrastructure).

The amount of aid therefore varies in relation to performance. It is measured according to indicators covering among other things, improvements in public social services (vaccinations, education of girls, HIV/AIDS prevention and treatment programmes, affordable prenatal services, wider access to primary education, etc.).

Financial incentives for producing results are one of the distinctive features of the European Commission 's budget support. The Commission thereby plays an important role in the international community in terms of monitoring and evaluation and promoting a 'results-oriented culture', all the while continuously seeking to improve its methodology.

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Rwanda

CAPITAL > KIGALI // POP. DENSITY > 361/KM²

Rwanda is a land-locked country of Central Africa with 26,300 km² and 9.5 million inhabitants. Despite the trauma of the genocide of 1994, it has managed to recover and rebuild. The current government has had significant success in the areas of reform and management of public finances. The country's growth is stable, at an average 6.4 % for the period 2001-2006.

Half of its export revenues comes from tea and coffee. Rwanda has gained recognition in the areas of economic and financial governance and the fight against corruption. But the country still depends greatly on foreign aid, half of which is in the form of budget support, to finance development and its 'Economic Development and Poverty Reduction Strategy' for 2008-2012 (EDPRS).

Of the €219 million granted by the EU under the 9th EDF, €99 million was in the form of budget aid. The allocation under the 10th EDF (2008-2013) is €290 million, 60 % as general budget support and 12 % as sector support. European budget support contributes among other things, to financing the rising cost of healthcare and education, two areas in which the government has made very encouraging headway. It also supports the judicial system, including the 'Gacaca,' popular courts inspired by local traditions and actions which are designed to promote unity and reconciliation following the genocide. Sector support has been granted for rural development and regional transport infrastructure.

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Rwanda

The number of children attending elementary school in Rwanda has gone up from 72 % in 2000/01 to 90 % in 2006/07 and the number of pupils completing the primary cycle has risen from 22 % to 52 %.

(Source : Rwanda EDPRS)

Over the period 2000 to 2005, mortality amongst children under five years old fell from 196 to 152 per 1000 live births. Maternal mortality dropped from 1071 to 750 per 100,000 live births during the same period.

(Source : Rwanda EDPRS)

Deaths caused by malaria have fallen sharply. In 2007, 26 % of all deaths were caused by malaria against 51 % in 2000.

(Source : Rwanda EDPRS)

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Burkina Faso

CAPITAL > OUAGADOUGOU // POP. DENSITY > 50/KM²

Burkina Faso is one of the poorest countries on earth. It is a land-locked Sahelian country with 13.7 million inhabitants in an area of 274,000 km². It has limited natural resources and relies heavily on cotton, which represents 60 % of its export revenues. The process of macroeconomic stabilisation and reform has nevertheless made sustained growth possible (annual growth averaged 5 % from 2000 to 2006).

The country is also considered to be an oasis of political stability in a region vulnerable to complex conflicts such as in Ivory Coast. However progress is still needed to strengthen democracy and the rule of law, complete the decentralisation currently under way, and improve governance and internal security. International budget support provides the government with sufficient resources to balance the budget without the need to resort to unsustainable debt. Of €462 million granted during the 9th EDF, approximately 60 % was in the form of general budget support. GBS is also projected to represent 60 % of the €529 million to be provided under the 10th EDF.

The EU supports the Poverty Reduction Strategy with particular attention to strengthening public finance management, to the social sectors (particularly basic education) and to the economic reform programme. In November 2007, Burkina Faso was recognised as one of the top five reformers in sub-Saharan Africa in terms of improvements to the business climate (together with Ghana, Kenya, Mozambique and Mauritius: World Bank report, Doing Business 2008).

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Burkina Faso

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The percentage of the population living below the poverty line fell from 55 % to 46 % between 1998 and 2003.

(Source: World Bank Statistics)

The percentage of children under one year old vaccinated against measles increased from 59 % in 2000 to 84 % in 2005.

(Source: Ministry of Health, Burkina Faso)

In the 1990s, Burkina Faso had one of the lowest rates of primary school enrolment in the world. Between 2000 and 2006, the rate increased from 42 % to 62 %. The number of teachers increased by 34 % between 2001 and 2005.

(Source: Canadian International Development Agency)

The percentage of the population with access to clean water in 2004 was 61 %.

(Source: WHO/UNICEF)

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Nicaragua

CAPITAL > MANAGUA // POP. DENSITY > 42/KM²

Years of political conflict, a civil war, and a number of natural catastrophes, along with difficult economic conditions and corruption, made Nicaragua one of the poorest countries in Central America during the 1990s. The government depends largely on international aid to implement its national poverty reduction strategy, which is translated into action through a national development plan.

Strengthening democracy and the rule of law in Nicaragua have required respect for the primacy of law and successful institutional reform. This has included the setting up of new public bodies (Supreme Court, Supreme Electoral Council, Court of Auditors) that are sufficiently independent of the influence of political parties. Since 2001, economic growth has progressed at a moderate rate (annual average of 3 %).

Budget support from the Commission provides backing for reform and for improving public finance management, combating corruption, boosting economic growth and reducing poverty. Reforms were started by the former president and continued by his successor who also foresees an increase in social spending. European aid supported the first ever publication of an external public audit report on the national budget (2005). In addition, the €17 million sector budget support programme, 'Access to Justice in Nicaragua' (2007-2010) supports the setting-up of an independent judiciary, promoting access to justice for all, in particular the most vulnerable.

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Nicaragua

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While Nicaragua is unlikely to achieve all the MDGs by 2015, extreme poverty has diminished, falling from 19 % in 1993 to 17 % in 2005.

(Source: 2005 Living Standard Measurement Survey)

Economic growth increased from less than 1 % per annum in 2002 to 5 % in 2004 and has since been holding steady at approximately 4 %.

(Source: World Bank/IDA)

Maternal mortality is down from 107 per 100,000 live births in 2001 to 94 in 2006.

(Source: Ministry of Health, Nicaragua)

Primary school enrolment increased from 81 % in 2001 to 87 % in 2005.

(Source: Ministry of Education, Nicaragua)

Infant mortality (children under one year old) has fallen from 52 per 1000 live births in 1990 to 29 per 1000 in 2006.

(Source : UNICEF)

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Vietnam

CAPITAL > HANOÏ // POP. DENSITY > 257/KM²

Vietnam has a population of 85.3 million and covers an area of 331,682 km². Since 1986, it has been implementing a far-reaching reform programme with considerable economic success. The country has been a member of the WTO since 2007 and its GDP more than doubled between 1995 and 2005. Since 2000, the growth rate has stabilised at an average of 7 % annually, one of the highest in the region.

The country has made noteworthy advances in the area of poverty reduction. In less than 10 years, nearly one third of the total population, some 20 million people, have escaped poverty, and social indicators show continuous improvements, from school enrolments through to infant mortality. Nevertheless, disparities between rural and urban areas are on the rise. In the face of mounting inequality, a major effort is needed to ensure that the most vulnerable members of society, including ethnic minorities, are able to participate in the benefits of growth. Progress must also be achieved in areas relating to governance.

Vietnam is the primary beneficiary of European aid amongst members of the Association of Southeast Asian Nations (ASEAN). Community aid to the country will reach € 304 million for 2007-2013, as against € 174 million in 2002-2006, of which € 54 million (31 % of the total) comprises budget support. The overall objective of budget support is to contribute to implementation of the country's poverty reduction strategy through support for socio-economic development in Vietnam. A large portion of European aid has also been allocated to the health sector.

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Vietnam

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The portion of the budget allocated to education and training increased from 15 % of the total outlay in 2000 to 20 % in 2007.

(Source: Ministry of Education and Training, Vietnam)

The rate of enrolment in primary schools rose from 91 % in 1993 to 95 % in 2005 and is expected to reach 99 % in 2010.

(Source: General Bureau of Statistics, Report on Development in Vietnam 2007)

Infant mortality (children under five years old) has fallen from 42 per 1000 in 1999 to 28 per 1000 at present.

(Source: Ministry of Health,Vietnam, Joint Health Annual Review)

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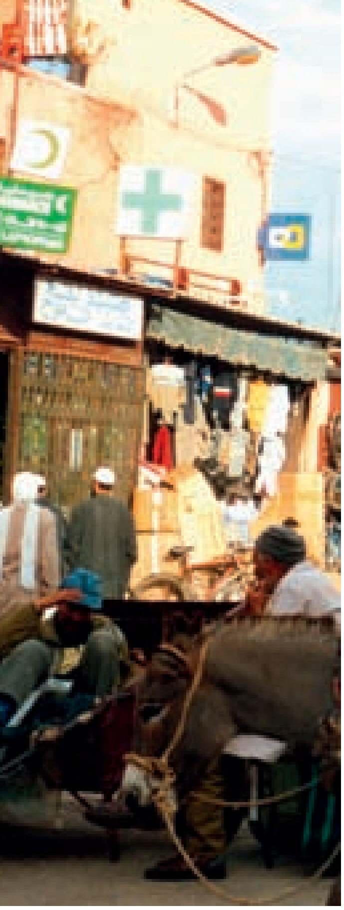

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Morocco

CAPITAL > RABAT // POP. DENSITY > 74/KM²

With a population of 33 million and an area of 446,000 km², Morocco is a lower middle income country (GNI: $2,160 per capita).

In recent years, the country has shown solid macroeconomic performance, but major challenges remain, including:

- generating sufficient growth to spur the nation's economy and significantly reduce unemployment;
- improving business competitiveness and diversifying exports;
- fighting social inequality and developing human capital (literacy, education, professional training).

The government has embarked on an extensive reform programme. This, combined with good management of government spending and macroeconomic stability, constitutes an environment favourable to the use of budget support.

In the MEDA II programme (2000-2006), European aid to Morocco amounted to €957 million, half of which was in the form of budget support. Budget support increased when the new European Neighbourhood and Partnership Instrument (ENPI) came into force in 2007. The Commission allocated €682 million to Morocco under its national indicative programme for 2007-2010. Budget support programmes for human development, elimination of illiteracy, public administration reform and health insurance for those most deprived began in 2007. In 2008 and 2009, there are four budget support programmes targeting health, education, energy and promotion of the private sector (investment and exports). Budget support has facilitated coordination between donors for key governmental reform programmes, particularly the public administration reform plan (PARAP) initiated by the Moroccan authorities in 2003 and the sectoral reforms planned for the education and health sectors.

Morocco

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The urban unemployment rate fell from 22 % in 1999 to 16 % in 2006.

(Source: High Commissioner for Planning)

The external public debt burden continued to drop, falling from 32 % of GDP in 2002 to 20 % of GDP in 2007.

(Source: Ministry of the Economy and Finance)

The budget deficit has been contained to an average of 3 % for the period 2003-2007.

(Source: Ministry of the Economy and Finance, Morocco)

The ratio of tax receipts to GDP increased from 19 % in 2000 to 25 % in 2007.

(Source: Ministry of the Economy and Finance, Morocco)

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