

Policy Department External Policies

USE AND MONITORING OF BUDGET SUPPORT

*"A comparative analysis of parliamentary scrutiny
over budget support in the EU"*

DEVELOPMENT

This study was requested by the European Parliament's Committee on Development.

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ACRONYMS AND ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
BS	Budget Support
CAP	Country Assistance Plan
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Report
CPI	Corruption Perceptions Index
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DAC	Development Assistance Committee (of OECD)
DCI	Development Cooperation Instrument
DFID	Department for International Development (UK)
EC	European Commission
ECSC	European Coal and Steel Community
EDF	European Development Fund
ENPI	European Neighbourhood and Partnership Instrument
GBS	General Budget Support
HIPC	Heavily Indebted Poor Countries
IFI	International Financing Institution
IMF	International Monetary Fund
JPA	Joint Parliamentary Assembly
MASP	Multi-Annual Strategic Plan
MDGs	Millennium Development Goals
MEP	Member of the European Parliament
MP	Member of Parliament
NAO	National Audit Office
NGOs	Non-Governmental Organisations
NIS	National Integrity System
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PBA	Programme Based Approach
PD	Paris Declaration
PDB	Preliminary Draft Budget
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on Observance of Standards and Codes
SAI	Supreme Audit Institution
SBS	Sector Budget Support
SNAO	Swedish National Audit Office
SPA	Strategic Partnership with Africa
TA	Technical Assistance

TAPs	Technical and Administrative Provisions
TI	Transparency International
TORs	Terms of Reference
UNCAC	United National Convention Against Corruption
USD	United States Dollars
WB	World Bank
WBI	World Bank Institute

EXECUTIVE SUMMARY

E1. The aim of this study is to provide recommendations and guidelines of both a technical and political nature to ensure effective parliamentary oversight of aid provided as budget support. The study, commissioned by the European Parliament, investigated oversight of budget support in Canada, the EC and the European Parliament, the Netherlands, Sweden and the United Kingdom. It researched budget support oversight and how it interfaces with donor agency budget support manages practices to select, approve, monitor and evaluate budget support, and to assess the risks involved.

E2. Budget support finances development in a way that is aligned with the international agenda for aid effectiveness. Aid effectiveness is an important international objective. It has come to the forefront over the last decade or so as a key developmental concern following worldwide recognition that despite several decades of financial flows, existing aid practices had not delivered sustained development outcomes. The international aid effectiveness agenda simply recognises that *how* aid is transferred and *how* it is managed is as important as the financial flow itself in achieving development objectives.

E3. From a development perspective, therefore, donor parliaments have a hugely important role to play in holding aid agencies accountable for how they deliver aid and, by extension, for the effective use of development support funds.

E4. This is equally true from an oversight perspective. Oversight embodies the obligation on parliaments to ensure that the power of the state is used in line with the mandate from and in the interests of the people. One significant way in which parliaments fulfil their oversight obligation is by holding the executive to account for the effective and efficient use of public funds. As money that is misappropriated or wasted is not used effectively, a subset of parliamentary duty in this regard is to ensure that funds are used properly, in other words for the purposes intended and in line with agreed financial procedures. This is the traditional aspect of expenditure oversight for parliaments and one for which institutions are well developed. It is not enough, however. In the second half of the twentieth century it became apparent that sound public expenditure management requires an equal emphasis on results. Increasingly, therefore, Parliaments are building their capacity to hold executives to account for the achievement of the objectives they have set against their budgets.

E5. From this perspective too, therefore, effective oversight of budget support is about parliaments holding aid agencies to account for achieving aid effectiveness.

Basic issues

E6. Budget support is a method of financing a recipient country's budget through a transfer of resources to be programmed and managed within the recipient country public finance management systems. Budget support as an instrument of financing, however, is not merely about transferring funds to fund public goods and services delivered by the recipient country. It is also strongly concerned with how the transfer is managed. It requires a series of complementary inputs (partnership, dialogue, joint donor action, mutual accountability for results) and has special aid management effects (ownership, alignment, reduction of transaction costs). From a results perspective, budget support is also different to other aid financing instruments in that it sets out to achieve improvements in socio-economic outcomes (targeted and measured for example through the MDGs) not only through the goods and

services that the transfer buys (teachers, drugs, roads, water services, courts) but also through its impact on building effective and accountable recipient country governments. It attempts to change the poor incentives for local accountability that accompany traditional aid instruments.

E7. The objective of the current study is to provide recommendations of a political and technical nature to ensure effective parliamentary oversight of aid provided as budget support. Budget support however poses particular problems for parliamentary oversight. *Ex ante* donor parliaments' oversight over the use of budget support funds can only extend to approving the budget support transfer and the accompanying conditions. Budget support carries no earmarking, so donor parliaments have no direct control over how the funds are to be used. For budget support the *ex ante* oversight responsibility beyond the transfer of funds to the recipient country becomes that of the recipient country parliament.

E8. In any case for donor parliaments to demand oversight over every budget support decision is problematic for separation of powers. Budget support falls firmly in the realm of executive implementation of aid budgets that were approved at a much higher level and which are not arranged by financing instrument. Arguably, then, budget support operations should not require the prior approval of Parliament: that would equal stepping into the programming cycle. In any case, budget support rests on multi-donor partnerships with recipient countries: at what point in the negotiation of a budget support agreement would a donor country parliament have *ex ante* oversight so that it is meaningful, but does not prejudice an aid agency's standing or efforts to develop recipient country ownership?

E9. *Ex post*, donor parliaments equally face limitations. The fiduciary audit powers of the donor country only extend to whether transfers were made in compliance with the law. The accountability for and assurances about regularity again rest with recipient country executive and accountability institutions. From a value for money perspective, oversight of budget support also poses challenges. While in principle donor parliaments can track progress at recipient country level against the general and country-specific objectives of budget support, in practice data systems in recipient countries are not sufficiently developed to provide socio-economic outcome data, and in any case there might be a long lead time for improvements in intermediary type outcomes such as public finance management to be realised. Even where good information is available, it cannot be attributed to budget support on a one-on-one basis, since budget support finances recipient government policies broadly together with domestic revenue flows.

E10. Yet budget support is perceived by some parliamentarians as carrying higher risk than other aid instruments, and therefore requiring more oversight. This is firstly through fiduciary risk because it entrusts money to other countries' overall systems rather than to the more contained systems of a project, and secondly through a perceived higher reputational risk, since budget support can be argued to provide support to all of a recipient government's spending. Parliamentarians can more easily argue to their own constituencies that other forms of support are for a specific development objective, notwithstanding the nature of the recipient government's policies and activities in general.

E11. At the centre of the oversight dilemma of budget support is that parliaments and development agencies are faced with different incentives and use different time horizons when considering the use of budget support rather than other instruments. Whereas the immediate risks presented by budget support are highly visible and parliaments seek assurances about benefits in the short term – where they are difficult to provide – the pay-offs

take time to be realised. At the same time, while the short-term effects of other types of support are more visible (bridges, roads, schools), their developmental dilemmas and long-term problems are obscured.

E12. In addition, parliaments' role and processes are traditionally more geared to fiduciary risks rather than the developmental risks that attach to aid. The difference between budget support and other modalities might not necessarily be that budget support incurs more risk, but just that the type of risk is different and more visible in the short term.

E13. The challenge for the study therefore was to provide recommendations on how parliaments can have effective oversight of budget support, notwithstanding the dilemmas. It drew on the budget support oversight practices of five donor parliaments against their respective aid agency practices.

Emerging practices

E14. Budget support has been in use for approximately a decade. Its management, both at the level of the recipient country and at agency level, has evolved over the period, based on experience with its use. All five donors in the case study now have guidelines for budget support, use explicit criteria to select it, undertake a more or less rigorous programming process, assess risks explicitly, take the decision to use it at a political level, require the complementary inputs and provide strategies for exiting when recipient country risk profiles change. Some of these aspects are relatively new, for example the assessment of risk and the establishment of clear processes for addressing issues when they arise during implementation.

E15. However, the overall finding of the report is that parliamentary oversight of budget support is non-existent or weak (and that this is often linked to weak overall oversight of development spending). In general parliaments get to see very little information that is specific to budget support and there has been only very limited discussion of the instrument. There are, however, a few instances of emerging practice.

E16. The Netherlands has solved the dilemmas inherent in budget support oversight by allowing Parliament access to the programming cycle, but only when it is deemed necessary against the rules of control and oversight governing the relationship and separation of power between the institutions. The process is backed by a transparent instrument to assess recipient countries for the use of budget support, thereby establishing a transparent measure of when parliamentary engagement is required.

E17. Three recent changes to the United Kingdom system to manage and oversee budget support are significant for parliamentary oversight:

- DFID has changed its guidance on Budget Support to ensure that objectives are more clearly stated for each operation, facilitating the tracking of results.
- The National Audit Office will do an annual regularity audit of all budget support transfers. In addition, it will audit risk management mechanisms in a sample of countries. This will provide parliament with regular, credible information on the robustness of DFID's risk management practices, without having to engage in the programming cycle.
- DFID has agreed to report more comprehensively to Parliament on an annual basis on its use of budget support, the issues encountered and the results achieved.

E18. In Sweden the annual budget documentation includes a discussion of the risks that are associated with budget support.

E19. The European Parliament has taken up its existing powers and negotiated its participation in processes by which country strategic plans and annual action programmes proposed by the European Commission are approved at Council/European Commission level. While the European Parliament can only intervene formally when a measure is not in line with the legal development mandate and while the oversight is concerned with development support in general, the new system of ‘democratic scrutiny’ creates opportunities for dialogue and influence on the use of budget support. The effectiveness of this measure is, however, also constrained insofar as it only applies to a part of EC development support. With regards to *ex post* oversight, the European Parliament has for some time made explicit its concern with how the Commission manages the risks associated with budget support. In this it has been supported by special reports of the European Court of Auditors. It has also through the Development Committee passed a resolution on an own initiative report on budget support.

E20. The budget committee of the German Parliament² has reacted to the special report of the German Federal Court of Audit on budget support by ruling that on a pilot basis, it should approve all budget support operations in principle. While this occurs early in the budget support programming cycle, it has a high transaction cost for the Federal Ministry of Development, its agencies and the finance ministry, and undermines German agencies’ role at country level.

E21. Not all these emerging practices are, however, necessarily desirable or effective. Most importantly there is little evidence that parliaments assess the short and long term risks and benefits of budget support – or any other support – side by side. Nor do they consider the risks and benefits of alternative instruments, which would come into play should budget support not be used.

Recommendations

E22. Drawing on emerging practices and its assessment of the requirements of effective oversight and effective budget support, the study makes the following recommendations. The recommendations are presented in three parts. In the first part we provide general recommendations that apply to overall oversight of development support as much as they apply to budget support specifically. In the second part we present recommendations that together form a system of budget support oversight that balances *ex ante* with *ex post* oversight measures and which can be tailored to suit specific parliaments’ macro-constitutional and institutional contexts. In the third part we narrow these recommendations down to European Parliament specific recommendations.

General recommendations

E23. **Do not focus on budget support only:** Parliamentary interventions on budget support should not prejudice the system against or for budget support. The ultimate aim of parliamentary oversight is to achieve the effective use of aid to produce sustainable development outcomes. From such a perspective, budget support should be used when it is merited for its developmental benefits, but should not be used when the risks are too high.

² Germany was not a case study, but on account of the relevance of the intervention for the study, the team conducted interviews and included the case as a box in the main text.

E24. This means in the first place that any parliamentary assessment of budget support should not focus only on the risks, but should also assess the benefits. Any assessment of risk should include all types of risk, and must also grapple with what the alternative would be if budget support were not used.

E25. Most importantly, it also means that parliaments should balance their efforts to oversee budget support with efforts to oversee development spending generally. In parliaments where development spending oversight already has substance and is effective, dealing with the dilemmas of budget support oversight can be a particular next step. However, in parliaments where weak oversight provides little incentive for donor agencies to feel themselves accountable for development spending generally, a singular focus on budget support would set up the incentive for aid agencies to revert to more traditional instruments, foregoing the benefits of budget support where it would have been the most appropriate instrument.

E26. Parliaments should hold their aid agencies to account for aid effectiveness: There was little evidence in the case studies that donor parliaments are taking up their important role in ensuring that agencies are implementing aid effectiveness principles in practice. Therefore an important step forward would be for donor parliaments to use their oversight powers to make aid agencies accountable in equal measure for:

- taking the necessary precautions against misappropriation and wastage,
- implementing the aid effectiveness agenda
- and the effective long term use of aid support. In other words for the results that are achieved.

E27. At a practical level this means that oversight of development spending – perhaps more so than for other types of spending – requires without exception a medium to long-term outlook. Parliaments cannot only ask questions about immediate results and risks. The parliaments of European Union member states could also form a Forum of Development Committees which could function as a peer exchange mechanism in this area.

E28. For budget support specifically – which by its nature already fulfils the aid effectiveness principles of ownership and alignment – safeguarding aid effectiveness would require that parliaments be vigilant in demanding that agencies undertake joint and harmonised risk and performance assessments, joint dialogue and joint evaluation, and manage for results jointly with donors and recipient countries.

E29. Build capacity and focus it carefully: Parliamentary capacity to hold donor agencies to account meaningfully is a key ingredient in effective oversight. The research has shown that specialist development committees are more effective. An alternative is to have a specialist sub-committee, as in the Netherlands. If the relationship with the Supreme Audit Institution is primarily with a public accounts or budgetary control committee, the quality of cooperation within parliament is critical and must be enhanced.

E30. While larger and more capacitated secretariats for development committees would improve oversight effectiveness because this would increase access to research, increasing parliamentary bureaucracies is not always an option. In the absence of that it is necessary for committees to be strategic in how they utilise the support. Effective oversight is a function of good quality technical information on which to engage donor agencies. Scarce secretariat resources should therefore be carefully allocated to more in-depth work, rather than only being used in broad-based engagement with all aspects of a committee's work.

E31. Build on partnerships with Supreme Audit Institutions to create credible oversight opportunities: The credibility of SAI reports strengthens oversight activities and makes it more likely that there will be consequences to poor decision-making. Parliaments should liaise with SAIs strategically to influence the topics of performance audits in the field of development. A concern with budget support should be balanced with other issues in development.

Budget support oversight recommendations

E32. There should be a careful balance of *ex ante* and *ex post* oversight mechanisms of budget support, given its particular nature, which provides sufficient oversight without affecting negatively executive functions and aid effectiveness. The recommendations below provide a framework for such oversight.

E33. Engage more strategically in rule-setting for budget support management: Because parliaments cannot safeguard budget support funds through the same mechanisms as other types of spending, they have to take steps to ensure that agencies manage the fiduciary risks of budget support appropriately. In order to do this they have to engage with rule setting for decision-making, implementation and monitoring of budget support and *ex post* they have to follow up and ensure that the rules are followed. Parliaments should endeavour to agree with a Supreme Audit Institution a regular audit procedure that will strengthen aid agencies' incentives to follow the set procedures. It is in the interest of aid agencies too that such a system is in place.

E34. Overall parliaments should prefer *ex post* oversight of budget support to *ex ante* oversight in the programming cycle: While intervention in executive decision-making does provide strong powers of correction, parliaments have neither the capacity nor the information to be sure that they will consistently take better decisions than the executive. Moreover, they compromise their *ex post* oversight credibility.

E35. Interventions *ex ante* are likely to be a trade off with *ex post* oversight activities, which carry less risk for parliaments and for aid effectiveness. It is only when efforts to enforce accountability through *ex post* oversight do not succeed that the creation of programming cycle access *ex ante* can be merited. However, it should be used as a power in the last resort, merely to enforce *ex post* oversight recommendations. And even then, it should not undermine the developmental benefits of budget support.

E36. Agree on cases where parliament needs to be informed: To achieve this difficult balance, parliaments can engage only selectively on budget support *ex ante*. This selective engagement should occur on cases that carry higher risk than a mutually agreed level. Such a system allows the kind of trust that enables development agencies to get on with the job of implementing budget support, while setting clear limits for executive discretion. *Ex post* such a system act as an early warning system, strengthening the management of reputational risk.

E37. Improve budget support transparency. A clear and critical gap for effective oversight of budget support lies in parliaments' poor access to information, particularly *ex post*. This gap has three important aspects: donors do not report on budget support use and problems; parliaments have limited or no access to risk information; and despite its being a result-oriented instrument, there is no reporting on the achievements of budget support. Lack of transparency offers poor incentives for the effective management of budget support.

E38. Parliaments and aid agencies must define a routine flow of information that is useful, comprehensive and reliable. It is in the interest of donor agencies to provide regular, good quality information on budget support to their parliaments: currently the instrument becomes visible to parliaments and taxpayers only when things go wrong. Agencies can be asked to report against planned and disbursed budget support (by country, region, and type); achievements of expected results as set out by donor objectives and country strategies; existence and quality of complementary conditions, inputs and effects; achievement of improved country systems (accountability institutions, public finance management institutions and monitoring and evaluation institutions); and the use of disbursement conditions and criteria and budget support predictability.

E39. Parliaments should consider carefully what information they routinely want in order to monitor budget support. It is important to balance the burden of reporting and scrutiny with the return provided. One way of looking at the benefits of reporting is by assessing how each reporting aspect required could assist parliaments to identify countries or issues in budget support implementation where they will concentrate further research, oversight and agency dialogue efforts. Parliaments can also develop criteria for identifying higher risk issues or countries and require that particular attention be paid to those areas.

E40. Budget support demands high standards of transparency for risk assessment: Parliaments and donor agencies must get the balance right between transparency, confidentiality and accountability. In order for donor agencies to be accountable for how they assess and respond to risk in the use of budget support, transparency is required. In systems where risk assessments result in a clear threshold of values below which budget support is not advisable (taking into account benefits), the important requirement for oversight would be that parliament has full access to the instrument and has confidence in its use. In a system where the use of budget support is a balanced judgement taking all factors into account, there is more discretion. In order for a donor agency to be accountable for its use of that discretion, in principle the information on which it is based, should be available. Alternatively, if the documentation on which a decision is based is too sensitive to make generally available, parliaments should have the right to access the information on request and review it in a closed session.

E41. Parliaments should complement routine information flow with own initiative, in-depth investigations: Sufficient coverage will be provided (without requiring parliament to scrutinise all documentation and decisions) if routine *ex post* information flows and the oversight-when-needed rule described above are matched by a practice of regular, special investigations by parliaments. These investigations can be of specific budget support issues (such as risk management) or of individual budget support operations, and should include calling agencies to account and demanding full disclosure of information. Parliaments should use the routine flow of information and their networks to identify issues, including with recipient parliaments (see below).

E42. Parliaments should tailor their oversight to the instrument: This means that while oversight interventions (for example the routine flow of information, specific investigations or other mechanisms) should not neglect essential fiduciary issues, the focus should also be on good information on the **developmental results achieved** at recipient country level and **on the complementary inputs and effects** to which budget support lays claim.

E43. Ensure that accountability institutions in recipient countries develop: The other recommendations here deal extensively with how donor parliaments can ensure directly that

their fiduciary oversight obligations are met more robustly despite the limitations imposed by the nature of budget support. Arguably, though, donor parliaments' obligations extend further to ensuring that recipient country parliaments are able to take up the burden of oversight on the use of public funds.

E44. Firstly this means that capacity building of accountability institutions should take place. However, the tension between these institutions and agencies' main partner, recipient country governments, should also be acknowledged. A second option is for donor parliaments to recognise the strong incentive compatibility with regards to the use of development funds between donor country and recipient country citizens and parliaments, and develop direct relationships. Besides joint efforts at a global scale, this can be done on a recipient country parliament by parliament basis for countries that fall above a particular threshold of risk, receive a high volume of aid as budget support, or where budget support is a high proportion of aid.

European Parliament recommendations

E45. While all of the recommendations above apply to the European Parliament, the paragraphs below provide further recommendations on strategies specific to the European Parliament.

E46. The European Parliament should take a lead in holding donor agencies to account for aid effectiveness: The European Parliament is in a unique position to provide a leadership role on parliamentary support for aid effectiveness and convene a forum of development committees. Its engagement with budget support should only occur in the context of an overall shift in its development oversight to an overriding concern with aid effectiveness, from its somewhat one-sided concern with safeguarding development funds.

E47. The European Parliament should take a lead in engaging recipient country parliaments: There is also an opportunity for the European Parliament to take a leadership role in the Community to build supportive relationships with recipient country parliaments. One avenue is the connection to the Joint Parliamentary Assembly (JPA), but this only includes African, Caribbean and Pacific countries. Another avenue is to take the lead in convening an annual or biannual meeting of parliamentarians on aid effectiveness and development support oversight. Developing a shared understanding on parliaments' roles in ensuring aid effectiveness through their oversight activities is important not only to donor parliaments, but also to recipient country parliaments who are often marginalised on development support agreements and implementation, despite their importance for their citizens.

E48. The European Parliament should avoid the pitfalls of getting swamped by blanket *ex ante* coverage and not neglect *ex post*: While the negotiation of the right to receive and scrutinise Development Cooperation Instrument documentation is a significant step forward for the balance of power between the Commission and the Parliament, and while it is good that this gives it an opportunity to scrutinise development spending generally, there are good arguments why the Parliament should not neglect *ex post* oversight mechanisms.

- Its capacity is limited and the duty of scrutinising all documentation might come at the cost of leaving no capacity spare, with only limited results.
- The mechanism excludes European Development Fund spending on budget support. Yet, Parliament does have full oversight of these funds *ex post*, through its powers to receive reports and to provide discharge.

- It has limited information on results generally and budget support specifically through its *ex ante* scrutiny. The forward look provided by democratic scrutiny is only meaningful if it follows up *ex post* on implementation and results.

When designing a budget support oversight system, therefore, it should focus on the quality of its *ex post* or accountability oversight mechanisms, where it has legitimate powers for all budget support operations. Its *ex ante* legislative, budgetary and accountability oversight powers can be used to shore up the *ex post* oversight.

E49. The European Parliament should shift from engaging predominantly on inputs and become much more concerned with the results of budget support: Parliament's current engagement on budget support is not entirely devoid of concern with results, but the focus is more heavily on inputs. Engagement with actual progress against key indicators is required equally, if not more so, for budget support. It is an instrument that lays great claims to giving up control over inputs by donor agencies in return for sustainable results: therefore the Commission should be accountable for the achievement of those results.

E50. When looking at inputs, the European Parliament should look beyond financial inputs to the complementary inputs of budget support: If budget support oversight is to be effective, it should ensure effective budget support. This would mean engaging with how the Commission manages processes at country level. Does the tranche system enable predictable, effective aid? How robust and effective is country dialogue? How much harmonisation and coordination occurs at country level to ensure lower transaction costs? What capacity building is being undertaken and how effective is it?

E51. The European Parliament should make use of the possibility of requesting opinions from the European Court of Auditors strategically: If informal engagement with the Commission does not give results, Parliament can elevate the discussion by requesting a formal opinion from the European Court of Auditors, in order to enforce consequences.

E52. The European Parliament should ensure that risk assessments are transparent: The recommendation above on an appropriate trade-off between how decisions are made and transparency on the result of risk assessments is particularly important for the European Parliament, since the Commission uses a dynamic approach, but does not share the information on which its assessments are based.

PART A: INTRODUCTION

1. Background

1.1 This report is provided in accordance with the TORs for the European Parliament Study on the Use and Monitoring of Budget Support.

1.2 The objective of the commissioned study is for the team to **provide recommendations and guidelines of both a technical and political nature to ensure effective parliamentary oversight of aid provided as budget support**. The recommendations and guidelines are to draw on research in five donor countries on practices with regards to how budget support is selected as the aid modality of choice, how it is monitored and how parliaments engage in these processes.

Box 1: What is ‘oversight’?

The international literature on parliamentary roles and powers uses the word ‘oversight’ in different ways. Some reserve it exclusively for parliamentary supervision of the policies and the programmes enacted by government, in other words for oversight after the fact. Others refer to all of parliament’s activities including the scrutiny of laws and plans before the fact, as oversight (Pelizzo and Stapenhurst, 2004).

The latter use is usually aligned with arguments that over centuries parliaments’ role has shifted from initiating policy, programmes and legislation – a role which is now located much more firmly in the executive’s mandate in international practice – to one of assessment of the executive’s plans and activities. Oversight therefore applies both to assessing government initiatives and to approving, amending or rejecting them (the before the fact or *ex ante* activities) as well as monitoring and holding the executive to account for implementation (the after the fact or *ex post* activities).

However, the two uses of the word are potentially confusing.

In this paper we have interpreted the TORs’ use of the words “effective oversight of budget support” as a mandate to look at the full spectrum of parliamentary powers and activities to identify opportunities to improve oversight of budget support. It is therefore more aligned with the second use explained above. As a result, where we use the word ‘oversight’ on its own in this paper, we refer to the full or encompassing set of parliamentary powers and mechanisms.

When we refer to oversight in the first sense – in other words relating to parliaments’ powers and activities to monitor the executive and hold it to account after the fact for the implementation of policies, programmes, legislation or budgets, we use the phrase ‘accountability oversight’.

1.3 The study was to consist of two aspects:

- an overview of the use of budget support by OECD/DAC countries, particularly since 2005. The overview would map the use of the modality, by “amounts, geographical distribution, sectors of concentration, share of budget support in development aid, trends, etc”.
- five donor case studies.

1.4 This report draws on the Budget Support Overview paper, the literature reviews for the five case studies and the fieldwork undertaken for the five case studies, of the European Parliament and the European Commission (EC), the United Kingdom (UK), Sweden, the Netherlands and Canada.

1.5 The European Parliament delineated four areas of country practice to be researched:

- i) *donor agency decision-making processes to use budget support*: the study needs to look at internal donor agency processes and criteria and recipient country-based processes that an agency may follow in practice or may require before agreeing to provide budget support.
- ii) *regularity, nature and transparency of risk assessment*: do donor agencies assess risk, how and how regularly? Are the risks disclosed in their engagement with oversight bodies, including parliament?
- iii) *the nature and effectiveness of monitoring and evaluation mechanisms for budget support operations*: are these mechanisms in place, are they effective in timely identification of problems and in the evaluation of the effectiveness of budget support in achieving development objectives? How regularly and with what level of transparency are the outcomes of monitoring and evaluation exercises shared with oversight bodies?
- iv) *how parliaments in the selected donor countries engage in each of these three areas*. The study needs to look at (i) information sharing and consultation mechanisms that are in place in each of the countries; (ii) what independent scrutiny parliaments undertake; (iii) how effective parliamentary scrutiny is overall and specifically with regard to aid agencies; and (iv) what structures exist that assist parliaments in their oversight task.

Budget support for the purposes of this study is defined as both General Budget Support and Sector Budget Support.

1.6 In its response to the TORs, Mokoro Limited emphasised that the study should be neither one of budget support by development partners, nor one of parliamentary oversight over spending by the executive, but that it should look at the interface between these two aspects. The key question for the study is how effective oversight can support more effective budget support. The study is therefore neutral as to whether budget support should be the modality of choice; rather (i) it emphasises the institutional arrangements that should be in place to optimise effectiveness when budget support is the modality of choice and (ii) it is particularly interested in the oversight arrangements that should be in place to deliver optimal outcomes.

1.7 With regards to oversight arrangements, the Mokoro proposal highlighted the four dimensions of parliamentary oversight (see Figure 1 below) and emphasised that all four dimensions should be included in the study.

Figure 1: Four dimensions of parliamentary scrutiny

Scrutiny of forecasts with regards to the quantum and financial use of funds. How much money will be used by whom for which type of input? In other words, is government doing things right?	EX ANTE	Forecasts with regards to the achievements expected through the use of funds. What is our money expected to buy? In other words, is government aiming to achieve the right things?
FINANCIAL INFORMATION		NON FINANCIAL INFORMATION
Scrutiny of financial outturns with regards to the quantum and use of funds (by main categories of financial classification). Was there financial compliance with Parliament's appropriations?	EX POST	Scrutiny of actual achievements through the use of funds. What did taxpayers' money buy? Did government achieve what it said it would? What is the effect of our taxpayers' money?

1.8 The Mokoro proposal emphasised that while the TORs seemed to be focused on control over inputs and fiduciary risk, this should be paired with a concern about the results of spending and developmental risk. The proposal also put forward a first set of notes with regards to this concern. It noted that the outturns in terms of budget support are not only about the direct development outcomes the support is purchasing in the short term in recipient countries (education services, drugs for hospitals, roads and so forth) but also about the long-term sustainable developmental and poverty reduction outcomes. In these terms budget support has intermediate returns which are less common in more traditional forms of project and even programme support, namely country ownership of and commitment to sustaining activities, lowered transaction costs, better harmonisation, improved domestic accountability and strengthened country systems. It is likely that this type of thinking will be important in considering the type of information that is required by parliaments when considering budget support, or the issues that are discussed in public (media, NGOs, politicians in non-committee circumstances) and committee debates.

1.9 Mokoro Limited proposed the following five donor case studies: the EC and European Parliament; the Netherlands; Sweden; the United Kingdom and Canada.

2. The research process

2.1 The research process took place in three overlapping phases: an inception phase, a research phase and a write-up and analysis phase.

2.2 During the inception phase, the study team familiarised themselves with budget support practices of the five case study agencies and parliaments, undertook the Budget Support Overview and developed a research framework. The Inception Report – submitted on 3 July 2008 – provided the results of this work and set out a research process for the remainder of the study.

2.3 The research phase comprised deepening the literature studies for the five case studies, undertaking the fieldwork and following through on other research as proposed to enrich the cross-country case study work. This included engaging with OECD DAC officials on the use of budget support, a literature review of engagement by the US Congress with overseas development support, and reviewing selected developing country parliaments' engagement with development support. The study team also carried out preliminary research on recent changes in how the German parliament oversees budget support: this emerged during the study fieldwork as a strong example of emerging practice and merited investigation.

2.4 During the fieldwork phase the study team:

- (i) Engaged with OECD DAC officials on the use of Budget Support
- (ii) Undertook fieldwork for the European Parliament and European Commission case study over two periods. In the first period two team members met with Members of the European Parliament, research and secretariat support staff, European Commission staff and relevant NGOs based in Brussels. In the second period follow-up meetings were held with Members of the European Parliament and staff of the European Commission. Some telephone interviews were also conducted to supplement the existing fieldwork results.
- (iii) Undertook fieldwork for the United Kingdom case study. In this case the country researcher met with Members of Parliament, their support staff, staff from DFID (head office and country office staff), the National Audit Office and UK-based NGOs.
- (iv) Undertook fieldwork for the Canada case study. As per the proposal and the inception report the fieldwork for the Canada case study was undertaken telephonically. Also, because it took place in the middle of the recess period, access to MPs was limited. However, interviews were conducted undertaken with MPs and CIDA staff.
- (v) Undertook fieldwork for the Sweden case study. Since the Swedish parliament returned from summer recess just before the submission date for the study, interviews with parliamentarians were not extensive. However, the team did engage with staff members of Sida, the Ministry of Foreign Affairs, the National Audit Office, parliamentary staff and Swedish NGOs.
- (vi) Undertook fieldwork for the Netherlands case study, which comprised engaging with Members of Parliament, staff members from the Ministry of Foreign Affairs, the supreme audit institution and parliament and Dutch-based NGOs.

2.5 When the Budget Support Overview paper was completed during the inception phase for the study, the results of the Paris Declaration 2008 Monitoring Survey were not yet available. These results have since been made available and have been used to update the summary of the Overview which was originally provided in the Inception Report, but is also part of the discussion in the current report. Annex 6 provides a summary of the results of the Overview, updated to reflect the new information.

2.6 The final phase for the study comprised the analysis of the fieldwork and other research results and the preparation and circulation for comment of the draft final report and annexes. During the comment phase comments were sought from the European Parliament, the EC, the and a peer review panel, including membership from the OECD DAC. The peer review comprised providing the draft final report to a panel of three reviewers with expertise in aid management and governance. The comments of the panel were taken into account in the finalisation of the report. The study concluded with a presentation of the results to the Development Committee of the European Parliament. A copy of the presentation is annexed as Annex 8.

PART B:

BASIC ISSUES AND THE RESEARCH FRAMEWORK

3. Basic Issues

3.1 As the first section in Part B, Section 3 sets out the conceptual foundation for the report in three main parts:

- **Understanding parliamentary oversight:** First, it is necessary to clarify what is meant by oversight and effective oversight. The objective of the study is “a set of concrete recommendations and guidelines, both of a political and a technical nature, to improve **effective parliamentary oversight** of budget support”. It is therefore important to establish what effective oversight would be in general and effective oversight of budget support in particular.
- **Understanding budget support:** For the purposes of the research – and this report – it is necessary to be clear on what is meant by budget support and sector budget support. Different donors and different stakeholders include different development support flows under budget or sector budget support, which provide different opportunities for oversight. The second sub-section below therefore defines budget support, provides a discussion on its different forms, examines its potential risks and benefits and discusses good budget support practices.
- **Issues in parliamentary oversight of budget support:** In the third sub-section the challenges with regards to oversight of budget support given the first two sub-sections are explored. The research framework is then provided in Section 4, with discussion of how it is tailored to address the issues and how the report relates to the framework.

Understanding parliamentary oversight

3.2 Oversight is the parliamentary function at the heart of modern democracies. It is the function whereby members of parliamentary assemblies, as the representatives of the people, ensure that the power of the state is used in line with the mandate from and in the interests of the people. While this underlying concept is straightforward, defining where the boundary lies between parliament’s obligation to oversee and the mandate of the executive to execute state power is less clear. Not all nations balance the powers of these institutions in the same manner. Even where the constitutional bases are broadly the same, over time practice draws the boundary differently in different countries.

3.3 In this sub-section we explore further the meaning of oversight, by

- putting it in the context of separation of powers,
- relating it to the different powers of parliament
- reviewing the menu of oversight mechanisms, and
- exploring what effective oversight might be .

3.4 It is important to distinguish between the mechanisms of oversight that parliaments deploy, and what is required to make these mechanisms effective.

Separation of powers

3.5 In a broad sense the separation of powers between the executive and the legislature is that parliament represents the authority of the electorate to make the laws which the executive implements or executes. In addition, parliaments are also tasked with overseeing this implementation. Parliaments fulfil their mandate through exercising their different powers, namely to legislate (legislative powers), to monitor the executive and hold it to account (accountability oversight powers) and to authorise the raising and expenditure of revenues as determined by parliament (budgetary powers).

3.6 In parliamentary systems the laws (including the budget) are presented on the basis of policy proposals by government, which often are joined to parliament through a common election platform, but not necessarily. Nonetheless, parliament still has the responsibility of keeping a check on the executive to ensure that in its proposed laws, it is acting in the interests and in line with the mandate of the electorate. Scrutinising, amending if need be and passing the executive's laws are in most parliamentary democracies not the only legislative powers that parliaments have. In many parliamentary systems, parliament can also propose laws.

3.7 In presidential systems – of which the United States is the extreme example of congressional power and discretion – the executive is elected directly and separately from parliament. The legislature is therefore more independent, including in its powers to introduce legislation and shape the budget law. But the principle that the legislature does not implement, still holds.

3.8 In both parliamentary and presidential systems the further responsibility of parliament is to monitor and hold the executive to account in the implementation of those laws, but it has no mandate to implement the laws itself. This accountability oversight of the executive has two dimensions: assurance that the executive does not stray beyond its legislative mandate and assurance that it fulfils its full mandate to the best of its ability and resources. Or, as Pelizzo and Stapenhurst (2004) put it, accountability oversight can be seen as a follow-on activity to law-making: after participating in law-making the legislature's main role is to see whether laws are effectively implemented and whether they address issues as intended by their drafters. Should parliament stray into implementing the laws themselves (*e.g.* take implementation decisions or set up implementation bureaucracies answerable to parliament), there is no possibility of this accountability oversight occurring and the separation of powers is broken, leaving the electorate exposed to a state that has too much discretion and potentially weak incentives to perform beyond the goodwill of individuals. Of course, should accountability oversight of the execution of laws be weak, the same occurs.

3.9 Budgetary powers can be seen as a special case of legislative and accountability oversight powers, often with particular specifications for how the separation of powers work in recognition of the significant role of the budget in setting and implementing government policies. In fact, it was the desire to limit the throne's discretion to impose taxes – and later its authority to spend it as it pleases – that led to the creation of oversight assemblies and two centres of state power in England in the 11th century (Schick, 2002). In presidential, as well as in some parliamentary and hybrid systems where parliaments have meaningful powers to amend budgetary proposals, the annual approval of the executive's policy direction (and therefore an action in itself both legislative and oversight oriented) provides an opportunity to intervene in order to bring the executive back in line. However, not all countries have maintained this power of the purse in practice despite its routine enshrinement in

constitutions. Wehner (2006, p 767) argues – based on his index³ ranking countries on account of their real legislative control over the budget – that “the power of the purse is a discrete and non-fundamental element of liberal democratic governance. For some countries it is a key safeguard against executive overreach, while others maintain a constitutional myth”. In countries where *ex ante* budgetary powers are not in place, budgetary power is in effect a pro-forma legislative power, setting up the base for subsequent *ex post* oversight powers. Generally though the budgetary powers of these countries (for example the UK and Canada) are weak. In this paper we argue that countries with stronger budgetary powers have more oversight potential over budget support.

3.10 The distinction between different types of parliamentary powers can be super-imposed on the distinction between *ex ante* and *ex post*, but in practice one mechanism can be *ex post* in terms of one power and *ex ante* in terms of another. For example, legislative powers are largely *ex ante*, in other words they come into play before the fact. Accountability oversight powers on the other hand are largely *ex post*, they come into effect after the fact. But in principle accountability oversight can also be *ex ante*, in other words parliament can demand accountability oversight over actions and decisions after their legislative framework has been passed and **before** they take place in the implementation cycle as a check on legality and likely effectiveness. A commonly accepted form of *ex ante* accountability oversight is through budgetary powers, where parliament gets to scrutinise policy intentions of the executive – which implement prior legislative measures – before the fact. But of course budgetary powers are also *ex ante* legislative powers. Figure 2 below provides a schematic representation of different oversight powers.

Figure 2: *Ex post* and *ex ante* oversight and parliamentary powers

		LEGISLATIVE POWERS	BUDGETARY POWERS	ACCOUNTABILITY OVERSIGHT POWERS	ACCOUNTABILITY OVERSIGHT POWERS
INFORMAL	EX ANTE OVERSIGHT	Interventions to influence legal instruments that are not within parliaments' powers to adopt, amend or reject.	Interventions to influence the budget proposals	Interventions to influence decisions that implement legal instruments	
		Power to scrutinise, amend, adopt or reject legislation and other instruments (for example regulations, guidelines, policy frameworks) with a legal standing	Power to scrutinise, amend, adopt or reject the executive's budget proposals	Power to scrutinise and intervene in decisions that implement legal instruments Can include using formal <i>ex ante</i> budgetary powers	
FORMAL	EX POST OVERSIGHT	Power to monitor and hold the executive to account for compliance with legal instruments and for performance (effectiveness, results)	Power to monitor budget implementation and hold the executive to account for using funds authorised and for value for money achieved.		

³ Wehner built the index based on a set of institutional prerequisites for effective budget control, some of which are reflected in the research framework below. The are the powers to amend the executive's budget proposal, reversionary budget arrangements, the time parliament has to scrutinise the budget, access to budget information and committee capacity.

Common mechanisms of oversight

3.11 Parliaments have access to several mechanisms or tools of oversight, in other words the activities they undertake to give effect to their oversight through their legislative, budgetary and accountability oversight powers. A common list includes

- Debates in the plenary assembly
- Hearings in the plenary assembly
- Plenary decisions (where parliaments have the constitutional mandate to decide) and resolutions (where parliaments have no decision-making powers, but use oversight to influence executive action)
- Hearings in committees, public or closed
- The creation of inquiry committees
- Parliamentary investigations and reports
- Parliamentary questions (in plenary or through committees)
- Interpellations

(Pelizzo and Staphenurst 2004, authors' own).

3.12 The mere existence of these mechanisms, however, does not ensure effective oversight. Pelizzo and Staphenurst (2004) make a distinction between **oversight potential** and **effective oversight**. While the existence of mechanisms and tools is a necessary condition for effective oversight (and determines the oversight potential of a parliament), it is not sufficient. In addition, even if these mechanisms are used effectively, it does not guarantee the quality of their use. Parliaments have been known to use their powers not necessarily in the interest of the electorate broadly, but for narrow interests or even to increase their power or – as in the case of the Kenyan parliament – to increase the salaries of parliamentarians. We argue strongly in this paper that effective oversight is a complex goal to pursue: not only is it a function of the existence of formal powers and of sufficient mechanisms, it also depends on various institutional factors and practices of parliament. In addition, before judging whether parliament's oversight is ultimately effective, one has to assess the impact it has on the quality of laws, policies and spending.

When is oversight effective?

3.13 In essence oversight is effective when parliament ensures that the executive is accountable for its actions such that it makes the decisions which will implement policies effectively and efficiently, without parliament straying into executive territory, blurring the separation of powers and compromising its future ability to hold the executive responsible for results. In short, effective oversight creates effective accountability. Effective accountability in turn is not only about the processes of accounting for decisions and actions: rather it is about the incentives that these processes create for good executive decision making.

3.14 There are two aspects that merit further investigation in order to build an understanding of what can be considered effective oversight:

- How does accountability work and how can oversight establish an executive that is accountable?
- What do we mean by decisions to implement policies effectively and efficiently (henceforth referred as the 'right' decisions for the purposes of this report)?

Effective accountability, effective oversight

3.15 Accountability is of course a necessary component in any public management system, because of the incentives it creates. While formal rules exist to ensure good outcomes from public action, public accountability is necessary to ensure that actors in the system comply with these rules (Folscher, 2005, p133). Parliamentary oversight, together with other formal mechanisms such as independent audits and informal mechanisms such as a free media, are crucial to operationalising public accountability.

3.16 Jenkins (2007, p 137 to 139) poses four necessary conditions for strong or effective accountability.

- The relevant actor (A) needs to be under an obligation to account for his actions or decisions.
- There needs to be a party or parties (B) who actively hold the actor answerable.
- A needs to be obliged to provide a full disclosure of his action. In other words there needs to be a flow of information from A to B. The weak form of this occurs when A is merely obliged to provide a justification or a rationale to B. The stronger form is when full disclosure on request of B is required.
- B needs to be able to impose sanctions on A if B is dissatisfied with the actions and/or with the justification for the actions. In other words, there needs to be consequences.

While the first two conditions are routinely enacted through the parliamentary oversight mechanisms listed above, the last two aspects are often more difficult to achieve. In the absence of these two necessary conditions, holding the executive to account far too easily become hollow routine, a ritual that the organs of governments go through but which has no real effect. Being accountable – in the sense of only having to justify one's actions – is far less onerous than being subject to sanctions (Jenkins, 2007, p138).

3.17 Pelizzo and Stapenhurst (2004, p. 10) use a simpler, but in principle similar set of distinctions to discuss oversight to the framework we are proposing here. Scrutiny (which would require the first three conditions to be in place) and control (enforcing consequences), they argue, “are the institutional processes and procedures that are or at least should be adopted to ensure that government performance is not only effective but also responsive and that government power is not abused”.

3.18 Meaningful consequences (or effective control) for the executive on account of parliamentary action are the acid test of parliamentary power. Some consequences are *de jure* and stem from parliament's constitutional powers. *De jure* consequences rest on concrete steps parliaments can take to sanction the executive with hard consequences for its survival or ability to set its own course. Others are softer, *de facto* and are the result of how accountability works in practice with regards to parliament and government as a whole.

- Impeachment procedures (of a president), a vote of no confidence or a vote of censure are a group of *de jure* options that are constitutionally available to most parliaments, but are ones that they would not invoke easily. In parliamentary systems, this usually means that parliamentarians themselves must go back to the ballot box. Even in presidential systems legislatures would turn to such a drastic step only in extreme circumstances and not for lesser performance failures or legal breaches. It is however an option that the European Parliament has pursued, with success even though the final outcome – the resignation of the Santer Commission (see paragraph 5.19) – occurred despite a motion of censure itself failing.

- A second form of *de jure* consequences occurs when parliaments use their legislative power or *ex ante* oversight to ensure that their *ex post* accountability oversight resolutions are taken seriously, or to correct decisions. They may refuse to pass legislation that is important to the executive, unless conditions are fulfilled. One extreme form of doing so is the refusal to pass the budget: in most cases this would bring down government, so the mere threat of that refusal is a powerful negotiating tool. Parliaments that have effective amendment powers also have the softer option to use their budgetary amendment powers to ensure consequences for the executive if their accountability oversight findings are ignored. Spending on a troublesome area can be suspended, reduced or refused unless action is taken to improve compliance and effectiveness. In paragraphs 6.8 to 6.11 we discuss how the European Parliament has already used this option.
- A third type of consequence – one which depends on practice and perception – rests in the oversight mechanisms (scrutiny, hearings, questions, commissions of inquiry) themselves. The possible exposure of failure or poor performance might in itself be a sufficiently daunting prospect for executive decision-makers so that it becomes a deterrent for poor decisions. Practice might also demand the resignation of parts of or of all members of the executive after exposure through oversight. Again, the resignation of the Santer Commission forced by the findings of a parliamentary Committee of Independent Experts set up after the motion of censure, is an example. Of course the strength of the dynamics and their potential to set up good incentives for performance depends at least partly on whether public exposure will follow, the seriousness the public itself attaches to such exposure and the ability of public action itself to enforce consequences. Examples of public action are petitions, marches or simply not re-electing a government.
- A fourth type of consequence concerns the direct steps that might be taken against an individual in the case of exposure through parliamentary oversight. Does the executive take parliamentary opinion seriously enough to sanction individuals through disciplinary or, if necessary, criminal procedures? Normally parliaments do not have recourse to legal instruments themselves to force the executive to implement oversight recommendations (unless they arise in the legislative process). In weaker parliaments – particularly in partner countries – follow up on such recommendations is often poor, even by parliament itself, which means the oversight becomes ineffective theatre rather than being real.

3.19 Oversight can only be meaningful if the executive's decisions and actions are transparent. Parliaments cannot assess policies, programmes and legislation in the absence of good information on the context, nature, expected results and cost of executive plans. Nor can they monitor the executive without information or hold it accountable *ex post* for legal breaches or poor performance that they do not know about. The relationship between the executive's mandate to initiate and implement policies and programmes, and parliament's mandate of oversight is, however, characterised by information asymmetry in favour of the executive. In our research we therefore looked at formal and informal options to reduce that asymmetry with regards to budget support.

What are the 'right' decisions?

3.20 We have argued that effective oversight means that executives should be accountable, so that they have a powerful incentive to make 'right' decisions leading to appropriate action. Underlying the discussion above are the two characteristics of 'good' or 'right' decisions:

- Are they within the legal mandate of the executive (as established by budget authorisations and other legal bases)?
- Will they ensure the effective implementation of the legal mandate? Or, put differently, will they result in performance and, from a budgetary point of view, value for money?

Underlying both these aspects is that decisions should be in line with the mandate provided by the electorate and in their interests.

3.21 Parliaments however have not always concerned themselves with ensuring accountability for the second aspect. Oversight of the public finances traditionally has been concerned with ensuring that funds are raised and spent as authorised, in other words checks and balances on the executive's compliance with the approvals for spending provided by parliament.

3.22 The emphasis on ensuring that funds are raised and spent as authorised is however only partly on account of tradition. Another strong factor is that parliamentarians' accountability oversight outlook is usually short rather than medium or long term, whereas spending results are rarely a short-term issue. At least three factors lead to this mismatch:

- the incentives parliamentarians face in terms of having a relatively short term of office;
- the fact that accountability oversight mechanisms fragment governments' spending programmes into annual blocks for oversight and discharge. Results cannot easily be related to the spending of a specific year; and
- the fact that it is only recently that government systems have started generating systematic information on results.

3.23 With this increased emphasis on the effectiveness of spending in public management overall, the scope of legislature's oversight has recently broadened to include ensuring that the people (or taxpayers) obtain value for their money (see Figure 1 on page 3 above). In the UK for example, the terms of reference of the public accounts committee have shifted to an emphasis on value for money, rather than being solely concerned with compliance with financial management procedures and spending authorisations.

3.24 If this dual emphasis is expressed in terms of benefits and risk (a critical part of budget support oversight), it could be argued that the oversight role of parliament with regards to the spending of public funds concerns:

- minimising the fiduciary risk of funds being used fraudulently or for purposes for which they were not approved;
- maximising the benefits that arise from public expenditure or, to look at it from the other direction, minimising the risk of benefits not being realised (oversight over value for money).

Oversight over budget support therefore should not only be concerned with minimising fiduciary risk, but should also ensure that the value for money (or developmental benefits in development terms) are realised.

3.25 It is also important to emphasise that whether decisions are legal and authorised and will result in effective and efficient implementation, is relative to the area of oversight. In development spending such decisions would result in the use of funds in line with the legal

mandate for development policies (however constructed in terms of legal instruments) and resulting in the achievement of objectives as set out in the legal mandate or policy statements.

3.26 If this understanding of effective oversight is applied to budget support oversight, the research needed to investigate how the case study parliaments ensure that budget support is an effective development financing instrument should include:

- Do the case study parliaments hold agencies to account for budget support spending?
- Do they look at both legal compliance and results? How do they look at results?
- Which mechanisms do they use?
- How do they ensure that there are consequences?
- What are the institutional factors that impact on their effectiveness?
- How do they ensure that they have good information? What are the obligations of disclosure on the executive?

Understanding Budget Support

3.27 We established above that effective oversight of budget support is relative to the instrument: oversight of budget support is effective when it results in the instrument being used as legally mandated and in the achievement of broad developmental and budget support-specific objectives. In order to assess whether budget support is effective, one needs to understand what the objectives of budget support are. Here we provide the necessary background by:

- defining budget support and discussing different forms,
- examining its potential risks and benefits, and
- examining good budget support practices.

Defining budget support

3.28 Budget support is country programmable aid designated for use in the government sector which is not earmarked to specific projects or expenditure items and which is disbursed through the recipient government's own financial management system.

3.29 Budget support is therefore a way of financing aid programmes. The OECD DAC definition for budget support, termed "direct budget support", is:

.... a method of financing a partner country's budget through a transfer of resources from a donor to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. (OECD, 2006)

The importance of budget support for aid effectiveness

3.30 The use of budget support as a financing modality is the result of international concern with aid effectiveness. A key tenet of the international aid effectiveness debate is that traditional forms of support have not delivered on development objectives and remain highly risky because they provide goods and services in recipient countries that only last as long as donor funds flow because governments have no ownership of aid-funded policies and spending. They also far too often provide public goods and infrastructure of which the real impact on service delivery is diminished because the recurrent costs of the public good provided cannot be covered by the recipient country. Most importantly, the aid effectiveness agenda also recognises that traditional aid instruments result in a set of incentives in recipient

countries which undermine the development of effective, accountable states. Traditional forms of aid support preoccupy recipient country governments such that they have little capacity or incentive to manage their own funds properly or be accountable to their own populations

3.31 The aid effectiveness agenda finds expression in the Paris Declaration commitments which in turn reflect a consensus that aid effectiveness depends on country ownership of strategy and country leadership of aid management. The good practice principles adopted at the High Level Forum in Rome in 2003, further developed at the Paris High Level Forum in 2005 and given further form at the Accra High Level Forum in September 2008 through the Accra Agenda for Action are based on the principles of mutual accountability and of donor alignment with partner countries' strategies and systems in order to ensure this effective country ownership. Using country systems, including the planning and budgeting system, is seen as an important way of strengthening them. It is also seen as a way of ensuring sustainability, since parallel activities often wither when external funding ceases.

3.32 The emergence of budget support as a financing modality is based on an understanding that while the flow of donor funds is required to accelerate poverty reduction and development in aid recipient countries, how these funds are delivered makes a difference. The proponents of budget support claim that it is a more effective way of delivering aid when circumstances are favourable. This is because it has an impact beyond the provision of the goods and services to recipient country populations which it finances: it is instrumental in building more effective, more accountable governments, a necessary condition for the sustainability of any developmental benefits. These claimed special effects are summarised in Box 2. The effective oversight of budget support would monitor whether these effects are achieved.

Box 2: Special effects claimed for budget support

The special effects claimed for budget support are the following:

- Ownership and accountability: governments cannot be held accountable for resources that they do not control, and much research on aid effectiveness has concluded that country ownership is an essential ingredient. Budget support addresses this by channelling funds through national systems to support a national strategy.
- Strengthening country systems: in particular, using country systems for planning and finance management is a way of strengthening them (conversely, aid that bypasses weak systems tends to weaken them further).
- Dialogue and influence: at the same time, where the government and donors share common objectives, the broad dialogue around budget support can be a more effective means of influence than traditional conditionalities, while promoting harmonisation and alignment of many donors around a single, country-owned strategy.
- An efficient means of financing the expansion of pro-poor public expenditures (not least the recurrent costs of expanding basic education and health services to the poor) in line with the Millennium Development Goals' (MDGs) targets. Project aid is not suitable for financing recurrent costs, and a multiplicity of separate projects can lead to high costs, fragmentation and poor sustainability.
- Better predictability of aid, allowing governments to execute annual budgets more efficiently and implement long-term plans more confidently.

Echoing these points, the European Consensus on Development claims that budget support is able to strengthen national processes and systems, enhance country ownership, facilitate harmonisation, reduce transaction costs, and so improve prospects for better public spending and faster achievement of development goals.

Source: Mokoro Ltd, 2008b.

Types of budget support

3.33 All types of budget support include a lump-sum transfer of foreign exchange; differences then arise on the purpose of the transfer, which then affects the levels and focus of the policy dialogue and conditionality (IDD & Associates, 2006). Budget support has been, and continues to be, provided by aid agencies for different reasons.

3.34 Broadly defined budget support is not a new instrument. Several former colonies received general budgetary grants for some years after independence. This **budget support to former colonies** was derided as neo-colonialism and largely terminated as a practice (Achanya et al, 2004). In the 1980s **balance-of-payments support** gave governments non-earmarked budget resources. This support was given in the context of structural adjustment programmes which helped many developing countries to weather their liquidity and insolvency crises during the 1980s, but at the price of adopting painful economic-adjustment policies (Sagasti and Alcalde, 1999). Balance-of-payments support focuses on macroeconomic effects as a prerequisite of poverty reduction. Today the main provider of such support is the IMF through its concessional facility for low-income countries, the Poverty Reduction and Growth Facility (PRGF), which is a significant source of ODA. While the PRGF is regarded as balance-of-payments support that is disbursed to the central bank, often in practice it generates unearmarked funding for the government budget and is therefore tantamount to budget support. The IMF also has a role to play in the provision of other budget support, as budget support donors look to the IMF to lead in assessing the quality of a beneficiary country's macroeconomic management. Finally, balance-of-payments support also covers STABEX⁴ and exchange rate guarantee schemes.

3.35 Since the late 1990s there has been a focus on budget support as part of a wider effort to improve the effectiveness of aid. There were three interlinked developments: i) the call for debt relief which resulted in the Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction Strategy Paper (PRSP) approach; ii) the call for reform in aid management following criticism of the effectiveness of traditional projects and donor-imposed conditionalities; and iii) the call for scaling up of aid in connection with achieving the Millennium Development Goals.

3.36 The form of budget support which took shape in the late 1990s is known as **poverty reduction or partnership budget support**, or sometimes simply “**general budget support**”. This budget support comprises not only a financial transfer but also a package of complementary inputs: dialogue and conditionality; harmonisation and alignment; and technical assistance and capacity building (IDD & Associates, 2006). These complementary inputs are required to achieve the special effects set out in Box 2. Partnership budget support has an explicit focus on government expenditure (in contrast to the balance-of-payments support focus on macroeconomic effects) and is in essence a way of supporting and financing a government's PRSP. It also includes an explicit focus on partnership with the recipient country.

3.37 Budget support to fund a government's poverty reduction strategy can be provided as general budget support or with a sector focus. The difference between general and sector budget support relates to the level and focus of dialogue and conditionalities. In the case of general budget support, the dialogue between donors and partner governments focuses on

⁴ Stabex was a financial instrument created by the Lomé Convention (Articles 186-212) intended to offset instability in ACP states' export earnings. The Cotonou Agreement replaced Stabex with a new instrument, Flex. (European Commission. 2008)

overall policy and budget priorities. In the case of sector budget support the dialogue focuses on sector policies, priorities and performance.

3.38 In practice donors vary on their definitions of sector budget support, and there is not always agreement on the distinction between sector and general budget support. In addition, sector budget support is sometimes confused with other aid (such as pooled funding and projects) provided in support of a sector programme within a programme-based approach. In short, if the OECD DAC and SPA definitions are used, aid transfers that are earmarked for specific purposes within a recipient country budget would not count as sector budget support even if the funds are managed through national procedures.

3.39 The forms of budget support used by the EC are set out in more detail in Section 5. A proposed new form is the European Commission **MDG Contract**, which the Commission characterises as a longer-term more predictable form of general budget support that it expects to launch in a number of countries under the 10th European Development Fund (EDF). The MDG contract, so called because it is intended to support the sustainable achievement of the MDGs, will comprise commitment of funds for the full years of the EDF and certainty for recipient countries on the disbursement of 70% of the full commitment, provided that there is no breach in the eligibility conditions for general budget support, or in the essential and fundamental elements of cooperation.

3.40 Finally, as well as the types of budget support described in this section, donors provide other unearmarked contributions to the government budget for a variety of reasons (for example, political security motivations, response to a crisis, etc).

Risks and benefits of budget support

3.41 A risk is anything that may stand in the way of achieving objectives. The risks that need to be taken into account in the use of any development instrument, therefore, are the risks that may impair the achievement of the goals set out when deciding to use that instrument.

3.42 There are two levels of objectives that need to be taken into account when identifying risk: firstly there are the ultimate development outcomes such as poverty reduction and economic growth or improved health care and educational attainment. However, decades of development support experience has shown that there is a layer of intermediate effects (or benefits) which if not achieved, undermine the long-term sustainability of any direct effects. These intermediate outcomes concern the impact of development support on government effectiveness in recipient countries. In other words, how does development support assist recipient country governments to deliver effective education and health services, build economic and social infrastructure and become accountable to their citizens?

3.43 Supporters of budget support would strongly argue that development financing modalities are not neutral with regards to development outcomes and that budget support has strong developmental benefits that other instruments cannot emulate. These have already been set out in Box 2 on page 14 above.

3.44 Since these two layers of objectives can range from the specific to the general depending on the support programme, so can the risk. From the most general point of view, three main groups of risks can usefully be identified (Working Party on Aid Effectiveness, 2008, p 31):

- **Fiduciary risk:** Fiduciary risk refers to the possibility that aid money may not be used as intended. With regards to budget support it concerns the quality of public financial management systems and their ability to ensure that funds are used as authorised and the risk of corruption and fraud is avoided.
- **Development risk:** While fiduciary risk refers to the specific output of an intervention, a wider set of risks refers to the danger of missing the ultimate objectives of such an intervention. With regards to budget support it comprises the risks posed by an unstable macroeconomic environment (often separately assessed by budget support donors as **macroeconomic risk**), poor design and implementation of policies, weak results monitoring, weak governance, poor coordination among donors, limited ownership, non-disbursement of funds, poor sustainability of outcomes and so forth. **Political risk** is another sub-set of development risks often assessed specifically by budget support donors. It refers to the likelihood of political changes in a country impairing the achievement of budget support objectives and/or affecting the partnership principles of respect for human rights and democracy – often preconditions for budget support provision. Oversight of development risk relates to the obligation on parliament to ensure that funds are used effectively to achieve outcomes.
- **Reputational risk:** Such risk refers to the possibility that the donor may be impaired in its capacity to provide future support because of events directly or indirectly related to its current aid intervention. A sub-set of reputational risk is the risk that a donor can be exposed to a negative event, undermining the willingness of donor parliaments and taxpayers to provide further funds for development support.

3.45 All aid modalities incur these risks. Project support and programme support associated with the use of separate procedures to plan and finance projects also create risks, including

- **fiduciary risk:** for example the risk of corruption that attaches to large infrastructure projects;
- **developmental risk:** unsustainability, poor ownership, high transaction costs, weakened country public management and governance systems, inefficient use of domestic resources and continued low government effectiveness;
- **reputational risk:** the risk of future development support being undermined by poor choice of projects and poor implementation.

The difference between budget support and other modalities might not necessarily be that it incurs more risk, just that the type of risk it is most likely to incur is different.

3.46 Assessing the risks of implementing development support through budget support therefore also needs to take into account the risks of using alternative financing modalities, against their respective developmental benefits. While fiduciary risk and reputational risk are perceived to be managed more easily with non-budget support financing modalities, these modalities are weaker with regards to their ability to manage developmental risks. However, developmental risks are just as threatening to the achievement of development outcomes as fiduciary risk: in fact much of the blame for poor aid effectiveness over decades of development aid is assigned to the developmental risks of traditional aid modalities.

Good budget support practices

3.47 Budget support offers distinct advantages to recipient countries, through offering the prospect of increased ownership (and therefore higher sustainability), lower transaction costs, improved donor coordination, increased predictability of aid flows, strengthened country systems and increased government effectiveness (see Box 2 on page 14).

3.48 The OECD DAC in fact outlines the following 4 principles – closely related to the expected advantages of budget support – that should underpin good practice for budget support (OECD DAC 2005):

- i) Budget support should reinforce partner countries ownership.
- ii) Budget support should help enhance the performance and accountability of partner countries' PFM systems.
- iii) Transaction costs incurred by budget support should be minimised.
- iv) Budget support should be delivered in a way that enhances the predictability of resources and reduces their volatility.

3.49 Adherence to these principles, and the likelihood of achieving the expected benefits of budget support, depend on the good practices discussed in the paragraphs which follow.

Monitoring risk

3.50 While budget support offers advantages, it also creates risks, like all forms of development support. An important aspect of managing risks, increasing the predictability of disbursements and safeguarding the achievement of budget support development objectives rests on the activities that are undertaken to monitor risks.

The presence and quality of complementary inputs

3.51 There are strong links between budget support objectives and the management of risks: for example, while a weak public financial management system is a risk, its strengthening is a supposed benefit – or intermediary objective – of budget support. However, these advantages are not achieved automatically and the risks do not manage themselves: they depend on the complementary inputs that go with budget support, namely partnership to implement the support, dialogue on country objectives and strategy, technical assistance and donor harmonisation. A first set of good practices therefore concerns the presence and quality of these inputs.

- **Dialogue** should be harmonised with other budget support donors and aligned with country policy and budget cycles. This increases alignment and the likelihood of country ownership.
- **Technical assistance** should be used to manage risks and increase the likelihood of the achievement of objectives. Technical assistance linked to budget support is commonly invested in public financial management system reforms, including in building accountability institutions. However, such technical support should be aligned with country reform programmes and harmonised with other donors' technical assistance efforts.
- **Donor harmonisation** concerns the use of joint risk assessments, public financial management diagnostics and harmonised performance assessment mechanisms besides the joint dialogue and coordinated technical assistance already mentioned. Donor harmonisation is important to achieve reduced transaction costs.

- **Partnership** entails the management of a budget support operation in partnership with the recipient country and other donors. The institutional arrangements for a budget support operation are not imposed on a country or arranged separately from other donors' arrangements, but are negotiated with the partner country and harmonised with other donors.

Dialogue on and measurement of agreed outcomes

3.52 Although often perceived as such, budget support does not equal the unconditional disbursement of development support to recipient countries. While the funds (or financial inputs) are transferred to recipient country budgets without any earmarking, disbursement of funds – or at the very least future budget support contracts – depends on the achievement of mutually agreed outcomes, whether in terms of MDG type development outcomes or intermediary systemic outcomes. These outcomes form the core of budget support dialogue, including discussion of strategies to achieve them, of their financing through the budget and of progress towards them. Their measurement is tied usually to a country-specific performance assessment framework (PAF), which in turn should be harmonised and aligned.

Performance Assessment Frameworks

3.53 Performance assessment frameworks are used to enable partners to monitor progress and adjust policy and implementation as necessary and to provide the basis for disbursement decisions for budget support. They link with the process of dialogue that is part of the budget support package. There is much debate regarding the most effective design for PAFs, although lessons are emerging on good practice for PAFs.

3.54 There are four main approaches to performance assessment frameworks for budget support (Lawson et al, 2005). These correspond to the approaches used by the EC, the World Bank, the IMF and bilateral agencies, and it is worth noting that often a variety of approaches are linked to the same PAF.

3.55 The four approaches are:

- EC: the use of a differentiated response, involving a virtually guaranteed fixed tranche and a variable tranche whose value is decided by performance in relation to quantitative performance indicators at the outcome level.
- IMF: analysis of macroeconomic and structural conditions as part of the Poverty Reduction and Growth Facility (PRGF).
- World Bank: assessment against prior policy actions.
- Bilateral agencies: general progress measured against the Poverty Reduction Strategy (PRS)

3.56 This means that donors follow a process of disbursement in one of the following ways: on fulfilment of 'prior actions'; based on an overall assessment of performance; or based on a system of fixed tranches. The latter system is used by the EC, whereby the fixed tranche is released as long as fundamental national policy and PFM requirements are adhered to. The variable tranche is linked to performance against indicators (see Table 1 for a description of terms relating to EC PAFs). Logically the donors' PAFs should be aligned with those of the recipient government such as the PRS, although in practice experience has shown that it has been difficult to operationalise these.

Table 1: EC performance assessment terms

Type of term	Term	Definition
The conditions that are to be met before a payment can be made	General conditions.	These are conditions that apply to the disbursement of all tranches. These conditions will be those related to the eligibility criteria for receiving BS (see below)
	Specific conditions	These are conditions that apply to the disbursement of individual tranches, whether fixed or variable. These conditions will normally be those related to (results based) performance criteria and indicators established in each of the areas of focus of the BS programme
Tranches (or payments parts)	Fixed tranches	These tranches have a fixed value, specified in advance within the Financing Agreement. If all conditions are met, they are disbursed in full. They are not disbursed at all when one or more conditions are not met.
	Variable tranches	These have a maximum value, specified in advance. They are either disbursed in full or in part, on condition that the fixed tranche is disbursed, with the amount based on performance achieved in relation to pre-set targets or performance criteria and indicators.
	Floating tranches	A tranche is considered to be floating, when the date by which its disbursement condition(s) need(s) to be met can vary – in effect there is no fixed “cut-off” date for meeting the disbursement condition.
	Non-floating tranches	A tranche is non-floating when the date by which its disbursement conditions need to be met cannot vary – in effect there is a fixed “cut-off” date for meeting a disbursement condition.

Source: EC 2007, p 17,18.

3.57 PAFs are an important instrument for monitoring and providing transparency in the relationship between donors and recipient countries. Good practices in the design and operation of PAFs are outlined in Box 3. The issue of predictability is key. There is a tension between using budget support funding to provide incentives to accelerate reforms or action specific policies and providing predictability of funding. If funding is tied to performance and targets are not met, then reductions in funding can have a detrimental impact on recipient countries’ budgets.

3.58 The extent to which disbursement is made conditional upon performance determines the design of the PAF. For example, fixed tranches linked to process conditions provide predictability of funding, but little specific incentive to accelerate reforms, whereas variable tranches give incentives, but less predictability. Hence the EC system of fixed and variable tranches is designed to overcome this problem. In the implementation of the system, however, there is not always a credible connection between the outcome being measured as an indicator and the budget support provided, especially in the time scale allowed. While in principle the tranche system seems to balance predictability and incentives, in practice its merit is not self-evident. Lawson and Kizilbash’s study on confirms such a view:

“Introducing extra conditions for budget support disbursement is unlikely to strengthen fiduciary safeguards or reinforce the recipient’s commitment to development objectives. Why? Because evidence suggests that such conditions will have no influence in the absence of a domestic political commitment. But a complicated conditionality framework can generate high transaction costs and undermine the quality of dialogue.” (Lawson and Kizilbash, 2008, p2)

3.59 Oversight of budget support therefore would entail not only ‘following the money’, but also monitoring and holding the executive to account for the presence and quality of these

complementary inputs. Annex 4 provides an example of a PAF, illustrating how PAFs can assist in identifying the results of budget support operations.

Box 3: Good Practices in Performance Assessment Frameworks

- Five good practices relating to PAFs are noted by Lawson et al 2005. These are
- i) If possible manage all budget support through a single harmonised performance framework, in order to reduce transaction costs
 - ii) Construct a schedule for performance review, disbursement decision and tranche release which creates a high level of predictability in GBS flows. Key to this is an annual review which should take place 9 months before the start of the fiscal year, with disbursement decisions stemming from the annual review confirmed at HQ level before the start of the fiscal year
 - iii) It is possible to achieve a significant level of alignment to government systems and procedures through the use of government reporting systems for budget execution, measuring service delivery performance and for progress towards PRS targets
 - iv) PAFs should be used to strengthen mutual accountability and monitor fulfilment of donors obligations. This again lowers transaction costs.
 - v) Macroeconomic assessments by the IMF are an essential element of the review process for budget support, although this is a parallel element of the system.

Oversight and budget support

3.60 This sub-section deals with two aspects of budget support oversight that are critical for this paper.

- First, it discusses how oversight of budget support relates to the discussion of parliamentary powers and effective oversight in the first sub-section above.
- Second, referring to the discussion in the second sub-section with regards to budget support, it discusses the particular oversight challenges that result from an un-earmarked transfer into a recipient country's treasury. This has consequences for both *ex ante* and *ex post* oversight.

Budget support oversight and the separation of powers

3.61 Parliaments have very diverse roles in the selection, approval and implementation of budget support. They also have diverse roles in the budgeting cycle and in how these two sets of roles interface, which differs by country depending on how the power of the state is separated and balanced between the executive and parliament. In all country contexts, though, it is important to keep a clear conceptual distinction between parliaments' role in the budget process and their role in the programming cycle of budget support, or any development support for that matter. The reason for this is that whereas international practice recognises a legitimate role for parliaments in approving budgets, a role in the programming cycle for budget support is much more contentious.

3.62 The programming cycle of budget support, which is in principle the spending of funds that **have already been approved in the budget**, falls firmly within the executive's mandate to execute, and therefore under accountability oversight. The dilemma that parliaments face is how to ensure that their oversight obligations are fulfilled well, without taking on impractical burdens of oversight which in principle transgress into the executive's mandate.

3.63 The core question for this paper concerns the programming cycle, not the budgeting cycle. The question at hand is not only how parliament holds the executive to account

through the budgeting cycle for budget support, but also how it can enable better executive decision-making in the programming cycle through ensuring accountability for the decisions made. The oversight of executive decisions in the programming cycle should not be about taking over executive powers to decide and implement, but should be about the strategic use of parliament's legislative, budgetary and accountability oversight powers to ensure that the executive is accountable for its decisions and actions.

3.64 Exactly where this distinction between the programming cycle and budgeting cycle becomes relevant, however, is dependent on the level at which the budget is approved. Where the budget is approved in detail through the use of many budget lines, parliament has more legitimate *ex ante* budgetary oversight and the executive has less implementation discretion in the use of development funds. Where budget lines extend to detailed allocations to different types of development financing instruments, and the parliament in question has amendment powers and capacity, parliament would be acting within its *ex ante* legislative powers should it amend budget support proposals by the executive.

3.65 In principle, therefore, efforts to improve oversight of budget support would seek mechanisms aimed at using a parliament's available powers in the following manner:

- **Legislative powers** (programming cycle):
 - To decide or influence (depending on the nature of its legislative powers) the statutory frameworks to select, approve, implement, monitor and evaluate budget support and assess its associated risks.
- **Budgetary powers** (budgeting cycle):
 - *Ex ante* to decide or influence budget allocations for budget support if budgets are approved at that level.
 - During the year to monitor budget support implementation, formally or informally.
 - *Ex post* to scrutinise budget support spending for legal compliance and development performance and hold the executive to account.
- **Accountability oversight powers** (programming cycle):
 - To ensure that agencies follow their statutory frameworks to manage budget support.

Issues in budget support oversight

3.66 We have argued above that effective oversight requires the use of parliament's powers to ensure that the executive is accountable for its decisions and actions, thereby setting up good incentives for it to make legitimate decisions that will result in effective and efficient implementation of mandates. We have further argued that such decisions are relative to the oversight area itself. Oversight of budget support therefore would require mechanisms that increase the likelihood of donor agencies:

- complying with statutory frameworks for budget support (at whichever level, from laws through to guidelines); and
- achieving the specific objectives of a budget support operation and of development overall.

3.67 These requirements and the nature of budget support itself raise several issues for oversight, both *ex ante* and *ex post*.

3.68 *Ex ante*, the donor country parliament's oversight over the use of budget support funds can only extend to approving a budget support transfer and the accompanying conditions. Budget support carries no earmarking, so donor country parliaments have no direct say over how the funds are to be used. If they wish to target support beyond that, it is no longer budget support.

3.69 For budget support the responsibility beyond the transfer of the funds *en masse* to the recipient country becomes that of the recipient country parliament. Should donor parliaments wish to ensure oversight of decisions on the use of budget support funds (towards the achievement of development objectives) beyond this point, they have two main options.

- It is up to the recipient country parliament to ensure that the funds – together with domestic pool revenues – are used well. Donor parliaments can therefore fulfil their oversight obligations by ensuring that recipient country parliaments are able to practice oversight. This can be done either through building links with the recipient country parliament, or at the very least by ensuring that the complementary inputs provided with budget support include mechanisms to strengthen recipient country parliaments.
- They can ensure that the transfer is accompanied by a dialogue – “a partnership” – and a PAF which would encourage the use of funds for achieving the recipient country's strategic priorities, linked to poverty reduction and the achievement of the MDGs.

3.70 *Ex post*, donor parliaments equally face limitations. With regards to compliance-based oversight the fiduciary audit powers of the donor country only extend to whether transfers were made in compliance with the law. The accountability for and assurances about the legality of the use of funds on the ground again rests with recipient country executive and accountability institutions.

3.71 From a value-for-money perspective, oversight of budget support also poses a challenge. While in principle donor parliaments can track progress at recipient country level against the general and country-specific objectives of budget support, in practice data systems in recipient countries are not sufficiently developed to provide socio-economic outcome data, and in any case there might be a long lead time for improvements in intermediary type outcomes such as public finance management to be realised. However, even if data are not immediately available, parliaments can monitor and hold the executive to account for progress with regards to performance data that is achieved through the budget support operation.

3.72 Moreover, there is a sequencing problem, particularly in *ex ante* oversight. Budget support rests on multi-donor partnerships with recipient countries: at what point in the negotiation of a budget support agreement would a donor country parliament have *ex ante* oversight? If it is when the full budget support agreement is ready for signature, it would impact on donor harmonisation and the mandate of aid agencies to negotiate. If it is before negotiation, the oversight would be incomplete. Similarly, *ex post* oversight is a joint multi-donor exercise with the recipient country.

3.73 On the other hand, budget support is perceived by some parliamentarians to carry higher risk than other aid instruments:

- first through fiduciary risk because it entrusts money to overall country systems, rather than to the more contained systems of a project or even a programme; and
- second because of the perceived higher reputational risk, since budget support can be argued to provide support to all of a recipient government's spending.

Other forms of support can be more easily argued to be in support of a specific development objective, notwithstanding the nature of the recipient country's government policies and activities or behaviour in general.

3.74 Depending on the strength and the legitimacy of the links between development spending and foreign policy in a donor country, the possibility of budget support being used as a foreign policy rather than a development instrument may also cause discomfort to parliamentarians who approved the funds for development purposes.

3.75 In addition, parliaments view budget support with suspicion often because it is not necessarily well understood; neither are the developmental and other types of risks that attach to more traditional forms of development support. Parliamentary stakeholders (and the broader public) therefore all too easily equate budget support with 'throwing away taxpayers' money', ignoring the checks and balances that come with it and its potential developmental impact.

3.76 For these reasons budget support is singled out as a particular oversight concern. However, the singling out of budget support as an area of oversight focus should be considered carefully. There are two main reasons, both of which are important for overall development aid effectiveness:

- First, it concerns the effective use of budget support itself. Budget support is never the only instrument of choice in any country, but rather it forms part of a multi-instrument approach that should be evaluated as an overall strategy in order to assess the contribution of budget support to development objectives at country level. The TORs for the study itself recognise that budget support comes as part of a larger package of mechanisms, which includes dialogue, conditions, technical assistance and capacity building. It would also be unwise to apply a different set of standards to budget support than to traditional instruments. Budget support should not be treated in a way that creates an unjustified bias for or against budget support as an instrument: this would undermine aid effectiveness overall.
- Secondly, there are significant problems with other instruments, either in the short term (TA for example) or the long term (the sustainability of projects) that require equal scrutiny across countries and at country level. Therefore, while there is a perception that higher risk is associated with budget support, there is a strong argument to be made that it is not the magnitude of risk that is greater, but rather that it is merely the type of risk that is different.

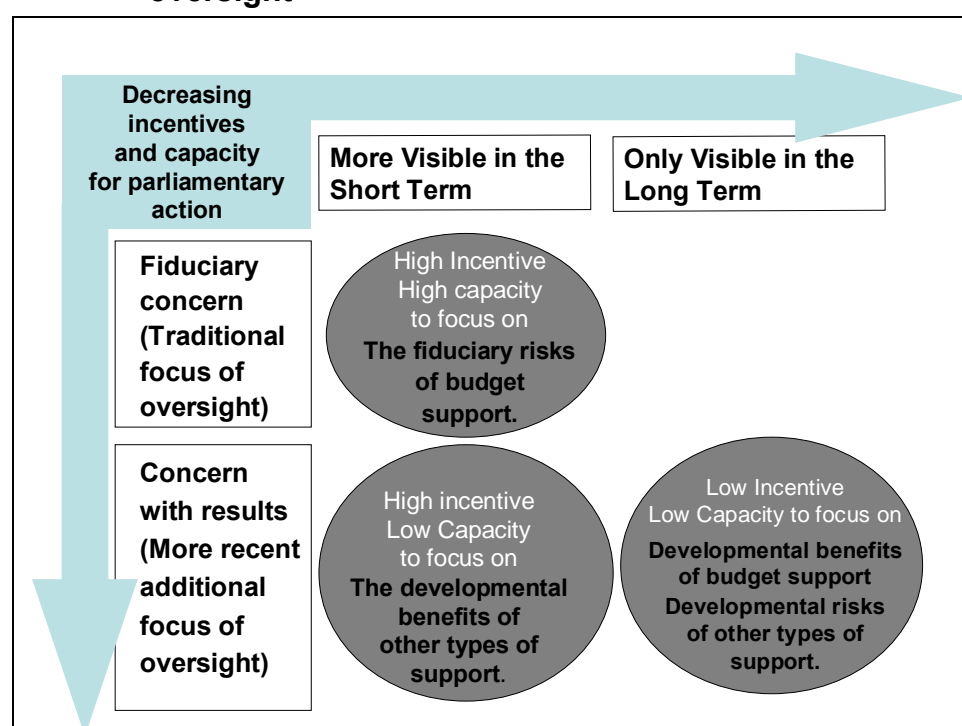
In general, while there may be reasons for budget support to be singled out for heightened political oversight, the risks presented by such focused oversight for the overall effectiveness of the use of development funds must be considered.

3.77 At the centre of the oversight dilemma of budget support is that whereas the immediate risks presented by budget support are highly visible and stakeholders seek assurances in the short term – where they are difficult to provide – the long-term potential pay-offs will take time to prove. At the same time, while the short-term benefits of other types of support are

more visible their developmental dilemmas and long-term problems are less visible and do not receive the same attention.

3.78 In paragraphs 3.21 and 3.22 we have discussed why parliaments are traditionally more concerned with fiduciary risks than with the effectiveness of spending. Key factors are a shorter rather than longer-term oversight outlook and the nature of parliamentary capacity, which is still more geared to compliance rather than results-oriented oversight. When this is cross-matched with the nature of budget support against other instruments, the effect is that the incentives of parliamentary representatives overseeing budget support and parliamentary capacity may differ from those of the agencies choosing it as the financing modality of choice and managing it. Figure 3 highlights how parliamentary capacity and incentives might mean a preference for – or at least more comfort with – other types of support over budget support.

Figure 3: Short and long term risks and benefits and the incentives for oversight



3.79 This is the key problem of budget support oversight. If parliaments were only supposed to be interested in fiduciary issues, a singular focus on budget support would be sufficient. However, it is safe to assume that ultimately parliaments and their principals – taxpayers – would want the portion of taxpayers’ money that is used for development purposes in other countries to bear results, such as fostering sustainable development and narrowing the poverty gap. A singular focus on budget support might undermine this shared objective, because it ignores the considerable risks of other types of support which might be more likely to prevent sustainable development from taking place. In order to manage these competing imperatives, it is important for any development agencies and their associated parliaments to carefully balance their understanding of the potential development benefits of all types of support with the full spectrum of risk that associates with each type of support. It is only then that an appropriate mix of instruments at the level of any country can be negotiated.

3.80 The key question for the study then is what oversight options are available for parliaments to balance short and long-term and fiduciary and developmental concerns appropriately. Figure 4 below develops the opportunities identified for budget support oversight in paragraph 3.65 above to set out reasonable oversight options schematically.

Figure 4: Oversight of budget support and the separation of powers

	LEGISLATIVE POWERS	ACCOUNTABILITY OVERSIGHT POWERS	
	Ex Ante	Ex Post	
Programming cycle	To decide or influence (depending on the nature of its legislative powers) the statutory frameworks to select, approve, implement, monitor and evaluate development support, including budget support, and assess associated risks To ensure sufficient financial and performance transparency on development support, including budget support operations To use formal powers to influence specific budget support operations, but interventions should occur prior to country dialogues	Power to monitor	Power to hold to account
		Monitor whether agencies follow their statutory frameworks to manage budget support Monitor the presence and quality of complementary inputs Monitor budget support outcomes	Ex post scrutinise budget support operations and hold executive to account for compliance with statutory frameworks. Hold the executive to account for the effectiveness of complementary inputs Hold the executive to account for budget support outcomes, both intermediary and ultimate
Budgeting Cycle	To decide or influence budget allocations for budget support if budgets are approved at that level Using formal budgetary powers to ensure consequences from accountability oversight Build links with recipient country parliaments Ensure that complementary inputs include efforts to strengthen recipient country parliaments' oversight of budgets	Monitor budget support implementation, formally or informally, through monitoring of spending.	Ex post scrutinise budget support spending for legal compliance and development performance and hold the executive to account
		Power to monitor	Power to hold to account
	Ex Ante	Ex Post	
	BUDGETARY POWERS		

4. The study research framework

4.1 The proposed research framework was structured to speak to the main areas of research required by the Terms of Reference, keeping in mind the objective of the research, namely to provide guidelines and recommendations on political and technical interventions to improve the oversight of budget support. In light of the discussion above on effective oversight, the framework also drew on critical aspects of the discourse on the separation of powers and effective governance to identify in each of the case studies key factors that might impact on the effectiveness of oversight to build executive accountability.

4.2 The research framework is divided into six sections, of which four are shared between all five countries. These four shared sections are aligned with the four focus areas of the study, and include an emphasis on *ex ante* and *ex post* financial and performance oversight. The fifth section details additional country-specific issues and the sixth section covers additional research interests for the study. Table 2 provides an abbreviated version of the research framework. The full framework is provided in Annex 1.

Table 2: Research Framework

Section 1	Case study donor budget support appraisal, selection and approval practices
Key question	Do procedures and criteria for using budget support facilitate effective parliamentary oversight?
Section 2	Case study donor budget support risk assessment practices
Key Question	Are risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?
Section 3	Case study donor practices with regards to monitoring and evaluating budget support
Key Question	How do case study donors monitoring and evaluation practices make use of parliamentary oversight to ensure effective use of budget support?
Section 4	Parliamentary oversight in general, with regards to development aid and with regards to budget support
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create? Three key areas are covered: macro-constitutional factors, parliamentary processes and access to information.
Section 5	Additional country specific issues
Canada	Impact of Better Aid Bill on budget support practice; parliamentary oversight of development spending and budget support.
EC	Usefulness of information generated by detailed budget support appraisal, oversight, approval, monitoring and evaluation procedures for effective parliamentary oversight. The use of the Court of Auditor's reports.
The Netherlands	Role of parliament in and impact of recent discussion on development spending and budget support in public domain. Usefulness of Track Record system for oversight purposes.
Sweden	Impact of recent National Audit Office Report on budget support procedures and parliamentary practice with regards to budget support procedures
United Kingdom	Impact of National Audit Office Report and parliament's engagement with the report. Parliamentary oversight of development spending generally and budget support particularly.

Section 6	Other research areas
<p>A literature review of United States oversight practice with regards to development spending, with highlighting of possible lessons.</p> <p>A review of recipient country parliamentary oversight practice with regards to development spending and budget support particularly.</p>	

4.3 The structure of the comparative analysis in Section 5 follows the first three sections of the research framework, with the results from Sections 4, 5 and 6 integrated into the discussion of the first three sections. Similarly, while the research framework was designed to investigate all aspects impacting on the results for the TOR research areas, in the interest of length the discussion confines itself to the specific questions posed in the TORs, drawing on the results for the more contextual questions added in the research framework where necessary.

PART C: BUDGET OVERSIGHT IN PRACTICE: THE EU

5. Current arrangements for parliamentary oversight and budget support practice

5.1 The TORs for the study specified that it should provide practical recommendations to parliaments in general, *and the European Parliament in particular*, to enhance their scrutiny of budget support. Based on our argument above that different contexts require different mechanisms to ensure effective oversight, it is necessary to pay particular attention to the context within which the European Parliament exercises oversight and its current practice.

5.2 Before providing our findings and conclusions based on the five case studies, we look in this section at:

- Existing arrangements for oversight by the European Parliament
- Existing arrangements for European Community Budget Support
- Oversight of budget support by the European Parliament.

5.3 Similar information for the other four case studies, the UK, Canada, the Netherlands and Sweden, is provided by country in abbreviated matrix format in Annex 5. Our analysis in the next section of emerging practice with regards to budget support oversight draws on all five case studies, plus the US and Germany.

The European Parliament and oversight

5.4 The European Parliament represents the citizens of the Member States. Since the establishment of the first European Community, the European Coal and Steel Community (ECSC) in 1951, the constellation of institutions in the European Community has always included an assembly to provide checks and balances on the powers of executive authorities. (See Annex 2 for a brief history of the European Parliament). However, the first institutions had very limited powers. Today the European Parliament shares powers with the other institutions of the European Union more or less on an equal footing (see Box 4 below for a brief description of the main institutions of the European Union). It has legislative, budgetary and oversight powers, all of which are relevant to its role in the management of budget support.

Box 4: Main European Union Institutions and their functions

The European Parliament is one of three main European Union decision-making institutions. The other decision-making institutions are the European Commission and the European Council. In addition to the decision-making institutions the European Court of Justice and the European Court of Auditors are also recognised as important European Union institutions. Of the decision-making institutions:

- Parliament represents the citizens of Europe and passes European laws. It shares this responsibility with the Council of the European Union, and the proposals for new laws come from the European Commission. Parliament and Council also share joint responsibility for approving the EU's annual budget.
- The Council of the European Union – formerly known as the Council of Ministers – represents the member states and shares with Parliament the responsibility for passing laws and taking policy decisions. In the field of common foreign and security policy and for EU action on some justice and freedom issues, it bears the main responsibility. The Council consists of ministers from the national governments of all the EU countries. Meetings are attended by whichever ministers are responsible for the items to be discussed: foreign ministers, ministers of the economy and finance, ministers for agriculture and so on, as appropriate. Each country has a number of votes in the Council broadly reflecting the size of their population, but weighted in favour of smaller countries. Most decisions are taken by majority vote, although sensitive issues in areas like taxation, asylum and immigration, or foreign and security policy, require unanimity.
- The European Commission represents and upholds the interests of Europe as a whole. It is independent of national governments. It drafts proposals for new European laws, which it presents to the European Parliament and the Council. It manages the day-to-day business of implementing EU policies and spending EU funds. The Commission also ensures that everyone abides by the European treaties and laws. It can act against rule-breakers, taking them to the Court of Justice if necessary. The Commission consists of 27 women and men – one from each EU country. They are assisted by about 24 000 civil servants, most of whom work in Brussels. The President of the Commission is chosen by EU governments and endorsed by the European Parliament. The other commissioners are nominated by their national governments in consultation with the in-coming President, and must be approved by the Parliament. Each of them has responsibility for a particular EU policy area. The President and members of the Commission are appointed for a period of five years, coinciding with the period for which the European Parliament is elected.

Up to four times a year the presidents and/or prime ministers of the Member States meet as the European Council. These 'summit' meetings set overall EU policy.

Source: The EU at a Glance, <http://europa.eu>, accessed September 2008

Legislative powers of the European Parliament

5.5 Depending on the procedure used for a legislative act, the legislative power of the modern European Parliament can take many shapes, including consultation, conciliation, assent, cooperation and codecision. However, it did not always have these powers, rather they developed over decades. Today the European Parliament still does not have the power to initiate legislation, only to adopt, amend or reject it in its areas of competence. Table 3 provides a summary of the different powers, their legal basis and for which type of legislative decisions they are used.

Table 3: Forms of and procedures for Parliamentary legislative powers

Power	Used for	How does it work?
Consultation	Used for all measures where another procedure is not required; the oldest form of power of Community assemblies.	Council takes decision on Community proposal after securing the opinion of European Parliament. The Council and Commission have to consider the amendments put forward by parliament. An informal opinion is delivered substantiating the decision to accept, reject or amend an amendment.
Cooperation (Article 252 of the EC Treaty)	Measures relating to the establishment and functioning of the common market. After the 1992 EU Treaty cooperation is applicable to all cases where Council has to act by a qualified majority. In 1997 after the Treaty of Amsterdam the cooperation procedure was cancelled in all areas except for economic policy and monetary policy. For all other areas it was replaced by codecision.	After a first reading Parliament drafts an opinion on a Commission proposal. The Council adopts a common position by qualified majority which is forwarded to Parliament. Parliament may approve, reject or amend the Council's position within three months. If rejecting or amending, an absolute majority of MEPs is required. If Parliament rejects, Council must act unanimously. If an amendment, the Commission has to review the proposal within a month, It then forwards to the Council the new proposal, plus the parliamentary amendments it did not implement. The Council may adopt within three months the amended proposal by qualified majority, It may amend it unanimously or adopt the amendments tabled by Parliament but rejected by the Commission. If the time passes without decision, the Commission proposal is deemed not to have been adopted.
Codecision (Article 251 of the EC Treaty)	Applicable to all cases where Council has to act by a qualified majority. Both the 1997 Treaty of Amsterdam and the 2001 Treaty of Nice expanded the scope of areas to which the procedure applies. Areas are for example a common transport policy, social protection, customs cooperation, the freedom of workers, freedom of establishing businesses, recognition of qualifications; judicial cooperation in civil matters etc. Development cooperation falls under codecision.	The codecision procedure is similar to the cooperation procedure. The Commission submits a proposal to the European Parliament and the Council. The Council, on a qualified majority, after it obtained the opinion of the Parliament, may adopt the act if there were no amendments or if accepts the amendments. If the Parliament had communicated amendments, the Council must adopt a common position and provide its reasons. The Commission must also communicate its position to Parliament. If within three weeks parliament has not taken a decision or approves the common decision, the act is adopted. If however it rejects the act by an absolute majority, it would be deemed not adopted. If it again proposes amendments to the adjusted proposal, that should be forwarded to the Council and the Commission to take a position. If Council approves the amendments, the act is adopted. However, if the Commission provided a negative opinion on any of the amendments, the adoption would need to be unanimous. If all amendments are not approved, the President of the Council must convene a Conciliation Committee. The Conciliation committee must adopt the final proposal by a qualified majority of the Members of Council and a majority of the Members of Parliament. After the Conciliation Committee the Council and Parliament have six weeks to adopt the joint text. If the Conciliation Committee does not approve a joint text, the proposal is not adopted.

Power	Used for	How does it work?
Assent	Used for specific procedures, e.g. certain actions that concern the Central Bank, the definition of a uniform electoral procedure for the Parliament, determine a breach by a Member State of the principles of liberty, democracy, respect for human rights etc.	The Council acts on a Commission proposal after securing the assent of the European Parliament
Conciliation	The conciliation procedure was established by Joint Declaration in 1975. It may be followed for Community act of general application with significant financial implications and of which the adoption is not required by virtue of acts already in existence.	The aim of the procedure is to get agreement between the European Parliament and the Council. A Conciliation Committee is established, comprising representatives of both institutions. The Commission participates in the work of the Conciliation Committee. When there is no significant difference left between the will of the two institutions, Parliament may deliver a new opinion and Council will then make the final decision.

Source: Centre Virtuel de la Connaissance sur l'Europe (CVCE), <http://www.ena.lu/>, accessed September 2008

5.6 Development spending under the Community Budget (in other words all development spending bar that under the European Development Funds (EDFs)) is decided by a qualified majority in Council and therefore is legislated for through a codecision procedure. Parliament therefore has significant powers in influencing how and through what means Community Budget funds will be spent for which purposes.

5.7 The inclusion of development spending under codecision also means that Parliament has real time insight into decisions taken by the Commission through the commitology system. Commitology is a process whereby measures to implement acts can be adopted by the Commission without having to refer back to the Council for permission through the use of various committees of experts from the Member States, chaired by the Commission. The system has evolved over years, with the most recent decision on it taken in 1999 by the European Council.

5.8 There are now three types of commitology procedures, depending on the subject matter. The committee assisting the Commission can either be an Advisory Committee, a Management Committee or a Regulatory Committee. If one of the latter two and the Committee disagrees with the proposed measures, the Commission has to refer the issue back to the Council. Most development implementing measures, including the approval of Country Strategy Papers and Annual Action Programmes (which would include the detail of budget support operations), are designated Management Committee Procedures.

5.9 Although only formally part of the Regulatory Committee procedure, under the 1999 Council Decision on commitology (OJ L184, 17.7.1999, p 23) the European Parliament is informed of all committee proceedings. For codecision instruments it should also receive among other, agendas for committee meetings and the draft measures submitted to the committees. The Commission is also obliged to inform the European Parliament when it transmits measures or proposals to the Council. Parliament can by resolution object to an

implementing measure (such as a country strategy paper) on the basis that it is not in line with the underlying legal instrument.

5.10 For a codecision instrument the 1999 Council Decision indicates that the Commission has three options – having re-examined the draft measure – should the European Parliament indicate that a draft implementing measure would exceed the implementing powers provided for in the basic instrument. It can submit new draft measures, continue with the procedure or submit a proposal to the European Parliament and the Council. The Commission is obliged to inform the European Parliament and the relevant Committee of its choice, and provide reasons for it.

5.11 In 2000 the European Parliament passed a resolution based on an agreement with the Commission. This agreement and resolution fleshed out its role in the commitology procedures, based on the 1999 Council decision, as follows:

- Its agreement with the Commission would not prejudice its right to adopt resolutions on any subject, particularly when it objects to implementing measures proposed by the Commission or referred to the Council.
- The submission of agendas, draft measures and other information under the 1999 Council Decision will be at the same time as to members of the committees and on the same terms.
- Most importantly, the Commission agreed to forward to the European Parliament for information, specific draft measures for implementing basic instruments not adopted under the codecision procedure, but which are of particular importance to the European Parliament. This will be done at the request of the parliamentary committee responsible.

5.12 The commitology decision and agreement therefore provides a basis for the European Parliament to intervene in the approval of budget support for non-EDF types of budget support. As the DCI and other instruments are codecision instruments, the 1999 Council decision makes the Parliament privy to the Annual Financing Agreements, in terms of which the details of budget support are set out.

Budgetary Powers of the European Parliament

5.13 The second set of powers relate to the budget. The modern European Parliament functions on an equal footing with the Council as a budgetary authority. The initial Common Assembly had virtually no budgetary powers. A Council Decision in 1970 to replace Member States' contributions with own resources led to the right of the representative assembly to take formal decisions on the budget of the Communities, even though the decision-making powers were only on non-compulsory expenditure. In 1975 the right of Parliament to reject the budget as a whole was established, as well as the right of Parliament alone to give discharge to the Commission on the implementation of the budget. To this purpose, the Council and the European Parliament examine the accounts and financial statements of the Commission in turn, as well as the Annual Report, the Statement of Assurance and reports by the European Court of Auditors.

5.14 The annual Community Budget is decided within the context of pre-standing multi-annual Financial Frameworks. These are agreed every seven years and provide the framework for the total amount of resources to be used, and annual ceilings for each of eight main expenditure categories. The agreements also include agreements on collaboration

between the Parliament, the Council and the Commission. The latest agreement was in May 2006, for the period 2007 to 2013.

5.15 For the Community Budget, the present annual budgetary procedure is set out in Article 272 of the EC Treaty, which stipulates the sequence of stages and the time limits which must be respected by the two arms of the 'budgetary authority': the Council of Ministers (acting by qualified majority) and the European Parliament, which together establish the annual budget. These stages are outlined in Table 4 below.

Table 4: Stages of the annual budget procedure

Timing	Stage
May	The Commission draws up a Preliminary Draft Budget (PDB)
July	The Council conducts its first reading of the PDB and establishes a Draft Budget.
October	The European Parliament conducts its first reading on the basis of the Council's Draft Budget and proposes amendments to non-compulsory expenditure and modifications of compulsory expenditure.
November	The Council conducts a second reading on the Draft Budget to consider any amendments or proposed modifications by the European Parliament. At this point it accepts, modifies or rejects modifications by the Parliament to compulsory expenditure. These do not return to Parliament for the second reading.
December	The European Parliament reviews the Council's amended budget proposal. It can again with regards to own expenditure accept, amend or reject spending. This is done through the Budget Committee. It then votes and adopts the Budget as is or amended

Source: Official Journal of the European Union, 2002/C, 325/141

5.16 The budget is presented in Activity Based Budgeting format, which ties budgetary resources to clear policy objectives with appropriate performance indicators and evaluation measures. It contains a limited number of budget lines per chapter, meaning that information is presented at a high level of aggregation.

5.17 On the *ex post* side, by 15 June at the latest the European Court of Auditors makes its observations on the provisional accounts of each institution and each body. Each institution and each body draws up its final accounts, on its own responsibility, and sends them to the Commission's accounting officer and the European Court of Auditors by 1 July of the following year at the latest with a view to drawing up the final consolidated accounts. After approving the final consolidated accounts, the Commission sends them to the European Parliament, the Council and the European Court of Auditors before 31 July of the following financial year. Parliament utilises the reports of the European Court of Auditors in its discharge resolutions of both Community Budget and EDF spending. The final consolidated accounts are published in the Official Journal of the European Union together with the statement of assurance given by the Court of Auditors by 31 October of the following financial year. The Commission regularly sends Parliament and the Council information on the implementation of the budget.

Accountability oversight powers

5.18 A third set of powers concern *ex post* accountability oversight. This includes the power to monitor the executive, the only power afforded to original Common Assembly, the power to discuss Annual Reports on community activities as submitted by the Commission, and to give discharge to the Commission on the implementation of the budget.

5.19 Parliament can also pass a vote of censure, forcing Members of the Commission to resign as a body. Such a vote, however, needs to be carried by a higher majority of the votes cast, representing a majority of the Members of the Assembly. Since the first election of parliament in 1979, seven motions of censure have been tabled, including one refusing discharge of the 1996 budget. Of these none were successful, but the closest to success was the motion of no-confidence after a refusal to discharge the 1996 budget: 232 voted for, 293 against and 27 abstained. Total members were 626. The eventual outcome of this saga was the resignation of the Santer Commission, after a Committee of Independent Experts was set up.

5.20 In addition, Parliament has the right to approve the nomination by Member State governments of the President of the Commission and the approval of the President and other Members of the Commission as a body. The President of the Council also presents his programme to the Parliament at the beginning of a presidency and provides a summary on its achievements at the end of a presidency.

5.21 Accountability oversight powers are exercised through the right of Members of Parliament to table written and oral questions to the Commission. This can be done either as a Parliament, or by individual members. Questions can also be tabled to members of the Council. Furthermore there is the right to set up temporary committees of inquiry to investigate alleged contraventions or maladministration in the implementation of Community laws.

Instruments of EC development support and their management

5.22 The EC is actively pursuing the provision of budget support, and in this area, the EC has adopted more demanding targets than the Paris Declaration:

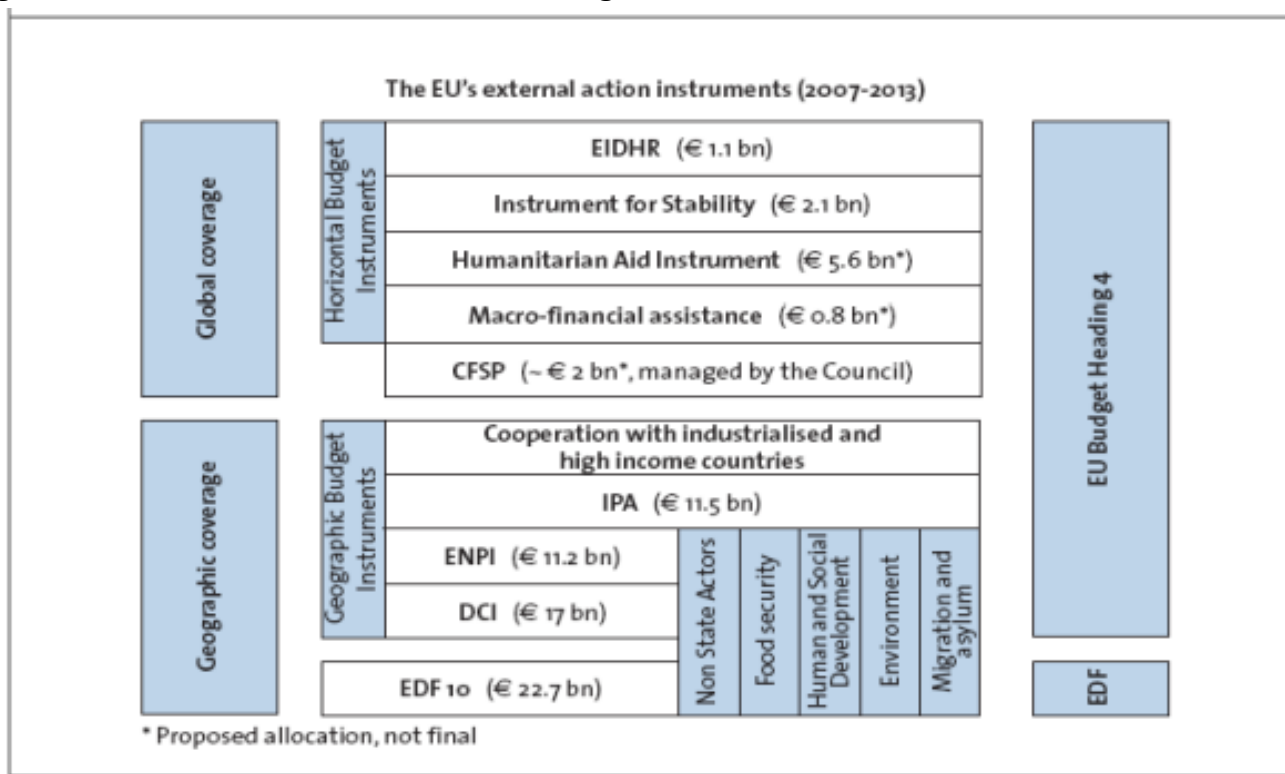
“Budget support, general or sectoral, should be used for implementation wherever possible: this is the golden rule if aid is to be made more effective, and it should be reinforced.” (European Commission, 2007c: p8)

5.23 EC strategy lays out that:

“... where circumstances permit, the use of general or sectoral budget support should increase as a means to strengthen ownership, support partner’s national accountability and procedures, to finance national poverty reduction strategies (PRS) (including operating costs of health and education budgets) and to promote sound and transparent management of public finances.” (European Commission, 2005: p10)

5.24 The legal base of European Union budget support spending rests on several legal instruments, which means that there can be significant differences in the arrangements for managing budget support depending on which instrument funds the intervention. Before 2007 there were more than 30 legal community-based instruments in place plus the European Development Funds, which are not based on a legal instrument agreed by the Community institutions, but underpinned by agreements negotiated between the ACP countries and the Member States directly. After 2007 the community-based instruments were streamlined, allowing a more simple structure of regional and horizontal instruments to emerge (see Figure 5). Of the pre-2007 legal instruments only the EDF and Euro-Mediterranean Partnership agreement (MEDA) had a clear legal basis for budget support.

Figure 5: The structure of the EU's funding for external activities



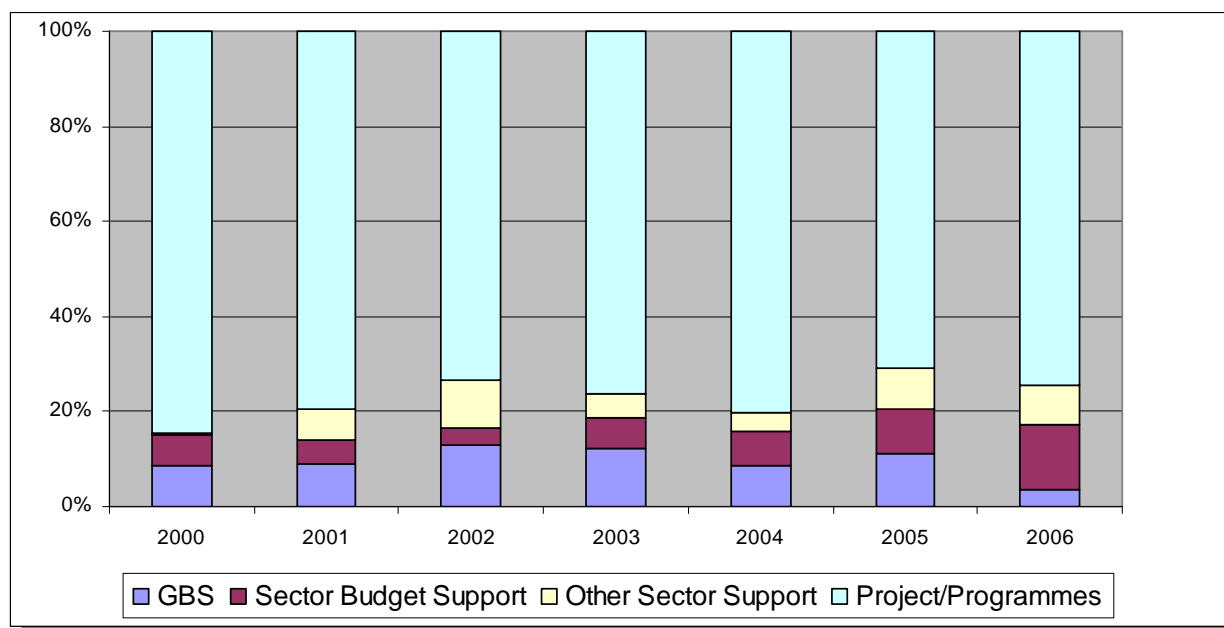
Source: Grimm, 2008, p10

5.25 Development funds – including those used for budget support – come from two main sources, the Community Budget and the EDF. Even though a heading has been reserved for the Fund in the Community budget since 1993 following a request by the European Parliament, the EDF does not yet come under the Community's general budget. It is an inter-governmental arrangement, funded directly by the Member States, subject to its own financial rules and managed by a specific committee. Most of the aid flowing to African, Caribbean and Pacific States will continue to be funded by the EDF, at least for the period 2008–2013.

5.26 Besides the EDF, budget support can also be provided through the Development Cooperation Instrument (DCI, which funds programmes in Latin America, Asia, Central Asia, the Middle East and South Africa), the European Neighbourhood and Partnership Instrument (ENPI, which funds programmes in Eastern Europe, the Caucasus and Mediterranean countries), the Instrument for Pre-Accession Assistance (the Balkans and Turkey) and the Stability Instrument (no geographical restriction).

5.27 It is important to understand the scale of general budget support in the total volume of ODA provided by the European Union. Figure 6 below – using EuropeAid figures – shows total EDF and non-EDF ODA that was committed for use 2000 to 2006. It shows that from 2001 the share of total support committed as sector and general budget support has fluctuated between 20 and 30%. Up to 2005 most of the commitment was as general budget support, but in 2006 sector budget support took up the largest portion of the budget support commitment.

Figure 6: General and sector budget support (EDF and non-EDF) and total ODA (Community Budget and EDF) committed 2000 to 2006



Source: EuropeAid Cooperation Office

5.28 The distinction between countries that qualify for EDF support and countries that are supported through the DCI and the ENPI instrument is geographic. Countries that qualify for EDF funds are 78 countries in Africa (minus South Africa), the Caribbean and the Pacific (the ACP countries). Countries that qualify for geographic DCI funds number 50 and for ENPI 17. However, because of the nature of support programmes in these three groups of countries, budget support features predominantly under the EDF programme. The ENPI is next, with the remainder of geographical instruments making up less than 25% of budget support.

5.29 The different legal bases are important with regards to the role of the European Parliament. The DCI and ENPI instruments are funded through the Community Budget, and are therefore subject to the full powers of oversight of the European Parliament (see section below). The EDFs, however, are not funded through the Community Budget but are an intergovernmental (rather than Community) structure funded directly through contributions by the Member States. They are therefore not part of the Community Budget (even though total funds available are together with the financial framework that govern the Community Budget), and therefore Parliament has no *ex ante* say in approving funds for use under the EDFs. It does however have discharge powers, the same for EDF funds as for European Union budget funds (see Box 5 on EDF funds, EDF institutions and budgetisation of the EDFs).

Box 5: EDF institutions and oversight

The EDFs are currently managed in line with agreements between the Member States and the ACP countries. The 7th and 8th EDF are underpinned by the Lomé Conventions and the 9th and 10th EDF by the Cotonou Partnership Agreement.

The European Commission (EC) is tasked with the management of the EDF resources on behalf of the EU member states. Direction is provided to the EC via the EDF Committee. In addition, the Cotonou agreement set up three main institutions of cooperation between the Member States and the ACP countries: the Council of Ministers, the Committee of Ambassadors and the Joint Parliamentary Assembly. All of these have representation by both the Member States and the ACP Countries. The Commission is also represented on the Council of Ministers and the Committee of Ambassadors.

The Joint Parliamentary Assembly (JPA) which has equal membership of EU and ACP representatives. All members are members of Parliament of their principals, or in the case of the ACP countries, a designated representative by the country parliament. The JPA is a consultative body. Its core role with regards to the implementation of the agreement is to discuss issues pertaining to development and the ACP-EU partnership and to adopt resolutions and make recommendations to the Council of Ministers towards achieving the objectives of the agreement.

The Development Committee Secretariat in the European Parliament acts as a joint secretariat for the JPA. The JPA secretariat in turn acts jointly for the Council of Ministers, the Committee of Ambassadors and the JPA, often detracting from its effectiveness as a JPA support organ.

The JPA also receives Country Strategy Papers and Regional Strategy Papers, but only for the 10th EDF. This is formalised in the implementing regulation for the 10th EDF (OJ L152, 13.06.2007, p5). Given that it only meets 4 times a year and its capacity is limited, it cannot undertake the same level of scrutiny of papers as the European Parliament, besides the fact that it is only a consultative assembly. Also, the ACP countries have also not necessarily supported the idea of debating their country strategy papers with Members of the European Parliament, with the result that there is no debate on the papers in the JPA.

Although not part of the Community budget and therefore not approved by the European Parliament, the EDF funds are audited by the European Court of Auditors and discharged by the European Parliament. The European Parliament has long argued for the budgetisation of the EDF. This position is supported by external stakeholders who argue that Member States contributions to the EDF are also not subject to oversight of national parliaments or the European Parliament, and therefore have very weak democratic accountability structures. Other arguments for budgetisation is that it would bring the implementation of EC development support under one umbrella, reducing transaction cost and the complexity of administering funds and different financial rules at the same time.

While the Commission has repeatedly proposed budgetising the EDF, the Member States and the EDF has not implemented it for various reasons. The result is that the budgetisation of the EDF is unlikely to occur before 2013, when the EDF, the DCI and the current Community Financial Framework expire.

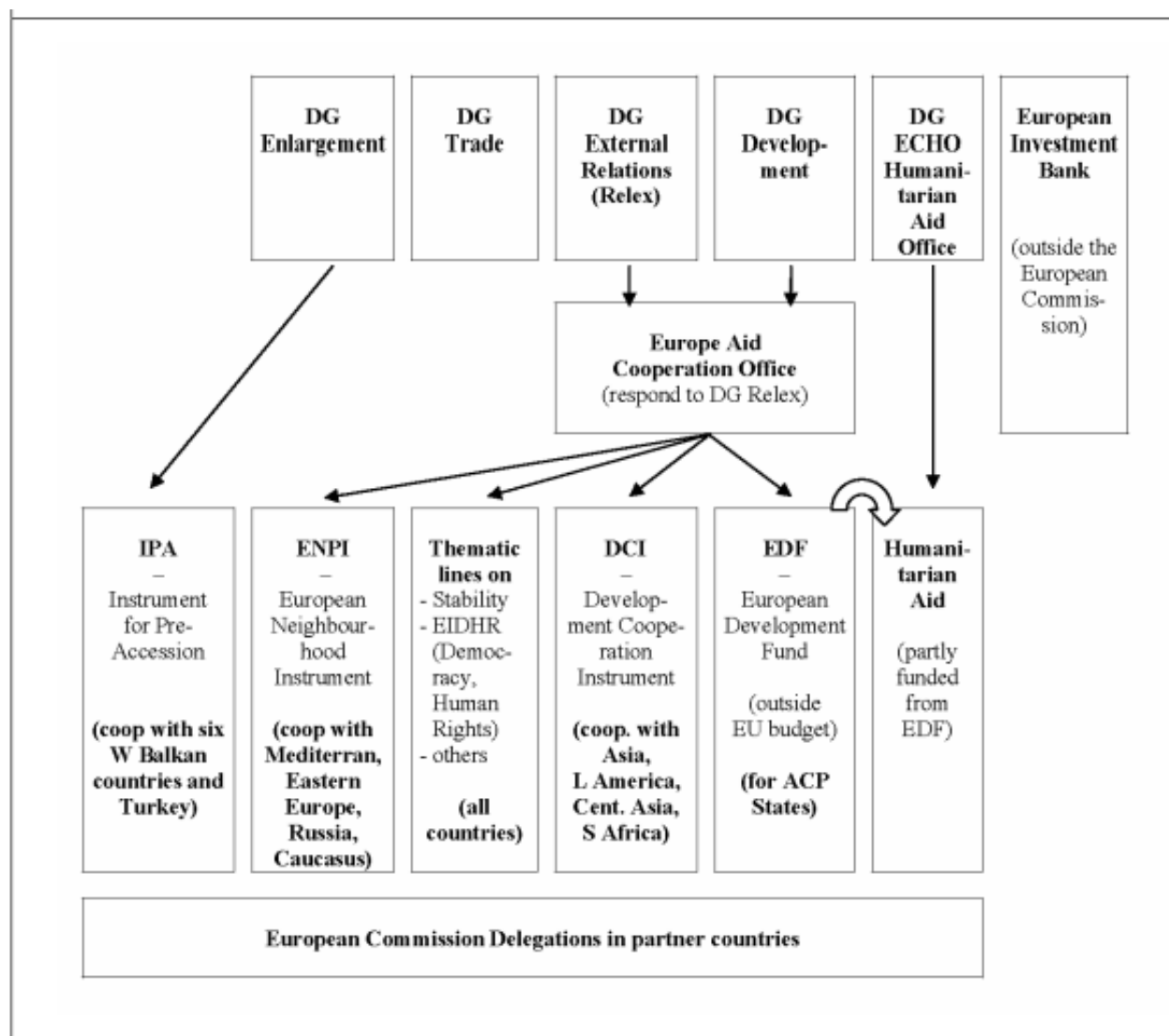
Source: OJ L 209, 11.8.2005, p. 27. ; OJ L152, 13.6.2007, p1; interviews

5.30 The different legal bases for development support are also important insofar the institutions within the EC that are involved and the rules that govern the implementation of the support differ.

5.31 Figure 7 provides a schematic representation of the structure of the EC with regards to aid management. There are three main directorates general involved. Two of them – the Directorate General for Development and Relations with African, Caribbean and Pacific Countries (Dev) and the Directorate General Foreign Affairs (Relex) – are in charge of policy and programming. The third directorate general, the EuropeAid Cooperation Office (Aidco), is in charge of implementation of aid programmes under the DCI, the EDFs and the ENPI. The joint Evaluation Unit, housed in Aidco, is in charge of evaluations on behalf of all three Directorates General in accordance with a work programme approved by the Commissioners.

5.32 The division of labour between Dev and Relex is by region and instrument. Policy and programming for the EDFs and for DCI and ENPI thematic support are done through Dev. Dev falls under the Commissioner for Development and Humanitarian Aid. For the DCI and ENPI geographic programmes these functions are performed through Relex which falls under the Commissioner for Foreign Affairs.

Figure 7: Management structure of the European Commission's external relations



Source: Grimm, 2008, p15

5.33 The three directorates general (Dev, Relex and Aidco) have produced joint guidelines for the programming and implementation of budget support. However, the guidelines do not describe in detail the financial procedures, which are addressed separately in other EC documents dealing with financial regulations of the Community budget and the European Development Fund.

Definition of and procedures for programming EC budget support

5.34 In this section we provide a brief discussion of how the EC defines budget and sector budget support, what the procedures are for programming it, how risks are assessed and how budget support is implemented and assessed. This corresponds to Sections 1, 2 and 3 of the research design. Throughout our discussion we highlight the implications for parliamentary oversight of EC systems.

Defining budget support

5.35 The 2007 Aidco, Dev, Relex Guidelines on the Programming, Design & Management of General Budget Support (EC, 2007) sets out clearly that the responsibility of the European Commission extends to the responsibility of ensuring that general and specific pre-disbursement conditions are met and that the transfer is made to the recipient country treasury in accordance with the agreement. Once this transfer has occurred, it is the responsibility of the partner (or recipient) country to manage the resources – as for all other revenues – through its own institutions for planning, budgeting, budget execution, accounting and auditing.

5.36 For the EC, sector budget support is procedurally no different from general budget support, insofar as it involves the transfer of unearmarked funds directly to the treasury of the partner government. The difference however is in the objective: general budget support has as its objective the support of a national development strategy and policies, whereas sector budget support is aimed at supporting a sector strategy and policy. The difference in objectives is reflected in the dialogues and conditions that accompany budget support. Table 5 below sets out the typical features that are covered in the dialogue and conditionality of each.

Table 5: Typical features of General and Sector Budget Support

General Budget Support dialogue and conditionality typically focus on	Sector Budget support dialogue and conditionality typically focus on
<ul style="list-style-type: none">▪ national objectives which can cover key sectoral objectives in so far as they are fundamental to the national development or reform policy and strategy;▪ improving or maintaining macroeconomic stability;▪ improving overall public financial management;▪ improving the budgetary framework to address national policy and strategy objectives▪ oriented to the use of “results/outcome based” performance indicators	<ul style="list-style-type: none">▪ improving sector performance;▪ improving overall public financial management, but paying particular attention to sector specific issues▪ macroeconomic framework in so far as it is important for the achievement of sectoral objectives;▪ improving the budgetary framework for the sector▪ the use of “results/outcome” based performance indicators, but also paying attention to the results chain from “inputs” to “outputs” to result-based “outcomes”

Source: EC 2007, p 14

5.37 The Guidelines still do provide for the possibility of targeting sector budget support, not by earmarking the funds up front, but by providing equivalent funds for areas that the Commission wants to support within a sector, and checking afterwards that those areas were funded. The Guidelines state, however, that untargeted support is preferred. Earmarking has been highly criticised in the past, amongst other in the 2001 Special Report by European Court of Auditors (European Court of Auditors, Special Report 5/2001). The only reason for earmarking is the non-execution of the voted recipient country budget, due to cash shortfalls which can lead to cutting of the types of expenditures that budget support would be intended to support. It is therefore needed to protect these expenditures. In all other cases the Commission would not use earmarking.

5.38 The EC may use general budget support for both medium-term and short-term objectives. The medium-term objectives concern the support for a country’s strategy, while the short-term objectives involve short-term support for stabilisation and rehabilitation. For the former the type of policies that may be supported is also defined by instrument:

- For DCI and ACP countries general budget support is typically aimed at supporting Poverty Reduction Strategy Papers (PRSPs) or equivalent strategies and policies.
- For ENPI countries, the support is aimed at support for the objectives of association and economic convergence with the European Union set out in Association and Cooperation Agreements and Action Plans.
- Regional integration objectives may also be assisted with budget support.

5.39 The short-term objectives may be of three kinds:

- Support in post-crisis countries (post conflict post-natural disaster);
- Support for countries facing particular financial difficulties;
- Support in the case of short-term fluctuations in export earnings.

5.40 These general objectives and the specific objectives as defined in the financing agreement – related to the typical foci of dialogue and conditions – are important because they inform the use of disbursement conditions and performance criteria, through which risks are assessed and development outcomes pursued (see page 20 for definition of EC terms and a brief discussion on how the EC uses different mechanisms to manage risks during implementation).

5.41 From the perspective of oversight the nuanced use of general and sector budget support through the implementation of these instruments is an important element of reaching budget support objectives and reducing risk. The use of varied tranches – together with conditionality – is intended to provide the flexibility both to set up incentives for performance for recipient countries and to provide flexibility to EC Delegations to manage risk without affecting predictability unduly. High unpredictability poses high risk to recipient countries and can undermine the value-for-money objectives of budget support.

Eligibility criteria

5.42 Another key instrument to set up performance and manage risk is the choice of countries in which budget support is used. While the eligibility clauses are worded differently in each instrument, the three elements put forward in the 2007 Guidelines are consistent:

Countries are eligible for receiving budget support if they have

- a well defined national policy and strategy in place or under implementation
- a stability-oriented macro-economic policy in place or under implementation
- a credible and relevant programme to improve public financial management in place or under implementation.

5.43 The eligibility criteria feature in each step of the programming and implementation cycle, providing systematic safeguards against risk. In assessing whether a country qualifies for budget support the EC, however, does not apply absolute thresholds, in other words minimum conditions in any of the three areas that have to be met. It uses a ‘dynamic’ approach, in which the direction and magnitude of change are assessed against a country’s initial status in all of the three criteria in order to assess its eligibility *ex ante* and monitor it during implementation. In practice, however, the dynamic approach is mostly applied to the public finance management criteria. This necessarily means that a case-by-case approach is used, rather than a uniform summary assessment standard. The 2005 European Court of Auditors’ report on EDF budget support (European Court of Auditors’ Special Report 2/2005) criticised the Commission for not always demonstrating in a structured manner that the direction taken by a country is satisfactory.

Approval, monitoring and evaluation processes

5.44 Budget support is programmed and implemented through the same cycle as all other EC development support. Annex 3 provides a table setting out the main phases, the sub-steps and the key issues that are covered in procedures for the approval, implementation and evaluation of budget support. These are:

- **Programming:** This takes place during the drafting of the Country Strategy Paper and involves balancing the importance of realising budget support objectives, against risks and country eligibility.
- **Identification:** This phase occurs before the formulation of the details of a budget support operation and involves the establishment of a road map, preliminary identification of objectives, purpose, and results for budget support and complementary inputs and the identification of implementation modalities for the non-financial aspects.
- **Formulation:** This phase involves compiling a complete set of decision-making documentation for the relevant committee. It requires setting out the rationale, a description of the country context, and a description of the details of the programme and how it will be implemented.
- **Financing:** This phase involves the formal decision-making on budget support.
- **Implementation:** Important aspects of implementation are joint donor assessments and joint donor agreements, promoting ownership and accountability; tranche release decisions and the production of monitoring reports
- **Evaluation:** The Guidelines set out that evaluation should be joint with other donors providing budget support; the evaluation should be based around a hypothesised causality framework and relevant "evaluation questions" and should be evidence-based.

5.45 During programming the decision to programme budget support is a function of both the likely impact and country eligibility. This is taken during the drafting of the Country Strategy Paper (CSP). For example, if the Commission finds that a country is a weak candidate, but that it is of particular importance to use budget support in order to achieve its country strategy objectives, it may still decide to use the instrument. In essence, the two criteria present the trade-off between the likely benefits of budget support through its developmental impacts and the potential risk to the achievement of these impacts on account of country circumstance.

5.46 While delegations drive all the phases of the programming through to formulation process, they are in regular contact with headquarters. There are also specific points at which different Quality Support Groups review documentation to ensure consistency, coherence and quality. At the programming stage it is the Inter-service Quality Support Group that provides support. At the end of the identification and formulation phases, the 'Quality Support Group at the end of Identification' and the 'Quality Support Group at the end of Formulation' are used respectively. Quality Support Groups comprise senior level officials from different commission directorates. The Inter-service Quality Support Group is a permanent inter-service institution which supports programming and the monitoring of programmes. The other two Quality Support Groups are convened by Aidco, but include representation from Dev and Relux.

5.47 Following the approval of the decision to finance by the relevant management committee the formulation documentation is used as a basis for the financing decision adopted by the Commission.

5.48 The documentation that emerges from the programming and approval process is the following:

- The decision to use budget support is documented in the Country Strategy Paper for some instruments – for example the EDF. For others the choice of implementing modality is left to the identification phase.
- When there is a decision to programme budget support, the identification fiche is the first formal document that emerges from the process.
- During the formulation phase the official programming documentation is prepared, a Financing Proposal (EDF) or Annual Action Programme/Action Fiche (DCI and others) followed by a Financing Agreement including the Technical and Administrative Provisions (TAPs) to be signed with the partner country.

5.49 Implementation is put forward as three main processes: (i) monitoring budget support implementation and pursuing dialogue with the recipient country on issues such as the national strategy and policy, macroeconomic stability and public financial management; (ii) reporting to headquarters on these issues; and (iii) making recommendations and decisions on tranche releases. There are links between monitoring and dialogue: delegations are expected to monitor disbursement and performance criteria through dialogue with the partner country and joint diagnostics with other donors. They are also expected to promote the participation of other country stakeholders, such as parliament and non-state actors.

5.50 Disbursement of budget support occurs after the recipient country has submitted a request for a tranche release, supported by full documentation to justify the release, including annexes. The Delegation then prepares a dossier to be submitted to Aidco setting out the conditions for disbursement, whether they have been fulfilled and the sources of information. The relevant Aidco geographical unit in turn prepares a note dossier for the relevant director, who signs a payment decision and sends it to the Delegation.

5.51 Besides the documentation that recommends and triggers the release of tranches – in line with the financial management requirements of the underlying legal instrument – the documentation that emerges from these processes includes:

- **Regular economic reports.** These are on the country's macroeconomic situation and outlook, as well as structural changes and other major economic, financial and social developments. The reports are to be sent to Aidco, Dev and Relex.
- **An annual report on public financial management.** The main purpose of this report is to ensure that the country remains eligible for budget support. It must be valid for at least one year ahead of its publication and should also be sent to Aidco, Dev and Relex.
- **Early warning reports.** These reports are only produced when required and should be used to report any problems or likely problems that could affect the smooth implementation of the budget support programme. Examples of problems are slippages on national policy and strategy, macroeconomic management and public financial management. The Head of Delegation must be sent the report as soon as s/he becomes aware of the situation or potential situation. The use of the early warning

system is especially important should issues come to light between the recommendation by the Delegation for a tranche release decision, and the approval by the relevant Director.

5.52 Evaluation of budget support can be characterised as under-developed in the Commission's array of programming, implementation and evaluation instruments. While country-level budget support is evaluated as part of *ex post* country strategy evaluations (by examining the role of budget support in relation to other strands of country programmes) a cross-cutting methodology that is focused on budget support specifically and can be implemented jointly with other donors is not in place. The joint Evaluation Unit is in the process of preparing a new methodology to fill this gap. It is however an area of active international debate. Although joint donor country-level evaluations are taking place, these are not to a commonly agreed robust framework.

5.53 Based on the approach used in Joint Evaluation of General Budget Support (IDD and Associates, May 2005), the new methodology is expected to work with a value chain of inputs (transfer of resources and other inputs, for example technical assistance and dialogue), outputs and outcomes. As in any evaluation, including performance auditing methodology, what is evaluated is relative to the objectives of an intervention. This would be no different for budget support. The evaluation of output and outcomes is therefore expected to be closely tied to the stated objectives of budget support in a country and the evaluation of performance against conditionalities (e.g. public financial management system progress) and MDG-linked performance indicators in budget support agreements. A problem in evaluating budget support is that attribution is impossible because of the nature of budget support: several factors and externalities influence whether the achievement (or non-achievement) of stated objectives can be said to relate to budget support. The only link that can be feasibly stated is contribution. These aspects will be thrashed out at a technical level in the new methodology.

5.54 At the audit level there has also been joint work between the European Court of Auditors and the Supreme Audit Institutions (SAIs) of some member states to develop a joint audit methodology with regard to budget support, and to strengthen the links with SAIs in recipient countries.

Risk assessment

5.55 The Commission manages the risks associated with budget support through the use of eligibility criteria and by having conditions associated with the preparation and implementation of budget support programmes.

5.56 Risks are defined as "anything that may stand in the way of achieving the objectives" of budget support (EC, 2007, p22). Translated, this would mean the possibility of any conditions preventing budget support from being disbursed, used appropriately or realising its benefits.

5.57 The main risks identified by the EC with regards to budget support therefore include a negative turn in all or some of the eligibility conditions; that the ownership of national policies and strategies is low resulting in these not being true budget priorities; that reforms are set at too high or too low a pace; that implementing capacity is lacking in the recipient country; that the budget support instrument is overloaded; that absorption capacity is too low and that policies and strategies are not adjusted in light of the results achieved. It also sees lack of predictability as a risk to the achievement of budget support objectives.

5.58 All programming, approval and implementation documentation works with the conditions for disbursement and/or their assessment in order to manage risks. The conditions will for the most part be related to eligibility criteria, but may cover specific risks. The conditions may also cover start-up conditions (usually in the Financing Proposal/Action Fiche and Annual Action Programmes), and disbursement conditions (in the Financing Agreement), which enable the EC to decide whether or not to provide budget support, suspend disbursement during implementation, or to increase or reduce the amount involved.

5.59 The 2007 Guidelines set out seven areas of assessment to identify risks and programme budget support, namely policy and strategic framework, macro-economic assessment, medium term expenditure framework, accountability and public financial management systems, performance monitoring and dialogue systems, donor coordination, institutional and capacity issues (see Table 2 in Annex 3 for more detail).

6. The European Parliament and oversight of budget support programmes in practice

6.1 Currently Parliament's role in budget support programming, implementation and evaluation processes appears slim, given the complexity and the volume of information generated by the formal EC procedures. Its only formal entry point is in the scrutiny of DCI country strategy papers – and the Annual Action Programmes – where its mandate is to check for compliance with the legal instrument provisions with regards to the use of funds. Besides that it gets a view of the procedures and how successfully they are implemented when they are introduced into committee or plenary sessions through parliamentary questions or through debates on submissions, such as the European Court of Auditors Special Report No2/2005, or in the discharge statements. The oversight of development support generally, has a similar profile. This section looks at the oversight mechanisms available to Parliament and how these have been used in practice with regards to EC development spending against Parliament's legislative, budgetary and accountability oversight powers.

Legislative powers

6.2 The European Parliament has successfully used its legislative powers to influence the criteria and procedures for development support, including budget support, in the negotiation of the legal instruments for development support.

Accountability oversight powers

6.3 There are several mechanisms through which the Parliament monitors the executive and holds it to account for development spending. These include the democratic scrutiny of DCI Country Strategy Papers (*ex ante* accountability oversight mechanisms), committee requests for information (*ex post* in practice), parliamentary questions and own initiative reports (*ex post* in practice), the establishment of committee of inquiry (*ex post*) and the receipt of annual and other reports (*ex post*). We briefly discuss each of these.

Democratic scrutiny of strategy papers

6.4 The democratic scrutiny of country strategy papers for DCI countries is a relatively new oversight mechanism. It is hailed as a significant evolution of its powers with regards to development spending, but in reality it just gives effect to the provisions of the 1999 Commitology decision, whereby the European Parliament receives documentation at the same time as the relevant Committee, is fully informed of its proceedings, and can by resolution object to an implementing measure, provided that it is not in line with the underlying legal instrument.

6.5 Parliament however secured this right in practice by negotiating the explicit inclusion of reference to Articles 7 and 8 of the 1999 commitology decision (OJ L184, 17.7.1999, p23) in the 2006 DCI decision (OJ L 327, 24.11.2006, p. 1).

6.6 In line with the 2000 Commitology agreement between Parliament and the Commission and as decided by the Joint Declaration on Democratic Scrutiny and Coherence in External Action attached to the DCI, the European Parliament undertakes scrutiny of all Country, Thematic and Regional strategy papers. The process requires the Commission to submit all

the papers at the same time as their submission to the DCI Committee, after which Parliament identifies the strategy papers it wishes to discuss and informs the Commission of its choices. Parliament has designated the Development Committee as the appropriate committee for the dialogue, to be held before the DCI Committee delivers its opinion (see Box 6 on the division of labour on oversight of development between parliamentary committees).

Box 6: Division of labour between committees of the European Parliament on development oversight

There are four committees in the European Parliament which have oversight responsibilities with regards to development spending. These are the Development Committee, the Budget Control Committee, the Budget Committee and the Foreign Affairs Committee.

The Development Committee plays a significant role insofar as it has oversight over development policy and implementation from a policy and a results or a value for money point of view. Since 2007 its agenda has been swamped with the implementation of the democratic scrutiny of Country Strategy Papers under the DCI.

The Budget Committee is a powerful committee – having built up its powers when Parliament had strong budgetary and weaker legislative powers – that engages in the negotiations for the multi-annual Financial Framework, scrutinises the budget and proposes amendments and modifications to the Council's draft budget.

The Budget Control Committee is the *ex post* committee which reviews reports from the European Court of Auditors and advises the plenary on discharge. Although its view is *ex post*, it is the committee in which issues that go wrong during implementation is discussed.

The Foreign Affairs Committee's role is a lesser one. Its mandate is more centred on foreign policy and cooperation issues with the so-called third party states (non-EU Member States), than on development spending. However, it engages with some development issues, particularly under the Human Rights Instrument, for example.

There are formal ways in which these committees coordinate their work. The Development Committee for example provides opinions to the Budget Committee and the Budget Control Committee on the budget and during discharge processes.

The committees also often use a mechanism called enhanced cooperation, which implies joint action between committees. Two examples of this is the enhanced cooperation between the Budget Committee and the Development Committee in negotiating the DCI legal base, and around the own initiative report on budget support (2006/2079(INI)).

Besides informal contact between members of committees, cooperation can also occur because of shared membership. The threat to put operational funds on reserve in the DCI chapter of the 2008 budget was facilitated by shared membership between the committees.

6.7 The commitment from both sides is to in-depth dialogue – this goes beyond the commitment powers which only allow Parliament the power to assess a measure for its alignment with the legal base. In the dialogue agreed for the democratic scrutiny process, the Commission presents on the selected papers after which, Parliament has the opportunity to ask for further explanations, to express itself on the choices made and to indicate how it considers the strategy should be implemented. This in principle could include expressing itself on budget support, the use of which would be included and justified in the Country Strategy Paper (CSP) based on the completion of the identification phase of budget support programming (see Section 3 above on budget support). Subsequent to the dialogue, Parliament provides a written statement of its consolidated position on the documents received.

6.8 The democratic scrutiny of country strategy papers can be characterised as an undertaking by Parliament to routinely assess all of the Commission's work – under the DCI instrument – in order to have oversight over decisions and influence the decisions before the fact. The weight of Parliament's opinion in this case can be ignored by the Commission, but after Parliament invoked its budgetary powers in 2007 (for the 2008 budget) threatening to put part of DCI operational and personnel funds on reserve, cooperation between the institutions is stronger, even if the amendment to put funds on reserve was not finally voted in the Budget Control Committee. The amendment was put forward because the Commission did not follow the procedures agreed to under the DCI and did not pay attention to Parliament's positions on the CSPs.

6.9 However, given the capacity of Parliament – the Development Committee can only draw on limited resources in the secretariat – the scrutiny of the CSPs and the Annual Action Programmes is limited. While Committee works in working groups (organised by region), there is still too much to cover. It means focusing on specific countries, but more importantly, also just checking for legal compliance with the base as regards what money is being used for. In terms of budget support the process does not engage with country eligibility for budget support. Importantly though, the democratic scrutiny process applies for all aid support, which in principle is more desirable than singling out budget support.

6.10 The 1999 Council Decision indicates that the Commission has three options should the European Parliament take a position that a draft implementing measure under a codecision instrument would exceed the implementing powers provided for in the basic instrument. These options apply to scrutiny of CSPs. After the Commission has re-examined the draft measure, taking account of Parliament's resolution on the matter, it can

- submit new draft measures to the Committee and the European Parliament,
- continue with the procedure, or
- submit a proposal to the European Parliament and the Council, as set out in the Treaty. If this option is chosen it would mean that the measure is not adopted through committee, but at a higher level with the involvement of the Council.

The Commission is obliged to inform the European Parliament and the relevant Committee of its choice, and provide reasons for it.

6.11 In practice so far the Commission has not adjusted any of the CSPs. This is despite the Parliament objecting in the case of a number of countries, including Argentina, Brazil, Malaysia, Pakistan and China. Instead, in providing its justification for its decision, the Commission stated that it would take into account Parliament's objections in its implementation through the Annual Action Plans. In the cases of Brazil and Argentina Parliament has again objected, this time because the Action Plans did not reflect the parliamentary objection. For one measure – funding to allow students from developing countries to study in the European Union – the Commission has subsequently informed the Member States Committee that it would not be implementing the part of the Action Plans that relate to the measure.

6.12 It is arguable that the pre-scrutiny of commission decisions goes beyond the legislative and oversight powers of parliament and enters the domain of executive powers.

6.13 Parliament has extended its oversight of the DCI by invoking its commitology powers for the Annual Action Programmes, which gives it a more detailed view of budget support programming, including the disbursement and performance conditions. The argument is also that the democratic scrutiny should be extended, to ensure that its opinion on the CSPs has fed through to the Annual Action Programmes. The Annual Action Programmes are the input documentation after the formulation phase for approval in the DCI Committee.

6.14 The commitology procedures could provide further opportunities for oversight by the European Parliament. As discussed in paragraphs 5.11 and 5.12, the 2000 European Parliament resolution and its agreement with the Commission fleshed out its role in the commitology procedures. The agreement to provide to Parliament on request the implementing measures for other draft instruments means that Parliament might be able to request EDF country strategy papers and annual implementation documentation, should the EDF be deemed to fall under this agreement. While it cannot to the same effect pass a resolution to object to an EDF strategy paper or annual documentation as it can for a codecision procedure instrument, it can nonetheless adopt a resolution, making its voice heard. However, during the legislative procedures for the 10th EDF, a member state vetoed the submission of EDF strategy papers to the European Parliament. As a veto in the preparation of a formal decision, this could trump the 2000 agreement. However, nothing in the DCI Implementing Regulation (OJ L152, 13.16.2007, p1) or the Council Decision setting out the rules and procedures for the EDF Committee (OJ L78, 19.3.2008, p 35) explicitly excludes the European Parliament from proceedings.

Requests for additional information from parliamentary committees

6.15 Another way in which Parliament seeks to hold the Commission to account for its implementation of development support generally is through routine requests for additional information. One example is the discharge questionnaire in which the Commission has to answer specific questions from the Committee on Budgetary Control (Cocobu), formulated in cooperation with the Development Committee.

6.16 In compiling the questionnaire Cocobu focuses on compliance and fiduciary matters, while the Development Committee looks at results. The Committees use the opportunity to ask questions about specific approaches, procedures, specific programmes and incidents.

6.17 The main incentive behind this process is the impact of the subsequent discussion in committees and the plenary on the relationship of trust between the institutions, as well as the potential discomfort of difficult issues being discussed publicly.

Parliamentary questions and own initiative reports

6.18 Two other avenues through which Parliament expresses itself and practices oversight are though parliamentary questions and own initiative reports. While these are different mechanisms with different effects (an own initiative report can lead to a debate and resolution in the House while oral and written MEP questions require an answer by the Commission) they are similar insofar as they are ways in which Parliament on its own initiative can force discussion of specific issues, thereby bringing transparency and heightened accountability to the Commission's work.

6.19 Budget support has already been the subject of an own initiative report. In 2007 the Development Committee adopted an own initiative report (the Gahler report), under enhanced cooperation with the Budget Committee. The resolution finally adopted in plenary

on 15 February 2007 (EP T6-0043/2007) went quite far in commenting on the Commission's use of budget support, under both the DCI and the EDF instruments. It included paragraphs to:

- Call for the Commission only to use budget support if the benefits justify the risks and for poverty reduction development priorities, insofar as possible.
- Stress the importance of capacity building and recipient country accountability systems.
- Support the use of clear, explicit and realistic conditions.
- Request information on the use of budget support in specific countries.
- Request the risk of corruption to be assessed.
- Commend the use of variable tranches, as long as predictability is not undermined.
- Express concern about the difficulty of assessing performance indicators.

Receipt of annual and other reports

6.20 Parliament receives the annual reports on the Community's development policy and the implementation of external assistance, which provide quantitative information on the use of budget support, but not an in-depth discussion of the instrument. It also receives specific reports, such as an annual report on the management of the EDFs as required by the EDF Financial Regulation. The Cotonou agreement also requires that all evaluation reports of EDF funds are submitted to the European Parliament.

Committees of Inquiry

6.21 Parliament's powers to monitor the executive include the possibility of constituting a Committee of Inquiry. The best example of this is the Committee of Inquiry to monitor aid to Palestine which was set up in 2003, on the initiative of the Budget Committee and the Committee on Foreign Affairs. The committee worked at great levels of detail, including investigating project expenditures to check on the traceability of donor funds in Palestine. The process generated lots of debate and was a useful exercise, but did not end in a clear resolution by Parliament. Nonetheless, it brought significant new information to the table.

Budgetary powers

6.22 Last, but not least, are Parliament's budgetary powers. Parliament's budget powers are constrained because of the budget format, which does not provide information at a high enough level of detail to enable Parliament to have a view of budget support operations through the budget. However, Parliament does use its budgetary powers indirectly. The threat to put money in reserve discussed above is one example. The exchange of approval of additional funds during the spending year for better reporting mechanisms is another.

Weak *ex ante* powers

6.23 The format of the budget weakens Parliament's power to impact on budget allocations at a sufficiently high level of detail to impact on specific budget support or other development support projects. However, as long as Commission discretion thus enabled is balanced by accountability for results, such weaker *ex ante* powers support good budgetary outcomes.

6.24 The budget – following the structure agreed in the Financial Perspectives – is subdivided into headings and budget lines, i.e. grouped by policy area and by policy aims or

instruments. Within the overall cap of funding per heading, development funds are allocated to certain budget lines on an annual basis. On the one hand, funds are committed on a regional basis. Formerly, the EU had many more budget lines. Grimm (2008) argues that the creation of budget lines over time by the European Parliament was originally aimed at ensuring tight budgetary control over Commission funds. However, a multiplication of administrative procedures and a compartmentalisation of planning resulted that was to the detriment of development processes in partner countries (p9). The rationale, he says, for these budget lines was focused on political control that was exercised according to strict budgetary criteria, not according to delivering on the politically set goals. In other words: focus was rather on input than on output; it was more about applying rules than about political debates on what had been achieved by a programme.

6.25 With the overall reform of the EU's assistance, the multiplicity of budget lines was regrouped into six sub-headings since the planning of the EU's 2008 budget, removing the capacity to exert such detailed control.

Discharge reports and decisions

6.26 The discharge report is an important instrument in the Parliamentary arsenal. It is attached to a decision by the European Parliament in plenary to give discharge on the implementation of the budget. It is adopted by the plenary as a resolution, forming an integral part of the decision on discharge. It therefore comes with the full force of a plenary decision.

6.27 While the decision is limited to noting the accounts and approving their closure, the resolution is much more wide-ranging. It states that the accounts are reliable and the underlying transactions legal and regular (noting exceptions) but also addresses key issues in the management of funds and accounting for their use. The report for any year also includes a follow-up on progress against the previous year's discharge resolution. It draws heavily on the European Court of Auditor's report. The resolution adopted in April 2008 accompanying the discharge decision for spending under various EDFs in 2006, for example, contains several paragraphs on budget support, including criticism of the Commission's application of its dynamic approach. The report also includes specific recommendations with regards to budget support, for example building recipient country domestic accountability institutions and an invitation to the Commission to improve transparency and access to documentation relating to budget support actions.

6.28 The discharge resolution is therefore used as an instrument to put forward Parliament's views on the use of development support funds: again these views can be ignored but then the Commission does run the risk of damaging the inter-institutional relationship of trust. At the very least it has to take up the recommendations in a dialogue with Parliament.

6.29 In short, there are many ways in which Parliament already practices oversight of budget support. Table 6 provides a summary of these.

Table 6: Current budget support oversight mechanisms

Phase of Budget Support Implementation	Parliamentary powers and activities already in place
Identification and approval of budget support	<p>Democratic scrutiny of CSPs for DCI countries.</p> <p>Power to approve annual allocations in Community Budget; not an effective power at the level of budget support, unless expenditure is put in reserve on account of budget support concerns.</p> <p>However, Parliament is not privy to most of the documentation produced in budget support decisions, nor does it have an <i>ex post</i> review of decisions made in the form of some sort of report.</p> <p>It does however get a view on decision-making when a special report is produced, for example the European Court of Auditors Special Report No2/2005 on budget support.</p>
Budget support implementation and monitoring	<p>Democratic scrutiny of mid-term reviews not part of the DCI agreement, but can be invoked under commitment procedures.</p> <p>Parliament not privy to any reports produced in implementation of budget support, nor is it informed of early warning instances.</p> <p>Parliament does get a view of the implementation issues when special reports are produced, such as the European Court of Auditors Special Report No2/2005.</p> <p>For the EDFs the annual report on financial management of the EDFs provides some information on the quality of implementation, but it is broader than budget support.</p> <p>Some coverage of budget support in annual reports, but mostly quantitative.</p> <p>Own initiative reports also creates opportunities for engagement, both on implementation and the mechanisms for and quality of decision-making.</p> <p>While rare, a special Committee of Inquiry provides a level of information that leads to particularly rigorous debate.</p>
Budget support discharge, audit and evaluation	<p>Parliament gives discharges on both DCI and EDF funds. It uses the accompanying resolution effectively to engage on a range of issues with the Commission on implementation of budget support.</p> <p>The commission is in the process of developing an evaluation methodology for budget support. The reports produced from that will be submitted to Parliament in terms of the EDF agreements and regulations.</p> <p>Reports from the European Court of Auditors are an important trigger for meaningful engagement. This includes the annual report on the financial statements, but also special reports.</p>

6.30 The discussion of budget support mechanisms from paragraph 5.22 to 5.59 above provides insight as to opportunities that Commission procedures might present to strengthen oversight, albeit it through influencing the statutory frameworks for budget support, ensuring transparent budget support operations through enabling better information flows, oversight of budget support decisions, or monitoring budget support operations and holding the Commission to account for the legality **and** effectiveness of its budget support operations. We briefly note a few potential entry points for improved oversight:

- Parliament does not currently engage with setting up arrangements for the use, monitoring or evaluation of budget support. There is an opportunity for it to use its formal discharge powers more effectively to engage the Commission on weaknesses in its systems. Engaging on the evaluation framework and on risk assessment seem like important aspects for immediate action.
- Parliament's engagement with the necessary complementary inputs of budget support is relatively weak. It focuses mainly on financial inputs and financial management procedures in recipient countries. Effective oversight of complementary inputs – dialogue, partnership, donor harmonisation and capacity development – are critical to

ensure that these mechanisms function well and enhance the developmental benefits of budget support.

- Similarly, Parliament's engagement with results is weak. While it is true that it receives little information on results, it does not request information consistently either. Its queries remain focused on input indicators.
- Parliament could engage more thoroughly with procedures to implement budget support through its accountability oversight powers. This should, for example, take the form of investigating the predictability of budget support disbursements (a key risk to the development outcomes of budget support), the use of tranches and the underlying reasons for not disbursing.

PART D: COMPARATIVE ANALYSIS OF BUDGET SUPPORT OVERSIGHT

7. Budget support and oversight in five donor case studies

7.1 This section of the paper provides an analysis across the five donor case studies of

- systems to approve monitor and evaluate budget support,
- systems to assess the risk associated with it, and
- parliamentary oversight in these two main phases of the programming cycle.

It undertakes this analysis against a brief discussion of each country's use of budget support and a comparative analysis of relative strengths of the case study parliaments to oversee spending generally and budget support specifically.

7.2 It draws on the EC/European Parliament case study above – which has been undertaken more thoroughly and comprehensively on account of its position in the study – and four additional case studies. For these case studies, the UK, Canada, the Netherlands and Sweden, the field work was more limited: the studies were not undertaken to get a complete picture of both budget support institutions and parliamentary practice, but in a more limited way to get answers to the specific comparative questions set in the framework. The results for the other four donors are also not written up in a narrative form: in Annex 5 we provide a brief summary of the main findings for each of the other countries.

7.3 For ease of reference we present the analysis by main division using the four main areas of research required in the TORs, and replicated in the research framework, preceded by a set of general findings. In the final part of this section, we provide some conclusions.

Country context of case studies

7.4 The choice of case studies was driven by two main sets of factors, aligned with the TOR framework:

- **Budget support factors:** donors selected for the study have experience of the provision of budget support and provide significant budget support as a proportion of their overall aid spending.
- **Country parliamentary oversight system factors:** As set out in sub-section 3 the countries differ in terms of how strong their parliaments are, and the effectiveness of spending oversight that they undertake. The decision was that the study would need to include both stronger and weaker parliaments.

In this section we provide a brief background on the five case study country contexts with regards to these two factors.

The use of budget support

7.5 In all the case studies donors' policy positions lean towards using more aligned aid modalities – with a preference for budget support – rather than traditional project modalities.

- CIDA's *Report on Plans and Priorities 2007–2008* sets out that CIDA continues to be committed to the use of programme-based approaches, including budget support. It highlights that the initial decision to engage in a programme-based approach (PBA) is founded on a careful assessment of a number of factors, such as: “democratic governance, including strategies to fight corruption, the existence of a national development strategy, the quality of donor-government relations, and the Agency's priorities in the country.” (Canadian International Development Agency, 2006)
- The Dutch Ministry of Foreign Affairs (Minbuza) has a strong preference for PBAs and the sector-wide approach has been the organising principle for Dutch bilateral development co-operation since 1999:

“The MFA considers budget support as the most effective form of aid since it ensures that recipient countries assume responsibility for implementing their own development agenda and contributes to a better alignment of aid with policy and systems of partner countries. ... In line with the increased emphasis on partner country-led approaches, and as suggested by the DAC Peer Review team, the Netherlands has decided to move further in increasing the resources for which financial authority is decentralised. General budget support funds are no longer authorised centrally and have been delegated to embassies in the 15 partner countries where the MFA is currently using this modality.” (OECD DAC, 2006)
- *Sida at Work* interprets the implications of the Paris commitments for Sida's work, and includes as a priority the commitment to put aid on budget. This is reported in the *Action Plan 2006–2008 for Increased Aid Effectiveness*:

“Sida's funds should always be integrated with, and reflected in, the planning and budgeting process of the partner country. In order to achieve this Sida should provide timely, transparent and comprehensive information on resource flows.

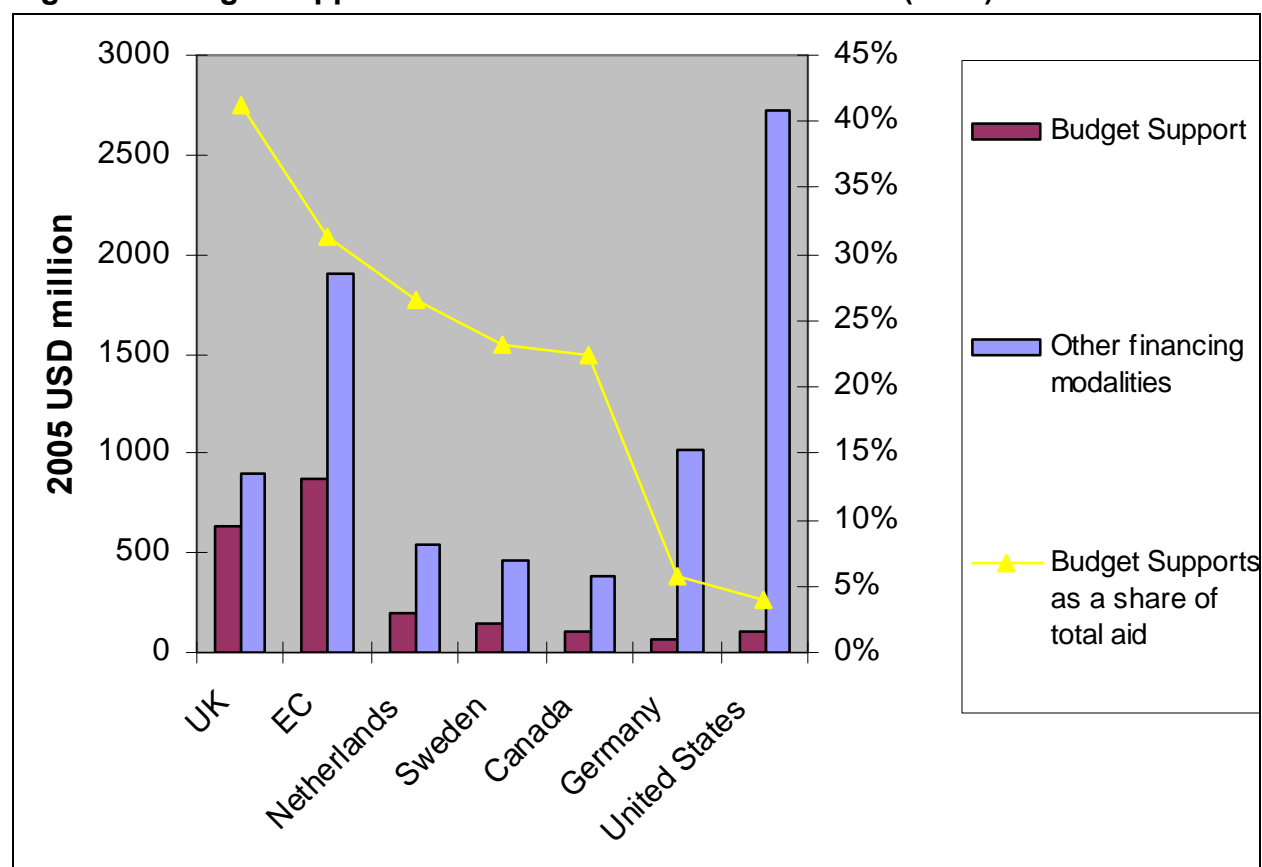
As far as possible, Sida should use the public financial management systems of its partner countries for channelling its funds. Channelling funds through the partner's systems will normally contribute to strengthening the systems, however Sida must be prepared to support capacity building in public financial management in order to ensure accountability in the use of all resources, domestic as well as external.” (Sida, 2005b: p40-41 – as cited in Sida, 2006)
- For the UK the DAC Peer Review 2006 reported that:

“The UK increasingly uses programmatic approaches. This move has involved the provision of more Poverty Reduction Budget Support (PRBS), which is seen by DFID as the ultimate recognition of partner country ownership and the simplest way for donors to align with government priorities.” (DAC Peer Review, 2006: 71)
- For the EC see paragraphs 5.22 and 5.23.

7.6 However, their actual use of budget support differs significantly. Figure 8 below provides a picture of budget support as a percentage of total aid disbursed in 2005. It provides the data for the five main case studies, as well as the two additional ‘light’ case studies. It shows the relative importance of budget support in aid provision by each country, as well as the relative amounts provided in US dollar terms. Whereas the United Kingdom provides a higher share of its total support in the form of budget support, the European Commission

provides more budget support in money terms. Of the five case studies, Canada provides both the smallest proportion of its support as budget support, and the smallest amount in dollar terms.

Figure 8: Budget support as a share of total aid disbursed (2005)



Source: OECD (2007). *2006 Survey on Monitoring the Paris Declaration. Overview of the Results*. Paris: OECD, own calculations.

7.7 The use of budget support as an aid financing modality is also not necessarily supported by all stakeholders in the country. In three of the four bilateral donor case studies (Sweden, the United Kingdom and Netherlands) the use of budget support has recently come under scrutiny, in two cases on account of audit reports. This mirrors the 2005 highlighting of budget support systems in the European Court of Auditors Special Report 2/2005 on the use of EDF budget support. In all three countries that have gone through an audit process, it triggered a re-drafting of the guidelines that govern budget support programming and implementation, to address the weaknesses identified.

7.8 In Germany, which was not formally a case study country but for which some information is included, a special audit report was also prepared. Similarly, the audit report has resulted in changes to the system, particularly in parliament's role. This is set out in Box 10 on page 78 below.

7.9 In all five cases donors do not have a long track record of implementing budget support. Guidelines and processes for decision-making are recently developed, and in particular formalised risk assessment is a relatively recent addition.

Oversight practices

7.10 The research framework provided the study with basic information with regards to oversight at three relevant levels:

- Oversight as realised through budgetary powers
- Oversight of development spending generally
- Oversight of budget support spending.

7.11 Much of the detailed analysis below focuses on oversight of budget support in each phase of the programming cycle. In this section we provide an overview of general oversight as realised through budgetary powers and oversight of development spending overall. The second aspect is an important benchmark against which to measure the effectiveness of budget support oversight, particularly keeping in mind the caveat posed in paragraphs 3.45, 3.46 and 3.79 that oversight of budget support should occur within an equal assessment of other types of support against risks and expected benefits.

Oversight through the use of budgetary powers

7.12 Work by Wehner (2006) provides a robust comparison of the five donor case studies' budgetary powers in line with the main research parameters. We provide a brief overview of the results from his study for the five case study parliaments, combined with contextual evidence from the case studies.

7.13 Wehner assessed the institutional arrangements for budgetary powers in 36 parliaments, including the four national parliaments in this study. In addition, we have used Wehner's methodology to calculate a score for the European Parliament. The methodology assumes that the institutional strength of a parliament is critical for its budgetary powers. Wehner assesses six factors. The higher the score in each of these factors, the stronger its contribution to parliamentary budgetary powers. The factors are:

- **Amendments powers:** This variable assesses the powers that parliament has to amend the budget. The higher the score the stronger the power.
- **Reversionary budgets:** This variable captures how the rules for funding the executive if parliament does not pass the budget in time affect *ex ante* parliamentary budgetary powers.
- **Flexibility:** This is a composite index of three factors that influence how much discretion the executive has during implementation. The three factors are the ability to shift funds between budget lines, the ability to withhold funds from spending agencies even if approved by parliament, and the existence of a reserve fund which the executive can draw on to fund expenditures.
- **Time to scrutinise the budget:** The longer parliament has to scrutinise the budget, the more power it has to ensure that its will prevails.
- **Committee capacity:** Wehner looks at how many committees are active in the budget process, *ex ante* and *ex post*. If there are specialist budget committees, as well as a specialist accountability oversight committee for the budget and sector committees have real powers (in other words do not merely provide opinions or non-compulsory recommendations to the budget committee) then a full score of 10 is achieved.
- **Research capacity:** Wehner uses research capacity as a proxy for access to information, on the argument that the flow of financial and non-financial information

(i.e. budget transparency) is difficult to ascertain and in most of the cases he investigated is relatively good. This proxy indicator simply looks at the number of support staff assigned to the budget committee.

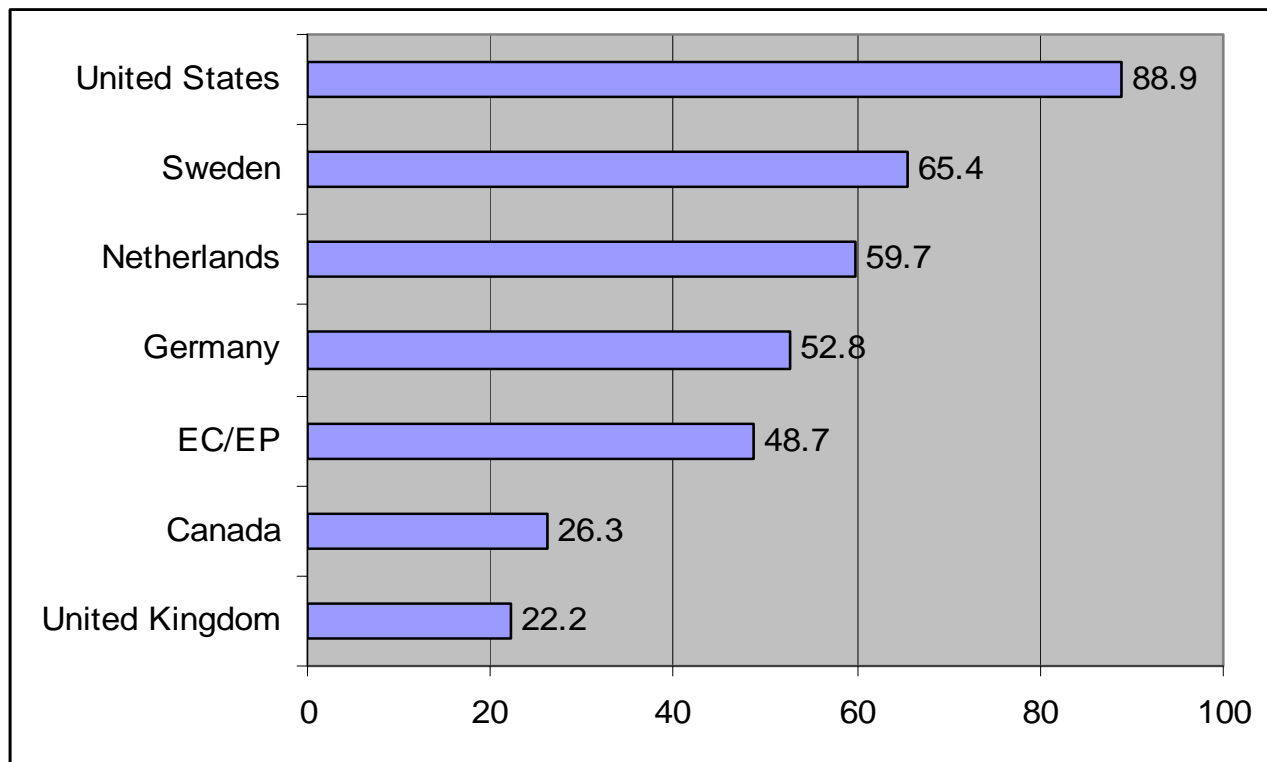
7.14 Table 7 below provides the scores for each of the case study countries, including Germany and the United States, while Figure 9 provides an illustration of the spread of the case studies with regards to their general powers over the budget.

Table 7: Ranking the case study parliaments' budgetary powers

	Amendment powers	Reversionary Budgets	Flexibility	Time to scrutinise the budget	Committee capacity	Research	Σ./6
EC/EP	6.7	6.7	3.3	3.3	6.7	2.5	48.6
Canada	3.3	3.3	0	0	6.7	2.5	26.4
Netherlands	10	6.7	6.7	6.7	3.3	2.5	59.7
Sweden	10	10	6.7	3.3	6.7	2.5	65.4
United Kingdom	3.3	3.3	3.3	0	3.3	0	22.2
Germany	10	6.7	3.3	6.7	5	0	52.8
United States	10	10	6.7	10	6.7	10	88.9

Source: Wehner, 2006, p781, Own calculations

Figure 9: Index of donor case studies by strength of their parliamentary budgetary powers



Source: Wehner, 2006, p781, Own calculations

7.15 Against the total results for the 36 parliaments investigated by Wehner, three of our core group of donor case studies would have fallen above the median score of 39. Two – Canada

and the United Kingdom – would have fallen into lowest quartile. Of the three above the median score, two fall in the top quartile (above 53).

7.16 It is important to remember the distinction made by Pelizzo and Stapenhurst (2004) between oversight potential and effective oversight (see paragraph 3.12). Table 7 and Figure 9, insofar as they measure the existing institutions for budgetary powers (but not whether those powers are used effectively), can be seen to be an expression of oversight potential. It is therefore interesting to compare (below) this ranking against ranking with regards to other types of factors.

Oversight of development spending generally

7.17 In line with the findings above with regards to budgetary powers, the oversight of development spending generally by case study parliaments covers a wide spectrum.

7.18 Two of the donors in the study have relatively weak oversight of development spending, because of weak institutions or non-use of existing institutions. The weakest parliament in terms of development spending over all is arguably the **Canadian Parliament**, which operates in a Westminster system and also does not have a specialist committee on development. Its sector committee for development is also the committee for foreign affairs, with the result that most of its time is spent on foreign affairs. However, it is the only parliament besides the European Parliament which has used its legislative powers to exercise control over development spending overall. It is however not clear what the impact of the resulting Better Aid Act will be.

7.19 The **UK Parliament** also operates in a weak environment for *ex ante* oversight over spending. The spending allocations that are voted are at a very high level: the entire budget has approximately 100 lines. However, it has stronger formal and informal *ex post* oversight of development spending. A specialist committee for development engages with DFID on its annual spending report and its performance report. The report highlights overall development spending performance against the MDGs, making the UK Parliament the best informed parliament in the study with regards to the results of development (rather than just the inputs) of development spending. The International Development Committee also undertakes its own report on selected issues in development, and has meetings with DFID to exchange information on activities and policy directions. Besides this committee there is the Public Accounts Committee, which is the most influential committee in the House of Commons. It looks at *ex post* budget outcomes and has developed a close relationship with the National Audit Office. The PAC looks at the results of public spending and focuses on value-for-money criteria which are based on economy, efficiency and effectiveness. The National Audit Office, however, does not conduct performance audits on DFID policy areas every year. Much of the power of the House of Commons lies in soft powers, which depend on the discomfort caused to officials in the implementation of oversight mechanisms, and the weight of parliamentary procedures as perceived by the government and the public at large.

7.20 The **Dutch** and **Swedish** parliaments both have joined-up foreign affairs and development committees, given that the development agencies are formally part of the ministry of foreign affairs. In both cases parliament receives information on past performance, financial and non-financial, together with the budget proposals. However, the information is at a fairly high level and does not include specific indicators of performance.

- The Dutch parliament altogether approves only 200 budget lines. While it has one committee for both foreign affairs and development spending, the committee is organised

into two sub-committees, which means that sufficient attention is paid to development issues. The committee meets regularly with the Minister, who is the accountable person for development spending. While the Minister is obliged to report on extraordinary issues to Parliament, the committee can also choose to enter a dialogue with the Minister on any issue that it may want to. The spokespersons for various political groups on development affairs sit on the development committee. Individually they engage with the media.

- The Swedish parliament approves 500 budget lines, falling into 27 expenditure areas. The Swedish budget bill for foreign affairs includes a separate report on international development cooperation. The report is a 90 page document which outlines achievements, changes in policy and proposed activities. MPs do raise questions on international development issues and do use their *ex ante* budgetary powers to adjust spending. The Swedish government, including Sida, is required to respond to the Swedish National Audit Office reports on development spending, but does not have to implement recommendations.

7.21 The **European Parliament** is similar to the UK parliament in that it has a specialist committee for development. The budget contains about 1000 budget lines. The committee is currently absorbed in tasks associated with the scrutiny of Country Strategy Papers, a formal power of consultation that it has within the programming cycle for development aid in general, but only for one of its several development cooperation instruments. Otherwise the committee engages on many development issues with the department, significantly as part of accountability oversight related to its legislative powers. It is, however, strong in the use of its powers relative to its oversight potential as signalled by its place in the index above. As set out in paragraphs 6.1 to 6.29, it uses various *ex ante* and *ex post* mechanisms across all its powers to engage on development spending overall. However, most of this engagement concerns the legality of the use of budget funds and the financial risks of support, and insufficiently concerns the achievements of spending, for all types of development modalities.

7.22 All the case study parliaments – with perhaps the exception of Canada – engage on development support generally, but with some strengths and weaknesses, summarised in Table 8 below.

Table 8: Strengths and weaknesses of overall development spending oversight

	Strengths	Weaknesses
Canada	Strong discussion within committees generally. Some information on development spending provided routinely.	But joint committee for development and foreign affairs, so little attention to development spending. Also, information flows provide very little information on the results of spending. No powers to enforce consequences.
EC/EP	Specialised Committee. Good use of legislative, budgetary, and accountability oversight powers to influence systems, decisions and spending. Parliament has used existing <i>de jure</i> powers to force consequences and strengthen accountability.	But too little focus on measurable results of development spending. Engagement too much focused on financial inputs and legal compliance.
Netherlands	Specialist sub-committee which is actively engaged with Minister. Good rules for disclosure to ensure transparency and trust. Consequences <i>de facto</i> through high political accountability. Accountability attaches strongly to Minister, with a tradition of individual resignation.	But information provided formulaic, input and legal compliance orientated and with too little focus on measurable results of spending.
Sweden	Strong parliamentary tradition of engagement and oversight. Good focus on development aid budget despite having a joint committee for foreign affairs and development.	Strong focus on aid budget weakened by poor focus on concrete results. No clear statements on Sida objectives or legal requirements for use of development support funds, so oversight is weakened.
UK	Good information on financial flows and on results. Specialist committee that engages with DFID and undertakes its own reports. Strong tradition of <i>ex post</i> oversight.	But very weak <i>ex ante</i> oversight. No power to enforce consequences, beyond <i>de facto</i> , soft consequences of oversight mechanisms themselves.

Donor agency systems for selecting and approving budget support

Procedures and decision making

7.23 All the case study donors have formalised procedures for selecting budget support as the modality of choice, and approving its use and conditionalities. Three of the five have budget-support-specific guidelines. The Canadian International Development Agency (CIDA), however, does not have a separate set of guidelines, but includes budget support in its Operational Guide for Program-based Approaches⁵. The Netherlands also uses one set of guidelines for assessment and programming of all modalities. However, the ‘Track Record’ approach was originally developed for budget support, but was subsequently extended to other modalities.

7.24 In the guidelines of the EC, the Netherlands and the UK there are clear stipulations of what should be included in documentation. The EC uses a series of documents culminating in the financing proposal/annual action plan with annexes. The Netherlands requires the

⁵ Previously CIDA did have separate guidance on Budget Support, namely the May 2005 *Operational Guide on Direct Budget Support and Pooled Funding to Recipient Countries*. They now consider budget support as one of a menu of programme-based approaches.

compilation of the Track Record which is used to make a decision on the use of budget support and subsequently for monitoring during implementation. The UK uses the Country Assistance Plan (CAP) as a vehicle for assessing and deciding on the use of budget support. In the case of the Swedish International Development Agency (Sida) approval for the use of budget support is given in the Country Cooperation Strategy. Country offices are required to attach to the Cooperation Strategy comprehensive documentation on the assessments and analysis that were undertaken. The CIDA guidelines are less clear on the exact formats of documentation, although they do stipulate the assessments that need to be undertaken before budget support can be approved.

7.25 All five donors have decentralised the assessment of country context and the preparation of documentation for decision-making to country level offices, using the guidelines. Final decisions on the use of budget support, however, are made at headquarters level. There are interesting differences in the way this decision is made. Table 9 below sets out what occurs at country level and what at headquarters level for the assessment and approval of budget support.

7.26 The EC's programming and decision-making processes seem on the face of it to be more measured and controlled than the other case studies. The decision to use budget support is only finally approved after a full cycle of programming, identification and formulation, and then at a level that involves political authority for all cases (the EDF or DCI Committees). The decision in the EC is also finally taken after a full process of country-level dialogue, although an earlier approval of the country strategy paper by the committee does approve it in principle, but only for some instruments. The UK also refers budget support programmes of over GBP 20 million for approval by the Secretary of State. For Sweden and the Netherlands, budget support is already approved at the country programme stage (equal to the EC's 'programming' and CSP phase). In the case of Canada budget support is approved outside of the country programme approval, on a case-by-case basis.

7.27 For the EC, Sweden, Canada and the UK the decision to use budget support is taken at the political level in all cases (although for the EC it is in a delegated form under the commitology procedure). In the case of the Netherlands it is taken under the implementation mandate of the civil service structures, but ministerial approval is required in marginal cases.

Table 9: Who decides what? An analysis of case study donors

	Country level	Headquarters level	Final decision
EC	The programming, identification and formulation of budget support proposals are done at the country level, but with quality support from headquarters	DG Dev and Relex support preparation of documentation, interim Quality Support Groups review at intermediate stages.	Decision taken by the relevant management committee, which means in cases where the management committee does not agree with the Commission proposal, the decision will be referred to the Council.
Netherlands	Preparation of Track Record every four years and Track Record 'light' every year.	Assessment and approval of Track Record by the Effectiveness and Quality Department.	The Track Record will be approved in MASP years by the Secretary-General and in "light" years by the Deputy Director-General for International Cooperation. If budget support is granted to a country which does not qualify under track-record, Minister will take decision.
Canada	Preparation of assessments and concept paper.	Consideration and review by the Project Review Committee, sub-committee of the Policy Committee.	Depending on amount proposed, approval by Minister or Treasury Board. Treasury Board also approves if proposal does not meet CIDA terms and conditions. Treasury Board is a 13 member council of ministers.
Sweden	Preparation of assessment and documentation as part of developing country strategy	Quality support.	Final decision made by Council of Ministers.
UK	Budget Support assessed and documentation prepared at country level as part of preparation of the Country Assistance Plan.	Support provided for CAP by cross-divisional Quality Assurance Group. Risk assessments reviewed by the Programme Guidance Risk and Assurance Group in Finance and Corporate Performance Division. Governance assessment if undertaken by the country team and is Peer reviewed by the Effective States Team, Policy and Research Division.	New CAPs and major revisions of plans are approved by The Secretary of State.

Criteria

7.28 The criteria used by the case study donors to determine whether budget support can be used have a lot in common. Table 10 below maps typical criteria against the five donors. The most common criteria are the presence of a national strategy for policy reduction and development (phrased differently in the different criteria statements, but to the same effect) and a sound public financial management system, or the presence of public financial management reform programmes. Macroeconomic stability, sound economic management and/or sound economic policies are a common criterion in three of the countries, while the capacity, interest and presence of policies for partnership, donor harmonisation and dialogue are another.

Table 10: Pre-requisites for the use of budget support

	EC	Canada	Netherlands	Sweden	UK
Budget Support will produce developmental benefits	√				√
Presence of a national strategy for poverty reduction/development	√	√	√	√	√
Macro-economic stability / economic management	√		√	√	
Public Financial Management or policies and reforms to increase use of local systems	√	√	√	√	√
Interest in and capacity for donor harmonisation / partnership principles / emerging partnerships		√	√		√
Track-record in delivering results and scaling up efforts		√			
Respect for human rights and democracy				√	√
Commitment to combat corruption				√	√

7.29 Respect for human rights and democracy and commitment to fight corruption are also used in only two countries. In other countries, though, they are either stated as underlying principles for cooperation (particularly human rights and democracy) and are therefore assumed to already be in place prior to a judgement about the use of budget support. In this regard the proposed EC MDG Contract explicitly will state that a breach in these partnership principles is the only condition under which the virtually guaranteed 70% tranche will be suspended.

7.30 It is also worthwhile remembering that while the criteria mentioned above are pre-requisites for approving in principle the use of budget support, there are further assessments which take place to assess risk at a more detailed level and which cover most of these criteria. For the EC, for example, it is at this level where it assesses the strength of partnership; the possibility of measuring performance ; the recipient country's commitment to measuring performance; and the risk of corruption.

7.31 Strangely, only two donors explicitly through the criteria weigh up the potential benefits of budget support against its enabling or risk-reducing conditions, namely the EC and the UK. In both cases there is not an explicit 'scoring' system by which risks (or potential costs) and benefits are quantified so that the decision to use budget support can be taken against a summary indicator. In both cases the decision is taken on judgement of weighing up different factors after a seemingly rigorous process of assessing the country context, the objectives of budget support and its potential developmental benefits and of risks (see Box 7 below on the specific issues pursued by DFID in this regard). In both cases too the documentation for the decision goes through several reviews by expert support bodies at headquarters to ensure that the documentation is of high quality.

7.32 The issue of how to use assessments goes beyond whether weighing up developmental benefits and risks should result in a summary indicator which would signal a 'stop' or 'go' situation. Using minimum standards on criteria to go ahead with budget support (rather than a nuanced judgement after viewing the assessments against criteria) or the use of scores to decide the level of alignment (as in the case of the Netherlands) represent similar issues.

7.33 There are arguments for and against the use of explicit measures, such as scores and minimum standard indicators. The benefit is that they systematise decision-making (poorly or

effectively, depending on the system) and limit discretion, if that is a concern. However, there can be significant problems. Because they are pre-designed they do not allow the flexibility to take account fully of country circumstances and can easily lead to sub-optimal outcomes of development spending. What the scoring emphasises might be highly relevant in country A, but less relevant in country B. In the end the decision to go ahead with budget support is a judgement that should take into account a specific country's circumstances, not only what works on average for other countries. And, a definitive score, indicator or minimum standards based answer tends to focus the attention of decision-makers on the final score, indicator or minimum standard without sufficient interrogation of the judgements and assumptions that went into arriving at it.

Box 7: How does DFID weigh up developmental benefits and fiduciary risks?

Guidance on the assessment of a recipient government's commitment to realising the benefits of budget support, public financial management and good governance require three types of assessments to be done and to have weight in taking a decision on the provision of budget support.

The benefits of budget support are assessed by the following checklist:

have positive effects on poverty reduction and alignment?	Will poverty reduction budget support (PRBS) have positive effects on harmonisation
expenditures?	Will PRBS have positive effects on public systems?
policy processes?	Will PRBS help to improve public policies and
macroeconomic performance?	Will PRBS have positive effects on
public services?	Will PRBS have positive effects on the delivery of
Will PRBS have positive effects on cross-cutting issues?	Will the effects of PRBS be sustainable?

The **Fiduciary Risk Assessment** includes the following:

- Use of Public Expenditure and Financial Accountability (PEFA) framework.
- Info generated by country Public Financial Management and Accountability systems- national public accounts, audit systems, public accounts committee reports, service delivery reports, expenditure tracking surveys etc tracking surveys, public expenditure tracking surveys, poverty reduction strategy progress reports.
- Information from other country sources: NGOs, civil society, professional associations, media.
- International diagnostic tools: Country Financial Accountability Assessment and Public Expenditure Review (World Bank); Fiscal Report on Standards and Codes (IMF); Heavily Indebted Poor Countries (HIPC) Annual Action Plan (World Bank/IMF).

The **Country Governance Assessment** focuses on country compliance with anti-corruption measures expected under the United National Convention Against Corruption (UNCAC). These are

Public sector ethics and procedures	Money laundering
Public procurement	Criminalisation
Public sector finance	International co-operation
Public reporting, access to information, whistleblower protection	Technical Assistance and Information Exchange
Public education	

The assessments can also employ additional evidence sources, such as international diagnostic resources on corruption: Most relevant are: Corruptions Perception Index and National Integrity System country study (Transparency International); Public Integrity Index (Global Access); Resource Allocation Index assessments (World Bank); etc.

Source: DFID Fiduciary Assessment Guidance (December 2007); Conditionality Guidance (2006); CAP Guidance (2006); Country Governance Analysis Guidance (2007).

7.34 However, that is not to say that a more explicit ‘scoring’ system of some kind does not have advantages that can be utilised. The Netherlands’ Track Record (see Box 8 below) is based on a scoring system against questionnaires. The summary score is used to provide an indication of what level of alignment with country systems is prudent in any country. Whether a country qualifies for budget support or not, however, does not necessarily mean that it will or will not get it. But it determines the scrutiny that the decision receives, internally, at a political level by the minister and ultimately, by parliament. In the Netherlands when the Ministry of Foreign Affairs (Minbuza) wants to go ahead with budget support when the Track Record shows that it might be too risky, it submits a letter to Parliament to inform it of the decision. If Parliament then wants to discuss the case (usually in committee) it can, but it can also decide that the support should go ahead by default. This system has the benefit of having parliament’s support for marginal decisions, while not slowing down the system or overburdening parliament with its scrutiny of all decisions.

7.35 In at least two countries, the EC and the Netherlands, countries are profiled during the assessment to use budget support, and that profiling is then aligned with the choice of instruments. The Netherlands approach includes three profiles:

- i) **Accelerated achievement of MDGs countries** are countries with a stable political and security situation with established institutions, but with a poverty problem. Where the Netherlands has enough confidence in the government of these countries (using the Track Record), efforts will be made to channel funding through the budget, with budget support the preferred option where possible.
- ii) **Broad-based relationship countries** enjoy good economic growth and are increasingly able to tackle poverty. Dutch effort targets particular issues, for example the business climate or strengthened institutions, democratisation. Budget support may be used here if it provides a development benefit, but more targeted support might be used, making use of country systems where possible.
- iii) **Crisis state countries** are fragile, conflict-sensitive and unequal. Budget support in such situations is risky because there is a lack of financial accountability, but is often the most efficient way of bringing basic government services up to standard. In such cases risks are monitored closely. The Netherlands prefers to fund activities and engage in dialogue jointly with multilateral or international partners. By definition budget support in these countries is a political decision and responsibility for implementation might be non-delegated. More recently the Netherlands has also added a dynamic aspect to the assessment of budget support in such cases: positive trends can result in the Minister opting for higher levels of alignment than warranted by the Track Record (Mokoro 2007, p3).

7.36 The EC profiling speaks of Strong Candidates (limited risk), Potential Candidates (medium risk) and Weak Candidates (High risk of non-utilisation of budget support [towards MDGs]). The EC too would not automatically exclude potential or weak candidates from budget support, but the use of the instrument in such cases is highly risky and would need to be justified on account of its crucial importance to achieve the country strategy (EC, 2007, p24).

Box 8: The Netherlands' Track Record explained

The Track Record of the Netherlands is an assessment framework that determines what level of alignment is feasible in a partner country and subsequently assesses whether the aid modality that a country mission wants to deploy satisfies the criteria that correspond to this level of alignment. The Track Record is prepared once every four years when a Multi-Annual Strategy Paper is prepared for each country, but updated each year (Track Record 'light') to monitor the implementation of budget support and respond to emerging risks.

The Track Record process requires risk assessment across 4 policy clusters, namely poverty reduction, economic management, good governance (PFM section is the only section explicitly linked to the concluding risk analysis) and dialogue. The Track Record documentation comprises an introduction, four main clusters and a concluding section. The concluding section provides an integral assessment of the cluster findings, elaborates on risks (including corruption) and measures to address them, and presents measurable indicators that the mission will focus on specifically in the following year.

The mission's analyses and ratings (on the components) are complemented by the relevant Country Policy and Institutional Assessment (CPIA) scores and various governance references such as the World Bank Institute Kaufmann indicators, Economist Intelligence Unit Democracy Index, Public Integrity Indicators). The aim is to harmonise where possible with multi-donor assessments (of the different policy clusters) like PEFA and the recipient country Performance Assessment Framework. However, for the Strategic Governance and Corruption analysis a specific instrument is prescribed.

In the case of multiyear commitments – for example, multiyear budget support – the mission must ensure that the analysis and assessment required in the Track Record is incorporated into annual reviews.

The Track Record results in a set of scores that is then used to match alignment with country context. The core of the Track Record is formed by four policy clusters (A, B, C and D) which are each, except for D, divided into two components as follows:

- Cluster A - Poverty reduction: A1 'Poverty reduction strategy'; A2 'Political commitment to and implementation of poverty policy'.
- Cluster B - Economic management: B1 'Macroeconomic policy'; B2 'Business climate';
- Cluster C - Good governance: C1 'Public Finance Management'; C2 'Basic conditions for good governance'.
- Cluster D - Dialogue: 'Quality of policy dialogue'.

The clusters are ordered and divided such that the assessment of cluster A 'Poverty reduction' reflects the match with Dutch policy on development cooperation, clusters B 'Economic management' and C 'Good governance' set out conditions, while cluster D 'Dialogue' assesses how effective the Netherlands can be in a partner country in terms of influence and cooperation. The sequence of clusters is not normative (e.g. cluster A is not more important than cluster B etc.).

One central question must be answered for every sub-cluster with the help of a number of key questions. Subsidiary questions or checklists for each key question serve as an aid to producing the analyses in the Track Record. On the basis of the answer to the central question, an assessment should be given for each sub-cluster in the form of a rating (a = highly satisfactory; b = satisfactory c = unsatisfactory d = highly unsatisfactory). The following scoring system is then applied to determine what instrument to use.

Fully aligned:

- General budget support (including via IFIs)
- Sectoral budget support Dialogue at least satisfactory
- All cluster columns satisfactory
- No more than two subclusters unsatisfactory
- No 'd' (i.e. bad) scores

Partially aligned:

- All other forms of programme aid (except budget support) No more than two clusters unsatisfactory and no 'd' scores
- No more than four subclusters unsatisfactory
- No more than one 'd' score for the subclusters

Not aligned:

- All forms of non-programme aid More than two clusters unsatisfactory, or
- More than two subclusters awarded a 'd' score

There is an overall country Track Record and a sector Track Record. The latter is similar in set-up but interprets questions at the level of a sector.

Source: Department for Effectiveness and Quality, Minbuza, 2007

7.37 All five donors' approaches to budget support allow for short-term budget support which is to be used for crisis support in post-crisis countries. In the case of Sweden budget support in these cases is decided on an annual basis and may not be provided for longer than five years. The Netherlands also used altered processes, with the obligation to seek ministerial approval annually.

Donor risk assessment practices

7.38 There is significant overlap in how the five donors assess risk. This is at the level of the types of risk that are assessed as well as at the level of what instruments are used. There is also some cross-referencing between donors, for example CIDA uses DFID's fiduciary risk assessments and the EC's eligibility assessments as instruments in its own risk assessment. Table 11 illustrates which donors assess which risks.

Table 11: Types of risk assessed

	Canada	EC	Netherlands	Sweden	UK
FIDUCIARY RISK	√	√	√	√	√
DEVELOPMENTAL RISK	√	√	√	√	
Of which is assessed explicitly					
<i>POLITICAL / GOVERNANCE RISK</i>	√		√	√	√
<i>MACROECONOMIC RISK</i>		√	√	√	

7.39 While reputational risk is arguably a key concern for donor parliaments, it is not assessed explicitly by any one donor. However, the assessment of political/governance risk – which includes assessments of the risk of corruption and risk of breaches of partnership principles with regards to human rights, for example – would be proxies for donors to look at reputational risk.

7.40 For all five donors, risk assessments are carried out at country office level, but reviewed at headquarters, with greater or less intensity. At the lower end of the intensity scale is Canada, where country desk officers review the statements. In the case of the EC, the Netherlands and the UK, specialised effectiveness and quality support offices or units review the assessments and in the case of the EC further backstopping is provided by a cross-departmental quality support group.

7.41 CIDA's Policy on Fiduciary Risk Assessment, 2007 provides information on the assessment of fiduciary risk in a programme-based approach. The 2008 Guidelines on Programme-Based Approaches specify the preparation of specific risk assessment documentation that draws on a variety of instruments to assess fiduciary risks. They then also look at several other types of risks, which can be summarised as various aspects of developmental risk. These are implementation, under achievement, sustainability, environment and gender risk. A statement on the risk of corruption must be presented in the fiduciary risk assessment document.

7.42 CIDA's internal procedures focus on an assessment of whether it is reasonable to expect that the resources transferred to a recipient country will be used for the intended purposes and

properly accounted for, and that expenditures will be equal to the funds transferred. This requires an assessment of the recipient country's:

- Government expenditure plans and related intended development outcomes;
- Public policy processes and their links to spending decisions;
- Effectiveness of public financial management and accountability systems and practices;
- Public procurement capacity, systems and practices;
- Fiduciary risks inherent in these systems and practices; and
- Adequacy of any proposed measures to mitigate fiduciary risk.

7.43 Sida prepares risk assessments for each of five pre-conditions for budget support, but the guidelines do not specify how in much detail. It is now intending to undertake more detailed work on risk assessment. After detailed analysis, documentation must also show how the risks will be managed.

7.44 The UK assesses primarily fiduciary and political risk. For fiduciary risk PFM and accountability systems are assessed and what initiatives are in place to improve the systems and the likelihood of their implementation. The fiduciary risk assessment is undertaken at country level, followed by a review led by the Programme Guidance Risk and Assurance Group in Finance and Corporate Performance Division. The review seeks to ensure that fiduciary risk assessments adequately address key areas.

7.45 In addition, after the National Audit Office report's criticism of DFID for its analysis of risk, DFID has agreed with the Office a system of auditing budget support which pays particular attention to fiduciary risk and recognises that the instrument requires a different approach to auditing. There are two elements of the system:

- An accounting discharge is given, which is simply a confirmation that the funds have been transferred to the intended recipient (compared to the explicit recognition in the EC guidelines that this is as far as the donor's direct compliance accountability goes).
- A fiduciary discharge is given, a confirmation that DFID's risk and control arrangements are sufficiently robust to ensure that funds have been spent as Parliament intended.

The National Audit Office will audit a sample of budget support countries every year. They also require DFID to show that fiduciary risk assessments are in place and that actions are in place to strengthen public financial management.

7.46 The Netherlands assesses risk through its Track Record (see page 67 above). While the Track Record is a systematic way of assessing country context and risk, it emphasises the use of harmonised assessments and existing instruments, such as the PEFA assessments, or the World Bank Institute Kaufmann indicators of government effectiveness and regulatory effectiveness. The full Track Record is used to draft country documentation, but the public financial management section is used to assess fiduciary risk. The Track Record is reviewed and approved by the Effectiveness and Quality Department at headquarters.

7.47 The EC's assessment of risk is bound up with its overall budget support programme preparation cycle. It does not prepare a separate document which sets out risk, but sees it as integral to its full programme implementation. As stated in the 2007 Guidelines, the EC

system of fixed and variable tranches and disbursement and performance criteria is aimed at managing the risk associated with budget support. The annexes to the guidelines unpack in more detail exactly which aspects need to be assessed to design a budget support programme, and which aspects need to be assessed annually to implement it so that the greatest risks at a country level are managed.

7.48 Besides stipulating the use of the IMF stability framework and PEFA to assess economic risk and the risk associated with poor financial management system respectively, the EC developed to a large degree its own instrument. The Annexes to the 2007 GBS Guidelines set out an array of questions that need to be asked and analysis that needs to be undertaken to produce the identification fiche and the financing proposal/annual action fiche (EDF) or the annual action programme (DCI). In effect the questions cover all of the areas identified by the other case study donors as important risk assessments to be undertaken, with the exception of CIDA's emphasis on gender risk.

7.49 Interestingly, the EC is the only donor in our case study sample which includes the risk of unpredictability in its discussion on risk: this is of course a sub-set of the risk that budget support will not be able to reach its objectives, the underlying definition of risk for the EC. As set out in Section 5 (and in the tables in Annex 3) the step-by-step documentation is prepared by delegations with the support of Dev and Relex and reviewed by inter-departmental quality support groups at each phase.

7.50 The research instruments used to assess risk are harmonised for the greater part for all five donors, although not all donors make reference to or require the use of all instruments used. Commonly used instruments are the World Bank Country Policy and Institutional Assessment (CPIA), the Country Financial Accountability Assessment (CFAA), Public Expenditure and Financial Accountability assessment (PEFA), World Bank Country Procurement Assessment Report (CPAR), Public Expenditure Tracking Surveys (PETs) and the Fiscal Report on Observance of Standards and Codes (ROSC). Table 12 maps the use of instruments against donors.

Table 12: Fiduciary Risk unpacked: sub-categories and the instruments used

	Canada	EC	Netherlands	Sweden	UK
PUBLIC FINANCIAL MANAGEMENT	√	√	√	√	√
PEFA Reports	√	√	√	√	√
CFAA	√		√	√	√
PERs	√		√	√	√
PETs	√			√	√
HIPC	√			√	
IMF Fiscal Report on Standards and Codes (ROSC)			√	√	√
CPIA			√	√	
PROCUREMENT	√		√	√	
CPAR	√		√		
CORRUPTION / GOVERNANCE	√	√	√	√	√
Transparency International Corruption Index	√			√	
UNCAC				√	√
Global Integrity Index			√		√
Resource Allocation Index assessments					√

World Bank Institute Kaufman Indicators			√		
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Monitoring and evaluation of budget support

7.51 The monitoring and evaluation of budget support present particular opportunities and complexities which the case study donors manage in different ways. It is clear that monitoring budget support is an essential element of risk management while ensuring that complementary activities are undertaken towards the achievement of objectives (namely partnership, dialogue, donor harmonisation, performance assessment and dialogue) is essential to achieving those objectives. In this sub-section and the next we look at how donors manage these two aspects, how they report to external stakeholders, and the oversight of processes by parliament.

Monitoring budget support

7.52 Donors monitor in three main ways:

- (1) They monitor as a group through joint annual review processes at the country level. Besides their involvement in policy and budgeting process through joint forums (although these are not set up in all countries), the joint annual reviews centred around the agreed country Performance Assessment Framework (PAF) are primary tools through which donors engage in dialogue and leverage budget support funds for developmental outcomes. The PAFs are not necessarily of the same quality in all countries, but generally experience in their design is paying off insofar as they are becoming more result-oriented. The PAFs usually contain the performance criteria attached to disbursement. It is by now a standard requirement in the guidelines from donors that PAFs should be harmonised and aligned to be feasible and effective. A brief discussion of the Tanzania PAF is provided in Annex 4, as an example.
- They monitor individually. Individual monitoring again falls into two categories. Their individual monitoring and assessment activities can be
 - (2) tied to their annual decisions to disburse and usually involve a mini or light assessment or an update of the full assessment, or
 - (3) ad hoc and specific in response to a situation.

7.53 The EC system provides a good example of how these three inter-woven monitoring types of mechanisms work. It participates at country level in joint annual budget support reviews with the partner country and other budget support donors. These reviews use the country PAF, which contains the performance criteria developed by the Commission in its preparation of the annual action programme and specified in the Technical and Administrative Proposals annex to the financing agreement. At the same time the EC in its annual preparation of the Annual Action Plan/Fiche (EDF) and Annual Action Programme (DCI) reviews the assessments undertaken for the formulation of the budget support proposal in the Annual Action Plan/Programme. Before disbursement the Commission also ensures that the disbursement conditions are met – these usually relate to the risks identified during programming, identification and formulation. In addition the Commission also requires an annual report on progress with public financial management systems for budget support countries (to ensure that the public financial management pre-condition is still met) and quarterly reports on recipient countries' economies (to ensure that the economic stability pre-condition is met). Finally, the Commission obligates delegations to send an early warning report as soon as any factor is identified that will impact on its ability to continue budget support. This is seen as of particular importance to ensure that it is in position to respond

adequately, particularly if a disbursement decision is already under way and the documentation did not include reference to the emerging situation.

7.54 Other donors in the sample have less rigorous individual actions. Table 13 below sets out how other countries engage in the three different types of monitoring activities.

Table 13: Donor country monitoring activities

	Joint reviews and PAFs	Individual assessments related to disbursement decision	Other individual routine or ad hoc mechanisms
Canada	Participates at country level in PAFs and joint reviews	The Director responsible for the budget support initiative and the Country Program Team annually reassess the fiduciary risk, confirm the continued eligibility of the recipient country government and assess whether the conditions for disbursement included in the Contribution Arrangement have been complied with. The results of such examination will be documented in a memo for approval by the Director responsible for the budget support initiative whenever the disbursement equals or exceeds \$1 million.	CIDA will regularly assess the fiduciary risk of programs during the life of a budget support initiative. The PBA Division is required to report regularly to the President of CIDA on the status of high-level fiduciary risks and the progress of disbursements, along with results for the overall portfolio of PBAs.
The Netherlands	Participates at country level in PAFs and joint reviews	Track Record 'light' is undertaken prior to the disbursement decision.	Requirement to alert headquarters and minister when conditions fundamentally change at country level. This triggers interim assessment and preparation of a response plan.
Sweden	Participates at country level in PAFs and joint reviews	Monitoring of the development of fundamental preconditions, country conditions and performance indicators prior to disbursement. By country the main tracking is for indicators included in disbursement agreements which are tracked by HQ. More recently there is a provision that if conditions in a recipient country worsen, Sida must confer with the Foreign Ministry before further budget support can be disbursed.	Each country plan has a results matrix in which budget support monitoring outcomes must be reflected.
UK	Participates at country level in PAFs and joint reviews	Specific reporting is undertaken by country offices before disbursements are made and these reports go to the Secretary of State and provide an update on partnership commitments and fiduciary risk assessment	Budget support included in output to purpose reviews by country offices. Reviewed at headquarters by the Corporate Performance Division.

7.55 Table 13 summarises how donors monitor and implement budget support internally. An associated question is how they report on its use, in year and after the fact. Annual reports on the activities of aid agencies are common to all five donors, as can be expected, but are there any that report on budget support specifically? The findings of the study are that on average, reporting on budget support is weak, an issue that is taken up in the next sub-section. It is

only Sida that provides coherent information in a separate section on budget support in its annual reporting.

- We know from the case study in Section 5 that the EC does not report on budget support separately, except insofar as reports on specific sub-aspects are required by the underlying financial instruments. For the EDF funds, for example, the ministry is required to submit an annual report to Parliament on the financial management of these funds. But that is only on how it manages the funds, not on the achievements (or lack of achievements) against objectives.
- Canada does not report on budget support specifically, but its country desks produce annual performance reports for headquarters, which contain a review of budget support and other programme-based approaches. Some of this information then makes it into CIDA's Departmental Performance Report, but not in a systematic way.
- In the Netherlands a few paragraphs on budget support might be included in the annual report submitted by the Ministry each year to Parliament. The Ministry is also obligated to report on aspects of its implementation where it did not follow its own procedures.
- In the UK there is little information on budget support in the DFID annual report. The National Audit Office recommended, supplemented by the Public Accounts Committee, that reporting to Parliament on budget support should be improved, in terms of scope, frequency and reliability of the data provided.
- In Sweden Sida includes an overall report on budget support in the section on the results of aid in Sida's annual report. However, this reporting is still quantitative, without adequate attention to results.

7.56 It is difficult to form a definitive view of how effective these mechanisms are in ensuring that developmental benefits are realised and risks managed. Each of the Audit Reports did pick up on issues of how risk is managed but particularly how it is reported during implementation, even internally, but often to external stakeholders.

- EC: Although the ECA report (European Court of Auditors Special Report 2/2005) was generally positive about the Commission's own understanding of the risks involved, it did criticise the Commission for not setting out the risks coherently for its financing decisions and in a manner that will enable the EDF committee to have a full view of factors affecting the decision.

"The information on which the financing decisions were based and, subsequently, the information in the follow-up documents, give a true view of the situation. For this reason, the Commission is usually well informed about the weaknesses affecting public finance management systems[...]The Commission's financing decisions, and its reactions in mid-programme, are appropriate in the light of its dynamic interpretation of Article 61(2) of the Cotonou Agreement [...]. However, since this increases the level of risk, at least in the short term, it is doubly important for the Commission to monitor the situation rigorously. Meanwhile, the Commission's decisions are insufficiently argued [...]. The financing proposals and agreements do not make sufficiently clear the relations between the weaknesses detected in public finance management, governments' reform programmes, the institutional support required for implementation of those reforms and the follow-up tools, including preconditions and performance indicators [...]. This failure to

evidence cohesion and perspective, combined with a presentation that is too diverse and unstructured, do not provide the EDF Committee with assurance that all the weaknesses are being taken into consideration (European Court of Auditors Special Report, 2/2005, p 18)

- Sida: The Swedish National Audit Office recommended that Sida undertake on a more regular basis systematic risk analysis in budget support countries as part of the monitoring exercise. It also recommended more generally that Sida should ensure that budget support can be monitored and followed up (SNAO, 2007, p70). This is as a result of SNAO's observation that "there are weaknesses in the monitoring systems in most recipient countries". (p51)
- UK: The National Audit office report has highlighted areas where reporting on risk can be improved. The report notes that "there is scope for DFID to sharpen its estimates of potential inefficiencies or leakage, and to set out more clearly the extent to which UK and other funds are at risk". (NAO, 2008, p5). This theme was taken up by the Public Accounts Committee who in their report on budget support based on the NAO report stated that "there is insufficient evidence in the public domain for Parliament to come to an informed view of the balance between risk and reward. Where it assesses financial risks to be high, DFID should disclose the scale and nature of these risks, and offer its best estimate of the levels of corruption and inefficiency that may result. It should also set out its risk management plans. Such information should be available when requesting funds from the UK Parliament and when accounting for their use" (House of Commons Committee on Public Accounts, 2008, p6). The NAO also highlights the problems associated with monitoring budget support as it "is challenging given the weaknesses in developing country data and difficulties in attributing changes to a particular type of aid such as budget support" (NAO, 2008, p5). It does acknowledge that DFID has provided support to statistical agencies in recipient countries in order to overcome this problem.

7.57 While halting budget support payments is an implicit or explicit sanction in the policies of all five donors when recipient countries do not fulfil their obligations, or risks become too high, Dutch practices offer an example of a measured and explicit response. The benefit of having an explicit policy in place with clear steps and decision-making obligations identified for country missions, is that it can enforce accountability as well as a higher likelihood of early and appropriate responses. Box 9 briefly sets out the main features of the Dutch Sanctions Policy for general and sector budget support.

Box 9: What to do when things go wrong? The Netherlands Sanction Policy

On the basis of appropriate sanctions, laid out in advance and in agreement with the partner country, the Netherlands have set out a systematic response with clear roles and responsibilities in the eventuality that things go wrong.

Firstly it emphasises that joint action with other donors is preferable, and that consultation with the recipient country to rectify the situation (with clear milestones) should take place. Secondly, it emphasises that the approach should be graduated, in order to avoid stop-start disbursements of budget aid. Such consultations should be documented through signed minutes, *aides-mémoire* or letters. There should be clear time limits to getting the programme back on track. After consultation and agreement on how the situation will be rectified, progress should be monitored. If however there is no improvement despite a lengthy period of dialogue on remedial action, and this is due to a lack of political will, sanctions are considered. Preferably this action too should be joint, but this might be difficult and the Netherlands are prepared to act on their own behalf. A recipient country is notified via a sanction letter from the Minister.

In the case of general and sector budget support sanctions may take the form of a freeze on new commitments; a reduction in the commitment sum and a suspension of payments. A reduction or suspension of budget support payments may be combined with the deployment of resources to a different aid modality.

It is also possible to call into the long-term relationship with the country, but this is only in cases of 'grave deterioration' in the general governance situation, serious breaches of human rights or a total absence of political will.

A country mission is under obligation to report a potential of imposing sanctions at an early stage to headquarters. Consultations are held between departments within the ministry and a course of action decided. The final decision to impose sanctions however, rests with the Minister.

Sanctions can be waived if obligations are not fulfilled, particularly if it is not on account of a lack of political will. If sanctions should have been imposed, but are waived, headquarters should also be informed. The process then follows a similar path, with the final decision resting with the Minister.

Where obligations are fulfilled, but corrupt practices are discovered, the same procedure should be followed.

Finally, sanctions can be lifted if confidence has been re-established and the Track Record analysis is positive. The decision to lift sanctions should be coordinated with other donors, but the final decision rests with the Minister.

Source: Department of Effectiveness and Quality (Minbuza), 2006.

Evaluating budget support

7.58 Evaluations of budget support occur primarily at country level, usually as part of country evaluations. All donors indicated a preference for joint evaluation. Country offices of CIDA can undertake budget support specific evaluations. This has also occurred in the UK, where ad hoc evaluations of budget support have been undertaken for Zambia, Ghana and Sierra Leone.

7.59 The budget support audits undertaken by the SAIs in the UK and Sweden are in effect evaluations, rather than compliance audits. They were however still focused on issues of process. The audit undertaken by the European Court of Auditors (Special Report 2/2005) of European Commission EDF budget support similarly was an audit of the effectiveness of procedures, rather than of the effectiveness of budget support.

7.60 The evaluation of budget support by aid agencies as an instrument across their recipient countries is under-developed. Besides work on-going in the EC to create a common approach to the evaluation of budget support (see paragraph 5.52), the donor agencies refer to the 2006 joint multi-donor evaluation of budget support commissioned by OECD DAC (IDD & Associates, 2006) as the main effort in this regard.

7.61 In principle, however, evaluations are an important part of budget support. Because of the nature of budget support, verification of its effectiveness is difficult but essential. Regular evaluations would provide donor agencies and stakeholders such as parliaments and citizens with the assurance that the supposed developmental benefits of budget support are being realised. This would hold for the outcomes in terms of improved country systems and government effectiveness and for poverty reduction outcomes. When evaluations show the achievement of these outcomes as less than expected, good methodologies should also provide insight as to what went wrong: were the objectives unrealistic, were country assessments overly positive, were dialogue mechanisms ineffective, were public financial management improvements less than satisfactory, was there a lack of political will in the recipient country or were there external factors which led to underachievement of objectives?

7.62 Evaluations however would require that objectives are clear and clearly stated. In the UK one of the main criticisms of the National Audit Office report was that DFID did not always have clear objectives in the use of budget support. DFID has since re-drafted its guidelines to improve the statement of objectives.

Parliamentary oversight of budget support

Parliamentary engagement in selection and approval of budget support

7.63 Figure 10 maps the seven donors against how their parliaments use their three types of powers to affect decisions taken in the programming cycle of budget support. The seven parliaments are arranged from weaker oversight parliaments to stronger oversight parliaments, with regards to their ability to oversee appraisal and approval of budget support.

Figure 10: Oversight of programming cycle decisions *ex ante*

	Legislative Powers	Budgetary Powers	Accountability Oversight	
	SETTING UP ARRANGEMENTS	BUDGET CYCLE	PROGRAMMING CYCLE	
Not Involved	Sweden; UK; Netherlands No involvement (as yet) in determining rules for use or processing of budget support	UK: Parliament approves budget but does not change allocations Canada: parliament can amend with limits, but no discussions at detailed level	UK; Canada No direct involvement by parliament in programming decisions	Less Interventionist
Informally involved			Sweden, Netherlands and EC: Parliamentary questions and debates	
Formally involved (formal access and powers)	Canada (through the Better Aid Bill) EC (through negotiation and formal powers in specific legal bases) Germany, US: Not known (not included in research)	Netherlands (weak): powers to amend the budget, but at high level of detail Sweden (not used): Can amend, but development spending rarely discussed EC Final decision making on budget for development: used powers to strengthen oversight Germany: Amends budget at detailed allocations level US: proposes / amends budget allocations; all spending approved at project level	Netherlands: Opportunity to argue case in marginal cases EC: Opportunity to take position on each CSP's approval of budget support, but Commission can ignore Germany: Scrutinises every decision with right of refusal US: Congress approves at project level	More Interventionist

7.64 Vertically we have put parliaments into three categories for each power. In the first row are parliaments that are not involved in budget support decision-making through each of the powers, in the bottom row are those parliaments who are involved, on account of having formal access to the process. In the middle row are parliaments who either are also active informally (through parliamentary debate and questions) or who might not have formal access and powers, but are nonetheless holding the executive to account through informal, or political processes.

7.65 Horizontally, we have separated the three types of powers. Note that legislative powers refer to parliaments' ability to influence or intervene in the rules that determine how and for what budget support will be used. Oversight power refers to parliaments that have informal or formal access to budget support decision making processes and budgetary powers refer to parliaments' ability to practice oversight over budget support decision-making by using their budgetary powers.

7.66 It is notable that the UK is placed in each case in the top horizontal layer (not involved in budget support decision-making) and Canada in two cases. If it were not for the promulgation of the Better Budget Bill – legislation recently passed which determined what Canadian official development support may be used for – Canada would also have been at the top end for all three powers. However, the Canadian Parliament is not involved at all in setting further rules and it is also not clear yet how the bill will be implemented. The placement of these two parliaments in the weakest actual oversight group is aligned with its placement in the budgetary powers index as having poor oversight institutions and therefore poor oversight potential.

7.67 Sweden and the Netherlands could roughly be seen as a next layer of parliaments with regards to *ex ante* efforts to oversee development support decisions. Neither have so far been part of setting out rules with regards to the programming and use of budget support. And whereas both have budgetary powers that they might use to strengthen their voice in budget support oversight, these powers are weak both because of the structure of the budget, and because they have not used it in such a context. Given their placement though in the top quartile of the budgetary powers index, it would seem that they are performing below their potential to exercise oversight.

7.68 This is less true for the Netherlands. It is in a stronger position than Sweden with regards to having formal access to the programming cycle. Sweden only engages through informal debate and questions (although even that has been limited so far): the Netherlands parliament is informed formally by the executive in cases where budget support is very risky. This is on account of an implementation agreement between parliament and the executive (the 1977 Note on Control and Oversight) that parliament will be informed when there are issues in implementation which are not business as usual. Of course, it is up to the judgement of individual ministers when to inform parliament, but if they do not and the case emerges publicly subsequently, their political futures would be in the balance.

7.69 The remaining three parliaments have the most powers to oversee executive decisions before they are taken. The US Congress is in a very strong position because of the way the budget is structured: the budget for USAID is approved at a high level of detail, which means that Congress scrutinises every decision. The Bundestag in Germany equally has demanded strong powers for itself: since the beginning of 2008 – after a report on budget support from

the Court of Auditors – the budget committee scrutinises budget support country by country. This is at the point when the decision is taken in principle (see Box 10) and the power is based on the powers of the committee to approve expenditure conditionally in the budget cycle. However, arguably, the committee is leveraging its budgetary powers to micromanage a sub-set of expenditures. There are several problems that arise from this level of engagement. It is a time and resource consuming procedure. Papers need to be submitted jointly with the finance ministry, the budget committee has a full schedule and hearings can be postponed. Since the approval has to occur prior to entering negotiations, it is at a stage when the information is not yet complete, even with regards to assessments. Given the complexity of joint-donor engagement and partner country engagement in designing and negotiating a budget support instrument, Germany is as a consequence not always ready to enter the process. This undermines its position in budget support negotiations, also because German agencies now do not have sufficient flexibility in harmonisation negotiations.

Box 10: *Ex ante* oversight of budget support in Germany

Since April 2008 the German Federal Ministry for Economic Cooperation and Development, which is responsible for official development support working with different implementing agencies such as the KfW and GTZ, has had to submit every budget support and basket funding support proposal to the Budget Committee in the Bundestag, the German Parliament. In the previous systems the ministry kept the Bundestag (Development Committee and Budget Committee) only informed about future budget support approaches in partner countries.

The history behind this new procedure traces back to the formulation of a specialised budget support concept paper by the ministry which set out what guidelines and procedures should be followed by the ministry and the implementing agencies when deciding to use budget support as the financing modality of choice. The German Supreme Audit Institution subsequently chose to investigate these guidelines and its application in practice, a process that was done in discussion with the Ministry, KfW and GTZ, and which lasted for more than a year. The report of this audit process was made available to the Bundestag in February 2008. While the report overall was well-balanced, there were some criticisms. In particular, the report pointed out that budget support touches a core area of parliamentary fiscal oversight, since budget support turns away from project-related evidence of the use of funds. Hence, the report recommends that the current information procedure on budget support is to be replaced by an explicit approval procedure by parliament.

As is required the report was tabled in the Budget Committee in Parliament which subsequently decided that it wants to see each and every new budget support proposal. In consultation with the ministry it was decided that the Ministry would need to complete a framework document - three to five pages - to be submitted to parliament for every decision. This framework document has to be prior to Germany entering into negotiation with the recipient government or with other donors: in other words prior to entering commitments. The KfW, as the implementing agency for most budget support, also needs to provide a letter which discusses the fiduciary risks and provide an assessment of the risks involved.

The new procedure does not only hold for budget support, but also for all forms of basket/pooled funding.

For 2008 20 applications (6 budget support and 14 baskets applications for 13 countries) were tabled to the Budget Committee out of which one proposal for budget support was refused by Parliament and one budget support proposal was withdrawn by the Ministry.

Source: German Federal Ministry for Economic Cooperation and Development

7.70 The European Parliament also appears to be in a strong position, and compared to its position in terms of formal budgetary powers appears to punching above its weight: from each of the three powers it has elbowed open a space for itself to make it more likely that decisions taken by the Commission are taken within the confines of its oversight and that it can engage in a dialogue on the risk associated with budget support spending, and on value

for money. How well it can do any of these things, however, is a function of its own capacity. While its legal powers in the programming cycle are very limited (only to ensure compliance with the legal basis for decisions) and while its powers in principle only apply to the DCI, the formal access does create opportunities for engaging politically beyond the DCI and beyond legal compliance to value-for-money issues.

Parliamentary engagement in risk assessments

7.71 The assessment of risk is so integrated with the systems for budget support assessment and approval that in principle the findings provided above with regards to parliament's role apply equally to risk assessment. Of course, risk assessment is not only part of deciding to use budget support it is also a continuous effort during implementation. Some of the more contentious uses of budget support in specific countries could have been managed better if there were a heightened awareness of the need to detect early changes in country contexts through continuous risk assessment.

7.72 Assessing the role of parliament in risk assessment therefore also references the findings below on how parliaments engage during the fact with budget support monitoring and *ex post* with budget support reports, evaluations and audits.

7.73 In this section, however, there are specific findings that concern more narrowly the specific documentation prepared or the specific actions undertaken by the donors from a risk management perspective.

7.74 In this regard the overall finding from the case studies is that where specific risk assessment documentation is prepared most parliaments do not get to see the documentation *ex ante*. Parliaments are also not privy to documentation that alerts agencies to emerging or increased risks during implementation.

7.75 The Netherlands is an exception: the potential for Parliament to discuss specific countries where budget support is a marginal decision because of higher risk means that Parliament is privy to risk assessments – even if it does not get to see the actual documentation. This ability also extends to implementation: equally the Minister is required to alert Parliament when budget support (or any other development operation) becomes problematic in any country.

7.76 And Sida is required to present to Parliament clear statements of the risk associated with budget support as part of the annual budget bill. As the Swedish National Audit Office has commented in its 2008 report, this analysis does not provide sufficient information. The presentation should be 'a more true and fair' picture of budget support (SNAO, 2008, p10). The budget bill is presented once a year and problems with budget support in specific countries have emerged after they had been scrutinised, but there was no highlighting of the risks in the budget bill.

7.77 While in Canada and the UK there might not necessarily be much interest in Parliament being that much involved before the fact, in the case of the EC the documentation submitted to the DCI Committee (which is then also required to be submitted to Parliament) at the time of the financing decision (the Annual Action Programmes) does not include the annexes that discuss the risks involved in more detail. According to the Commission this documentation is confidential because it contains assessments that are sensitive and could prejudice the Commission's standing at country level.

7.78 As far as *ex post* oversight of risk assessments is concerned, beyond the simple emergence of risks and their management in problematic countries, a review of risks or risk assessment processes is presented to Parliament in the UK, to the Public Accounts Committee as part of the work of the National Audit Office (see paragraph 7.45 above). The special audit reports produced in Sweden and by the European Court of Auditors similarly enabled these parliaments to engage with risk assessment practices.

7.79 The UK and Netherlands cases provide very useful examples of how a system can effectively facilitate accountability in the executive, without overburdening parliament with blanket requirements to scrutinise all decisions, thus slowing down decision-making and in effect making the oversight almost meaningless because parliaments do not have the capacity to undertake reviews at a thorough level. In the Netherlands the intervention occurs in the programming cycle, and is accountability oversight either before the decision to use budget support, or during the implementation of budget support. In the UK it is entirely *ex post*, but it does provide assurance with regards to the management of future risks.

Parliamentary engagement in monitoring and evaluating budget support

7.80 Parliaments have a clear mandate to undertake *ex post* oversight. In principle it is less contentious than *ex ante* oversight because it is not possible to interpret mechanisms or parliamentary action as interference in the mandate of the executive to implement or as micro-management.

7.81 The principle of *ex post* oversight is that it facilitates accountability because actors in the executive do not have a free hand to make decisions without those decisions being scrutinised after the fact. *Ex post* oversight therefore needs to be set up in such a way that poor decision-making by the executive can be identified and discussed, with recommendations on how to avoid re-occurrence in future. Further sanctions can also be in place, such as the possibility of disciplinary action in the case of civil servants, or political sanction in the case of political office holders.

7.82 Even the right to interfere *ex ante* in decisions, whether through budgetary or oversight powers, can be viewed as powers in the last resort, set up to provide parliaments with a sanction to be used in cases where *ex post* recommendations are consistently ignored by the executive.

Committee structures

7.83 *Ex post* oversight has two aspects: oversight related to compliance with procedures and laws, and value for money oversight. Internationally there are at least four models for the allocation of these functions.

- audit report scrutiny by sectoral committees (New Zealand),
- scrutiny by a free-standing PAC (Canada, UK),
- scrutiny by the budget committee or a sub-committee of the budget committee (Germany),
- no systematic *ex post* scrutiny of audits and no specialised *ex post* audit capacity at committee level (US).

7.84 With the exception of Sweden, all five donor case studies have both budgetary oversight and sector-specific committees. In three of the five cases the sector-specific committee is not development-specific, but is the committee that has oversight over foreign affairs, under which development falls. In the UK and the European Parliament, however, a specialist committee deals with development: in both cases because the relevant donor agency is a separate department/falls under a different commissioner. In Sweden the sector committees also scrutinise spending *ex post*. The Netherlands has a dual set-up whereby the Committee on Foreign Affairs is responsible for both *ex ante* and *ex post* oversight over development spending, but it is supported in this task by the Public Expenditure Committee, which is a horizontal committee undertaking similar scrutiny with the objective of improving the budget. Table 14 shows the division of labour between these committees.

Table 14: Division of labour on *ex post* oversight between parliamentary committees

	Budgetary oversight committee	Sector committee
Canada 2 committees with separate mandates	The public accounts committee deals with compliance audits and oversight of expenditure overall.	The Committee on Foreign Affairs has oversight of development policy and spending, particularly before the fact. However, its discussions are more focused on foreign affairs issues than development.
EC 2 committees with separate mandates, but cooperation	The Budget Control Committee engages with the European Court of Auditors and has oversight of spending, particularly compliance. It prepares draft decisions and resolutions to the plenary on the discharge of the Commission against specific spending categories.	The Committee on Development engages with the European Commission on development issues. Its responsibility is oversight of policy effectiveness, but it cooperates with the Budget Control Committee to produce the draft discharge decisions and resolutions.
The Netherlands 2 committees, but sector committee has dual mandate and the stronger <i>ex post</i> oversight mandate	The Public Expenditure Committee is a horizontal committee that investigates public spending overall before and after the fact. It cooperates with individual sector committees to support them in their responsibilities with regards to spending. The real oversight power, however, lies with the sector committees.	Oversight over development spending is undertaken by the Committee on Foreign Affairs. However, there is a specialist sub-committee that looks after development spending. The Committee scrutinises spending <i>ex ante</i> and <i>ex post</i> , and receives letters from the Ministry with regards to development spending issues during the year. It can also decide to investigate an issue on its own initiative, in which case it sends a letter of notification to the ministry. The Committee has responsibility to scrutinise spending before, during and after the fact.
Sweden Only one committee	No budgetary control committee	The Committee on Foreign Affairs deal with international development matters. It scrutinises Sida's budget proposals and reports.
UK Two committees, with the public accounts committee having a dual mandate	The Public Accounts Committee is the most influential committee and focuses on <i>ex post</i> budget outcomes, particularly against value-for-money criteria. The National Audit Office reports are referred to this committee.	The International Development Committee scrutinises DFID expenditure and the activities outlined in DFID's report.

7.85 A key factor in making *ex post* oversight effective is access to information. The role of the SAI reports in this regard is highly important, as are the powers of committees to call the executive to hearings. A third factor is whether committees can initiate their own investigations and a fourth, the coverage, frequency and quality of information they routinely receives during the spending year.

7.86 We look at these factors in two sections. In the first we briefly review the role of the SAI in each case. In the second we provide an overview of information flows to committees.

Supreme audit institutions

7.87 Each of the five donor parliaments is served by an independent SAI.

- The **European Court of Auditors** undertakes an annual regularity audit of Commission revenue and expenditure. It has to provide an assurance on the reliability of the accounts and the legality and regularity of the underlying transactions. It can also undertake special reports. The EU Treaty provides for the Court of Auditors to assist the European Parliament and the Council in exercising their powers of control over the implementation of the budget, by giving discharge to the Commission. Every year, the Court of Auditors presents its annual report to the European Parliament, acting as the discharge authority. Furthermore, the Court may deliver an opinion at the request of the Institutions of the European Union, including Parliament.
- The **UK National Audit Office** undertakes *ex post* audits. It is an independent parliamentary body headed by the Comptroller and Auditor General, who has a statutory responsibility to audit the financial statements of all central government departments, agencies and other public bodies and to report the results to Parliament. It undertakes financial compliance and regularity audits and performance audits. It has full discretion concerning the value-for-money audits it undertakes, but in practice will consider requests by parliamentary committees, particularly the public accounts committee.
- The **Swedish National Audit Office** is an independent parliamentary body that undertakes regularity audits and value-for-money audits. It provides its reports to Government, and they are also made public.
- The **Office of the Auditor General of Canada** audits government operations and provides Parliament with independent information, advice, and assurance regarding the federal government's management of public funds. While the Office may comment on policy implementation in an audit, it does not comment on policy itself. The office conducts financial compliance audits and conducts performance audits. The Auditor General reports to Parliament, where committees hold hearings on the reports and make recommendations to government departments.
- The **Netherlands Court of Audit** undertakes regularity audits of all government revenue and expenditure. It also investigates whether central government policy is implemented and its goals attained. The Court of Audit sets its own programme and is independent of government and parliament. However, ministers and the two houses of parliament may ask the Court of Audit, but it has the power to refuse. The reports of the Court of Audit are attached to the annual reports of the ministries and submitted to parliament by the ministers. The Court of Audit personnel are auditors plus other specialists and work in teams which are based in specific ministries for periods of

time. There is a team in the Ministry of Foreign Affairs which undertakes one performance-related report a year. It is expecting to undertake one on budget support in the coming year.

In all five cases, therefore, SAIs support parliaments' *ex post* oversight role through the provision of evidence-based findings on development spending, both from a regularity point of view (were the required procedures followed, was the money spent as approved, were proper accounts kept?), but also from a policy effectiveness point of view. Audits to assess performance/value for money/effectiveness, however, are not carried out annually, but at the discretion of the SAI. In most cases, including the European Court of Auditors, parliament can request an opinion from the SAI.

Access to non-financial information

7.88 The quality of oversight by committees depends on the quality of the information they access or receive, whether during the spending year or after the fact. Information forms the basis of their engagement with their executive counterparts. However, committees are inevitably struggling with information deficits.

7.89 Information flows take various forms: all five parliaments receive annual reports from the aid agencies or the parent ministry. These reports either contain the annual audit report of the SAI, or these are submitted separately. At a minimum these reports are legally required. However, the annual reports as a rule do not provide much information on budget support. At the most they would indicate what proportion of funds in which region or country were transferred as budget support, or contain a few lines on the implementation of budget support operations. In not one case is there any effort to report on the results of budget support.

7.90 Informally the specialist sector committees will also be provided with various ad hoc reports produced by their ministries, including evaluations. All five committees have the power to initiate reports, and with that dialogue. This is used most often by the UK, Netherlands and EC committees, which are either specialist development committees or, in the case of the Netherlands, work through a specialist development sub-committee. In Sweden and Canada the committees are more involved in foreign affairs matters and do not discuss development much. In Sweden that might change, however, on account of the growing public interest in development spending.

7.91 Specific ad hoc reports, whether undertaken by the committee or provided by an SAI, are important vehicles for initiating dialogue and improving the underlying systems. As can be expected, SAI special reports have a particularly strong impact: in Sweden, the UK and the EC the relevant donor agency addressed weaknesses in their systems identified in the reports swiftly. In the UK the role of parliament was significant in bringing about the shifts: in response to the National Audit Office Report, the Public Accounts Committee published its own report, of which some recommendations mirrored that audit report, but others were particularly aimed at improving information flows to Parliament. The reports specifically recommended that DFID:

- improve the scope, frequency and reliability of data availability on budget support;
- provide more information on the impact and results of budget support;
- collect systematic data on the financial inputs to recipient country budgets, and ensure that the definitions of sectors, regions and activities are applied consistently.

(House of Commons Public Accounts Committee, 2008. p.5-6).

Table 15: Access to non-financial information

	During the spending year	After the fact
Canada (relatively weak access, weak actual oversight of development issues)	No routine flows. The Committee on Foreign Affairs' oversight is more focused on foreign affairs perspectives, so there are not reports initiated on budget support.	CIDA submits annually to Parliament a departmental performance report. This report is structured by country, but does not provide sufficient information on results. There is very little information on budget support, except related to specific countries and even then there is not much substance.
Sweden (relatively weak access, weak oversight of development issues)	The Foreign Affairs Committee informally questions Sida and the Ministry of Foreign Affairs. The committee can undertake its own research, but to date budget support has not been discussed in parliament.	The committee receives an overview of past spending and forward spending plans in the budget bill. The financial information is supported by a narrative on strategies and risks and expected achievements. Budget support is however not discussed separately.
UK (relatively weak access, but medium oversight through ex post processes)	The International Development Committee engages with DFID during the spending year on issues, and calls officials in to hearings. To date, no specific discussions on budget support.	Departments produce performance reports which set out their activities, whether they met their targets and how they have used funds. Again, there is not much budget support specific information. The International Development Committee undertakes special reports on development issues, but to date none has been on budget support.
The Netherlands (medium access, medium oversight)	During the spending year the Foreign Affairs Committee can initiate inquiries with regards to a specific sub-set of development spending. It also has access to information when the Minister for Development Spending submits a letter with regards to a specific programme or country. However, there are no routine in-year reports	The Ministry submits an annual report to the Committee which includes its financial statements, the Court of Audit Report and a narrative on policy implementation. The Ministry is obliged to report any instance where it is has not complied with its own procedures.
European Parliament (medium access, medium oversight)	The Committee on Development members pose parliamentary questions to the Commission and the Commission appears before the committee on request to discuss implementation. The Committee has also produced an own initiative report on budget support, but the report was at a high level of generalisation. It did however initiate dialogue. There is no routine flow of information although it is expected that for the DCI members will see the Mid-Term Reviews under commitment.	The Committee receives annual reports from the Commission. There is an overarching annual report, but also specific reports which the Commission is required to submit in terms of the underlying legal basis. The Committee uses the discharge powers of parliament to question the Commission on implementation through a joint questionnaire with the Budget Control Committee.

PART E:

KEY ISSUES AND RECOMMENDATIONS

8. Findings on Key Issues

8.1 Part D above provides a comparative analysis of the use of budget support and oversight across the five donor case studies. Several issues arose from this analysis, which can be set out as key findings with regards to donor practices in selecting, approving, monitoring and evaluating budget support and assessing the risks associated with it on the one hand, and the oversight undertaken by parliaments on the other hand. This section sets out these findings, providing a basis for the recommendations provided in the final section (Section 9) below.

Balancing budget support oversight strengthening with general development support oversight

8.2 Oversight of both budget support and development support generally is weak. But there is a concern with regards to recent efforts to increase budget support oversight in four of the five case studies without commensurate strengthening of oversight of other types of support. While there are some strengths with regards to general oversight of development spending in the five parliaments (for example the use of specialist committees, existing traditions of engagements, the ability to initiate reports and dialogue with the aid agency), there are common weaknesses. These weaknesses need to be addressed in tandem with strengthening budget support oversight in particular. If only budget support oversight is strengthened, it still leaves other forms of support too open to risk.

Ensuring that parliamentary oversight supports aid effectiveness

8.3 One weakness that stands out in the analysis is a clear lack of interest in and access to information on the results of spending. Most of the five parliaments focus on issues of financial inputs and legal compliance, without balancing this with a focus on results.

8.4 There are two concerns with this trend. First, it is out of step with the international recognition that aid effectiveness is an urgent concern both for donor countries and institutions and for recipient countries. Unless parliaments broaden their focus to give equal weight to a consideration of results as against regularity oversight in the use of funds, they run the risk of not only not supporting the aid effectiveness agenda, but even of undermining it, particularly if the use budget support is prejudiced on account of parliamentary oversight practices.

8.5 Secondly, the lack of focus on results will prejudice parliaments against the use of budget support, which (as explained in paragraph 3.77) appears more risky than other modalities in terms of issues of financial inputs and legal compliance, but less risky in terms of its ability to deliver sustainable development outcomes. These issues are taken up further in the paragraphs below.

Level and timing of decision to use budget support

8.6 All five countries take the in-principle or final decision with regards to budget support at a political level. This seems appropriate, because of the types of risks that are involved with the use of the instrument. However, the interface between the timing of the final decision and

the level of decision-making is important. If approval for the use of budget support is given in principle at the time of the country strategy paper, full processes of country dialogue and multi-donor partnerships in the dialogue will not yet have taken place. This is appropriate for two reasons: when participating in such dialogue, desk officers from donors where budget support approval is given in the country strategy paper can participate with a proper mandate. On the other hand, setting the mandate for approval of budget support at a high level and at the stage of setting the country strategy is meaningful. If it were to occur only after participation by the donor in the full budget support country processes, the odds would be against deciding subsequently not to provide budget support on account of the reputational risk for the donor.

8.7 All five donors take the in principle decision prior to detailed negotiations. The EC's second approval at a high political level (of the detail after the formulation process) is, however, exceptional, particularly rigorous and potentially damaging to its role at country level: this means that not only the in-principle decision is approved at this level, but also the exact detail *after* full country processes. The UK is in a similar position for budget support programmes over GBP20 million. In other countries decisions about the structure of the programme are handled at lower levels after the in-principle decision. If DFID were to return to the country level with a rejected or amended decision, its role in future dialogue and negotiations – particularly in a multi-donor context – could be undermined. This is a factor to keep in mind when looking at the role of the European Parliament in the scrutiny of DCI Annual Action Programmes, particularly with regards to budget support.

8.8 Even in Germany, where parliament scrutinises every budget support decision (see Box 10 on page 78) this occurs at country strategy paper stage and even then it causes problems for Germany's role at country level, which is undermined by delays in the parliamentary decision-making process.

The use of country eligibility criteria

8.9 Criteria are not only about risk, they are also about benefits: donor agencies and parliaments should weigh up the risks and benefits of budget support prior to deciding on its use, or overseeing decisions to use it. Even coverage of both risks and benefits is insufficient, although necessary. A decision to use budget support can only be taken against an understanding of *all* the benefits and risks of budget support, as against those of alternative forms of support.

8.10 Country profiling creates the opportunity to identify more risky countries, where parliaments can focus their oversight efforts in order to ensure accountability. The benefit of such profiling is that it provides a consistent basis for identifying countries where it might not be 'business as usual' and where the risk profile is high, allowing for more rigorous decision-making and, if required, consultation with or oversight by parliament.

8.11 It seems important to be transparent about how the criteria to assess country budget support eligibility are used. The five donors use various systems, starting from the EC's dynamic approach, to the Dutch narrower scoring system. There are a number of issues with regards to the use of criteria in different ways. These are:

- The value, inherent in the EC approach, should be recognised of not using the assessments blindly, but as an information source or a guide in order to make an informed decision that takes into account the interplay between risks and benefits, country circumstances and the fact that aid-recipient countries are likely to have

systems that are not necessarily fiduciary risk-proof but progressing sufficiently towards being budget support compatible.

- In terms of ensuring that agencies are accountable for the decisions they take, it seems however that there are trade-offs between the system used and the amount of information that must be made available. If a single indicator or a set of summary indicators are used that will result in a clear threshold below which budget support simply is not allowed, less information on a case-by-case basis needs to be shared to ensure accountability, as long as the tools used to arrive at the set of indicators are transparent. If however the decision is one based on a reasoned judgement, it seems to call for the obligation to provide full disclosure of all information on request, or alternatively to publish full information. In the absence of such transparency, the incentives for accountability become weak.

Risk Assessment

8.12 Risk assessments are a relatively new tool for budget support management. The donor case studies provide insight into a number of good practices with regards to risk assessment.

- Donors use similar risk assessment tools and also use each others' assessments. This is in line with good budget support practices with regards to donor harmonisation.
- Donors undertake risk assessment throughout the budget support implementation cycle, so that issues can be picked up early and addressed prior to reputational risk becoming a threat.
- Donors have clear procedures to ensure that, should continuous risk assessments indicate problems, there is follow up and action can be taken.
- In three cases parliaments have access (or will soon have access) to risk assessment information: Sida, the Netherlands (*ex ante* and *ex post*) and the UK (*ex post* – as a review of risk assessment instruments), each through a country specific mechanism.

8.13 However, there are also bad practices which persist, although often with one or two exceptions.

- Most of the case study donors seem to pay particular attention to budget support risk, without clearly requiring similarly rigorous assessments to be undertaken prior to the use of other instruments. There are two exceptions: the Netherlands uses the harmonised Track Record to decide on the instrument, so it applies in all cases. And CIDA assesses all programme-based approaches similarly (although not projects).

8.14 In all three cases where there had been audit reports on budget support, donors' management of risks was criticised, in particular because donors do not always follow their own guidelines. While in all three cases the reports are overall not overly negative about budget support, they are uniformly concerned with weaknesses in the implementation of guidelines, or weaknesses in the guidelines themselves, particularly with regards to being clear about objectives, documenting risk and the basis of decisions.

- *"In most cases, Sida's risk analysis is incomplete and has not been performed in a structured manner. For instance, there is usually no discussion of how the risks*

concerned can be dealt with.” (Riksrevisionen (the Swedish National Audit Office, SNAO, 2007, p43)

- *“DFID analyses country circumstances and systems well when framing its assistance programmes and considers the prospects for budget support widely both internally and with its partners. But it is weaker at documenting evidence of its overall assessment of the risks of budget support against the benefits or comparing the costs and benefits of budget support with other types of aid.” (UK National Audit Office (NAO), 2008, p5)*
- *“There are some design weaknesses at the diagnostic level and in the monitoring reports, which are not sufficiently complete and informative. Furthermore, there is insufficient coordination with other donors at local level as regards the use of these instruments and their implementation does not rely sufficiently on the parliaments and supreme audit institutions of the beneficiary countries concerned.” (European Court of Auditors, 2/2005, p4)*

This does seem to indicate that donor agencies might not always have the right incentives to ensure that their decision-making is likely to result in effective and efficient use of development aid (see discussion on effective oversight of budget support in paragraph 3.13 onwards). This therefore can be seen to be a focus area for oversight.

Monitoring

8.15 Monitoring is clearly an overlapping function with risk assessment, so some of the relevant issues have already been discussed (for example, good practices with regards to setting up clear procedures to ensure swift action should risks become threats). Reporting on the implementation of budget support to parliament in the programming and budget cycles, however, is weak generally. The correct response for such weak reporting should however be seen on a case-by-case basis. If reporting on development spending overall is weak, then any increase in reporting on budget support should be accompanied by general increases in reporting. In other cases, however, such as the UK, where there is already results-oriented reporting in place, reporting on budget support should be strengthened to ensure that it is used effectively – which is exactly what has been proposed by the National Audit Office and the Public Accounts Committee and accepted by DFID.

Evaluating budget support

8.16 Despite the fact that budget support has been around for almost a decade as an instrument of development support, an agreed methodology that can be applied in a harmonised way to evaluate it is still outstanding. Evaluations of effectiveness are particularly important for budget support, because it is a result-oriented (rather than input-oriented) instrument. A first step is that there should be greater clarity of what donors intend to achieve generally and specifically with regards to each country, through budget support, before appropriate evaluations can be carried out. Across the case studies, lack of clarity on objectives was highlighted as an issue.

Ex post oversight of development and budget support spending

8.17 An issue emerged from the case studies with regards to committee structures and the capacity to monitor and hold the executive effectively to account for legal and financial compliance issues and performance (or value for money). A common complaint during fieldwork was that financial compliance too easily becomes separated from value for money, and that it remains an almost singular focus of oversight. While these issues belong to the macro-institutional context within which development and budget support oversight take

place, it is however an issue that parliaments need to resolve should they wish to practice effective oversight over budget support.

8.18 The particular nature of budget support means that financial and legal compliance issues cannot be looked at separately from results and *vice versa*. This holds for other development spending, particularly since not using (or using) budget support implies that an alternative instrument would be used (or not used). If the two functions are too separate, a financial and legal compliance-based decision not to use budget support might be counterbalanced by a results-oriented decision to prefer budget support.

8.19 Value-for-money or performance audits are becoming the norm. All five case study SAIs undertake these types of audits. Generally they have discretion about the choice of audit subjects and objectives, but they do either formally or informally consider requests from parliaments. This seems to be an important resource for parliament to improve its access to information.

Information deficits

8.20 This is important because generally committees struggle with information deficits. Taking into account the discussion of effective oversight and the necessity of access to information and obligations of full disclosure on the executive, it is an important area of parliamentary activism with regards not only to budget support, but also development spending generally.

8.21 Besides audit reports, ad hoc reports undertaken by committees that look at development and budget support spending provide an impetus for oversight and opportunities to engage donor agencies. However, how effective this oversight is likely to be depends on the quality of information that emerges. More general reports that do not bring new information are easier to ignore as formal statements by parliament, which are largely without consequences. Specific reports that bring unique information, are however more likely to have a higher impact. The value of the SAI reports for the EC, Sweden and the UK, is a case in point.

8.22 After the fact oversight, however, also goes together with oversight during the spending year. *Ex post* oversight is easily rendered less effective when there is a long lag between the end of a financial year and the tabling of an SAI report on an institution in parliament. By the time committees get to discuss issues, the donor agency has already moved on and developed new sets of problems that should be made transparent. Regular reporting and parliamentary questions while policies are being implemented mean that issues can be detected and remedied before they turn into serious breaches of procedure or implementation failures. The responsibility for this function usually rests with sector committees, and is not uniformly taken up.

8.23 Generally it would seem committees' capacity to enter dialogue is a function of committee structure: specialist committees or sub-committees ensure better oversight through such mechanisms.

8.24 In conclusion, while parliaments have an indisputable mandate of *ex post* oversight, during the spending year and after the fact, practices with regards to budget support are still weak. There are two factors underlying this: first, the quantity, frequency and quality of information flows on budget support are weak, and second, even where information is

available, it is insufficiently focused on results. The result is that parliaments have too weak a factual basis with which to engage executives and build accountability.

8.25 The weak flow of information is not only detrimental to oversight, it is also detrimental to the work of the agencies. Because their budget support operations are not sufficiently transparent, the concerns of parliaments with regards to the fiduciary, political and development risks are fuelled. When specific instances come to light of corruption, extravagant and ill-advised spending or human rights violations in budget support recipient countries, there is not an existing base of trust in the instrument and its effectiveness under normal circumstances.

8.26 A common complaint during the study from aid agency personnel was that parliamentary committees are far too focused on inputs (how much money is spent on education, on health?) and far too little on results. With regards to budget support, this is particularly problematic: while agencies can provide an analysis of which lines in a recipient country's budget have grown since the start of budget support, reporting on where the money was actually spent might take time, and in any case it is difficult to prove that budget support funds contributed directly to the growth. However, while the desire is for parliamentary committees also to look at the outcomes (are there public financial management improvements, what is the state of governance and accountability systems, what are the improved outcomes from health and education as required under performance criteria?) the agencies do not provide much consistent reporting on these results.

9. Recommendations

9.1 Oversight can be described as the activities of parliaments which ensure executive accountability while continuously shaping the boundary between the mandate and capacity of the executive to execute and the obligation on parliament to oversee on behalf of citizens. The first condition for good oversight is that it should ensure that executive decision-makers face incentives to be accountable. However, for such good oversight to be called effective, parliaments should also direct their focus so that executive spending decisions and actions use money for the purposes that have been authorised (regularity of spending) and achieve the objectives that have been set (effectiveness of spending).

9.2 Whether decisions will support effective and efficient use of development support funds can only be assessed in concrete terms relative to the area of oversight. Effective oversight of budget support therefore, would ensure that development agencies achieve the results they expect when they use it.

9.3 Drawing on discussion in this report, the effective oversight of budget support therefore requires:

- Prudent use of parliamentary powers and available mechanisms towards building donor agency accountability for the use of budget support
 - a. Does parliament monitor and hold the agency to account?
 - b. What information does it have and what rights to demand information?
 - c. What are the consequences of its holding to account?
- The accountability parliament seeks through activism on (a), (b) and (c) above should be for the regular use of budget support and the achievement of the budget support objectives. In other words, how can parliament ensure that the donor agency feels itself accountable for:
 - d. using budget support only in conditions where the risk of non-regular use of the funds by the recipient country is acceptable compared to the expected benefits of using the instrument?
 - e. the achievement of its objectives when choosing budget support as a financing modality, including both ultimate objectives and the interim objectives with regards to improvements in country systems?
 - f. the achievement of the overall objectives of development support for which parliament had allocated the funds?

These are the key questions that the recommendations provided here should address in such a manner that it takes into account the dilemmas of budget support oversight.

The key problem

9.4 Budget support is a form of development spending. On the face of it then, oversight of budget support should follow the same mechanisms for oversight over all spending, particular to the donor country. Oversight over budget support in the budget cycle is a regular part of the work of all five parliaments. Mostly, though, it is not effective, often because parliaments engage poorly with development spending overall in the budget cycle, and even when they do engage, there is incomplete or no information on the use and achievements of budget support operations.

9.5 Yet budget support is of high concern to parliamentarians. Because budget support seems to carry higher short term fiduciary risks than other instruments of development aid financing and because its developmental benefits are not visible in the short term, parliaments register it as a particularly high-risk form of support.

9.6 The standard regularity oversight mechanisms do not alleviate parliamentarians' concern. Their oversight powers with regards to budget support only cover events up to the transfer of funds to a recipient country, while their concern is with what occurs afterwards, where they in principle have no oversight rights.

9.7 The easy option for managing the risk then becomes the discouragement of the use of the instrument. Yet that would force funds back into alternative instruments – such as project support – which over decades of development support have not generated sustained satisfactory returns. For parliamentarians – whose incentives and resulting oversight outlook are more geared to the short rather than the long term – these instruments seem preferable, because they enable more complete fiduciary oversight control *and* have more visible short term benefits. On the other hand the long term risks of these instruments are not visible to parliamentarians in the spending oversight cycle, whereas they are visible to aid agencies, who participate in global debates on aid effectiveness.

9.8 One way of overcoming the oversight dilemma of budget support is for aid agencies to provide more information to parliamentarians on the results (or realised benefits) of budget support. But there too, budget support is problematic: it relies on developing recipient country information systems to describe its results in terms of better outcomes from public goods and services on the ground. These systems are often not yet geared to producing the results quickly and frequently enough to fit donor country accountability oversight cycles. And even if they were, they would describe results that are a function of a whole host of other factors, whether positive or negative, and not only the budget support provided to the recipient country. In any case, up till now not one of the parliaments in the case study has regularly received good information on any budget support results.

9.9 In the absence of effective reporting on the use and results of budget support in the budget cycle, the next option for strengthened oversight is for parliaments to turn to oversight in the programming cycle. One way around the dilemma discussed above is to seek ways in which parliaments can reassure themselves that budget support is used well by going beyond their normal development budget oversight mechanisms, to demanding oversight specifically of the budget support programming cycle. This means wanting to be privy to programming processes, sharing in risk assessment, and checking decisions on the use of the instrument before the fact and monitoring its implementation alongside aid agencies. While that might leave parliamentarians feeling more assured, it does pose problems. It may potentially involve overstepping the boundary between legislative and executive powers, and there is the additional issue that parliaments do not have the capacity to oversee agencies comprehensively throughout the programming cycle, or even at any one point. Even if these two problems are overcome, undertaking full oversight in the programming cycle would still not lead to effective use of taxpayers' money, because it could render budget support itself ineffective, by undermining its effect on ownership by and dialogue and partnership with recipient countries.

9.10 The research undertaken for this study has shown that the dilemmas posed by budget support for parliamentary oversight is one with which most donor parliaments are just starting to grapple. While donor agency processes to select, approve, monitor and evaluate budget support and assess the risk have evolved, oversight of the instrument is still very much under-developed.

9.11 Drawing on emerging good practices identified in the donor case studies as well as on the clear gaps in budget support oversight practices, we make several recommendations below on steps parliaments and donor agencies can take to address the dilemma and strengthen budget support as an effective aid instrument. The recommendations are provided not in order of importance, but against key issues identified in the text.

General recommendations

9.12 Parliaments should start looking at holding their aid agencies to account for aid effectiveness: Much of the apparent dilemma of budget support oversight is resolved once parliaments add to their existing agenda of safeguarding taxpayers' money a strong focus on ensuring that aid support is spent in such a way that sustainable development benefits accrue to the population of the recipient country. Oversight of development spending must necessarily include a strong concern with financial regularity: parliaments cannot tolerate their taxpayers' contributions to aid spending being misappropriated.

9.13 However, equal risk of wastage attaches to the expenditure of donor country taxpayers' money in ways that do not deliver development. As discussed in paragraph 3.30 onwards, there is a strong consensus amongst the direct actors in aid delivery (recipient governments and donor aid agencies) and engaged stakeholders on key requirements for improved aid effectiveness. These are recipient country ownership of strategy, country leadership of aid management, strengthened country systems, donor alignment and harmonisation, reduced transaction costs and mutual accountability. Both donor and recipient countries have signed up to these principles through instruments such as the Paris Declaration and the Accra Agenda for Action.

9.14 Yet there is little evidence in the case studies that donor parliaments have started to play an active role in ensuring that agencies are managing aid funds in ways that implement these principles in practice. In fact, in practice at recipient country level the most common reasons provided by donor offices for not adhering to aid effectiveness principles are the constraints posed by donor agency regulations and the incentives created by their parliaments' concern with regularity. Therefore an important step forward in making aid more effective would be for donor parliaments to use their oversight powers to make aid agencies accountable – in equal measure for:

- taking the necessary precautions to safeguard taxpayers' money against misappropriation and wastage;
- implementing the aid effectiveness agendas they have signed up to; and
- the effective long-term use of aid support funds to generate real, sustainable development outcomes.

9.15 At a practical level this means that oversight of development spending – perhaps more so than other types of spending – requires without exception a medium to long-term outlook. Parliaments cannot only ask questions about immediate results and risks: in addition to ensuring that funds have been and will be safeguarded, they need to query:

- how the aid agency is implementing the aid effectiveness agenda;
- the long-term results of all spending of their tax payers' money in a recipient country, region or across all regions, looking backward in time;
- the underlying causes of poor or good progress and how the aid agency's forward strategy will ensure future aid effectiveness; and
- the expected medium to long-term developmental risks assessed and benefits expected from forward spending and how these will be managed and measured respectively.

9.16 If parliaments focused their oversight efforts in this way, budget support would cease to be a special case and the overall quality of development support oversight would be much more likely to safeguard taxpayers' money against wastage. For budget support specifically, parliaments should hold agencies to account for their implementation of aid effectiveness principles such as joint diagnostics, joint dialogue, joint risk assessment and joint performance assessment and evaluation.

9.17 **Do not focus on budget support only:** A corollary of taking aid effectiveness seriously is that parliaments should take care that their own oversight interventions do not undermine aid effectiveness. Firstly, that means that their interventions on budget support should not prejudice the system against or for budget support. The ultimate aim of parliamentary oversight is to achieve value for money in development, in other words the effective use of aid to produce sustainable development outcomes. From such a perspective, the instrument should be used when it is merited for its developmental benefits, but should not be used when the risks are too high.

- This means, first, that any assessment of budget support by parliament should not only focus on the risks, but should also assess the benefits.
- Any assessment of risk should also include an understanding of what the alternative would be if budget support were not used. If funds would still be spent but through alternative financing modalities, the risks and benefits of those modalities are also relevant. In addition, the assessment should take into consideration the development consequences if the funds are not spent at all.
- There are at least three types of risk that must be looked at: fiduciary, development and reputational. Parliaments must demand that their aid agencies have appropriate systems to assess risk in all these dimensions.
- Any such assessment must look at the long term. Budget support does not necessarily produce a road within a year, like project support. But unlike project support (which all too easily has the opposite effect), when used appropriately and effectively it builds governments' capacity to produce roads over many years to come, besides funding the recipient governments' short-term priorities for poverty reduction overall. If a strong parliamentary focus on budget support should lead to prejudice against its appropriate use, the risk is that the developmental cost over time will be significant.

9.18 Most importantly, it also means that parliaments should balance their efforts to oversee budget support with efforts to oversee development spending generally. In parliaments where development spending oversight already has substance and is effective, dealing with the dilemmas of budget support oversight can be a particular next step. However, in parliaments where weak oversight provides little incentive for donor agencies to feel themselves

accountable for development spending generally, a singular focus on budget support would set up the incentive for aid agencies to revert to more traditional instruments, passing up the benefits of budget support where it would have been the most appropriate instrument.

9.19 Hold agencies to account for the results of spending: A second corollary of a focus on aid effectiveness is that results should be at the core of parliamentary concern. The lack of focus on results in parliamentary oversight detailed in Section 7 already means that oversight is harmful for aid effectiveness, and prejudices the system against some instruments and for others. On the other hand, a focus on results and aid effectiveness would necessarily include concern with fiduciary risk.

9.20 In the UK, DFID reports to parliament annually on how its activities contribute towards the achievement of the MDGs in recipient countries. It is surprising that this is the only case of explicit reporting on the results of spending, despite the increased focus on results in public expenditure management. While assessing the results of development spending is problematic – on account of a lack of reliable data, short time horizons and attribution limitations – if donor parliaments asked for regular, comprehensive, meaningful and sensible information on results, this would set up the incentives for donors to tackle these problems more vigorously. This general recommendation is taken up below specifically with regard to budget support.

9.21 Build capacity and focus it carefully: Parliamentary capacity to hold donor agencies to account meaningfully is a key ingredient in effective oversight. The research has shown that specialist development committees are more effective. An alternative is to have a specialist sub-committee, as in the Netherlands. In countries where the committee for development also has responsibility for foreign affairs, development features far less, or not at all. This poses a high risk for taxpayers.

9.22 While oversight effectiveness would be improved by development committees having larger secretariats with greater capacity (because this would increase their access to research), expanding parliamentary bureaucracies is not always an option. In the absence of that it is necessary for committees to be strategic in how they utilise the support they have: effective oversight is a function of good quality technical information on which to engage donor agencies. Scarce secretariat resources should therefore be carefully allocated to more in-depth work, rather than only having broad-based engagement with all aspects of a committee's work.

9.23 Build on partnerships with SAIs to create credible oversight opportunities: In three of the five case studies, special reports by SAIs brought great value to the oversight of budget support. The partnership between SAIs and parliaments is important. The credibility of SAI reports strengthens oversight activities and makes accountability for poor decision-making more likely. The likelihood of being audited is a strong deterrent to poor or illegal decision-making. Parliaments should liaise with SAIs strategically to influence the topics of performance audits in the field of development. A concern with budget support should be balanced with other issues in development.

Specific recommendations for the oversight of budget support

9.24 While emphasising the importance of not highlighting budget support unnecessarily in oversight activities, this report also recognises that budget support poses specific oversight problems which should be taken seriously by both parliaments and donor agencies in the

interest of aid effectiveness. Its particular nature – and potential importance for aid effectiveness – merits the particular oversight emphases discussed below.

9.25 Engage more strategically in rule-setting for budget support management: Because parliaments cannot safeguard budget support funds through the same mechanisms as other type of spending, they have to take steps to ensure that agencies manage the fiduciary risks of budget support appropriately. In order to do this they have to engage with rule-setting for decision-making, implementation and monitoring of budget support and *ex post* they have to follow up and ensure that the rules have been followed. Partnerships with SAIs are very important in this regard as evidenced by the impact of audit report findings on risk management in the case studies.

9.26 If parliaments opt for a system of selected *ex ante* and in-year disclosure by aid agencies of cases that fall outside the limits set for acceptable risks, it is even more important to be satisfied that the rules are robust enough.

9.27 Overall parliaments should prefer *ex post* oversight of budget support to *ex ante* oversight in the programming cycle: In this report we have discussed extensively the problems relating to separation of powers and issues for effective budget support delivery that are associated with *ex ante* oversight in the programming cycle. While intervention in executive decision-making does provide strong powers of correction where parliaments differ with regards to the view taken on risks, they have neither the capacity nor the information to be sure that they will consistently take better decisions than the executive.

9.28 Given this limited parliamentary capacity, interventions *ex ante* are likely to involve a trade-off with *ex post* oversight activities, which carry less risk for parliaments and for aid effectiveness. *Ex post* oversight activities can be undertaken routinely as part of monitoring budget support implementation and holding agencies to account for results achieved.

9.29 It is only when efforts to enforce accountability through *ex post* oversight do not succeed that the creation of oversight access *ex ante* can be merited. But even then, it should be used as a power in the last resort, merely to enforce *ex post* oversight recommendations. And even then, it should occur at the stage of in-principle approval of a country's eligibility for budget support.

9.30 Agree on cases where parliament needs to be informed, agree on parliamentary powers to investigate on its own initiative: The Netherlands system whereby the Minister alerts parliament that a development intervention will fall outside of regular procedures is a useful way to manage the risk attaching to budget support. It enables the kind of trust that enables development agencies to get on with the job of implementing budget support, while setting clear limits for executive discretion. It provides some oversight in the programming cycle – given the nature of budget support risks – without overwhelming parliament.

9.31 The requirement for qualified disclosure can be in place *ex ante* and *ex post*. *Ex ante* would mean that Parliament is consulted before action is taken: *ex post* would mean that Parliament needs to be informed when problems start arising in a budget support operation: an early warning system, in effect, that will strengthen the management of reputational risk.

9.32 If such an oversight rule is matched by the right of parliament to investigate specific issues, countries or operations on its own initiative, to call agencies to account on these issues

and demand full disclosure of information, sufficient oversight coverage is provided without requiring parliament to scrutinise all documentation and decisions. The scrutiny of all documentation, given parliaments' limited capacity, can result in no actual oversight taking place on account of too much oversight potential.

9.33 UK example of regular audits or risk management useful: The UK agreement that the National Audit Office would, in the case of budget support, supplement its regularity audit with an annual audit of DFID's risk management procedures in a limited number of countries is a good example of how innovative technical arrangements can address the particular dilemmas raised by budget support, without jeopardising the instrument and foregoing its potential developmental benefits. Other countries would do well to look at similar arrangements.

9.34 Ensure that accountability institutions in recipient countries develop: The other recommendations here deal extensively with how donor country parliaments can ensure on their own behalf that their fiduciary oversight obligations are met more robustly despite the limitations imposed by the nature of budget support. Arguably though, donor parliaments' obligations with regards to fiduciary and performance oversight in the case of budget support extend further into a requirement to ensure that recipient country parliaments are able to take up the burden of oversight on the use of public funds.

9.35 In most partner country parliaments the practice of spending oversight is poorly developed, often because parliaments do not receive regular, useful, good quality information on spending, but also because they are unable to enforce consequences.

9.36 There are two options to ensure recipient country capacity: the first is by being particularly vigilant that budget support operations are accompanied by sufficient and effective capacity building of recipient country parliaments, SAIs and other accountability institutions. However, parliaments should also acknowledge that there is often a dilemma for donor agencies whose primary relationship is with partner country executives. Governments are not always in favour of building accountability institutions, particularly parliaments with whom, in principle, they are sharing power. Support to developing recipient country civil society institutions – which are important to build demand for accountability in recipient countries – is also caught in the same dilemma.

9.37 The second option, therefore, is for donor parliaments to recognise the strong compatibility of incentives with regards to the use of development funds between donor country and recipient country citizens and parliaments. The development of direct relationships with recipient country parliaments then becomes an imperative. This can be done on a country-by-country basis, for example during engagement with a specific country budget support operation, or more routinely with countries that fall above a particular threshold or are high-risk in terms of the volume or proportion of aid that is transferred as budget support. A simple committee-to-committee system of information sharing and discussion of issues would send a powerful signal on the intent of parliaments with regards to the use of budget support funds.

Information related recommendations

9.38 Against the model of effective oversight which we have set out in paragraphs 0 to 9.3 (and discussed more comprehensively in Section 3), a clear and critical gap for effective

oversight of budget support lies in parliaments' poor access to information. This gap has three important aspects

- First, donor agencies do not currently report regularly on the use, problems and achievements of budget support (although DFID will be doing so in future), which means that parliaments are only informed in extreme cases of troublesome budget support programmes and usually when it is too late to manage fiduciary and reputational risk. This not only makes it difficult to know what parliaments should hold agencies to account for, the lack of transparency also means that agencies face no incentives to follow their own rules and make good decisions.
- Secondly, parliaments' access to risk assessment information is almost non-existent (again with the exception of DFID in the future). Yet, if donors are to be accountable for how well they use information on risk to inform budget support decisions, parliaments should in principle be able to bring together decisions and assessments, in other words there should be transparency.
- Thirdly, our model states that effective oversight depends on how well it sets up incentives for results. For budget support this is particularly important because it is a result-oriented rather than an input-oriented instrument. For donor agencies to perceive themselves accountable for the effective use of budget support funds, they need to be aware that the results of their endeavours will need to be reported to parliament. Key areas are:
 - what public financial management improvements have occurred;
 - what is progress against the country's strategy: what shifts are occurring in countries' budgets, what changes in the level and quality of public goods and services, what outputs are achieved, what outcomes are being realised;
 - how budget support countries are faring overall with regards to achievement of the MDGs compared to other countries;
 - how much of this can be related to supporting the recipient government's own strategy through its budget – what other factors have come into play;
 - what progress has there been with regards to improved accountability?

Even on the input side however, parliaments need to be kept informed beyond just whether the disbursement has occurred. Key questions are:

- how effective is the dialogue?
- what is the state of donor harmonisation? how much of the dialogue, diagnostic studies and evaluation undertaken have been jointly with other donors?
- what complementary capacity building has taken place and to what effect?
- is a PAF in place?

The management of information with regards to budget support therefore requires interventions to improve budget support oversight, along the lines discussed next.

9.39 Define a routine flow of information that is useful, comprehensive and reliable: It is in the interest of donor agencies to provide regular, quality information on budget support to their parliaments: currently the instrument becomes visible to parliaments and taxpayers only

when things go wrong, while the achievements of a majority of cases are not discussed. It is also not as if donor agencies do not have information on budget support. The use of country PAFs already provides a credible base against which to report on progress, even if credible evaluation instruments are underdeveloped. Changes as registered through country analysis and continuous monitoring of budget support conditions also provide information that can be used to inform parliamentary constituencies.

9.40 Parliaments should on their side define what information they routinely want to monitor on budget support. Table 16 below provides an overview of different aspects that might be included in an agreed reporting instrument. It is important to balance the selection of information types taking into account the burden of reporting, and the possible return they can provide. One way of looking at the benefits of reporting is by assessing how each reporting aspect required could assist parliaments to identify countries or issues in budget support implementation where they will concentrate their research, oversight and dialogue efforts.

9.41 Parliaments can also develop criteria for identifying higher risk issues or countries and require that particular attention be paid to those areas. For example, a country would merit closer oversight if it received a high level of support as budget support compared to other countries, if budget support is a high proportion of its aid transfer or if it is high risk.

9.42 Parliaments should tailor their oversight to the instrument: this means that while in the routine flow of information they should not neglect essential financial information (row one Table 16 below), it should particularly focus on good information on ultimate impact at recipient country level and on the complementary inputs and effects to which budget support lays claim.

Table 16: Possible types of information to include in an annual budget support implementation report

Type of Information	Aspects to include	Possible sources of information	Reasons for including and issues
Planned and disbursed budget support	By country, by region By funding source (if more than one source, for example the EC) By type of budget support (general, sector) Against total ODA, total programmable ODA	Donor agency records	Important to understand aggregate trends; importance of budget support by country and region, understand whether more budget support is used than planned; understand where it occurs. This information will enable parliament to identify where it wants to focus its efforts.
Changes in recipient country budgets	Growth and allocation trends in recipient country budgets against priority sectors in country strategy	Country offices, existing analysis at country level, joint donor assessments	To provide assurance on contribution of budget support to country achievement of strategies Issue: analysis often cannot provide insight as to contribution of budget support to changes due to exogenous factors. Better to look at achievement of strategies.

Type of Information	Aspects to include	Possible sources of information	Reasons for including and issues
Achievements of results in terms of country strategies and donor objectives	Overview of achievements and country level: how much progress against PAFs and objectives? Examples of specific cases of success; of failure	Country offices; Existing programming and monitoring documentation, Joint donor reviews/ budget support group information	Information on hard development results of budget support. Even when acknowledging that attribution is difficult, important to understand progress. PAFs provide more direct links: if no progress against PAF explanations could be asked.
Complementary conditions, inputs, effects	Use of dialogue, partnership, harmonisation, capacity building (TA), existence of PAF	Existing reports and or survey of country offices against key questions (with verification)	Important to ensure that complementary inputs are undertaken at a sufficiently level of quality.
Achievement of improved country systems	Particularly with regards to PFM	Existing reports and documentation	Provides fiduciary assurance, ensures accountability for PFM assessments and inputs.
Use of disbursement conditions and criteria	What are common conditions and criteria? What are exceptional conditions and criteria?	Programming documentation and Financing agreements	Important to ensure accountable monitoring and implementation of budget support. What conditions are most commonly used?
Cross-cutting issues	What support is provided for accountability institutions in recipient countries? What progress is being made with providing quality information on results using country systems	Programming documentation, existing reports	Any issues that are important to be in place across all budget support operations should be reported on aggregate for its use: for example, in how many budget support countries does its use go with support to parliaments or SAIs? Are these in countries with low PEFA scores in this area?

9.43 In addition to routine information, ensure that there is in-depth engagement on specific topics or countries: Donor agencies will routinely make better decisions if they are held regularly to account on specific issues, in addition to a requirement of transparency. The regular flow of information can be used to identify issues for in-depth engagement. The engagement can be made more effective by backing it with research, resulting in parliamentary reports, hearings and resolutions.

9.44 Taking into account the general recommendation set out in paragraph 9.21 on the strategic use of parliamentary capacity, parliaments should use their research capacity strategically to support the in-depth engagement. The experience with the SAI reports shows us that one well-researched, credible report a year might have more impact on donor agency accountability than consistent, but relatively shallow engagement on many issues. With credible information at hand parliaments are in a much stronger position to engage donor agencies. If the engagement is backward-looking, evidence-based engagement is not only more likely to make hearings more uncomfortable for agencies, they are also more likely to attract media attention, strengthening the sanction.

9.45 Get the balance right between transparency, confidentiality and accountability for parliamentary oversight of risk assessments: In order for donor agencies to be accountable for how they assess and respond to risk in the use of budget support, transparency is required.

As discussed in Section 7, there are differences between countries as to how they use risk assessments. The Netherlands uses a scoring system which indicates the level of alignment with country systems that is advisable in a country. The EC, on the other hand, uses a dynamic approach whereby a balanced judgement is made given country circumstances and the likely progress against key factors. In a system where risk assessments result in a clear threshold value below which budget support is not advisable (taking into account benefits), the important requirement for oversight would be that parliament has full access to the instrument and has confidence in its use. In a system where the use of budget support is a balanced judgement taking all factors into account, there is more discretion. In order for a donor agency to be accountable for its use of that discretion, in principle the information should be available. Alternatively, if the decision documentation is too sensitive to make broadly available, parliament would need to have the right to access the information on request in selected cases, and review it in a closed session.

European Parliament specific recommendations

9.46 The European Parliament should think strategically about how it wants to engage with budget support. Parliament's oversight of budget support should comprise three elements:

- Engagement with the rules set for the use and management of budget support
- Routine engagement in the budget and programming cycle on the use and results of the instrument
- In-depth engagement with specific issues that arise in its routine engagement.

The paragraphs below provide further recommendations on European Parliament specific strategies to achieve these elements, taking into account the particular nature of budget support and its existing oversight powers and practice. The recommendations should be seen as complementary to and be read together with the recommendations provided for all parliaments above.

9.47 **Taking a lead in holding donor agencies to account for aid effectiveness:** The European Parliament is in a unique position to provide a leadership role on parliamentary support for aid effectiveness. This could include convening a forum of Community Parliaments' development committees to discuss and oversee joint donor action. It is the only parliament with direct oversight over a multilateral aid agency. Given the strength of EU countries' contributions to available aid resources internationally, it has an existing set of ties to donor parliaments. Through its involvement in the Joint Parliamentary Assembly it also has existing ties with recipient country parliaments.

9.48 Therefore its engagement with budget support should only occur in the context of an overall shift in its development oversight to an overriding concern with aid effectiveness, from its somewhat one-sided concern with safeguarding development funds.

9.49 The first implication of such a shift is that the long-term development results of all spending should become the key concern of the Parliament. The second implication is that budget support should not be singled out for oversight disproportionately to its role in European Commission development activities, since that will undermine aid effectiveness. Thirdly, it should ask hard questions from the European Commission on its efforts to implement the aid effectiveness principles. And a fourth implication is that the safeguarding of development funds should be viewed in the context of aid effectiveness. This does not mean letting the safeguarding of taxpayers' money slip off the agenda: safeguarding funds is a necessary component of aid effectiveness. It does however mean that mechanisms to

safeguard regularity should not come unduly at the cost of delivering effective, sustainable development.

9.50 Avoid the pitfalls of getting swamped by blanket *ex ante* coverage; don't neglect *ex post*: While the negotiation of the right to receive and scrutinise Country Strategy Papers (CSPs) under the Development Cooperation Instrument (DCI) is a significant step forward for the balance of power between the Commission and the Parliament with regards to development spending, and while it is good that this gives the Parliament an opportunity to scrutinise development spending generally, there are good arguments as to why it should not neglect *ex post* oversight mechanisms.

- Its capacity is limited and the duty of scrutinising all CSPs and Annual Action Plans might come at the cost of leaving no capacity spare, with only limited results.
- In 2006 57% of general budget support was delivered with EDF funds where Parliament as yet have no *ex ante* oversight. But it does have full oversight *ex post*, through its powers to receive reports and to provide discharge.
- It has limited information on results generally and budget support specifically through its *ex ante* scrutiny. The forward look provided by the CSPs and the Annual Action Plans is only meaningful, if it follows up *ex post* on implementation and results.

When designing a budget support oversight system, therefore, it should focus on the quality of its *ex post* or accountability oversight mechanisms, where it has legitimate powers for all budget support operations. Its *ex ante* legislative, budgetary and accountability oversight powers can be used to shore up the *ex post* oversight by threatening consequences.

9.51 Most importantly, Parliament should agree with the Commission what routine information it wants to receive on the use of budget support: A key instrument of *ex post* oversight should be an informal agreement between the Commission and Parliament on an annual report on the use of budget support. This report should be constructed along the lines of paragraphs 9.39 to 9.42 above. The publication of such a report is in the interests of both the Commission and the Parliament; the Commission because of the growing concern in Parliament and among taxpayers generally about the risks and legitimacy of budget support as an instrument. And Parliament because of its obligation to ensure that its constituencies' interests are protected in the regular *and* effective use of funds.

9.52 This routine information flow should be complemented by focused, specific and robust further routine investigation of selected budget support issues: Parliament should use its research funds and capacity strategically to select a budget support issue or country to engage on in more depth. Such an own-initiative report/research report should be used to enter dialogue with the Commission. The selection of topics for in-depth engagement could utilise the routine information flows (gaps, issues of concern) or can be on account of information Parliament receives from its own networking, amongst other with recipient country parliaments. For non-EDF funds this engagement can be part of monitoring and holding to account during implementation. For EDF funds formally it would be part of providing discharge. In designing its engagement with the Commission following on the research, Parliament should be strategic so that the engagement itself becomes consequential, for example by holding open hearings. The strategic use of recommendations based on the engagement in discharge resolutions and follow-up on those recommendations should be part of the system.

9.53 Parliament should relinquish its engagement on inputs only and become much more concerned with the results of budget support. It should put aid effectiveness at the centre of its agenda: Parliament's current engagement on budget support is not entirely devoid of concern with results, but the focus is more heavily on inputs. This is understandable, since its democratic scrutiny powers mean that it can follow up with potential consequences on issues such as the percentage of spending that is used for health and education. However, besides the fact that it is difficult to ascertain for budget support exactly how inputs are used, the flow of funds alone is not sufficient to ensure progress towards the MDGs. Engagement with actual progress against key indicators is required equally for budget support, if not more. It is an instrument that lays great claims to giving up control over inputs by donor agencies in return for sustainable results: therefore the Commission should be accountable for the achievement of those results. And where the Commission is unable to provide regular information on progress because of weaknesses in country reporting systems, questions need to be asked about what is being done to improve these systems. How it wants to investigate these results should be defined in coordination with the Commission. It should comprise both the socio-economic results on the ground, and improvement in the quality of systems. Parliament might want to engage external technical support in such discussions.

9.54 When looking at inputs, parliament should look beyond financial inputs to the complementary inputs of budget support. It should look beyond the quantum of money to the predictability of disbursements: If budget support oversight is to be effective, it should ensure effective budget support. Therefore Parliament should tailor its oversight questions to budget support. This would mean engaging with how the Commission uses budget support (is the support predictable so that it does not undermine what it is trying to achieve?) and with how it manages the process at country level. Budget support as an instrument is dependent on the quality of the complementary inputs: how robust and effective is country dialogue? How much harmonisation and coordination occurs at country level to ensure lower transaction costs and leverage towards results? Are diagnostic studies, risk assessments, performance assessments and evaluations conducted jointly? What capacity building is being undertaken and how effective is it?

9.55 Parliament should make use of the possibility of requesting opinions from the European Court of Auditors strategically: If informal engagement with the Commission does not provide results, Parliament can elevate the discussion by requesting a formal opinion from the European Court of Auditors, in order to enforce consequences.

9.56 Engagement with the rules for the use and management of budget support: Parliament does not currently engage with setting up arrangements for the use, monitoring or evaluation of budget support. There is an opportunity for it to use its formal discharge powers more effectively to engage the Commission on weaknesses in its systems. Such engagement, however, would depend on Parliament having access to good information with regards to how systems work in practice: the European Court of Auditors Special report (2/2005) is an example of how Parliament can access good information. It might use its power to draft own initiative reports and undertake research to generate information that it can deploy to ensure that the systems are more robust, as discussed above.

9.57 A particular opportunity presents itself with regards to the evaluation of budget support for which the Commission is still in the process of developing a methodology.

9.58 Parliament has expressed its concern about the risks associated with budget support. It can follow this up by engaging with risk assessment frameworks and processes, or by demanding a better flow of information on the risks that the Commission manages in practice, and the response that is triggered in situations where countries' risk profiles change. In this regard, referring to the recommendation above on an appropriate trade-off between how decision are made and transparency on the result of assessments is particularly important for the European Parliament, since the Commission uses a dynamic approach, but does not share the information on which its assessments are based.

9.59 **Engagement with recipient country parliaments:** The general recommendation above holds. In addition, there is an opportunity for the European Parliament to take a leadership role in the Community to build supportive relationships with recipient country parliaments. One avenue is the connection to the JPA. It is, however, fraught with problems and in any case only includes ACP countries. Another avenue is to take the lead in convening an annual or biannual meeting of parliamentarians on aid effectiveness and development support oversight. Developing a shared understanding on parliaments' roles in ensuring aid effectiveness through their oversight activities is important not only to donor parliaments, but also to recipient country parliaments who are often marginalised on development support agreements and implementation, despite their importance for their citizens.

Annex 1: Research framework

Section 1	Case study country Budget Support appraisal, selection and approval practices
Key question	Do country procedures and criteria for using Budget Support facilitate effective parliamentary oversight?
Sub-Questions	<ol style="list-style-type: none"> 1. What is the working definition used by the case study donor of budget support? 2. What are country procedures and criteria for using Budget Support? Provide an outline of key aspects. 3. What information is generated? How useful and reliable is it? 4. Does it support effective decision-making? 5. How is Parliament involved? Does Parliament's involvement support more effective decision-making with regards to Budget Support? 6. How can parliamentary engagement with Budget Support procedures and criteria strengthen the effective use of Budget Support? 7. How can budget support procedures be improved to generate better information or allow for better consultation with parliament towards effective parliamentary oversight?
Section 2	Case study country Budget Support risk assessment practices
Key Question	Are country risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?
Sub-Questions	<ol style="list-style-type: none"> 1. What risk assessment frameworks are in place? Do they look beyond financial risk? 2. What information is generated and how is it presented? 3. Is there any quality control of risk assessments? 4. Are risk assessments shared with Parliament at any point? 5. How can Parliamentary engagement strengthen risk assessment, both financial and non-financial risk? 6. How should risk assessments change to allow a supportive parliamentary role?
Section 3	Case study donor practices with regards to monitoring and evaluating budget support
Key Question	How do case study donor monitoring and evaluation practices make use of parliamentary oversight to ensure effective use of budget support?
	<p>Monitoring</p> <ol style="list-style-type: none"> 1. How does the case study donor monitor budget support operations (overall and by country)? <ol style="list-style-type: none"> a. How frequently? b. What instruments are used? c. How does it relate to initial risk assessments? d. What reporting takes place to whom? e. What processes are triggered by negative information? 2. What information is shared with Parliament and how? 3. What value does or can Parliament add to monitoring processes and budget support implementation? 4. How should monitoring procedures change to allow for a more effective oversight role by Parliament? <p>Evaluation</p> <ol style="list-style-type: none"> 5. What evaluation of budget support operations is done routinely, or has been done in an ad hoc manner (overall and by country)? 6. What was the quality of the evaluation: was it done by a third party? How has the supreme audit institution been involved? 7. What change was triggered by the evaluation? 8. How does or did the evaluation and subsequent processes involve Parliament?

	9. How can Parliament strengthen the evaluation of budget support operations?
Section 4	Parliamentary oversight in general, with regards to development aid and with regards to budget support
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create?
Sub-questions	<p>Key area 1: Macro-constitutional factors It is important to take account of these factors and how they may impact on the form that effective oversight can take in countries. Key questions here concern the type of system (presidential or parliamentary, how many chambers) and the nature of powers over the budget. It is unlikely that these factors will change in the short term, but they do shape parliamentary practice. Questions include:</p> <ol style="list-style-type: none"> 1. Does the country have a parliamentary or presidential system? 2. What powers does parliament have over the budget? 3. What is the impact of the electoral system on parliamentary oversight effectiveness? <p>Key area 2: Parliamentary process Parliamentary formal and informal practice is an important determinant of the effectiveness of oversight, and of what type of interventions are possible to improve oversight. Key questions are:</p> <ol style="list-style-type: none"> 1. What is the timing of the <i>ex ante</i> and <i>ex post</i> oversight processes? Does it allow sufficient time for parliament to have effective oversight? 2. What consultation mechanisms are in place? Overall, with regards to development spending and for budget support specifically? Are there examples of mechanisms in other sectors that can be applied to budget support? 3. How are decisions in parliament sequenced? How is oversight over development spending managed in parliament in terms of the sequencing of decisions? Is it effective? How can it be improved? 4. What is the division of labour in parliament for spending overall, but specifically for development spending and budget support? What are the roles of different committees? Are there specialised sub-committees or rapporteurs in place? How is engagement between different committees on budget support coordinated / integrated / sequenced? 5. What is the focus of parliamentary oversight processes, overall, for development spending and for budget support? Is the focus on inputs, outputs or the results of spending? 6. How open is parliamentary processes and how does it feed into broader governance and accountability mechanisms? How can Parliament strengthen its role with regards to budget support through political processes? <p>Key area 3: Access to information Parliament's ability to practice oversight depends on the information it demands and the information it receives. The information it demands in turn is dependent on its capacity, including its access to support structures and the political will and capacity of its members. Key questions in this regard (not yet covered by the first three sections of the framework above) are:</p> <ol style="list-style-type: none"> 1. What is the formal framework for parliamentary access to spending information from the executive? How useful, frequent, comprehensive and reliable is spending information (<i>ex ante</i> and <i>ex post</i>; routine and ad hoc)? 2. How does the budget support information provided – as set out by answers to the framework questions above – fit in with the formal framework? 3. What is informal access to information? 4. How well does information flow inside of Parliament? What are the linkages between central oversight committees (e.g. the PAC) and sector specific committees? How can these improve to provide more effective budget support oversight? 5. What opportunities may there exist through examples in other sectors to improve parliament's access to budget support information? 6. What research support does Parliament have? Does it have access to specialised support for development matters? What is its knowledge base on Budget Support? 7. What access does parliament have to independent analysis? How can this be utilised to support more effective oversight of Budget Support? 8. What additional scrutiny of spending has been undertaken by Parliament generally? And for development spending specifically?

	<p>9. How does the Supreme Audit Institution support parliamentary oversight? Does it provide only financial compliance audits, or does it also look at performance?</p> <p>10. Besides general and sector budget support, what has been the parliamentary oversight of balance-of-payments support and other general unearmarked contributions to a government's budget?</p>
Section 5	Additional country specific issues
Canada	Impact of Better Aid Bill on budget support practice; parliamentary oversight of development spending and budget support.
EC	Usefulness of information generated by detailed budget support appraisal, oversight, approval, monitoring and evaluation procedures for effective parliamentary oversight. The use of the Court of Auditor's reports.
The Netherlands	Role of parliament in and impact of recent discussion on development spending and budget support in public domain. Usefulness of Track Record system for oversight purposes.
Sweden	Impact of recent National Audit Office Report on budget support procedures and parliamentary practice with regards to budget support procedures
United Kingdom	Impact of National Audit Office Report and parliament's engagement with the report. Parliamentary oversight of development spending generally and budget support particularly.
Section 6	Other research areas
	<p>A literature review of United States oversight practice with regards to development spending, with highlighting of possible lessons.</p> <p>A review of recipient country parliamentary oversight practice with regards to development spending and budget support particularly.</p>

Annex 2: The European Parliament

Brief History of the European Parliament

The powers of the European Parliament's forerunners in the early Community institutions were very limited. The first representative institution, the Common Assembly, was created in 1951 by the Treaty establishing the ECSC but was set up purely as a consultative assembly. The concept of a representative assembly which can monitor the executive authority of the Community and provide a check and balance on its power found favour during the negotiations that established the ECSC.

In 1952, after the establishment of a European Defence Community, the Common Assembly of the ECSC was tasked with drafting a treaty which would establish the European Political Community. When in 1957 the European Atomic Energy Community and the European Economic Community was established through the Treaties of Rome, it was decided that a single common assembly composed and appointed according to the same principles as its predecessor, would fulfil the powers assigned to it in the treaties of the 1957 communities. This new assembly was to replace the Common Assembly of the ECSC.

The single Assembly convened for the first time from 19 to 21 March 1958. Right from its very first session it adopted the name European Parliamentary Assembly. A few years later, on 30 March 1962, it became known as the European Parliament. That designation was made official by the Single European Act of 1986.

Elected by direct universal suffrage since 1979, the European Parliament has seen its powers increase as European integration has proceeded and, more recently, with the entry into force of the 2001 Treaty of Nice.

Annex 3: EC Budget Support systems

Table 1. Steps to programme and implement budget support

Phase	Sub-steps and Key issues
PROCEDURES FOR APPROVING BUDGET SUPPORT	
Programming (Delegation level and office of the Inter-service Quality Support Group))	Assess impact of GBS Look at the importance of realising BS objectives, including dialogue; increased expenditure or financing of the budget; reforms that can be supported by GBS; improvements in PFM; harmonisation and alignment and the willingness of country to use result indicators.
	Assess country eligibility Three eligibility criteria leading to three categories: Strong candidates (limited risk); Potential candidates (some risk) and weak candidates (high risk of non-utilisation of budget support)
	Assessment of key orientation for post-programming The programming document also needs to include the key orientation of post programming steps, for example for strong candidates the appropriate financial envelope for BS, specific objectives and results, performance indicators, conditions etc. For potential and weak candidates the steps that can be taken to get them to a strong position.
Identification (Delegation level and the Quality Support Group)	Establish Road Map for programme preparation
	Establish key issues, actions, responsibilities and timetable
	Preliminary identification of objectives, purpose, and results for BS and complementary support
	Reconfirm Eligibility conditions
	Confirm government "willingness" on donor coordination and performance measurement
Formulation (Country delegation and the Quality Support Group in consultation with Dev and Relex)	Identify preliminary implementation modalities How the "non-financial" aspects of the GBS programme are going to be organised and monitored as well as the disbursement modalities and procedures (amounts, modalities, monitoring, possible conditions for tranche release, calendar)
	Set out the Rationale Look at the Strategic framework (in Annual Action Programme); lessons learnt; complementary actions of EC and other donors; donor coordination.
	Describe Country Context Set out the economic and social situation; development/cooperation policy and strategy of partner country; sector policies where necessary and public finance and public financial management context
	Describe the programme Objectives and purpose; Expected results and main activities; stakeholders; risks and assumptions and crosscutting issues
	Implementation Issues Budget and calendar: amounts and timing of programme review and tranche release decisions; Modalities (tranches); Performance Measurement and criteria for disbursement: General and specific conditions; Procurement and grant award procedures for complementary support; Evaluation and audit; Communication and visibility
Financing	EC decision making Inter-Service Consultation; Management Committee; European Parliament (where required); Financing Decision; Budgetary/financial commitment; Financing Agreement
PROCEDURES FOR IMPLEMENTING and MONITORING BUDGET SUPPORT	
Implementation (Delegation and Aidco)	Effecting and monitoring implementation Implementation should make use of joint donor assessments and joint donor agreements, promoting ownership and accountability; Tranche release decisions to be taken according to "justification against payment conditions"; Delegations must ensuring visibility; The production of monitoring reports (economic, public financial management, early warning); Implementation of Complementary Support

PROCEDURES FOR EVALUATING BUDGET SUPPORT	
Evaluation (Delegation and Aidco)	<p>The Guidelines set out that evaluation should be joint with other donors providing budget support; the evaluation should be based around a hypothesised causality framework and relevant "evaluation questions" and should be evidence-based.</p> <p>The Evaluation department in Aidco is currently working on a results and evidenced-based approach to evaluation. The development is in cooperation with other donors in order to establish a joint approach, and minimise transaction costs.</p>

Source: EC, 2007

Table 2: The seven assessments for GBS and SBS

Sector Budget Support	General Budget Support	Use in GBS preparation and implementation
1. Sector Policy and overall strategic framework	National Policy and Strategy	<p>Management of risks through assessment in preparation</p> <p>i) Eligibility criteria for GBS (equivalent sector policy and strategy is an eligibility criterion for SBS)</p> <p>(ii) Must be addressed in the Identification fiche</p> <p>(iii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(iv) Monitored during implementation</p> <p>(v) Often becomes a general condition for disbursement</p>
2. Macroeconomic Assessment (includes national development strategy)	Macroeconomic framework	<p>Management of risks through assessment in preparation</p> <p>(i) Eligibility criteria for GBS; important for SBS</p> <p>(ii) Must be addressed in the Identification Fiche</p> <p>(iii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(iv) Monitored during implementation</p> <p>(v) Often becomes a general condition for disbursement</p>
3. Sector Medium Term Expenditure Framework	Budget and Medium Term Expenditure Framework	<p>Management of risks through assessment in preparation</p> <p>(i) Optional coverage in the Identification Fiche</p> <p>(ii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(iii) Monitored during implementation</p> <p>(iv) Conditions on budget execution can sometimes become a performance criterion</p>
4. Accountability and Public Expenditure Management systems	Public Financial Management	<p>Management of risks through assessment in preparation</p> <p>(i) Eligibility criteria for GBS and SBS</p> <p>(ii) Must be addressed in the Identification Fiche</p> <p>(iii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(iii) Monitored during implementation</p> <p>(iv) Often becomes a general condition for disbursement</p>

Sector Budget Support	General Budget Support	Use in GBS preparation and implementation
5. Performance Monitoring and Client Consultation systems	Performance Measurement	<p>Management of risks through assessment in preparation</p> <p>(i) Largely optional coverage in the Identification Fiche (ii) Used in description of "country context" and "implementation modalities" in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(iii) Monitored during implementation (iv) Key element for determining performance criteria and indicators for disbursement purposes</p>
6. Donor Coordination	Donor Coordination	<p>Management of risks through assessment in preparation</p> <p>(i) Largely optional coverage in the Identification Fiche (ii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(ii) Monitored during implementation; indeed well functioning donor coordination assists in programme implementation</p>
7. Institutional and Capacity issues	Institutional and Capacity Development	<p>Management of risks through assessment in preparation</p> <p>(i) Optional coverage in the Identification Fiche (ii) Used in description and assessment of country context in the Financing Proposal</p> <p>Managing risks in implementation</p> <p>(ii) Monitored during implementation (iii) Measures on capacity development often form part of complementary support in the programme (or are included in a separate project)</p>

Source: EC, 2007

Annex 4: The PAF in Tanzania

The Tanzania PAF is reproduced overleaf. It is a common framework used by all 14 general budget support partners and is valid for five years, from 2006 to 2011.

The PAF is accompanied by a Partnership Framework Memorandum, jointly agreed by the 14 donors and the Government of Tanzania. While this memorandum does not have the legal status of a treaty, it does bind individual budget support donors to develop their legal individual budget support financing agreements within the framework put forward in the memorandum and to use no other conditions or performance criteria for the disbursement of budget support than what is provided in the PAF.

The Partnership Framework Memorandum also sets out the underlying principles the observance of which “is considered critical for the continuation of this partnership”. Concerns with regards to non-compliance become a reason for consultation, dialogue, and as occurred in August 2008, temporary suspension of budget support (en masse by all 14 donors) on account of insufficient action by government to address the theft of public funds from the Central Bank. The principles are:

- Continuing sound macroeconomic policies and management;
- Commitment to achieving MKUKUTA objectives and Millennium Development Goals;
- Sound budgeting and public financial management systems;
- Continuing peace and respect for human rights, the rule of law, democratic principles, and the independence of the judiciary; and
- Good governance, accountability of the Government to the citizenry, and integrity in public life, including the active fight against corruption (in accordance with commitments of the signatories in the New Partnership for African Development, and other international agreements).

This would mean that if the funds are not disbursed, the Government of Tanzania would not have approximately 18% of planned resources available for the year: a relatively big lever.

In terms of the conditions and performance criteria used for individual financing agreements, each budget support donor therefore has discretion with regards to which objectives specifically it wants to address in its Tanzania budget support operation, by using progress against specific indicators as conditions or performance criteria for disbursement. A donor also has discretion as to how it wants to balance the use of conditionality drawn from the framework to manage fiduciary, developmental and reputational risk, with the development risk that accrues to all donors (and all donor financing) of unpredictable disbursement.

However, all donors’ objectives and selected criteria need to fall within the agreed framework of objectives for the operation overall: that ensures that the efforts of the Government of Tanzania to improve development outcomes are not dispersed too widely and are focused on a set of mutually agreed objectives (drawn largely from government’s own poverty reduction and growth strategy, Mkukuta).

The Partnership Framework Memorandum and PAF are a good example of how budget support arrangements are aimed at achieving the developmental benefits claimed for the instrument while protecting against the risks.

In this regard it is worth noting that:

1. The main concerns addressed through the PAF and the specific indicators speak to the fundamentals that need to be in place in any country for sustainable development to occur. For example, broad-based sustainable growth, transparent policies, good governance and the rule of law, improved service delivery (specifically in health, education, sanitation, roads) and public accountability.
2. At the same time, they also speak to the concerns of parliamentarians with regards to fiduciary risk (Is our money being used for development purposes if it flows into the budget overall? How do we know that it is being managed in such ways that it is not diverted into private pockets?) by requiring performance in public financial management reform. Of course, these improvements also benefit the country's own funds and are equally necessary for sustainable development. For example, budget effectiveness and efficiency, budget alignment with development priorities as set out in Mkukuta, improvement in systems to ensure the regularity of spending and the openness and value for money of public procurement systems.
3. The chosen indicators are result-based, measurable, specific and provide a clear basis on which to monitor, assess and evaluate budget support over time.

UNITED REPUBLIC OF TANZANIA
General Budget Support

Performance Assessment Framework (PAF)

N O	SUBJECT	QUESTION S/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	OUTCOME INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
1	NSGRP implementation: Cluster 1 - Growth and reduction of income poverty	Is broad based economic growth being effectively promoted? Are policy debates/decisions transparent?	NSGRP review	<p>i. Development of and dialogue on implementation of a growth strategy.</p> <p><u>To be developed</u></p> <p>ii. Infrastructure Review, encompassing Roads, Energy, Communication, and Transport sector in 2005/06.</p> <p>iii. Agricultural Sector Review in 2005/06.</p> <p>iv. BEST Programme Review</p> <p>v. Second Generation Financial Sector Reforms Programme Review</p> <p><u>In Place</u></p>	<p>(i) Put in place the agreed sector review processes, ensuring alignment of the next PRBS annual review in October 2006</p> <p>(ii) Government amendments to the Civil Procedure Code (CPC) by October, 2006.</p> <p>(iii) Private sector views considered prior to second reading of the Business Activities Registration (BAR) Bill and the Regulatory Licensing Regime reformed</p> <p>(iv) Draft Roads Act to be submitted to the Parliament by October 2006.</p> <p>(v) Draft Electricity Act to</p>	<p>(i) Increase in credit extended to private sector as % of GDP</p> <p>(ii) Enabling environment for private sector lead growth improved</p> <p>(iii) Reduction of Income Poverty in Rural Population (measured by Annual Agriculture. GDP growth).</p> <p>Improve rural market access.</p>	<p>(i) Volume of credit to the private sector to increase by 1% of the GDP per annum.</p> <p>(ii) Tanzania steadily moves up the World Bank "Doing Business" ranking.</p> <p>(iii) Baseline: 5.4% Target: 10.0%</p>	<p>(i) 7.9% of the GDP in 2004</p> <p>(ii) Tanzania ranked 140 in 2005</p> <p>5.4%</p> <p>(iv) 8,500 kms of rural roads rehabilitated in 2004</p>

¹⁰¹ Before the Annual Review 2006, a Joint Task Force will identify a better indicator to capture market access, encompassing the Government's entire efforts in improving such access.

N O	SUBJECT	QUESTION S/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	OUTCOME INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
				vi. Per Macro Group vii. Privatisation Review viii. Tax Modernisation Programme (TMP) Review (to be replaced by a comprehensive NSGRP Cluster Review when developed.	Parliament by October 2006 (vi) EWURA (Energy, Water, and utility Regulatory Authority) and SUMATRA (Surface & Marine Transport Regulatory Authority) fully operational and staffed (vii) Amendment of Legislation for at least two crops Boards by November 2006. (viii) Survey of individual farms 11,693 and issue of CCROs (ix) Production and distribution of the Strategic Plan for the Implementation of Land Laws (SPILLs) (x) Special studies on SGR, Input Trust Fund and Input subsidies conducted with Government position on their recommendations	Increase capacity of LGAs to support agricultural development (iv) Rehabilitate 15,000 km of rural roads by 2010 from 4,500 km in 2003 ¹¹¹		
2	NSGRP implementation on: Cluster 2 - Improvements of quality of Life and Social well being	Is there improved quality of life? Is service delivery improving?	NSGRP review	A comprehensive NSGRP Cluster Review when developed				

N O	SUBJECT	QUESTION S/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	OUTCOME INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
						enrollment	Education: Baseline: 0.5% Target: 10% GER Higher Education Baseline: 0.27% Target: 8%	0.5% 0.27%
			NSGRP review	Water Sector Review	(i) Satisfactory joint water sector review held in first quarter FY 2006/07 (ii) Revised Water Sector Legislations presented to the parliament by April 2006 (iii) The National Water Sector Development Strategy presented to the Cabinet by end of February 2006	Percentage of the population that has access to clean and safe water from a piped or protected source.	Baseline: Rural 53.5% Urban 73.0% Targets 2010 Rural 65% Urban 90%	Rural 53.5% Urban 73.0%
3	NSGRP implementation on Cluster 3 - Governance and accountability	Is good governance and the rule of law ensured? Is government accountable to the people?	NSGRP review	GoT - DPs and other stakeholders' consultations on governance. NACSAP (II) PSRP Review LSRP review	(i) Revised anti Corruption Legislation presented to Parliament by November 2006 (ii) Develop review mechanism for NACSAP (II)	(i) Quarterly NACSAP Implementation Report published and discussed. (ii) Current pay as a proportion of government's pay target (PSRP).	Baseline: 4 reports Target: 4 reports Baseline: 88% Target: 100%	4 Reports 88%

N O	SUBJECT	QUESTION S/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	OUTCOME INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
				LGRP review		(iii) Percentage of Court cases outstanding for 2 years or more. (iv) Number of strategic plans of central and sector ministries containing a strategic objective to implement decentralization by devolution.	Baseline: 70% Target: 40% Baseline 2005: One (PO- RALG) Target 2010: All	70%
4	Resource allocation and budget consistency	Does the budget reflect national policy? Does spending reflect the budget? Are budgetary decisions questioned for consistency with policy and VFM?	PER MACRO Poverty Monitoring System	Budget Guidelines. Fiscal reports (BER, QDR) PEFAR review Annual MKUKUTA Progress Report		Approved budget broadly in line with policy objectives (NSGRP, sector policies); Expenditure outturn consistent with approved budget.	Recurrent budget deviation reduced: Baseline: 18% Target: 10%	18%
5	Public Financial Management	Are there systems in place within GoT to assess the regularity of expenditures	Single PFM review instrument	PEFAR review which will need to look at (ii) annual procurement audit PFMRP JSC consultations	(i) Audit Reform priorities to be reflected fully in PFMRP - see attached table. (ii) PWC contracted to establish system for monitoring and checking compliance, start November, will end around March 2006	(i) NAO Audit Report is of international standard by 2010 and released within 9 months as required by the Public Finance Act 2001.	2005: NAO starting to introduce INTOSAI and ISA international standards	

N O	SUBJECT	QUESTION S/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	OUTCOME INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
		? Is the procurement system open and transparent and provide value for money? Are these enforced?				(ii) Number of procuring entities complying with the Public Procurement Act 2004	regarding formats, procedures and reports. 2010: NAO fully compliant with international standards. Baseline: 10% Target: 80%	10%
6	Macroeconomic stability.	Is the broad macroeconomic environment conducive for budget support?	PER MACRO	Budget Guidelines. Fiscal reports (BER, QDR) PRGF PEFAR review		Fiscal and monetary stability, reflected by: (i) Fiscal Deficit (after grants) as % of GDP consistent with PRGF targets. (ii) Inflation rate consistent with PRGF targets.	Baseline: 6% Target: per PRGF Baseline: 4.5% Target: per PRGF	6% 4.5%

Annex 5: National donor case study matrices

CANADA

Section 1	Case study country Budget Support appraisal, selection and approval practices	
	Outline of key aspects of budget support appraisal, selection and approval practices	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to contribute to improved procedures?
<p>Do donor procedures and criteria for using Budget Support facilitate effective parliamentary oversight?</p>	<p>CIDA has guidelines for Program-based approaches (PBAs) and does not have separate guidelines on budget support. The guidelines are ‘CIDA’s Operational Guide to Program-based approaches’, November 2007.</p> <p>An assessment of whether the conditions for CIDA participation in a PBA are present is performed by the country desk. The criteria are assessed through an examination of the composition of the country program and staff, including staff capacity, finance and procurement expertise. The ability of the recipient country to benefit is examined by assessing:</p> <ul style="list-style-type: none"> i) the recipient countries ability to engage in more harmonised approaches. ii) existing of emerging partnerships with other donors iii) the capacity and track record of the recipient country to deliver results and to scale-up efforts in a cost-effective way iv) evidence of a satisfactory and agreed-upon programming framework v) policy and/or institutional reforms for the increased use of local systems are promoted <p>If these conditions are met a concept paper is prepared for initiatives over CAN \$500,000.</p> <p>All initiatives under PBAs exceeding \$5M must first be presented for consideration to the Project Review Committee (PRC), a sub-committee of the Policy Committee. PRC’s role is to review proposals from a corporate perspective before they are presented for approval (Vice-President; President; Minister or Treasury Board) and to make recommendations regarding the approval or revision of these proposals. The PRC is composed of 13 members from across the Agency.</p> <p>All PBA initiatives that exceed the minister’s aid approval authority (this limit is currently set at \$20M) or do not meet the requirements of the CIDA Terms and Conditions require a Treasury Board submission (TB). A TB submission is an official document submitted by the Minister of CIDA seeking the approval or authority from TB ministers to carry out a proposal that is beyond CIDA’s delegated authorities or to seek a special approval.</p>	<p>Parliament does not feature in the process of appraisal, selection or approval of budget support. However, the Treasury Board does play a key role in oversight of initiative over CAN \$5 million.</p> <p>The new guidelines a very thorough and should provide clear information on why budget support was chosen as an aid modality and provide a full account of risks etc.</p> <p>Procedures have recently been revised and are likely to change further as a result of the Better Aid Bill. At this point there does not seem to be much scope for Parliament to contribute further</p>

Section 2	Case study donor Budget Support risk assessment practices	
	Provide an outline of risk assessment practices?	Do these practices facilitate effective parliamentary oversight? What opportunities exist for improved oversight to contribute to better risk assessments?
<p>Are donor risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?</p>	<p>CIDA's Operational Guidelines for Programme Based Approaches, 2007 provides information on the assessment of fiduciary risk. CIDA are currently working on improving risk assessment.</p> <p>Frameworks recommended for use are:</p> <p>Financial Management:</p> <ol style="list-style-type: none"> 1. Country PEFA report 2. World Bank country financial accountability assessment (CFAA) 3. World Bank public expenditure review (PER) 4. World Bank public expenditure tracking system (PETS) 5. World Bank heavily indebted poor countries (HIPC) expenditure tracking 6. DFID's fiduciary risk assessments 7. EC compliance test <p>Procurement:</p> <ol style="list-style-type: none"> 8. Country new common benchmarking and assessment methodology for public procurement systems 9. World Bank country procurement assessment report (CPAR) <p>Also a statement summarizing the risk of corruption must be presented in the fiduciary risk assessment documentation prepared by the country desk. Sources of information are transparency international's corruption index etc. That statement should answer the following questions:</p> <ul style="list-style-type: none"> ▪ How high is the likelihood of occurrence of corruption in the area (sector) where the proposed PBA initiative is planned? ▪ How material is the potential impact on the PFM systems? ▪ How significant is the potential impact on CIDA or other partners' reputations? <p>Another five categories of risk are assessed which are:</p> <ol style="list-style-type: none"> 1. Implementation risk 2. Under achievement risk 3. Sustainability risk 4. Environment risk 5. Gender risk <p>Suggestions of safeguards to mitigate risks are then presented for consideration by country desks.</p>	<p>Parliament could ensure that more information on risk is reported to Parliament and select committees. Criticism in the past has been that CIDA has not provided sufficient information to Parliament.</p>
Section 3	Case study donor practices with regards to monitoring and evaluating budget support	

	Provide an outline of monitoring and evaluation practices for the countries the donor supports and across countries	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to improve monitoring and evaluation procedures?
How do case study donor monitoring and evaluation practices make use of parliamentary oversight to ensure effective use of budget support?	<p>Monitoring occurs through the PAF, agreed with the recipient government and other donors.</p> <p>Monitoring of progress toward results consists of:</p> <ul style="list-style-type: none"> continuous assessment of the program developments based on an established action plan and indicators; continuous review of identified risks and assumptions as part of the normal program management process; and effectiveness of the safeguards. <p>The five levels at which monitoring should be done are:</p> <ul style="list-style-type: none"> strategies, policies and systems (including the financial systems and institutional context of the budget support or pooled funding initiative); inputs, including CIDA's processes for donor harmonization and capacity building; performance within the given sector or programming area impacted by the program; outcomes/results (the medium-term effect of the support); and impacts on the reduction of poverty and/or other long-term objectives. <p>The country desk produces an annual performance report for HQ. Evaluations are undertaken as part of the evaluation of a country programme or country offices can undertake them independently.</p>	<p>Some of this information is collated into CIDA's Departmental Performance Report, but it is not reported on or made use of in any substantive way by Parliament.</p> <p>Insisting on better reporting of this information by Parliament, particularly in CIDA's annual report.</p>
Section 4	Parliamentary oversight in general, with regards to development aid and with regards to budget support	
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create?	
Sub-question 1: What are the macro-constitutional factors that underpin the scope for parliamentary oversight in general, and for development spending in particular?	<p>What are the main constitutional and statutory underpinnings of legislative oversight? Describe the main institutions, their inter-relationships and the rules that drive oversight over spending. Include additional institutions which are particular to development spending and relevant.</p> <p>The Canadian Parliament operated on the Westminster model. Parliament is composed of:</p> <ol style="list-style-type: none"> the Queen – executive authority (represented by governor general) the House of Commons – elected Senate – appointed <p>The main institutions for oversight are:</p> <p><i>Treasury Board</i> Approves CIDA spending above CAN \$20 million</p> <p><i>Standing Committees</i> The Senate Standing Committee on Foreign Affairs and International Development (FAAE) deals with</p>	<p>How effective is the parliamentary oversight set up by these factors?</p> <p>Given that much of CIDA's activities go before the Treasury Board, this acts as ex-ante scrutiny and is effective in highlighting potential issues and problems up front.</p> <p>It appears that neither the FAAE nor the auditor general is very active in undertaking scrutiny of CIDA affairs. The FAAE's interest is primarily foreign affairs and reports on CIDA are mainly in this context rather than on specific aid issues. Similarly the auditor</p>

	<p>development matters.</p> <p><i>Auditor General</i> Scrutinises departmental reports on an annual basis. Also undertakes thematic reports. The last one on CIDA was in 1998 and is currently carrying out a study on aid effectiveness issues.</p> <p><i>Internal Audit</i> Compliance audits to check if CIDA mandates are being met.</p> <p><i>Better Aid Bill</i> This clarifies CIDA's mandate, but it is not yet clear what the impact will be on activities and procedures as the bill is still being scrutinised by lawyers.</p> <p><i>DAC Peer Review</i> This is also part of the scrutiny process and the latest report was in 2007.</p>	<p>general, undertakes financial audits of CIDA annually, but has carried out very few thematic reports on CIDA's work.</p>
Section 4	Parliamentary oversight continued	
	Describe the parliamentary system of budget oversight focusing on the spending side	Is the oversight effective? Motivate in terms of the factors described, focusing on development spending and budget support. What opportunities are there to improve oversight of budget support?
Sub-question 2: How is parliament's oversight processes structured formally? And how do they function in practice?	<p><i>Budget Process Ex-ante</i></p> <ul style="list-style-type: none"> • The Minister of Finance gives the "Budget Speech"; this statement sets out the Government's broad plans and projects for the upcoming year. • To raise the money called for in the Budget Speech, the Minister of Finance puts forward "Ways and Means motions", which are authority for bringing in a taxation bill. • The "Business of Supply" refers to the process of estimating expenditures, examining and debating these estimates, and authorizing expenditures. • The full package of proposed government expenditures (the Main Estimates) undergoes committee review (FAAE for CIDA) and debate in the House of Commons /the Senate. • A bill based on the Estimates, known as an appropriation bill, is always considered first by the House of Commons, then in the Senate, before it receives Royal Assent. <p><i>Committee stage</i></p> <ul style="list-style-type: none"> • Ministers, department officials, experts and members of the public appear as witnesses before the relevant committee • Committee members study the bill, clause by clause • The committee adopts a report on the bill, recommending that it be accepted as is, or with amendments, or that it not be proceeded with further <p><i>Report stage</i> In the House of Commons, motions to amend specific clauses of the bill are considered by the whole House,</p>	<p>Development spending is treated in a similar way to other spending in the budget. In practice the amount of time that the FAAE spends on budget oversight activities is extremely limited. There does not seem to be any reason for additional ex-ante oversight of budget support as it is currently treated the same as other spending</p>

	<p>while in the Senate it is the committee report which is considered and amendments can be proposed</p> <p><i>Third reading</i> final approval of the bill; in the Senate, further amendments can be considered at this stage</p> <p>There is little Parliamentary discussion of budget expenditure as:</p> <p>i) Parliament can only approve the government's proposals, either in full or at a reduced level of funding, or reject them altogether. Parliament itself is prohibited from proposing new expenditure programmes, or increasing the level of funding requested. Parliament's role in the budget is constrained further by the fact that the vote on the budget is seen as a vote of confidence in the government.</p> <p>ii) Another factor limiting Parliament's role in the budget process is the fact that over 70% of government expenditure does not require annual funding through the budget process but is rather "statutory" in nature.</p>	
Section 4	Parliamentary oversight continued	
	Describe what development spending information (plans, inputs, spending, results, analysis and assessments) parliament sees, formally and informally, in what formats, how frequently and how it engages with the information.	How effective is its oversight? Motivate in terms of the factors discussed here, focusing on development spending and budget support. What opportunities exist to improve oversight of budget support?
Sub-question 3: What is parliamentary access to information and how does it engage with the information, formally and in practice?	<p>CIDA submits two reports annually to Parliament. The first is its Departmental Performance Report and the Second is its report on Plans and Priorities which give departmental estimates.</p> <p>The Departmental Performance Report gives information on CIDA activities by country, but there is no rigorous results-orientated framework with results measured against targets. There is very little information on PBAs or budget support expect when related to specific countries, where there is little information on performance</p> <p>The report on Plans and Priorities gives expected results and performance indicators by country and region.</p>	<p>Reporting to parliament is weak and is not results-oriented. There is little quantifiable information on performance in terms of progress towards specific targets and achievements, as it is not clear what targeted outcomes are.</p> <p>This makes it difficult for the FAAE to engage with CIDA s they do not sufficient information on where money is spent, what expected outcomes are and whether it provides value for money.</p> <p>To-date, Parliament has not engaged with CIDA on budget support issues. Ensuring better information from CIDA would be beneficial for improving oversight. Also, the FAAE and auditor general could provide better ex-post oversight by initiating their own studies on the effectiveness of CIDA activities and value-for- money issues.</p>
Section 5	Country specific issues – please discuss briefly	
Impact of Better Aid Bill on budget support practice; parliamentary oversight of development spending and budget support.	<p>To date, CIDA's mandate has been weak and has not been poverty orientated which has caused confusion as there has not been a clear reference point. In theory, the Better Aid Bill should provide a stronger mandate and a clearer policy direction. At present, it is not clear how this bill will be implemented or what changes in policy and procedures will occur as a result.</p>	

THE NETHERLANDS

Section 1	Case study country Budget Support appraisal, selection and approval practices	
	Outline of key aspects of budget support appraisal, selection and approval practices	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to contribute to improved procedures?
<p>Do donor procedures and criteria for using Budget Support facilitate effective parliamentary oversight?</p>	<p>The development agency for the Netherlands is the Directorate-General for International Co-operation (DGIS) within the Ministry of Foreign Affairs. The Netherlands relies on a “decentralised” system in which embassies are responsible for policy dialogue with partner country governments and other donors, formulation of Dutch country and sector policy, and assessment, approval and monitoring of implementation activities within the limits of the “delegated” funds.</p> <p>The budget support investigation is delegated to embassies, but the Directorate of Effectiveness and Quality – dealing with many issues related to the Paris agenda such as budget support, aid modalities, capacity development etc. – assesses and approves the country level work.</p> <p>The final decision on budget support at the point of including its potential use in country plans, is taken by the Minister. Subsequently the implementation decisions are delegated within the ministry, depending on the type of decision taken.</p> <p>In order to decide on the level of alignment, including budget support, the Track Record is used which is a structured assessment instrument. The full track record is undertaken when the Multi-annual Country Assistance Plan is drafted. In the years in between a ‘light’ Track Record is done.</p> <p>Track Record assessments may be over ruled by political factors, for example in crisis or fragile states. So far the general policy has been that programme aid (including budget support) will be used where possible, and project aid where necessary.</p> <p>From 2007 onwards, the Track Record assessment has been complemented by more detailed assessments of performance in those sectors in which the Netherlands is substantially involved. Sectoral performance as assessed and documented in the sector track records (STRs) is to feed into the overall track record analysis.</p> <p>The assessment of overall policy may be more positive or more negative than the assessment of performance in one or more sector. However, if macro-level and sector-level assessments differ considerably, the mission must explain these differences and justify its position in each relevant cluster.</p>	<p>When the Track Record indicates that Budget Support should not be used, but for political reasons the decision is to go ahead with its use, the Minister for Development is under obligation to notify parliament by letter. Under normal circumstances, when the Ministry follows its normal procedures of assessment and take decisions accordingly, parliament would not have an <i>ex ante</i> view.</p> <p>Parliament can also on its initiative engage on a specific issue or country. In the past for example it has resisted the use of budget support in Rwanda successfully</p> <p>The system is effective because it only engages parliament in programming cycle decision-making when the risk involves is judged to require oversight. It does not overload parliament.</p>

Section 2	Case study donor Budget Support risk assessment practices	
	Provide an outline of risk assessment practices?	Do these practices facilitate effective parliamentary oversight? What opportunities exist for improved oversight to contribute to better risk assessments?
<p>Are donor risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?</p>	<p>The Netherlands uses the Track Record to assess risk. It uses it for all programming, because it indicates the level of alignment that is appropriate, given assessed risk. The Track Record process requires risk assessment across 4 policy clusters, namely poverty reduction, economic management, good governance (PFM section is the only section explicitly linked to the concluding risk analysis) and dialogue. The track record comprises an introduction, four main clusters and a concluding section.</p> <p>The core of the track record is formed by four policy clusters (A, B, C and D) which are each, except for D, divided into two components: Cluster A: Poverty reduction is divided into A1 'Poverty reduction strategy (PRS)' and A2 'Political commitment to and implementation of poverty policy' (linked to clusters A and D). Cluster B: Economic management is divided into B1 'Macroeconomic policy' and B2 'Business climate'.</p> <p>Cluster C: Good governance is divided into C1 'Public Finance Management (PFM)' and C2 'Basic conditions for good governance' (linked to STR clusters B and C). Cluster D: Dialogue : 'Quality of policy dialogue' (linked to STR conclusions). The clusters are ordered and divided such that the assessment of cluster A 'Poverty reduction' reflects Dutch policy on development cooperation, clusters B 'Economic management' and C 'Good governance' set out conditions, while cluster D 'Dialogue' assesses how effective the Netherlands can be in a partner country in terms of influence and cooperation. The sequence of clusters is not normative (e.g. cluster A is not more important than cluster B etc.). In all clusters, relevant sector track record information should be used when answering key questions. One central question must be answered for every subcluster with the help of a number of key questions. Subsidiary questions or checklists for each key question serve as an aid to producing the analyses in the track record. On the basis of the answer to the central question, an assessment should be given for each subcluster in the form of a rating ('a' to 'd'). A cross scoring system is then applied to determine what instrument to use. The mission's analyses and ratings (on the components) are compared with the relevant CPIA scores and various governance references (WBI Kaufmann indicators, Economist Intelligence Unit Democracy Index, Global Integrity Indicators).</p> <p>The concluding section provides an integral assessment of the cluster findings, elaborates on risks (including corruption) and measures to address them, and presents measurable indicators that the mission will focus on specifically the following year.</p> <p>The aim is to harmonise where possible with multidonor assessments (of the different policy clusters) like PEFA and PAF. However, a specific instrument is prescribed for the Strategic Governance and Corruption Analysis. In the case of multiyear commitments – for example, multiyear budget support – the mission must ensure that the analysis and assessment required in the track record is incorporated into the annual review of the multiyear modality.</p> <p>Continuous risk assessment is done annually, before disbursements.</p>	<p>While parliament is not directly involved in the Track Record assessments, it will get a view of it when becoming involved in discussions on marginal cases.</p>

Section 3		
Case study donor practices with regards to monitoring and evaluating budget support		
	Provide an outline of monitoring and evaluation practices for the countries the donor supports and across countries	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to improve monitoring and evaluation procedures?
How do case study donor monitoring and evaluation practices make use of parliamentary oversight to ensure effective use of budget support?	<p>As part of the Ministry's planning cycle, the missions in partner countries are required to draw up a full track record every four years. The track record forms the basis for the obligatory context analysis underlying the multi-annual strategic plan (MASP). After the multi-annual strategic plan has been drawn up, updates of the track record (a track record "light" format), are to be drawn up annually to monitor progress and to assess whether the chosen strategy is still adequate.</p> <p>The track record's analyses are supplemented by underlying analyses, which are not part of the mission's annual report obligations. The mission can make an analysis of this kind at any time of the year, provided the conclusion and ratings are fully incorporated into the track record and the information is up to date (less than a year old). The review frameworks drawn up to prepare the underlying analyses have an independent objective and function besides their relevance to the track record.</p> <p>The information for the previous year would impact on disbursements in the subsequent year to get the balance right between risk management and predictability.</p> <p>The Netherlands have a sanctions policy, which sets out concrete steps that need to be taken when problems arise in countries, and explicit criteria for decisions on disbursement.</p>	<p>Again, there is a presumption that Parliament will be informed when problems arise in a country. The Note on Control and Oversight (1977) therefore sets the framework within which Parliament is part of the monitoring of budget support. Should risks arise and parliament is not informed, the Minister would run a significant political risk: if the issues subsequently become public knowledge he would need to account for the breach in procedures of not informing parliament, and it could mean political embarrassment for the government and the individual minister. The incentive is therefore for the Ministry to include Parliament in monitoring activities when necessary.</p>
Section 4		
Parliamentary oversight in general, with regards to development aid and with regards to budget support		
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create?	
Sub-question 1: What are the macro-constitutional factors that underpin the scope for parliamentary oversight in general, and for development spending in particular?	What are the main constitutional and statutory underpinnings of legislative oversight? Describe the main institutions, their inter-relationships and the rules that drive oversight over spending. Include additional institutions which are particular to development spending and relevant.	How effective is the parliamentary oversight set up by these factors?
	<p>The context of spending oversight is set by the nature of politics in the Netherlands. No political party enjoys a majority in the Dutch Parliament. As a result, it is necessary to form coalitions between two or more political parties in order to form a majority government.</p> <p>When a new government is created, it announces its major policy objectives in a document known as the <i>Coalition Agreement</i>. Budgetary policy is a key focus of the multi-party Coalition Agreements, with very explicit objectives agreed upon for the conduct of budgetary policy for its four-year term of office.</p> <p>The Coalition Agreements also incorporate the multi-year expenditure projections of each ministry as the basis for sub-caps for each minister. There are no constitutional restrictions on the role of Parliament in the budget process in the Netherlands and a vote on the budget is not automatically considered a vote of confidence in the government. Parliament does in fact amend the government's budget proposal each year,</p>	<p>The direct political accountability of individual ministers strengthens oversight. The joint oversight over policy and spending centred in sector committees means that the separation between inputs and outputs, or spending and policy, is less likely to occur, since the committee with the specialist sector knowledge, also engages with spending.</p>

	<p>but these amendments are generally minor. This is primarily a function of the Coalition Agreements. As they are agreed by the political parties forming the government, they <i>by definition</i> establish the framework for Parliament's deliberation of the budget and its room for manoeuvre in this area.</p> <p>The Dutch Parliament consists of two chambers. The Lower Chamber has 150 members, which are directly elected on the basis of proportional representation. The Upper Chamber (Senate) has 75 members, which are not directly elected. Rather, they are elected by the 12 provincial state councils. In practice, the Lower Chamber enjoys pre-eminence in budget matters.</p> <p>The central committee on finance engages with macro-fiscal issues. Scrutiny and oversight of expenditure areas are completely the responsibility of the sector committee.</p>	
Section 4	Parliamentary oversight continued	
	Describe the parliamentary system of budget oversight focusing on the spending side	Is the oversight effective? Motivate in terms of the factors described, focusing on development spending and budget support. What opportunities are there to improve oversight of budget support?
Sub-question 2: How is parliament's oversight processes structured formally? And how do they function in practice?	<p>Each minister is politically responsible for his own budget and presents it to Parliament himself. All in all, 23 separate budget bills are presented to Parliament.</p> <p>It is useful to divide the parliamentary budget process into two stages. The first stage coincides with the opening of each session of Parliament and consists of general policy deliberation in plenary session.</p> <p>The second stage consists of specific deliberation of each ministry's budget proposal. Much of this work takes place in committees before being brought to plenary session for final approval. In practical terms, the aggregate allocation to each sector is taken as a given and committees only discuss the distribution of the available funds.</p> <p>Each committee consists of 25 members with an equal number of alternates. Each committee is assisted by a clerk (most often with a legal background), and by a secretariat staff member specialised in the relevant policy field. The relationship between Parliament and the government is very formal.</p> <p>It is a basic principle that no member of Parliament, or employee of Parliament, will speak to an official of a ministry without the minister or state secretary (deputy minister) being present as well. Officials (career civil servants) of ministries do not appear before the committees. This, <i>inter alia</i>, explains the large number of written questions to ministers. This is a function of the principle of ministerial responsibility, as practised in the Netherlands.</p>	<p>The budget is allocated at a high degree of aggregation, with limited budget lines. Within the formal budget process parliament does not get to see how much spending will be used for budget support and in which countries.</p> <p>Engagement on these issues are left to the control and oversight system, whereby parliamentary oversight comes into play only when necessary, given the rule that Ministries need to inform parliament when they act outside of their established rules and procedures.</p>
Section 4	Parliamentary oversight continued	
	Describe what development spending information (plans, inputs, spending, results, analysis and assessments) parliament sees, formally and informally, in what formats, how frequently and how it	How effective is its oversight? Motivate in terms of the factors discussed here, focusing

	engages with the information.	on development spending and budget support. What opportunities exist to improve oversight of budget support?
Sub-question 3: What is parliamentary access to information and how does it engage with the information, formally and in practice?	In the Netherlands public expenditure is managed more explicitly by outputs and outcomes. Budget proposals are presented to Parliament in terms of what will be achieved with funds. Where services are delivered through agencies, performance contracts between ministries and agencies are in place. These contracts are part of the delegation of ministerial responsibility for agencies. Agencies report on their financial and non-financial performance to ministries. These reports are published but not submitted to Parliament for scrutiny. Both in the case of ministry core expenditure and agencies, key results are included in the budget and accounts of the parent ministries as presented to Parliament. In this context, no distinctions are made in regard to which part of the ministry has produced the outputs – i.e. whether the output is attributable to an agency or to the ministry itself.	While information on outputs and outcomes is presented, parliamentarians are still interested in inputs. However, because both spending and policy is overseen by one committee, it improves the link between the two. However, development spending, because it falls under the portfolio of the Ministry of Foreign Affairs, is overseen by the committee that also has responsibility for foreign affairs. However, there is a specialist sub-committee that meets separately, and comprises amongst other the spokespersons on development from the different parties. It is therefore quite effective in engaging intensively.
Section 5	Country specific issues – please discuss briefly	
Role of parliament in and impact of recent discussion on development spending and budget support in public domain. Usefulness of Track Record system for oversight purposes.	Individual parliamentarians played a significant role in publicising issues around budget support and development spending, whether it was constructive or not. Each party has a spokesperson on development, who contributes to national debate on it from party-political platforms. This means that the debate does become politicised. The Track Record is a useful instrument, particularly because of the way it is used to identify the spectrum of alignment options that would be valid in any country. It therefore sets an explicit threshold for budget support, which even if applied dynamically, means that countries that are particularly high risk for the instrument is transparently identified. This then creates the opportunity for parliamentary oversight only when it is necessary.	

SWEDEN

Section 1	Case study country Budget Support appraisal, selection and approval practices	
	Outline of key aspects of budget support appraisal, selection and approval practices	Do these practices facilitate effective parliamentary oversight?
<p>Do donor procedures and criteria for using Budget Support facilitate effective parliamentary oversight?</p>	<p>New guidelines for budget support have been introduced in April 2008. These are ‘Clarification of the Guidelines Relating to the Management of Budget Support for Poverty Reduction’, Ministry of Foreign Affairs, Sweden.</p> <p>There are five pre-conditions that must be in place before budget support is given to a country. These are:</p> <ul style="list-style-type: none"> i) Respect for human rights and democracy ii) National strategy for development and poverty reduction iii) A growth enhancing, sustainable economic policy iv) Transparent, robust and effective public financial management systems v) Commitment to combat corruption <p>Guidelines for assess these five criteria are included in the April 2008 guidelines.</p> <p>As part of the process of developing a country strategy, Sida makes a judgement on whether these criteria are fulfilled and whether budget might be appropriate. If it is deemed viable, then Sida notifies the Ministry of Foreign Affairs and a decision is made by the government (Council of Ministers) on whether to use budget support for a specific country. Once this decision is made, Sida then receives a mandate from government to implement budget support.</p>	<p>These practices should facilitate effective parliamentary oversight. There has been a lot of debate within Parliament and the media about whether budget support is going to the right countries. Of particular concern has been that countries who receive budget support may not be committed to human rights and anti-corruption policies. These guidelines should now give a reasonably transparent way of making decisions on budget support, which Parliament can use for oversight, as it is clear what the pre-conditions are, how they should be addressed and which countries will be eligible.</p> <p>Improved procedures have already been introduced in response to the SNAO report on budget support. Therefore, there does not seem to be more scope at this point to introduce initiatives to improve procedures further until it is clear how effective the new ones are.</p>

Section 2	Case study donor Budget Support risk assessment practices	
	Provide an outline of risk assessment practices?	Do these practices facilitate effective parliamentary oversight? What opportunities exist for improved oversight to contribute to better risk assessments?
Are donor risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?	<p>When the five pre-conditions for budget support are assessed, an analysis of current and future risk in each area is also undertaken and how it might be possible to manage any risks identified. How this should be undertaken is specified in the April 2008 guidelines.</p> <p>Before disbursement of budget support, Sida must check that the country is still meeting these five criteria. If the country is not, then disbursements must not occur and this assessment must be documented along with other donor's positions.</p> <p>Sida is also intending to undertake more detailed work on risk assessment in response to the Swedish National Audit Office (SNAO) report on 'Aid through budget support'. This recommended that Sida undertook on a regular basis systematic risk analysis in budget support countries. It is also noted that the government should provide 'a more true and fair', picture of budget support, describing the risks more clearly to Parliament.</p>	<p>Risks associated with budget support are presented to Parliament as part of the annual budget bill. As the SNAO has commented, this analysis does not provide sufficient information on potential risks in recipient countries. The budget bill is presented once a year and problems with budget support in specific countries have occurred after this has been scrutinised, but there was no highlighting that this was a possibility in the budget bill.</p> <p>Again, Sida is currently working on introducing new procedures for risk assessment and reporting of this to parliament. Therefore, parliamentary oversight should improve once this is undertaken.</p>
Section 3	Case study donor practices with regards to monitoring and evaluating budget support	
	Provide an outline of monitoring and evaluation practices for the countries the donor supports and across countries	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to improve monitoring and evaluation procedures?
How do case study donor monitoring and evaluation practices make use of parliamentary oversight to ensure	<p>The April 2008 guidelines indicate that Sida should continuously monitor the development of the fundamental prerequisites, conditions in country and performance indicators.</p> <p>Budget support monitoring information is included in the annual report of the embassy or the section for development cooperation within the framework for reporting on implementation of the cooperation strategy. The monitoring of budget support is also reflected in the results matrix in the country plan.</p> <p>An overall report on budget support will be included in the results of aid in Sida's annual report.</p>	<p>Currently, Parliamentary engagement has been sufficient, as adequate information has been included within the budget bill. If there is not the information that Parliament needs then they will ask either Sida or the MoFA for additional information. There is little focus on results in the information given to Parliament. More details on the outcomes of development spending would be helpful.</p>

effective use of budget support?	Since the Joint Evaluation of Budget Support (JEGBS), there have been no other evaluations of budget support. However, the April 2008 guidelines envisage that evaluations of budget support will be undertaken, but will be joint with other donors and the government of the recipient country.	
Section 4	Parliamentary oversight in general, with regards to development aid and with regards to budget support	
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create?	
Sub-question 1: What are the macro-	What are the main constitutional and statutory underpinnings of legislative oversight? Describe the main institutions, their inter-relationships and the rules that drive oversight over spending. Include additional institutions which are particular to development spending and relevant.	How effective is the parliamentary oversight set up by these factors?

<p>constitutional factors that underpin the scope for parliamentary oversight in general, and for development spending in particular?</p>	<p>The Swedish Parliament has 349 members who are elected every four years. There are 15 Parliamentary Committees. Each committee has 17 members.</p> <p>The Committee on Foreign Affairs deals with international development matters.</p> <p>There are five instruments of Parliamentary control over the government. These are:</p> <ul style="list-style-type: none"> i) The Committee on the Constitution – examines ministers performance of duties and handling of government business ii) Declaration of no confidence – this forces a minister to resign or if it is no confidence in the Prime Minister, the whole government resigns iii) The Parliamentary Ombudsman – ensures that the courts, as well as central and local government authorities, correctly apply the rules to which they are subject. iv) The National Audit Office – scrutinises activities of the state, to ensure that efficient use is made of state assets. Performance audit reports are published and submitted to the government e.g. ‘Aid through Budget Support’. v) Interpellations and questions to ministers – once a week ministers answer oral questions at Question Time. This can give rise to votes of no confidence if the results are not satisfactory. <p>For development spending which is undertaken by Sida, the important institutions are the Ministry of Foreign Affairs, Parliament and the SNAO. The Ministry of Foreign Affairs as Sida is an agency of government and implements policy made by the government. The role of the Ministry of Foreign Affairs is therefore to ensure that Sida is undertaking this correctly. Also Parliament as a Sida submits its annual report to Parliament through the budget bill, while questions can also be asked regarding international development in the chamber by MPs. Also the SNAO who undertakes a financial audit every year and ad hoc performance reports.</p> <p>It should also be noted that Sida has an internal council with members drawn from Parliament, NGOs and civil society, which acts as an advisory committee and gives guidance on Sida’s work.</p>	<p>There is a strong system of oversight as the committees are very powerful within the Swedish Parliamentary system. They have the ability to change the budget presented to Parliament by the government and can specify how money should be used and tie funding to conditions. Civil servants and other individuals can be called in for questioning by the committees as part of the budget process. The budget of Sida is overseen, not only by parliament, but also the Ministry of Foreign Affairs and the National Audit Office, which undertakes performance reports on development issues.</p>
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Section 4	Parliamentary oversight continued	
	Describe the parliamentary system of budget oversight focusing on the spending side	Is the oversight effective? Motivate in terms of the factors described, focusing on development spending and budget support. What opportunities are there to improve oversight of budget support?
Sub-question 2: How is parliament's oversight processes structured formally? And how do they function in practice?	<p>There is a 3 stage budget process:</p> <ul style="list-style-type: none"> i) Prior to the presentation of the budget, Parliament approves the level of <i>aggregate government expenditures</i> (and aggregate government revenues) in a Spring Fiscal Policy Bill. The government's budget proposal must conform to this limit unless the government separately proposes a higher limit. This bill is referred to the Finance Committee and then debated in Parliament ii) Budget Bill: Parliament approves the level of <i>expenditures for each of the 27 Expenditure Areas</i>. First the bill goes to the committees with each committee making recommendations on the allocation of expenditure within their areas (the Foreign Affairs Committee for Sida). The budget proposal then goes to the Finance Committee which recommends any changes to Parliament iii) Committees make recommendations on appropriations for their areas. Parliament approves the level of <i>individual appropriations</i> within each of the 27 Expenditure Areas. These are then voted on in Parliament <p>The Parliament annually allocates money for development cooperation. Parliament's allocation decisions determine allocations for major regions, e.g. Africa but do not specify allocations at the sub-regional or country level. The right to decide on such allocations is delegated to Sida's Director General, within the framework provided by the Government in approved cooperation strategies and other strategic directives.</p>	<p>Oversight is effective in that there are both formal and informal channels for oversight. The Parliament scrutinises development spending proposals as part of the budget process and can question Sida and the MoFA if they want to pursue any issues. They can also change their proposed budget.</p> <p>It is worth noting that there has been little discussion of budget support issues in Parliament. This has occurred more in the media.</p> <p>The SNAO report will also be discussed in Parliament once there have been responses from Government and Sida.</p> <p>The members also have access to the Sida annual report and can follow-up on any issues related to this if they wish. The Foreign Affairs Committee undertakes its own research when it would like a particular issue investigated.</p> <p>It appears that there is less emphasis on results, as ex-ante scrutiny of the budget seems to be stronger than ex-post spending. Requiring more information on the outcomes of budget support would strengthen its implementation.</p>

Section 4	Parliamentary oversight continued	
	<p>Describe what development spending information (plans, inputs, spending, results, analysis and assessments) parliament sees, formally and informally, in what formats, how frequently and how it engages with the information.</p>	<p>How effective is its oversight? Motivate in terms of the factors discussed here, focusing on development spending and budget support. What opportunities exist to improve oversight of budget support?</p>
<p>Sub-question 3: What is parliamentary access to information and how does it engage with the information, formally and in practice?</p>	<p>Formal reporting to Parliament by MoFA/Sida occurs through two channels:</p> <ul style="list-style-type: none"> i) The Sida annual report which is a report to government – this is scrutinised by the SNAO through a financial audit. ii) The report for international development cooperation which is part of the budget bill. This is a 90 page report written by the Ministry of Foreign Affairs, outlining achievements, changes in policy and proposed activities. Around ten items relating to the spending framework and future commitments are highlighted for approval by Parliament. <p>The submission for the budget bill is discussed in Parliament and MPs can raise questions on international development issues.</p> <p>SNAO performance audits are also submitted to Parliament. The SNAO can hand a report over to Parliament or submit it. If they submit it, it puts more pressure on government to respond to the recommendations as the report will not only be scrutinised by the relevant committee, but also be debated in the Chamber.</p>	<p>As noted above, the SNAO report suggests that insufficient information on the risks of budget support are given in the report which is part of the budget bill.</p> <p>Also, this report is very long as it outlines past activities, as well as future ones. From next year it has been decided to include just future activities to make the information more accessible.</p> <p>In terms of SNAO performance audit, the MoFA has the legal requirement to respond to the report, but not to implement recommendations. This response is undertaken in the report for the budget bill which is presented to Parliament in September. This is a problem as the report itself was submitted in March, and as the Parliament waits for a MoFA response this delays discussion of the report. This occurs as there are not time limits for government to respond.</p>
Section 5	Country specific issues – please discuss briefly	
<p>Sweden: Impact of recent National Audit Office Report on budget support procedures and parliamentary practice with</p>	<p>The recommendations in the SNAO report were aimed at Sida and MoFA procedures. Each institution was given a separate list of recommendations. Sida and the MoFA are firstly addressing the recommendations of the SNAO report through issuing new guidelines for budget support. The April 2008 MoFA guidelines provide clearer guidelines for the appraisal, implementation and the monitoring and evaluation of budget support and specify clearer definitions of the different types of support. It is intended that further work will be undertaken on the assessment of risk and the way in which this information is presented to Parliament. The MoFA is also trying to ensure that countries receive budget support have cooperation strategies in place.</p>	

regards to budget support procedures	
Concluding thoughts	Please note anything arising from the case study that is not yet covered, but which is important for the study findings and recommendations
	<p>There appears to be strong focus on the preparation of the aid budget and in particular budget support, but less focus on results. This is acknowledged by Sida, as there is a restructuring process being undertaken within Sida which aims to provide more of a balance between preparation, implementation and managing for results. In turn, Parliamentary and media scrutiny has tended to concentrate on the countries which are being given budget support and whether they are democratic and respect human rights. There has been little discussion on the effectiveness and results of budget support.</p> <p>One of the problems related to this is that Sida does not have clear legally enshrined objective for its activities, which results can be judged against. Additionally, some of the countries which have received budget support have not had up-to-date country cooperation strategies. Thus, it is not clear if the budget support provided is meeting recipient country or Sida goals.</p> <p>The importance of strengthening recipient country audit functions was highlighted and the SNAO is funded by Sida to work with audit offices in developing countries, to strengthen their capacity to undertake audits which can be used by recipient country Parliaments.</p>

UNITED KINGDOM

Section 1	Case study country Budget Support appraisal, selection and approval practices	
	Outline of key aspects of budget support appraisal, selection and approval practices	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to contribute to improved procedures?
<p>Do donor procedures and criteria for using Budget Support facilitate effective parliamentary oversight?</p>	<p>Guidelines for Poverty Reduction Budget Support were issued in February 2008.</p> <p>The pre-conditions for budget support are:</p> <ol style="list-style-type: none"> i) Governments are committed to 3 partnership principles: <ul style="list-style-type: none"> • Reducing poverty • Upholding human rights • Improving financial management, promoting good governance and transparency and fighting corruption ii) Provision of budget support will produce significant benefits relative to other forms of aid delivery. <p>Assessment of these criteria is undertaken as part of DFID's Country Assistance Plans. As part of the budget support appraisal process, analysis is also undertaken to determine whether budget support would deliver benefits similar to other forms of aid by focusing on:</p> <ul style="list-style-type: none"> • The governments strategy, budget and capacity • Fiduciary risk • Political risk • The expected benefits of budget support <p>Programme documentation sets out:</p> <ol style="list-style-type: none"> i) What benefits are expected to be achieved over time. ii) Features of budget support that will maximise its impact iii) Additional activities to complement and maximise program impact iv) Risks to achieving benefits and how they will be managed. <p>There are also clear objectives and monitoring frameworks outlined. This analysis is undertaken by country offices.</p>	<p>Parliament does not feature in this process and it appears that the system works well without Parliamentary involvement at this stage.</p> <p>Parliament has assisted in contributing to improved procedures through the Public Accounts Committee's (PAC) work with the National Audit Office (NAO). The NAO's 'Providing Budget Support to Developing Country's' and the PAC's hearings and report on NAO's work, highlighted changes needed in budget support procedures. These related to issues such as, better analysis of the range of options including budget support, stronger risk analysis and clearer objectives of budget support. This has been responded to by DFID and included in the February 2008 guidelines.</p> <p>This ad hoc system works well and improved procedures are not needed.</p>

Section 2		
Case study donor Budget Support risk assessment practices		
	Provide an outline of risk assessment practices?	Do these practices facilitate effective parliamentary oversight? What opportunities exist for improved oversight to contribute to better risk assessments?
Are donor risk assessment practices robust and what contribution does or can Parliament make towards risk assessment?	<p>Fiduciary and Political Risk is assessed.</p> <p>Fiduciary risk is assessed according to DFID (2008) Managing Fiduciary Risk in DFID Bilateral Programmes. This looks at:</p> <ul style="list-style-type: none"> • Public financial management and accountability systems • Initiatives to improve the operation of systems, institutional and human capacity to implement it • If potential development benefits justify fiduciary risks <p>This assessment is then recorded, along with how risk will be managed. This procedure has been agreed with the NAO.</p> <p>Political risk is assessed by examining recipient government commitment to human rights, to promoting good governance, and to fighting corruption.</p>	<p>These practices do facilitate effective Parliamentary oversight as DFID has agreed with the NAO a system for auditing budget support, as it is recognised that this system will be different for projects. There are two elements of this:</p> <ol style="list-style-type: none"> An accounting discharge – a confirmation that funds have been properly transferred to the intended recipient. A fiduciary discharge – a confirmation that DFID’s risk and control arrangements are sufficiently robust to ensure that funds have been spent as Parliament intended. <p>NAO will audit a sample of budget support countries every year. They also require DFID to show that fiduciary risk assessments are in place and actions to strengthen public financial management.</p> <p>Again, this system has been developed as a result of the NAO’s report on budget support, which criticised a lack of analysis of risk, when making decisions on budget support.</p> <p>DFID’s procedures have changed in response to Parliaments oversight and at this point, it does not look like there is further scope for improvement.</p>
Section 3		
Case study donor practices with regards to monitoring and evaluating budget support		
	Provide an outline of monitoring and evaluation practices for the countries the donor supports and across countries	Do these practices facilitate effective parliamentary oversight? What opportunities exist for parliamentary oversight to improve monitoring and evaluation procedures?
How do case study donor monitoring and evaluation practices make use of parliamentary	<p>Monitoring of budget support is undertaken through performance assessment frameworks (PAFs) agreed between development partners and recipient governments.</p> <p>It is also monitored through overall monitoring of the country programme by country offices in output to purpose reviews. This information is sent to the</p>	<p>These practices facilitate Parliamentary oversight on both a formal and informal level. Information provided by the monitoring of budget support and Country Strategies are used to compile DFID’s annual report which is scrutinised by Parliament (the Select Committee on International Development).</p> <p>On an informal level, the Committee on International Development has</p>

oversight to ensure effective use of budget support?	<p>Corporate Performance Division.</p> <p>Specific reporting on budget support is undertaken by country offices before disbursements are made and these go to the Secretary of State and provides an update on partnership commitments and fiduciary risk assessment.</p> <p>The main evaluation of budget support was through the Joint Evaluation of Budget Support (JEGBS). There have been a few of ad-hoc evaluations of budget support undertaken since at the request of country offices. E.g. Zambia, Ghana and Sierra Leone.</p> <p>There is no intention to carry out further evaluations of budget support, but budget support is evaluated through evaluations of country programmes.</p>	<p>access to reports such as the JEGBS and monitors DFID's activities and media reports on development activities. They can follow-up on these by undertaking their won studies.</p> <p>The NAO/PAC reports have highlighted areas where this can be improved. These are:</p> <ul style="list-style-type: none"> • Improving the scope, frequency and reliability of data availability DFID provides on budget support • Providing more information on the impact and results of budget support • Collect systematic data on the financial inputs to recipient country budgets, and ensure that definitions of sectors, regions and activities are applied consistently <p>Overall, it was concluded that DFID had budget support objectives and monitoring had significant weaknesses. However, the new budget support guidelines attempt to address these issues and DFID is also putting in place additional initiatives to strengthen monitoring of budget support.</p>
Section 4	Parliamentary oversight in general, with regards to development aid and with regards to budget support	
Key question	How would parliamentary practice in general and specifically need to be strengthened to support better oversight of Budget Support? What incentives that support the effective use of Budget Support is parliamentary oversight creating or could it create?	
Sub-question 1: What are the macro-constitutional factors that underpin the scope for parliamentary oversight in general, and for development spending in particular?	<p>What are the main constitutional and statutory underpinnings of legislative oversight? Describe the main institutions, their inter-relationships and the rules that drive oversight over spending. Include additional institutions which are particular to development spending and relevant.</p> <p>A Westminster style parliamentary system operates.</p> <p>The main institutions for oversight of spending are:</p> <p>i) Parliamentary committees are the main institutions for oversight of government expenditure. There is one select committee for each government department whose mandate is 'to examine expenditure, administration and policy of principle government departments'. The International Development Committee (IDC) scrutinises DFID expenditure and activities outlined in DFID's annual report.</p>	<p>How effective is the parliamentary oversight set up by these factors?</p> <p>Development spending is scrutinised in the same way as other government departments. This system is effective and as noted above, has highlighted key concerns regarding budget support.</p>

	<p>ii) The PAC is the most influential committee and it focuses on ex-post budget outcomes. Its mandate is to scrutinise the results of public spending and focus on value-for-money criteria. The NAO provides reports on these issues for the PAC and the committee has scrutinised DFID spending when the NAO has produced reports relevant to DFID.</p> <p>iii) The NAO undertakes ex-post audits. The National Audit Office is an independent parliamentary body headed by the Comptroller and Auditor General (C&AG). The C&AG, with the NAO's support, has a statutory responsibility to audit the financial statements of all central government departments, agencies and other public bodies, and to report the results of this examinations to Parliament. In 2007 the NAO issued a report on 'Providing Budget Support to Developing Countries'.</p>	
Section 4	Parliamentary oversight continued	
	Describe the parliamentary system of budget oversight focusing on the spending side	Is the oversight effective? Motivate in terms of the factors described, focusing on development spending and budget support. What opportunities are there to improve oversight of budget support?
Sub-question 2: How is parliament's oversight processes structured formally? And how do they function in practice?	<p>At the start of each financial year, government departments produce annual spending reports, which give the policy background and targets which underpin the requests for resources being made formally through the estimates procedure, and spending plans for the next three years.</p> <p>In the autumn they produce performance reports which set out their activities over the past year, whether they met their targets and the way they have spent their funds. These reports are sent to relevant departmental select committees for more detailed examination. For DFID, this report goes to the IDC.</p> <p>Parliament has no power to change expenditure estimates, its only option is to bring down the government in a vote of no confidence in order to change estimates. This has never happened.</p> <p>There is a focus on ex-post scrutiny rather than ex-ante, which is common in Westminster type systems. Ex-ante there is very little scrutiny at all, although each department is required to prepare a public service agreement (PSA) laying out departmental outcomes and executive agencies contribution to this. There are also service delivery agreements (SDAs). HM Treasury provides the main oversight of</p>	The system of committees and liaison with the NAO who undertakes the bulk of research on expenditure issues works well.

	<p>these agreements.</p> <p>As noted above, oversight of the international development budget is undertaken by the IDC who scrutinises DFID's annual report and undertakes its own studies on issues that the committee thinks are relevant. There is a Scrutiny Unit available to all select committees with professional expertise (accountants, lawyers etc), which are used to assess these reports. The IDC then writes comments on DFID's report and DFID has a legal obligation to respond to these comments, but there is no obligation to address or change activities in response to the comments.</p> <p>The IDC also undertakes its own studies and visits overseas to countries which DFID operates in.</p> <p>The PAC oversees value-for-money studies undertaken by the NAO, and the committee has its own hearings, bringing in relevant actors and produces its own report and recommendations on NAO studies. Departments then have to respond to the reports, but there is no obligation to make changes to procedures/activities as a result. The NAO will also follow up on its reports a couple of years later, to check to see if agreed changes were implemented.</p>	
Section 4	Parliamentary oversight continued	
	Describe what development spending information (plans, inputs, spending, results, analysis and assessments) parliament sees, formally and informally, in what formats, how frequently and how it engages with the information.	How effective is its oversight? Motivate in terms of the factors discussed here, focusing on development spending and budget support. What opportunities exist to improve oversight of budget support?
Sub-question 3: What is parliamentary access to information and how does it engage with the information, formally and in practice?	<p>DFID reports to Parliament twice a year through departmental reports.</p> <ul style="list-style-type: none"> i) The DFID Departmental annual reports published between March and May each year, and set out departmental aims, objectives and principal activities, expenditure (including estimates of spending in future years) and achievements, as well as Public Service Agreement targets. ii) DFID performance report, which outlines past activities. This report measures DFID achievements against the MDGs. Budget support achievements are not specifically highlighted, although they are mentioned in the narrative on regional activities. <p>Informally, the IDC has meetings with DFID to exchange information on activities and policy direction. The IDC also visits DFID offices overseas and makes use of information provided as part of these visits and from other sources to produce</p>	<p>The oversight system works effectively. The only issues that have been raised are related to the way in which DFID rates its achievements in its annual report. These are related to the MDGs and use a traffic light system. Judgement of progress towards has been noted as being too optimistic, particularly when compared with reports by other organisations such as OECD-DAC who do not give such a positive picture for the UK. The use of more tailored indicators to measure progress towards targets that are specific to DFID would also be useful.</p> <p>The main area is through Parliament pushing for better information from DFID on the objectives monitoring and impact of budget support.</p> <p>Additionally, if there was more assistance to recipient country parliaments to oversee their spending and budget support, this</p>

	reports on relevant development issues.	information could also be used as part of the information used in the UK oversight process.
Section 5	Country specific issues – please discuss briefly	
The UK: Impact of National Audit Office Report and parliament’s engagement with the report. Parliamentary oversight of development spending generally and budget support particularly.	DFID have worked to address the NAO’s and Public Accounts Committee’s criticisms and to implement recommendations. They have improved their guidelines on budget support and issued new guidelines on February 2008 in response to this. These focus more on standard reporting of appraisal and assessment of budget support and highlight the important of assessing risk, development of clear objectives and gathering evidence of results. They have also agreed new procedures with the NAO to audit budget support (see above).	
Concluding thoughts	Please note anything arising from the case study that is not yet covered, but which is important for the study findings and recommendations	
Key issues that were highlighted by many respondents were that recipient country Parliaments should be strengthened, so that they can engage in oversight of budget support as well. Also, that it was not considered that there was any need for any specific oversight of budget support compared to other aid instruments. Budget support should be considered as part of the whole aid package to a country and not highlighted individually.		

Annex 6: International Use of Budget Support

The Budget Support Overview paper prepared for this study provides the following with regards to Budget Support definition, use and purposes:

Defining budget support

Official development assistance (ODA)⁶ can be divided into “country programmable aid” and other aid. As defined by the OECD DAC, country programmable aid is aid that programmed at country level, with the recipient government exercising a voice in how the aid is allocated. Types of ODA that are special purpose flows (including debt relief, humanitarian aid, NGO funding, and administrative, imputed student and in-donor refugee costs) are excluded from the definition of “country programmable aid”. (OECD, 2008) Budget support is a type of country programmable aid.

Another way of looking at it is that budget support is one type of aid that is disbursed “to the government sector”. The OECD DAC definition for aid disbursed to the government sector is:

ODA disbursed in the context of an agreement with administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government. This includes works, goods or services delegated or subcontracted by these administrations to other entities such as:

- *Non-Governmental organisations (NGOs);*
- *semi-autonomous government agencies (e.g. parastatals), or;*
- *private companies.* (OECD DAC, 2006 and updated 2008)

Budget support is distinguished from other country programmable aid and other disbursements to the government sector by the following characteristics:

budget support is aid funding to government that

- *is not earmarked to specific projects or expenditure items, and*
- *is disbursed through the recipient government’s own financial management system.*

The OECD DAC definition for budget support, termed “direct budget support”, is:

Direct budget support is defined as a method of financing a partner country’s budget through a transfer of resources from a donor to the partner government’s national treasury. The funds thus transferred are managed in accordance with the recipient’s budgetary procedures. (OECD, 2006)

Budget support is one way of financing a programme-based approach (PBA). The DAC definition of a PBA is:

A way of engaging in development cooperation based on the principles of co-ordinated support for a locally owned programme of development, such as a

⁶ ODA is defined as: *Grants or loans provided by official agencies (including state and local governments, or by their executive agencies) to developing countries (countries and territories on the DAC List of Aid Recipients) and to multilateral institutions for flows to developing countries, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) it is concessional in character and contains a Grant Element of at least 25 per cent (calculated at a rate of discount of 10 per cent). In addition to financial flows, Technical Co-operation is included in aid.* (OECD Glossary online)

national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme based approaches share the following features:

- *Leadership by the host country or organisation.*
- *A single comprehensive programme and budget framework.*
- *A formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement.*
- *Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.*

(OECD DAC Glossary online)

Donors can support and implement programme-based approaches in different ways and across a range of aid modalities including general budget support, sector budget support, project support, pooled arrangements and trust funds. (*ibid.*)

In summary, budget support is distinguishable from other country programmable aid and other disbursements to the government sector as not being earmarked to specific projects or expenditure items, and as disbursed through the recipient government's own financial management system.

Types of budget support

Since the late 1990s there has been a focus on budget support as part of a wider quest to improve the effectiveness of aid. There were three interlinked developments: i) call for debt relief resulted in the Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction Strategy Paper (PRSP) approach, ii) call for reform in aid management with criticism of the effectiveness of traditional projects and donor-imposed conditionalities, iii) call for scaling up of aid in connection to achieving the Millennium Development Goals.

The form of budget support which took shape in the late 1990s is known as poverty reduction or partnership budget support, or sometimes simply "general budget support". This budget support comprises not only a financial transfer but also a package of complementary inputs: dialogue and conditionality; harmonisation and alignment; and technical assistance and capacity building (IDD & Associates, 2006). It is usually complemented by other aid instruments (e.g. projects and technical assistance) (Mokoro, 2008b). The difference between this budget support and other types is that it has an explicit focus on government expenditure (in contrast to the balance-of-payments support focus on macroeconomic effects) and is in essence a way of supporting and financing a government's PRSP.

It is claimed that budget support can finance poverty reduction strategies in different and more effective ways than some other instruments. These claimed special effects are:

- Budget support is an efficient means of financing the expansion of pro-poor public expenditures (not least the recurrent costs of expanding basic education and health services to the poor) in line with the Millennium Development Goals' (MDGs) targets. Project aid is not suitable for financing recurrent costs, and a multiplicity of separate projects can lead to high costs, fragmentation and poor sustainability.

- Budget support provides better predictability of aid, allowing governments to execute annual budgets more efficiently and implement long term plans more confidently.
- Budget support facilitates ownership and accountability: governments cannot be held accountable for resources that they do not control, and much research on aid effectiveness has concluded that country ownership is an essential ingredient. Budget support addresses this by channelling funds through national systems to support a national strategy.
- In particular, using country systems for planning and finance management is a way of strengthening them (conversely, aid that bypasses weak systems tends to weaken them further).
- Budget support provides the opportunity for dialogue and influence: at the same time, where the government and donors share common objectives, the broad dialogue around budget support can be a more effective means of influence than traditional conditionalities, while promoting harmonisation and alignment of many donors around a single, country-owned strategy.

As well as the types of budget support described above, there are other unearmarked contributions to the government budget provided by donors. Purposes of this other type of budget support are varied (for example, political security motivations, response to a crisis etc).

Budget support to fund a government's poverty reduction strategy can be provided as general budget support or with a sector focus. The difference between general and sector budget support is about the level and focus of dialogue and conditionalities. In the case of general budget support, the dialogue between donors and partner governments focuses on overall policy and budget priorities. Sector budget support means that dialogue between donors and partner governments focuses on sector-specific concerns rather than on overall policy and budget priorities. (OECD, 2006) Funds that are provided to the national treasury, but which are earmarked to specific expenditures within the budget do not count as direct budget support. However, in practice donors vary on their definitions for sector budget support, and how earmarking is used.

Several former colonies received general budgetary grants for some years after independence. This budget support to former colonies was derided as neo-colonialism and largely terminated as a practice (Achanya et al, 2004). In the 1980s balance-of-payments support gave governments non-earmarked budget resources. This support was given in the context of structural adjustment programmes which helped many developing countries to weather their liquidity and insolvency crises during the 1980s, but at the price of adopting painful economic-adjustment policies (Sagasti and Alcalde, 1999).

Balance-of-payments support focuses on macroeconomic effects as a prerequisite of poverty reduction. Today the main provider of balance-of-payments support is the IMF through its concessional facility for low-income countries, the Poverty Reduction and Growth Facility (PRGF), which is a significant source of ODA. In practice the PRGF often generates unearmarked funding for the government budget and is therefore

tantamount to budget support⁷. In addition, the PRGF is relevant because budget support donors look to the IMF to lead in assessing the quality of macroeconomic management.

Use of Budget Support

The international data sources used for the Budget Support Overview are the OECD DAC International Development Statistics (DAC data), the Paris Declaration 2006 Monitoring Survey (PD data) and the Strategic Partnership with Africa (SPA) Survey of Budget Support (SPA data).

Reporting on the trends of DAC donors' budget support is not easy for a number of reasons, including:

- The purposes of budget support have not been constant over time and vary by donor and across countries. DAC budget support data covers all types of the unearmarked contributions to governments' budgets, and as a result, there are some non-intuitive agencies among the significant donors of budget support (for example, USAID, Japan) and recipients (for example, Jordan). The broad definition of budget support used in data capture makes it difficult to identify trends in the use of the different types of budget support.
- There is a lack of robust comparative data for general budget support across all donors and all countries, in particular for pre-2005 data, and there is no global sector budget support data.
- Budget support provided to finance poverty reduction strategies has become a more popular aid instrument in recent years only, and therefore there is a limited number of years for comparative data analysis.

However, the Budget Support Overview identified the trends discussed in the following paragraphs.

From 2000 to 2006 DAC donors disbursed a total of USD 15,604 million as general budget support (DAC data). Each year DAC donors disbursed in total an average of USD 2,601 million in general budget support. Non-DAC donors are also important disburseurs of budget support (in particular the World Bank). In 2005 (or 2004/05) across 34 countries donors disbursed just under USD 5 billion in general and sector budget support, with DAC donors disbursing USD 2.6 billion and non-DAC donors USD 2.3 billion (PD data).

From 2000 to 2006, the total amount of grants and loans extended by DAC donors was USD 489 million. In 2006 general budget support accounted for around 3% of all grants disbursed and loans extended (DAC data). Considering the rather intense focus (by donor agencies, parliaments, domestic constituency media) on budget support as an aid modality, the volumes and shares of budget support at the aggregate level are rather small. As a share of aid disbursed to the government sector (a smaller proportion of aid than the total grants and loans extended), in 2005 general and sector budget support accounted for 25% of aid disbursed to the government sector across 34 countries (a

⁷ Balance-of-payments support also covers STABEX and exchange rate guarantee schemes. Stabex was a financial instrument created by the Lomé Convention (Articles 186-212) intended to offset instability in ACP states' export earnings. The Cotonou Agreement replaced Stabex with a new instrument, Flex. (European Commission. 2008)

sample weighted to countries with important volumes and shares of budget support (PD data).

The data indicates that budget support has become more important over time:

- In real terms there has been a year-on-year increase in the disbursement of general budget support (with the exception of 2004).
- More donors gave more budget support in 2006 compared with 2000: the number of DAC donors disbursing general budget support has increased from 12 donors in 2000 to 19 donors in 2006, and the majority record disbursing increased volumes and shares of general budget support in 2006 compared with the first year of disbursement since 2000.
- More countries received budget support in 2006 compared with 2000: 46 countries received general budget support in 2000 and 61 in 2006. (DAC data)

Also, budget support is more important for some donors and some countries. Looking just at DAC donors, since 2004 the EC and the United Kingdom have each year disbursed the greatest volumes of budget support, and together accounted for 51% of budget support disbursed in 2006 (DAC data). Looking at all donors (DAC and non-DAC), the World Bank was the largest disburser of general and sector budget support out of all donors in 2005 (PD data). From the country perspective, in 2005 Uganda, Tanzania and Afghanistan received over 40% of the total aid disbursed to the government sector in each country as general and sector budget support (PD data).

Data issues

Reporting on the trends of DAC donors' budget support is not easy for a number of reasons, including:

- The purposes of budget support have not been constant over time and vary by donor and across countries. DAC budget support data covers all types of the unearmarked contributions to governments' budgets, and as a result, there are some non-intuitive agencies among the significant donors of budget support (for example, USAID, Japan) and recipients (for example, Jordan). The broad definition of budget support used in data capture makes it difficult to identify trends in the use of the different types of budget support.
- There is a lack of robust comparative data for general budget support across all donors and all countries, in particular for pre-2005 data, and there is no global sector budget support data.
- Budget support provided to finance poverty reduction strategies has become a more popular aid instrument in recent years only, and therefore there is a limited number of years for comparative data analysis.

Therefore the data presented on budget support is no substitute for operational-level data. This limits the amount of useful international trend analysis on the use of budget support that can be undertaken.

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List of Interviews

Alexander Baum	In charge of relations with the EP, Dev. EC
Anna Aspejren	Swedish National Audit Office
Anna Caprile	European Parliament
Anna Dubaric-Norling	Swedish National Audit Office
Anna Holmyrd	Senior Economic Advisor, Sida
Annalisa Bonardi	Africa Branch, CIDA
Anne McLauchlan	Secretariat, Committee on Development, European Parliament
Charlotta Edholm	Swedish National Audit Office
Dominic Bourcier	Services to Geographic Programs, CIDA
Dr Keith Martin	MP- Member of Committee on Foreign Affairs and International Development, Canadian Parliament
Frans Baan	Head of Unit for Economic Governance and Budget Support, Dev, EC
Genevieve Brown	Africa Branch, CIDA
Geurt van de Wal	Court of Audit, The Netherlands
Glenys Kinnock	Member Committee on Development, European Parliament
Guido Van Hecken	Secretariat, Committee on Development, European Parliament
Helene Jeansson	Forumsyd
Henk van der Vegt	Ministry of Foreign Affairs, The Netherlands
Hetty Kovach	Development Finance and Public Services, Oxfarm
Jackie Peace	Aid Effectiveness and Accountability Department, DFID
James Bianco	DFID Evaluation Department
Jasmine Burnley	AidWatch Coordinator, CONCORD
Jean-Louis Chomel	Head of Joint evaluation unit, Aidco, EC
Jennie Barugh	Finance and Corporate Performance Division, DFID
Jose Carlos Illan Sailor	Secretariat, Committee on Development, European Parliament
Jürgen Lovasz	Acting Head of Budget Support Unit, Aidco, EC
Kirsten Luddecke	Secretariat, Budget Control Committee, European Parliament
Klaus Rudischhauser	Director, Unit for Economic Governance and Budget Support, Dev, EC
Mark Etherton	Clerk to the Committee of Public Accounts UK Parliament
Mark van Booggaard	Effectiveness and Quality Department, Ministry of Foreign Affairs, The Netherlands
Martyn Pennington	Aidco, EC
Matthew Hedges	Clerk to the International Development Committee UK Parliament

Michael Gahler	Vice-Chair, Committee on Foreign Affairs, European Parliament
Michael Schmidt	Staff, Vice-Chair Comm. on Development, European Parliament
Mirjam van Reisen	EEPA (Europe External Policy Advisors)
Nick Sloan	National Audit Office UK
Nuria Molina	Policy and Advocacy Officer, Eurodad
Paul Zwetslot	Effectiveness and Quality Department, Ministry of Foreign Affairs, The Netherlands
Paulo Casaca	Budget Committee and Budgetary Control Committee, European Parliament
Per Lundell	Department for Policy and Methodology, Sida
Peter Schuurman	Ministry of Foreign Affairs, The Netherlands
Rachel Turner	Head of DFID Mozambique
Riccardo Maggi	Unit for Economic Governance and Budget Support, Dev, EC
Richard Webster	Secretariat, Budget Committee, European Parliament
Rt Hon Malcolm Bruce	Chair of the International Development Committee UK Parliament
Samant Kakkar	Researcher, European Parliament
Sasja Böklerink	Oxfam
Simon Stocker	Director, Eurostep
Sten Johansson	Ministry for Foreign Affairs, Sweden
Sven Elander	Forumsyd
Theo van Toor	Deputy secretary, Committee on Foreign Affairs, House of Representatives, The Netherlands
Thomas Hörberg -	Head of the Secretariat of the Commission for Foreign Affairs, Swedish Parliament
Wolfgang Herzig	Secretariat, Committee on Development, European Parliament

Annex 8: Presentation on Study Findings and Recommendations to the European Parliament Committee on Development



Use and Monitoring of Budget Support

Study undertaken for the European Parliament

Brussels, 5 November 2008

Alta Fölscher

Purpose of Study

- To provide recommendations and guidelines of both a technical and political nature to ensure effective parliamentary oversight of aid provided as budget support
- Five donor case studies
 - Canada
 - EC/European Parliament
 - The Netherlands
 - Sweden
 - United Kingdom
- And an overview of the use of budget support
- Study looked at
 - Donor practices for choosing, monitoring and evaluation budget support
 - Donor risk assessment practice
 - And their interface with oversight

Brussels, 5 November 2008



Basic Issues: effective oversight

- Effective oversight is oversight that holds executive to account for achieving set objectives
 - Includes ensuring taxpayers' money used properly
 - But also includes focus on result accountability
 - Balances *ex ante* and *ex post*
 - Stays within parliamentary mandate
 - Requires transparency
 - Has consequences
- For development spending this equals parliaments holding aid agencies to account for aid effectiveness
 - Aid effectiveness important international objective
 - Not only financial flow that matters to achieve value for tax payers' money, but *how* it is managed
 - Parliaments have not taken up their crucial role of holding agencies to account for *how* their taxpayers' aid contributions are managed



Basic Issues: Budget Support

- Budget support is a direct transfer of funds to recipient country to be allocated and managed through recipient country systems in support of implementation of country-owned development strategy
- BUT, budget support instrument not only a financial flow.
 - Complementary inputs
 - Dialogue
 - Partnership
 - Capacity building
 - Result-based management
- Budget delivers results at different levels
 - Aid management effects
 - Recipient country systems effects
 - Outcomes on the ground
- When circumstances permit (when risk is not too high) budget support has advantage over other aid instruments



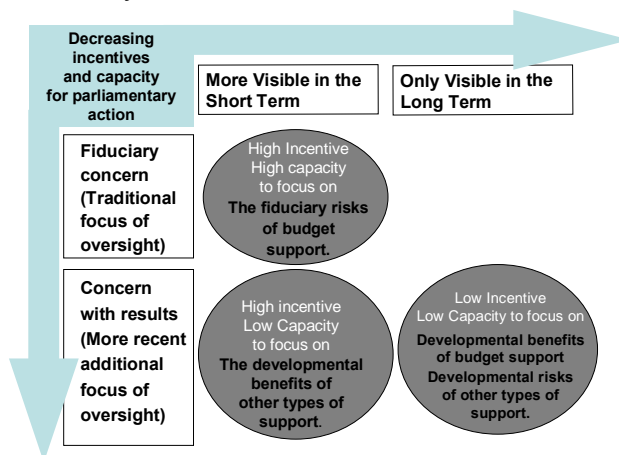
Basic Issues: Budget Support cont

- But, budget support carries risk
 - Fiduciary risk
 - Reputational risk
 - But has to be weighed against developmental benefits
 - And risks of alternative instrument
 - Perhaps not that it is riskier, just different risks more visible in short term
- Good practices
 - Complementary inputs
 - Risk assessments
 - Harmonised, country-owned PAFs



Basic Issues: Budget Support Oversight

- Parliaments perceive budget support as higher risk than other aid, why?



Basic Issues: Budget support oversight

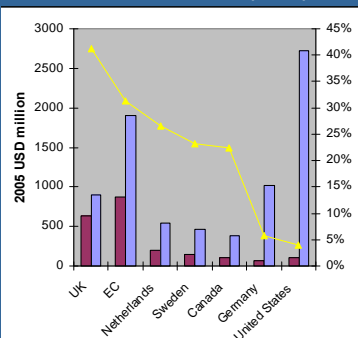
- Budget support not visible in routine oversight under budgetary powers
 - Budget structure and detail
 - Therefore meaningful ex ante oversight means ex ante oversight in programming cycle
- Limited fiduciary oversight
 - Can only have oversight over decision to transfer, beyond that responsibility belongs to the recipient country parliament
- Oversight of results can be problematic
 - Depends on recipient country monitoring and statistical systems
 - Budget support results take time to appear
 - One-on-one attribution not possible



Comparing the donor cases by

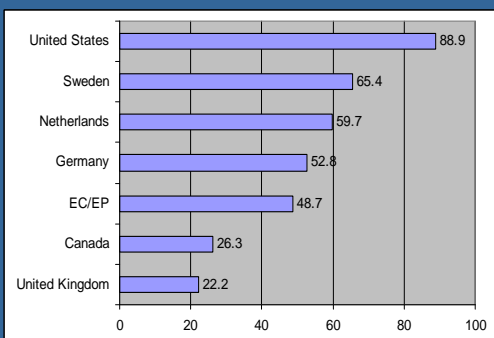
use of budget support

Budget support as a share of total aid disbursed (2005)



strength of budgetary powers

Index of donor case studies by strength of their parliamentary budgetary powers



Emerging practice: budget support

- All 5 donors
 - Have budget support guidelines
 - Use criteria to select budget support
 - Assess at recipient country level, but review and take decision at headquarters level
 - Take in principle decision at political level
 - Undertake risks assessments
 - Have explicit procedures for in-year management of risk
 - **Report poorly on budget support**

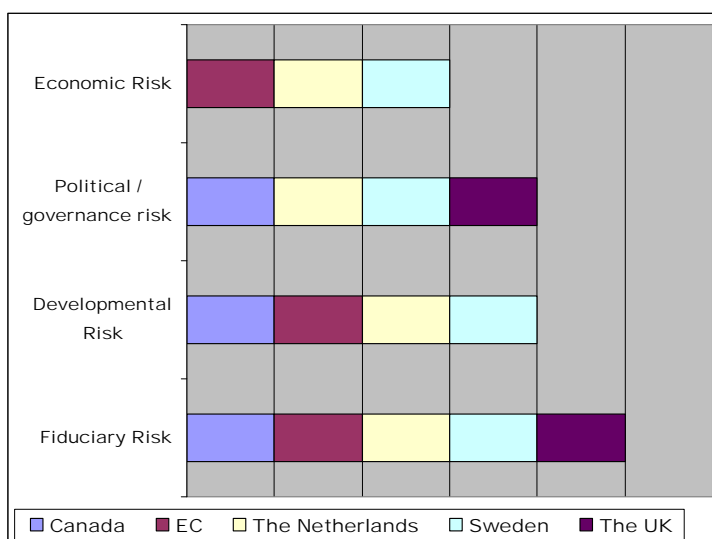


Criteria to select budget support

- All five donors use as criteria
 - existence of country strategy
 - public finance management
- Three also look at
 - macro-economic management
 - country appetite for partnership
 - respect for human rights and democracy
- Only two assess likelihood of development benefits
- How criteria and risk assessments used, important for parliamentary oversight arrangements



Risks assessed



Emerging practice: Budget support

- Parliamentary oversight of budget support non-existent or weak
- Risks and benefits not assessed together
 - No information on budget support risk
- Aid agencies not held accountable for results or for critical complementary inputs
 - Yet result oriented instrument
 - And dependent on these additional inputs
- Parliamentarians not always well informed about instrument, but also not kept well informed
- Budget support only visible in oversight when things go wrong



Emerging practice

- But some practices emerging
 - Role of special audit reports
 - Netherlands: oversight-when-needed
 - UK: audit practice and reporting to parliament
 - EC: democratic scrutiny and issue in discharge reports
 - Sweden: some information on risk
 - Germany: ex ante approval of each operation



Recommendations: general

- Do not focus on budget support only
 - Do not prejudice system and forego developmental benefits
 - Proper overall development support oversight priority
- Take up aid effectiveness agenda
 - Potential leading role for European Parliament
- Build capacity and focus it carefully
- Build on partnerships with supreme audit institutions
 - Develop standard practice for auditing risk management procedures for budget support



A budget support oversight package

EX ANTE

- Engage more strategically in rule setting for budget support selection, approval, monitoring and risk management
 - Key to managing fiduciary risk; proxy for fiduciary oversight
- Look for ex post oversight opportunities, avoid interfering in programming cycle ex ante
 - Trade-off between ex ante and ex post oversight activities
 - Parliament and development at risk
- But agree on oversight-when-needed rule
 - Ex ante and ex post



A budget support oversight package

EX POST

- Improve budget support transparency
 - Define a routine flow of information (how regular, what, with what content)
 - Ensure regular reporting provides systematic information on key elements of budget support in useful formats that remain consistent over years for comparative purposes
- Budget support requires particularly high standards of transparency on risk information
 - Trade off between transparency and how assessment information is used
- Undertake periodic investigations
- Develop understanding on how to select focus areas
 - For information flows, intervention, investigation and engagement with recipient country parliaments
 - Criteria: High risk countries; Countries that receive high volumes as budget support, or a large proportion; Countries with weak accountability institutions
 - Weak areas of agency practice as identified from routine flow and networks
- Hold to account for complementary inputs, joint donor action, improvements in country systems and developmental results
- Audit risk assessment and management



Taking oversight *and* development seriously

- Important oversight focus for budget support is ensuring recipient country accountability institutions develop
- But often they are weak
- Option one: ensure capacity building is funded
- Option two: engage with developing country parliaments
 - Logical partnership: incentive compatibility
 - Important for aid effectiveness and mutual accountability
 - Globally, but also on country to country basis (select)
- Again important leadership role for European Parliament
 - Community development committee forum
 - Regular forum of budget support country parliaments
 - Peer learning



European Parliament

- Given score on budget powers index, punches above weight
- Avoid being swamped by democratic scrutiny
 - Important power, but
 - Only ex ante, requires ex post follow-up
 - Results limited
 - Only covers DCI; has ex post power for all instruments
 - Capacity limited
- Focus on how budget support is managed and what results are in ex post oversight
- Use investigative powers and all oversight mechanisms
 - Strategic choice of own initiative reports
 - Direct questions to key issues and countries
- Engage on risk assessment oversight

