

Budget support

Annual Report 2016



*International Cooperation and
Development*

*Neighbourhood and
Enlargement Negotiations*

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BUDGET SUPPORT

**Financial implementation,
risk analysis
and selected
macroeconomic, fiscal
and developmental
results**

Annual report 2016

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Abbreviations

CAR	Caribbean
DCI	Development Cooperation Instrument
EDF	European Development Fund
EITI	Extractive Industries Transparency Initiative
ENI	European Neighbourhood Instrument
ENP	European neighbourhood policy
ENP-E	European Neighbourhood Policy Instrument East
ENP-S	European Neighbourhood Policy Instrument South
ESA	eastern and southern Africa
GBS	general budget support contract
GGDC	good governance and development contract
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
LA	Latin America
LMIC	lower middle-income country
LIC	low-income country
MIC	middle-income country
OCTs	overseas countries and territories
OECD	Organisation for Economic Cooperation and Development
PAC	Pacific
PEFA	public expenditure and financial accountability
PFM	public financial management
RMF	risk management framework
SBC	state-building contract
SBS	sector budget support
SMEs	small and medium-sized enterprises
SRC	sector reform contract
TADAT	Tax Administration Diagnostic Assessment Tool
UMIC	upper middle-income country
WCA	western and central Africa

Executive summary

This budget support report covers an important year for development. The debates in 2015 around the third Financing for Development Conference in Addis Ababa, Agenda 2030 and the related sustainable development goals have highlighted the global challenges around inclusive growth, inequality and poverty. A key message that emerged from the Addis Ababa conference is that domestic public finance — revenue mobilisation and effective use of resources — provides by far the largest and most stable source available for financing sustainable development.

Building on three important policy landmarks — the communications ‘Tax and development’ in 2010 and ‘Budget support’ and ‘Agenda for change’ in 2011, the European Commission presented a holistic approach to domestic public finance fully outlined in the ‘Collect more — spend better’ staff working document in 2015 to support developing countries to increase domestic revenue mobilisation and to spend financial resources more effectively. Agenda 2030 requires a partnership approach with joined responsibilities and an increasing role for domestic action in mobilising revenues for development and in delivering developmental outcomes. EU budget support will remain a key method of implementing such partnerships while maintaining the results-based financing approach it pioneered.

This report contains, for the first time, sector results in the form of trends in selected indicators in the countries supported by budget support (while not elaborating on the contribution of EU budget support to these trends). The observed trends are encouraging since, for example, almost all the 16 countries with ongoing budget support in the education sector have attained primary completion rates close to 100 %.

In the currently complex world, where conflict and insecurity are spreading, we see also the benefit of having state-building contracts (SBCs) in the EU toolbox. A 2015 Overseas Development Institute study ⁽¹⁾ concluded that EU SBCs have proved to be flexible instruments, enabling the EU to develop rapid support mechanisms in line with donor commitments in the New Deal for Engagement in Fragile States. A fast short-term response closely coordinated with EU Member States and the international community can be essential in volatile political situations to avoid a further escalation of conflict.

Part I of this report presents the financial implementation of budget support programmes in 2015. Annual EU budget support disbursements have remained relatively stable, and reached EUR 1.59 billion, representing 20 % of official development assistance disbursed by DG International Cooperation and Development and DG Neighbourhood and Enlargement Negotiations. The breakdown of budget support commitments by region shows that sub-Saharan Africa remains the largest recipient (47 %) of budget support, followed by the neighbourhood (30 %), Asia (10 %), Latin America (6 %), the Caribbean (4 %), overseas countries and territories (OCTs) (2 %) and the Pacific (1 %). The first budget support operations were introduced in the western Balkan region under the DG Neighbourhood and Enlargement Negotiations Instrument for Pre-Accession Assistance.

By type of contract, the sector reform contract (SRC) is the dominant modality representing 61 % of the total amount committed. The contracts contribute to the implementation of the priority sectors of the ‘Agenda for change’. SBCs have become a key aid modality and contribute to the EU’s response to the rising challenge of fragility and conflict. As of the end of 2015, 17 countries, mainly in western and central Africa (WCA), had an ongoing SBC with the EU, representing 16 % of budget support commitments. Good governance and development contracts (GDDCs) are implemented in a few countries, mainly in Africa, facing core economic governance challenges in the transition from low-income to middle-income status.

Part II of the report presents the risk analysis. The risk management framework is an important tool to inform the Commission’s decisions. It allows the Commission to have a comprehensive view of systemic risks in budget support recipient countries, to identify and discuss with partner countries the appropriate mitigating measures

⁽¹⁾ *EU state building contracts: early lessons from the EU’s new budget support instrument for fragile states*, Overseas Development Institute, February 2015.

and to balance the risks, including the risk of non-intervention, particularly in fragile situations, with the results and developmental outcomes to which budget support contributes.

Macroeconomic risks have risen in importance, mainly as a result of the less favourable global economic environment, with a decline in global economic growth, commodity prices and trade. The rise in debt vulnerabilities is a particular concern and could impact negatively on the fiscal stability of affected countries and their capacity to absorb new loans. Insecurity and conflict risks are now considered to be substantial or high in over 20 % of budget support countries. Other significant risks, such as corruption and fraud, and developmental risks, are linked to structural factors with less scope for rapid change. They require a medium-term approach to improve governance and build institutional capacity.

Part III of the report presents selected macroeconomic, fiscal and developmental results. As more evaluations ⁽²⁾ become available it is clear that budget support has proven to be an effective method, especially in relation to public service delivery and public finance management. A recent evaluation of budget support for Sierra Leone ⁽³⁾ illustrates the significant contribution budget support can make to fragile countries. The review of selected cross-country data in Part III of the report furthermore suggests that EU budget support countries overall continue to be effective in delivering macroeconomic, fiscal and developmental outcomes, with progress above trends in other developing countries. Importantly, the data suggest a moderate improvement in the fight against corruption, while trends have worsened in other developing countries. Public finance management and budgetary transparency are both assessed as stronger in budget support countries.

The achievements of budget support recipients and budget support programmes provide a basis for communicating results to domestic and international partners. More work is required to strengthen such communication and the tangible results these reforms are delivering for citizens with the support of the European Union.

The European Commission played a key role in 2015 in pushing the international agenda on core issues related to budget support. The Commission is a co-founder of the Addis tax initiative, which was launched in 2015 in Addis Ababa, and has shown leadership in promoting the principles of good governance in tax matters and in supporting developing countries in their efforts to mobilise domestic revenues, tackle tax avoidance, tax evasion and illicit financial flows. The European Commission has also been active in launching new assessment tools on domestic public finance and improving the existing ones. The Commission has actively collaborated with the International Monetary Fund and other partners on the development of the Tax Administration Diagnostic Assessment Tool and contributed to the methodological upgrade of the public expenditure and financial accountability framework. Internally, the European Commission has strengthened budget support guidance, particularly with three methodological documents: *Promoting civil society participation in policy and budget processes*, *Budget support — Food and nutrition security/sustainable agriculture* and *Providing EU budget support in decentralised contexts*.

⁽²⁾ There are at the moment 12 strategic budget support evaluations that have used the 2012 methodological approach developed by the Organisation for Economic Cooperation and Development's Development Assistance Committee. Two have been published in 2016, covering Burkina Faso and Sierra Leone. Two more are planned to be finalised in 2016, covering Paraguay and Ghana.

⁽³⁾ *Evaluation of budget support to Sierra Leone 2002-2015 — Final report*, Volumes 1 and 2, April 2016 (https://ec.europa.eu/europeaid/joint-strategic-evaluation-budget-support-sierra-leone-2002-2015_en).

Part I — Financial implementation

The financial data in this section relate to European Development Fund (EDF), European Neighbourhood Instrument (ENI), Development Cooperation Instrument (DCI) and Instrument for Pre-Accession Assistance (IPA) budget support operations, and should be considered to be provisional. Official data are provided in the *2015 annual report on the European Union's development and external assistance policies and their implementation* ⁽⁴⁾. Provisional data for individual budget support countries are provided in Annex 1.

1. Commitments

As of the end of 2015, ongoing commitments on budget support programmes amounted to EUR 12.8 billion, of which EUR 2.3 billion was newly committed in 2015. Of these ongoing commitments, EUR 4.3 billion still remained to be disbursed as of 1 January 2016. 2015 was the second year of the 2014-2020 multiannual financial framework and the level of new commitments showed a significant acceleration compared to the first year (2014, EUR 1.3 billion). This is expected to rise even further in 2016 to EUR 3.5 billion (cf. Section 5) as the formulation of new programmes accelerates following a relatively slow start at the beginning of the programming period.

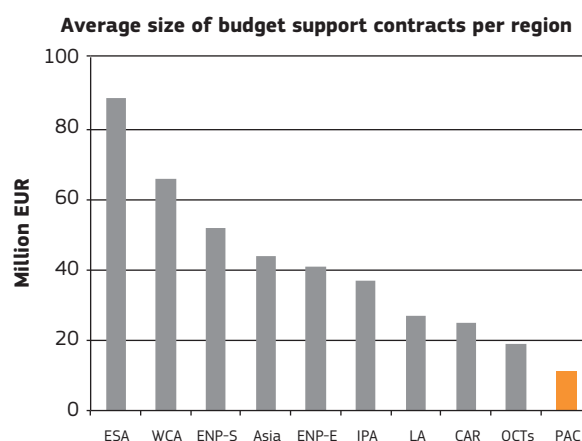
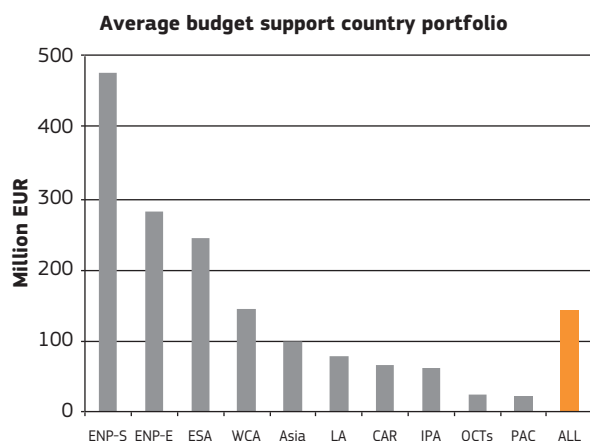
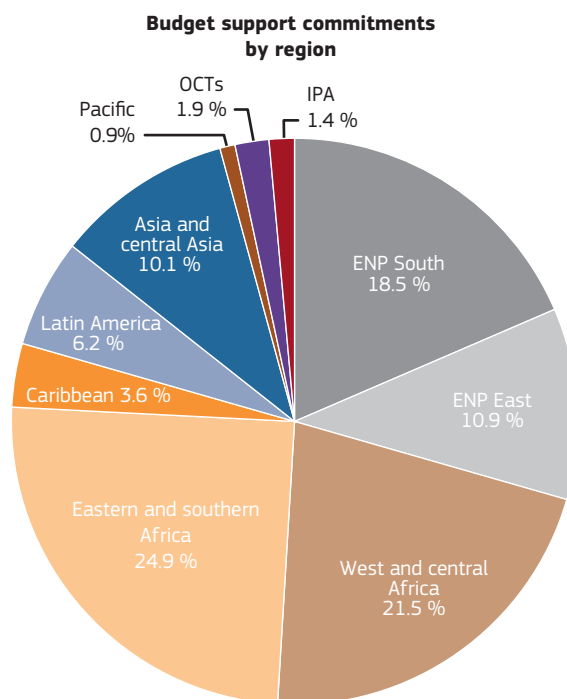
Region	Number of countries/OCTs	Number of budget support contracts	Types of budget support contracts (No)				Budget support commitments		Total disbursed 2015	To be paid after 1 Jan. 2016
			SRC	GGDC	GBS	SBC	Total	Of which new commitment in 2015		
ENP-S	5	46	42	1	0	3	2 376.7	341.0	249.0	1 347.3
ENP-E	5	34	33	0	0	1	1 400.9	152.0	83.5	658.7
WCA	19	42	20	3	3	16	2 759.8	743.8	541.8	545.3
ESA	13	36	24	3	8	1	3 188.1	432.0	279.2	566.4
Caribbean	7	19	17	0	1	1	466.0	38.0	77.3	133.3
Latin America	10	30	29	0	1	0	794.7	135.8	125.9	390.4
Asia and central Asia	13	30	28	0	1	1	1 298.0	234.1	165.6	437.7
Pacific	5	10	8	1	1	0	111.1	32.7	24.7	17.1
OCTs	10	13	9	1	3	0	248.5	30.7	41.2	31.1
IPA ⁽⁵⁾	3	5	5	0	0	0	185.0	145.0	0.0	185.0
ENI ongoing	10	80	75	1	0	4	3 777.6	493.0	332.6	2 005.9
DCI ongoing	23	68	64	0	3	1	2 752.9	421.9	410.6	921.6
EDF ongoing	54	112	71	8	15	18	6 113.4	1 225.2	845.0	1 199.7
IPA ongoing	3	5	5	0	0	0	185.0	145.0	0.0	185.0
All	90	265	215	9	18	23	12 828.9	2 285.1	1 588.2	4 312.2

⁽⁴⁾ http://ec.europa.eu/europeaid/annual-report-2015-european-unions-development-and-external-assistance-policies-and-their_en
Differences with the provisional data reported here arise from the fact that the figures provided here exclude the complementary components of budget support operations whereas the annual report includes these components.

⁽⁵⁾ IPA commitments in this table include four new commitments decided at the end of 2015. These commitments were, however, not taken into account in the calculations below because the programmes were not actually running in 2015 and no disbursements were made. Calculations below are based on one IPA programme in Albania with a commitment of EUR 40 million.

The breakdown by region shows that sub-Saharan Africa (46.9 %) is by far the largest recipient of budget support, followed by neighbourhood regions (29.7 %), Asia (10.2 %), Latin America (6.3 %), the Caribbean (3.7 %), OCTs (1.8 %), the Pacific (1.1 %) and IPA regions (0.3 %).

The average amount of budget support commitments per country is about EUR 144 million (an increase compared to last year due to the renewed surge in the number of ongoing programmes per country — see below), with substantial differences between regions. Commitments are particularly large in European Neighbourhood Policy Instrument South (ENP-S) countries, along with European Neighbourhood Policy Instrument East (ENP-E) countries and eastern and southern Africa (ESA) — on average EUR 475 million, EUR 280 million and EUR 245 million respectively. Budget support in these regions is both concentrated in fewer countries and represents a higher share of total EU official development assistance disbursements.



Average size of budget support contracts per type (million EUR)

Type of contract	Number of ongoing budget support programmes	Amount of budget support commitment	Average size
SRC/SBS	215	7 977.4	37.1
GGDC	9	576.6	64.0
GBS	18	2 310.2	128.3
SBC	23	1 964.6	85.4
All	265	12 828.9	48.4

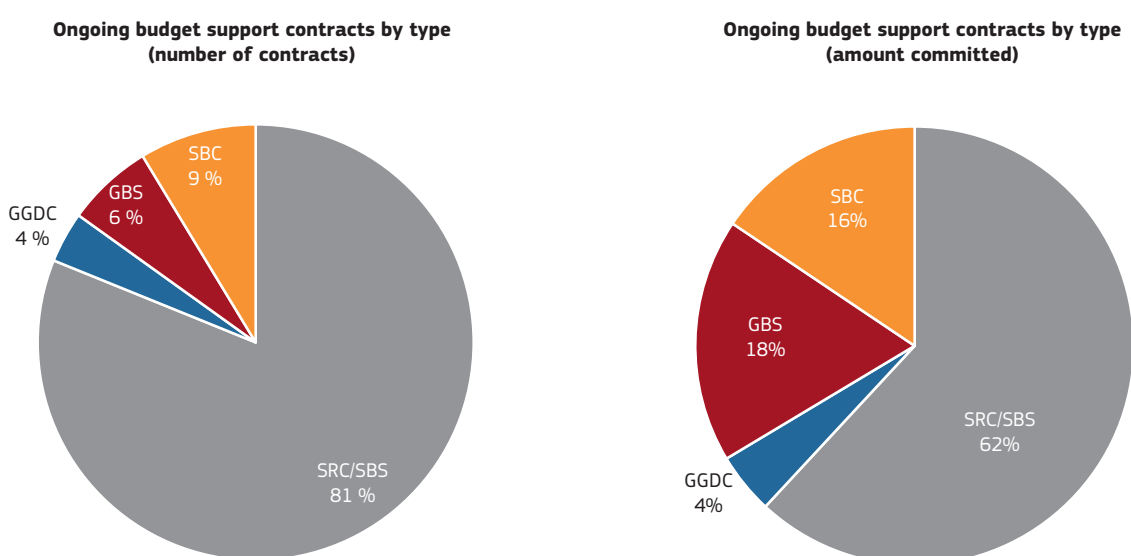
The average size of a budget support contract in 2015 was EUR 48 million — similar to last year. The largest budget support contracts are provided in sub-Saharan Africa — particularly in ESA, where the average contract amounts to over EUR 85 million. The larger size of contracts in Africa is related to the relatively high number of general budget support contracts, GGDCs and SBCs.

As of the end of 2015, the average number of ongoing budget support programmes per country was three, compared to 2.8 in 2014. Most regions are quite close to this global average, except the ENP regions with eight budget support programmes on average per country. After a decrease from 2013 to 2014, this represents a renewed increase, mainly due to new programmes already identified in the 2014-2020 multiannual

financial framework, while many of the old programmes were still ongoing in 2015. With the closure of old programmes, the average number of programmes in the ENP regions is expected to fall again in the coming years.

Most budget support programmes are SRCs, with 81 % of the total number of budget support programmes. Due to their relatively small size, however, they represent 61 % of ongoing commitments.

The share of SBCs continues to increase, from 4 % in 2013 and 6 % in 2014 to 9 % in 2015 (number of contracts), as a result of the increasing instability in many countries in WCA and in some specific countries in other regions ⁽⁶⁾. They also tend to respond to significant financing needs, which means that their average size is relatively large (EUR 85 million). GGDCs, together with former general budget support programmes, represent 10 % of the total number of contracts. Since general budget support contracts were very large on average due to the millennium development contracts signed for 6 years, they still represent a high proportion (18 %) of ongoing commitments. The majority of GGDCs/general budget support contracts and SBCs are implemented in sub-Saharan Africa. Annex 1 lists the countries with GGDCs and SBCs.



⁽⁶⁾ Haiti, Nepal, Tunisia and Ukraine.

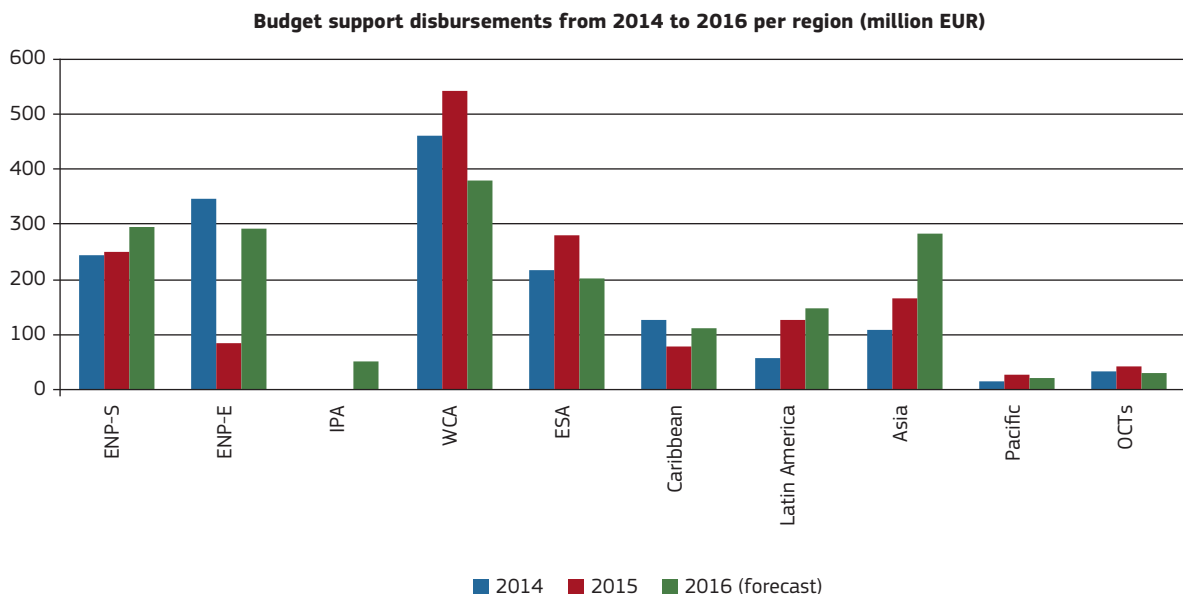
2. Disbursements

In 2015 the amount of EUR 1.59 billion was disbursed, representing 20 % of total DG International Cooperation and Development and DG Neighbourhood and Enlargement Negotiations official development assistance disbursements.

Regions	Budget support disbursements executed in 2010-2015 (million EUR)						
	2010	2011	2012	2013	2014	2015	2016 (forecast)
ENP-S	339	469	375	178	243	249	296
ENP-E				163	345	84	292
WCA	1 010	798	921	470	459	542	334
ESA				303	218	279	201
Caribbean	211	77	95	125	127	77	116
Latin America	96	84	119	72	58	126	148
Asia	153	179	129	141	107	164	283
Pacific	19	14	8	8	16	26	20
OCTs	40	3	55	50	34	41	29
IPA	0	0	0	0	0	0	51
Total ENI	339	469	375	341	588	333	588
Total DCI	249	263	248	213	165	290	431
Total EDF	1 280	892	1 079	956	854	965	699
Total IPA	0	0	0	0	0	0	51
Total	1 868	1 624	1 702	1 510	1 607	1 588	1 769

Disbursements have remained relatively stable over the past 6 years. For 2016, an increase is forecast compared with the average of recent years.

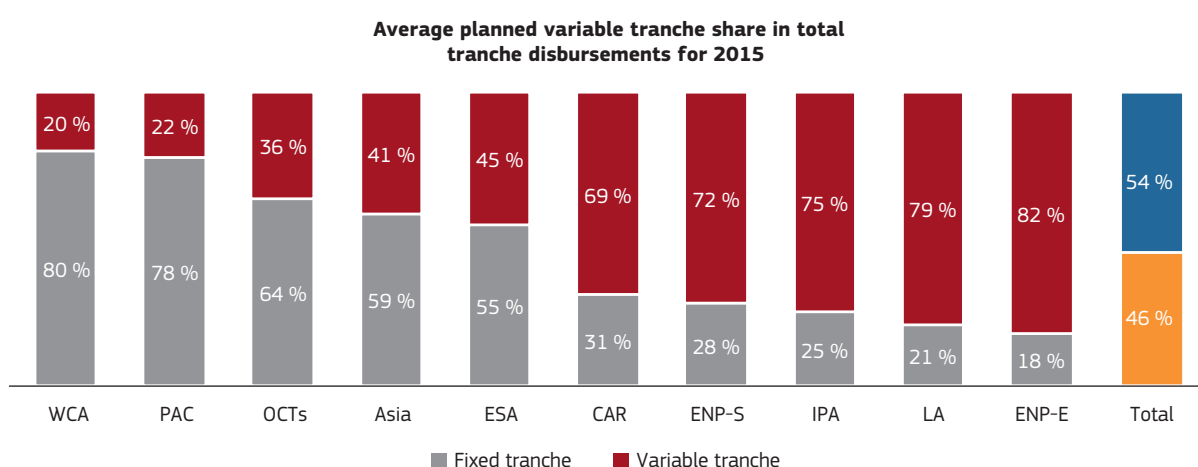
WCA remains the region with the highest level of disbursement, while Asia has been increasing steadily. The ENP-E saw a substantial setback in the implementation of budget support programmes in 2015 due to the political instability in and around Ukraine and due to issues related to macrofinancial stability and public financial management in Moldova, which led to the non-fulfilment of certain provisions in the budget support contracts.



3. Fixed and variable tranches

The average planned variable tranche share in total disbursements (fixed and variable tranches) for 2015 was 54 %, and has been on an increasing trend in recent years. This share is well above the 30 % of the total disbursements suggested in the budget support guidelines and observed as an estimated average in the 2007-2013 period. Variable tranches are particularly large in ENP countries, IPA countries, Latin America and the Caribbean.

Variable tranches can be useful in creating an incentive effect and in order to focus the policy dialogue. However, care should be taken so that such a focus does not come at the expense of a broader policy dialogue and review of performance beyond selected indicators. A high variable tranche can furthermore put much financial weight on a limited number of indicators with potential implications for predictability and the budgeting process of the partner country. Evaluation results have shown that variable tranches are effective only when recipient governments are strongly committed to the concerned reforms.



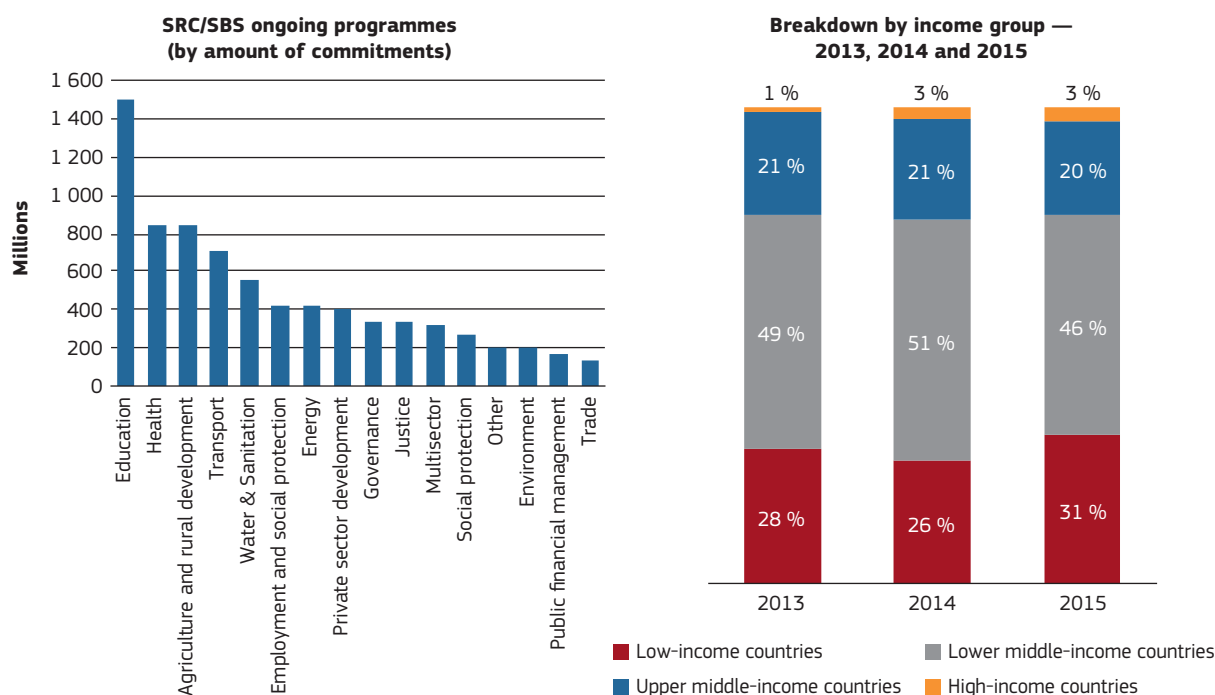
EU budget support operations in 2007-2013

A large-scale review of EU budget support operations in 2007-2013 examined a total of 405 operations to review design characteristics in more detail. It found that the large majority of operations made use of variable tranches, which on average represented 30 % of the total amount (fixed and variable tranches). There was a balanced use of variable tranche indicators with a roughly equal share of input/process and result/outcome indicators. Both indicator groups were found to have similar achievement rates.

Whereas financial implementation was broadly satisfactory, with an estimated overall variable tranche disbursement rate of 71 % in 2007-2013, the review found evidence of design complexity, and particularly the use of fixed tranche preconditions, leading to disbursement delays and reduced predictability for partner countries. Nevertheless, roughly two thirds of the 79 countries in the period benefited from yearly disbursements, while in other countries a 1-year interruption was most frequent. In three countries — Nicaragua, Malawi and Zambia — budget support was put on hold or suspended and has not resumed since, mainly due to eligibility concerns. The study furthermore found that the fiscal importance of budget support for partner countries varied and exhibited a counter-cyclical increase in 2010-2011 in response to the global economic and food price crises. A concerted effort at that time using the V-FLEX mechanism and Food Facility and by frontloading budget support disbursements contributed to attenuating the fiscal impact of the crisis on developing countries. The strongest effect on fiscal space was in WCA budget support countries, where disbursements represented the equivalent of 16 % of budget deficits. Overall, the fiscal importance of budget support has gradually reduced as recipient countries' domestic revenues increase.

4. Distribution by sector and country income group

SRCs covered a wide variety of sectors. **Education is the most important sector, followed by agriculture, rural development and food security, and health.** New commitments planned for 2016 indicate that **agriculture, rural development and food security, and energy should increase in importance in the coming years** (cf. Section 5). Annex 1 provides a breakdown by country of the commitment amounts by sector.



By country group, lower middle-income countries (LMICs) are the largest beneficiary of budget support, representing 46 % of the total amount of ongoing commitments in 2015. In this category, Morocco is by far the largest beneficiary of budget support, with 10 % of the total amount of all commitments. Low-income countries (LICs) represent 31 % of the total amount of commitments, followed by upper middle-income countries (UMICs) with 20 %. Five high-income countries (7) and the OCTs together account for 3 % of total budget support commitments. Compared to 2014, efforts to increase the allocation to LICs have paid off, so their share increased by 5 percentage points.

5. Forecast 2016 commitments

Expected new commitments for 2016 amount to EUR 3.5 billion, which is a significant increase compared to previous years but hides major disparities between regions. The ratio of expected new commitments to total ongoing commitments is highest in WCA, Asia, Pacific and OCTs. Overall, 70 new budget support programmes are planned for 2016 in 56 countries.

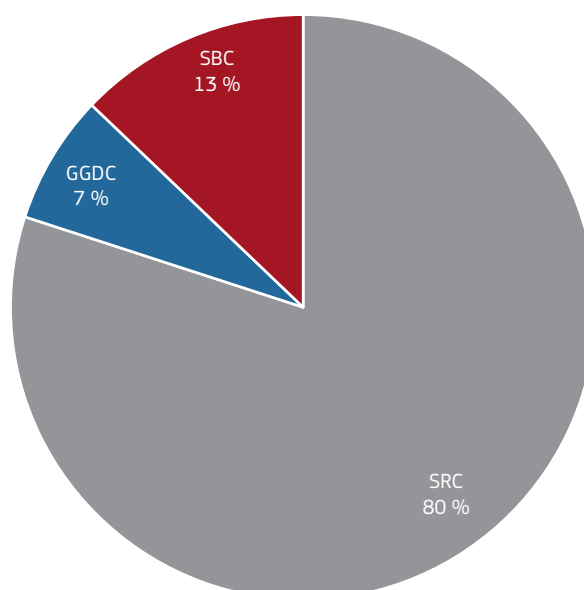
(7) Barbados, Seychelles, Saint Kitts and Nevis, Trinidad and Tobago and Uruguay.

Budget support expected new commitments in 2016						
Region	Number of countries	Number of budget support operations	Types of budget support contracts			Commitment amount expected (million EUR)
			SRC	GGDC	SBC	
ENP-S	3	6	6	0	0	324
ENP-E	3	3	3	0	0	147
WCA	10	19	11	4	4	1 598
ESA	3	3	1	1	1	349
Caribbean	4	4	3	0	1	18
Latin America	2	2	2	0	0	37
Asia and central Asia	9	9	7	0	2	671
Pacific	9	9	8	0	1	124
OCTs	10	11	11	1	0	135
IPA	3	5	5	0	0	103
ENI expected	6	9	9	0	0	471
DCI expected	11	11	9	0	2	708
EDF expected	36	46	34	5	7	2 224
IPA expected	3	5	5	0	0	103
Total of all forecast operations	56	71	57	5	9	3 506

SRCs represent 80 % of the total number of new contracts expected to be launched in 2016, followed by SBCs (13 %) and GGDCs (7 %). The majority of GGDCs and SBCs will continue to be implemented in Africa.

The sector distribution of the new SRCs expected to be launched in 2016 shows that agriculture, rural development and food security, and energy will increase in importance. Bearing in mind the limited sample (70 new budget support operations expected for 2016), the change nevertheless reflects at least partially the change in sector priorities in the 2014-2020 programming exercise, where sustainable agriculture and food security, education, energy and governance are sector priorities, in line with the 'Agenda for change'.

Budget support contracts by type for new programmes to be launched in 2016



Part II — Risk management

The following risk analysis is based on the 90 risk management frameworks (RMFs) adopted by DG International Cooperation and Development's Budget Support Steering Committee and DG Neighbourhood and Enlargement Negotiations' Financial Assistance Steering Committee in February and March 2016 for countries and OCTs with ongoing budget support operations. A number of additional RMFs were adopted in light of a possible budget support operation but not included in this risk profile of the ongoing budget support portfolio.

The RMFs were developed by EU delegations and reviewed by DG International Cooperation and Development, DG Neighbourhood and Enlargement Negotiations, DG Economic and Financial Affairs and European External Action Service geographic and thematic directorates to ensure coherence. The graphs below do not include an IPA regional risk profile because, as of the end of 2015, the IPA region had concluded budget support contracts in only three countries, in which only one programme was running and no disbursements have been made to date. In addition, in these three countries, the number of risk categories rated substantial or high was negligible. However, as budget support operations develop in the IPA region, regional profiles will be presented in future reporting.

The analysis below is based on the frequency of substantial-/high-risk cases. The RMF has a structure consisting of five risk categories, each of which is a simple average of a number of underlying risk dimensions. The 14 risk dimensions are assessed on the basis of a questionnaire that consists of 44 questions. For significant risks, mitigating measures are identified. The sections below present an overview risk and mitigating measures analysis, from both a geographic and a thematic perspective.

1. Risk analysis

Overall, the frequency of substantial-/high-risk cases has remained relatively stable and is only slightly above the 2016 risk profile. Some 39 % of EU budget support recipients now have a substantial or high risk on average, compared with 36 % in 2015. The increase is mainly due to an increase in macroeconomic risks as a result of a deterioration in the global economic environment.

This relative overall stability hides significant changes in the risk profile that require careful monitoring and risk management. For example, whereas debt-related risks remain limited, the number of substantial-/high-risk cases has nearly doubled to affect one in five countries. Risk mitigation remains a priority and mitigation actions have gradually become more targeted, although there remains room for improvement.

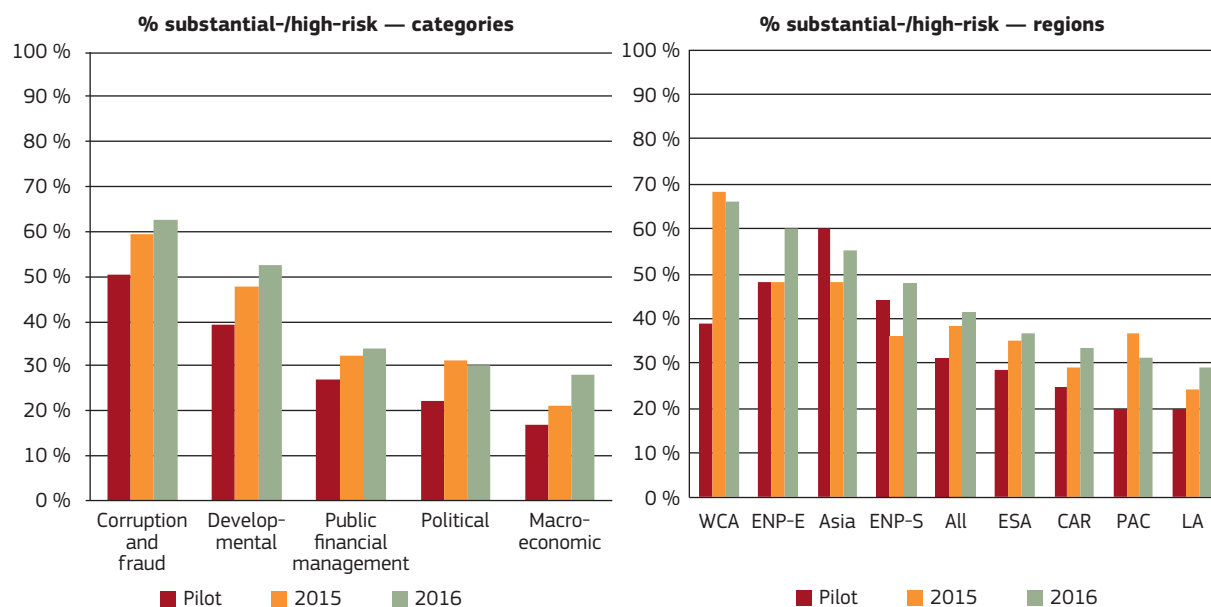
1.1. Risk category analysis

The charts below suggest a clear upwards revision in macroeconomic risks. This category contains risk dimensions with a greater potential for short-term change and upheaval. The deterioration in global economic conditions and commodity price volatility has clearly impacted on the macroeconomic outlook of EU budget support recipients. At the same time the capacity of several governments to react with countercyclical measures has become constrained by a decline in fiscal revenues and increasing budget deficits. Potential risks for debt sustainability are also on the horizon and need to be closely monitored. Many developing countries, particularly in sub-Saharan Africa, have issued, during the boom of natural resources prices, Eurobonds with a 'bullet structure', which means one single repayment at the end of period. Such concentrated repayments on the estimated USD 27 billion of sub-Saharan African Eurobonds will mostly start around 2022.

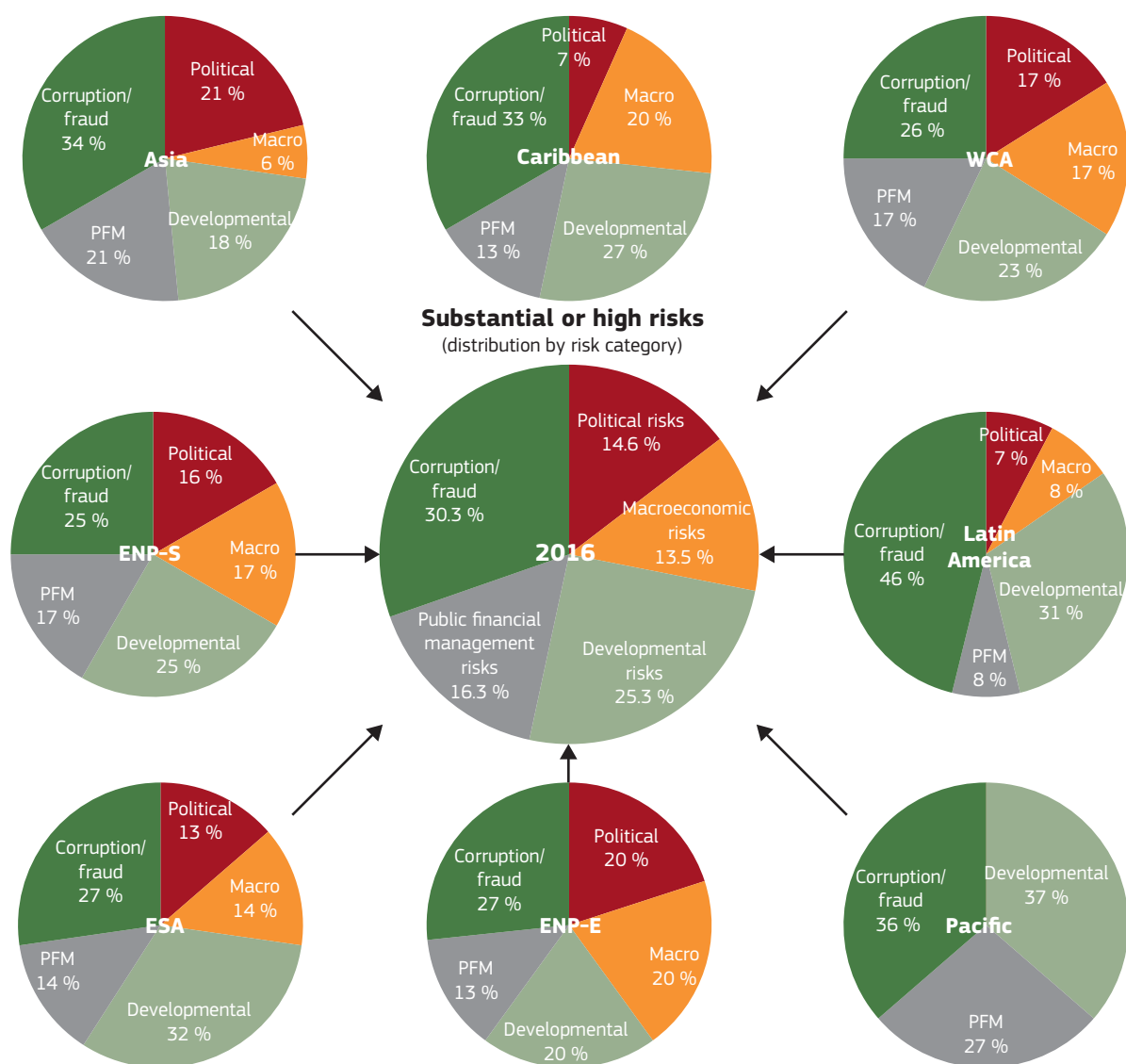
This is discussed in more detail in Part III of the report. Other risk categories are more linked to structural factors with less scope for rapid change, such as corruption and fraud, and developmental, which require a medi-

um-term approach to improve governance and build institutional capacity. As regards political risk, insecurity and conflicts are increasing and are greatly impacting upon the risk outlook.

WCA remains the region with the highest risk profile of budget support recipients. The greatest increase in risks from the previous year is associated with the ENP-E and ENP-S regions, mainly driven by increases in macroeconomic risks.



There are significant regional differences in the risk profile. In Asia, political risks are relatively prominent, whereas the ENP, Caribbean and WCA regions have an above-average share of macroeconomic risks, which furthermore are on the increase in ENP-S. ESA EU budget support recipients previously presented no significant macroeconomic risks, but now three countries have seen an upwards revision of macroeconomic risk levels to substantial. The WCA region, on the other hand, saw an increase in political risks. In the Latin America region the risk profile is more skewed towards developmental and corruption risks.



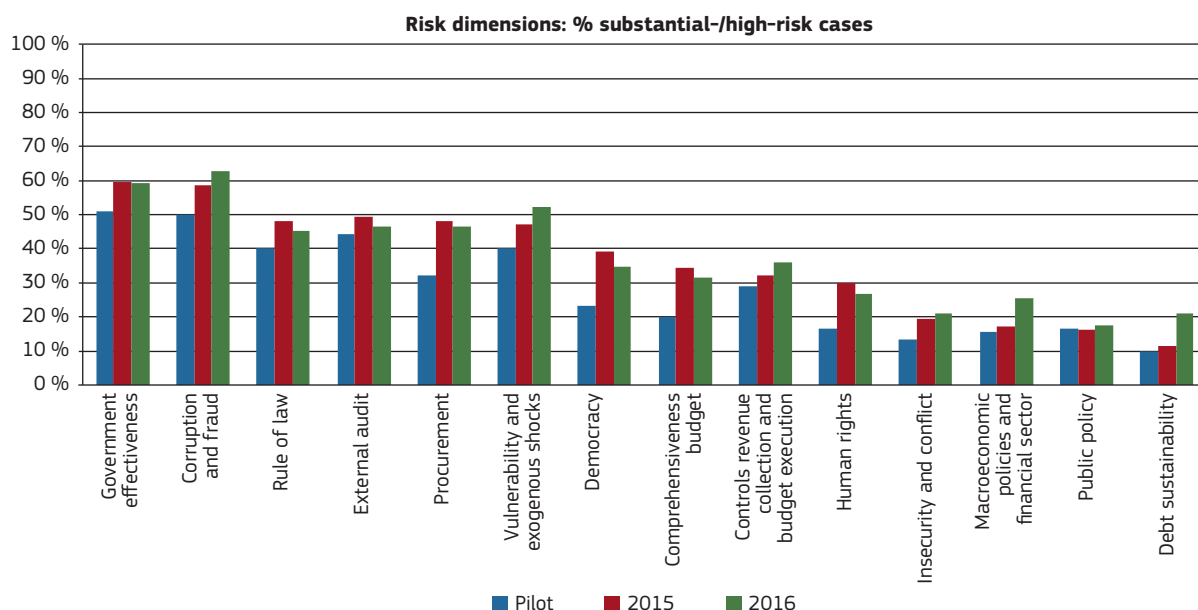
1.2. Risk dimension analysis

Government effectiveness and corruption and fraud risks remain the most significant risk dimensions with over 60 % of substantial-/high-risk cases. Public financial management risk dimensions have slightly improved, except for the control of revenue collection and budget execution dimension. Countries need to put more effort into improving public financial management downstream functions (budget execution and control).

The main trend over the last 2 years concerns the upwards revision of the macroeconomic and insecurity and conflict risk dimensions. Risks in relation to vulnerability and exogenous shocks increased from an average position to become one of three key risk areas affecting more than half of countries. WCA, ENP and central Asian countries are particularly affected. Worse global conditions combined with a lack of economic diversification or remittances dependency have clearly had an impact on the risk outlook. Part III of this report has a section dedicated to vulnerability, exogenous shocks and fiscal space.

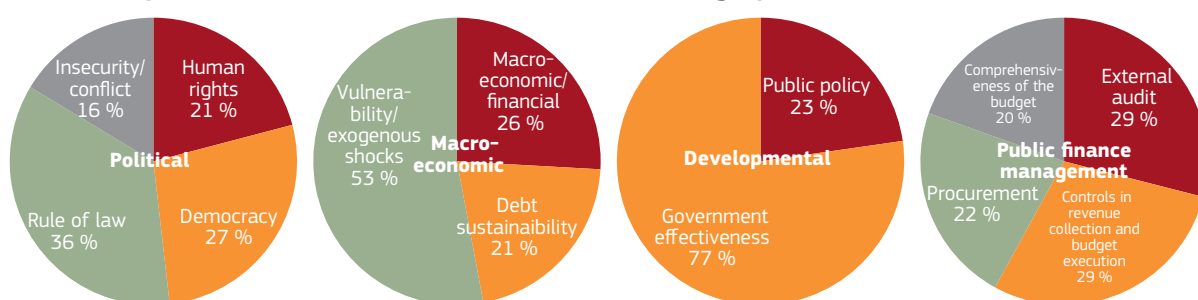
Macroeconomic policy and financial sector risks also increased substantially. The largest increase, albeit from a low base, relates to debt sustainability risks that now affect over 20 % of countries.

Insecurity and conflict risks are now assessed as substantial or high in over 20 % of countries — almost double compared with the pilot exercise 2 years earlier.



The charts below present the relative risk profile of each risk dimension within its category based on the relative occurrence of substantial-/high-risk cases. Political risks continue to be dominated by rule-of-law and democracy concerns. The importance of vulnerability and exogenous shocks has increased further within the macroeconomic risk category. Public financial management risks remain relatively evenly shared across the four underlying dimensions despite some increase in controls-related risks. Public policy risks remain encouragingly low, suggesting public policy results can be achieved despite significant government effectiveness constraints. Nevertheless an upward trend can be observed, with public policy risks having increased faster than government effectiveness risks.

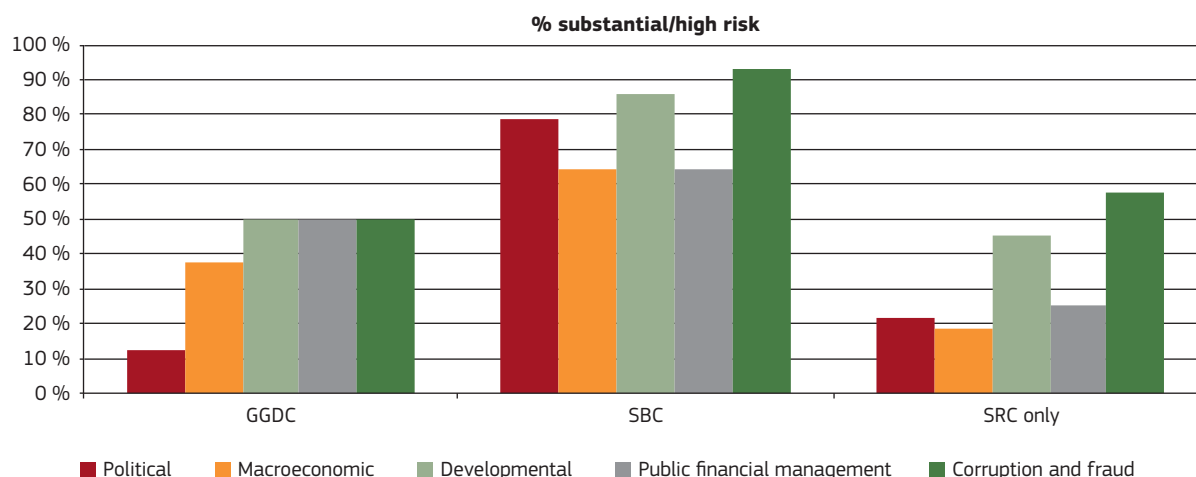
Relative importance risk dimensions within each risk category



1.3. Risk profile by type of budget support contract

SBCs, provided in support of countries in fragile situations, maintain the highest risk profile, with all five risk categories clearly present in the large majority of SBC countries. However, compared with 2015 there has been a significant reduction in public financial management risks, from almost 80 % to 60 % on the frequency of substantial-/high-risk cases. It seems that efforts to improve public financial management in countries in fragile situations through SBCs have paid off. It is mainly in political, developmental and corruption risks that SBCs stand out from other types of contracts.

GGDC countries have seen a rise in macroeconomic risks and SRC countries a rise in corruption risks. **GGDCs maintain a low political risk profile but other risk categories are close to or above SRC country risk levels.**



2. Mitigating measures and risk response

EU delegations have identified a range of risk-mitigating measures and reported on progress in the implementation of previously identified risk-mitigation measures.

Political risks are mainly mitigated through a combination of political dialogue and programmes in support of democratic oversight, human rights, the rule of law and conflict prevention. Democracy-related risks are mainly mitigated through support for electoral reforms, election observations and support for parliamentary and civil-society oversight. Support for rule of law programmes, human rights defenders and activists aims at mitigating risks related to human rights and the rule of law. Progress reporting generally points to significant improvements but mitigating country-level political risks generally remains a longer-term process.

Macroeconomic risk diversification is a combination of support for economic diversification to reduce vulnerabilities, close monitoring and policy dialogue in close collaboration with the International Monetary Fund and the World Bank and support for macroeconomic dimensions of public finance management. Budget support financing can make a significant contribution to risk mitigation, especially for SBCs.

Developmental risks concern a wide range of issues and institutions. Hence, risk mitigation takes place in the form of a wide range of activities with a particular focus on cross-cutting issues such as capacity-strengthening support in the areas of public sector reform, decentralisation, policy costing and statistics.

Public financial management risk mitigation is focused on support for reforms, institutional development, financial management information systems and budgetary transparency. The main beneficiaries of direct support are government institutions, but risk mitigation also focuses on support for audit institutions and parliament in order to strengthen oversight. Public participation in budgetary processes is supported for example through the development of citizens' budgets. In 2015 DG International Cooperation and Development produced guidance on 'Promoting civil society participation in policy and budget processes' as part of its *Tools and methods* series.

The mitigation of corruption and fraud risks remains a key focus. Such mitigation can take a wide variety of forms, from direct support for anti-corruption institutions to a focus on transparency and oversight functions, the rule of law or support for the strengthening of institutions prone to corruption, such as revenue administrations. Support for civil-society actors, for example to enable participation in budgetary and policy processes, can furthermore mitigate corruption risks. Significant corruption cases with potential implications for budget support eligibility are closely monitored to ensure appropriate action is taken.

The risk response consists of ensuring that the expected benefits of budget support contracts outweigh the identified risks and that appropriate risk mitigation is in place. In some cases, however, new commitments or disbursement have been put on hold by the Commission until appropriate corrective action is taken.

Part III — Selected macroeconomic, fiscal and developmental results

This section presents macroeconomic, fiscal and developmental trends using a selection of key indicators. This report includes for the first time an overview of selected sector results. In order to qualify trends in EU budget support recipients, trends in other developing countries are also presented. This global review of selected results complements periodic country-specific budget support strategic evaluations, but is not an evaluation. The contribution of budget support operations to results is not examined in this report. However, a number of country strategic evaluations of budget support have taken place and some of their key findings are presented in the relevant sections ⁽⁸⁾.

The graphs are internal computations ⁽⁹⁾ based on data from the International Monetary Fund's (IMF) World Economic Outlook April 2016 database and the World Bank's World Development Indicators 2015 database. Other data sources include the International Budget Partnership's Open Budget Index, the worldwide governance indicators and the public expenditure and financial accountability (PEFA) secretariat. Annex 1 provides more detailed country-by-country data.

1. Poverty and inequality

1.1. The poverty–inequality–growth nexus

EU budget support programmes include poverty eradication and inclusive economic growth as general objectives ⁽¹⁰⁾. A new study commissioned by DG International Cooperation and Development ⁽¹¹⁾ examines the link between poverty, inequality and economic growth, with a specific focus on sub-Saharan Africa. The study highlights the importance of equality policies, not only for their immediate impact on poverty alleviation, but also for their impact on the future propensity of economic growth to translate in poverty reduction. High inequality will render economic growth ineffective at reducing poverty. Furthermore, the study found no evidence of an increase in equality hampering economic growth. A recent IMF paper ⁽¹²⁾ goes further, suggesting that increasing the income share of the poor and the middle class actually increases growth, while a rising income share of the top 20 % results in lower growth. Among the possible drivers of inequality in sub-Saharan Africa, the study by DG International Cooperation and Development highlights the role of human development and access to markets.

1.2. Overall trends

Compared with the 2015 budget support report, the graphs present poverty trends in three distinct 5-year periods since 2000 and include new data using the new USD 1.90-a-day poverty headcount ratios (2011 purchasing power parity) ⁽¹³⁾.

⁽⁸⁾ All the reports of these evaluations can be found at: http://ec.europa.eu/europeaid/strategic-evaluations-analyse-eu-strategies_en

⁽⁹⁾ Poverty and income share averages are population weighted. Interpolation techniques were occasionally used to fill data gaps but there was no extrapolation. Macroeconomic averages are GDP weighted and the 2016 and 2017 data are projections. China and India are excluded from the calculations due to their size.

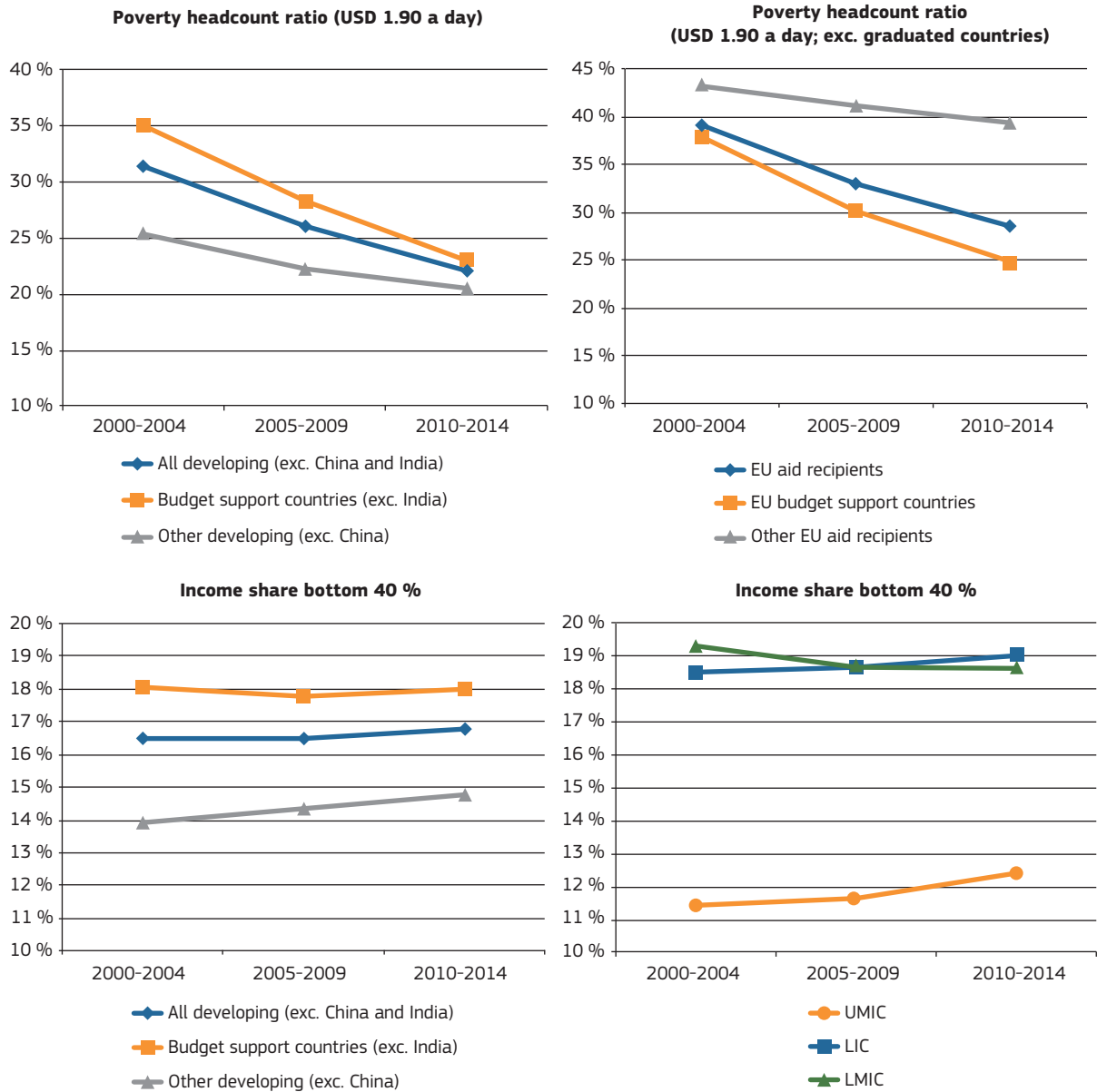
⁽¹⁰⁾ Note that IPA-financed programmes fall under EU enlargement policy, which does not explicitly focus on poverty eradication.

⁽¹¹⁾ To be published.

⁽¹²⁾ *Causes and consequences of income inequality: a global perspective*, IMF discussion note, June 2015.

⁽¹³⁾ Poverty figures are averages weighted by population. Macroeconomic figures are weighted by GDP. China and India are excluded from weighted averages due to size.

The first graph on the left side shows that EU budget support countries had a much higher level of poverty in 2000-2004, but **poverty reduction has been faster in EU budget support countries than in other developing countries. Overall, budget support countries are getting nearer to the extreme poverty level of 20 % for non-budget support countries.** When excluding countries that have graduated from EU cooperation as part of the ‘Agenda for change’ ⁽¹⁴⁾ (second graph on the right side), the extreme poverty line of non-budget support countries is lifted above budget support countries. This is due to the combined effect of the exclusion of higher income countries of the ‘Agenda for change’ and the high level of poverty in Nigeria, a large country not part of EU budget support recipients. The USD 3.10 poverty line figures show similar trends, with a 10-15 percentage point poverty reduction from over 60 % to less than 50 % in budget support countries. There are exceptions to these trends, which are discussed in Section 1.3.



Inequality trends are presented in the last two graphs above using the income share of the bottom 40 %. Unlike synthetic indexes such as the Gini coefficient, the income share indicators are easier to interpret and allow for a focus on specific parts of the income distribution. The data suggest that **EU budget support countries**

⁽¹⁴⁾ EU development aid goes to around 150 countries in the world. However, in recent years, several developing countries have experienced strong economic growth and have managed to reduce poverty. Starting in 2014, as part of the EU policy defined in the ‘Agenda for change’, the EU is therefore phasing out direct aid to large countries such as India, Malaysia and several Latin American countries. This process is called ‘graduation’.

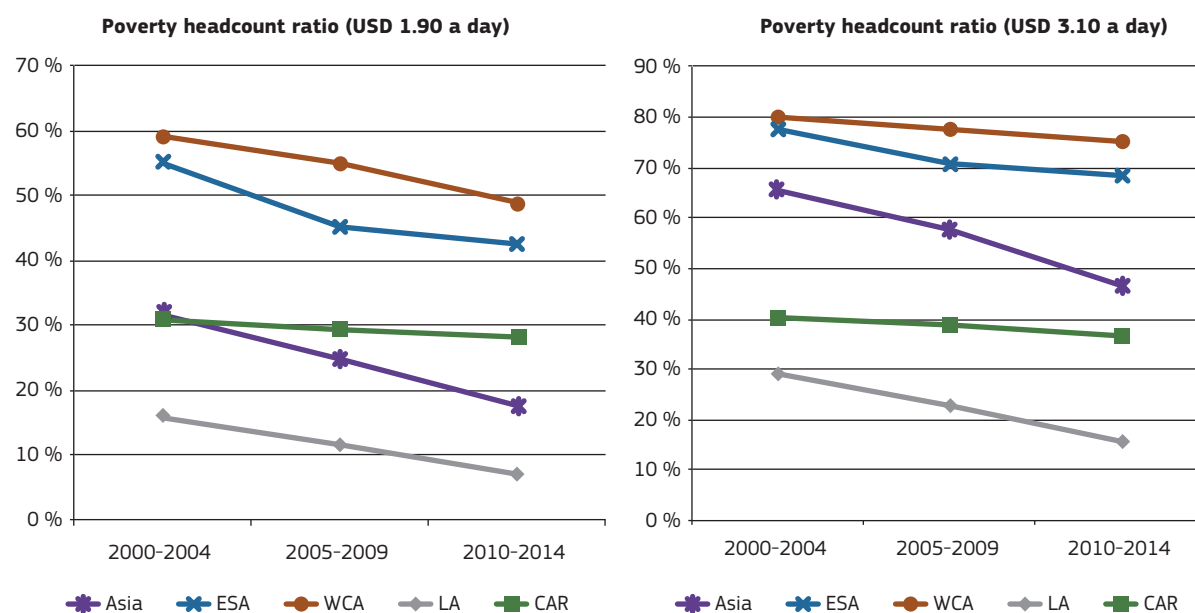
have higher but relatively unchanging bottom 40 % income shares. Among EU budget support countries, UMICs exhibit significantly lower bottom 40 % shares compared with LICs and LMICs. On the basis of this indicator, inequality seems to be lower in budget support countries. Amongst budget support countries, inequality seems to be higher in UMICs while LICs and LMICs show a similar pattern.

The strategic evaluations of budget support carried out so far for LICs ⁽¹⁵⁾ indeed show that budget support has had a significant effect on the reduction of non-income poverty and the improvement of social welfare. This was found to be directly related to major gains achieved in the coverage of education and health services and was reflected in key measures of non-income poverty such as literacy and enrolment levels, life expectancy and the United Nations Development Index. The evaluation of budget support for Burkina Faso pointed out, however, that the actual contribution of budget support to strengthen sectors that have a strong impact on poverty, such as agriculture and small and medium-sized enterprises (SMEs), was weak. In addition the evaluations found that, with the exception of Mali and Uganda, faster growth did not translate into greater reductions in income poverty during the evaluation periods.

1.3. Regional analysis

Poverty reduction in sub-Saharan African budget support countries saw significant progress, but slowed down in ESA, largely due to Tanzania and South Africa which became less successful in reducing poverty after a sharp reduction pre-2010, and Madagascar and Zambia, where poverty actually increased. Uganda, on the other hand, managed to successfully maintain poverty reduction efforts. The UMICs in the region stand out with particularly low bottom 40 % income shares (higher inequality), with the notable exception of Mauritius.

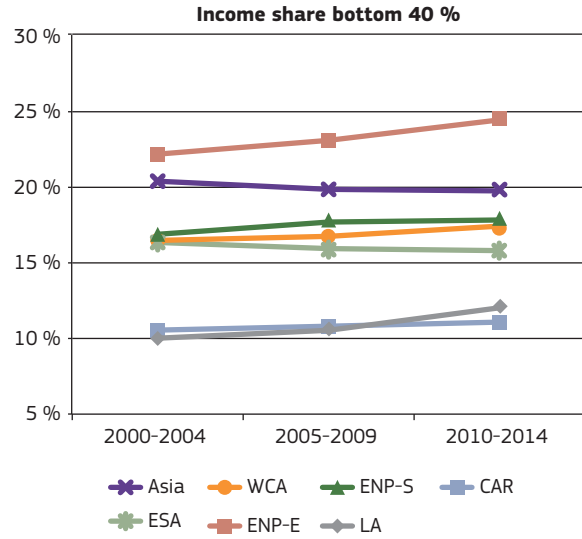
In WCA, four countries — Rwanda, Guinea, Senegal and, more recently, Niger — stand out with significant reductions in poverty. Niger also succeeded in increasing its bottom 40 % income share to close to 20 %, in contrast with Rwanda, which remained at a low 13 % income share. A number of countries however — Guinea-Bissau, Benin, Burkina Faso and the Central African Republic — saw poverty increasing or stagnating.



Asian budget support countries experienced the sharpest reduction in poverty. A key contribution is high economic growth and a relatively high bottom 40 % income share, second only to ENP-E. Moreover, impressive progress took place in all 10 budget support countries, with the exception of Bangladesh, where progress was more limited and where extreme poverty remains widespread.

⁽¹⁵⁾ These are Burkina Faso, Mali, Mozambique, Sierra Leone, Tanzania, Uganda and Zambia. The reports of these evaluations can be found at: http://ec.europa.eu/europeaid/strategic-evaluations-analyse-eu-strategies_en

With the exception of Honduras and Guatemala, in Latin American budget support countries poverty reduction efforts have reduced extreme poverty to below 5 %. In addition, following an initial period of little progress, **income inequality is reducing, albeit from very high levels.** Note that, unlike in the ENP regions, most Latin American budget support countries continue to have widespread poverty as measured by the USD 3.10 poverty headcount ratio. A particularly low bottom 40 % income share in Honduras and low growth in Guatemala have contributed to disappointing progress with high poverty levels remaining largely unchanged. Similarly, in the Caribbean, Haiti's high level of inequality and limited economic growth has meant that extreme poverty remains stagnant around 55 %.

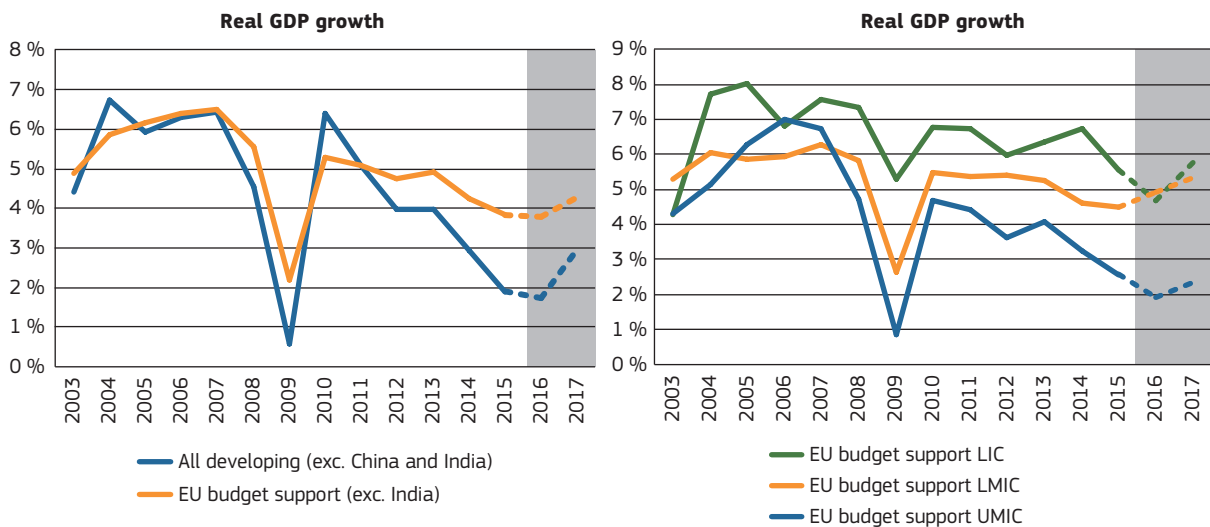


Whereas in the 2000-2004 period three ENP countries still had extreme poverty levels above 10 %, now **only Georgia still has an extreme poverty rate above 5 % in ENP budget support countries on the basis of the USD 1.90 a day poverty headcount ratio.** And new data suggest that in 2013 Georgia saw a significant reduction in poverty. ENP-E countries also have the highest bottom 40 % income share across regions.

2. Economic growth and macroeconomic stability

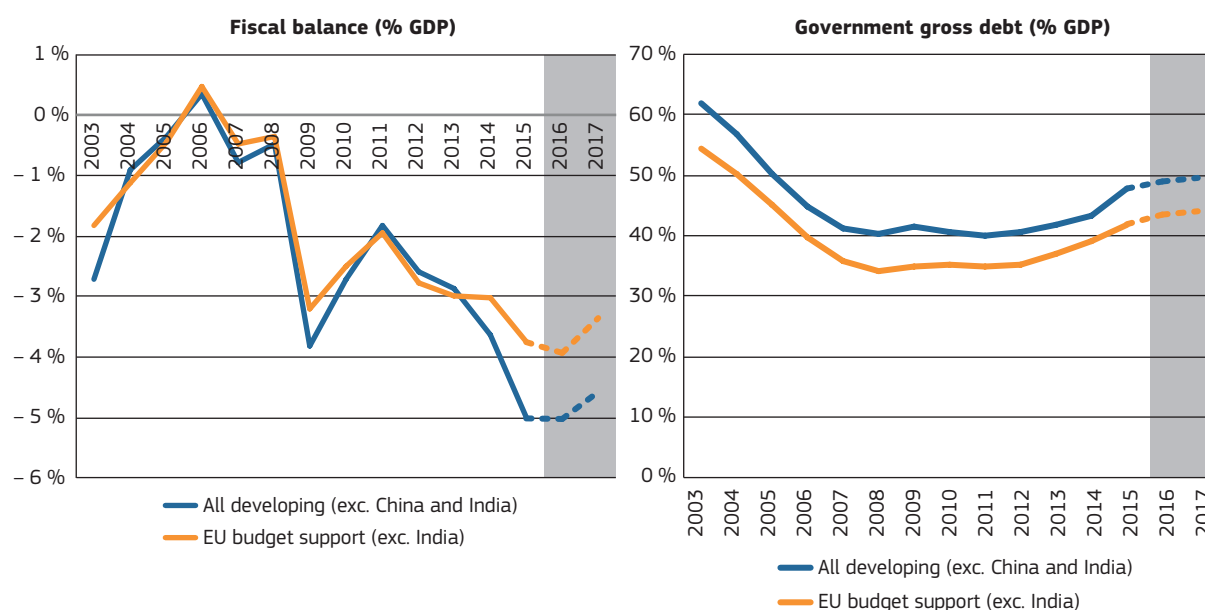
2.1. Overview

Economic growth in 2015 reduced sharply in developing countries. Emerging markets in particular saw a broad-based slowdown in growth due to a combination of lower commodity prices, the continued slowdown in global trade — the share of GDP for which is estimated to have fallen in 2015 — and structural factors hampering potential growth. The slowdown in large emerging markets, and particularly in China, affected other emerging markets and developing countries through trade channels and weaker commodity prices. The sharp decline in energy prices affected fuel exporters, while the positive effect on global demand was mitigated by the financial strains in many oil exporters, a notable reduction in energy investments and limited consumption effects.



A projected pick-up in developing country growth reflects projections of a modest recovery in some large emerging markets. These projections may prove to be overoptimistic given the significant downside risks, such as further declines in commodity prices (which are still above 2000 levels), financial market turbulence linked to a gradual exit from the accommodative monetary conditions in the United States or a sudden rise in global risk aversion and geopolitical risks.

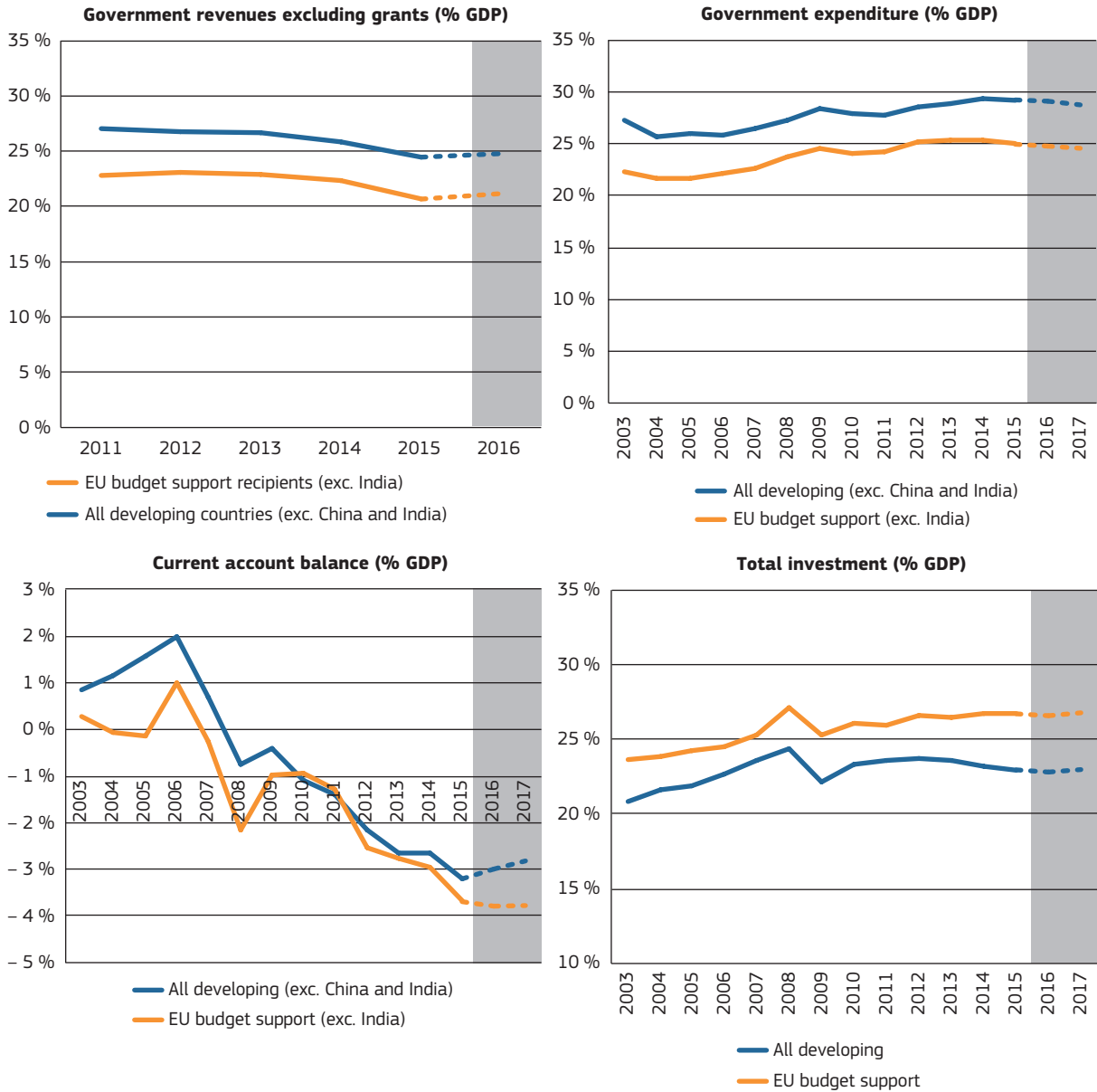
The growth decline in EU budget support countries was mitigated by continued strong growth in LMIC budget support recipients. However, the Ebola crisis in western Africa reduced growth for the LMIC budget support group. Growth in UMIC budget support recipients was affected by lower commodity prices.



The slowdown in growth has negatively affected fiscal space in developing countries. Fiscal deficits and debt levels continued on the upward trajectory they have been on since 2011. EU budget support recipients also saw a worsening of fiscal balances albeit less than for other developing countries. Tajikistan's risk of debt distress was upgraded to high. Burundi, Central Africa Republic, Ghana and Mauritania remained at a high risk level.

Domestic revenue mobilisation efforts have been affected by the fall in commodity prices and the slowdown in global trade. As a result, 2015 is estimated to have seen a significant decline in domestic revenues, with some improvement projected for 2016. Trends in EU budget support countries closely mirror trends in other developing countries, but overall revenue levels are considerably lower, which can at least partly be explained by the relatively higher share of lower-income countries among budget support recipients. The decline in domestic revenues is driven by a limited number of budget support countries and is particularly pronounced in Ukraine, Azerbaijan and Timor-Leste. In sub-Saharan Africa on the other hand, gradual but modest increases can be observed.

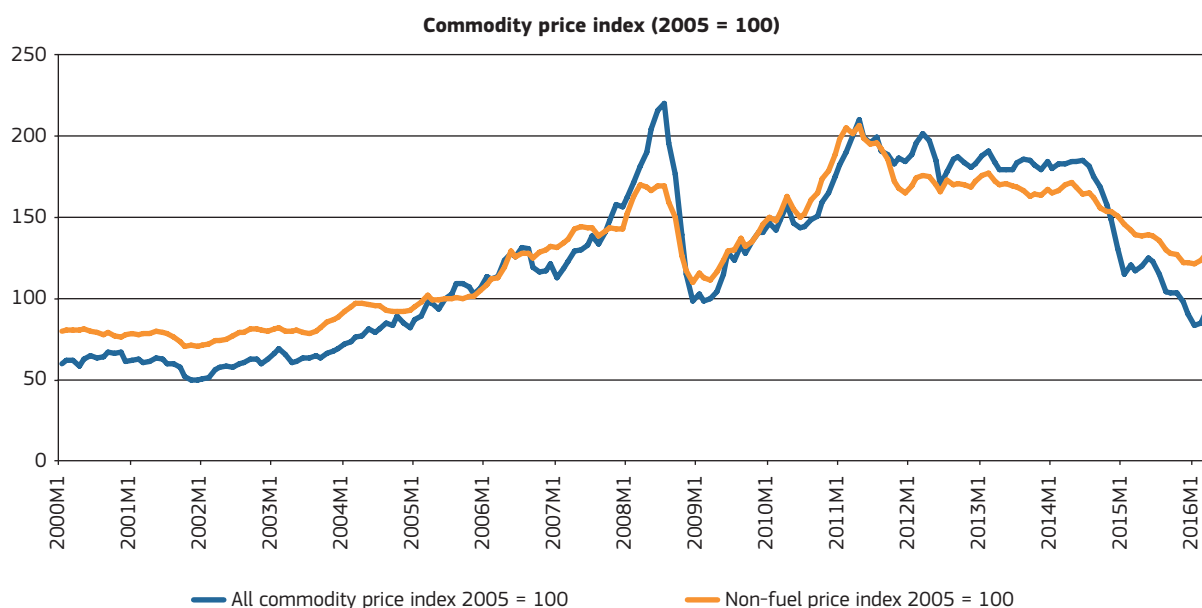
For the first time, government expenditure as a percentage of GDP is projected to decline. EU budget support recipients' government expenditure, at 25 % of GDP, remains below the levels seen in other developing countries. Some countries took the opportunity of the reduction in oil prices to reduce fuel subsidies and adjust their fiscal balance.



Current account deficits continued their upward trend, but the share of total investments in GDP has stabilised in EU budget support recipients while declining somewhat in other developing countries. Investment declines were particularly pronounced in countries affected by conflict, such as Burundi and Ukraine, and in countries affected by macroeconomic instability, such as Moldova and Tajikistan, or fiscal consolidation, such as Haiti and Jamaica.

2.2. Macroeconomic vulnerability, exogenous shocks and fiscal space

Oil prices have declined markedly since September 2015, reflecting expectations of continued global oil production in excess of oil consumption. Similarly, non-fuel commodity prices have declined, albeit at a lesser pace. Note that, despite the decline, prices are still above early-2000s levels.

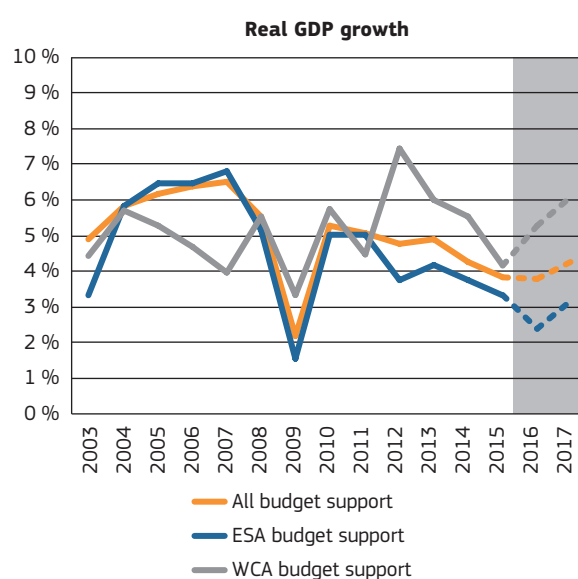


The decrease in commodity prices and the slowdown in emerging markets' economic growth have resulted in a sharp increase in the number of countries suffering from an exogenous economic shock. Considering as a benchmark a decline in export volume and/or a decline in export earnings of at least half a percentage point of GDP, the number of budget support countries suffering from an exogenous shock reached 56 in 2015, thus reaching almost the same level as during the global financial crisis in 2009. Contrary to the 2009 situation, the increase in shocks seems to be caused much more by price effects than by volume (global demand) effects. Furthermore, nine budget support countries suffered from a significant natural disaster shock in 2015: Dominica, Ethiopia, Guyana, Malawi, Nepal, Niger, Solomon Islands, South Africa and Vanuatu.

The decline in revenues and increase in fiscal deficits has reduced fiscal space in an increasing number of countries. Sixteen budget support countries are estimated to have a lack of fiscal space⁽¹⁶⁾ to respond to shocks. Thirteen of these actually suffered an economic shock in 2015, as defined above: Algeria, Barbados, Bolivia, Chad, Ecuador, Egypt, Ghana, India, Liberia, Malawi, Mozambique, Trinidad and Tobago and São Tomé and Príncipe. Overall prospects for 2016 have improved but are subject to downside risks.

2.3. Regional analysis

Sub-Saharan African growth has slowed as part of an adjustment to lower commodity prices and higher borrowing costs, which are weighing heavily on some of the region's largest economies and a number of smaller commodity exporters. **However, economic growth in EU budget support countries in the region generally remains favourable, with the exception of South Africa and conflict and Ebola-affected countries** such as Burundi, Guinea, Liberia and Sierra Leone. Côte d'Ivoire in particular is continuing its strong post-conflict performance since 2012. Other strong performers include Tanzania, Mozambique, Senegal and Rwanda. Ethiopia's strong growth performance is projected to decline substantially in 2016 due to El Niño effects.



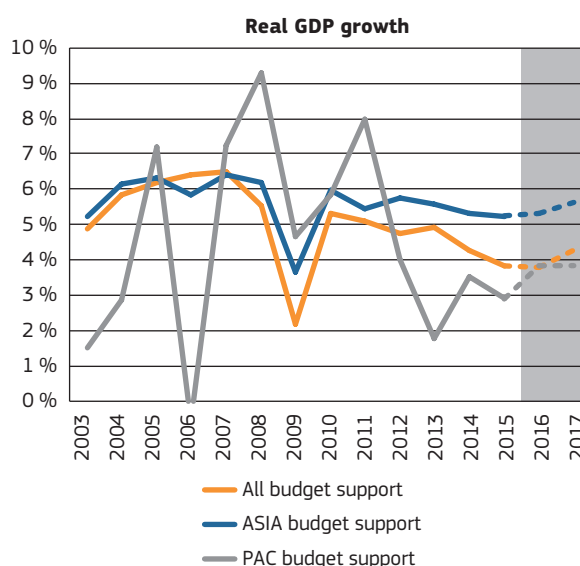
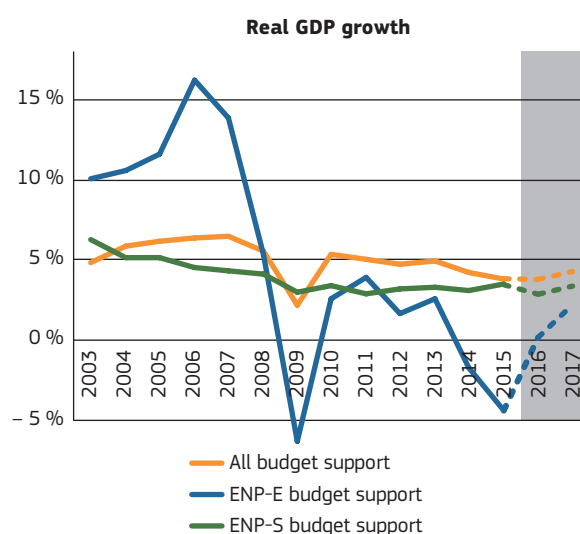
⁽¹⁶⁾ As defined by at least two of the following criteria being met: a general government deficit of more than 5 % of GDP; a gross debt of more than 65 % of GDP; domestic revenues of less than 10 % of GDP; a decline in domestic revenues of more than 1 percentage point of GDP; a reserve coverage in months of imports of less than 2 months.

The adoption of expansionary fiscal policies continued, with 12 sub-Saharan African budget support countries having deficits projected above 5 % of GDP in 2015, compared with eight in 2014. Debt sustainability analyses point to a continued high risks of debt distress in Burundi, the Central African Republic, Ghana and Mauritania. A new high-risk country is Chad, with debt sustainability affected by low oil prices and security-spending needs. A previously booming Eurobond market for sub-Saharan sovereign debt issuance is forecast to decline substantially as increasing yields demanded by investors deter countries. Eurobond financing is therefore out of reach for any countries in 2016.

The **ENP-S budget countries' growth outlook remains stable, but geopolitical tensions and social unrest present significant risks. Growth in ENP-E countries, however, slowed considerably.** Moldova and Ukraine saw their economies contract. In Moldova weak governance in the banking sector has exerted a heavy toll on economic activity. Ukraine's ongoing conflict in the east and slow progress in improving governance are undermining growth. The fiscal outlook for Algeria and Azerbaijan has worsened due to the sharp fall in oil prices, although both countries have built up sizeable buffers during the period of high oil prices.

In 2015 operations expanded to include the western Balkans region, as a first budget support contract was signed for Albania. **Economic growth forecasts for the western Balkans are improving, mainly as a result of strengthening domestic demand.** Albania is gradually recovering from its protracted growth slowdown, which was affected by economic difficulties in key trading partners and stagnant bank lending. Economic activity in the region improved in 2015, thanks partly to the recovery from flood-related damages incurred a year earlier by Serbia and Bosnia and Herzegovina. In the region as a whole, GDP on a purchasing power parity-weighted basis is forecast to rise by 2.8 percentage points in 2016 to 3.9 % in 2018. There are signs of an emerging new investment cycle with increasing foreign direct investment. This reflects efforts to improve the business climate, the impact of some large projects already in the pipeline and an expected slow but steady improvement in the external environment. **However, growth projections are subject to downside risks.** In particular, a generally cumbersome investment environment and capacity constraints and delays in executing public investment continue to hamper gross fixed capital formation. Furthermore, expected increases in household spending often rely on overoptimistic assumptions about employment and wage growth. In addition, crisis legacies and unfinished balance sheet repair by banks still constrain financial intermediation in a number of countries. On the external side, weaker-than-anticipated demand from the EU, renewed concerns about macroeconomic and growth potential and a rise in global risk perception would be detrimental to growth in the western Balkans in the context of persistent current account deficits and the resulting reliance on capital inflows across the region.

Asian budget support countries' growth prospects remain strong, with the exception of those in central Asia. Kyrgyzstan and Tajikistan have been heavily affected by the slowdown in Russia. While the Kyrgyz economy has shown some resilience, Tajikistan's economy suffered a sharp downward revision due to declined remittances and lower export earnings. Significantly, Pakistan's economic outlook continues to improve, helped by lower oil prices, planned improvements in energy supply and an acceleration in investments. Nepal's macroeconomic performance has been held back by earthquakes and the recent

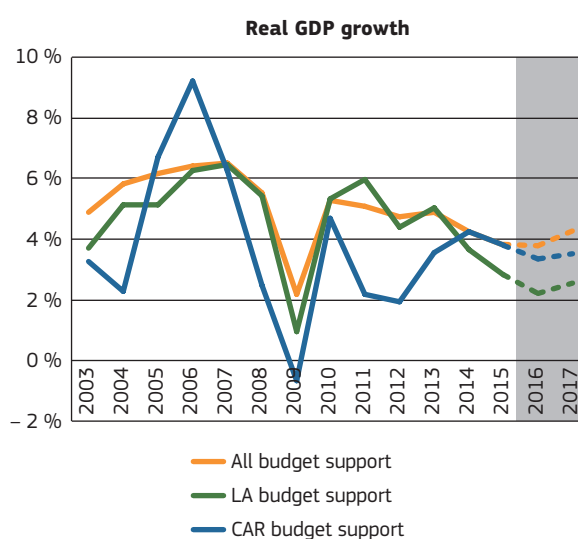


unrest and disruptions to trade routes. However, growth is expected to rebound gradually. The fiscal outlook remains solid overall, with the exception of Tajikistan where the risk of debt distress remains high. Fiscal deficits remain high in Laos and Vietnam, and contingent liabilities in relation to the financial sector and state-owned enterprises can be considerable in the region.

The growth outlook for Pacific budget support countries was revised downwards. Samoa and Tonga in particular continue to suffer from low potential growth combined with high vulnerability to natural disasters. A protracted period of slower growth in advanced and emerging economies is a further risk to the region. On the fiscal side, Timor-Leste is heavily affected by the oil price slump and Vanuatu by post-cyclone reconstruction efforts.

The fall in commodity prices has further deteriorated the growth outlook of Latin American budget support countries. Bolivia, Colombia and Ecuador are affected by the sharp fall in oil prices. The fall in other non-oil commodity prices reduced the growth outlook for Paraguay and Peru. The sharp deterioration in Brazil's economic performance is furthermore having a regional impact through trade and investment links.

In the Caribbean the growth outlook has improved, with tourism-based economies such as Barbados, the Dominican Republic, Grenada and Saint Kitts and Nevis benefiting from lower energy prices and steady tourist inflows. In contrast, commodity-based economies such as Trinidad and Tobago have been affected by the fall in commodity prices. Guyana, however, benefited from a decline in oil prices and a rise in foreign direct investment and private sector credit. Haiti saw a sharp growth decline due to a significant drought, which, together with a reduction in public investment due to the reduction in Petrocaribe assistance, led to a downward revision of growth estimates to 1 % for 2015. Revenues have risen sharply but public subsidies to the state-owned company impose a heavy fiscal burden.



3. Domestic public finance

3.1. Public financial management

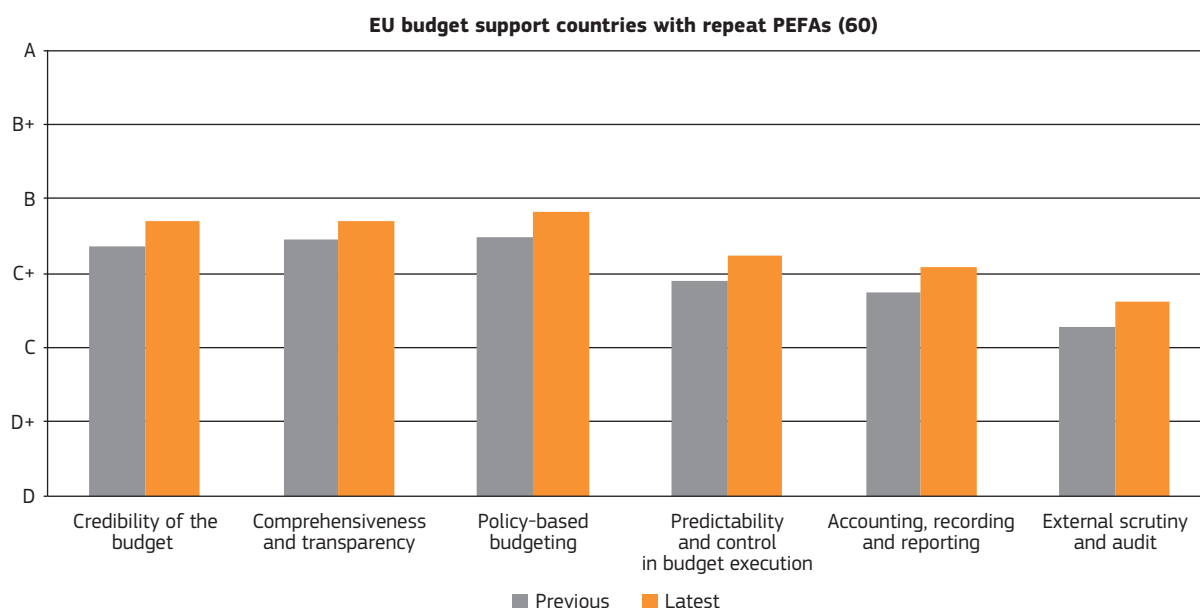
The EU's preferred means of assessing public financial management performance is the PEFA tool. Budget support has greatly facilitated the adoption of PEFA, with virtually all budget support countries having undergone at least one PEFA assessment⁽¹⁷⁾, whereas PEFA assessments for other countries only exist in 40 cases. The European Commission also played an important role in the most comprehensive upgrade to the PEFA framework since it was first published in 2005. The new framework incorporates new and updated benchmarks that reflect the changing landscape of public financial management reforms and the development of good practices over the last decade.

PEFA results continue to suggest progress across the different public financial management dimensions⁽¹⁸⁾, albeit at a slow pace as shown in the table. Encouragingly, positive progress can be noted in terms of the credibility of the budget, an area which previously saw some decline in PEFA scores, and in terms of external scrutiny and audit, a dimension with generally lower PEFA results. Notwithstanding the positive trend, continued support and close monitoring of progress in public financial management will be needed. PEFA results suggest progress is gradual and that there may be setbacks. Recently, of the 11 new PEFA's compared with the

⁽¹⁷⁾ As of mid 2016, 79 out of 80 budget support countries had undergone at least one PEFA assessment.

⁽¹⁸⁾ PEFA results are averaged by dimension and consider all final PEFA's.

2015 report most showed limited to substantial progress, but two countries, Madagascar and Mauritania, saw their PEFA scores deteriorate.



This positive finding is echoed in a number of new studies and strategic evaluations, such as the 2014 evaluation of budget support covering four LICs ⁽¹⁹⁾ (Mali, Mozambique, Tanzania and Zambia) and the 2014 Danish International Development Agency evaluation, which notes that the ‘strengthening of public financial management systems appears to be one of the most common, positive effects of budget support across countries’. Similar results have been found by the recent strategic evaluations of budget support in Sierra Leone and Uganda.

The following table presents the average PEFA dimension results for the latest PEFA available, showing that **budget support countries present PEFA results above the averages seen in other developing countries.**

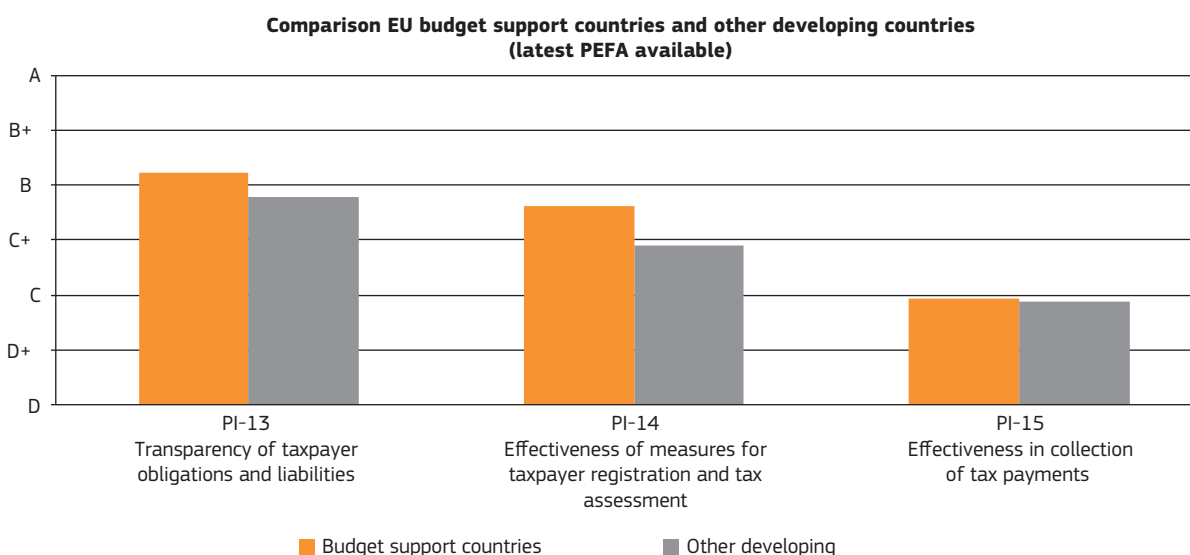
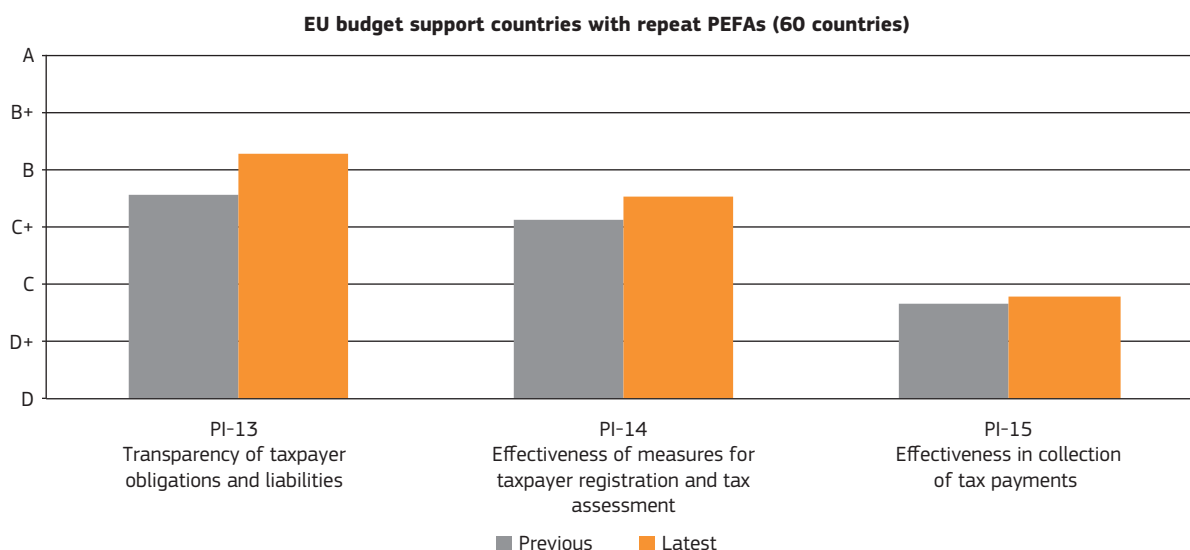
PEFA dimensions averages (No of final PEFA)	EU budget support countries										Other 41
	Asia 12	WCA 19	ESA 13	CAR 8	PAC 6	LA 9	ENP-S 5	ENP-E 5	IPA 1	All 78	
Credibility of the budget	B	C+	B	C+	B	B	B+	B+	C	B	C+
Comprehensiveness and transparency	B	C	B	C+	C+	B	B	B+	B+	B	C+
Policy-based budgeting	B	C+	B	C+	B	B	B	B+	B+	B	C+
Predictability and control in budget execution	C+	C+	C+	C+	C+	B	B	B	B	C+	C+
Accounting, recording and reporting	C+	C	C+	C+	C+	C+	C+	B+	B	C+	C+
External scrutiny and audit	C+	D+	C+	C	C	C	C	C+	B+	C+	C

The ENP, IPA and Latin American regions, with a higher share of middle-income countries (MICs), generally have better PEFA results. Within the ENP region, ENP-E PEFA results are not only well above those for ENP-S, they are also on an upward trend across the board in contrast to that region, where they are generally regressing. Asian budget support countries’ PEFA results were initially below average but have caught up substantially. PEFA results in Latin American and the Caribbean, on the other hand, have stagnated. **In sub-Saharan Africa, the WCA region lags behind the ESA region, but WCA PEFA results are improving whereas ESA results have stagnated.**

⁽¹⁹⁾ *Synthesis of budget support evaluations: analysis of the findings, conclusions and recommendations of seven country evaluations of budget support*, November 2014 — study carried out on behalf of the European Commission.

PEFA indicators furthermore suggest that **budget support countries have made progress in strengthening tax administration and achieve better tax-related PEFA results than other developing countries.**

The average PEFA rating in ‘Transparency of taxpayer obligations and liabilities’ and ‘Effectiveness of measures for taxpayer registration and tax assessment’ was significantly higher in budget support countries. The difference is less marked in relation to effectiveness in the collection of tax payments, but PEFA results are now showing a slight upward trend compared with the previous report, which showed no progress. An analysis of the underlying causes for the poor results for PEFA indicator 15 on the effectiveness of tax payment collection will be undertaken. The EU is strongly committed to domestic revenue mobilisation and has committed, within the framework of the Addis tax initiative, to collectively double support for domestic revenue mobilisation. More information on EU actions in this area is provided in Section 3.4.

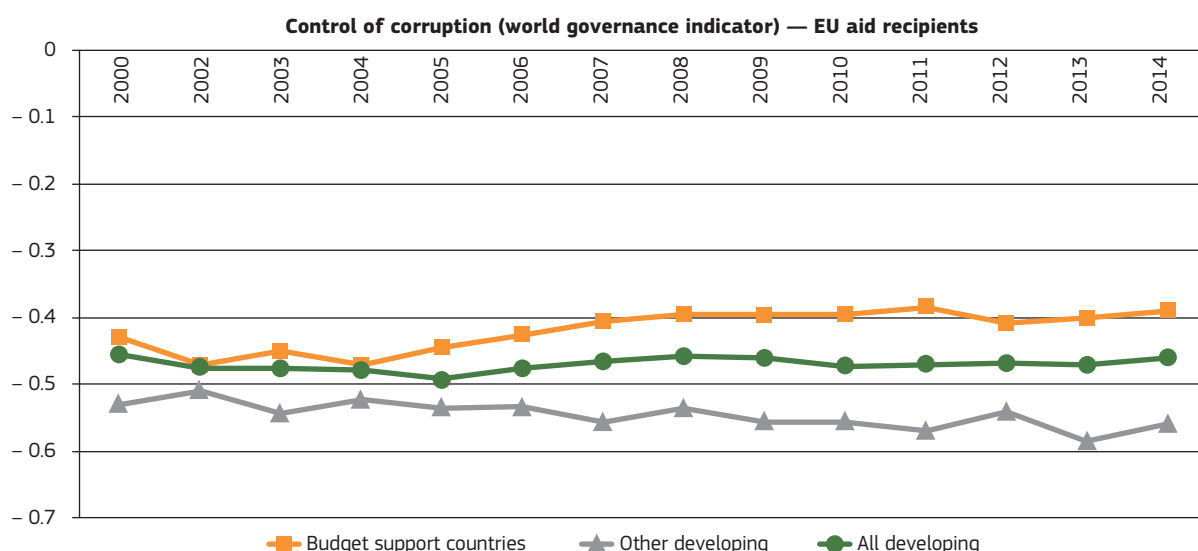


3.2. Corruption

Fighting corruption requires improvements in a wide range of institutions and societal functions, where effective anti-corruption laws and agencies and sound public financial management are but two of the necessary elements. While there is no single recipe for successfully curbing corruption, various and complementary interventions should be considered, such as judicial and security reforms, promoting public sector integrity, government openness, strengthening oversight through support for audit institutions and parliaments, access to information, an organised civil society and an independent media, while enhancing citizens’ engagement.

We can therefore expect significant reductions in corruption to take a broad effort for many years. The purpose of budget support is, among other things, to contribute to the strengthening of integrity systems in order to reduce corruption and fraud.

Monitoring corruption trends and developments within the framework of fighting corruption is not straightforward. Nevertheless, some trends can be observed using the worldwide governance indicator on the control of corruption ⁽²⁰⁾. These suggest **a modest average improvement in the control of corruption** in budget support countries over the last decade. This positive trend has taken place **while other developing countries saw a worsening trend**.



Transparency International’s Corruption Perception Index (CPI) ⁽²¹⁾, which rates countries on a scale from zero for very corrupt to 100 for least corrupt, equally suggests an above-trend performance for budget support countries, with an average 36 CPI result compared with 29 for other developing countries. Furthermore, CPI results have improved by an average of 6 CPI points over the last decade, while it decreased by 9 points in other developing countries. Examples of recent CPI improvers are Senegal, Mauritania, Togo, Mali and Jamaica.

The 2014 synthesis of budget support evaluations in Mali, Morocco, Mozambique, South Africa, Tanzania, Tunisia and Zambia ⁽²²⁾ noted some gains in the legal and institutional framework for fighting corruption. The 2016 budget support evaluation in Sierra Leone concerning the 2002-2015 period ⁽²³⁾ noted similar gains. A combination of technical assistance, budget increases facilitated by general budget support and focused policy dialogue contributed to progress. The Uganda evaluation showed strong progress in the upstream side of the accountability chain (e.g. anti-corruption legal framework) but also pointed out that this progress was not met by equal progress on the downstream side (e.g. prosecution and recovery of funds). In the case of Burkina Faso the strategic evaluation has shown, that despite an intense policy dialogue on the issue of corruption combined with effective strengthening of civil society in terms of external oversight, the results have so far not been significant.

⁽²⁰⁾ The worldwide governance indicator on the control of corruption is a commonly used composite indicator aimed at measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and the ‘capture’ of the state by elites and private interests. Note that worldwide governance indicator results should be interpreted with care as they are subject to a significant standard deviation.

⁽²¹⁾ The perception of corruption in a country is a proxy for the level of corruption, which cannot be measured directly. The perception of corruption is, however, sensitive to corruption scandals, political discussions, etc. that are related to the level of corruption in a complex way.

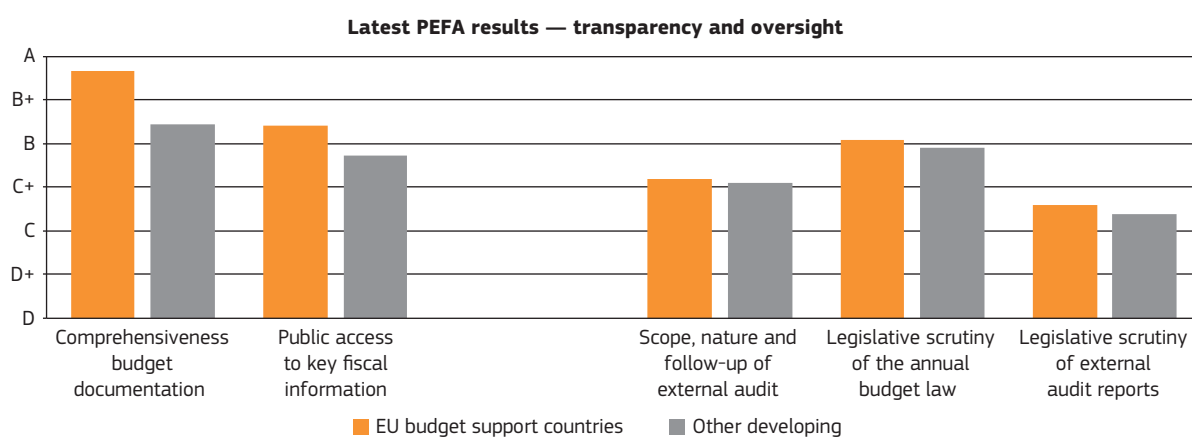
⁽²²⁾ *Synthesis of budget support evaluations: analysis of the findings, conclusions and recommendations of seven country evaluations of budget support*, November 2014 — study carried out on behalf of the European Commission.

⁽²³⁾ *Independent evaluation of budget support to Sierra Leone 2002-2015*, April 2016.

3.3. Budgetary transparency and oversight

The new 2015 Open Budget Index data suggest **budget support countries continue to demonstrate more budgetary transparency** with an average 2015 OBI rating of 44 compared with 39 in other developing countries. Furthermore, where repeat assessments are available, budget support countries have demonstrated **progress, albeit at a limited pace**. The transparency-related PEFA indicators confirm a better transparency result for budget support countries.

However, in terms of the oversight PEFA indicators, there is no clear difference with other developing countries. Transparency is a necessary but insufficient step towards greater accountability, and a focus is needed on oversight functions in budget support countries in particular. Encouragingly, a number of new budget support operations include such a focus on oversight functions, including external audit functions and parliamentary but also civic oversight. And note that, beyond budget support operations, the EU is providing much direct support to oversight institutions. In the 2013–2015 period, a total of 105 contracts were signed for a total of EUR 81.4 million in direct support. About a third of these directly benefited supreme audit institutions. Citizens' participation in oversight functions was an equally important area of focus.



Among regions, ENP-E is the most transparent according to repeat PEFA results, whereas ENP-S and Latin American budget support countries saw a reduction in transparency, albeit it from a high level. WCA budget support countries have the lowest PEFA results and their average has decreased since 2014. Pacific budget support countries have made the most progress, whereas ESA, Asia and Caribbean budget support countries' results have declined since last year.

ENP-E budget support countries also achieved the highest oversight-related PEFA results and Pacific budget support countries have made most progress in this area, albeit from a low basis. Other regions have made limited progress, and results remain particularly low in ESA, WCA and Latin American budget support countries.

Budget support evaluations showed a contribution of budget support to gains in transparency and accountability in Mozambique, Tanzania, Zambia, Sierra Leone and Mozambique. These were attributed to a combination of substantial technical assistance for the audit institutions, increases in their budgets (facilitated by general budget support) and increased attention to the quality of transparency and oversight within the budget support dialogue.

3.4. Domestic revenue mobilisation and illicit financial flows

Despite sustained economic growth rates and often abundant natural resources, many developing countries still lag behind in the mobilisation of their full potential in domestic revenue mobilisation, with an average tax-to-GDP ratio of less than 20 %. The lack of clear progress in domestic revenue mobilisation in some budget support recipient countries (see Section 2.1 above) is a concern and highlights the need to reinforce efforts in this area. In addition, domestic revenue mobilisation, and in particular fair and efficient taxation, is a key aspect of the social contract between a state and its citizens. Domestic accountability, understood as the ability to hold the

government accountable on the use of public expenditures and public service delivery, is more likely to thrive when citizens support the government through taxation.

One aspect that has received particular attention is **the loss of tax revenues due to tax avoidance, tax evasion and the related illicit financial flows**. The importance and magnitude of the problem have been recently reconfirmed by the Panama Papers. The impact is even worse on developing countries.

The Commission is highly committed to supporting developing countries in their efforts at the national, regional and international levels to mobilise domestic revenues, tackle tax avoidance, tax evasion and illicit financial flows and ensure that all taxpayers pay their fair share of taxes. Support for transparent and fair tax systems and administrative capacity plays an important role in all EU budget support programmes, as well as in dedicated programmes. Strategic evaluations of budget support have shown that it has generally succeeded in boosting the resources available for discretionary expenditure and, with a few possible exceptions, without generating disincentive effects for domestic revenue generation.

At the global level, the Commission collaborates mostly with the four institutions that form the Platform for Collaboration on Tax (the IMF, the World Bank, the United Nations and the Organisation for Economic Cooperation and Development (OECD)). The Commission provides assistance to the United Nations Tax Committee with the objective of enabling the participation of developing countries in its subcommittees. The Commission supports the G20/OECD initiatives on base erosion and profit shifting (BEPS) and exchange of information. It promotes the involvement of developing countries in international forums and standard setting processes, such as the BEPS action plan and the automatic exchange of information roadmap, to ensure that developing countries' concerns can be taken into consideration.

In addition, the Commission contributes to the IMF topical trust fund on tax and administration. This programme provides first-hand assistance to developing countries in strengthening their tax policies and administrations. The Commission is collaborating with the IMF and other partners on the development of the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT will play a critical role as an assessment instrument on tax policy that will be highly complementary to the overall public financial management assessment instrument PEFA.

The Commission is engaged in a tripartite initiative, together with the OECD and the World Bank, in capacity building for tax administrations to enable partner countries to prevent profit shifting through the misuse of transfer pricing by transnational corporations. Furthermore, the Commission also works with the OECD to improve the provision of reliable and comparable statistical data on revenues collected by developing countries, in particular in Africa.

At the regional level, the Commission supports through the pan African programme regional network organisations in Africa such as the African Tax Administration Forum, the African Organisation of Supreme Audit Institutions and the Collaborative African Budget Reform Initiative through a joint programme with Germany. In addition, it supports the Inter-American Centre for Tax Administrations. At the regional level it is worth noting that the IMF-managed regional technical assistance centres that are supported by the EU provide, amongst other things, targeted technical assistance in tax reform.

Another important topic is the promotion of transparency in revenues coming from the exploitation of natural resources. The Commission is strongly engaged in the implementation of the Extractive Industries Transparency Initiative (EITI) standard. The EITI has helped to discourage corruption and tackle illicit financial flows by disclosing information about the revenues coming from extractive industries.

All these initiatives need to be seen as complementary to the direct assistance provided to developing countries in the form of budget support and through the EU bilateral technical assistance programmes in support of the reform of economic governance.

3.5. Debt management

As highlighted in the ‘Collect more — spend better’ EU staff working document, contracting debt provides a means to leverage own resources to finance public investment. Debt can furthermore play an important countercyclical role, for example in financing reconstruction efforts after natural disasters. Keeping debt on a sustainable footing requires not only sound debt management but also sound growth-enhancing public expenditure and effective revenue mobilisation to maintain sustainable debt-to-GDP levels.

The landscape in which developing countries borrow money has changed a great deal over recent years. Developing countries now have access to many sources of credit, not just concessional loans from multilateral organisations. Increasingly, countries are issuing bonds on international capital markets — such as Eurobond markets — a process that brings with it a new level of complexity. Governments also are looking to borrow money domestically.

Debt management capacity is therefore of key importance. The EU has supported both upstream and downstream capacity-strengthening initiatives for developing countries. Upstream activities typically focus on debt management diagnostics using the Debt Management Performance Assessment (DeMPA) tool, debt sustainability analyses, medium-term debt strategy development and reform plans. Downstream activities focus on operational functions such as effective debt recording and reporting, IT support systems, operational risk management and annual borrowing plans. DeMPA assessments suggest that debt management capacity requires substantial further strengthening, with roughly half of indicators scoring below the minimum requirements (situation as of mid 2015). Measuring progress is complicated by the limited number of repeat DeMPAs so far, given that the instrument is relatively new. Nevertheless, repeat assessments and progress reports suggest that capacity-strengthening efforts contributed to significant progress in debt management capacity.

4. Selected sector results in SRC countries

Sector results are presented in the form of trends in selected key indicators and a narrative with highlights on results supported by SRC operations. Wherever possible the report includes information on the contribution of budget support to sectoral results obtained from the strategic evaluations available so far. These evaluations have shown, for example, that where budget support represented a high percentage of public expenditure (i.e. in LICs) the additional funds provided by budget support were used predominantly to raise spending within the priority sectors supported (mainly in education, health and the road sector). More generally, and also for MICs, the evaluations show that budget support has contributed to an increase in the coverage and the positive results of the supported sectors/policies ⁽²⁴⁾. The evaluations also conclude that budget support has particularly contributed to improvements in the quantity of the services provided, whereas improvements in the quality of the services remain a challenge.

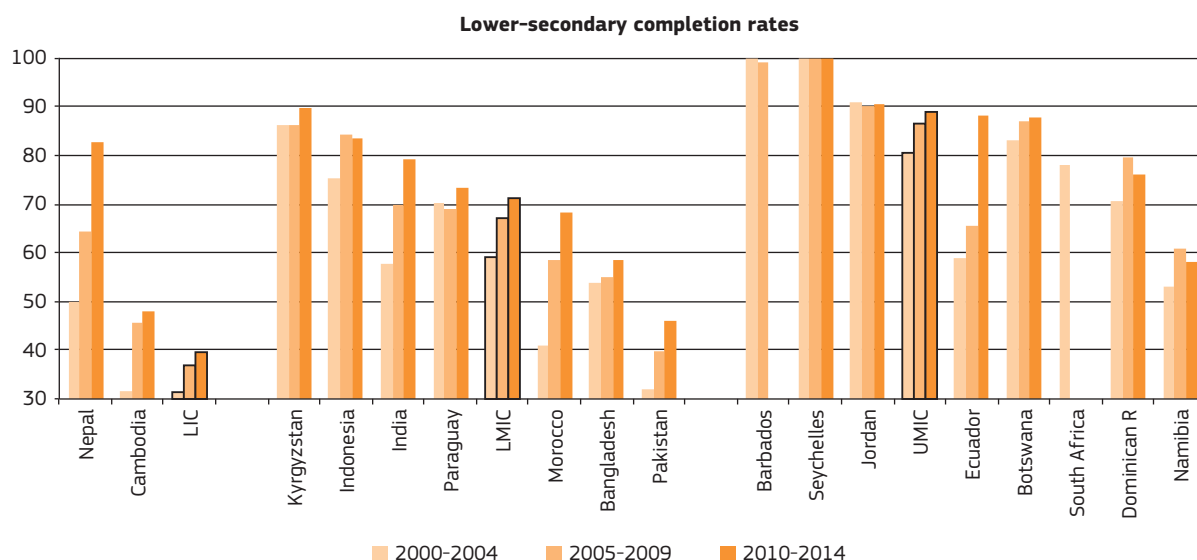
4.1. Education

As of the end of 2015, 16 countries had an ongoing SRC in the education sector: Bangladesh, Barbados, Botswana, Cambodia, Dominican Republic, India, Indonesia, Jordan, Kyrgyzstan, Morocco, Namibia, Nepal, Pakistan (Sindh and Khyber Pakhtunkhwa Provinces), Paraguay, Seychelles and South Africa.

Primary completion rates are close to 100 % in these countries, except for Bangladesh and Pakistan, both of which saw significant improvements. Completion rates for lower-secondary education, however, vary considerably, as shown in the graph ⁽²⁵⁾ below.

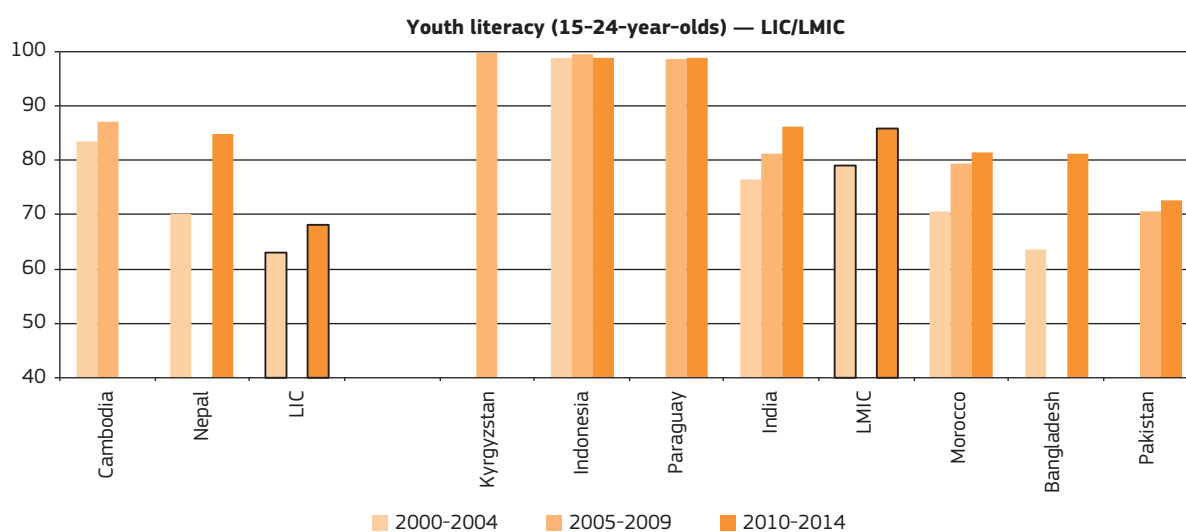
⁽²⁴⁾ Perhaps one exception would be the support for the agriculture sector in Mozambique, where the evaluation found that budget support may have had limited effect.

⁽²⁵⁾ The graphs in Section 4.1. show the latest observations in each period.



The completion rate in lower-secondary education stands at 58 % overall in EU developing partner countries. Wide discrepancies exist between regions, between country income groups and in relation to gender, notably in sub-Saharan Africa where girls are lagging behind boys. While more and more children are completing lower-secondary education, this progress goes along with challenges: inequalities remain strong, particularly for the most disadvantaged groups (e.g. the poorest families, ethnic minorities, girls); conflict is a barrier to education for millions; and many children are still not able to read, write and count properly despite having attended school.

The literacy rate of 15-24-year-olds has nevertheless steadily increased globally since 1990. In all EU developing partner countries it stands at 80.5 %. The literacy rate in sub-Saharan Africa remains lower than in any other region at 70 %. However, beyond rates and numbers, a wide array of situations exist in terms of literacy, ranging from poor reading, writing and comprehension skills to the ability of individuals to ‘achiev[e] their goals in work and life and participat[e] fully in society’ ⁽²⁶⁾. Youth literacy rates in the UMIC group of education SRC countries are close to 100 %. In LICs and LMICs, however, youth literacy rates are mostly around 80 %, with the exception of Kyrgyzstan, Indonesia and Paraguay where they are close to 100 %.



Those indicators do not necessarily account for the breadth of successes and challenges in education. One of the growing challenges is the current learning crisis demonstrated by around 250 million children who leave

⁽²⁶⁾ EFA global monitoring report 2015.

school unable to read, write or do basic maths. Avoiding lost generations in crisis-affected countries is another challenge. Emergencies and protracted crises currently disrupt and destroy education opportunities for more than 75 million children and young people in 35 fragile countries. One such example is the Syrian crisis. In response the EU has designed a SRC with Jordan that is focused on supporting the Ministry of Education to manage the influx of Syrian refugees into the country's education system.

In general, budget support operations in education have a large range of objectives (access to education, equality, quality, organisational management, financing). SRCs can cover several subsectors from early childhood development to higher education, depending on the country's needs. The focus is often on strengthening education systems and service delivery.

This variety in scope is reflected in the current portfolio of education budget support operations. For instance, in Pakistan, the government of Sindh has made progress on teacher rationalisation, curriculum development and student assessment. Indonesia has established a comprehensive performance-appraisal system for school principals. Cambodia has developed a national action plan on early childhood care and development. Morocco's most recent education SRC has a strong focus on equality within a sector-wide approach. It addresses access to early childhood and secondary education, quality initial teacher training, learning assessment and strengthening the regional education authorities to handle their new prerogatives.

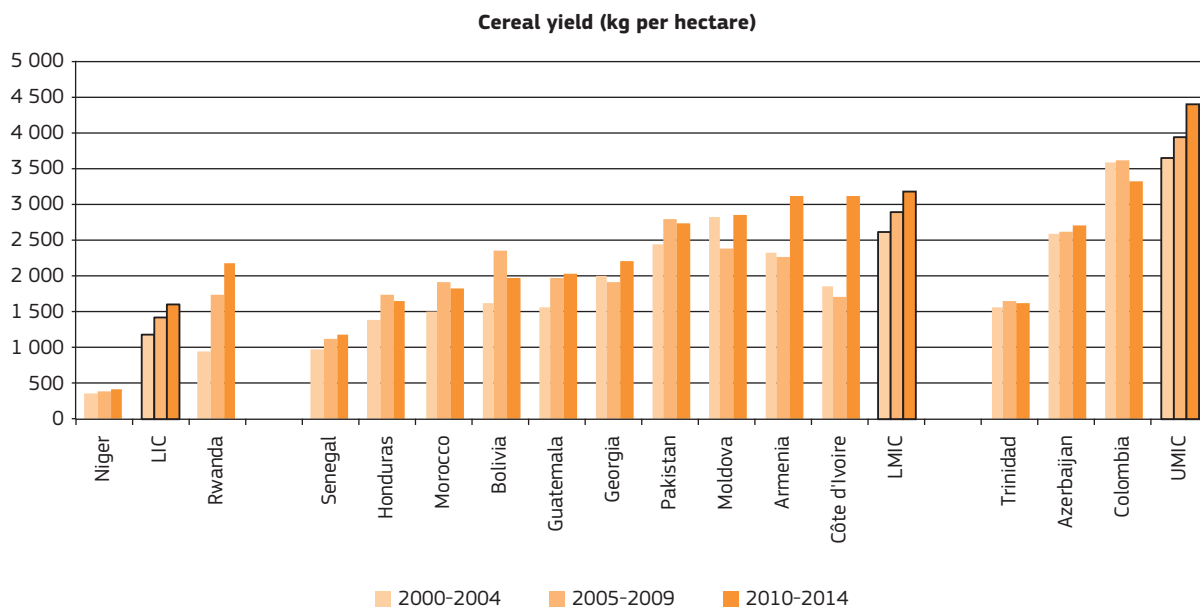
A still-unpublished joint strategic evaluation of the development cooperation of Denmark, Sweden and the EU with Bangladesh for the 2007-2013 period has concluded that budget support has contributed to the country's achievements in terms of access and retention in primary education and have been instrumental in achieving critical quality-oriented reforms that may eventually improve learning outcomes. The ongoing strategic evaluation of budget support for Paraguay is showing that the budget support programmes for the education sector have fostered relatively large results in relation to their financial weight. Specifically, they facilitated the bridging of the financing gap relating to expenditure on infrastructure, schooling material and food provided in schools. The strategic evaluation of budget support for Morocco has shown that the funds disbursed through the sectoral budget support programmes in education strongly complemented the country's efforts to improve enrolment and retention in a context of massification. However, they did not allow for a significant reduction in disparities (in terms of regions, children's backgrounds or gender). The policy dialogue in the context of sectoral budget support has supported the major reform on teachers' certification.

4.2. Agriculture, food security and rural development

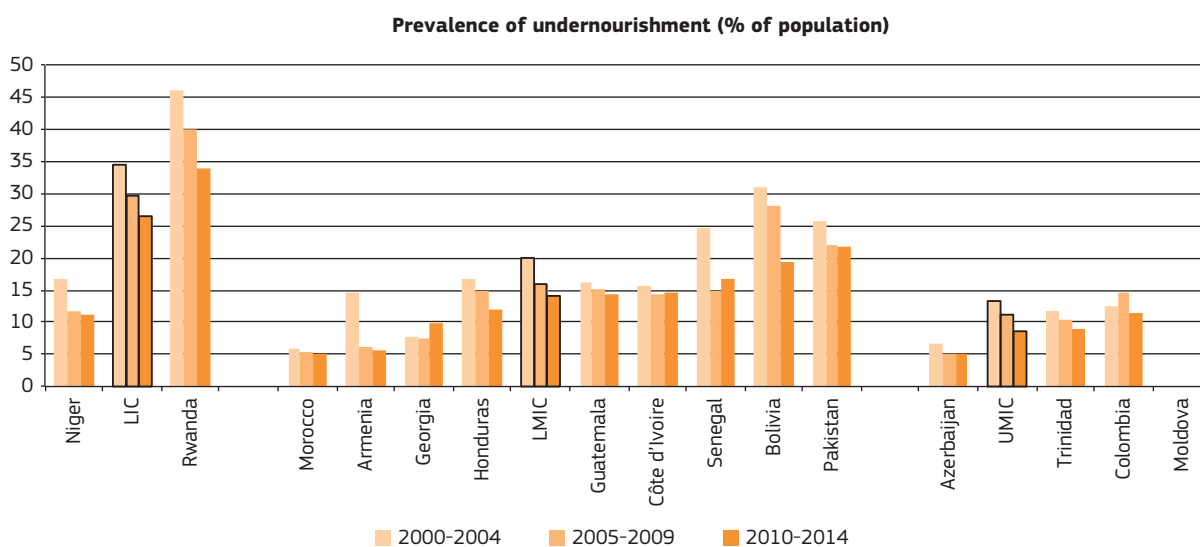
An increasing number of SRCs are provided in support of the agriculture, food security and rural development sector. Fifteen countries had on ongoing SRC in the sector as of the end of 2015, of which five were new SRCs decided in 2015: Armenia, Azerbaijan, Bolivia (2015), Colombia, Côte d'Ivoire (2015), Georgia (2015), Guatemala, Honduras (2015), Moldova, Morocco, Niger, Pakistan, Rwanda, Senegal (2015) and Trinidad and Tobago.

Results in this sector are dependent on many factors and no single indicator can capture progress. Trends in terms of a few key indicators are presented in the graphs below. Cereal yield per hectare is a proxy for more sophisticated measures of agricultural productivity that are not yet available. The indicator focuses on the production of the main staple crops in most developing countries. Two key indicators for progress in food security and nutrition are the prevalence of stunting (moderate and severe) in children less than 5 years old and the prevalence of undernourishment, or the proportion of the population below the minimum level of dietary energy consumption.

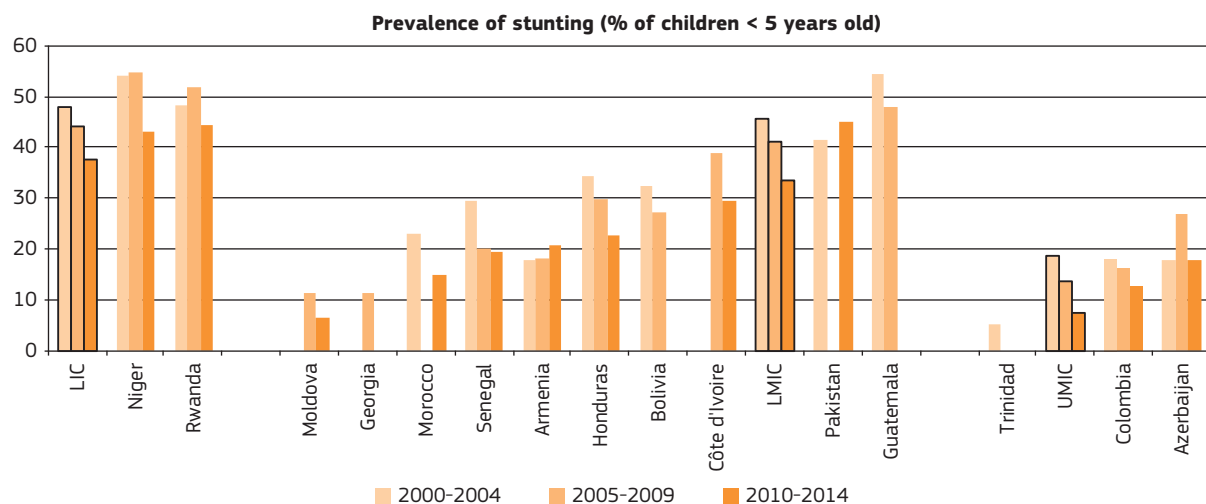
In terms of cereal yield trends the SRC countries present a mixed picture, with strong progress in Armenia, Côte d'Ivoire and Rwanda. Other countries have seen more limited progress, particularly UMIC countries.



The prevalence of undernourishment is largely on a downward trajectory but with varying degrees of progress. Armenia, Bolivia, Niger, Rwanda and Senegal have seen the largest reductions though not always consistently in different periods.



Similarly, stunting among children under 5 years old has decreased across most countries. However, it remains high overall, including in certain MICs.



In the context of these country trends, SRCs have supported progress in various areas. For example, in Rwanda the SRC has supported national campaigns against stunting, the training of health centre staff to train community health workers, community-based growth monitoring, almost full vitamin A supplements and universal salt iodisation household coverage. Acute malnutrition has been virtually eliminated. In Niger the SRC has supported the financing of national food security programmes, which have reached over 4 million people. Additional support has been provided to the population in the Diffa region, host to many persons displaced due to Boko Haram terrorism. A new SRC with Côte d'Ivoire is focusing on supporting the development of rural land tenure rights, especially for the most vulnerable.

In Guatemala the SRC has supported a reduction in chronic malnutrition and the prevalence of anaemia among children under 5 years old, an increase in the production of beans and maize and several important deliverables under the zero hunger plan, with the delivery of extensive food assistance, the opening of agricultural extension agencies, the construction of small silos, the production of improved seeds, the distribution of iron and acid folic supplements for women, children immunisation and deworming, etc. A new SRC for Honduras will focus on food security information systems, equitable land tenure and climate-smart agriculture and support for the most vulnerable population groups. A new Bolivia SRC will support poverty reduction and food security in areas with a specific focus on gender, regional inequalities and the reduction of labour migration to coca-producing areas. The Pakistan SRC supports the implementation of the government of Khyber Pakhtunkhwa's community-driven local development framework, which is aimed at reforming public administration at district level to improve service delivery, economic growth and local governance through the promotion of community-driven development.

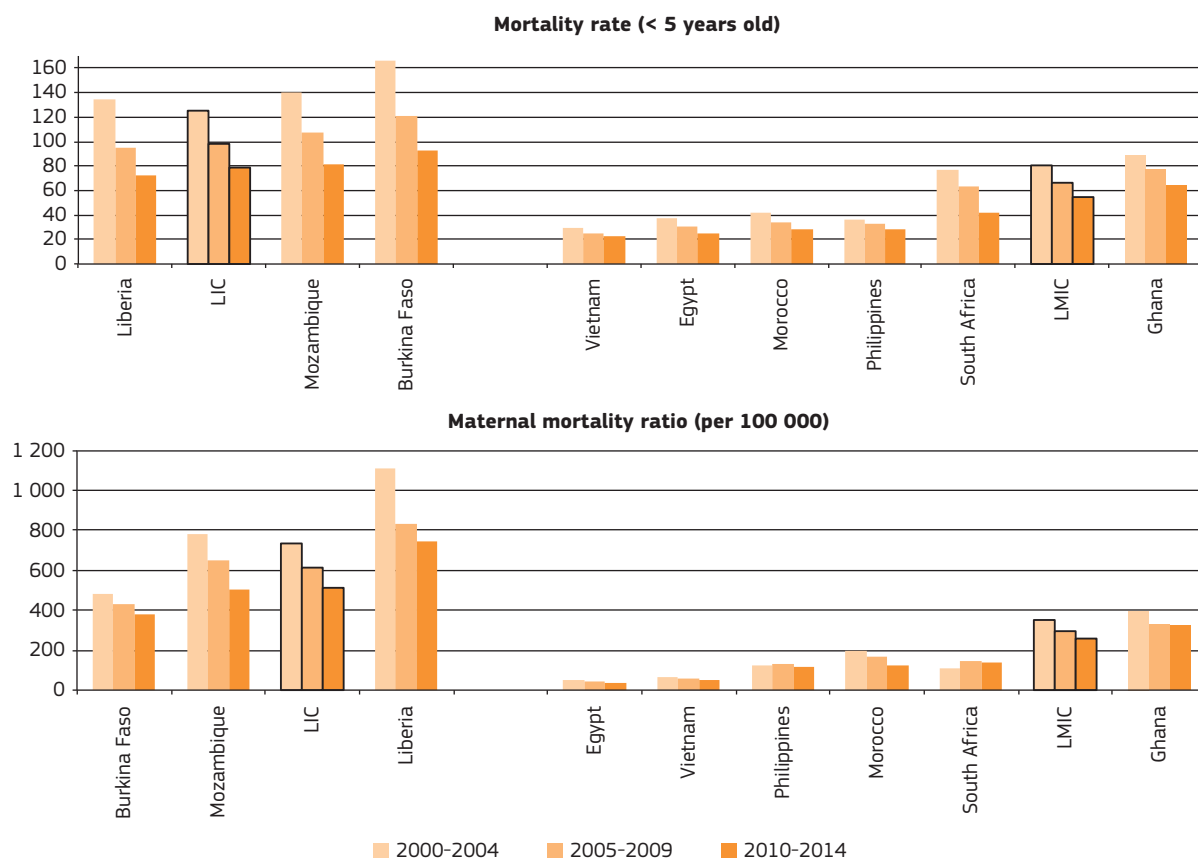
In Morocco the SRCs in agriculture (covering two main areas: agriculture sector policy and extension services) have helped to increase the output of targeted agricultural supply chains (meat, olives, dates) in selected regions and to develop quality infrastructures that contribute to the quality and trade of local production across the country. Regional action plans related to the farm advisory system in selected regions were validated and developed locally.

4.3. Health

Since 2000, health programmes have been guided by the millennium development goals (MDGs) ⁽²⁷⁾, and most resources have essentially concentrated on strengthening health systems to improve child and maternal health (MDGs 4 and 5) and communicable disease control (MDG 6). Whilst MDG 6 in particular was targeted by global health initiatives, MDGs 4 and 5 were largely addressed through country health programmes funded by domestic and international sources. Reporting on the progress of MDG 4 and MDG 5 shows that: 'Between 1990 and 2015, the global under-five mortality rate has declined by more than half, dropping from 90 to 43 deaths per 1 000 live births [...] Between 1990 and 2013, the maternal mortality ratio has declined by 45 per cent worldwide, and

⁽²⁷⁾ Goal 4: Reduce child mortality (by two thirds between 1990 and 2015); Goal 5: Improve maternal health (reduce maternal mortality ratio by three quarters between 1990 and 2015); Goal 6: Combat HIV/AIDS, malaria and other diseases (have halted by 2015 and begun to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases).

most of the reduction has occurred since 2000' ⁽²⁸⁾. The evolution of these indicators has many confounding factors, and economic development is one of them. Strong reductions in mortality in children under 5 years old and maternal mortality are observed on average in LICs and MICs. In countries where there is an SRC, progress compares favourably to the average, especially for LICs, but remains unequal. In MICs, additional challenges such as the epidemiological transition and emergence of non-communicable diseases are also pressing priorities.



As of the end of 2015, nine countries had an ongoing SRC in health: Burkina Faso, Egypt (where disbursements have been suspended for 3 years due to eligibility concerns), Ghana, Liberia, Morocco, Mozambique, Philippines, South Africa and Vietnam. Except for Morocco, all other SRCs are running nearer to their end-of-implementation date, and only Burkina Faso will continue a health SRC under the 11th EDF. Preparations for a new SRC for Burundi stalled in 2015 due to the political crisis that led to the suspension of the Cotonou Agreement (Article 96) in early March 2016.

All SRCs focus on child and maternal health. In some cases universal health coverage is part of the objectives. Health SRCs are of two major types: the first was designed in response to the EU MDG initiative launched in 2011 and linked to the United Nations MDG acceleration framework (Burkina Faso, Ghana, Liberia); the second focuses on health sector reforms.

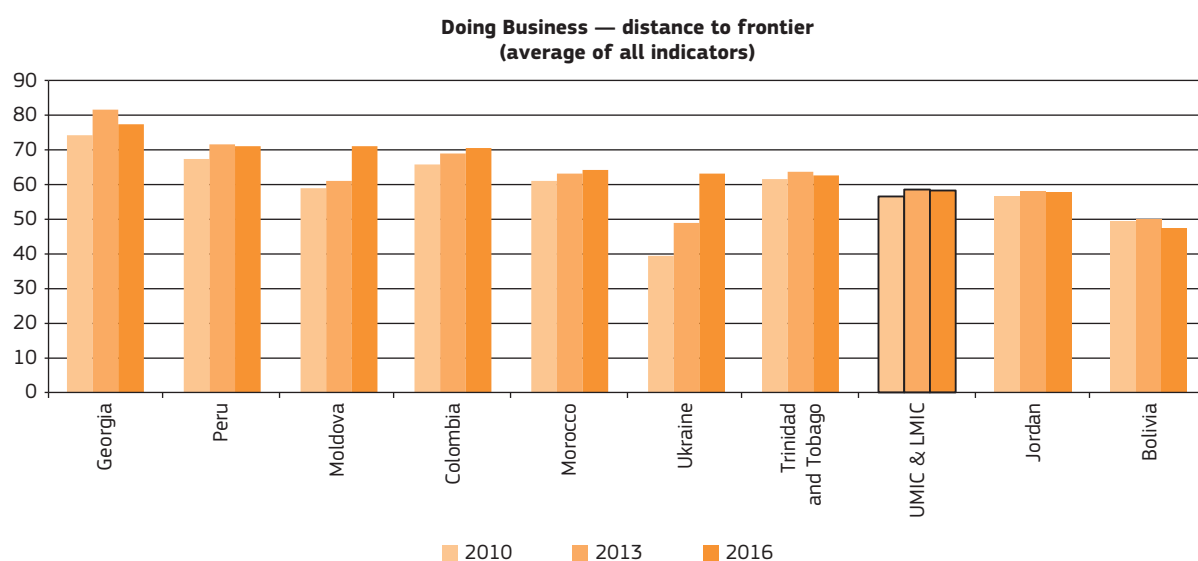
In Burkina Faso the 2014 popular uprising had limited consequences for the implementation of the national health development plan, but had a negative effect on fiscal revenue, hence constraining planning and budget execution in the health sector. The Burkina Faso evaluation concluded that the support for the health sector has contributed to increasing access to the health services and to the improvement of certain health indicators, but has had only limited effects on the efficiency of health expenditures. In Liberia, the last SRC tranche was paid at the end of 2014. Remaining SRC and SBC resources were frontloaded to support the Liberian government in dealing with the Ebola crisis. In Ghana the SRC focused on maternal health.

⁽²⁸⁾ United Nations, *The millennium development goals report 2015*, [http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20\(July%2015\).pdf](http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%2015).pdf)

The other group designed SRCs that are more anchored in the context of health sector reforms. Apart from Mozambique, all of these countries are MICs. Progress is occasionally hampered by public finance management concerns. For example, in Mozambique the last disbursement was not released due to concerns related to public finance management in the health sector. Insufficient budgetary allocations can furthermore affect policy credibility. Strengthening policy dialogue and capacity in relation to both health sector reforms and public financial management issues therefore remains an essential component of budget support.

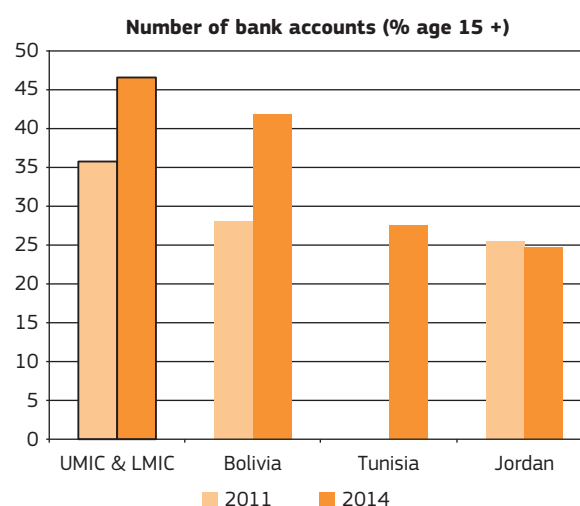
4.4. Trade and private sector development

Nine countries had an ongoing SRC in support of trade and private sector development: Bolivia, Colombia, Georgia, Jordan, Moldova, Morocco, Peru, Trinidad and Tobago and Ukraine. In addition, the Tunisia SBCs have a significant focus on private sector development.



A key indicator in relation to private sector development is the World Bank's Doing Business — distance to frontier indicator, which aims at assessing the level of regulatory performance of countries in relation to the best performance observed on each of the indicators across all economies in the Doing Business sample⁽²⁹⁾. For those operations that focus on financial inclusion, a key indicator measures the percentage of adults with an account at a formal financial institution.

With the notable exceptions of Moldova and Ukraine, limited progress has been made over the last 6 years in improving the Doing Business indicators, in line with the limited progress seen overall in LICs and LMICs. The indicator on financial inclusion shows significant progress in Bolivia, but not in Jordan.



Nevertheless, significant progress was made in relation to the budget support contract objectives, which mainly focus on the development of the SME sector. The SRC in support of Peru's promotion of exports of ecological products contributed to progress in export potential, enterprise participation in ecological production and the functioning of a single window for external trade. The SRC in Bolivia contributed to the introduction of a tax

⁽²⁹⁾ An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. For example, a score of 75 in Doing Business 2015 means an economy was 25 percentage points away from the frontier.

registry for SMEs. In the area of customs, free trade zones were strengthened and new IT systems introduced to combat cross-border smuggling. The SRC in support of Trinidad and Tobago's enabling competitive business strategy contributed to progress in implementation in the areas of policy development, the regulatory environment, cluster development, institutional development and service delivery. The objective is to diversify the economy and reduce dependence on the energy sector. The SRC has furthermore contributed to the country becoming EITI compliant. The objective of the new SRC to support regional competitiveness in Colombia is to reduce economic disparities between regions, unemployment and informality, through a focus on territorial competitiveness and local economic development programmes.

In Ukraine the SRC focused on quality infrastructure institutions and technical barriers to trade. The legislative and regulatory frameworks in this area and the institutions concerned have seen major changes towards better alignment with EU legislation and practices. The legislative framework has been renewed with new laws on technical regulations and conformity assessment, standardisation, metrology, accreditation, market surveillance, general product safety and liability for defective products. The quality infrastructure institutions have been strengthened and the national standardisation body has started its operations. In Tunisia a series of general budget support programmes contain a significant private sector development component. Significant legislative progress has been made, such as the adoption of the Purchasing Power Parity Law and the legislative and regulatory framework on microfinance, which allowed new financial service providers to operate and reach out to excluded and vulnerable groups. Other important reforms took place in the areas of public procurement, customs administration, trade facilitation, the business climate and the strategic reform of the country's main port, located in Rades.

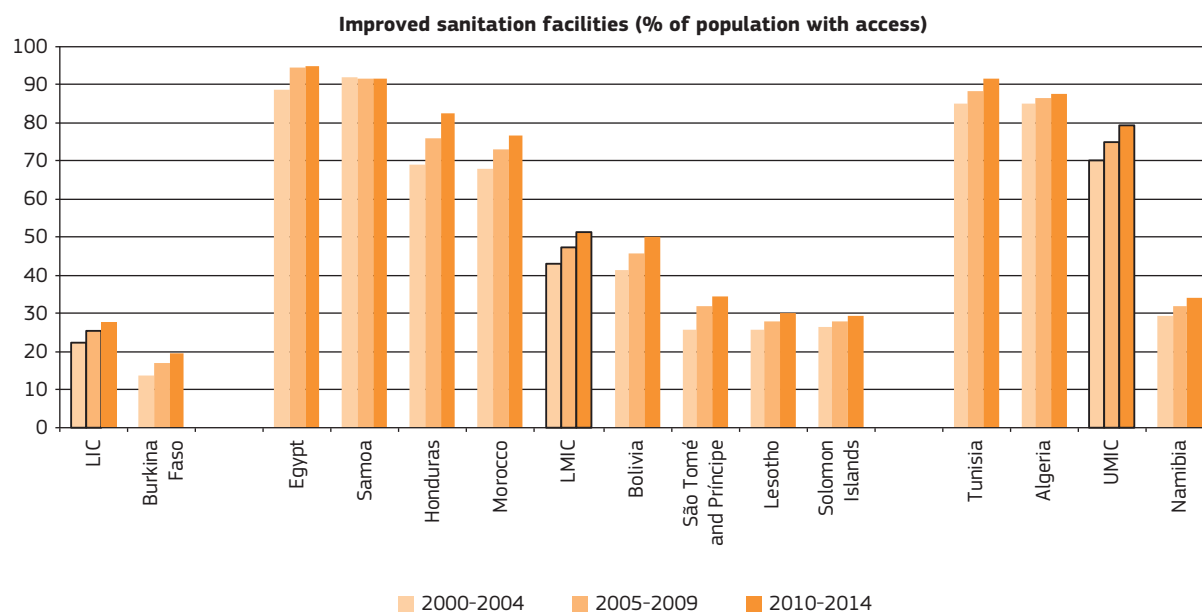
The SRC in Morocco in the field of trade and private sector development assisted the country in bolstering the competitiveness of its industrial sector through the financing of measures aimed at improving the business environment and setting up the required quality infrastructures, regulations and policies that will help Moroccan companies meet EU regulatory requirements and enter the single market. Recognising the need to support Morocco's efforts towards building a solid industrial base and boost its exports, the Commission in 2015 adopted another important SRC (ENI 2015 growth and competitiveness programme, EUR 105 million) with a view to supporting the implementation of Morocco's industrial and export promotion policies and efforts to ensure the transition towards a green economy. These budget support operations were implemented as a complement to the establishment of financing facilities aimed at easing Moroccan SMEs' access to finance and technical support to expand and modernise production and export their products to the EU market.

In 2014, Georgia and Moldova signed association agreements, including deep and comprehensive free trade agreements (DCFTAs). In both countries, DCFTA budget support programmes have begun in order to help local authorities and businesses in their efforts to gradually reach EU standards, for example in sanitary and phytosanitary areas.

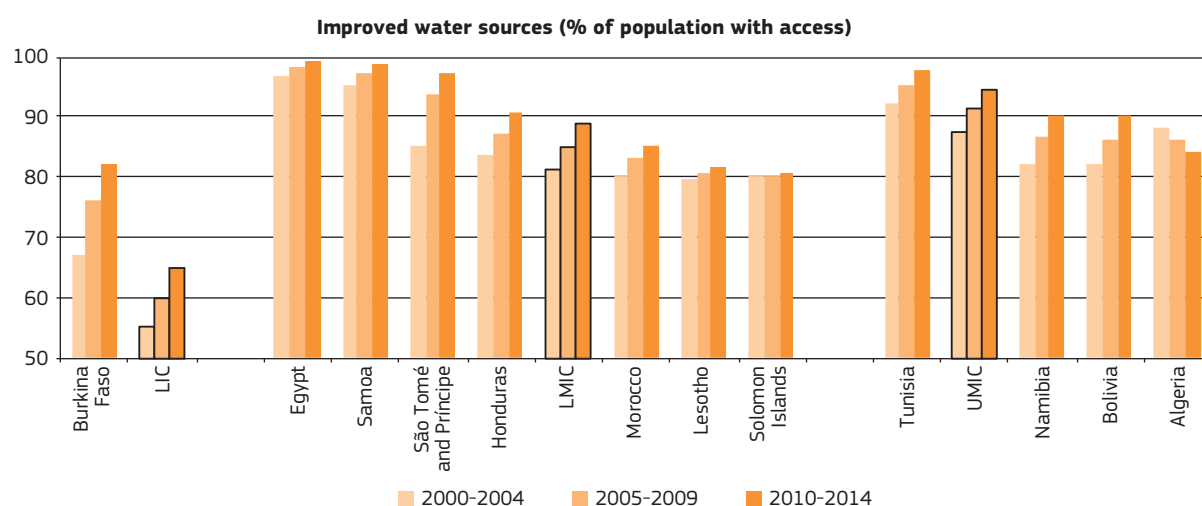
4.5. Water and sanitation

As of the end of 2015, 13 countries had an ongoing SRC contract covering the water and sanitation sector: Algeria, Bolivia, Burkina Faso, the Cook Islands, Egypt, Honduras, Lesotho, Morocco, Namibia, São Tomé and Príncipe, the Solomon Islands, Tunisia and Western Samoa. Country trends using the WDI data on access to improved sanitation facilities and water sources are presented in the graphs below ⁽³⁰⁾.

⁽³⁰⁾ Excluding the Cook Islands due to missing data.



The new SRC signed with Western Samoa follows a previous SRC for the sector that supported revenue collection efficiency in the Samoan Water Authority and significant water treatment and network system infrastructure improvements. The São Tomé and Príncipe SRC benefited from an exhaustive diagnostic of rural and peri-urban access to water and sanitation services. Priorities for 2016 include strengthening information systems and the institutional and policy framework, and whereas access to an improved water source has been much improved, access to improved sanitation facilities remains limited. Both indicators show limited progress for the Solomon Islands. Roughly 80 % of its population lives in rural areas, and the new rural WASH strategy specifically focuses on the rural population. The Cook Islands SRC focuses on sanitation, and in particular a reduced inflow of pollutants into the lagoons and improved sanitation management.



In Burkina Faso water access indicators have shown rapid progress, but access to improved sanitation facilities remains below the LIC average. The sector has also suffered from a slowdown in investments during the turbulent political transition period. Lesotho's indicators have seen gradual progress backed by significant investments in water supply and sanitation infrastructure. A key challenge is to ensure that institutional and managerial structures can deliver continued service delivery following the increase in investments.

Honduras has seen gradual progress on improved water access in line with the LMIC average. Access to improved sanitation facilities is over 80 %, well above the LMIC average. Its national policy framework for the sector is being rolled out in more municipalities, and a first regional centre for training and technical assistance has been created by the sector's technical advisory body.

Declining water resources in Morocco means that effective water management and sewage treatment are essential. The SRC, in combination with a complementary investment project, has led to progress in urban sanitation, both in terms of access points and the share of sewage that is treated. Egypt's increasing water requirements have led to a significant water deficit, which is currently mainly covered through the reuse of agricultural drainage water. Sanitary sewer services are estimated to cover only 65 % of the required capacity. The main challenge is to expand sewer coverage in rural areas. While the SRC disbursements have been on hold since 2012, a sizeable technical assistance component supported progress in the sector, for example in updating key strategies, developing the first financial reform roadmap for the Water and Wastewater Holding Company and tariff restructuring. The Algeria SRC supported progress in wastewater analysis, the modernisation of the sanitation training centre, the training of trainers and the strengthening of public finance management, particularly internal audit functions and medium-term budgeting. Tunisia faces water resource challenges and depends heavily on irrigated agriculture, therefore the conservation and management of water resources is crucial. The support programme for water resource management for agricultural and rural development, implemented in collaboration with the Ministry of Agriculture and the Ministry of Environment and Sustainable Development, has contributed to the financing of public investment and governance reform in the field of water and wastewater treatment, including groundwater management, pollution control and irrigation. The technical assistance component has largely consisted of support for capacity building, notably assessment, monitoring and evaluation, for the coordination of respective Tunisian public bodies and for the general implementation of the national integrated water resource management strategy.

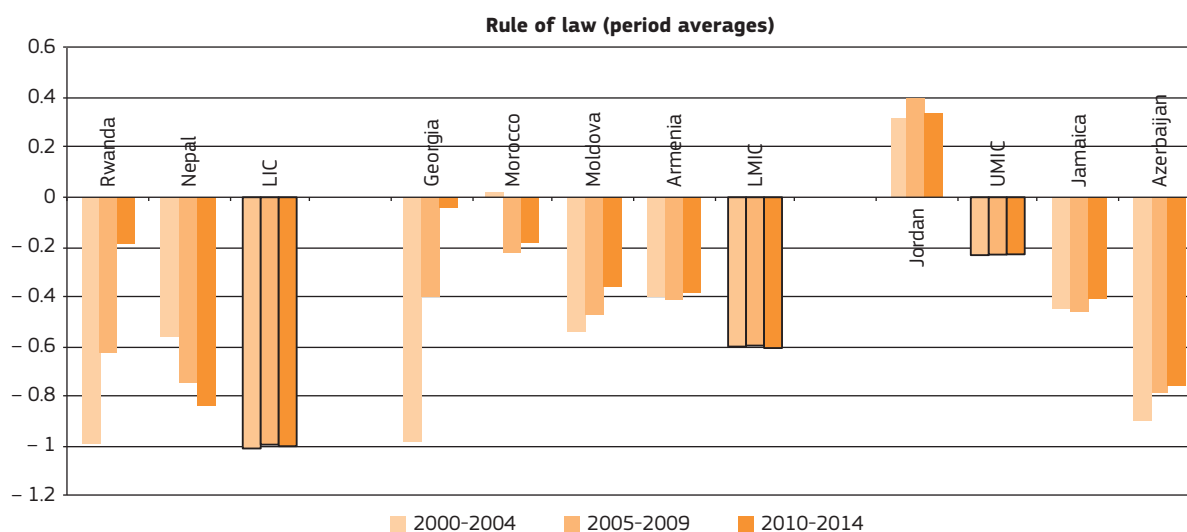
The evaluation of budget support for Uganda showed that budget support has contributed to the improvements achieved by the country in access to and the functionality of rural and small town water supplies, and also in equality, even if the stagnation in key performance indicators suggested that sector funding was insufficient to reach some of the sector targets (notwithstanding improvements in efficiency and maintenance). In Burkina Faso the evaluation showed that budget support, in synergy with other types of aid, contributed significantly to the increase in public resources allocated to water and sanitation but has had (like the other types of aid) limited effects on the identification of responses to the sector's major challenges. In South Africa the evaluation showed that sector budget support (SBS) operations supported the government in the implementation of crucial reform processes in the water and sanitation sector, leading to significant development results.

4.6. Rule of law

Nine countries had an ongoing SRC as of the end of 2015 in a sector linked to the rule of law: Armenia, Azerbaijan, Georgia, Jamaica, Jordan, Moldova, Morocco, Nepal and Rwanda.

The evolution of the worldwide governance rule-of-law indicator ⁽³¹⁾ in these countries since 2000 delineates several patterns. On average, developing countries in both the LIC and MIC categories have not demonstrated significant improvements. Budget support countries largely follow this trend, with relatively stable indicator results.

⁽³¹⁾ The rule-of-law indicator captures perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.



In Rwanda the Gacaca transitional justice mechanism for genocide-related trials was concluded in 2012 and represented a largely successful pragmatic approach to the vast challenge of dealing with post-genocide impunity. Access to legal advice and mediation has improved, as has the existing legal case management system. The number of corruption cases processed has increased, prison overcrowding was reduced and more minors in conflict with the law have benefited from legal representation.

In Nepal positive steps include the constitutional reforms of September 2015 and the reintegration of former Maoist combatants into the Nepalese army and society. Further rehabilitation efforts will positively affect not only the former Maoist combatants but also other conflict-affected people.

In Jamaica the European Union has committed EUR 24 million to a new justice system reform programme. The programme aims to increase access to gender-responsive, accountable and effective justice through justice services at the community level, the use of technology and the mainstreaming of restorative justice services. Furthermore, the programme aims to improve the treatment of children/the juvenile population in the criminal justice system in accordance with international standards.

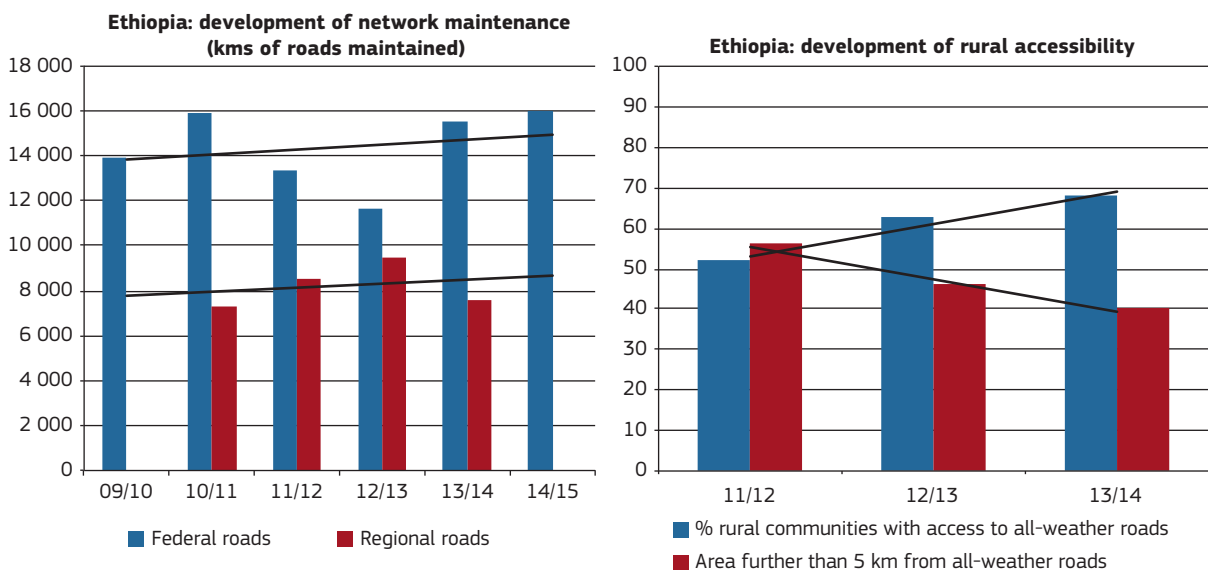
In Jordan key achievements include the adoption of the Justice Independence Law, the strengthening of the judges' training curriculum and a revamped system for legal aid. The SRC on justice in Morocco, adopted in 2014, has improved access to law and justice, led to better judicial protection of rights and freedoms and increased the effectiveness and efficiency of the justice system. With those objectives in mind, the EU has shown its support for the implementation of some of the most iconic provisions of the constitutional reform of 2011 in relation to the rule of law. In Armenia the EU-supported SRC has contributed to improving the justice system by strengthening the free legal aid system and the quality of training, creating a national electronic civil registry and establishing an alternative dispute resolution mechanism. Cooperation also involving budget support programmes is ongoing in Georgia and, beginning more recently, in Moldova. Amongst the achievements recorded in Georgia it is worth noting the improvements in penitentiary living and healthcare conditions, which have contributed to reducing mortality rates by 80 % and disease transmission rates, for example for tuberculosis, by 50 %.

4.7. Transport

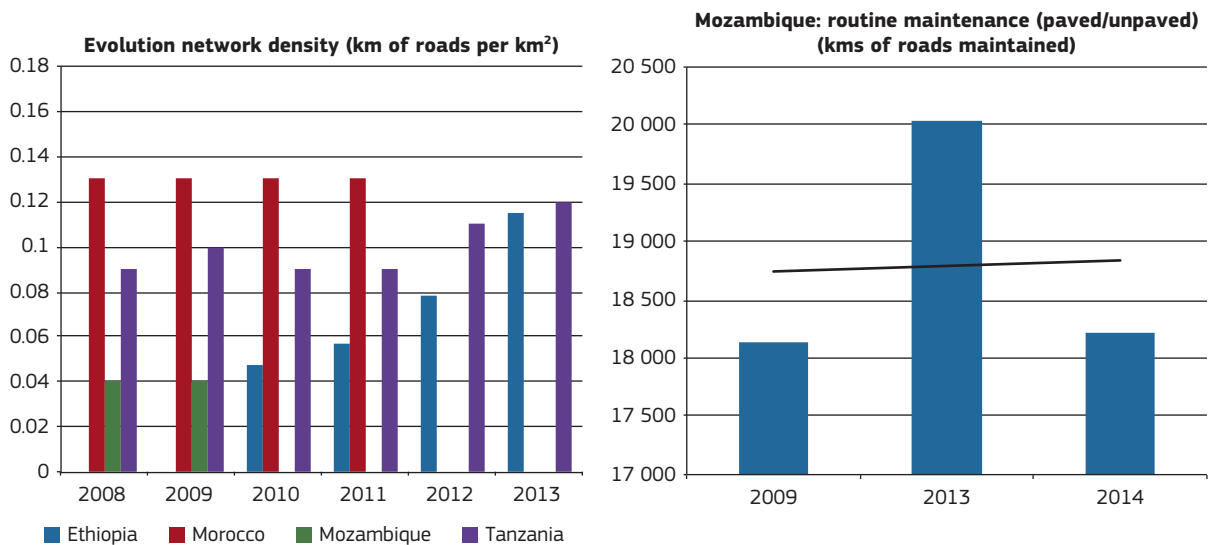
SBS in the road transport sector is geared towards the preservation of the road network asset through sustainable road maintenance management, realistic and affordable sector financing and institutional reforms. As of the end of 2015, nine countries had an ongoing SRC in support of the transport sector, but note that three countries (Egypt, Malawi and Zambia) have not received any disbursement for at least 3 years due to eligibility concerns. The other six countries with a transport SRC are Ethiopia (new 2015 decision), Morocco, Mozambique, Rwanda, Tanzania and Ukraine.

Data on road maintenance and access are patchy but selected data are presented below. A new report, *Evaluation of EU support for the transport sector in Africa 2005-2013* ⁽³²⁾, assesses African countries that have received SBS, in particular Benin, Ethiopia, Egypt, Malawi, Morocco, Mozambique, Namibia, Rwanda and Tanzania. The report concludes that there have been mixed results when applying this method. Whereas in countries such as Ethiopia and Morocco, with stronger budgetary processes, SBS has been quite successful, results in other cases such as Malawi, Mozambique, Tanzania and Zambia show that public financial management weaknesses have led to difficulties in implementation. Key success factors are related to the capacity and ownership of sector implementation agencies responsible for road network management and financing, the appreciation of the SBS instrument, the availability of rather robust strategic sectorial frameworks and the overall absorption capacity of annual work programmes. In most cases SBS has facilitated the policy dialogue on strategic sector issues, but there was limited evidence that the application of the modality has directly contributed to improved public finance and sector management.

As illustrated in the graphs below, Ethiopia has shown satisfactory performance on network maintenance for its core road network and good progress towards increased rural accessibility and network density.



Mozambique’s stagnating figures on routine maintenance relative to an expanding road network suggest a need for enhanced maintenance planning, financing and implementation.



⁽³²⁾ https://ec.europa.eu/europeaid/sites/devco/files/evaluation-transport-final-report-volume1_en.pdf

The Ukraine SRC has been instrumental in the adoption of a transport strategy and strategic subsector plans. This has contributed to the alignment of regulatory frameworks with international and EU legislation. The SRC has furthermore contributed to the implementation of institutional reforms, such as separating the operational and regulatory responsibilities of network management. Enhanced transport flows have been achieved by the simplification of border-crossing and customs procedures and the introduction of modern e-document traffic between supervising and licensing bodies and sea ports. This has allowed for the exclusion of Ukraine from the Paris MOU blacklist in terms of port state control. The Morocco SRC has contributed to enhanced transport liberalisation and the restructuring of the transport sector. Road-sector support has been geared towards the improvement of the rural road network.

4.8. Energy

As of the end of 2015, one Pacific and six ENI countries had an ongoing SRC contract covering the energy sector: Egypt, Jordan, Moldova, Morocco, Tonga, Tunisia and Ukraine. Note that disbursements for the Egypt SRC have been on hold for more than 3 years due to eligibility concerns.

All these programmes aim at supporting partner countries in the implementation of their sustainable energy policy and in the setting up of the enabling environment needed to mobilise public and private actors.

In Tonga the institutional framework has progressed with the setting up of the Department of Energy. By March 2015 the renewable energy share of overall energy production had reached 8 %, increasing from 6.4 % the previous year. Access to modern energy services has increased and the target of universal access to electricity by 2020 remains on track.

The 2012 energy SRC in Ukraine was relaunched in 2015, allowing the programme to adapt to Ukraine's commitments in the association agreement and the Energy Community Treaty. The programme currently covers a set of targets for the market-based operation of the Ukrainian electricity sector, the reduction of environmental pollution related to electricity generation, the improvement of the quality of oil products and quality setting up of a system of oil and oil-product stocks. Recent progress includes the adoption of a fully EU-compliant gas market law.

Launched in 2009, the environment and energy programme in Tunisia has provided key support to the Tunisian energy sector, reaching some 1 000 industrial, tertiary, residential and agricultural companies and institutions. It has increased the environmental awareness of some 1 000 entrepreneurs and has connected over 19 000 individuals and companies to the national gas distribution network. The programme's activities have facilitated a smooth transition to more sustainable energy sources and more energy-efficient measures, including 10 major cogeneration projects in the industrial sector, the substitution of oil products with natural gas in over 50 companies and an increase in solar power in the energy mix of over 700 undertakings by means of solar thermal installations and photovoltaic energy production amounting to 9 MW.

In Moldova the energy SRC is supporting the country's commitments as a member of the Energy Community Treaty by, amongst other things, promoting energy efficiency, renewable energy and interconnection with the EU energy market.

In Morocco the SRC in the field of energy has achieved progress in establishing a legal framework to foster the development of renewable energy and energy efficiency and providing tools to evaluate Morocco's renewable energy potential, as well as regulatory convergence with the EU legal framework in the areas of renewable energies and energy efficiency.

4.9. Other sectors

The previous sections cover frequently supported sectors. However, more SRCs are in place in other sectors and future reports will seek to extend the coverage of sector results. SRCs in support of employment and vocational training are concentrated in ENI countries (Armenia, Georgia, Jordan, Moldova, Morocco, Tunisia). A great number of SRCs support the environmental sector (Algeria, Bhutan, Bolivia, Colombia, Ghana, Honduras, Morocco,

Rwanda, Senegal, Trinidad and Tobago and Western Samoa) and decentralisation and local authorities (Benin, Ghana, the Dominican Republic, Tunisia, Uruguay). Some SRCs specifically focus on social protection (El Salvador, Kyrgyzstan, Morocco, Paraguay, Peru, Rwanda, Tajikistan). Support for economic governance and public finance management via SRCs is ongoing in selected countries (Albania, Armenia, Cambodia, Georgia, Jordan, Moldova, Timor-Leste). Other SRCs include support for public sector reform (Georgia, Morocco, Tunisia), electoral reform (Kyrgyzstan), gender (Morocco), reconstruction relief and rehabilitation (Georgia), regional development (Georgia, Ukraine) and flood prevention (Guyana).

5. Good governance and development contracts

GGDCs permit a form of budget support with a broad scope, and focus on cross-cutting governance issues. As of the end of 2015, seven mostly LICs or LMICs had ongoing GGDCs: Benin, Cape Verde, Jordan, Lesotho, Malawi, Mozambique (new 2015 decision) and Vanuatu. Four new contracts are at the planning stage: Benin, Burkina Faso, Côte d'Ivoire and Tanzania. The commitment to fundamental values is a precondition and is assessed in advance and monitored during preparation and implementation phases using the RMF.

A new GGDC was also developed in 2015 for Cape Verde, but has not yet been signed. It will mainly support national accountability and control mechanisms, service delivery, economic resilience, gender and the implementation of the EU–Cape Verde Special Partnership provisions. The preliminary results of the Benin GGDC 2012–2014 final report show that the programme was well designed and implemented. However, reform efforts have slowed, as illustrated by the declining variable tranche performance. The Vanuatu GGDC benefited from a rider to fast-track the disbursement of the remaining tranche of this GGDC and to adapt it to the post-cyclone situation. Progress with the Lesotho GGDC was undermined by eligibility concerns and programme funds are being decommitted. Technical assistance and policy dialogue will continue, however. Similarly, disbursements under the Malawi GGDC have been on hold since 2012 due to eligibility concerns.

6. State-building contracts

SBCs have developed into an important method of providing aid to support countries in fragile situations. A 2015 Overseas Development Institute study⁽³³⁾ concluded that EU SBCs have proved to be flexible instruments, enabling the EU to develop rapid support mechanisms in line with donor commitments in the New Deal for Engagement in Fragile States. A fast response can be important given that the political situation is often precarious and volatile in fragile states. In these situations, where the costs of non-intervention can be assessed as high, there is a need for a quick short-term response closely coordinated with EU Member States and the international community.

As of the end of 2015 there were 17 countries with an ongoing SBC: Burkina Faso, Burundi, the Central African Republic, Chad, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Mali, Mauritania, Nepal, Sierra Leone, Togo, Tunisia and Ukraine.

The SBCs with Guinea, Liberia and Sierra Leone were designed mainly to mitigate the effects of the Ebola crisis. The impact of the crisis has been substantial, with a devastating human toll, sharp economic downturn and collapsing healthcare systems. The Chad SBC aims at reducing 2015 fiscal vulnerabilities due to the combined effect of the sharp reduction in oil prices and the increased financing needs related to Boko Haram terrorism. It also contributed to reaching the heavily indebted poor countries completion point.

SBCs also support a number of countries affected by conflict. In Mali the SBC facilitates state building in a decentralised context, with a focus on the redeployment of the local administration and public service provision in the previously occupied territories of the north in order to stabilise the region and facilitate the return of displaced populations. In addition, private sector employment opportunities were created, for example through road maintenance programmes. Similarly, in the Central African Republic the SBC focuses on restoring basic state functions. The Ukraine SBC aims at supporting political and economic stabilisation. Progress has been

⁽³³⁾ *EU state building contracts: early lessons from the EU's new budget support instrument for fragile states*, Overseas Development Institute, February 2015.

possible in a complex environment, particularly the creation of the Anticorruption Bureau and key legislation in line with EU standards on anti-corruption, public procurement, the civil service, access to information and the transparency of political party funding. Importantly, the government has committed to close scrutiny from civil-society organisations in monitoring reforms. Côte d'Ivoire's SBC was implemented following the end of a cycle of civil violence at the end of the electoral process. It aims at restoring citizen's confidence in national systems. By focusing on public financial management, justice and the fight against corruption it provides a strong incentive to accelerate reforms that were recommended by recent indicators (such as doing business).

SBCs in support of countries undergoing a fragile political transition, such as Burkina Faso, Madagascar, Togo and Tunisia, aim at facilitating democratic transitions and mitigating transition costs. Madagascar's democratic transition allowed for renewed support leading to progress in public financial management, anti-corruption measures and an increase in social expenditure. In Burkina Faso the SBC supported the democratic transition following the 2014 popular uprising while maintaining developmental progress on track through the implementation of the national poverty reduction and growth strategy. Togo's more gradual democratic transition and reconciliation processes continue to progress, but with significant challenges in areas such as local elections, the justice sector and constitutional revision. A new SBC is under preparation for 2016. Relatively solid economic growth has not yet translated in significant poverty reduction. The Tunisia SBC is supporting Tunisia's democratic transition and has provided much-needed resources at a time of severe economic difficulties following the three major terrorist attacks in 2015, which led to the almost total collapse of the tourism sector. A number of key pieces of legislation have been adopted, including an organic law establishing a constitutional court and an organic budget law modernising the management of public funds. The SBC has also supported a number of important reforms relating to improvements in the business climate and public finance management and laying the groundwork for social dialogue between trade unions, employers and the state.

As discussed in Part II of this report, SBCs are provided in a context of substantial risks and progress is not uniform. Burundi particularly has been affected by adverse political developments that have led to a suspension of the SBC and aid in general. Mauritania's last SBC disbursement mainly focused on macroeconomic stability, but variable tranche execution was relatively low. Nevertheless, the SBC allowed for a strengthening of the policy dialogue in relation to social service delivery.

Natural disasters can undermine developmental gains, increase vulnerability and even affect the functioning of state institutions. The Nepal SBC is supporting the country in overcoming the devastating impact of the recent earthquakes, the biggest natural disaster to impact Nepal in over 80 years, with severe negative consequences for progress in poverty eradication, basic service delivery and economic growth. Haiti is still recovering from its own devastating earthquake. 2015 was a year of important democratic transition. Improved public financial management, particularly in relation to public investments, is a key priority. Niger not only faces recurring natural disasters in the form of droughts, it also faces multiple security threats in a volatile region. Supported by the SBC, Niger nevertheless continues to make satisfactory progress in the implementation of its national poverty reduction strategy.

Annex 1 — Selected regional and country indicators (34)

Regional Overview*	All budget support						ESA			WCA			ENP-South			ENP-East			Asia			Latin America			Caribbean			Pacific			OCT			IPA					
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016			
Financial Implementation	239	265	32	36	85	432	349	128	744	1598	380	341	324	558	152	147	63	234	671	100	136	37	0	38	19	1	33	124	25	31	135	/	5						
No of budget support contracts																																							
New commitments																																							
Total commitments																																							
GGDC																																							
SBC																																							
SRC																																							
Education																																							
Health																																							
Agriculture & rural development and food security																																							
Transport																																							
Energy																																							
Trade and private sector development																																							
Water and Sanitation																																							
Governance																																							
Employment & vocational training																																							
Environment																																							
Social protection																																							
Other																																							
Planned variable tranche share (AVR)																																							
Disbursements forecast (1st trim)																																							
Disbursed																																							
Disbursements outstanding (year end)																																							
Budget support Disbursements as % of total ODA																																							
Poverty reduction & inclusive growth	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14	00-04	05-09	10-14			
Poverty headcount ratio at USD 1.90 a day (2011 PPP) (% of population)	35%	28%	23%	55%	45%	42%	59%	55%	49%	5%	3%	2%	22%	13%	12%	13%	5%	4%	13%	5%	4%	13%	5%	4%	13%	5%	4%	13%	5%	4%	13%	5%	4%	13%	5%	4%			
Poverty headcount ratio at USD 3.10 a day (2011 PPP) (% of population)	61%	55%	47%	78%	71%	68%	80%	78%	75%	6.5%	6.7%	6.8%	8.9%	9.4%	10.2%	8.4%	8.1%	8.0%	2.9%	3.2%	3.8%	3.8%	3.3%	3.5%	3.6%	3.3%	3.5%	3.6%	3.3%	3.5%	3.6%	3.3%	3.5%	3.6%	3.3%	3.5%	3.6%		
Income share held by lowest 20 %	7.2%	7.0%	7.1%	6.4%	6.1%	6.0%	6.2%	6.3%	6.6%	3.1%	3.5%	2.9%	1.8%	1.8%	2.2%	5.3%	5.2%	5.3%	3.7%	2.8%	2.2%	2.2%	4.2%	3.8%	3.4%	4.2%	3.8%	3.4%	4.2%	3.8%	3.4%	4.2%	3.8%	3.4%	4.2%	3.8%	3.4%		
Real GDP growth (%)	Repeat only	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	Repeat PEFA	All	
PFM, transparency (PEFA)	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	Prev	Latest	
Credibility of the budget	C+	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	
Comprehensiveness and transparency	C+	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	
Policy-based budgeting	C+	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	
Predictability and control in budget execution	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+		
Accounting, recording and reporting	C	C+	C+	C+	C+	C+	C	C+	C+	C	C+	C	C+	C+	C+	C	C+	C	C+	C	C+	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
External scrutiny and audit	C	C+	C+	C+	C+	C+	C	C+	C+	C	C+	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
Open budget index	37	39	45	51	51	54	22	24	41	26	30	39	53	50	54	35	38	39	39	44	49	24	33	43	34	36	41												
Control of corruption	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014	00-06	07-13	2014
WGI Control of corruption	-0.45	-0.40	-0.39	-0.16	-0.13	-0.24	-0.65	-0.63	-0.60	-0.20	-0.28	-0.28	-0.78	-0.65	-0.49	-0.74	-0.74	-0.58	-0.39	-0.28	-0.32	-0.02	0.04	-0.17	-0.48	-0.27	-0.05												
Macroeconomic management, DRM	39%	42%	44%	44%	48%	51%	46%	50%	51%	38%	39%	42%	48%	60%	68%	5%	5%	5%	36%	39%	41%	50%	51%	54%	28%	27%	29%												
General government gross debt (% GDP)	6	6					3	3	3	10	10	10	6	5	5	4	5	8	8	8	5	5	5																
Reserve coverage (months of imports)	-3%	-4%	-4%	-4%	-4%	-4%	-5%	-5%	-4%	-6%	-10%	-9%	-2%	-2%	-6%	-3%	-3%	-3%	-2%	-3%	-3%	-3%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%			
Gen. gov. net lending/borrowing (% GDP)	27%	27%	27%	27%	30%	30%	26%	25%	25%	36%	37%	35%	40%	39%	39%	19%	19%	19%	28%	27%	26%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%			
Gen. government expenditure (% GDP)	-3%	-4%	-4%	-4%	-4%	-4%	-6%	-7%	-7%	-10%	-9%	-8%	-6%	-6%	-10%	-10%	-10%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%		
Current account balance (% GDP)	23%	23%	23%	23%	26%	26%	26%	17%	18%	18%	18%	29%	29%	29%	29%	34%	34%	34%	25%	24%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%		
Revenue excluding grants (% GDP)																																							

(34) The budget support financial data provided are provisional. Other data are taken from the IMF World Economic Outlook and World Bank World Development Indicator databases of April 2016 and December 2015 respectively. Other data sources include the International Budget Partnership's Open Budget Index, the worldwide governance indicators and the PEFA secretariat. PEFA results are averaged by dimension. Regional PEFA ratings are unweighted averages and consider all final PEFAs. The country table only shows published PEFAs. Poverty and inequality regional averages are population weighted (excluding India). Macroeconomic regional averages are GDP weighted and the 2014 and 2015 data are projections.

Western and central Africa

Country table	Benin		Burkina Faso		Burundi		Cape Verde		Central African Republic		Chad		Côte d'Ivoire		Ghana		Guinea		Guinea-Bissau		Liberia		
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	
Financial Implementation																							
No of budget support contracts	2	2	3	4	1	2	1	1	1	2	1	1	2	1	2	4	4	1	1	1	1	2	3
New commitments	0	160	0	120	388	7	0	0	45	30	40	22	60	0	41	48	0	25	18	8	25	0	62
Total commitments	90	90	448	568	42	75	27	27	30	70	22	22	142	183	354	354	25	18	8	8	84	146	
GGDC	/	/	/	/	/	/	27	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
SBC	/	/	120	/	/	42	/	/	70	70	22	22	142	183	354	354	25	18	8	8	84	146	
SRC	40	40	82	82	33	33	0	0	0	0	0	0	41	41	110	110	0	0	0	0	0	40	40
Education	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Health	/	/	30	30	33	33	/	/	/	/	/	/	/	/	50	50	/	/	/	/	/	/	40
Agriculture & rural development and food security	/	/	/	/	/	/	/	/	/	/	/	/	41	41	/	/	/	/	/	/	/	/	/
Transport	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Energy	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Trade and private sector development	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Water and Sanitation	/	/	52	52	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Governance	40	40	0	0	0	0	0	0	0	0	0	0	0	0	45	45	0	0	0	0	0	0	0
Employment & vocational training	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Environment	/	/	/	/	/	/	/	/	/	/	/	/	/	/	15	15	/	/	/	/	/	/	/
Social protection	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Other	0	0	366	366	0	0	0	0	0	0	0	0	0	0	244	244	0	0	0	0	0	0	0
Planned variable tranche share (AVR)	44%	55%	9%	23%	45%	37%	36%	35%	47%	0%	0%	0%	0%	0%	15%	8%	74%	0%	54%	15%	15%	0	0
Disbursements forecast (1st trim)	25	6	13	79	41	55	11	14	0	4	5	0	0	14	90	32	11	10	7	0	0	10	10
Disbursed	22	0	79	87	16	0	11	7	30	17	22	22	17	0	161	161	12	10	8	8	8	30	29
Disbursements outstanding (year end)	11	11	27	59	12	0	9	0	0	24	0	0	36	0	209	34	13	0	0	0	0	0	33
Budget support Disbursements as % of total ODA	42%	0%	61%	/	23%	/	68%	/	32%	15%	0%	14%	19%	0%	0%	0%	0%	14%	49%	29%	51%	/	/
Poverty reduction & inclusive growth																							
Poverty/headcount ratio at USD 1.90 a day (2011 PPP) (% of population)	49%	/	53%	57%	55%	/	/	78%	/	65%	66%	63%	38%	23%	29%	/	25%	62%	60%	35%	54%	/	69%
Poverty/headcount ratio at USD 3.10 a day (2011 PPP) (% of population)	77%	/	76%	79%	80%	/	/	92%	/	84%	82%	85%	65%	55%	55%	/	49%	83%	81%	69%	81%	/	90%
Income share held by lowest 20 %	7.0%	/	6.1%	5.8%	6.7%	/	/	8.9%	/	5.2%	3.3%	6.3%	4.9%	6.1%	5.1%	/	5.2%	5.8%	6.3%	7.6%	7.3%	/	6.5%
Real GDP growth (%)	5.4%	5.5%	5.3%	4.0%	5.0%	6.0%	4.7%	-7.2%	5.2%	1.0%	5.5%	5.7%	6.9%	8.2%	7.6%	4.0%	3.5%	1.1%	0.0%	4.9%	2.5%	4.7%	0.9%
PFM, transparency (PEFA)																							
Credibility of the budget	C+	/	B	C+	/	B	C+	/	B+	/	/	/	/	C+	/	B	C+	/	/	/	D+	/	D+
Compr. and transparency	C	/	B+	B+	/	C	C+	/	B	/	/	/	/	C	/	C+	C+	/	/	/	D+	/	D+
Policy-based budgeting	B	/	B+	B+	/	C	B+	/	B	/	/	/	/	D	/	C+	B+	/	/	/	C	/	C+
Predictability and control in budget execution	C	/	C	B	/	D+	C+	/	B	/	/	/	/	C	/	C	C	/	/	/	D+	/	C+
Accounting, recording and reporting	D+	/	C+	B	/	D+	D+	/	C+	/	/	/	/	C	/	C+	C+	/	/	/	D	/	D+
External scrutiny and audit	D+	/	C+	C	/	D+	D+	/	C	/	/	/	/	D	/	C	C	/	/	/	D+	/	D+
Open budget index	/	1	45	5	23	43	/	/	/	/	/	0	3	4	/	54	50	51	/	/	/	/	40
Control of corruption																							
WGI Control of corruption	-0.66	-0.69	-0.78	-0.13	-0.42	-0.53	-0.99	-1.18	-1.19	0.34	0.79	0.90	-1.17	-1.32	-1.23	0.06	0.7	-0.82	-1.12	-1.07	-1.02	-1.14	-1.51
Macroeconomic management, DRM																							
Gen. government gross debt (% GDP)	34%	35%	36%	29%	33%	32%	31%	34%	30%	48%	42%	37%	25%	25%	24%	37%	35%	33%	41%	36%	54%	52%	48%
Reserve coverage (months of imports)	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Gen. gov. net lending/borrowing (% GDP)	-25%	-26%	-35%	-19%	-25%	-30%	-34%	-60%	-48%	-74%	-41%	-35%	-42%	-11%	-9%	-23%	-32%	-41%	-67%	-3.5%	-1.4%	-0.9%	-2.5%
Gen. government expenditure (% GDP)	22%	24%	25%	23%	25%	26%	30%	30%	29%	30%	30%	29%	22%	18%	18%	23%	23%	26%	30%	27%	22%	20%	22%
Current account balance (% GDP)	-8%	-9%	-9%	-6%	-8%	-8%	-18%	-11%	-10%	-8%	-10%	-7%	-6%	-12%	-11%	-1%	-1%	-24%	-17%	-37%	-1%	-3%	-5%
Revenue excluding grants (% GDP)	19%	19%	19%	19%	19%	19%	13%	14%	14%	22%	22%	21%	16%	13%	15%	18%	19%	18%	18%	20%	8%	10%	11%

Annex 2 — Country classification

As used in calculation of group averages in Part III.

Countries with EU budget support operations				Other EU aid recipients			
LIC	LMIC	UMIC	HIC	LIC	LMIC	UMIC	HIC
Benin	Armenia	Albania	Seychelles	Afghanistan	Cameroon	Angola	Antigua and Barbuda
Burkina Faso	Bangladesh	Algeria	Barbados	Comoros	Congo	Belarus	Venezuela
Burundi***	Bhutan	Azerbaijan	Saint Kitts and Nevis	Democratic Republic of the Congo	Djibouti	Belize	Argentina
Cambodia	Bolivia	Botswana	Trinidad and Tobago	Eritrea	Kenya	Fiji	Chile
Niger	Laos	Peru	Uruguay	Somalia	Kiribati	Brazil	
Central African Republic	Cape Verde	Colombia		South Sudan	Kosovo	Gabon	
Chad	Côte d'Ivoire	Cook Islands		The Gambia	Micronesia	Kazakhstan	
Ethiopia	(Egypt*)	Costa Rica		Zimbabwe	Myanmar/Burma	Lebanon	
Guinea	El Salvador	Dominica			Nicaragua	Marshall Islands	
Guinea-Bissau	Georgia	Dominican Republic			Nigeria	Mongolia	
Haiti	Ghana	Ecuador			Papua New Guinea	Palau	
Liberia	Guatemala	Grenada			Sri Lanka	Saint Lucia	
Madagascar	Guyana	Jamaica			Sudan	Saint Vincent and the Grenadines	
(Malawi*)	Honduras	Jordan			Swaziland	Suriname	
Mali	India**	Mauritius			Syria	Turkmenistan	
Mozambique	Indonesia	Namibia			Uzbekistan	Maldives	
Nepal	Kyrgystan	Paraguay			Yemen	Panama	
Rwanda	Lesotho	South Africa				Malaysia	
Sierra Leone	Maritania	Tonga				Mexico	
Tanzania	Moldova	Tunisia				Thailand	
Togo	Pakistan					Tuvalu	
Uganda	Philippines					Turkey	
	Samoa					Serbia	
	São Tomé and Príncipe					Montenegro	
	Solomon Islands					Macedonia	
	Tajikistan					Bosnia and Herzegovina	
	Timor-Leste					China**	
	Ukraine						
	Vanuatu						
	Vietnam						
	(Zambia*)						

* Open commitment but disbursements on hold at least 3 years.

** Excluded from weight average calculations due to size.

*** Suspended in 2016.

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