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Economic governance and budget support

TECHNICAL DISCUSSION PAPER ON A “MDG CONTRACT”

A PROPOSAL FOR LONGER TERM AND MORE PREDICTABLE GENERAL BUDGET SUPPORT

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In line with international commitments and Council conclusions, the European Commission intends to provide more long-term and predictable general budget support whenever deemed possible during the implementation of the 10th EDF. This enhanced implementation modality would be called “MDG contract” to highlight the contractual nature of its long term financial commitments and its focus on MDG-related results, notably but not exclusively in health and education. The objectives of this discussion paper are to set out current EC thinking on the “MDG Contract”, covering both the proposed approach and the potential role for EU Member States, and to invite comments from other Commission services and externally¹.

The paper reviews the broader background and rationale for an “MDG contract” (section 1) and summarises the various European undertakings made and steps taken by the Commission to develop the concept to date (section 2). It then sets out the proposed objectives and key features of the “MDG Contract” (section 3) and some key issues arising (section 4), before outlining how specific proposals may satisfy these features and address these key issues (section 5). Some exemplifying design arrangements used to inform this proposal are set out in an Appendix. The remainder of the paper discusses some ways in which EU Member States may best support and strengthen the proposal (section 6), and ends with some conclusions and next steps (section 7).

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1. BACKGROUND AND RATIONALE

More and better aid is needed to meet the MDGs. Budget support is one important instrument for improving aid effectiveness, but current approaches could still be made more long term and predictable.

It is widely accepted that more and better aid is needed if the MDGs are to be achieved. Donor agencies have committed themselves to this objective in a number of international meetings and declarations such as in Monterrey (2002), Gleneagles (2005) and Paris (2005).

These efforts will require a mix of instruments, although budget support is recognised as having a particularly important role to play where circumstances allow. Indeed, a shift to more budget support will be essential to make effective use of scaled up aid. "Business as usual" is simply not an option. Budget support is able to strengthen national processes and systems, enhance country ownership, facilitate harmonisation, reduce transactions costs, and so improve prospects for better public spending and faster achievement of development goals. The Commission is already seeking to increase the use of budget support in the on-going 10th EDF programming exercise, in order to improve the effectiveness of its aid and meet these international commitments.

But current approaches to budget support suffer from two particular problems. Firstly, there is a relatively short time horizon, typically three years in the case of the EC. Secondly, a significant and costly degree of unpredictability² arising from the annual application of eligibility and disbursement conditions³ occurs. While these are important to reduce the risk of aid being wasted should the policy environment deteriorate, they should be assessed in view of their overall impact on the likelihood of meeting the developmental objectives of budget support. By making the actual availability of donor resources uncertain, the annual application of conditionality measures and the short term commitment horizon can limit the effectiveness of budget support and may also discourage Ministries of Finance from allowing more ambitious spending plans, despite the availability of donor resources (see Box 1). This is particularly true for those spending programmes – including capital spending – that entail long term recurrent cost commitments, such as teachers' and nurses' wages, and that are necessary to achieve the MDGs and for which significant financing gaps have been identified⁴.

² See for example Bulir and Hamman (2003 and 2007) and Celasun and Walliser (2007) for empirical analysis on both the scale and the costs of unpredictable budget support.

³ Based on the Cotonou Treaty, EC eligibility conditions for budget support are that there are in place a) a well defined national (or sectoral) development strategy; b) stability oriented macroeconomic policies; and c) a credible and relevant programme to improve public financial management.

⁴ A range of organisations from the OECD Development Assistance Committee ("Draft conclusions on the 2006 Monitoring of the Paris Declaration") to OXFAM ("In the Public Interest", 2006) have called for more long-term, more predictable aid, while the IMF's recent analysis of managing fiscal policy in a world of scaled-up aid (Heller et al, "Making Fiscal Space Happen", IMF Working Paper WP/06/270, December 2006) and evaluation of IMF support to Sub-Saharan Africa ("An Evaluation of the IMF and Aid to Sub-Saharan Africa", IMF Independent Evaluation Office, March 2007), have also highlighted the scope for increased predictability to create more "fiscal space" to accelerate progress towards the MDGs.

Box 1: A Ministry of Finance Perspective on Unpredictability

One senior African Ministry of Finance official said recently, in part explanation of their policy of fiscal consolidation and slower growth of spending, that: *"The budget is becoming increasingly vulnerable to any interruption or sustained cutback in donor aid..... Obviously, we do not want to see donor aid reduced, but we simply cannot bank on donors continuing to provide ever increasing amounts of aid to fund the Government budget, whatever promises are made at international summits about increasing aid to poor countries. The reality is that the donors cannot make any firm commitments as to the level of aid that they can give for more than one or two years ahead, and moreover, their actual disbursements of aid often fall short of their pledges"*.

2. EUROPEAN COMMITMENTS AND STEPS SO FAR

A number of key documents and statements have endorsed the need to develop new, more predictable and less volatile aid mechanisms.

The European Commission and EU Member States have made a number of statements endorsing the need to develop new, more predictable and less volatile aid mechanisms, including in the Commission's "MDGs Communications Package" (2005), the European Consensus on Development (2006), and in the most recent Communication on "Keeping Europe's Promises on Financing for Development" (2007) - see Box 2.

Box 2: European commitments to improving aid mechanisms

In its "MDGs Communications Package" of April 2005, the Commission made a set of proposals for accelerating progress towards the MDGs, including exploring the scope for "a European initiative to develop new, more predictable and less volatile modalities". This idea was taken up by the GAERC which on 25 May concluded that:

"in order to better respond to the need for stable resources and in view of the expected increases in ODA flows, the EU will develop new, more predictable and less volatile aid mechanisms. Such mechanisms could consist in the provision of a minimum level of budgetary aid secured in a medium term perspective and linked to policy performance in the partner countries in particular in relation to the commitment towards achieving the MDGs in national poverty reduction strategies".

The European Consensus on Development (2006) also declared that:

"The Community will consistently use an approach based on results and performance indicators. Increasingly, conditionality is evolving towards the concept of contract based in negotiated mutual commitments formulated in terms of results" (Article 115).

The Communication on "Keeping Europe's Promises on Financing for Development" (2007) noted that:

"la Commission estime que le moment est venu de mettre en oeuvre le concept de "contrat" lié à des résultats tangibles en regard des objectifs du Millénaire en lieu et place de la vérification annuelle des conditionnalités traditionnelles de chaque donneur".

DG Development convened a technical meeting with Member State representatives in February 2006, at which the EC tabled a "non-paper" on "New Aid Modalities for the MDGs" which outlined the broad characteristics of a multi-donor "MDG Contract". Albeit generally supportive of the objectives, reactions at the meeting showed that a

fully-fledged multi-donor initiative would not be a feasible option in the near future. Accordingly, against the background of the on-going 10th EDF programming process, DG Development focused on developing an enhanced form of general budget support for implementation under the 10th EDF. Initial details of such an "MDG-Contract" were outlined by Commissioner Michel and technical staff of DG Development at the Education High Level Forum hosted by the EC on 2nd May 2007.

The "MDG contract" would not require modifications to the on-going programming decisions. Although a distinctive implementation modality for GBS, the "MDG Contract", would not be a new EC financial instrument and would remain based on the relevant Cotonou provisions for budget support⁵ as well as being compatible with the recently finalised internal guidelines for general budget support⁶.

This discussion paper outlines a possible approach and some of the issues and options in more detail, in order to promote discussion of the most appropriate design and way forward for the "MDG Contract" concept.

3. OBJECTIVES AND KEY FEATURES

The proposed key features of the "MDG Contract" are that it would last for 6 years; provide a minimum, virtually guaranteed level of support; entail annual monitoring with a focus on results; assess performance in a medium-term framework; and be targeted at strong performers.

The objective of the "MDG Contract" can be summarised as "*to improve the effectiveness of budget support in accelerating progress towards the MDGs by increasing its long term predictability and focusing on results*".

There are several ways through which donors can reduce the uncertainty about the ultimate availability of resources promised as well as several ways through which partner countries can cope with such uncertainty. These include innovating on the implementation modalities of existing instruments within existing legal frameworks and guidelines.

The "MDG Contract" is an example of the latter since it is proposed to be a general budget support instrument bound by the eligibility criteria set out in the Cotonou Agreement. It is described as a "contract" because it implies hard financial engagements set out in signed financial agreements, exchanging greater long term predictability in return for a greater commitment to, and focus on, results by the beneficiary country. This feature of being based on a signed and binding long term financial agreement sets it apart from other long term forms of "commitment" by donors, and should enhance the Contract's credibility as a long term, predictable instrument of support.

The "MDG Contract" would have the following key features:

⁵ This is, of course, the case for the ACP countries. The relevant legal basis would apply in the case of any extension to other geographical areas.

⁶ European Commission (2007), "Aid Delivery Methods: Guidelines on the Programming, Design and Management of General Budget Support", AIDCO/DEV/RELEX, January 2007.

- *It would have a six year timeframe:* for eligible countries, all budget support resources programmed in the Country Strategy Papers (CSPs) would be committed in the first year of the 10th EDF for disbursement over the full 6 year timeframe of the EDF. This would increase predictability of resource flows over the medium term, and allow Ministries of Finance to plan ahead with greater certainty.
- *Minimum levels of support would be virtually guaranteed, but for an unambiguous breach in the partner country's commitment to the eligibility criteria, or to a fundamental principle of cooperation.* This will increase the ex-ante and (depending on actual performance) ex-post predictability of EC budget support disbursements.
- *Annual monitoring and focus on results:* country performance with respect to key MDG-related results, public financial management (PFM) reforms and macroeconomic stability would continue to be monitored on an annual basis. This would ensure that eligibility can be continuously monitored, and dialogue on the results that matter maintained.
- *Performance would be assessed in a multi-annual framework* that takes both previous performance and future prospects into account. This would have three key implications. First, it would allow for financial responses to (temporary) poor performance to be delayed whenever there are genuine prospects for the underlying problems to be credibly tackled. Thus for example, problems with implementation of an IMF programme would initially result in reinforced dialogue (where partners showed a genuine willingness to engage in such dialogue), rather than an immediate suspension/delay in budget support disbursements as generally the case at present. This will allow time for remedial measures to be taken and for performance to improve. Only if there is persistent underperformance the funds will be withheld. Secondly, it could improve the way in which we analyse (and respond) to results, creating more space for an informed and constructive dialogue on the results that matter. Thirdly, an appropriate (rolling) multi-annual framework based on the same objectives would need to be put in place and updated.
- *In view of its implicit risks, the "MDG Contract" would be targeted at strong performers:* the "MDG Contract" would only be available for countries with a sufficiently strong track record and multi-annual monitoring framework. An approach that aims to provide more predictable flows, with delayed financial consequences for underperformance, necessarily entails higher risks. These need to be mitigated by focusing on countries where such policy slippages are most likely to be limited, and temporary. There are many countries in urgent need of more and better aid to accelerate progress towards the MDGs, therefore, the "MDG contract" cannot cover them all. Alternative approaches need to be developed, especially for those countries not yet eligible for budget support. The "MDG Contract" can thus only be part of the solution towards improving aid effectiveness and accelerating progress towards the MDGs.

4. KEY ISSUES

A number of key issues need to be borne in mind when considering alternative design options, including the MDG content of the "MDG Contract"; the potential trade-off between predictability and MDG-focus; the maintenance of effective dialogue with governments; the attractiveness of the "MDG Contract" relative to other budget

support mechanisms; extending the time horizon; cooperation and participation of Member States and other agencies.

There are several key issues to be borne in mind when considering alternative design options:

- *Enhancing the MDG content of the "MDG Contract"*: predictability of funding is a key concern for MDG achievement, in general, and for the effectiveness of general budget support in accelerating progress towards the MDGs. The "MDG contract" is specifically targeted at this objective. However, it is also important to highlight the linkage with MDG results in addition to focusing on greater predictability.
- *Tension between predictability and MDG-focus*: linking disbursements to MDG-related indicators has been the traditional way of enhancing the MDG focus of general budget support instruments. There is however an inevitable trade-off, in that the higher the proportion of the MDG Contract that is fixed or virtually guaranteed (in the interest of predictability), the lower the scope to link disbursements to MDG results.
- *Maintaining effective dialogue*: dialogue around the MDGs is another one way to safeguard the instrument focus.⁷ However, increasing predictability through minimum flows and lagged responses to (temporary) poor performance *may* lead to deterioration in the quality of our dialogue. The importance of regular, frank and effective dialogue will need to be written into each contract as an underlying principle of support.
- *Making the "MDG Contract" attractive*: the "MDG Contract" represents an improved and innovative approach to implementing the GBS already programmed under the 10th EDF. For the success of the initiative, therefore, the benefits of the "MDG Contract" relative to those of the current standard design of EC GBS must be very clear from a partner country perspective. Specifically, the design of the "MDG Contract" should ensure clear *qualitative* improvements in terms of more predictability relative to current forms of GBS. It should also seek to be explicit about the prospect of additional financial allocations through the EDF review process, or through other Member State contributions (see below).
- *Extending the time horizon*: the benefits of the extended 6 year time horizon will be steadily eroded as the 10th EDF proceeds. The current legal framework of the EDF imposes to make global commitments within its timeframe. Work needs to start now on developing solutions to this problem, such as establishing co-financing arrangements with other agencies and exploring the potential for additional voluntary contributions from Member States. This issue is explored more fully in Section 6.
- *Collaboration with Member States and other agencies*: the effectiveness of the "MDG Contract" will be much enhanced if its key features can be incorporated into the budget support operations of other agencies. This goes beyond simply considering whether the "MDG Contract" might provide a vehicle for enabling Member States to implement their own targets on scaling up to consider the wider questions of

⁷ It is important to underline that the way in which dialogue around GBS interacts with sector level dialogue varies from country to country according to the local harmonisation and partnership provisions. While the "MDG Contract" could have an impact on this, it naturally cannot by itself address the wider set of underlying aid architecture issues.

harmonisation and division of labour. This may help overcome the time horizon problem, and increase the attractiveness of the "MDG Contract" for our partner countries. Further discussion with Member States will be critical.

In addition, a number of other issues have emerged during initial internal discussion of the concept. These include the desirability of *transparency and simplicity* as a design characteristic; the importance of allowing a degree of *country flexibility* in the design and implementation of the "MDG Contract", in order to maximise scope for alignment with partner government processes and cooperation with other budget support donors; the wider application of the "MDG Contract" to *non-ACP countries* where budget support is also being provided; and a recognition that *other instruments* will be needed in countries not eligible for budget support if those furthest from achieving the MDGs are to be supported.

5. A SPECIFIC DESIGN PROPOSAL

One possible option and a set of questions concerning specific design alternatives for the MDG-Contract are set out to provide a concrete basis for a consultation.

There are a number of alternative design options that could satisfy these key features, both in terms of eligibility requirements and operational mechanisms. This section sets out one specific design option that has emerged from a range of alternatives discussed within the Commission in recent months. It is informed by the work on illustrative options and country scenarios summarised in the attached technical annex. While still preliminary and requiring a specification of key technical details, the option highlighted below is meant to provide a concrete basis for a consultation to inform a final design.

5.1. Eligibility Criteria for the MDG Contract

Eligibility for the MDG-Contract would be restricted to those countries that:

- Have already programmed GBS in their 10th EDF Country Strategy Programmes and are compliant with standard EC GBS eligibility criteria, judged using the EC's recently approved new guidelines for General Budget Support.
- Have a track record of successfully implementing GBS over at least the previous three years, in which there has been no significant difficulty with eligibility or delay in disbursing the fixed or variable tranche components;
- Have in place a clear medium-term framework for assessing macroeconomic performance, advances in PFM reforms and progress in achieving the MDGs against a clearly identifiable set of targets.⁸

⁸ As for other general budget support operations, this rests upon the existence of a monitoring system that either i) already provides timely and sufficiently reliable data on key result indicators on an annual basis (so permitting progress to be clearly tracked), or ii) is clearly improving. It is recommended that, whenever possible, efforts to support the establishment and implementation of a credible improvement plan should accompany budget support provision.

Preliminary analysis suggests that at least 10 countries would be likely to qualify for the "MDG Contract" under these criteria, accounting for a significant proportion of all proposed GBS commitments in current draft CSPs.

5.2. Operational Mechanism

The proposed MDG Contract would have the following basic elements:

A. A virtually guaranteed annual flow – Up to 80% of the total contract envelope would be disbursed through annual guaranteed flows that would be halted only in the case of an unambiguous breach of the eligibility criteria demanding immediate suspension of the programme. Eighty percent is indicatively chosen because if the arrangement is to be more attractive and predictable than current EC budget support programmes, the fixed component needs to exceed the 70% that is on average applied under current EC GBS arrangements. Assessment of eligibility criteria will continue to take place prior to any disbursement, but will be undertaken in a multi-annual framework that allows both past performance and future prospects to be taken into account.

B. A performance based flow – Twenty percent of the total contract envelope would be disbursed against a reasonably limited set of performance indicators that would include both health and education indicators at a minimum, but may also cover anything clearly linked to the MDGs⁹ as well as indicators related to specific eligibility criteria (notably PFM).

Regarding the nature of indicators, the focus would continue to be on outcomes, particularly for health and education (such as enrolment or vaccination rates). But input and output indicators (such as budget allocation and execution rates) could be included, as in many current GBS arrangements. Agreed indicators would be drawn from the country's PRSP or equivalent document, or agreed Performance Assessment Framework. For each indicator, specific targets would be set for the initial three years of the programme, and indicatively for the latter three years. With each passing year, the first set of "indicative" targets would, after consultation in the context of the annual review, be converted into fixed targets to ensure a rolling set of fixed targets over the coming three year period.

C. An annual assessment process and a mid-contract review – An annual assessment would take place regarding both, eligibility –thus allowing for the disbursement of the “guaranteed” flow - and of performance, to informing disbursement of the variable component. A decision-making timetable would ensure that disbursement decisions were made sufficiently early in the country's budgeting calendar that they can be reflected with complete certainty in the budget for the years into which the disbursements are to be made.

In addition, a formal mid-contract review would also take place.¹⁰ This would allow for a more comprehensive assessment of trend performance against the medium term

⁹ Including issues related to growth increasingly highlighted in second and third generation PRSPs through indicators relating to energy, infrastructure and investment climate.

¹⁰ Please note that this review would be internal to the contract and therefore distinct from the parallel mid-term review of the 10th EDF which will focus on the overall state of cooperation between the EC and the partner countries.

objectives framework, notably with respect to MDG result indicators.¹¹ The mid-contract review would allow also for additional resources to be made available in the second half of the programme, subject to performance and the availability of funds.

D. Positive incentives for performance – To increase the focus on MDG results without reducing predictability, it could be useful to envisage rewarding excellent performance by allowing a frontloaded disbursement of the variable component. This option would increase the case for additional funds allocation should available resources be fully utilised by the time of the mid-contract review. There would, however, be a risk that should no additional resources be available, disbursements in the second half of the programme would be limited to the fixed component only (this front-loading is still likely to be preferred by beneficiary Ministries of Finance).

E. Rules for lagged responses and mobilisation of the variable component – Rules for the assessment of performance in the annual and mid-contract reviews and its consequences in terms of mobilisation of the variable component would be clearly set out in the contract. Rules would be designed so as to ensure transparency and ex ante predictability while facilitating a pro-active dialogue with the partner country on the reasons underlying any shortfall in performance and fostering the implementation of corrective measures.

5.3. Design Questions

A number of variations building upon the design elements outline above can be considered. Key questions at this regard concern whether:

I. Financial consequences with regard to MDG performance should be delayed:

- (1) By at least one year (as currently the case under the EC variable tranche with performance measured in year n-1 affecting disbursement in n+1 on the basis of a decision taken in year n)?
- (2) By more than one year with scope for corrective measures?
- (3) To the mid-contract review?

II. Whenever performance in the areas of macroeconomic stability and/or PFM reform falls behind the medium-term objective without constituting a breach in eligibility conditions, financial consequences should be:

- (1) Delayed by one year at most specifying required corrective measures?
- (2) Limited to a pre-determined share of the envisaged annual disbursement of the variable component or affect the overall share?

¹¹ This emphasis on results has long been a focus of EC GBS programmes, motivated by a desire to focus on the issues and visible results that people really care about; to foster local democratic debate and accountability while strengthening the linkage between spending Ministries and Ministries of Finance; to create space for Governments to determine their own policies; to encourage evidence-based policy analysis and policy making; to stimulate demand for high quality data; and to better justify EC budget support to European taxpayers and final beneficiaries

- (3) A combination of the two.

III. To what extent should design flexibility be allowed to adapt the MDG Contract to suit country circumstances (for instance the guaranteed/performance split)? An approach that is too rigid and prescriptive risks being ill-suited to specific country circumstances and making harmonisation with donor partners more difficult. But one which leaves too many options open risks becoming too disparate, and insufficiently distinctive from regular budget support.

6. OPTIONS FOR MEMBER STATE SUPPORT

The success and attractiveness of the MDG-Contract will be greatly enhanced if:

- it offers a prospect of additional, as well as more predictable financing;
- it is able to overcome the 6 year time limit imposed by the 10th EDF timeframe;
- it represents a significant share of available budget support resources at country level.

The support, collaboration and possible co-financing of EU Member States, and other budget support agencies, could help address all three issues. In addition, the MDG Contract may represent an attractive vehicle for Member States (and other budget support providers) seeking ways of delivering on commitments to provide more and better aid. The principal advantage to individual Member States would be that the MDG Contract provides a mechanism for disbursing additional resources at minimal additional cost, enabling them to better meet their own Paris Declaration aid effectiveness targets.

A key point to highlight at the outset is that the 10th EDF implementing regulations¹² make provision for Member States to enter into joint co-financing arrangements, and to make additional voluntary contributions (Article 9). Moreover, the regulations effectively allow for specific commitments over a period that extends three years beyond the end of the EDF. Thus while there would be significant organisational challenges to overcome, the possibility currently exists for joint arrangements that would always provide at least a three year horizon. The differing programming timetables of different Member States provides an opportunity for EU Member States to implement, collectively, a "rolling approach" to commitments that effectively allows the long term framework of the MDG Contract to be maintained, although whether this could exceed the three years permissible under the 10th EDF regulations remains to be seen, and the precise mechanics of such an arrangement would need significant further discussion.

This section considers therefore two alternative, not necessarily mutually exclusive, options by which Member States might provide additional resources to support MDG Contracts. These could be attractive both to Member States looking to shift support from projects to budget support and looking to find innovative means of providing their development assistance. Although written with EU Member States in mind, the essential concepts are potentially applicable to all budget support providers.

¹² "Council regulation on the implementation of the 10th European Development Fund under the ACP-EC Partnership Agreement", ref 8316/07, adopted by Council on 15/05/2007.

6.1. Making "Additional Voluntary Contributions" for all MDG-Contracts

The possibility of using additional voluntary contributions (AVCs) specifically to provide additional resources for MDG Contracts stills need to be fully tested,¹³ but in principle contributions could be made at any time during the 10th EDF period. Contributions made before the Mid Term Review could be used to reward those countries that had performed particularly well, so ensuring that the higher "front-loaded" payments in the first three years (as set out in the proposed MDG Contract design) could be maintained, and thus enhancing the incentive effect and results focus of the MDG Contract. Contributions made later in the 10th EDF period would also ensure that the timeframe of the MDG Contract could be extended beyond 2014 without reducing annual disbursements. Responsibility for allocating and managing resources would in practice be delegated to the EC, in line with the regulations governing the EDF.

6.2. Co-financing specific MDG-Contracts in individual countries

Another option would be for Member States to co-finance individual MDG Contracts in specific countries, either as a means of providing GBS that may be programmed in their next Country Strategy Paper (or equivalent), or as a means of providing additional support to countries as part of a more immediate scaling-up programme. Co-financing individual MDG Contracts at country level provides Members States with greater freedom to target additional resources at countries of their choosing, and to engage more fully and directly in the design and monitoring of individual MDG Contracts. Whether it would be rational to pursue a bilateral GBS programme in parallel is a question that would need to be addressed by each Member State in the context of its own aid management strategy and views on the complementarity between general budget support mechanisms.

7. CONCLUSIONS, QUESTIONS, AND NEXT STEPS

This paper has set out a specific proposal for proceeding with an "MDG Contract", with the objective of improving the effectiveness of EC budget support during the 10th EDF period by providing longer term, more predictable budget support with a strong emphasis on results. It should again be emphasised here that improving the design of a budget support instrument to make it more long term and predictable can only be part of the solution to making faster progress towards the MDGs. This will need to be complemented by additional resources, alternative instruments for non-eligible countries, and by improvements in the capability of countries to design and implement better policies.

A number of key questions can be highlighted to which reactions are particularly sought:

- 1. Does the overall approach represent an appropriate improvement with respect to predictability?*
- 2. How demanding should the eligibility criteria for the MDG contract be, particularly with respect to track record and medium-term performance assessment framework?*

¹³ In order to defend the integrity of the programming process, Article 9(4) of the Regulations indicate that "such contributions shall not affect the overall allocation of funds under the 10th EDF and earmarking shall only be made in duly justified circumstances".

3. *What are the preferred answers to the design questions set out in 5.3 above?*
4. *What would the arrangement imply in terms of joint GBS donor groups and the use of Performance Assessment Frameworks? What could be done when these do not facilitate a medium term assessment based on a significant number of outcome indicators in the preferred sectors?*
5. *How best can the long-term predictability feature of the arrangement be maintained with each passing year of the 10th EDF period?*
6. *What are the best options for collaboration and possible co-financing with Member States, and indeed other budget support agencies?*

This paper is being circulated to invite further reflection both within the EC and outside, including EU Member States, other development agencies providing budget support, the NGO community, and representatives of the governments that this instrument is aimed at supporting. Consultations will take place over the summer, in order to inform preparation of a final version of the MDG Contract proposal and supporting guidelines by autumn. This would allow the approach to shape the design of the next round of EC general budget support arrangements in eligible countries under the 10th EDF.