

# Development Co-operation Review

# EUROPEAN COMMUNITY

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## **ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose Members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, Members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

*The Members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.*

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## **FOREWORD**

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every four years. Five or six programmes are examined annually.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC Members who are designated as examiners. The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the Member concerned. Field visits assess how Members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the Member under review respond to questions posed by DAC Members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

This publication contains the Main Findings and Recommendations as agreed by the Development Assistance Committee following its review on 6 June 2002 at the OECD, and the report prepared by the Secretariat in association with the examiners, representing Canada and Norway, on the development co-operation policies and efforts of the European Community. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure  
DAC Chairman

## ACRONYMS

ACP	Africa, Caribbean and Pacific
ALA	Asia and Latin America
ATC	Agreement on Textiles and Clothing
CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development and Stabilisation (Balkans)
CFFA	Coalition on Fair Fisheries Agreements
CFP	Common Fisheries Policy
CFSP	Common Foreign and Security Policy
CILSS*	Sahelian regional organisation
CLONG	Committee for Liaison with NGOs
CNROP*	Mauritania's Fisheries Research Organisation
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DCSLP	Version of the PRSP in Burkina Faso
DG	Directorate-General
DG DEV	Directorate-General for Development
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG RELEX	Directorate-General for External Relations
EAR	European Agency for Reconstruction
EBA	Everything but Arms
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECDPM	European Centre for Development Policy and Management
ECHO	European Community Humanitarian Office
ECU	European Currency Unit (later Euro)
EDF	European Development Fund
EEA	European Economic Area
EEZ	Exclusive Economic Zone
EFTA	European Free Trade Association
EIB	European Investment Bank
ENGO	European non-governmental organisation
EPA	Economic Partnership Agreement
EU	European Union
EuropeAid	EC's implementation agency
Eurostat	European Statistics DG
FYROM	Former Yugoslav Republic of Macedonia

GNI	Gross national income
GSP	Generalised System of Preferences
HIPC	Heavily-indebted poor countries
IDA	International Development Association
IFI	International financial institution
iQSG	Interservice Quality Support Group
ISPA	Programme for transport and environment within PHARE
LIC	Low income country
LLDC	Least developed country
MDG	Millennium Development Goal
MEDA	Middle East and North Africa Programme
MFA	Multi-Fibre Agreement
NGO	Non-governmental organisations
NIP	National Indicative Programme
OA	Official aid
OBNOVA	Regional programme for the former Yugoslavia and the Balkans, now under CARDS
OCT	Overseas countries and territories
ODA	Official development assistance
OLAF	European Anti-Fraud Office (Office Européen de Lutte Anti-Fraude)
OSCE	Organisation for Security and Co-operation in Europe
PHARE	Programme for Eastern Europe's emerging economies
PRSP	Poverty Reduction Strategy Paper
QSG	Quality Support Group
RELEX	External Relations (Relations extérieures)
RMG	Ready Made Garments
RSP	Regional Strategy Paper
SAPARD	Programme for Agriculture within PHARE
SBC-CSLP*	Committee for co-ordinating budget support in Burkina Faso's PRSP
STABEX	Funds to mitigate losses from exports
SYSMIN	Funds to mitigate losses from mining operations
SWAp	Sector Wide Approach
Tacis	Programme for former Soviet Union countries
TAO	Technical Assistance Office
UEMOA*	West African Monetary Union
UN	United Nations
UNCLOS	UN Convention on the Law of the Sea

## *European Community*

UNDP UN Development Programme  
UNHCR UN High Commission for Refugees  
UNRWA UN Relief and Works Agency  
URAA Uruguay Round Agreement on Agriculture

WFP World Food Programme  
WTO World Trade Organisation

\* Denotes acronym in original language

### **Exchange rates (ECU/EURO to the USD)**

<b>1989</b>	<b>1990</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
0.9076	0.7877	0.8402	0.7652	0.7878	0.8824	0.8941	0.9385	1.0851

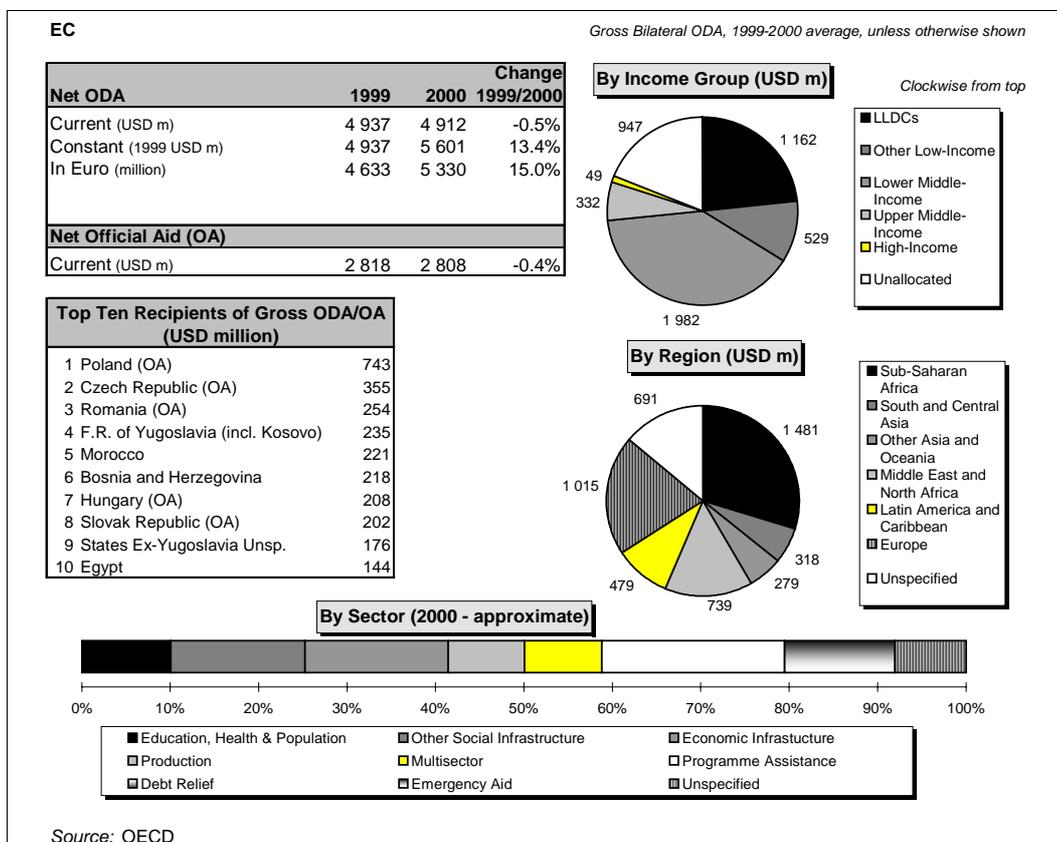
### **Signs used**

EUR Euro  
USD United States dollar

( ) Secretariat estimate in whole or part  
- Nil  
0.0 Negligible  
.. Not available  
... Not available separately but included in total  
n.a. Not applicable  
n.d. no date  
P. Provisional

Slight discrepancies in totals are due to rounding

### European Community's aid at a glance



Source: OECD

**European Community: Essential Glossary**

**European Community (EC).** Founded by the Treaty of Rome (1957) by Belgium, France, Germany, Italy, Luxembourg, and the Netherlands (1957). Successive enlargements brought in Denmark, Ireland and the United Kingdom (1973), Greece (1981), Portugal and Spain (1986), and Austria, Finland and Sweden (1995).

**European Union (EU).** The EU, formed from the EC in 1992 by the Treaty of Maastricht, is formally the association of the Member States and the Community institutions established on three “pillars” – 1. European Community, managed by the common institutions; 2. Foreign and Security Policy, co-ordinated among the Member States; and 3. Justice and Home Affairs, a mixture of Community competence and co-ordinated actions.

**European Council.** Comprised of the EU Heads of State and the President of the European Commission, this punctuates the political life of the European Union, meeting generally in June and December. Its role is to define the political guidelines of the EU (including by Treaty) and to arbitrate on difficult issues.

**Institutions of the European Community.** These are the Council of Ministers, European Parliament, European Commission, the Court of Auditors and the Court of Justice, established by the Treaty of Rome.

**Council of Ministers (formally called Council of the European Union).** Located in Brussels, this EC institution is the forum for the Member States in the overall governance of the EU, particularly having the right of decision on policy (shared increasingly with the European Parliament). One of the Member States takes the Council **Presidency**, responsibility for which rotates every six months. It works through different working parties, including Development. Member States send relevant Ministers to the six monthly meetings. The Council also has a Secretariat that manages the business of the various permanent working parties dealing with different topics.

**European Parliament.** Plenary sessions are in Strasbourg. This EC institution has been granted further powers of consultation and co-decision with the Council of Ministers. Members are directly elected by European voters and have been particularly concerned with overseeing the EC budget. The Parliament has a **President** elected by the Members who work through Committees, one being Development, which meet in Brussels.

**European Commission.** The executive body of the EU has the right to propose policy and is responsible for implementation and management of the Community’s programmes. The College of 20 Commissioners is the Board of the Commission, appointed for five years. Different terms are usually known by the **Commission President’s** name: thus, Delors I and Delors II, Santer, and Prodi. The governments of the Member States propose the Commissioners, men and women who held high political office in their own countries. The President appoints two Commissioners nominated by each of the larger countries and one each from the smaller countries. Each Commissioner is responsible for one or more Directorates-General, managed by the Director-General, a permanent official.

**Court of Auditors.** Located in Luxembourg, this Court looks at the value for money of implementing EC policies.

**Court of Justice.** Located in Luxembourg, this Court checks compliance with EC law, including on human rights.

**European Investment Bank (EIB).** This financing institution, set up by the Treaty of Rome, is not formally a Community institution. It contributes to economic and social cohesion of the Union, and has responsibility for financial components of development aid and co-operation policy.

**RELEX Family** (Relations extérieures). This includes the **Directorates-General** for External Relations, Development, Trade, and Enlargement along with **EuropeAid** and **ECHO**, the services responsible for implementing development and humanitarian assistance. These institutions cover trade, political, humanitarian and development issues that span both the first and second “pillars.” Thus, while trade instruments are exclusively under a competence of the EC, aid instruments are implemented alongside the bilateral aid programmes of the Member States. The DG for Economic and Financial Affairs (DG ECFIN) is responsible for macro-economic policy, macro-financial and budget support.

**ACP Group:** group of 77 African, Caribbean and Pacific states signatories to the Cotonou Agreement. This agreement provides for **joint ACP-EU Institutions:** the Council of Ministers that meets annually and brings together representatives of the signatory governments and the European Commission; the Committee of Ambassadors bringing together in Brussels representatives of the signatories at ambassadorial level; and the joint Parliamentary Assembly that meets twice a year and includes representatives of the parliaments of each of the ACP states and an equal number of members of the European Parliament. These institutions are supported by a secretariat based in Brussels and financed by a contribution from the EC.

**Treaties.** The Treaty of Rome (1957) established the EC. The Treaty of Maastricht (1992), which established the EU, formally included development co-operation in the objectives. The Treaties of Amsterdam (1997) and Nice (2001) have further refined the attention to development issues.

**Official Languages.** Within the Commission, there are three working languages: English, French and German. The Community has 11 official languages: Danish, Dutch, English, Finnish, French, German, Greek, Italian, Portuguese, Spanish, and Swedish. All formal proposals of the Commission are made in those languages.

**Table: Following on with reforms - Recommendations in 2002**

<b>Key Issues</b>	<b>Concerns expressed in 1998</b>	<b>Progress</b>	<b>Recommendations 2002</b>
<i>Strategic Foundations and New Orientations</i>	Need for a coherent overall development strategy. Considerable differences between regional programmes  Further progress required on country strategies and EC staff should take the lead in dialogue.  Focus on results rather than procedures	Overall development policy adopted in 2000. Regional strategies differ.  Major improvements made to country strategy process, and EC staff now lead.  Reform process taking place	Strengthen the EC's comparative advantage by developing its strategic role in co-ordination, further clarifying the RELEX family's structural responsibilities, promoting political and trade partnerships, and through the link of humanitarian and development assistance.
<i>ODA volume, channels and allocations for Poverty Reduction</i>	Need to implement the policy on poverty reduction in all regions  Gap between commitments and disbursements of ODA Need to make a series of improvements to ensure effective implementation	Development policy statement but the implementation is still a concern  Improved but still a concern Reform process dealing with the issues raised by the 1998 Review	Promote the sustainability of poverty reduction by ensuring ODA allocations are consistent with the goal.
<i>Sectors and Cross-cutting issues</i>	Splintered policies hence need for coherent framework Weak in private sector support Food aid should link to food security Need to integrate gender equality into all programmes but weak field capacity noted.  Others look to EC leadership on conflict prevention.	Six priority areas identified. Policies being developed Done Integration and capacity for gender equality and environment still a concern Capacities further developed on conflict prevention.	Engage actively in partner dialogue, especially in the PRSP process and sector-wide approaches, which will require further capacity and staff. Recruitment and training of staff in the field to consider cross-cutting aspects, especially gender equality.
<i>Policy coherence</i>	Incoherence of Common Agriculture Policy with development  Weaknesses in import policies and Lomé trade agreements Complexity of decision making Develop analytical capacities	Measures taken but ongoing problem for internal policies. Cotonou is an improvement Process being clarified Problems still at country level	Develop the policy coherence framework by acting on the evaluation of the 3 Cs, reviewing the coherence of internal policies, and making links to CSP.
<i>Organisation and Management Change</i>	Need a proposal to simplify the complicated system of management and proliferation of budget lines Need clear accountability in RELEX group More staff needed, especially in the field for dialogue Deconcentrate financial control Simplify procedures and reintegrate the project cycle Train DG RELEX staff in development finance Evaluation lacking in some programmes	Management reforms tackle these issues  Further work needed More staff moved to the field Deconcentration doing this Creation of EuropeAid does this Training in place on finance Reforms undertaken	Further clarify organisational structure so that Parliament and Council focus on strategic orientation, while Commission services delegate more authority to the field. At the field level, strengthen analytical and negotiating capacity, and further develop systems to feedback lessons into policy.
<i>Country Ownership and Operations</i>	Need for capacity in Delegations	Deconcentration process	Promote capacity development at field level, involve partners in country strategies, and improve implementation by simplifying procedures further, developing analytical capacity in the field, developing the results orientation through evaluations, and strengthening aid effectiveness effort.

*Note:* This table was presented by the Secretariat at the DAC meeting on 6 June 2002.



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## **DAC'S MAIN FINDINGS AND RECOMMENDATIONS**

### **Strategic foundations and new orientations**

The European Community is a unique donor in that it plays a dual role in development, as a bilateral donor providing direct support to countries, and as a co-ordinating framework for European Union (EU) Member States. The European Commission is the executive body, accountable to the European Parliament and the Member States meeting in Council.

Since the last DAC Peer Review in 1998 the European Commission has been redefining its development policy and ways of working. In April 2000, the European Commission set out an ambitious agenda for its own reform to increase its efficiency, effectiveness and accountability by focusing on performance and results. This broad reform process also has a particular focus on external relations (RELEX), which includes political aspects, trade and development policy. The RELEX reform has strengthened the organisational structure of the European Commission by integrating the services dealing with political, trade and development more strongly within a "RELEX family." Furthermore, since January 2001, EuropeAid has been created to strengthen the implementation of the European Community development programmes worldwide.

The development assistance committee (DAC) notes that these reforms of external relations take account of concerns expressed in the 1998 Peer Review. The DAC also notes favourably that the European Community's development policy framework, programming, organisation and management have been strengthened in numerous ways. In particular, poverty reduction is now the principal aim of development assistance, in line with DAC guidelines and assessed against the Millennium Development Goals (MDGs).

### **Aid volume, channels and allocations**

The European Community official development assistance (ODA) increased in real terms by 13.4% to USD 4.91 billion in 2000. The preliminary figures for 2001 show a further increase to USD 5.91 billion, an increase of 21.1% in real terms. The European Commission encouraged EU Member States, in the Barcelona Council meeting of March 2002, to raise the average amount of ODA to 0.39% of gross national income (GNI) by 2006, which was confirmed at the Monterrey Conference on Financing for Development in March 2002. In addition, the European Community can play an important role in political dialogue and in facilitating access of least developed countries to the EU market. Other measures, such as aid untying, can also increase the effectiveness of ODA and contribute to collective donor efforts to reduce poverty. The DAC welcomes these efforts, but notes major challenges for the European Community to improve the development impact of its sectoral allocations taking account of cross-cutting objectives of governance, gender equality and environment within the context of the primary aim of poverty reduction. In particular, there are challenges to achieve development objectives in the EU foreign policy context and to improve the different means for tracking the impact.

## *European Community*

### **Policy coherence**

The European Community's legal and policy framework sets out the requirement to seek policy coherence with development objectives. The European Commission has introduced several institutional mechanisms that will help promote coherence of external relations' policies with the poverty reduction objective. In particular, the Country Strategy Papers (CSP) have become a central mechanism for strengthening policy coherence with other Community policies and for co-ordination with Member States. The challenge is to develop analytical capacity by allocating sufficient resources to support this mechanism across the system. A major success with policy coherence has been achieved through the "Everything But Arms" initiative, opening access to the EU market to the least developed countries. In contrast, there are other coherence issues to address in the relations between development policy and the European Community's internal policies, for example the Common Agricultural Policy and the Common Fisheries Policy. These cases show how the pursuit of the legitimate interests of the European Community may have potentially adverse consequences for the legitimate development interests of partner countries, despite Treaty obligations to pursue coherence with development policy.

### **Organisation, management and implementation**

Despite the ambitious nature of the reform of the Commission's services and the substantial progress achieved with the Community's development programme, there remain several potential challenges for the reform process and for implementing the programme. These include: sustaining political support for completing the reform, including more strategic roles for the Council and Parliament; further refinements to the organisation to clarify responsibilities, improve speed of aid delivery, and enhance organisational and analytical capacity to make deconcentration work; and ensuring appropriate and sufficient staffing to strengthen implementation.

### **Recommendations**

The DAC welcomes the joint commitments by the European Community and the EU Member States for increased ODA effort by 2006. The DAC commends the European Commission for undertaking the ambitious internal reforms that are improving its capacity to achieve the European Community's primary development aim of reducing global poverty. The DAC recommends that the European Community set a realistic time frame within which to assess the results of its reforms of development co-operation and external relations, against agreed performance standards or benchmarks. Several challenges remain, and the DAC further recommends that the European Community:

#### *a) Strengthen the European Community's comparative advantage in promoting development*

- **Further develop the European Community's strategic approach to development** by: promoting the political and trade dimensions that can facilitate development and complement development co-operation policies; clarifying the strategic roles of the Member States and Commission regarding coherence issues; and encouraging the full implementation of the DAC Recommendation on aid untying.
- **Promote further partnerships for poverty reduction in the European Community's regional programmes** along the lines set out in the Cotonou Agreement, and following a similar participatory process.

*b) Promote the sustainability of poverty reduction*

- **Bring ODA allocations into better alignment with the principal aim of poverty reduction.** Review the balance between pursuing long-term development objectives and the flexibility needed for external relations policies. There are discussions within the EU to improve sustainability and poverty reduction including: budgetisation of the European Development Fund; increased allocation of ODA to social sectors; and the classification of allocations along DAC lines. The DAC believes these suggestions, while potentially useful, are insufficient to address the fundamental requirements. In order to translate the primary aim of poverty reduction into more effective ODA allocations, there is a need to work towards resource allocation criteria and to reform the budgetary process in a way that meets several different strategic requirements – to reduce the number of budget lines, to promote flexibility, and to enhance accountability further to the European Parliament and the Council of Ministers.
- **Deepen the dialogue with partner countries,** and encourage broad participation in the Country Strategy process, in order to enhance local ownership of the development process. In the context of budget support and sector wide approaches, share with other donors the European Community's innovative experience and lessons, especially within the framework of Poverty Reduction Strategy Papers (PRSPs). In particular, work with other donors to improve financial management and institutional capacity in the PRSP countries.
- **Enhance the European Community's multifaceted approach to poverty reduction by elaborating implementation strategies.** Clarify and build on the thematic policy approaches for supporting good governance, trade capacity building, and regional development, and increase efforts to mainstream cross-cutting issues (human rights, gender equality and environmental sustainability) in the European Community's priority areas.
- **Pursue the promising start in post-conflict situations** by creating response mechanisms and supporting the transition from humanitarian assistance to reconstruction and rehabilitation.

*c) Improve policy coherence and develop the institutional framework for coherence*

- **Review the coherence of internal Community policies** with development objectives. The Country Strategy Paper (CSP) offers a context in which to do this, but the analytical capacity and resources for such work are lacking both in the field and in Brussels.
- **Propose initiatives** for approval by EU Member States for strengthening the positive impact of internal Community policies on development policy.
- **Make full use of the policy coherence mechanisms** by providing stronger linkages and feedback between the CSP process, Interservice Quality Support Group, Evaluation unit, and Court of Auditors.

## *European Community*

### *d) Strengthen the focus on results and aid effectiveness*

- **Clarify the structural responsibilities within the “RELEX family”** for the allocation of resources to all developing countries and consider whether one entity should be responsible for managing all aid programmes (from policy formulation to implementation).
- **Simplify procedures further.** Process requirements have been reduced but still remain complex for many partners. There is a need to look at the system as a whole and to benchmark European Community performance against other donors in the context of the DAC Task Force on Donor Practices.
- **Strengthen capacity for impact assessment,** by developing a results orientation, undertaking programme evaluations, and promoting feedback from evaluation and monitoring systems to the quality support arrangements.
- **Develop a strategic role in evaluation** by encouraging the Board of EuropeAid to focus on the achievement of results, and review the ways in which Parliament and the Council of the EU might support this strategic role.
- **Undertake specific evaluation studies** of particular areas where the European Community may learn important policy and management lessons. These areas include: innovative approaches to conflict prevention and resolution; the promotion of good governance and democratisation; the development of the CSP process; ECHO’s monitoring of non-governmental organisations (NGOs); the effectiveness of the European Commission’s deconcentration process; and the tools and facilities devoted to the promotion of the private sector.
- **Improve the European Community’s contribution to DAC discussions on aid effectiveness.**

### *e) Improve the implementation of the aid programme with a view to enhancing country ownership*

- **Enhance country ownership** to improve programme quality, by building on the relationships developed while formulating the CSP. The European Community should also seek opportunities to support the partner government’s leadership of sector discussions with donors in areas of the European Community’s comparative advantage. To achieve this, the European Commission will need to develop and enhance its capacity for analysis and its collaboration with EU Member States and other donors in the field.
- **Delegate further authority to the field under clear guidance.** While partners welcome the process of deconcentration, which will bring procurement and financial control closer to the field where implementation takes place, there are some risks. For the reform to be more efficient, the deconcentrated staff should be given delegated authority. For deconcentration to be more effective there should be a second stage which involves increasing analytical capacity and providing negotiating authorities, in order to deepen discussion with partners in the field.

- **Provide more development personnel to the country offices.** More staff and other resources are needed to ensure the effectiveness of deconcentration. Regarding skills, the European Commission should review how to strengthen the mainstreaming of gender equality and environmental considerations in field operations. It might seek more complementarity among and with Member States in the deployment of human resources.
- **Improve personnel management for development staff.** The European Commission needs to assemble a personnel management team for development co-operation staff, and review personnel policies with a view to providing a common vision on development co-operation and training. In the light of deconcentration, promote a career environment that rewards those who take on the challenges of underdevelopment, ensure adequate gender balance in the field and an effective means to re-integrate staff into Brussels after a country assignment.



## CHAPTER 1

### STRATEGIC FOUNDATIONS AND NEW ORIENTATIONS

*External relations policies, including development co-operation, have been evolving rapidly in the 1990s as the European Community (EC) took on greater responsibilities. Following intense political debate about accountability, in 2001 the EC made major improvements to its development policy and embarked on far-reaching management reforms to improve the efficiency and effectiveness of its aid programme to reduce poverty. This Peer Review assesses the situation after one year of the process expected to last until 2004.*

#### **The foundations of the European Community's development programme**

From the foundation of the European Community (EC) by six Member States at the heart of Western Europe, the institution has evolved into the European Union (EU) of 15 Members covering most of Western Europe. The EC's policies on external relations (comprising political, trade and development aspects) have been evolving as the EC has enlarged, along with the administrative arrangements. The range of partners of the development programme has increased. It first associated 18 African countries, mainly ex-colonies of Belgium and France (Yaoundé Convention 1965).<sup>1</sup> Next the EC incorporated the ex-colonies of the United Kingdom from Africa, Caribbean and Pacific. In 1975, by the Georgetown Agreement, the countries of Africa, the Caribbean, and Pacific (ACP) came together as a group to negotiate collectively with the EC. This led to the Lomé Convention, which determined the use of the European Development Fund (EDF) for the benefit of 70 ACP countries. In the following year, aid resources were made available to other developing countries in the regular budget for external relations,<sup>2</sup> and in 1977 privileged co-operation agreements were signed with the neighbouring countries of the southern Mediterranean. Bilateral arrangements were made with countries in Asia and Latin America. Recently the countries of Eastern Europe gained their own regional programmes. The development co-operation programme now reaches 150 partner countries. The historical legacy of this evolutionary process of incorporation of development objectives into the EC organisational system has been regional differentiation of policies, budgets, administrative procedures and aid instruments.

In the 1990s, following the fall of the Berlin Wall, the political responsibilities for external relations increased dramatically. The emerging economies of Eastern Europe became candidates for accession to the EU, which would further extend the boundaries of Europe. This has become a central EU objective. One of the founding political imperatives for the EC was the prevention of conflict in Europe. The break-up of the former Yugoslavia led to instability in the Balkans, which became a

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1. This was preceded by an Association.

2. For example, Bangladesh entered into a bilateral Commercial Co-operation with the EC in 1976.

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major focus for EU concern. Although formally separate, these events have blurred the boundaries of development co-operation policy with foreign and security policy.

Again in the 1990s, in the context of increasing globalisation and trade liberalisation, the EU has become a global economic actor. The EC leads negotiations for the member states in the context of the World Trade Organisation (WTO). In that context the EC has been extending access for developing countries to the EU market. It has also contracted specific free trade arrangements with certain groups of countries and regions. The Cotonou Agreement (2001) which replaces the Lomé Agreement, is a specific example of a trade and development arrangement, with political dimensions, with the ACP countries.

The shift of geographical emphasis in development co-operation partly reflects the different perspectives brought by each new entrant to the EU. It also partly reflects the changing role of development policy. From an aid relationship with ex-colonies the EC has established a broad framework of external relations concerned with new opportunities for further enlargement of the EU within Europe, the need for peace and stability in neighbouring areas of the Middle East and the Balkans, and enhancing global trade. The relationship with developing countries now encompasses political, commercial development and humanitarian dimensions.

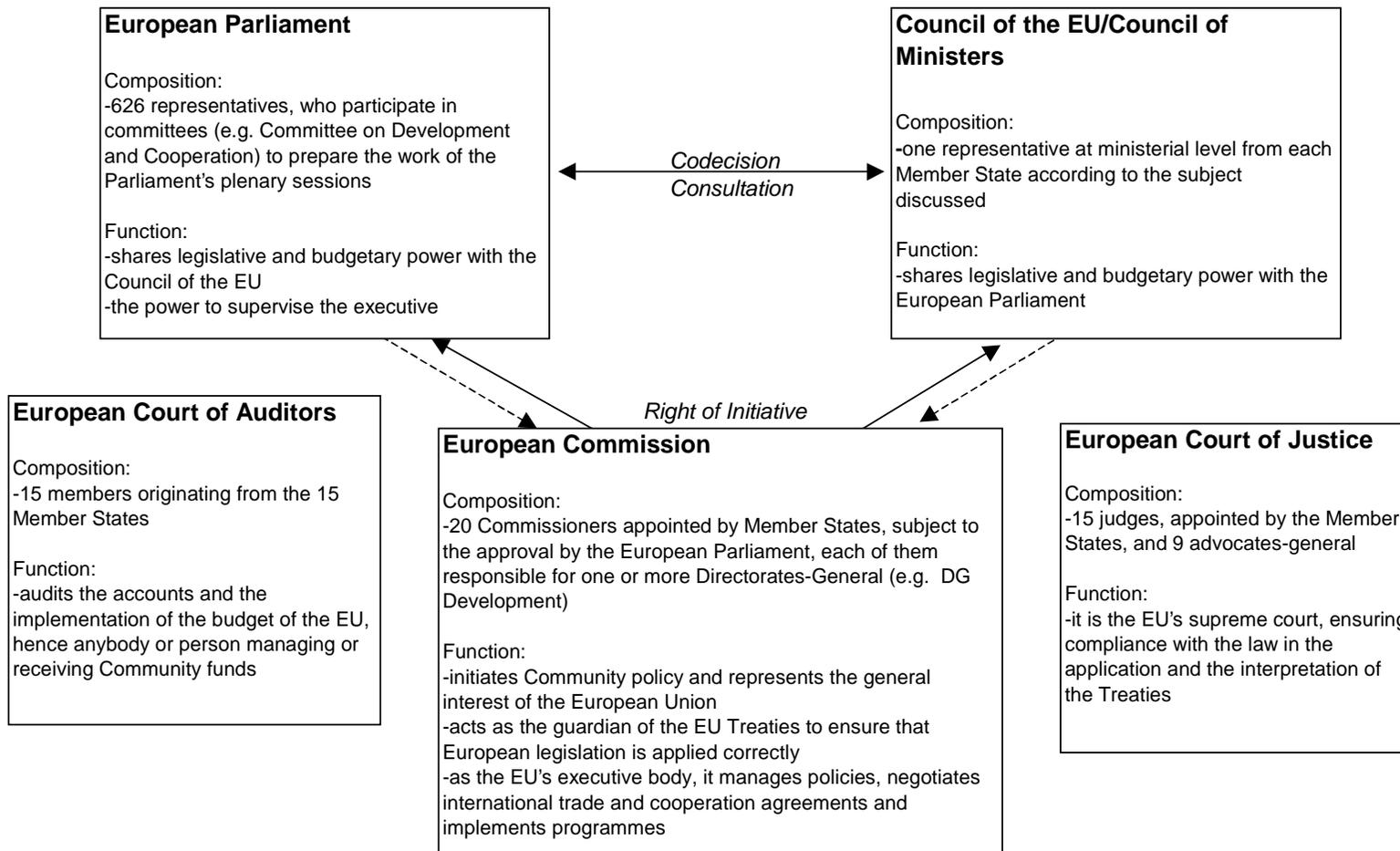
Despite this evolution of the development programme, development co-operation was not formally included in the objectives of the EC before the Maastricht Treaty of 1992, which established the EU. The Commission's administrative structure reflects the scope of its responsibilities within the EU. The Commissioners, while having responsibilities for different Directorates-General, act as a College to discuss matters of interest. The European Commission is responsible for the management of the EC's external assistance budget, and negotiating international trade and co-operation agreements.

The Commission is also responsible for initiating policy formulation as well as for its implementation. However, this policy formulation and management role is carried out within a governance framework that has also been evolving. On the one hand, the Member States, represented in the Council of Ministers meeting under a Presidency drawn from the Member States, has historically had the prime responsibility for deciding on the policies, since the Member States provide the resources. On the other hand, the elected European Parliament has been granted further powers of co-decision on policy and budgetary matters with the Council of Ministers in recent treaties. The Parliament also has the power to supervise the executive and oversee the budget. Parliament does not, however, have control over the EDF, which is managed by a Committee drawn from the Member States. The Court of Auditors is an important institutional actor in the overall governance structure, with an autonomous position and defined powers of oversight, including examining value for money of EU activities. The Court of Justice has a role in overseeing compliance with the Treaties. Chart 1 provides a simplified view of the overall governance structure.

### **Public and political awareness and scrutiny**

There is an ongoing political and public debate throughout Europe about the continuing evolution of the role and effectiveness of EU institutions; an issue brought more into the spotlight by the plans to enlarge the EU further. This broader debate also influences the more specific discussion of the added value of the EC development co-operation programme. There are also debates within the framework of

Chart 1. Main EU Institutions and decision making



*Note:* Another important body, but not legally an institution of the European Community, is the European Council. See Essential Glossary.

*Source:* OECD.

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the EU-ACP Joint Assembly and in the European Parliament. European NGOs (ENGOS) frequently participate in these debates, and set up other European events to discuss development themes<sup>3</sup> and disseminate the conclusions widely through their networks. The investigations of the Court of Auditors also reflect the public and political concern to check on the EC performance and feedback into these political debates. The EC has also encouraged consultation with European civil society. Examples include the 1997 Green Paper discussion of EU-ACP co-operation, internet debates in 2000 on development policy, and consultations in 2001 on "corporate social responsibility" in developing countries. These consultations involve specific sectors of European civil society. The EC has also monitored general public opinion on development co-operation for twenty years. The results of the 1998 EU public opinion survey (Eurobarometer) show 76% of Europeans favour development assistance, and 59% favour an increase in EC aid. These results are slight declines on 1996. The EC plans another survey in 2002.

In response to a perceived lack of information for the general European public on its development co-operation, the EC is making efforts to inform public opinion through development education projects. In 2000 the EC examined ENGO requests to the co-financing budget of EUR 200 million for 483 awareness-raising projects in Europe and 673 development projects. These awareness raising campaigns in Europe on development issues target specific European groups (schoolchildren, consumers *et al.*) and concern clearly defined themes (debt, food security, fair trade etc.) Particular attention is paid to projects that: (a) stress interdependence between the EU and developing countries regarding labour relations, the environment, and conflict prevention, (b) mobilise support for more just North-South relations, (c) encourage collaboration between ENGOS, and (d) permit active participation by developing country partners. The EC also has programmes to strengthen awareness-raising capacity.

A recent study of European development co-operation<sup>4</sup> points out that there is limited direct institutional influence of the European citizens on the priorities of development co-operation at the European level. Nonetheless, the role of national media and national civil society lobbying may have had some indirect, although limited, impact on the positions taken by national governments on the priorities of EC development co-operation in the course of the European integration. European citizens have accordingly channelled their support for development co-operation through national initiatives as well as through various NGOs, rather than addressing these issues at the European level. The trends in public support to the official development co-operation are often influenced by the greater visibility of various European NGOs, whose campaigns, sometimes funded by the EC, mobilise citizens at grass-roots level.

The study identifies two broad tendencies in the Member States' attitudes, which explain the controversial nature of development policy debates at European level. On the one hand the "*regional approach*" is based on the recognition of historical and strategic linkages with former European colonies and neighbouring countries. On the other hand, the "*global approach*" towards developing countries is concerned with poverty reduction. These two main approaches to European development

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3. The EC has developed reasonable relations and has a regular, structured dialogue with umbrella organisations of NGOs that both benefit from EC contracts and also pursue an advocacy role in trying to influence EC policy. The Peer Review team met with CLONG, Voice, and Eurostep, three umbrella organisations that operate in Brussels, and also ECDPM a research institution based in Maastricht, with Dutch government funding.
  4. *Development Co-operation in the European Union: Public Debate, Public Support and Public Opinion.* Terhi Lehtinen and Anne Simon. Technical Paper of the OECD Development Centre, Paris - Forthcoming.

co-operation, according to the study, are reflected in the national public debates about Europe in Member States, with some favouring allocations to fight poverty in low-income countries while others want to sustain aid allocations for more direct foreign policy and economic interests of the EU. This diversity of approaches leads to compromises among Member States in the decisions about the orientations of EC development co-operation, according to the report, and often undermines the overall coherence and visibility of the European development co-operation.

Given this context of continuing debate, there is no shortage of information and opinion about EC performance on development co-operation policy. Many of the data are publicly available. Each regional and thematic programme has different publications. The Official Journal of the European Communities regularly provides a range of information on European issues.<sup>5</sup> Increasingly this information is made available on the EC website. Despite this wealth of information that is freely available, but perhaps because of the perception noted above of a lack of influence exercised by the public, there is a widespread view that the EC is a remote institution that lacks transparency. The public image of the EC can be traced back to the dramatic expansion of the EU, to different perspectives on Community matters by the new members, the increasing scope of its responsibilities, and the political debates about the role of the main European institutions in governance.

In the 1990s the increasing responsibilities of the EC had not been matched by corresponding increases in human resources or by sufficient efforts to modernise the institution. In the mid-1990s efforts were made to reform the financial controls and personnel policies. A reform of financial and resources management had been adopted in 1995, and a reform to modernise administration and personnel policy was launched in 1997. The governance of the EC came increasingly under parliamentary and public scrutiny in the latter part of the 1990s. A Committee of Independent Experts was established to look into problems of accountability and other issues in 1998, including in the fields of external relations and development. The publication of their report led to the collective resignation of the College of Commissioners in March 1999, the subsequent appointment of the new Prodi Commission, and the start of a radical reform process.

### **Organisational and management reform of external relations**

The ongoing EC reform process aims to modernise the organisation, to improve financial management and accountability, to increase its efficiency and effectiveness, and to improve its image with the European public. Within this system-wide reform process there is also a fundamental "Reform of Management of the External Aid Programme" which is currently addressing several of the management concerns. (See Box 1.)

In 1998, the Peer Review highlighted a series of issues in development co-operation, on which the examiners expressed several concerns. There have been improvements to increase accountability at different levels in the system, by clarifying delegations of authority. There have been moves to reduce the number of sectors and to improve country strategies and programming. There is a new focus on system-wide monitoring and evaluation. Most conspicuously, the EC has created EuropeAid to manage the Commission development programmes (at EUR 6-7 billion per year) and to bring

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5. These are official publication series. ISSN 0378-6986 in English and ISSN 0378-7052 in French are for information and notices. This Journal deals with a range of issues from current Euro exchange rates and minor amendments to regulations to detailed accounts of Parliamentary debates, Resolutions of the Council, and reports of the Court of Auditors. Legislation is in ISSN 0378-6978 (English) or ISSN 0378-7060 (French).

consistency to programme management. EuropeAid has also embarked on a series of administrative reforms to improve efficiency and effectiveness. Dormant projects are also being discontinued, and several reforms have been introduced to improve the speed and quality of implementation. A process of moving staff from Brussels to the field has just begun to coincide with the dismantling of Technical Assistance Offices (TAOs). For all of this effort, further EC officials and auxiliaries have been recruited. These are just the first steps in a far-reaching process of reform that is expected to take until 2004 to complete. (See Annex I, Table I-1 and Chapters 5 and 6 deal with the substance of the reforms).

### **Box 1. Commission reforms**

#### **Commission's Administrative Reform**

The reform undertaken by the new Commission relies on three related themes:

- Reform of the way political priorities are set and resources allocated.
- Important changes to human resources policy, placing a premium on performance, continuous training and quality of management, as well as improving recruitment and career development.
- An overhaul of financial management, empowering each department to establish an effective internal control system tailor made to the environment it is to serve.

In this framework, the Reform of the External Relations' system takes place.

#### **The key objectives of the RELEX Reform**

- Make significant improvements in the quality and efficiency of programme/project cycle management.
- Substantially reduce the time taken to implement projects.
- Ensure robust and efficient management procedures.
- Improve the impact and visibility of the EU assistance.

#### **The main components of the RELEX Reform**

- Strengthening multi-annual programming.
- Integration of the operations cycle from identification through full implementation of programmes and projects into one structure (EuropeAid) and internalisation of the functions of Technical Assistance Offices (TAOs).
- Extensive devolution of management responsibilities to the Commission's External Delegations.
- A package of urgent measures to eliminate old and dormant commitments.

Sources: 1. EC, *Reforming the Commission*, COM(2000)200 Final/2.

2. *The EU's External Assistance*, Powerpoint Presentation on RELEX Reform by EuropeAid.

At the highest level of aggregation, **leadership in development co-operation** is situated at the level of the European Parliament (particularly the development, the foreign affairs and budget committees), the Council of Ministers (particularly for Development), and the European Commission. (See Chart 1 above.) There are a number of consultative forums with social partners such as a very wide range of lobbyists with private sector, NGO, labour or other affiliations, often backed by elements of their own governments. In the external relations field an important consultative forum is the EU-ACP Joint Assembly, which brings together members of the ACP Parliaments and European Parliament to discuss issues of mutual interest.

The **implementation of development co-operation** is largely the work of the European Commission and its various services. Chart 2 below attempts to represent, in a highly simplified manner, the important anchor points of EC aid organisation. Within the chart, the key actors responsible for ODA

disbursement are broadly noted within a grey overlay. The key EC actors in foreign policy and external assistance (DG RELEX, DG DEV, EuropeAid, ECHO, DG ENLARGEMENT and DG TRADE) see themselves as working in the same “**RELEX Family**”. The RELEX Commissioners work closely together within the group of RELEX Commissioners established by the Commission College or within the EuropeAid Board. Implementation of external assistance in countries is organised through EU Delegations. These were often supported by Technical Assistance Offices, which were parallel contractual arrangements established to cope with the lack of EC human resources in the field, and responsible for contracting consultants to implement the programme. (Further information on these arrangements and support from NGOs and other actors can be found in Chapter 5).

An interesting feature of the organisation is the importance of various geographical programmes. These are: the Pre-Accession programme for Eastern European countries (PHARE); technical assistance programme for Eastern Europe and Central Asia (Takis); community assistance for reconstruction, development and stabilisation in the Balkans (CARDS); external assistance to Asia and Latin America (ALA); support to the Mediterranean and Middle East countries (MEDA); and the European Development Fund for ACP countries (EDF). Each of these programmes have their own management committees made up of the Commission and Member States. In addition, there are various thematic budget lines programmed by DG RELEX or DG DEV and managed by EuropeAid. In 2000, the EU has also established a European Agency for Reconstruction (EAR). An independent agency, the EAR is based in Thessalonica and is responsible for the management of the main EU assistance programme in the federal Republic of Yugoslavia and FYROM.

### **A new development policy focused on achieving results in poverty reduction**

Some Member States, parliamentarians, NGOs, academics, and journalists had all been concerned by the apparent lack of poverty orientation in some of the regional programmes. The Commission and Council have now agreed on a new development policy (November 2000). This appears to address many of the criticisms, and reflects much of the thinking that had emerged from the consultative process during 1998/99 that led to the signing of the Cotonou Agreement in 2000. (The Executive summary of the development policy is set out in Box 2.) Further efforts have also been made to improve policy coherence.

There are several key features of the policy statement and reform of external relations which are important to the present Peer Review:

- **Poverty reduction** is the principal aim of the development policy,<sup>6</sup> and its attainment is set out in the context of the international development targets defined by the DAC, which later became the Millennium Development Goals (MDGs). This aim has application to all developing countries. These points have implications for the country and sectoral allocation of resources, which are taken up in Chapter 2.
- The aim will determine the refocusing of EC assistance on a **reduced number of sectors** in which the EC has **comparative advantage**. These points are examined in Chapter 3.

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6 . Some EC documents also refer to poverty reduction as the overarching goal or objective. For example see Annex III A.

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- Greater attention will be paid to **co-ordination** with Member States and **complementarity** with other donors. These issues will be examined in Chapter 4 in the context of policy **coherence**.
- The policy is set out in the context of the **reform process**, which is the subject of attention in Chapters 5 and 6. In particular, there is a commitment to set down an **action plan** and to report on **results**.

### **Future considerations**

Over time the EC has taken on new responsibilities and there is recognition in the reform process of the need to reconsider its role in Europe and the world and to build on its comparative advantage. In terms of the EC external relations programme, the question arises how can the EC play its co-ordinating role among Member States deriving from the EU treaties and not be “just another donor”. The issue is discussed further in Chapter 2.

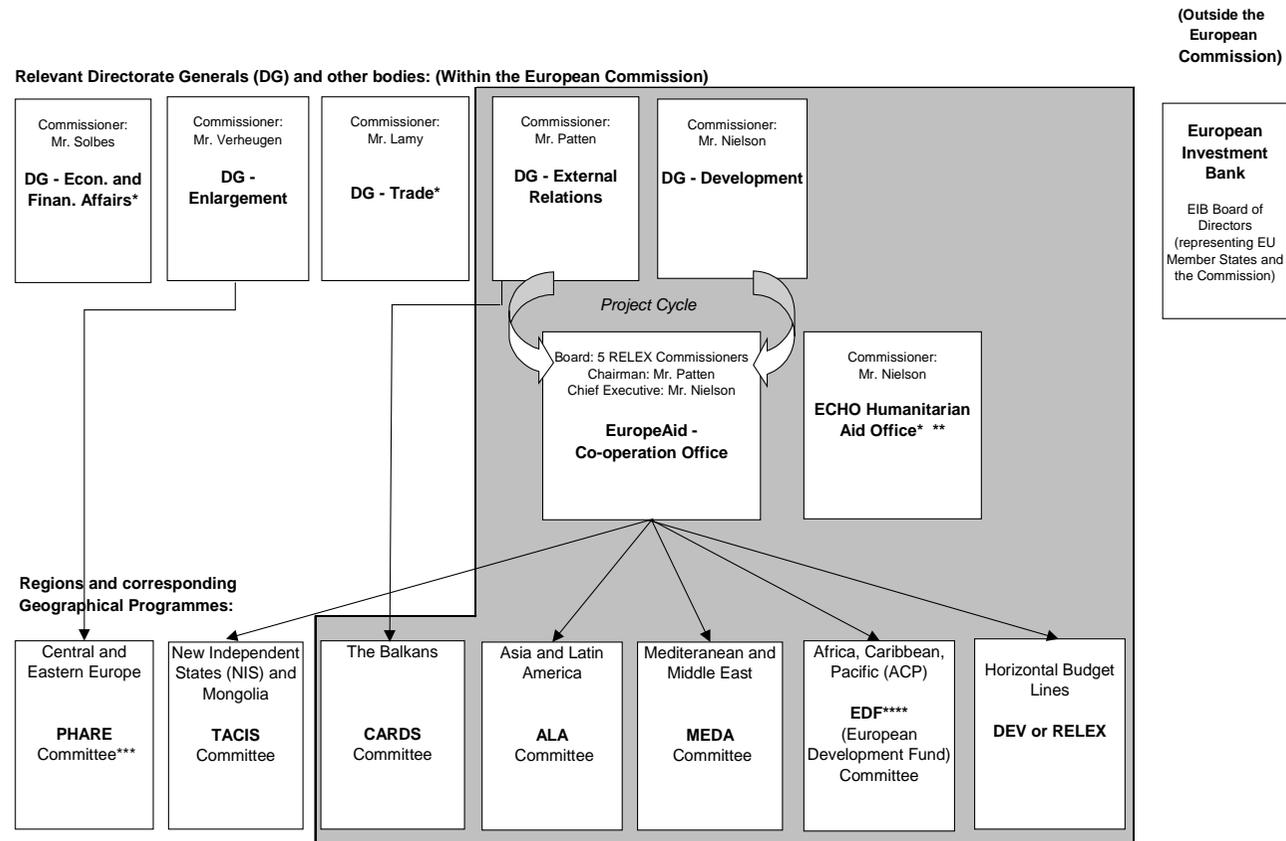
The integration of development policy with political and trade dimensions within the RELEX family is an important opportunity for the EC to develop a coherent set of policies that will have major impact on development. There are also risks that development policy could become marginalised.

The increasing political responsibilities of the EU in the external relations field has led to a shift in geographical focus in development to neighbouring areas. It has also brought a challenge of balancing political and development perspectives and short-term and long-term considerations. The extent to which recent events in Afghanistan will further consolidate or reverse these trends is yet to be seen.

The global trade responsibilities of the EU have led to a strengthening of the links with development policy, as demonstrated by the Cotonou Agreement and the Everything But Arms initiative (EBA). Given the Doha agenda that emphasises trade capacity building, the EC has the potential to make a major contribution though there are concerns about the policy coherence in practice.

The increasing responsibilities of the EC in several directions, without a corresponding increase in human resources or enhancement of organisational capacity, led to organisational stress during the 1990s. Following the resignation of the College of Commissioners in 1999, a massive effort of reform has begun. It is not clear whether these reforms will translate quickly into more effective implementation of EC programmes. This is a substantial issue that has undermined previous EC development efforts. There are encouraging signs but there are also some substantial risks, particularly that the global ambition will not be matched by sufficient resources, thereby repeating past mistakes.

Chart 2. Administration of overall EC external assistance



Grey area represents key actors in ODA-funded development cooperation

\* DG - Economic and Financial Affairs, DG - Trade and ECHO do not correspond to any specific region/geographical programme but they apply to all regions.  
 \*\* In addition to the EC Budget, ECHO also receives funds from the EDF.  
 \*\*\* SAPARD (managed by DG - Regional Policy) and ISPA (managed by DG - Agriculture) are also located in Central and Eastern Europe.  
 \*\*\*\* The ACP do not fall under the EC budget but under the EDF.

Source : OECD.

**Box 2. The European Community's development policy**

"The European Union is a major player in the development sphere. It is the source of approximately half of the public aid effort worldwide and is the main trading partner for many developing countries. This declaration expresses the Council's and the Commission's intent to reaffirm the Community's solidarity with those countries, in the framework of a partnership which respects human rights, democratic principles, the rule of law and the sound management of public affairs, and to begin the process of renewing its development policy based on the search for increased effectiveness in liaison with other international players in the development sphere, and on the involvement of its own citizens.

The principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication.

Poverty, which includes the concept of vulnerability, results from many factors. The Community is therefore determined to support poverty reduction strategies which integrate these many dimensions and are based on the analysis of constraints and opportunities in individual developing countries. These strategies must contribute to strengthening democracy, to the consolidation of peace and the prevention of conflict, to gradual integration into the world economy, to more awareness of the social and environmental aspects with a view to sustainable development, to equality between men and women and to public and private capacity-building. These aspects must be taken on board by the partner countries and included in dialogue between the State and civil society.

The Community will concentrate on six areas which have been identified on the basis of the added value of Community action and of their contribution to poverty reduction: the link between trade and development; regional integration and co-operation; support for macro-economic policies and the promotion of equitable access to social services; transport, food security and sustainable rural development; and institutional capacity-building. Attention will consistently be given to human rights, to the environmental dimension, to equality between men and women and to good governance.

The Community's development policy concerns all developing countries. As regards the allocation of resources, the least developed countries and low-income countries will be given priority, in an approach which will take account of their efforts to reduce poverty, their needs, their performance and their capacity to absorb aid. Poverty reduction strategies will also be encouraged in middle-income countries where the proportion of poor people remains high.

The Community and its Member States will co-ordinate their policies and programmes in order to maximise their impact. Better complementarity will be sought both within the Union and with other donors, in particular in the context of country-by-country strategies. To ensure consistency, the objectives of Community development policy will be taken into greater account in the conduct of other common policies.

The Council supports the Commission in its efforts to manage the Community's external aid more effectively. Particular roles are played by the current restructuring of the Commission's departments, by the more important place being afforded to programming, by the orientation of programmes towards results, by the development of an appraisal culture, by beginning the process of deconcentration and decentralisation, and by refocusing management committee tasks towards the strategic aspects of co-operation. The simplification of the Financial Regulation and a better allocation of human resources, as requested by the Commission, must be encouraged.

This declaration on the Community development policy is to be accompanied by a Commission action plan which will define its implementation in practice. This will be subject to constant monitoring, in particular by means of the presentation of an annual report. "

*Source: EC "Summary" in The European Community's Development Policy Statement by the Council and the Commission, 10 November 2000.*

## CHAPTER 2

### AID VOLUME, CHANNELS AND ALLOCATIONS FOR POVERTY REDUCTION

*The EC supports development activities through the EU budget lines for external relations and the European Development Fund (EDF). Poverty reduction is the primary aim of the EC's new Development Policy and the challenge for the EC is to align its development assistance instruments with this perspective. The EC's official development assistance (ODA) has been increasing steadily during the 1990s. The EC has a twofold role. First, it is similar to a bilateral donor providing support directly to countries. Second, it has an important role in relation to Member States, co-ordinating their efforts. Further work will be needed to strengthen the impact of EC ODA on poverty reduction, through action to speed up commitments and disbursements, by linking ODA with other political and trade activities, and more effective country and sector allocations. Improvements in the allocation process will have to meet several strategic requirements.*

#### External Relations funds

The EC funding mechanisms for development co-operation have evolved with the different responsibilities taken on by the organisation. The EC provides funds for **External Relations**, a broader category than the Official Development Assistance (ODA) used by the DAC. There are two main funds for External Relations activities. Member States make contributions to the regular Budget where **External action** and **Pre-accession aid** are two separate headings.<sup>7</sup> DG RELEX and EuropeAid manage External Action while DG DEV and EuropeAid manage co-operation with South Africa, and thematic programmes such as food security. DG Enlargement manages Pre-Accession funds. The Member States also make voluntary contributions of ODA to the **European Development Fund (EDF)**, a multi-annual programme established in 1975 to support developing countries of the Africa, Caribbean and Pacific regions (ACP), and overseas territories. DG DEV and EuropeAid manage these funds, except in the case of emergency aid, which ECHO manages. Both the Budget and the EDF are denominated in Euros (EUR).

The EC divides external action and pre-accession aid into four broad instruments: geographical programmes, humanitarian and food aid, general co-operation measures, and a small allocation for the Common Foreign and Security Policy. The 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> EDF were divided into eight instruments: country programmes (known as National Indicative Programmes), regional co-operation, structural adjustment facility, interest rate subsidies, risk capital, debt relief, other instruments, and reserves. Other instruments include emergency aid, aid to refugees, STABEX, SYSMIN, and transfers from previous EDF.

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7. The Council of Ministers and the European Parliament decide on the allocations to each budget line.

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It is not an easy task to set out a breakdown of the full annual commitments of the EC. This is because the EDF is a multi-annual fund, so the commitments are for several years. The 6<sup>th</sup> EDF (started in 1986), 7<sup>th</sup> EDF (started in 1991), and the 8<sup>th</sup> EDF (started in 1998) are all still operative; while the 6<sup>th</sup> EDF is almost fully used, the 8<sup>th</sup> EDF is still under-committed. According to the EC's own analysis, the EDF decisions<sup>8</sup> for 2000 amounted to EUR 3.76 billion. The External Action and Pre-Accession budget lines for financial year 2000 amounted to EUR 7.99 billion. Table 1 below sets out, in simplified form, the distribution of commitments and decisions in 2000.

**Table 1. Commitments of EC funds for external relations by main instruments in 2000**

In million EUR

Instrument	Budget		EDF	Total	%
	External Action Heading 4	Pre-Accession Heading 7			
Geographical Programmes (ALA, MEDA, CARDS, Tacis, PHARE, and ACP)	3 006.43	1 579.71	2 668.46	7 254.60	61.75
Structural adjustment	n.a.	1 058.00	459.50	1 517.50	12.92
Community Policies and initiatives <sup>9</sup>	504.93	529.00	n.a.	1 033.93	8.80
Food Aid, Refugees and Emergencies.	935.99	n.a.	25.71	961.70	8.19
Unforeseen needs <sup>10</sup>	n.a.	n.a.	455.16	455.16	3.87
Risk capital and interest rate subsidies	n.a.	n.a.	147.09	147.09	1.25
Other Co-operation and Pre-Accession Measures	377.72	n.a.	n.a.	377.72	3.22
<b>Totals</b>	<b>4 825.07</b>	<b>3 166.71</b>	<b>3 755.93</b>	<b>11 747.70</b>	<b>100.00</b>

Source: European Commission, Budget 2001 and EDF.

8. The EDF uses two terms, "decisions" and "assigned funds," rather than the less precise "commitments".
9. Community policies include international fisheries agreements, external aspects of internal policies, support to agriculture in pre-accession countries, the common foreign and security policy, and the European initiative for democracy and human rights.
10. Unforeseen needs cover the losses from exports and debt relief.

The Budget allocations will increase by 2.21% to EUR 8.2 billion in 2001. Geographical programmes will increase by 4.04%. This includes an increase EUR 336 million (66.92%) for the Balkans (CARDS). This appears to be partially funded by a reduction of EUR 232 million (-20.53%) to the Mediterranean and Middle Eastern countries (MEDA). The resources in the 9<sup>th</sup> EDF will increase to EUR 13.5 billion over the period 2002-2007. The allocation for country programmes in the 9<sup>th</sup> EDF will increase to EUR 9.7 billion. There will be significant changes in the way the EDF resources are allocated, reducing the number of instruments and rolling over the balances from previous EDFs. These changes to the 9<sup>th</sup> EDF are outlined later.

### **Official Development Assistance**

In line with the process of modernisation throughout the organisation, the funding mechanisms above require re-alignment with the development objectives and the role of the EC in the global development effort. Annex II, Table II-1 shows that total official flows include 33% of **Official Aid (OA)**<sup>11</sup>, making the EC the biggest provider of OA in the DAC (see Annex II, Table II-6). This high percentage demonstrates the importance of foreign policy and security aspects of its external relations funds. It also makes it difficult for the outside observer to study the development aspects of the funds in isolation, and for that reason this section will consider **Official Development Assistance (ODA)**, using DAC statistics.<sup>12</sup>

Despite its global role, the status of the EC in the multilateral organisations remains an important issue. Therefore, the EC makes limited use of **multilateral funds**.<sup>13</sup> There is a small amount annually to the UN system, for humanitarian assistance. This was USD 137 million in 2000, and in the same year the EC allocated USD 431 million to enhance its collaboration with the World Bank in the context of the PRSP. (See Annex II, Table II-2.)

Regarding **bilateral funds**, the EC mainly provides **grants** (84% of gross ODA). The larger proportion of these grants is in project and programme aid (67%), the rest being divided between emergency aid (13%), development food aid (8%), technical co-operation (5%), administration costs (3%), and other grants (4%). The majority of the project and programme aid funds are for **geographical programmes**, discussed further below. Other allocations within the programme and project grants are for activities considered by many observers to be areas of EC comparative advantage. The EC is the largest funding agency for **emergency and distress relief**, with its grants for emergency aid and food aid, many of which are channelled through ECHO. There are also many **other grants** funded from a wide range of thematic budget lines, dealing with poverty diseases, reproductive health, environment, NGOs etc. The EC makes comparatively little use of **loans** (16%), with an amount of USD 848 million for new development lending in 2000. Loans are primarily managed through the European Investment Bank (EIB), which commonly takes the leading role in providing loans to middle income countries. It should also be noted that, in the 9<sup>th</sup> EDF the intention is for the EIB to manage the revolving fund that will replace the risk capital and interest rate subsidies. This Peer Review has not investigated the work of the EIB in detail. ODA is a small percentage of its

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11. Official Aid is similar to Official Development Assistance in composition, but is allocated to countries that are not on DAC Part 1 list.

12. The discussion in this section uses constant 1999 USD for comparative purposes.

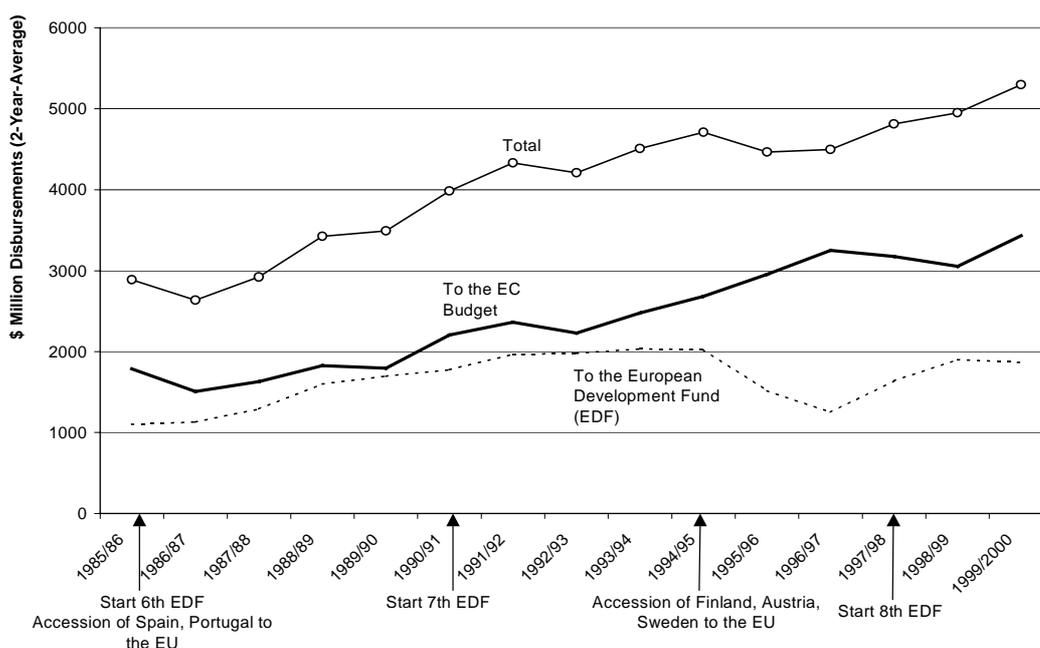
13. Normally, in the DAC's statistical presentations, the EC is treated as a multilateral agency. However, in this report, the term "bilateral aid" is applied to the EC's direct assistance to countries; "multilateral aid" means the EC's contributions to multilateral agencies.

portfolio, but its operations may be significant in certain countries. (See Chapters 5 and 6.) There has also been some **rescheduling of debt**, undertaken through involvement in the Heavily-Indebted Poor Countries (HIPCs).

**Increasing ODA**

Poverty reduction is the primary aim of EC development assistance, as measured against the MDGs. The EC recognised, in the run-up to the UN conference on development finance in Monterrey in March 2002, the need to increase the volume of ODA to achieve these goals.<sup>14</sup> Figure 1 below shows that the net contributions by EU Member States to the EC’s ODA disbursements (in constant 1999 prices) have been rising steadily since 1990.<sup>15</sup> In the Aid at a Glance charts at the start of this peer review report, the European Community’s net ODA in 2000 was USD 4.91 billion (USD 5.60 billion in constant 1999 prices), an increase in real terms of 13.4% between 1999 and 2000. In terms of bilateral ODA,<sup>16</sup> this volume would put the organisation in third place after Japan and the United States (see Annex II, Table II-6). In addition, Annex II, Figure II-1 shows that the EC now has the largest net ODA compared with multilateral donors.

**Figure 1. Total net ODA from the EU Member States to the EC and the EDF**  
2-Year averages (1999 prices - USD million), net disbursements



Source: OECD.

- 14. The World Bank has estimated that ODA will need to double if the MDGs are to be reached by 2015.
- 15. EU Member States’ bilateral disbursements started to fall in 1992, only to pick up again in recent years.
- 16. In terms of overall ODA, Germany would be in third place, which includes contributions to the EC.

The EC also plays a broader role than a bilateral donor does, by its unique position within the European Union. Although the European Commission's right of initiative on Community policy does not include influencing allocations to the EC budget, the Commission can still play an important role in influencing Member States. Total bilateral ODA net disbursements by EU Member States in 2000 was USD 15.31 billion (Annex II, Table II-6), nearly half of the total DAC volume (USD 36.04 billion). The EU volume has been falling at an average of 2.4% per year since 1994-95, and the combined EU members have a weighted average ODA/GNI ratio in 2002 of 0.32%. In this respect, at a European Council meeting in Barcelona in March 2002, the Commission encouraged Member States to increase their ODA contributions. Only four Member States (Denmark, Netherlands, Sweden and Luxembourg) are presently at or above the UN target of 0.7% of gross national income (GNI) while many are close to the EU weighted average of 0.32%. At the Monterrey Conference in 2002 the 15 EU Member States reiterated their commitment reached at Barcelona to increase their ODA spending to 0.39% of their combined GNI by 2006. This would involve efforts by individual Member States to reach 0.33%.<sup>17</sup>

Other Commission initiatives with respect to the EU Member States can also have an impact on ODA effectiveness. The EC has been helpful in the international discussions regarding debt relief and is a major financial contributor of the HIPC initiative, though ACP countries have raised concerns under earlier Yaoundé and Lomé agreements. The EC has also been active in the DAC discussions of untying aid to the least developed countries. It has already untied aid within the EU Member States for the ACP countries, and has been discussing further untying for the least developed countries. The EC statement at Monterrey in March 2002 reaffirmed the commitment made in Barcelona to implement the recommendation on aid untying while maintaining the existing system of price preferences of the EU-ACP framework. (See Box 3.) In these ways the EC played a co-ordinating role with regard to the EU Member States and, because of the large EU share of all DAC efforts, the EC could help to increase the effectiveness of ODA within the whole aid system. To do so it requires the support of Member States. At the same time, the EC has an important role in political and trade negotiations on behalf of the EU as a whole, which can create a supportive framework for effective use of ODA. These broader roles combined with the EC's leverage over this large volume of ODA make the EC unique among bilateral and multilateral donors, and potentially a major force for promoting poverty reduction and the MDGs.

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17. For DAC estimates of the impact of this commitment see ODA Prospects after Monterrey DCD/DAC(2002)8, 16 May 2002.

### **Box 3. EC's role in implementing aid untying**

In April 2001, the European Commission undertook to explore ways to implement the DAC Recommendation on aid untying in the EU, using its procedures that involve EU Member states and ACP countries. In the process, the Commission was determined not to sacrifice features of the present approach that benefit developing countries. Thus, in keeping with the spirit of the DAC mandate, the Commission agreed to propose to EU Member States that Community aid be further untied to Asian and Latin American countries without distinction between LLDCs and other developing countries.

At the preliminary review of the implementation of the Recommendation, the Commission confirmed its intention to untie Community aid to all developing countries not only LLDCs, and went further by including food aid and transportation costs. The implementation of this intention would depend, however, on the outcome of discussions with ACP partners and would, concerning untying to developed countries, depend on whether other DAC Members offer the same terms for procurement. At the same time, the European Community would maintain the existing system of price preferences.

The European Commission has confirmed that it aims to implement the DAC Recommendation as quickly as possible. The Commission's proposal goes beyond the DAC Recommendation in some aspects, and this will require further discussions with EU Member States and partner countries.

### **Improving the speed of delivery of ODA**

Although the EC ODA volume has been increasing, one major issue – the **slowness** of commitments and disbursements - undermines the effectiveness of the use of this ODA. DG DEV notes that, in the last nine years, the average yearly commitment rate of National Indicative Programmes and Structural Adjustment resources has been less than desirable, so the 9<sup>th</sup> EDF will have to increase absorption capacity by 40%. Many partners in countries also identify slow commitments and disbursements as a serious issue. An analysis by EuropeAid in 2002 showed that, while in 1990 it took the EC about three years to reach full disbursement, in 2000 it was four years for the EC budget and six years for the EDF. One of the challenges highlighted by these figures was to reduce the number of **dormant commitments** (representing EUR 1 350 million) with no hope of disbursement and an apparent inability of the Commission to use existing mechanisms to terminate projects. Since 1 January 2001, EuropeAid has started an urgent action plan to reduce these dormant commitments. Up to 15 November 2001, 32% of these dormant commitments were terminated.

A Court of Auditors report on the 6<sup>th</sup> 7<sup>th</sup> and 8<sup>th</sup> EDF discusses the problems of slow commitments and disbursements through the 1990s. It noted that until recently it was possible that as much as one-half of the annual budget would be committed in a rushed manner in the last month of the year. In its response to the Court of Auditors, the EC recognised several reasons for the slow commitments and disbursements. These include:

- The low absorption capacity of a large number of ACP States' administrations.
- Application of the good governance principle, which meant that the Commission operations in certain countries was put on hold.<sup>18</sup>

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18. This is a sensitive issue for the EU as a whole. According to article 96 of Cotonou, and article 366a Lomé decisions on measures due to non-respect of human rights, democratic principles and the rules

- The importance accorded by the Commission to the qualitative aspects (results and impacts) as well as quantitative aspects.
- Reform of the management of external aid, which does not immediately show its effects.
- The redeployment of Delegation staff in the ACP States to other areas; and the inadequate number of Commission officials to administer the programme.

The reform of the management of external aid is discussed in greater detail in Chapter 5. It is worthwhile to note here other causes of the slowness of commitments and disbursements mentioned by other observers. The large number of different budget lines and instruments mentioned above, many of which require their own legal basis and regulations, and the proliferation of the number of procedures all create inefficiencies. In addition there has been a lack of flexibility to move funds from non-performing programmes to faster-spending areas. The intention of the EC's management reform is to address these issues, including by reducing the number of these different budget lines and the number of procedures, and increasing flexibility to respond to development needs. There is evidence from EuropeAid that speed of disbursement has improved in 2001.

The **9<sup>th</sup> EDF** will end many previous arrangements in 2002. The reasons for these changes are to rationalise the instruments of co-operation and to introduce a system of rolling programming. There will be funds for **long term development, regional co-operation** and an **investment facility**. The investment facility replaces the risk capital and interest rate subsidies with a revolving fund to be managed by the EIB in close co-operation with the Commission. The long-term development fund is divided in allocations to countries which are in their turn split into two **envelopes** to simplify the system, and create more flexibility. Envelope A covers macro-economic support, sectoral policies, and focal programmes and projects (73% of funds). This envelope will be immediately available to the partner country to cover projects and structural adjustment. Envelope B covers unforeseen needs such as emergencies, debt relief and instability of export earnings (27%). In this way, STABEX and SYSMIN have been discontinued. Envelope B can also be used to reward well-performing countries. The EC budget in 2001 shows three main **themes** (pre-accession strategy, food aid and humanitarian aid, democracy and human rights), and several other measures (other co-operation measures, and external aspects of certain Community policies). Moreover, EuropeAid is now implementing an "urgent action plan" to reduce the number of **dormant commitments** (as noted above) and to address the lack of **human resources**, discussed in Chapter 5.

### **Tracking poverty reduction effort by country allocation**

The **geographical programmes** altogether take the largest share of overall ODA resources. The EDF provides financial support to ACP countries. The External Action budget supports Asia and Latin America (ALA), Mediterranean and Middle East (MEDA), Balkans (CARDS), and Former Soviet Republics (Takis). The Pre-Accession budget supports the Eastern European candidate countries (PHARE). It should be noted that South Africa, despite being in the ACP group, is supported from the EC Budget not from the EDF. The EC presently provides development co-operation funds to

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of law are taken by the Council. Respect for this is an essential element of Cotonou, as for other co-operation agreements. Provisions on good governance, "a fundamental element," are different. In one case, the Peer Review heard of a Member State requesting the EC to withhold budget support because of a governance issue, but being refused because of the contractual agreements with the country concerned, and an assessment by the EC that the Member States were divided on the issue.

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150 countries, compared to 137 countries in 1990. The distribution of ODA funds to these geographical programmes is shown in Table 2 below.<sup>19</sup>

Poverty reduction is the primary aim of the Development Policy Statement in 2000, and was already an important objective. Some Member States, Parliamentarians, and NGOs have expressed concern that while extreme poverty is concentrated in sub-Saharan Africa and South Asia, as measured against the MDGs, the EC spending in these areas has fallen in recent years, while funding to middle income countries in other regions has risen. The critics fear that the poverty reduction aim has given way to other foreign policy objectives in recent years. Some critics also question the primary use of grants in these middle income countries, arguing that loans might be more appropriate instruments.

**Table 2. Net disbursements of ODA to EC regional programmes**

Programme/Region	Total Net ODA		Population ODA per capita	
	Current USD million#	%	(million)	(USD)
<b>EDF</b>	<b>1229</b>	<b>26</b>	<b>638</b>	<b>1.93</b>
Africa	1098	24	609	1.80
Caribbean	102	2	23	4.43
Pacific	29	1	7	4.29
<b>ALA</b>	<b>646</b>	<b>14</b>	<b>3606</b>	<b>0.18</b>
Asia	391	8	3131	0.12
Latin America	255	5	474	0.54
<b>South Africa</b>	<b>128</b>	<b>3</b>	<b>42</b>	<b>3.05</b>
<b>MEDA</b>	<b>688</b>	<b>15</b>	<b>225</b>	<b>3.06</b>
<b>CARDS*</b>	<b>655</b>	<b>14</b>	<b>24</b>	<b>26.82</b>
<b>TACIS*</b>	<b>128</b>	<b>3</b>	<b>79</b>	<b>1.62</b>
<b>PHARE*</b>	<b>43</b>	<b>1</b>	<b>2</b>	<b>21.78</b>
<b>Subtotal</b>	<b>3518</b>	<b>75</b>	<b>4616</b>	<b>0.76</b>
<b>Not allocated by region</b>	<b>1145</b>	<b>24</b>	n.a	n.a
<b>Total</b>	<b>4662</b>	<b>100</b>		

# Average Disbursements in 1999/2000

\* Population figures are for countries that receive ODA only, not all countries in the programme

Source: OECD.

19. The Table uses net ODA disbursements in current USD to show the distribution per capita, and therefore the figures do not match those in Annex II, Table II-3 which are compiled using gross disbursements in constant 1999 USD.

This Peer Review found that the funds flowing to the countries neighbouring EU borders were largely additional, and that there had not been an appreciable squeeze on the EDF programme, which contains most of the poorest countries. On the other hand, the country allocations are far from the ideal if the primary aim is poverty reduction. The following discussion elaborates these points.

Annex II, Table II-3 shows that USD 4.49 billion of ODA in 2000 can be analysed by country income group (USD 938 million could not be allocated). Of the allocable amount, 26% is allocated to the least-developed countries and 13% to other low-income countries (39% to all low-income countries). This proportion has been declining steadily from 1996, when low-income countries received 53% of the gross bilateral ODA. Lower middle-income countries have been gaining steadily, increasing from 40% in 1996 to 50% in 2000. (All middle-income countries comprise 59% in 2000).

In part this shift in orientation from low-income to lower middle-income countries can be explained by the **change in geographical orientation**. Considering the EC basic data for external assistance as a whole, it is noticeable that the top ten recipients in 1999-2000 are in Eastern Europe and the Mediterranean (see "Aid at a glance"). Of these five are recipients of Official Aid. Considering only ODA statistics, a decade ago all the top 20 recipients of EC ODA were developing countries in Africa and Asia. (See Annex II, Table II-4.) Now there is a distinct shift of focus to Eastern Europe and the neighbouring countries, with only Egypt being represented in both lists of top 10 recipients in 1989/1990 and 1999/2000. In these ten years, the developing countries of Africa and Asia have slipped down the priority list, by percentage share of the ODA. This change in orientation started in 1994/95 when the states of ex-Yugoslavia first appear in the list of top 10 recipients. By 1999/2000 the Balkans region dominated the top 10. The neighbouring countries of the Mediterranean are the next most important group in the top 10 (Morocco, Egypt, Tunisia, and Turkey).

Figure 1 above looks at the relation between ODA contributions to the EDF and to the EC budget.<sup>20</sup> This shows that, while the EDF and the budget rose steadily together to about 1993/94, this relationship then changed. As the EDF disbursements drop towards 1996, and then rise again, the EC budget disbursements rise and then falls. The EDF does not regain the level it had in 1993. The concern of some observers is that the inverse relationship shows that the EU as a whole was demonstrating that foreign policy objectives were of more importance, at certain periods, than development objectives, though the Commission argues that this is not the case. The EC points out that the decline in the EDF occurred because of a crisis caused by the lack of a legal basis for some instruments; a carry over of the backlogs of Lomé IV (and the 7<sup>th</sup> EDF); and the time taken to begin Lomé IV bis and the 8th EDF since the new EU Members had not immediately contributed. In this case, the drop is merely an administrative phenomenon, which will correct itself over time.

The Commission argues that contributions to Eastern Europe have been additional funds taken from other parts of the budget, not from the EDF, which has been protected over the recent years. What is the evidence? There is no doubt that support to Europe has risen. The External Action and Pre-Accession budgets have been rising strongly in recent years, in line with foreign policy objectives to support the accession of Eastern European countries to the EU, to stabilise countries in conflict in the region, and to help develop neighbouring countries. Annex II, Table II-3 shows that the proportion of ODA for the European region has risen from just 11% of gross bilateral ODA in 1996 to 31% in

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20. Because the Member States make a five-year commitment to the EDF, the chart looks at a two-year average for allocations. The figures are in constant 1999 USD. The EC also provided a chart to the DAC Secretariat showing decisions, assigned funds, and payments in the EDFs, which also showed a similar trend.

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2000. At the same time, the proportion of gross bilateral ODA to sub-Saharan Africa has reduced from 40% in 1996 to 30% in 2000. The 9<sup>th</sup> EDF provides substantial resources to the ACP countries, especially Africa, and this is separate from the EC budget. The EC's budget appropriations for commitments from 2002 to 2006 show a further slight annual increase in real terms for external actions and pre-accession aid, and a slight annual decrease for agriculture and structural operations within Europe. This Peer Review therefore accepts the argument that the funds for Eastern Europe have been additional, and that the EDF has tended to protect the proportion of ODA going to sub-Saharan Africa.

The Commission itself argues that, even if the geographical shift has led to an increased orientation towards lower middle-income countries, there are large numbers of poor people in those countries. It is therefore useful to compare the ODA allocations to different countries and regions according to population size. Slovenia is the only country in the PHARE programme to receive ODA - USD 21.78 per capita. The allocation to the people of the Balkans is USD 26.82 per capita, which demonstrates the special nature of the scale of the development and stabilisation needs in that region. It also reflects the political process initiated with the countries in the regions, the Stabilisation and Association Process which aims to the fullest possible integration of those countries into the political and economic mainstream of Europe. There are more useful comparisons between other regions. Table 2 above shows that the people of Asia receive USD 0.12 per capita and the people of Africa (excluding South Africa) receive USD 1.80 per capita. The allocation to the Mediterranean region is USD 2.97 per capita. The two top Mediterranean countries receiving ODA are Morocco and Egypt, and the allocations per capita are USD 7.40 and USD 1.77 respectively. In comparison, the figures for some other populous countries (with substantial poverty) are as follows: China receives USD 0.03 per capita, India USD 0.07, Brazil USD 0.14, Indonesia USD 0.16, and Bangladesh USD 0.51. (See also Annex II, Table II-4).

These allocations to countries seem to reflect a geo-political division of labour rather than population size and poverty orientation. In the context of the Cotonou Agreement, the EC is attempting to provide a poverty-oriented system of country allocations for the ACP countries. An elaborate methodology has been developed for the 9<sup>th</sup> EDF, where the country resource allocation is on the basis of needs and performance.<sup>21</sup> Needs are assessed on the basis of per capita income, population size, social indicators etc. Performance is assessed according to progress with institutional reforms, use of resources, effective implementation of current operations etc. A system such as this, if adopted system-wide across all the regional programmes, would resolve the parliamentary criticisms of the lack of poverty orientation in the EC country allocation system.

### **Tracking poverty reduction effort by sector allocation**

Concern has been expressed by the European Parliament and others about the apparent lack of sufficient poverty focus in the EC's sectoral allocations. According to Annex II, Table II-5, sectoral allocations in 2000 shows total bilateral allocable ODA was USD 6.93 billion. The sectoral share is presently social infrastructure and services (26%), commodity and programme aid (22%), economic infrastructure and services (17%), emergency assistance (13%), production sectors (9%), multi-sector (9%). Support to NGOs is 1%. Administrative costs were 3%.<sup>22</sup> Since support to basic

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21. The information comes from a working document of the Commission "The 9<sup>th</sup> EDF Programming Process".

22. For a discussion of the low allocation to administrative costs see Chapter 5.

social services is often regarded as a proxy for a poverty-oriented sectoral focus, it is notable that basic education comprises 4%, basic health 2%, population programmes 1%, and water supplies and sanitation 3%.<sup>23</sup>

In the Development Policy Statement, the EC aims to refocus its activities within six priority areas in order to address the aim of poverty reduction more effectively. These are: i) the link between trade and development; ii) support for regional integration and co-operation; iii) support for macro-economic policies and the promotion of equitable access to social services; iv) transport; v) food security and sustainable rural development; vi) and institutional capacity building. There are also three cross-cutting themes: a) environment; b) gender; and c) governance. The Budget allocations for External Action and Pre-accession aid are not presently aligned in this manner. As noted above, the EC budget headings are actions defined by geographical area, food aid and humanitarian aid operations, and general co-operation measures. This latter category includes international fisheries agreements, the European initiative for democracy and human rights, the common foreign and security policy, and external aspects of Community policies. (See Chapter 4 for a discussion of the coherence aspects of some of these activities.) The 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> EDF have similar broad categories.

The 9<sup>th</sup> EDF has been set out according to the new priority areas and categorised according to DAC criteria. On this basis, distribution of the 9<sup>th</sup> EDF to priority areas is as follows: trade and development (0.1%), macroeconomic policies and social services (39.7%), transport (32.7%), food security and rural development (7.9%), and institutional capacity building (10.5%). The distribution for regional integration as a priority area is negligible but the EC points out that most of the funds are allocated on a regional basis. There are also some allocations that cannot be defined by these categories, which make up the remainder. Social services are included in macro-economic budget support, though there are difficulties to track the actual spending in a partner country's budget because of fungibility. Direct allocations to social infrastructure and social services (education, health, and water) comprise 18.2%, though this would be increased if rural development (5.7%) and food aid (1%) were also included. It is clear from the above that action will be needed to align allocations in the 9<sup>th</sup> EDF with the new priority areas.

The European Parliament only considers the EC budget, not the EDF. The European Parliament Development Committee is critical of the present budgetary arrangements for External Action and Pre-Accession aid because it is difficult to assess the commitment to poverty reduction through the sectoral distribution, unlike the proposal for the 9<sup>th</sup> EDF. The Development Committee would also like the EDF to be inside the budget (**budgetisation**) and therefore within its oversight, even though this may remove the protected status mentioned earlier. To exercise its role in assuring accountability and tracking poverty orientation, the Parliament would prefer to set overall sectoral spending targets for the Community programme. For these reasons the Parliament has proposed a re-categorisation of the budget in line with the DAC sectoral categories, to make it easier to assess spending on poverty. In addition, the Parliamentary Development Committee, concerned about the lack of attention to basic social services, has suggested a target of 35% for all social sector spending, on the assumption that this will translate into higher allocations to the basic social services and therefore to poverty reduction activities. Such an allocation, if it were feasible, would put the EC above the average for all DAC Members, which is 33% (see Annex II, Table II-5).

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23. There is no breakdown into small and large water supplies.

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This Peer Review welcomes the idea of reclassifying the budget on the DAC classifications, but notes some difficulties with other proposals. The allocation to social sectors is regarded as an unsatisfactory indicator of poverty focus since DAC guidelines recommend a multi-faceted approach. For example, in the Country Strategy Paper (CSP) for Morocco<sup>24</sup>, the top non-European recipient for EC aid in 2000, one of the priorities for co-operation is to address the nexus of weak economic growth, unemployment, poverty, and migration. The activities could be supported through grants or risk capital from the EC, or interest rate subsidies for environmental loans from the EIB. In the Peer Review visit to Bangladesh, the team noted that the prime mover of improvements in social indicators had been access to the EU market for the garment industry, which had multiplier effects because of the employment of women. (See Chapters 3, 4 and 6 and Annex VI.) During the field visit to Burkina Faso the Peer Review team noted other difficulties with a reliance on social sector spending. The CSP process and deconcentration encourage greater country ownership of the setting of targets, so the proposed Brussels-led target-setting would not be appropriate. Moreover, in Burkina Faso, the government did not regard the EC as having comparative advantage to support its social sector programmes.<sup>25</sup>

### **Decision-making process for external action programmes**

While poverty reduction is the primary aim, the EC does not appear to have a system-wide strategy to allocate ODA resources to poor countries or those with large numbers of poor people - there are different arrangements in different regions, and different systems of oversight. While the EDF is governed by the Member States meeting in a specific Management Committee under the chairmanship of the EC, the other regions have both Management Committees made up of Member States and the oversight of Parliament in the budget discussions. The allocation decisions therefore show inconsistencies, given the aim of poverty reduction. For example, the MEDA region does not include low-income countries,<sup>26</sup> but the Barcelona Declaration in 1995 gave rise to a MEDA programme of activities supported by EUR 4 685 million from 1995-99,<sup>27</sup> a sum that was significantly more than had been previously allocated to the region. These funds are supplemented by loans from the EIB, so that total funding in 1999 was about EUR 2 billion. South Asian and South East Asian regions, where there are substantial numbers of poor people, are covered by specific Regional Strategy Papers. Recent events in Afghanistan will increase substantially the allocations to South Asia. There are diverse Agreements within the External Action and Pre-Accession budget headings. These regional and country agreements stress different issues, in which poverty reduction might be implicit rather than explicit. For example, the Barcelona Declaration of 1995<sup>28</sup> deals with the need for a common area of

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24. The UNDP's Human Development Index for 1999 assessed Morocco as 112 out of 174 countries, and 19% of the 29.3 million population were below the national poverty line.
  25. The reverse was the case in Bangladesh, where the government saw the EC as an important support for the social sectors. It also did not regard the EC as a donor for large infrastructure, which was the reverse in Burkina Faso.
  26. Algeria, Egypt, Jordan, Lebanon, Morocco, Palestinian Territories, Syria, Tunisia, Turkey were all Lower Middle Income Countries in 1999, receiving MEDA funds. The other partners are: Malta, an Upper Middle Income country, and Cyprus and Israel, more advanced developing countries, which do not receive funds directly, but which benefit from the regional programme (14% of available funds).
  27. The MEDA II programme from 2000 to 2006 confirmed the region as a priority, but funding has not yet been decided.
  28. Adopted by the 15 EU Member States and the 12 countries and territories of the region, as well as the Council and the Commission.

peace and stability, the promotion of cultural understanding, and an economic and financial partnership. In this regard, the signatories acknowledged the importance of sustainable and balanced economic and social development, including the improvement of the living conditions of their populations. Although poverty reduction is not a specific objective of the Partnership, the EC is still attempting to address poverty through employment promotion.<sup>29</sup>

There are no automatic means for allocating resources to sectoral priorities in the Budget. The responsibilities are shared between Commission, Council and Parliament. While the Commission sets out the draft Budget, some of the allocations are already determined by specific Agreements. The allocations for social services fall a long way short of the Development Committee's recommendation for the EC budget. In the past, in an effort to influence priorities the Parliament used to create specific budget lines to give emphasis to contemporary political concerns. This approach did not have the desired result, and led to a proliferation of budget lines. It also reduced flexibility.

The CSP process (see Chapters 5 and 6) now introduces other important dimensions to the decision-making process, those of country ownership and assessment of country performance in the use of ODA. Deconcentration will allow the EC to engage more effectively in dialogue at the country level, both in programming ODA and also in monitoring the performance. This suggests that EC institutions in Brussels, including Parliament, the Management Committees, and the Council of Ministers, need to consider how they will provide a strategic oversight of the outcomes, rather than trying to set targets for inputs. Some of the financial management reforms try to address this issue of allocating resources to priorities. Financial Reference Amounts are set for MEDA, CARDS (Balkans), and Tacis, but not for other programmes. There is a need for such a Financial Reference Amount for Asia and Latin America, where many of the world's poor people are located, and for other regions. The Development Committee has also suggested sectoral outcome targets for the Commission to aim for, though all donors face the problem that there is an absence of agreed indicators and other weaknesses in reporting. Such targets may also prove difficult to assess in future, because of the increasing use of budget support. Nonetheless, the DAC welcomes attempts to introduce systems that aim at more results-based management.

### **Future considerations**

The volume of EC ODA has been rising steadily and the EC has played an important role in encouraging Member States to raise their ODA contributions. At the same time, the EC work on encouraging aid untying and debt relief could help to make EU ODA more effective, but the EC will have to monitor and encourage progress towards these objectives.

There is a debate within the EU about combining the two funding mechanisms (Budget and EDF), which reflected perspectives on the world appropriate in 1975, but may seem less appropriate now. On the one hand, the members of the development committee in the European Parliament argue that they do not have oversight of the EDF, which is anomalous. Such oversight, they argue, would allow the Parliament to check that the spending fits in with the development objectives of poverty reduction. Others argue, however, that budgetisation would involve less protection for ODA flows to ACP countries (including the poorest countries) as there are other valid EC priorities. Moreover, some observers point out that the Parliament (and its committees) is only one actor in the process of

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29. See for example the Presidency Conclusions for a meeting on strengthened economic dialogue in October 2001 ([http://europa.eu.int/comm/external\\_relations](http://europa.eu.int/comm/external_relations)).

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democratic oversight, and that the EDF Committee comprising the Member States plays this function for the ACP countries.

More work will be needed to align the main funding channels and instruments with poverty reduction objectives. Country allocations might be based on the method being introduced in the 9<sup>th</sup> EDF, but the fragmented management structure for regional programmes could still be a constraint on a system-wide approach. Although this may also seem an argument for budgetisation of the EDF, this Peer Review shares the fears about the risks to squeezing the ACP allocations in the present circumstances. Sector allocations should also be aligned with the poverty reduction aim. Again the 9<sup>th</sup> EDF may show the way forward, though the actual allocations are not clearly poverty related. Attempts by the European Parliament to impose input targets on the EC are not convincing. As presently suggested, these are likely to run counter to the objective of country ownership, since many partner countries see the EC having comparative advantage in transport or infrastructure and not in the social sectors favoured by Parliament.

The proposal to consider untying EU ODA without distinction between the LLDCs and other developing countries is welcomed, as is the inclusion of food aid and transportation. It will be necessary for the EC to set out a time frame for implementation, as well as maintain elements of its present approach that benefit developing countries (*e.g.* price preferences framework with ACP countries) in ways that are fully consistent with the principles, understandings, and agreements of the DAC Recommendation. The Commission is invited to inform the DAC of the steps it is taking to implement the Recommendation including, in particular, its coverage and *ex ante* notification provisions.

Work is being undertaken to reduce the slowness of EC commitments and disbursements, and increase efficiency, which is a major concern for development partners. Progress has been made, but this issue will remain a challenge for the EC, threatening to maintain the poor public image for some time. The 9<sup>th</sup> EDF shows what might be done, but the complex procedures can still hold up commitments. Moreover the proliferation of budget lines to meet specific requirements has also created inefficiencies, and there is a need to address this issue. There is further discussion of how to resolve these points in Chapters 5 and 6.

These considerations raise a generic issue of how the European Parliament and the Council of Ministers can become more strategic in their direction and oversight of the aid programme while encouraging the development of participatory Country Strategy Papers. Greater attention should be given by the Commission to the quality of the policy dialogue involved in the CSP process, with the Council and Parliament taking a more strategic role.

In this process the EC might also give more attention to the overall distribution of resources between budget support (and sectoral programme aid) and project approaches. The EC recognises the advantages and disadvantages with both approaches, and is able to work with both (though there may be restrictions on budget support in some regions). However, at present, there does not appear to be any strategic intent underlying the actual distribution of attention and funding. (See Chapter 3.) This might be reviewed.

## CHAPTER 3

### SECTORS AND CROSS-CUTTING ISSUES

*In order to increase efficiency, the EC has defined six priority areas for its activities, and three key cross-cutting issues. The clearer focus reflects an understanding of the comparative advantage of the EC regarding the linkage of trade and political dialogue with development co-operation and complementarity with the Member States. The overall policy framework for development co-operation and the sectoral action plans show the linkages to poverty reduction. The increasing use of sector wide approaches, including budget support, are also intended to increase country ownership, efficiency, and effectiveness. The EC will still face capacity challenges to develop its implementation strategies and policy dialogue.*

#### Development of the policy framework

The last chapter showed that the EC mainly provides grants to development projects.<sup>30</sup> Within this framework, the EC has undertaken many diverse activities around the world. This diversity appeared to be unsustainable given EC institutional capacities both in Brussels and in the field. One aim of the reform process is to increase EC efficiency by identifying **six priority areas**. These are macro-economic policies and the promotion of equitable access to social services, food security and sustainable rural development, transport, trade and development, regional integration and co-operation, and institutional capacity building particularly for good governance and the rule of law. The EC regards these priorities as areas of comparative advantage in addressing the overall aim of poverty reduction, which might also induce greater complementarity with Member States in partner countries. Where possible the EC will become engaged in country-led Poverty Reduction Strategies.<sup>31</sup>

The policy also goes on to define **three cross-cutting issues** as promotion of human rights, of gender equality, and protection of the environment, which are strongly related to the primary aim. Environment and gender equality are integrated into the priority areas as appropriate. In the case of democracy and human rights the approach appears to be rather different, integrating these issues strategically into the dialogue with different partners. With all these cross-cutting issues, the EC recognises that there are challenges to implementation at the country level, because of policy and institutional constraints. The pursuit of country ownership for development policies increases the

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30. It should be noted, however, that DAC statistics do not, at present, adequately reflect a distinction between project aid and budget support.

31. In some countries these may be formally within the Poverty Reduction Strategy Paper (PRSP) process.

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challenges for promoting these issues. In this respect a sector-wide approach that encourages dialogue is essential for the EC, and other donors, to promote its priority areas and crosscutting issues.

**Humanitarian Assistance** is an important part of EC activity but not a strategic priority area for long term development assistance. Chapter 2 contained some information on the relevant expenditure, and Chapter 5 discusses the management by ECHO.

### **Priority areas**

#### *Macro-economic policies and support to social services*

The priority area of **macro-economic policies and the promotion of equitable access to social services** signals an EC shift from projects to budget support in the area of social services as well as, especially in the Balkans, macro-financial assistance for the balance of payments. The social sectors have traditionally been a particular concern to the EC, with substantial project funding in the geographical programmes. Despite this level of funding, the extent to which partner countries regarded the EC as having comparative advantage in the social sectors differs considerably. In Bangladesh the EC is an important donor in this field, developing projects with various local partners, whereas in Burkina Faso, the EC provided budget support intended for the social sectors, but other donors provided expertise. The social sector is not an EC focal sector in this country and therefore EC technical assistance capacity is limited.

Increasingly EC support to the social sectors has been provided through programme aid in support of sector-wide approaches (SWAps). There has also been budget support for national poverty reduction strategies (whether labelled PRSP or not) in Benin, Burkina Faso, Ghana, Malawi, Mozambique, Tanzania, and Uganda. In the context of structural adjustment programmes in Africa, an aim of the EC was to sustain the budget going to the social sectors, in order to protect the poor. Following from this experience, the EC has initiated, in collaboration with the World Bank and the Strategic Partnership for Africa, improvements to the use of conditionality in budget support to social services. A test was carried out in Burkina Faso where the EC is increasingly participating in the "system of co-ordinators" for each of the priorities of the Poverty Reduction Framework. In essence, the EC has suggested that there should be fewer process conditionalities and a focus on performance indicators that link performance with disbursements. These changes recognise the need for government ownership of structural adjustment and for better monitoring of PRSP results. Recognising that the measurement of results, particularly in the social sectors, is not clear-cut, the EC has also suggested a shift from an "all or nothing" disbursement pattern to a more nuanced approach with a fixed element and a variable element. This change is intended to reduce the volatility of aid flows, and to sustain the social sector budgets.

The Court of Auditors<sup>32</sup> reported on the use of structural adjustment funds from 1994 to 1999, and endorsed the general approach established for the use of conditionality. The Court also recommended enhanced risk assessment and technical assistance to financial management in the partner countries. This work on conditionality has shaped the EC policy approach to the Poverty Reduction Strategy Paper (PRSP), which will become central to the EC development programmes, and has been important

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32. Court of Auditors, Special Report No 5/2001.

for the donor community as a whole.<sup>33</sup> Both the test on conditionality and the Audit report have led to revised methods for the use of budget support funds in the PRSP, where programme aid is now the favoured instrument for supporting SWAps for the social sectors as opposed to the traditional project approach.

### ***Food security and sustainable rural development***

The EC has been a major donor in **food security and sustainable rural development** for many years. Food aid is used to meet emergency, post-crisis and rehabilitation situations or to prevent crises. It may be distributed free to vulnerable target groups or used to build up national buffer stocks. Priority is given to local or third country purchases rather than to European food purchase to avoid the risk of market distortion. Budget support may also be provided to overcome food shortfalls in regional and international markets without threatening currency reserves. The food purchased can then be resold on national markets via private operators, and the counterpart funds generated are paid to the government account to support agreed reforms.

While the EC recognises the importance of food aid for populations suffering from genuine food emergencies, there has been a shift to food security since 1996 when its role in sustainable development and poverty reduction was explicitly recognised in a Council Regulation. Recognising the critical role of rural development for poverty reduction, the EC embarked in 1998 on a major review of its policy, and defined an operational strategy to achieve poverty reduction, food security and environmental objectives, providing a coherent strategic framework for the formulation of a coherent set of policies, relevant to rural development. Action to support food security takes different forms – national crisis prevention systems, strengthening capacities, diversification of production, marketing support, rehabilitation, support for family incomes, and technical assistance. In 2000 the EC had an independent evaluation of its food aid and security programme, which showed its relevance for poverty reduction. The evaluation showed the need for coherence with other instruments so, as in the social sectors, the EC's preferred approach is to provide sectoral programme support. (See Box III-1 in Annex III F.)

### ***Transport***

The EC approach to **transport** draws on its experience working with recipient countries, EU Member States and other donors over many years. Support to transport, primarily roads, has mainly focused on the ACP countries since 1963. Since the 1990s transport has been included in the development co-operation programmes of the Mediterranean, Asia and Latin America, and the New Independent States. In the PHARE and CARDS countries the link and harmonisation to Trans-European networks has taken special relevance. Nonetheless the ACP region remains the main recipient of financial support in the transport sector, according to the communication on transport, with allocations of about 40% of the national and regional indicative programmes, making the EC one of the leading donors in the ACP region. The EC points out that in the 8<sup>th</sup> EDF the actual distribution is 18% to transport sectors. This importance of transport in the ACP countries was also noted in the field trips. In Burkina

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33. One reason that the EC could undertake innovative studies on structural adjustment can be found in the access to funds that became available to the EC and which could be recycled.

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Faso, the government and other donors clearly regarded the EC as a leading donor in this field<sup>34</sup> whereas, in Bangladesh, the EC did not have much involvement in this area.<sup>35</sup>

Policy developments have taken the EC beyond those kinds of official development assistance that treated transport infrastructure as a means for merely providing a large quantity of aid, and is concerned with the outcomes. The EC policy approach brings together two important development agendas – the promotion of sustainable approaches to transport to generate economic growth, and the importance of certain kinds of transport infrastructure for poverty reduction.<sup>36</sup> The EC published guidelines on the planning and implementation of a sustainable approach to transport in 1996, and further impetus was given in 2000, when the EC set out its programming guidelines, encompassing economic, financial, institutional, social and environmental sustainability. These later guidelines set transport firmly within a context of poverty reduction, and integrated cross-cutting concerns with safety, environment, gender and HIV/AIDS. The Communication on sustainable transport<sup>37</sup> also recognises the importance of political commitment, stakeholder ownership, and the role of public-private partnerships.

The EC approach also recognises that a sector-wide approach is increasingly important for transport development if these different outcomes are to be achieved. Such an approach puts emphasis on the quality of the dialogue between government and donors. While budget support has been an important mechanism for the EC to promote dialogue in other sector-wide approaches, this has not been so in the case of the transport sector, where there are several sub-sectors and substantial private sector involvement. The EC policy stresses the importance of commercialisation and privatisation to achieve affordable transport for the poor. In the case of Burkina Faso, for example, the EC was engaged in rehabilitation of roads and there was a sector approach supported by donors, but the review team noted that sustainability was a concern.<sup>38</sup> At the Burkina Donor Round Table on Transport in April 2000, the EC specifically recommended that the Government considers the establishment of a Road Fund. To improve these situations there is a need for the EC to deepen the dialogue with the government, and with the EU's own contracting lobbies, not just on the engineering issues but on the political, institutional, social, economic, and environmental aspects. General aid untying would be beneficial to this dialogue.

## *Trade and development*

The priority area of **trade and development** recognises that the EC is ideally placed to address the synergetic issues of trade and development. The EU is the largest importer in the world of products from developing countries; and the EC has the right to determine trade policy within the EU. The EC is also a large actor in the area of development co-operation. The EC's activities in this priority area are based on the objective of integrating the developing countries into the world economy as enshrined in the treaty of Maastricht. Granting fullest possible market access to developing countries and in particular the least developed countries is one element of the strategy under the trade and development

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34. Transport is 55% of the 8<sup>th</sup> EDF NIP in Burkina Faso.

35. Asian Development Bank and World Bank were important donors in transport in Bangladesh.

36. The EC approach also takes account of the transport strategies of all EU Member States, including Austria, Denmark, France, and Germany where transport is a priority sector.

37. *Promoting sustainable transport in development co-operation*, COM(2000)422final. See Annex III G.

38. There was no Road Fund in Burkina Faso to ensure sustainability, as in other African countries.

agenda of the EC. A second is to take account of developing countries interest in the definition of trade-related rules be it at the multilateral or bilateral levels. The third pillar is to integrate development co-operation with trade policy.

All three pillars are being addressed by the EC through various instruments. The EC represents the EU in the Doha development Agenda which sets out a framework for multilateral negotiations that explicitly puts special emphasis on the interests of developing countries and pledges the provision of substantial trade-related technical assistance and capacity building in all areas under consideration. The Economic Partnership Agreements (EPAs), to be negotiated with the ACP states as from September 2002, are conceived to be an instrument of development. Under EPAs, trade liberalisation, the definition of trade-related rules and regional integration will go hand in hand with detailed identification of trade bottlenecks and other responses, and the systematic utilisation of EDF co-operation to support the whole process. In 2001 the Council of Ministers approved the "Everything but Arms" (EBA) initiative (see Box 4). Other developed partners have been invited, in line with article 42 of the Doha Ministerial Declaration, to open their markets to the Least Developed countries.

#### **Box 4. Everything but Arms (EBA) initiative**

The EBA, approved in 2001, grants duty-free and quota-free access to the EU market for the world's 49 least developed countries. The proposal covers all goods apart from arms and ammunition, and took effect in March 2001. The liberalisation of bananas will be phased in by 2005 and of sugar and rice by 2009. This is to allow major developing country suppliers to adapt (*e.g.* rice and bananas) and for EU countries to adapt to changes in the Common Agricultural Policy (*e.g.* sugar).

The immediate effects of the EBA will be to improve access to the EU market for the products of least developed countries, and to increase competition. The 49 least developed countries have generally welcomed this initiative as a show of good faith by the EU in the WTO framework, though there are some concerns about institutional shortcomings.<sup>39</sup> The initial impact is likely to be limited; 40 least developed ACP countries already had market access on favourable terms for their products. The final impact of the EBA initiative will depend on the structural problems and low competitiveness that may prevent the least developed countries from fully exploiting the possibilities. For instance, important non-tariff barriers remain, such as sanitary and phyto-sanitary standards. Chapter 4 discusses the likely effects on Bangladesh, visited by the Peer Review team. There is also a need to monitor other impacts, such as the effect on the environment in developing countries of unlimited access to the EU market for forestry products.<sup>40</sup>

The EC provides trade capacity building in order to help countries and regions (including groups such as the ACP countries) benefit from their trade relations with the EC specifically and the multilateral trading system more generally. The numerous references to trade capacity building in the Doha Development Agenda have increased the focus on this type of assistance. EC policy documents take account of principles of good practice elaborated in the DAC Guidelines on *Strengthening Trade*

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39. Like the Generalised System of Preferences, the EBA has been unilaterally offered by the EC and therefore can be unilaterally revoked. There are also safeguard clauses for the EC to withdraw the preferences if an increased volume of imports distorts the EU market. See also Annex IV.

40. Mr. Lamy, the Trade Commissioner, made this point in an interview with the UK House of Commons Select Committee on International Development, during its regular review of the EC aid programme in 2002.

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*Capacity for Development.* Nevertheless some challenges are ahead in this area especially when moving from policy to implementation. First, the EC will have to go further in its efforts to integrate the trade and trade policy components more fully into development co-operation programmes, although this process has already been launched by the EC, which believes that it has started to show results. The level of integration will also depend, of course, on the priorities of the developing countries concerned. Second, the internal administrative structures to promote trade capacity building will have to be further clarified in ways that allow for greater coherence, on the one hand, and enhancement of the Commission's own trade related capacities, on the other hand. Finally, the EC, as in the case of others, will have to seek trade policy-neutral approaches to delivery of trade capacity building, at the request of partner countries. There is clearly a risk of conflict of interest when the EC provides technical assistance to countries in the context of negotiations with the EU.

## *Regional integration*

Regional integration is also seen as an important instrument for integrating developing countries into the world economy. The EC is supporting the integration of African, Caribbean, Pacific (ACP) Mediterranean (MEDA), South-European (CARDS) and South-American (Mercosur) countries. The EC has a number of programmes to support regional institutions, for instance those in support of the West African Monetary Union (UEMOA) in Burkina Faso. This type of regional support will be integrated with the new instrument of **Economic Partnership Agreements (EPAs)** to be negotiated as from September 2002 and to be concluded at the latest by the end of 2007. In the context of the Cotonou Agreement, following an extensive process of consultation and negotiation, new trading arrangements<sup>41</sup> were agreed between the ACP and the EU. EPAs aim at providing a long-term WTO-compatible and development-oriented trade arrangement between the ACP and the EU. One of the objectives of EPAs is to foster regional integration, and negotiations will be undertaken with regional groupings of ACP countries. The benefits of this approach include the creation of larger and more diversified markets, which will assist in bringing about a better investment climate. These and other benefits are expected to increase intra- and extra- regional trade flows, and contribute to sustainable development and poverty reduction. On the other hand, public revenue collection in many ACP countries is still largely dependent on tariffs, and therefore public finance implications of any reciprocal trade arrangement have to be carefully considered. There are also several difficulties for the ACP countries to negotiate within a regional grouping and there has been extensive debate about the potential positive and negative effects of opening up ACP countries to reciprocal trade preferences. It is therefore foreseen to accompany the preparation and negotiation process by a whole series of detailed and comprehensive impact studies. Some observers have pointed out that the concept of the EPA will lose some of its meaning within the context of EBA, which opens EU market access to all least developed countries, including the ACP least developed countries. This view overlooks, however, that unlike EPA, EBA focuses exclusively on market access and does not set out to address regional integration, the various non-tariff barriers and support to export performance, development and poverty reduction through the systematic integration of development co-operation (See also Annex IV.)

The link between trade and development and the promotion of regional integration are major comparative advantages of the Commission, but there are areas of real challenges, in particular where the EU's own trade interests outweigh the development objectives. These issues are taken up in Chapter 4.

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41. Trade is not the only activity possible. In Bangladesh, suggestions were made for helping to support and reform the Customs in the sub-region with Nepal, Bhutan and North-East India.

***Institutional capacity building particularly for good governance and the rule of law***

The EC policy recognises that poor governance is an underlying constraint on development, with many dimensions. In the priority area of **institutional capacity building particularly for good governance and the rule of law**, EC policy development presently covers many different kinds of activities. These include civil service reform, judicial reform, financial management and audit, parliamentary activities, civil and political rights, freedom of expression and the media, fights against corruption and money laundering, anti-drugs campaign, and conflict prevention. (See Box 5). Support to civil society has included initiatives involving women within the framework of the Beijing process. EC policies have linked political dialogue with development aid. This priority area therefore appears to seek to bring together a diverse range of activities presently supported by numerous budget lines.

**Box 5. Conflict and Development**

In recognition of the vulnerability to and incidence of conflict in developing countries, the EC has taken several important and welcome policy decisions with respect to conflict prevention and to provide for a timely and appropriate response in the event of conflict. The EC has acknowledged the significant influence of the DAC's Task Force on Conflict, Peace and Development in shaping the Council Resolution and Commission Communication on conflict prevention and response. It is important to note the root causes approach adopted by the EC in this area, situating conflict prevention within the broader context of development co-operation programmes and having a wide menu of instruments from which to select when considering intervening in countries at risk. These instruments range from enhanced, integrated political dialogue through support for regional and sub-regional institutions, as well as for mediation and facilitation initiatives in conflicts, contributions to demobilisation programmes, assistance for electoral processes, rule of law activities and possibly the appointment of Special Representatives. The EC is also well aware of the importance of timely and appropriate post-conflict assistance to help prevent the renewal of conflict.

Of particular note is the February 2001 decision to create a rapid reaction mechanism within RELEX so as to have a focal point for the necessary policy framework and to support the work of all development geographic directorates. The mechanism is intended to support crisis management activities as well as post-conflict (crisis) initiatives and provides special authorities for the EC over and above those in existing regulations. The creation of this new instrument would appear to provide the EC with a useful tool to help bridge the transition between the provision of humanitarian assistance and the start or re-start of co-operation programmes for reconstruction and development (sometimes referred to as "the relief to rehabilitation gap"). In this latter context, however, it will be important to distinguish between ECHO activities and those more suited to the new mechanism. As part of the anticipated ongoing review of the use of this mechanism, other elements to be examined are the six month limit on the duration of activities to be supported, the scope to work with civil society and the value of clear links to human rights issues.

At the political level, the EC has been particularly visible in the field of democratic transition and elections, especially in organising electoral observation missions, with related development activities of training courses for electoral observers and voter education projects. Electoral observation was carried out in Bangladesh to general appreciation in the most recent elections. In Indonesia, the EC along with some Member States have been involved in a Partnership for Governance Reform, dealing with the judiciary, civil service, electoral management etc. The EC contributes to an international Trust Fund to support these activities.

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In all these cases of weak governance, the EC concentrates its development activities on institutional capacity building and considers that aid suspension should only be a last resort. There have been numerous policy initiatives in recent years in this field. The 1998 Regulation on co-operation with NGOs was supplemented in 2000 to recognise the importance of civil society actors in this context. Specific provisions have been made for this in the Cotonou Agreement regarding ACP countries. Other activities, such as the European Union's Anti-Drug Action Plan, also contribute to the fight against corruption, money laundering, and criminality. In 1996, the EC was among the first major donors to adopt a strategy on conflict prevention in development policy, and this was updated in 2001.<sup>42</sup> ECHO adopted a revised and more flexible Partnership Agreement in 1999 to improve its performance in the area of humanitarian assistance.

### **Cross-cutting issues**

The crosscutting issue of **democracy and human rights** builds on the priority area above, suggesting that this issue is not a sector but should be mainstreamed throughout all EC programmes. In 2000 the regulations covering democracy and human rights were formally taken into account for the first time throughout the EC geographical programmes. Many recent policy documents have been produced. The European Initiative for Democracy and Human Rights (see Annex III D) permits a considerable increase in the EC commitment by support to other international organisations (*e.g.* UNHCR). This initiative draws together, for programming purposes, diverse policy initiatives on abolition of the death penalty, racism, torture, indigenous peoples, vulnerable groups (including refugees and children), protection of women's rights etc. to bring greater coherence and efficiency. In implementing these diverse programmes (40% of funds through NGOs) the EC will need to link effectively with the NGOs, especially local ones, that are already engaged in this difficult but important work.

The EC has given support to concept of **women in development** since 1988. The Council of Ministers approved the Regulation for the special budget line on gender integration in December 1998. (See Annex III C) for an EC statement on gender integration). The Commission has focused on mainstreaming gender issues into development policies, projects and programmes and recognises that the integration of gender issues into Community development co-operation is at a critical phase. Operational tools such as gender impact assessment, follow-up indicators, and the gender tools for project cycle management are available but not yet used at all levels. In 2001 an Action Plan was adopted on **gender equality**, building on previous Communications on this topic, to enable the EC to implement the proposals throughout all its country Delegations. One consideration will be the approach to developing capacity in country to take forward the ideas. The Peer Review team noted that, for many years, Member States had supported, through the assignment of Detached National Experts, the policy development in Brussels of this crosscutting area.

**Protection of the environment** is a fundamental obligation under the Treaty of Amsterdam, and the promotion of sustainable development is also a central objective for EC development co-operation. (See Annex III B.) There are two budget lines (Environment and Forestry) to support the development of these issues, and they focus on capacity building. In order to help meet the international development targets (now MDGs), a comprehensive strategy to integrate these issues into the EC development policy was adopted and developed in 1999 and 2000.<sup>43</sup> The EC has also issued further

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42. *Communication from the Commission on Conflict Prevention*, COM(2001)211 final.

43. *Communication on Integrating Environmental and Sustainable Development into Economic and Development Co-operation Policy*, COM(1999)499 final and COM(2000)264 final.

guidance on how environmental issues should be integrated into the six priority areas.<sup>44</sup> Further policy development has taken place in terms of climate change and bio-diversity. At the project level, environmental impact assessments are already carried out for projects with major environmental impacts (such as road construction). A Commission Staff Working Paper in 2001 set out an operational strategy, including the use of strategic environmental assessments in country strategy papers. Much of this policy work will come together in an Environmental Integration Manual, to be available in 2003.

### **Strengthening policy formulation**

For all these priority areas and crosscutting issues there has been substantial work to develop the policy framework in recent years. However, the new emphasis on poverty reduction as the primary aim may require some fine-tuning, particularly at the level of country operations. The links of these priority areas and crosscutting policies to the primary aim of poverty reduction is not always self-evident. While the links between poverty reduction and food security may be almost self-evident, the options in other areas may require further policy work. There have been several actions already where the EC has revised the policy guidance to reflect the requirements of the new primary aim. In the case of the transport priority area, further dialogue will be needed in the context of the CSPs. In the case of budget support to the social sectors, there are inherent technical challenges for any donor in assessing the extent to which the funds have actually been used for the intended purpose, and the overall impact. A Staff Working Paper<sup>45</sup> sets out the measures to address the objective of poverty reduction. There are also continuing concerns that, despite the action plans, some crucial intermediate steps between policies and implementation are missing – such as organisational capacity and deployment of human resources. (See further discussion in Chapter 6.)

The Commission has the right of initiative for formulating policies but the Parliament and Council of Ministers have the right of decision. In many cases, especially for sectoral policies and those relating to crosscutting issues, this arrangement is in two key documents. The Communication from the Commission to the Council and Parliament is usually a substantive document setting out the policy issues and recommendations in some detail. The responses of the Council and Parliament may take several forms but are often framed in a very brief Resolution, that highlight the key issues for the Member States and the elected representatives. These documents may need to be followed up by the drafting by the Commission of a Regulation that sets out the legal basis for the action, and this is also presented to the Council and Parliament.

There are several factors in the EC policy formulation process leading up to these final documents, which constitute the policy guidance and specific legal basis for the concerned issue in the Community programme:

- Legal and consensual framework. EU law sets the legal framework so documents might refer to guiding principles set out in the Treaties establishing the EU, or other EU Regulations. Reference is often made to the conclusions from UN conferences or DAC guidelines. These aspects underlie the search for coherence in EC policies.
- Analytical capacity. The DG DEV and DG RELEX have a relatively small number of staff working on analytical and policy issues but there is the possibility of complementarity and co-ordination with Member States through expert groups.

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44. *Mainstreaming the environment*, Rural Development and Agriculture Policies and Strategies. Policy and Approach Briefing Papers, November 2001.

45. Commission Staff Working Paper, SEC(2001)1317.

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- Participatory process. Within the Commission, interservice groups or task forces are formed to draw on the expertise from different DGs. The EC also makes use of EU Expert Groups, drawn from the Member States, for consideration of working documents and preliminary drafts. The Cotonou Agreement was formulated through an elaborate consultation with ACP partners and civil society.

Supplementing analytical capacity to deal with these policy issues at the level of Brussels can also be administratively challenging. Funds from budget lines are usually allocated for activities in partner countries, not for policy analysis in Brussels. Heavy EC regulations also make it difficult to arrange small consultancy contracts to undertake analytical studies. There are therefore various disincentives for staff to undertake useful analytical studies. The consequence is that the EC is usually a taker of policy from other sources rather than an institution that sets the international agenda on contemporary problems in development. This arises from its limited analytical capacity, and arrangements with Member States to cope with this deficiency (such as provision of Detached National Experts). A resulting criticism of the EC is that it is too often a free rider on other institutions' analysis and more flexible administrative arrangements. Exceptions to this have been the "test on conditionality" and work on HIV/AIDS where the EC has made use of its funds to influence the international agenda.

### **Future considerations**

The EC has used substantial resources to support the social sectors, food security, and transport while trade, regional development, and governance issues have been less resource intensive. This may change in view of the new priorities, though these latter areas are not necessarily big spenders. The peer review welcomes the EC building comparative advantage in these three new areas, which contributes to the overall development efforts of donors.

The area of institutional capacity building for good governance and the rule of law may benefit from further clarification and focus if it is genuinely to become a means to increase the efficient allocation of resources.

The EC's work on conflict and development would benefit from establishing systems to learn lessons from the new experience. Such learning needs to address both the macro political and diplomatic activity and the micro development programmes for confidence building. Learning what is not effective would be valuable. The EC could also build on previous work regarding the conditions for securing the "humanitarian space" *i.e.* for humanitarian workers to undertake their difficult tasks in times of conflict.

There is a tendency by the EC to increase aid through sector wide approaches and budget support, which aim at strengthening country ownership and efficiency. However, there is no automatic agreement by governments of the priority areas and the importance of the crosscutting issues, so the EC will require further staff in the field to strengthen the dialogue around the new approach.

There is a general requirement to strengthen the implementation aspects of policy. Concepts of poverty reduction have been developed at the policy level and integrated into sectoral action plans. There will be a need for follow up and monitoring to ensure that the ideas are taken up at the operational level.

The primary aim of poverty reduction raises clearly issues of sustainability. While policy statements usually make specific reference to these issues, it will be necessary for the EC to ensure they are addressed during implementation.

## CHAPTER 4

### POLICY COHERENCE

*The EC has made a systematic attempt to improve policy coherence with development objectives. The “Everything but Arms” initiative is an important example of how further policy coherence is being sought between trade and development policies in the external relations area. There remain several policy coherence challenges, especially where internal EC policies, such as the Common Agricultural Policy and Common Fisheries Policy, come into contact with development policy. New institutional mechanisms have been developed in the EC reform process, and these help to address several coherence challenges. These could be further developed to address more complex issues.*

#### **EC policy on coherence**

The EC has a policy environment defined by Treaty obligations, the overall development policy, regional co-operation agreements and bilateral agreements, and community policies. The Maastricht Treaty set out the importance for the EC of the 3 Cs – Complementarity, Co-ordination, and Coherence. This chapter focuses on coherence, which concerns the need to ensure that the objectives and impacts of different policies and agreements do not contradict or undermine one another. Given this policy framework, this Peer Review welcomes the determination of the EC to address issues of policy coherence in a systematic manner.

The joint statement of the Commission and the Council on Development Policy includes the following sentences on coherence: “Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. The way to achieve this is to make a systematic and thorough analysis of any indirect effects of measures in especially sensitive areas and to take development problems into account in the Commission decision-making processes.” In the Cotonou Agreement, there are further statements that back up this intention. Other regional agreements are coming up for renewal, and may make similar statements. In other EC activity areas (*e.g.* trade and fisheries) there are also similar statements about the need to ensure coherence with external relations and development policies. (See Annex IV.)

#### **Challenges of policy coherence**

##### *Seeking coherence*

There is a need for the EC to address two main types of coherence between development policy and (a) external policies of the RELEX family *e.g.* trade or foreign policy; and (b) internal Community policies *e.g.* Common Agricultural Policy (CAP), Common Fisheries Policy (CFP).

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In the area of external policies the Everything but Arms (EBA) initiative is an important example of the EC trying to achieve greater coherence between trade and development policy. The removal of restrictions on the exports of least developed countries to the EU is widely considered a positive step.<sup>46</sup> The challenge is for the least developed countries to meet the non-tariff barriers to market entry (e.g safety and phyto-sanitary standards). Indications of the impact of this change are not yet available, as the EBA only became applicable as from 5 March 2001.

The College of Commissioners adopted the Directorate-General for Trade (DG Trade) proposal during 2000, following intensive consultations, firstly between departments and later between Commissioners. The striking aspect of this initiative was the widespread interest it provoked. RELEX Director-Generals discussed the EBA initiative before the Commission adopted the proposal and coherence was thus actively sought. The ACP States were also consulted as soon as the Commission had formally adopted EBA. It was discussed with them during meetings of the joint ACP-EC bodies in the context of the Cotonou Agreement. Although the least developed countries were not officially consulted, there were systematic contacts with representatives in Geneva and several meetings were held with representatives in Brussels after the adoption of the EBA regulation by the Council. NGOs were also consulted through the Civil Society Dialogue mechanism of DG Trade. Within the EC, there has also been a specific "social dialogue."

While EBA is a positive example of seeking coherence, there are also situations when policy incoherence may arise. Such situations particularly concern the internal Community policies (see below). Causes may include the diversity of EC institutions involved in the decision-making and insufficient exchange of information and co-operation in policy formulation. Another cause might be when certain interest groups are able to influence the decision-making process so that insufficient account is taken of other stakeholders' interests. The following case studies highlight some of the challenges for the EC in addressing such issues.

### *Textile trade and development*

Developing countries have been affected by different EC trade arrangements depending on their geographical location and trade preference status. In the textiles sector, the Multi-Fibre Arrangement (MFA) was signed under the auspices of the WTO in 1974 placing quantitative restrictions on imports of textiles and clothing from low-cost countries. However, least developed countries were exempted from quota restrictions under the MFA. In 1995, the Agreement on Textiles and Clothing (ATC) replaced the MFA and made provisions to phase MFA out over 10 years (1995-2005) through progressive raising of quotas and integration of products into the WTO. Although welcome overall for developing countries, many of which will benefit, a few least developed countries are expected to lose, including Bangladesh. (See Box 6 and Annex VI.)

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46. It has been noted that the EBA may be extended to all developing countries in the near future. Although this would assist these countries, it will erode any competitive advantage that the least developed countries had.

### **Box 6. Bangladesh: trade in garments and development opportunities**

#### **EC market access for garments**

EC co-operation with Bangladesh is guided by the EC's development policy (2000), the ALA Regulation (1992), the EC Strategy towards Asia (2001), the EC-Bangladesh Co-operation Agreement (2001), CSP (2002-2006) and a raft of wider policies on trade plus secondary bilateral agreements and regional agreements. These policies are broadly coherent in their objectives at a macro level, and Bangladesh has benefited greatly in recent years from the economic growth generated by **quota-free** access to the EU market for its ready made garments (RMG). Over the past couple of decades, Bangladesh has also benefited from the EU's Generalised System of Preferences (GSP), which provided for **duty free** access for all semi-manufactured and manufactured goods originating in least developed countries. In 1986 Bangladesh signed a bilateral textiles agreement with the EU, which confirmed its preferential access for textiles and garments. Since the mid-1980s, Bangladesh has achieved moderate success as an exporter of Ready Made Garments (RMG), which constitute 70% of exports, especially to the EU. The main reasons for Bangladesh's success has been the low cost of its garments to EU consumers due to its cheap labour and duty free status.

#### **Threats to the garments trade**

The EC's arrangements for rules of origin make it particularly difficult for Bangladesh, which still imports a higher percentage of textiles than are allowed under the EC rules. The Government of Bangladesh argues that, with the previous arrangements there have been backward linkages from garments so that the supply of buttons and stitching thread, with the support of foreign investment, is now 100% Bangladeshi. The government further argues that, if the proportion of allowed imports were increased, Bangladesh could still be competitive in the EU market and would further increase the proportion of Bangladeshi material.<sup>47</sup> The EC might help the Government by improving the competitiveness of RMG; by putting in place measures to protect the poorest from a loss of livelihood; and by reducing dependence on RMG through diversification of the export sector and taking advantage of the preferential arrangements under the EBA.

Nonetheless, Bangladesh is expected to lose out to new developing country competitors, such as India, Indonesia and Pakistan (and China when it joins the WTO), which will be in a position to increase their exports to the EU when quotas are removed. These countries also have low labour costs and are likely to be more competitive than Bangladesh as they have their own domestic textiles industry (to supply the garments industry) and in some areas are more efficient due to better infrastructure, marketing etc. The losses that Bangladesh is likely to suffer will include a decline of export earnings and a loss of employment for many thousands of workers, primarily female. Such losses would undermine several of the EC's development co-operation objectives in Bangladesh, including poverty reduction, gender equality, economic growth, and improvement of social indicators (health, education, nutrition and population).

#### **New opportunities offered by the EBA**

The EBA offers an opportunity for Bangladesh to diversify its exports to compensate for the likely losses of RMG exports. The options for Bangladesh in ensuring competitive export diversification are limited so the full support of the EC development co-operation and trade co-operation is needed to tackle the challenges. One of Bangladesh's major products with export potential is rice, but since this is a sensitive product, access to the EU market will not be fully liberalised until 2009 under the EBA. The EC may be able to help Bangladesh identify other opportunities through its development co-operation.

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47. Interview with the Minister of Finance, 10/3/2002.

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The EBA initiative opens up new opportunities for all least developed countries. EBA has removed all the quantitative and tariff barriers to the EU market for least developed countries with the exception of bananas, rice and sugar where transitional periods have been agreed before full liberalisation is granted. The objective is to enable the least developed countries to achieve higher economic growth and better integration into the world economy by increasing and diversifying their exports. There are, however, some **non-tariff constraints**, such as rules of origin.<sup>48</sup> Many developing countries are involved in the added value processing or manufacturing, but many of the raw materials may originate from non-least developed countries. If the proportion of raw material from non-least developed countries is above 50% they are not accorded preferential treatment. In practice, the benefits of the EBA to least developed countries depend on two critical factors - the extent to which the initiative represents an improvement on their current terms of access to the EU market; and their capacity to increase their exports of the newly favoured products.

### *Development effects of the Common Agricultural Policy*

The CAP requires the EC to dispose of surplus product on the world market through the use of subsidies. The EU market is also protected from agricultural imports. There are also tariff and non-tariff barriers to developing countries trying to increase and diversify their exports to the EU. Since the late 1980s, these arrangements of the CAP have been criticised for the adverse effects of developing world agriculture, livelihoods and food security. Specific cases of EU export subsidies that have been criticised include: Beef exports to coastal West Africa in the late 1980s; Tomato concentrate to West African markets (1999); Dairy exports to Tanzania, Brazil and Jamaica (1999); and Canned fruit and vegetables undermining the South Africa industry (1999).

The incoherence arising between development policy and the CAP in Burkina Faso illustrates very clearly the adverse impacts that EU export subsidies on agricultural products could have on local development and the livelihoods of the poor. In essence, the CAP has, for decades, undermined the EU Poverty Reduction programme in Burkina Faso, which not only included livestock development projects, but other rural livelihoods projects managed by DG Development. (See Box 7.) Critics claim that the subsidies were used later to market their products to southern Africa and then to Russia. The EC points out that EU farmers in receipt of subsidies decide where to market their products; the Commission does not regulate the flow of products to market.

The reductions of export subsidies made under obligations of the Uruguay Round Agreement on Agriculture (URAA) implemented in 1996 had little effect, as EU subsidies remain very high, and since this time, there have been several cases of export subsidies undermining local markets. The extent and pace of liberalisation in the current negotiations of the WTO in the Doha Development Agenda agreed in 2001 will be important and it is also a key area in which to improve coherence.

Another key area concerns barriers to market access. The URAA reduced import tariffs on agricultural products by 36%, with a minimum of 15%, by 1 July 2001. It also stipulated that export subsidies and volumes had to be cut by 36% and 21% respectively by 2001. It has had a limited affect on the high EU tariffs. There also still remain prohibitive non-tariff barriers. Reform of the CAP has been proposed in Agenda 2000. There will be a review of the CAP in 2003, which may give the opportunity to reduce the barriers to imports and subsidies on exports. Although this reform process was supposed

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48. Other constraints on trade include sanitary and phytosanitary safeguards on foodstuffs and agricultural products.

**Box 7. EU policy incoherence in West Africa, particularly Burkina Faso**

EC co-operation with Burkina Faso is guided by a number of different policy and strategic documents including: the EC's development policy (2000), the Cotonou Agreement (2000), the Burkina Faso CSP (2001-2006), the EBA plus secondary bilateral agreements and regional agreements. In terms of development co-operation, the EC has been engaged in Burkina Faso for more than 40 years and has been the principal donor since 1997. Its new CSP for Burkina Faso sets its strategy firmly in the country's own national poverty reduction strategy (the DCSLP). The main areas of EC intervention are: macro-economic support via budgetary aid (EUR 150 million) and sectoral support (EUR 100 million) to the rural transport sector and rural development sector with a focus on food security.

Burkina Faso's main industries include cotton lint, beverages and agricultural processing. Its agricultural products include peanuts, shea nuts, sesame, cotton, sorghum, millet, corn, rice and livestock. In 1999, its total exports were worth over USD 220 million and included cotton, livestock and livestock products and gold.

**EU export subsidies on beef and Burkina Faso's livestock industry**

Burkina Faso has limited exports to the EU, but they had a thriving market in live cattle with their neighbouring countries such as Ghana, Benin and Côte d'Ivoire. During the 1980s, EU beef exports to West Africa increased sevenfold due to the granting of export subsidies to EU farmers. The subsidised beef in the coastal regions of West Africa was 30-50% cheaper than local cattle. Although the subsidies may have helped EU farmers, it had an adverse impact on poor livestock farmers in West Africa, and critically damaged the local market for Burkinabé exports.

In 1993, European NGOs launched a campaign on EU subsidies on exported beef to West Africa, on the basis that it was a clear example of policy incoherence under Article 130V of the Maastricht Treaty and undermined livestock development projects financed through the EDF. The EC reduced the subsidies admitting there was incoherence. According to a Commission paper (1994) on coherence in Community policies, "It is therefore necessary to take measures to end the serious incoherence that exists between the agricultural policy and development policy of the Community. Such measures are all the more urgent because this harmonisation is a duty imposed by the Treaty on European Union" (Article 130V).

**EU export subsidies on tomato concentrate**

Despite the lessons apparently learned from the 1980s in West Africa, in 1999, EU farmers received subsidies for tomato concentrate exported to West African markets. Again, as in the case of beef exports above, EU tomato concentrate arrived in West African markets at lower prices than locally produced concentrate and undercut the local market. This had a negative effect on both the local agro-processing industry and tomato growers.

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to include consideration of development interests, it has been estimated<sup>49</sup> that the level of aggregate reforms might actually have a slightly negative overall impact on developing countries as they will reduce some distortions from which developing countries benefit and leave other important distortions unchanged.

The EBA covers a few important agricultural products for developing countries. Bananas, rice and sugar are key exports for a many developing countries so liberalising access for these products to the EU could have a positive impact on many developing countries. Nonetheless, these products are considered sensitive for the EU. Those countries that have been exporting at high EU prices under the

Lomé protocols, such as Mauritius, Fiji and Guyana, will be losers in the new liberalised context and the effect on them could be devastating. For this reason these product have been included on a phased basis<sup>50</sup> to mitigate the adverse effects of rapid liberalisation of these products.

There are concerns about the effects of both protection and liberalisation on the other developing countries (*i.e.* not the least developed), which are seeing an erosion of their preferences to the EU market at the same time that duties are being reduced. Some of them are highly dependent on single products and will need significant help with adjustment measures especially to modernise or diversify their agricultural production and economic base.

### ***Reforming the Common Fisheries Policy***

The Common Fisheries Policy (CFP) is concerned with the legitimate interests of the EU fishing industry. The legal basis is in Article 33 of the Maastricht Treaty. The CFP covers all fishing activities, the farming of living aquatic resources and the processing and marketing of fisheries products. The CFP focuses on four main areas: a) the conservation and management of marine resources; b) fisheries relations and agreements with non-member countries and international organisation; c) structural measures and d) the common market organisation for fishery and aquaculture products. As an integral part of the CFP, DG Fisheries is tasked to conclude a series of bilateral fisheries agreements with third countries in order to secure alternate sources for fish for the EU where there are problems of declining fish stocks and over-capacity of fleets in home waters. This practice, endorsed by UNCLOS,<sup>51</sup> mostly involves a type of financial compensation agreement, where the EC pays financial compensation to the country in return for access rights. DG Fisheries argues that this cost is justifiable as it contributes 25% of Community fish production, supports 40 000 jobs, relieves pressure on depleted resources and secures supply for EU market. This type of agreement has been concluded with 15 ACP countries. (See Box 8.)

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49. *Levelling the field; will CAP reform provide a fair deal for developing countries*, Stevens C., Kennan J. and Yates J. (IDS, 1998).

50. Bananas in 2005, rice and sugar in 2009.

51. The UN Convention on the Law of the Sea (UNCLOS) states that coastal countries that are unable to fully utilise or harvest fisheries resources within their Exclusive Economic Zone (EEZ) should allow other industrial vessels (*i.e.* countries) access to surplus stock.

### Box 8. Fisheries in Mauritania

The Coalition on Fair Fisheries Agreements (CFFA)<sup>52</sup> had launched a campaign in 1999 regarding the re-negotiation of the EU bilateral fisheries agreement with Mauritania, expressing concern over the depleting stock of Octopus, one of the key products in Mauritania export earnings, of which fish products account for 50%.

Mauritania and the EU ratified a new Protocol in 2001, which renewed its fisheries agreements for 5 years from 1 Aug 2001. The new protocol increases the authorised number of Community cephalopod boats by 30% and justifies this by the “*departure of Asian vessels*”. At the same time, the Protocol contains many of the new provisions stipulated in the Green paper on the future of the CFP (*e.g.* to monitor resources with the national fisheries research body, to increase surveillance, to give a financial package to develop artisanal fisheries).

Despite these provisions, the CFFA believes the new Protocol is fundamentally flawed, arguing that an investigation revealed that the Asian vessels were loaned to Mauritanian fishermen on the basis of a commitment to certain yields. When local fishermen did not meet these due to dwindling stocks of demersal and cephalopod, these boats were taken back. Moreover, the CFFA claims that the European Commission completely ignored figures on safe catch levels from the national Mauritanian Fisheries Research body (CNROP) which set the maximum sustainable yield at 35 000 tonnes / year and recommended that the ideal catch rate should be 20 000 tonnes / year. Even before the increase in vessels, the EU has been catching 26 000 tonnes a year, leaving very little for the Mauritanian fisherman. CFFA argues this is a major reason for the fall of Mauritanian exports of octopus of 50% since 1993 and why many ships are at a standstill.

Within the EC there were also concerns. No impact assessment was carried out, even though it is a 'region of concern' for DG Environment. This was apparently because it was a '*renewal extension*', rather than a new agreement and it seemed that DG Fisheries was not obliged to follow their own new guidance in this case. Furthermore, information on the agreement was only passed on to DG Development for 'rubber stamp' approval after it had been signed. The Council of Ministers, after expressing a lot of concern, commissioned a study and then introduced a requirement to hold a review every three or four years.

Although the CFP addresses the legitimate interests of EU fishing fleets and charges DG Fisheries with its implementation, other parts of the Commission have interests in the CFP that are quite different from those of DG Fisheries. In summary, the following have been the main criticisms within the EC of the bilateral fishery agreements negotiated by DG Fisheries under the CFP:

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52. CFFA is a Brussels-based NGO including members from Friends of the Earth, Green Peace, European Research Office, and others.

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- **The costs of EU Fisheries Agreements do not justify the ends.** The EU Court of Auditors is concerned with the efficiency of EC expenditure in achieving the policy objectives it sets out. It argues that, not only does the Community pay large sums of money for rights to fish in the waters of third countries, but the EC also subsidises up to 80% of the cost of long distance fishing fleets, with vessel owners only paying 20%.<sup>53</sup> By 1996, the EU budget for international fisheries agreements was EUR 280 million, up from EUR 6 million in 1981. Some developing country governments themselves have at first welcomed the financial returns from the agreements but have later regretted the effects on fish stocks and community livelihoods.
- **The agreements may undermine the development of the artisanal fisheries sectors** in many developing countries and therefore threaten the livelihoods and nutritional base of local small scale fishing fleets and coastal communities. DG Development is responsible, under the Cotonou Agreement, for increasing the means of protecting fisheries resources and monitoring their exploitation and increasing the contribution of aquatic resources to economic growth, food security and the fight against poverty. These objectives may be undermined by the financial compensation<sup>54</sup> in fisheries agreements that encourage governments to open their waters to EU fleets despite the effects on local artisanal fisheries.
- **There is a danger of over-fishing and further damaging declining fish stocks,** especially as there is often a lack of monitoring of catches and stocks. DG Environment is tasked to ensure sustainability, particularly of natural resources, a core aspect of the Community. They are increasingly concerned with depleting fish stocks worldwide and believe this is aggravated by many bilateral fishing agreements, which do not involve adequate monitoring of fish stocks. DG Environment is now pressing for a Code of Conduct for "Responsible Fishing".

The Common Fisheries Policy is currently under review (from March 2001) and its reform is likely to be agreed by the end of 2002. The Commission's Green Paper does recognise the need to take account of development objectives and contains broad statements on the need to protect local small-scale coastal fisheries and ensure sustainable stock management. However, in terms of concrete action to take, these fall short of the expectations of DG Development and others. The actions listed are mainly technical assistance to help with research, stock management and surveillance and the development of local professional organisations. Much more could be done including the systematic introduction of impact assessments.

Despite various commitments by DG Fisheries to take increased account of development interests in the formulation of fisheries agreements,<sup>55</sup> NGOs cite further recent examples of DG Fisheries not taking sufficient account of development interests or implementing their own guidance. Vessel

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53. Subsidies come in various forms, including construction and modernisation of powerful vessels, costs of access to other waters, and vessel transfers to non-EU fleets.

54. The annual disbursement of financial compensation is EUR 280 million and, in particular countries, the compensation may be greater than all European aid.

55. Examples include concluding '*second generation*' agreements with the aim of greater involvement of partner countries; provisions to protect local coastal fishing; help with scientific research; the commitment that it will promote the consultation of traditional fishing communities in the use of EU funds. Commission Communication on "Fisheries and Poverty Reduction" (November 2000).

transfers to local boat owners reduces the overcapacity of the EU fleet, but contributes to over-fishing and increased competition, especially considering the power and capacity of the large trawlers (e.g. Mauritania and others). Insufficient impact assessment is made of the local fishing industry and stock levels (Mauritania and others). EU market access via tariff reductions was made conditional on the signature of a bilateral fisheries agreement (South Africa).

The EU has come up with a range of solutions to address the issues outlined above and to improve coherence. The CFFA has also made suggestions to the EU (see Annex IV).

### **EC institutional mechanisms to strengthen coherence**

The huge task of reforming the EC is in progress. The aim of the reform is to clarify the mandates and responsibilities, strengthen accountability, improve efficiency and develop greater transparency. Although the white paper on reform does not specifically refer to 'improved coherence,' this will be one of the outcomes of the reform. Coherence, co-ordination and complementarity were set out in the Maastricht Treaty<sup>56</sup> to ensure effective policy development, programming and implementation. Through the reform process in the EU generally and the Commission in particular, improved coherence will result from new or modified institutional mechanisms:

Overall governance of the EC programme was described in Chapter 1. Coherence issues arise in relation to the discussions between Member States in the Council of Ministers and the different Management Committees for the various programmes (EDF for the ACP countries, ALA for Asia and Latin America etc). In essence, the regional programmes are now comparable since they are all within the Development Policy framework focused on poverty reduction, but in practice Member States also have different interests, which, in the EC context, have expression in the Committee discussions. Taking the Mauritanian fisheries as an example, some Member States may primarily have interests in fisheries production for EU consumers, while others, without large fisheries interests, may primarily express general scientific and development issues.<sup>57</sup> All these interests need to be expressed in the Committee discussions so that the EC can address primary concerns with coherence. The case studies above also demonstrate the importance of the Court of Auditors for bringing forward issues of coherence.

The different composition of the regions, the different priorities, Commissioners and DGs, also mean that there are different perspectives within the Commission. The regional programmes also have their own regulations but there has been a process to harmonise these in recent years. The RELEX "family" was set up in 1995, and EuropeAid established in 2001 to harmonise implementation. The RELEX

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56. Article 130U of the Maastricht Treaty (which became Article 177 in the Treaty of Amsterdam) sets out the objectives of EC development co-operation as: i) the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them; ii) the smooth and gradual integration of the developing countries into the world economy; iii) the campaign against poverty in the developing countries. The "Coherence Article 130V" in the Treaty of Maastricht (which became Article 178 in the Treaty of Amsterdam) obliges the Community to take account of its development objectives in the policies that it implements, which are likely to affect developing countries.

57. Interviews suggested that Germany was the prime exponent of developmental and environmental interests in the discussions of the renewal of the CFP agreement with Mauritania, while Spain expressed the EU producer and consumer interests. On other issues, Member States may express different priorities.

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family operates formally at the level of Director General and Commissioner, with the intention of assuring coherence on horizontal questions across the area of external relations. It operates as a kind of inter-service consultation mechanism with civil servants from the different RELEX DGs producing briefings on the policy issues of interest to more than one DG. DG RELEX contains a Secretariat to this family known as the RELEX Planners. When there is a difficult external relations coherence issue to resolve, this group takes the decision. Europe Aid is the implementing arm of the RELEX family and has a mission to develop the programmes to match the policies, assess the resources required for them and manage their implementation in conjunction with key workers in the field. Already employing over 1 000 staff, it is expected that this will expand in the near future. It carries out a wide range of implementation functions, some of which can contribute to the 3 Cs. (See further information in Chapter 5.)

The role of the RELEX family in policy coherence has been criticised because it focuses only on external Community policies so it misses some key incoherence issues arising from internal Community policies (*e.g.* fisheries - CFP, agriculture - CAP). Its mandate is limited to examining new policies, not existing policies, so it tries to ensure that new policies are coherent with old policies that may need reform.

The RELEX family now has a new role in producing the new Country Strategy Papers (CSPs). In principle, this role should overcome the criticisms made above because of the innovations about policy coherence in the CSP. Commission guidance on CSPs, in June 2000, stipulated that the section on the EC's co-operation strategy should contain a "coherence paragraph" in which the EC "policy mix" in a country is explained, covering the various linkages and identifying any incoherence. For example, this section should include, for the ACP, a look at future negotiations on EPAs if appropriate and deal comprehensively with trade issues affecting the country. (See Box 9.)

The CSP and the process of checking the policy mix will require attention to the established inter-service consultations with other DGs. This is an important institutional mechanism for bringing out coherence issues. Consultation often takes place informally, even before the official process of consultation when putting forward a Communication to the Council and Parliament. This consultation process is aided by the drive to aid the Commission's effectiveness in information exchange and procedure simplification, and serves as a central tool for embedding coherence. The new internal information system and integrated web site, allows a more effective, integrated user-friendly search system, which not only identifies the Units, but also 'focal points' and the 'Country teams' organised around each CSP.

The quality of the CSP is being examined by a new service, the Interservice Quality Support Group (iQSG). The iQSG has a President, nominated by the RELEX Commissioners and 12 representatives, in their personal capacities, from external relations DGs. A Secretariat consisting of three civil servants has been set up within DG Development charged with drawing up the annual work programme, preparing meetings, documents and reports. Operational since 2001, the iQSG is a quality-screening body that focuses on the programming process for external aid and in particular the establishment of the EC's country and regional strategies. Its mandate is "to ensure that programme documentation (and periodic revisions) respect minimum quality standards, the results of evaluation studies and the objectives set by the RELEX group of Commissioners" (Commission Communication, 16 May 2001, Part 2.1). One of the many quality control functions of the iQSG is to ensure that the issue of coherence is comprehensively dealt within programming documents such as the CSP. (See Box 9.)

**Box 9. “Policy Mix” in Country Strategy Papers**

“The principle of coherence or consistency with other EU Policies requires attention... Starting with overall assessments of the EU’s strategic priorities, to be reflected in comprehensive ‘Strategic Framework Papers,’ programming should subsequently produce the right ‘policy mix’ for each country or region incorporating both external assistance and other Community/EU policies and priorities (trade, CFSP etc). The linkages between external assistance and other Community policies in fields such as fishery, agriculture, commerce, conflict prevention, food security and migration should, as appropriate, be examined and dealt with in this section ...” (The Reform of the Management of External Assistance”, Commission Communication, May 2000.)

In May 2001, the RELEX planners issued an informal guidance note on achieving the right ‘Policy Mix’ in Country Strategy Papers (CSPs), “CSPs and Policy Mix: Guidelines for the examination of the issue of Policy Mix in Country Strategy Papers.” This informal paper says that CSPs, in considering how EC resources should be spent in a partner country or region, must take account of a much broader range of issues and must consider whether the overall policy mix is satisfactory or not. However, as it is unrealistic to expect the CSP itself to contain a full analysis of all Community policies, it should therefore just contain a summary of the analysis and conclusions. Instead a special and non-public analytical document should be the vehicle for a candid assessment of EU policies. This would be considered by the iQSG and RELEX DGs and RELEX Commissioners.

The formation of the iQSG is undoubtedly a positive move. Although the group is fairly new, it has already screened 115 proposals which led to the adoption of 50 CSPs with a clear and recognized improvement of their quality. Constraints on the ability of the iQSG include a huge mandate of which coherence is a very limited part and the understaffing of the responsible Secretariat in DG Development for the amount of work.

A ‘focal point’ on coherence has also been set up in DG Development to screen other DG’s policy proposals for their consistency with development policy. It was suggested to this peer review<sup>58</sup> that Quality Support Groups (QSGs) will be set up in each external relations DG to help develop the ‘policy mix’ non-papers for presentation to the iQSG and RELEX Group along with the CSPs. However, the EC subsequently points out that this suggestion is not a formal proposal and none have been planned.

The Evaluation Unit is now required to report directly to the Board of Commissioners for EuropeAid. It is programmed to conduct several studies relating to coherence issues discussed above<sup>59</sup>. (See also Chapter 5.)

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58. Peer Review interviews with EuropeAid in Brussels, February 2002.

59. Studies include the 3 Cs: Coherence, Complementarity and Co-ordination (with member states 2001-04); the linkage between fishery agreements and poverty reduction (2002); the effects of trade policy on development (2003); the links between environment and development (2004); and the ‘Policy Mix’ synthesis (2005).

**Future considerations**

Although there are good arrangements in place for looking at the coherence of new policies, there are major challenges with regard to examining existing internal Community policies (*e.g.* CAP and CFP). These policies are under review by the EC, and the RELEX family could make strategic alliances with other concerned DGs to highlight the various coherence concerns. At the same time, it may be necessary to strengthen further the linkages between concerned DGs by establishing clear focal points and facilitating the development of information exchange, including through intranet and internet.

The CSP plays an important role in stimulating inter-service consultations between different DGs and for raising issues of coherence for Member States in the Management Committees. Questions arise whether the roles of Commission services and Member States at these different levels are satisfactory. To what extent should the Member States be focusing on strategic issues, such as overall EU interest and policy coherence, rather than on the details of country policies? To what extent should DGs be able to address all relevant policy coherence issues in policy and programming documents?

The CSP also has a central role in providing a framework for analysing policy coherence issues, and identifying the areas of incoherence. However, the EC recognises that the CSP cannot address all the relevant issues, and that the analytical capacity of the “Country Team” and of the iQSG to highlight the causes of incoherence and to make recommendations is necessarily limited. The issue of analytical capacity, staff skills, and training is taken up again in Chapters 5 and 6, and here we note that these issues also encompass the need for capacity in policy coherence issues.

Linked to the above question of analytical capacity is the capacity of the EC to monitor policy coherence and to evaluate impact. The studies of the Evaluation Unit have been noted favourably, but there appears to be a staffing deficit to ensure the capacity of the EC staff to monitor the emergence of coherence issues and to feed results back into policy and programming discussions. The extent to which these issues might be addressed by “deconcentration” may also be considered in Chapters 5 and 6.

## CHAPTER 5

### ORGANISATION AND MANAGEMENT CHANGE

*The organisation and management of EC development co-operation is embedded within the broader, and more political, external relations framework. Current reforms include more strategic and streamlined approaches, reorganisation in headquarters, and “deconcentration” of implementation authority to the field. These reforms are more sharply defining the vision, responsibilities, and processes of European aid institutions. It will be a challenge to ensure that these organisational and management reforms are increasingly results-oriented. The transition to this new form of management culture has only begun and will require a longer-term political commitment from European leadership to be successful. To implement this more strategic and developmentally oriented mandate also requires more human resources.*

#### **Rationale for organisational and management change**

The EC reform aims to modernise the organisation, improve accountability, and increase efficiency and effectiveness across the EC system. Reforms of the system are addressing such issues as the cumbersome ex-ante financial control arrangements by introducing new systems of financial management. Within the external relations field, the EC is aware that improvements depend on addressing several major issues. There had been confusions in responsibility induced by the horizontal split between DG RELEX and DG DEV. The establishment of an implementing office (Common Service) had created a vertical split between planning and implementation, thus disrupting project cycle management. In the field, contractors and Technical Assistance Offices mainly undertook implementation, and monitoring was weak. There was also some overlap of the emergency assistance and development operations. Moreover, while understaffing had been a constant problem, there was little support from Member States for increasing human resources because of budget restrictions and some Member States wished to see significant improvements in efficiency or subcontracting to their own staff.

The European Court of Auditors<sup>60</sup> and the Commission itself, through the RELEX Reform first noted in Chapter 1, had called for the increased use of common procedures and overall improvements in the management of EC external assistance. Since the 1998 Peer Review, and especially since 2001, there has been considerable change in aid organisation and management, and many changes in the management of human resources are still being implemented. The breadth and the rapid pace of change of EC organisation and management over the last few years are considerable (see Annex 1). For sake of simplicity, therefore, this chapter primarily focuses on the parts of EC organisation and management that significantly use ODA funding. As noted in Chapter 2, this refers essentially to the

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60. *The management of the Commission’s external aid programmes*, Court of Auditors, special report No. 21/2000 in the Official Journal of the European Communities, Volume 44, 22 February 2001.

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EDF, ALA, MEDA and CARDS geographical programmes, added to which are humanitarian aid and selected thematic programmes.

### **Organisational change**

As noted in Chapter 1, the organisation of EC development co-operation has evolved within a larger context of European Union political change. Broader European political issues, including relationships with ex-colonies, preparing the pre-accession countries and the proximity of crisis in the Middle East or the Balkans, have led to today's geographic programmes of external assistance and development co-operation. This range of political mandates has fostered organisational compartmentalisation, and the evolution of a complex array of different organisational procedures, relationships, and implementation perspectives.<sup>61</sup>

The key institutional actors implementing external relations and development assistance were described in Chapter 1 (Chart 2). Some of the other actors are described in Box 10 below. Taken overall, EC organisational actors tend to be aligned across two functional axes. On the vertical axis, policy and key strategic decisions are retained in Brussels through the work of the DGs and the various Committees, while implementation responsibility is increasingly being delegated to the field. On the horizontal axis, EuropeAid and ECHO manage long- and short-term implementation. The way these different roles are exercised by these various key institutional actors is described below.

To facilitate the concept of the **RELEX family** and to help overcome the previous fragmentation of external relations policy, high-level co-ordination meetings are held periodically among members at the levels of the Commissioners, the DGs, and the EuropeAid Board. At the more operational levels, representatives of each of these DGs are invited to participate in most aspects of downstream implementation, as deemed appropriate. This structured, cross-organisational collaboration is seen as useful, despite the additional burden that this range of meetings represents. Such collaboration sets a "teamwork" tone for the entire foreign affairs organisation, ensures consistency of messages at the highest levels of the organisation, and encourages the 3 Cs (Coherence, Co-ordination, Complementarity) at the level of internal Commission organisation.

More specifically responsible for drafting the CSP and deriving the NIP are **DG DEV** and **DG RELEX**. Both manage programmes for external assistance and analysis of the political situation in the partner countries, although the Peer Review noted that DG DEV appeared more oriented to technical and management issues of development co-operation and DG RELEX appeared more oriented to the politics of foreign policy. DG DEV has oversight responsibilities for the EDF Programme (78 ACP countries), Similar ODA-funded implementation responsibilities for DG RELEX are the more politically sensitive programmes of the Mediterranean – MEDA (12 countries or territories), Asia and Latin America – ALA (49 countries), and the Western Balkans - CARDS (5 countries). See Annex V for the charts of both DG DEV (see Chart V-1) and DG RELEX (see Chart V-2).

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61. Examples of the differing prescriptions for implementation can be found in the Lomé (soon Cotonou) Convention (for EDF), in Council Regulation (EEC) No. 443/92 on financial and technical measures and economic co-operation (for ALA), in Council Regulation (EEC) No. 1488/96 on financial and technical measures to accompany the framework of the Euro-Mediterranean partnership (for MEDA), and in Council Regulation (EC) No. 753/96 and by the PHARE orientations document [COM(97)112] in the accession countries (for PHARE).

**Box 10. Some other actors in External Relations**

Other members of the broader developmental team include the following:

- i) **DG Trade** is responsible for the commercial policy of the EU. It plays an important role in ensuring the consistency of EU commercial and external development policies, including the developing world trade issues alluded to in Chapter 4.
- ii) **DG Enlargement** is responsible for the accession of European countries into the EU. There is a small amount of ODA involved in Slovenia.
- iii) The **DG Economic and Financial Affairs** is responsible for macro-financial assistance, mainly to the Balkans and NIS countries. It also contributes to the development of EC economic strategy relating to developing countries, co-ordinates with the multilateral development banks and plays an important role in debt issues relating to the developing world.
- iv) The **European Investment Bank (EIB)**, located in Luxembourg, is the lending institution of the European Union. Outside of its European investments, it is responsible for lending responsibilities concluded in EC development co-operation agreements. These represent less than 10% of EIB total disbursements. It also collaborates extensively with other multilateral development banks such as the World Bank, and African, Asian and Inter-American development banks. It should be noted that EIB is not an implementing agency, but a financial institution. DG DEV is on the Board of EIB.
- v) **Eurostat**, the Community's Statistical Authority located in Luxembourg, is responsible for statistics gathering and reporting on behalf of the Union, and maintains support for selected statistical development activities in the developing world.
- vi) The **Court of Auditors**, located in Luxembourg, has independent authorities attributed to it by the Community to audit the EC accounts and review budget management, including value for money. It has undertaken several audits of external relations activities.

**EuropeAid**, created in January 2001 to replace the Common Service, is institutionally a department of the Commission. (See Annex V for the EuropeAid organigramme, Chart V-3). Its oversight is maintained jointly by the Commissioners from RELEX (Chair of the Board) and DEV (Chief Executive). Its responsibilities<sup>62</sup> in 2001 included implementation responsibility for 55 budget lines of the Community budget, plus the EDF voluntary contribution, representing a total of EUR 5.3 billion of new commitments (70% of total external assistance) in that year. It is responsible for all of the Commission's development projects (excepting those of PHARE and the other pre-accession instruments, ECHO, macro-financial assistance, CFSP, and the rapid reaction facility). To accomplish this large, new agenda, EuropeAid hired an additional 250 officials and 260 auxiliaries in 2001, bringing its total staff level to some 1 200 persons. As a leading force in guiding the overall decentralisation of staff to the field, EuropeAid will train this new staff and, over the upcoming three years, plans to reduce its numbers in Brussels to one-half its current level and simultaneously send most of the remainder to the field.

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62. See the EuropeAid website ([www.europa.eu.int/comm/europeaid](http://www.europa.eu.int/comm/europeaid)) for an up-to-date and more complete description of its responsibilities and abilities.

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The creation of EuropeAid has addressed the problem of disruption of the project cycle by integrating the entire operations cycle into one structure - from programme and project identification through full implementation, including results measurement. This change was one of the five main components of the RELEX Reform and EuropeAid is involved in other reform issues (see Box 11).

### **Box 11. EuropeAid and RELEX Reform**

Four out of five of the main components of RELEX Reform relate to EuropeAid. They are: 1) "Integration of the operations cycle ... into one structure". This was completed with the creation of EuropeAid in January, 2001. 2) "Internalisation of the functions of Technical Assistance Offices". The 49 TAOs were dismantled over the year 2001 and integrated into EuropeAid or the External Delegations. 3) "Extensive devolution of management responsibilities to the Commission's External Delegations". Devolution is now well underway for 78 Delegations and will be complete by the end of 2003. 4) "A package of urgent measures to eliminate old and dormant commitments". In 2001, disbursements grew by 17%, dormant commitments were reduced by 32%, and the estimated time needed to disburse outstanding funds declined by 11%. An overall evaluation of the first phase of RELEX Reform is planned in 2002.

**ECHO** was established in 1992 to finance and manage European humanitarian operations in non-EU countries. ECHO is a Commission service in its own right, separate from the Development and EuropeAid Directorates General. It comes, together with DG Development, under the responsibility of Commissioner Nielson. For purposes of rapid response, certain "fast-track" procedures are open to ECHO which are not available to other services. ECHO areas of activity include the funding of humanitarian aid, training, disaster prevention, and public awareness. It should be noted that ECHO is not an implementing agency but a donor; it funds emergency operations through a wide spectrum of NGO groups, the specialised agencies of the United Nations, and others. An external evaluation is done of ECHO's activities every three years and an action plan for follow up to the most recent evaluation is now being implemented, with emphasis on accessibility and transparency.

Notwithstanding the turbulent context within which ECHO's activities are implemented, efforts are being made to prepare annual strategies and develop criteria for response, taking account of, inter alia, impartiality, coverage of forgotten crises and the EC's comparative advantage. ECHO senior managers are intent on giving more emphasis in future activities on health and education, without restricting support for basic needs such as shelter, food and water and sanitation. Several observers also noted concerns about the complementarity of ECHO's work with the EC's long-term development programme. In this respect, the Peer Review was informed that ECHO attached great importance to ensuring a smooth transition from the relief to the rehabilitation and redevelopment phases and has been active for some time in co-ordination and consultation with related services, thus addressing this concern. It is also providing useful input via the Country Strategy process, although it is admitted that this is just beginning.

ECHO funding in 2001 totalled some EUR 543.7 millions. An issue of concern to partner implementing organisations is the inability of ECHO to contribute to the delivery or overhead costs of humanitarian programmes, in effect off-loading a higher proportion of those costs to other donors, including EU member countries. This arises from the regulations under which ECHO operates.

The EC directly associates a wide number of **European Non-governmental Organisations (ENGO)** with its development co-operation, both in terms of policy dialogue as well as financial support for developing world activities or public awareness campaigns in the Member States. Policy dialogue

between these ENGOs and the official structures of the EC is sustained through a number of ENGO umbrella groups or networks (*e.g.* CLONG, VOICE, EUROSTEP), the largest of which represents hundreds of individual ENGO members. One main EC funding mechanism for individual ENGO projects is through operations for ECHO, food aid, and EuropeAid. A second form of NGO partnership is that of **decentralised co-operation**, which can fund a wide variety of players, both in Member States and in developing countries, to include public authorities, local initiative groups, NGOs, associations, research institutions, churches, among others. Activities must be aimed at a select number of broad priority fields, including training, research, public awareness, and support of decentralised activities. Applicants from Europe traditionally absorb two-thirds of these funds.

### **Management change**

The brief overview above of the main actors involved in development co-operation demonstrates that organisational reform, while addressing many of the previous organisational challenges has not yet proceeded to the extent of creating a unified developmental “system”. Nonetheless there have been general management changes that reinforce the integrated working of the RELEX family, such as the Common RELEX Information System, standardised appraisal and monitoring systems, expanded training systems, harmonisation of operational procedures, etc.

### *Streamlining procedures*

One feature of the various EC development co-operation programmes is a diverse set of **implementation procedures**, until recently maintained separately by each of the different geographical programmes. An extremely important and practical aspect of overall organisational reform is the streamlining of the unnecessarily complex, 48 sets of procurement procedures previously used, down to a maximum of 6-7 procedures, themselves dictated by the different needs of the field. The new, standardised procedures now apply to most EC programmes, and will apply to them all once the Cotonou Accords are formally ratified. These measures have been welcomed throughout the EC system and by partner groups who see unnecessary procedural heaviness as a primary constraint to the effective and timely delivery of EC development assistance to the field. Most observers have suggested, however, that even more remains to be done in this area, including further simplification of the procedures.

“Comitology,” the commonly used term for **committee procedures**, is now also a subject of EC reform. These committees involve EU Member State, as well as Commission management institutions. The total of 268 committees (27 of which concern the RELEX family) are now specifically encouraged to deal with the more important issues of strategy and policy rather than, as now, with specific projects. This is deemed essential to speed up implementation, to provide more complementarity with the Member States, and allow the Committees to play their role more effectively by avoiding micro-management. The Working Group on Comitology has analysed the different procedures relating to external assistance and is now implementing regulations that are expected to harmonise procedural aspects in relation to external assistance, including the approval of CSPs, Indicative Programmes, and Annual Action Programmes. The Commission also wants to move toward the principle (as in Tacis, MEDA and CARDS) that not every project need be submitted to the management committee. Although not currently planned, it suggested that an attempt be mounted to measure the impacts of these improvements at some point in the near future, so as to focus attention to the positive and measurable impacts of these changes on behaviour within the EC organisation.

***Improving strategy and programme management***

One of the primary recommendations of the 1998 Peer Review was the need to develop **country strategies** as a tool for improved co-ordination, coherence and aid management. Partially in response to this recommendation, a key component of the 2000 RELEX Reform was the strengthening of multi-annual programming. Since 2001, the strategic priorities of the EU programme and the timing and size of financial contributions are embodied in the multi-annual Country Strategy Paper (CSP) and Regional Strategy Paper (RSP). The CSP/RSP are used by all DGs involved in external assistance, although it is admitted that some differences in process and content are expected to persist as the different geographic/thematic programmes progressively adjust to these new expectations. A National Indicative Programme (NIP) and a Regional Indicative Programme (RIP) also flows from the CSP and the RSP. The NIP/RIP define more specifically (and over 3-5 years, depending on the applicable Regulation/Agreement) the appropriate measures and actions that will be necessary to attain the objectives laid out in the CSP/RSP. Final CSP/RSP documentation, like other EC official documents, must be translated into all 11 official languages and subjected to approval by the 15 EU Member States and jointly signed by the partner government and the Community, a time-consuming process.

A set of guidelines<sup>63</sup> for the implementation of EC strategy deal with CSP structure and content, the sequence of stages of CSP development, and the implementation and review of the National Indicative Programme. These guidelines emphasise **fundamental principles** to be addressed in the CSP. (See also Boxes 9 and 12.) These principles include, importantly: poverty reduction, policy coherence, country ownership, work sharing and complementarity, comprehensive country analysis, focus on the six priority areas, cross-cutting topics of human rights, gender and children considerations, environment and conflict prevention. Clearly, the task of ensuring conformity with this range of requirements suggests the need for a considerable amount of preparation and analysis if the CSP and NIP are to be done appropriately. Given the strategic importance of several of these principles, it is suggested that the analytical depth of this part of the CSP, and the capacity of the delegation to produce it, be subjected to periodic independent review.

Once completed, the CSP is subjected to a **quality control** review by the **Inter-service Quality Support Group (iQSG)**, and by the Commission, the partner Government and the EU Member States Committee. The iQSG (with a very small secretariat) was recently established within the organisational context of DG DEV with the aim of “improving and harmonising programming guidelines, as well as ensuring that CSPs and multi-annual Indicative Programmes are of consistently high quality.” Through its screening of the CSPs, the iQSG aims to identify and collect “best programming practices” that, together with the CSP guidelines and tools, will be made available on the iQSG web site. This innovation appears to have been well received by the Commission leadership and has given rise to other forms of Quality Support Groups within the broader EC system.

Subsequent to approval, **implementation responsibility** is assigned to EuropeAid, through a formal “Order for Service” between EuropeAid and the appropriate DG. Upon receipt of the Order for Service, EuropeAid initiates a process of project design with other relevant EC actors<sup>64</sup>, particularly the relevant DG and Delegation. EuropeAid works with the relevant actors to ensure appropriate design, implementation and evaluation of these projects. Appropriate Interservice Agreements have been established with different geographical and thematic sub-groups to clarify the working

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63. See *Guidelines for implementation of the Common Framework for Country Strategy Papers*, European Commission, Secretariat of the iQSG, 4 May 2001.

64. For greater detail, see *Interservice Agreement*, dated June 2001, and jointly established by DG RELEX, DG DEV and EuropeAid.

relationship during implementation for each. In the course of implementation, the NIP becomes the main reference point for operationalising the strategy. It is used throughout implementation as a management tool and is subject to regular dialogue between the Delegation and the partner country. The NIP is regularly reviewed with the partner country so as to assess its continued relevance and effectiveness. Timing of reviews will vary depending on the applicable Regulation/Agreement. These reviews can lead to CSP modifications.

**Box 12. The Process for drafting the CSP**

The “Guidelines for implementation of the Common Framework for Country Strategy Papers” sets out the following phases of the process:

**Phase 1: Drafting the first version of the CSP:** Led by the relevant delegation, but involving consultation of all services whose policies impact on the country. An ‘extended country team’ co-ordinated by the Desk Officer in DG RELEX or DG DEV with members from the different DGs should review the first CSP draft.

**Phase 2: Quality Control:** The iQSG will screen the draft CSP and monitor its consistency with the CSP strategic framework and other criteria. The CSP will then be passed with comments to the Inter-Services Consultation. At this point it may be sent back to DG DEV or DG RELEX for further modification and consultation of the partner country (this is always desirable, and an obligation under the Cotonou Agreement). Following approval by the RELEX DGs, the draft CSP is sent to the relevant Management Committee of Member States for opinion.

**Phase 3: Formal approval:** This is done by the College of Commissioners and following this an “Order for Service” (OFS) is issued to Europe Aid to implement the programme.

Despite the generally positive appreciation of the CSP as a tool for more strategic EC programming, **selected improvements** are already under consideration. Monitoring and evaluating the strategic impact (**results**) of the CSP is a major methodological challenge, but the EC hopes to achieve a common measurement methodology for all CSPs by end 2002. As noted previously, the impressive array of strategic principles raised in the CSP will need to be periodically evaluated, to ensure an appropriate balance between the announced analytical requirements of the EC planning system and the capacity for delegations to produce them.

***Reducing the number of thematic budget lines***

There has been a **proliferation of thematic budget lines** over time. In the first place, there has been a tendency by Parliament to create specific budget lines to support particular activities, demonstrating the specific importance that the EC accords to certain development issues. Second, there has also been a tendency for the Council of Ministers to insist on new areas of activity, especially at the start of a new Presidency.

These budget lines have a key objective to develop innovative approaches that can then be replicated in the main geographical programmes, and indeed these initiatives may have, sometimes, promoted innovative activity and led to the formulation of new policy on important issues. Nonetheless, it has often proved difficult for the Commission to integrate these issues into the mainstream of its programmes so the proliferation of budget lines had adverse administrative and management implications. Several observers both inside the Commission services and outside the EC have noted that a small proportion of the budget requires a disproportionate proportion of management resources.

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In Chapter 1, Chart 2 noted the arrangements to manage these horizontal budget lines, which associates EuropeAid with DG RELEX or DG DEV. In Chapter 2 it was noted that 4% of ODA funds were used for other grants, effectively a wide range of thematic budget lines, dealing with poverty diseases, reproductive health, environment, NGOs etc. At the level of country delegations the budget lines may account for a small proportion of the funds, but a high proportion of the projects, and therefore a disproportionate amount of Delegation staff time. In the case of Bangladesh, for instance, only 21 projects were under the main ALA aid programme, and the other 60 projects were under various small budget lines.

PRSP developments at country level also raise questions about the use of separate budget lines. The EC has recently produced an Action Plan<sup>65</sup> to revise the approach towards HIV/AIDS, malaria, and tuberculosis in the context of the goal of poverty reduction. Similarly, the policy guidelines on education and training are being revised with an eye on this goal. It is not clear to what extent replication of the innovative approaches generated by these initiatives can still be done in the context of programme aid and budget support.

Parliament has no ability to grant extra administrative resources, which is a prerogative of the Member States. The Council of Ministers has not allocated any additional financial or human resources to manage the additional budget lines. This deficiency has limited the impact of the initiatives and generated several management inefficiencies. In particular, the proliferation of budget lines has tended to promote micro-management and works against the fundamental EC principle of local ownership of its programmes. The EC is now striving to reduce the number of horizontal budget lines in the interests of efficient management, though rationalisation will require parliamentary support.

### *Delegation of management authority to the field*

Another key component of the RELEX reform is the devolution of management responsibility to the Delegations. This “**deconcentration**” of authority draws its mandate from a key management principle that was formally adopted on 16 May 2000: “Anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed and decided in Brussels.” Armed with this mandate, the Commission, particularly through the efforts of EuropeAid, has resolutely initiated an effort to transform its centralised bureaucracy to one that is heavily field-based. Spaced out evenly over the timeframe 2001-2003, a total of 78 Delegations will be transformed with more management authority and greater capacity. The exact nature of deconcentration will vary from one geographic programme to another. EC Delegations in poorer countries (especially those of the ACP) will tend to resemble the decentralised aid missions of some bilateral donors; those in the more advanced countries or containing some special political, commercial or strategic interest for the EU will tend to look more like a bilateral European embassy. One proposal currently being discussed is the idea of one European “house” in each country, which in accordance with the expectations of the 3 Cs, could house both the EC Delegation and each of the EU bilateral missions in-country. Such a proposal would clearly need support from Member States. Whatever the longer-term trend of deconcentration, based on the experience of other donors, the role of decentralisation could become increasingly important over time. It will be important for the Commission to evaluate the status and utility of its current approach to “deconcentration,” both to ensure adequate justification for the expense involved, but also to inform EC leadership on the most appropriate directions to pursue into the future.

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65. COM(2001)96 final.

### ***Human resource management***

Viewed in system terms, the development co-operation of the European Community draws upon a wide variety of human resources. However, this review, which has simplified the EC system for easier understanding, finds the essence of its human resources in DG RELEX, DG DEV, EuropeAid and ECHO. It is an interesting first observation to note the **absence of a global personnel strategy** for EC development co-operation staff, as a specific professional sub-group. Even basic information on the four key development institutions noted above requires separate conversations with each Directorate-General. Because of the critical importance of human resource management for the effectiveness of overall EC aid, it will be important for one actor within this broader system to take the leadership in promoting a forward-looking personnel strategy and policy for all EC development staff.

An important general aspect of such a personnel strategy concerns the management of change within the organisation, which has consequences for maintaining **staff morale**. In EC external relations there are other key factors to consider: deconcentration and the impact on personnel policies. Recruiting staff for deconcentration has proven difficult and could hamper the effectiveness of this otherwise promising field-based approach to management.

Because of the complexity of EU structures, this review was unable to easily assemble the **basic staff data** that is needed for further specific analysis of development co-operation personnel issues. While the EC informs us there is a personnel management team, it is strongly suggested that the EC aid leadership make greater effort to provide a mandate to develop a vision for all development co-operation staff as a specific sub-category within the overall EC human resource management system. Such a team could then assemble the basic data needed to focus upon some of the probable key issues specific to those who will design and implement the new aid management approaches of the future. For example, based on some statements made by EC managers during the Brussels and field visits, it seems probable that the EC is currently less well staffed than many other DAC Member States in relation to the large size of its world-wide aid portfolio. Based on Peer Review observation, it also seems plausible that the skill mix of current EC development staff, and their current location within the overall aid management system is less than optimal. Also based on observation, while overall gender profile is fairly balanced (55% male, 45% female) the gender profile of development co-operation leadership and management appears skewed. These types of analysis around a human resource management vision for the future should be urgently addressed.

The Commission openly states that “the people working in the Commission are its main asset”, and human resources development is a major plank in the overall reform process of the Commission launched less than two years ago. Significant work on several aspects of overall Commission human resource development has already been started and appears to be having promising initial results. The Peer Review noted that the Commission has been working extensively on developing its staff training in view of deconcentration. On the other hand, the lack of a more specific focus on the personnel needs of development assistance is noticeable. An important feature of the Commission **recruitment system** is that new entrants are hired on the basis of a competitive examination (*concours*) within categories, which results in the employment of specialists who can be used throughout the Commission civil service. An important reason for the lack of personnel vision for developmental staff within the EC system may be the lack, up to recently, of a "*concours*" for development specialists. In the past, EU Member States had opposed increasing the number of staff in development operations, on the grounds that the Commission could just move staff in from other, non-developmental, functions. There is now growing recognition that the Commission requires more specialised staff in development assistance so as to encourage greater leadership in this field. Some attention to this issue has been initiated, including the launch of two specialised competitive examinations (“international relations” and “management of aid”), as well as work toward the development of a Unified External Service. As

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part of deconcentration, EuropeAid is recruiting additional staff. Current recruitment efforts for many of the development posts, especially in the poorer countries that are now a strategic priority for EC development co-operation, is proving difficult. Motivating qualified European professionals to serve in these parts of the world implies a career environment that rewards those who take on the challenges of underdevelopment. EC leadership needs to consider the implications of deconcentration for their personnel policies.

### *Monitoring and evaluation*

The European Community realises that the credibility of its development co-operation efforts depends significantly on monitoring and evaluation systems that provide timely information on the results and the strategic impact of EC funds. In this context, and partially in response to the 1998 Peer Review, a major decision was made in 2000 to reposition the Evaluation Unit to strengthen its independence and to ensure that its findings are used more effectively. Up to that point, three different Evaluation Units were located in RELEX DGs existing at that time and suffered from limited geographical scope (on ACP countries rather than all developing countries) and from a lack of independence in reporting the results of its many evaluations. Since January 2001, an independent Evaluation Unit has taken over the evaluation responsibilities for overall EC external assistance<sup>66</sup> on the base of an annual programme determined by the EuropeAid Governing Board. It is important to note that, while the chart shows the Evaluation Unit within the EuropeAid structure, it reports directly to the Board, not through the EuropeAid operational hierarchy. The Board sets the priorities for the evaluation service's work programme, encourages other services to consider the findings carefully, and has the authority to take necessary follow-on action. The Board is also able to direct the evaluation service to work with other evaluative bodies, such as the Court of Auditors, or internal audit services. ECHO and DG Enlargement have their own Evaluation services.

The Evaluation Unit is building on the considerable amount of **evaluative** work that was undertaken prior to its creation in 2001. This has included sector-level policy analysis, cross-cutting themes, instruments and country programmes, the overall EC programming process and issues of "policy mix" and the 3 Cs. The Evaluation Unit contains only seven professional staff and a head of Unit and has necessarily chosen to focus on broader-level programmatic and higher management themes, while selected internal steering groups pick up on more specific evaluations. The critical question for this small but important unit is how to focus on highest-level priorities, for which its direct line to the influential Governing Board would appear to be a distinct advantage. Similarly, because of this position, it is able to co-ordinate with a wide range of other groups on issues of training, quality control and direct monitoring and evaluation. The extent of recent policy, procedural and organisational change in the EC system implies a particularly rich range of subject matter for monitoring and evaluation. Because of this, careful attention is needed in choosing priority themes and clarifying responsibilities across the EC institutional spectrum.

A system for **results-based project monitoring** is currently being implemented that will make judgements on individual project performance on the basis of five criteria: relevance, efficiency, effectiveness, impact, sustainability. Initial judgements will be formed through the use of outside consultants. It should be noted that both in Bangladesh and in Burkina Faso the delegations felt that these measurements could be better carried out directly by delegation staff, whilst Brussels believes

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66. See Annex V, Chart V-3: EuropeAid, administrative unit H6 "Evaluation".

that this should be carried out by external contract. Both sides agree, however, that monitoring is a management tool that should feed into an independent evaluation process.

The EC seeks to use its evaluative systems to develop a stronger learning organisation and culture. This Peer Review finds the challenge of doing so to be two-fold. (i) First, the complexity and compartmentalisation of the overall EC system will require a special effort so as to support **joint learning** among groups, some of which are within the institutional boundaries of different DGs. At the macro level efforts already underway to encourage joint learning include improvements to the EC comitology system (see section on Streamlining implementation procedures) and the use of cross-cutting groups, such as the iQSG and QSGs. In Brussels headquarters, broad-based training in evaluation and the establishment of the results-based, project monitoring system noted above are examples of current efforts in this level. ii) Second, higher quality and more useful field-based feedback and learning should be possible in the context of the current **deconcentration** of management to the Delegation level. Based on observations in the field and elsewhere, it can be expected that a decentralised approach to results management will increasingly evolve as deconcentration becomes a worldwide reality soon after 2003.

### **Future considerations for EC organisation and management change**

The current organisation still manages the overall project cycle in a fragmented manner. This leads to conceptual and administrative inefficiencies to ensure the co-ordination of the whole. It would seem desirable to further strengthen the organisational relationship between all or part of the policy and programming (DEV, RELEX) and the implementation (EuropeAid) portions of the existing organisation. The EC aid system needs a clearer locus of authority to process and promote the messages of development assistance.

Regarding the CSP, special care must be taken to ensure that this comprehensive, strategic management system does not remain at the level of rhetoric alone. The measurement of results of the CSP will be important for the credibility of EC aid expenditures, particularly in relation to the European Parliament.

Regarding the work of ECHO, the EC has ensured it has an effective system for appraising and monitoring projects implemented by NGOs. This system enables ECHO to exclude certain underperforming NGOs from further projects and it will be important to utilise this system rigorously. It should also give priority to changing the regulations, thus ensuring that it is in a position in future to pay its fair share of the costs borne by partner organisations in humanitarian assistance activities.

Efficiencies in operations and management do not necessarily translate into improvements at the level of developmental impact and operational effectiveness in the field. Early and clearer definition of the exact strategic and developmental impacts expected on the one hand, and quality improvements in monitoring, evaluation and reporting on the other, will pose major methodological and organisational challenges in the coming years. If successful, however, a clearer definition of impacts offers the EC a promising avenue for the justification and reporting of its aid programmes to the European Parliament and the public at large. It is also the logical bottom-line against which future strategic and operational directions can be assessed.

Looking at the impressive range of administrative requirements and resources already spent in monitoring, evaluating, auditing and other forms of quality control, it will be a challenge for EC specialists to develop an appropriate oversight process which does not become too layered and complex. Exactly how the Delegations link up with headquarters in this respect, what they do and who

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does it will be among the topics for continued discussion into the future. It is suggested that the Commission undertake an analysis soon after 2003 to review the status of overall deconcentration and its specific implications for EC monitoring and evaluation.

Underpinning the capacity for the EC to maintain momentum in all areas of reform is the critical need to employ and to assign staff with appropriate developmental skills. The system will need to anticipate and emphasise a different personnel profile as it simplifies the administrative process and process and moves more substantively into technical development issues, particularly through local partnership policy dialogue in the field. Consistent with the principles of complementarity, it is felt useful to explore, over time, greater use of Member State capacities in-country, including the sharing of responsibility toward key sectors depending on the comparative advantage of each. Additional Commission staff may also be needed. More specific suggestions on this topic are noted in the following chapter on country operations.

The EC change process, including the massive changes in the external relations field, can have significant impact on staff morale as the changes proceed up to 2004. EC personnel policies will especially need to take account of the needs of staff moving to the field. The experience of other donors in trying to maintain a gender balance in field staff through "family-friendly" policies might be reviewed. In addition, the strategies for re-integrating staff back into Brussels at the end of a country assignment would merit further review.

Changes announced today at the level of headquarters take considerable time and effort before becoming operational reality in the implementation system. It is important for political leadership of the EU to recognise this fact and support the longer-term efforts that it may imply, including appropriate actions to follow-up on previous decisions.

More efficient and meaningful partner country ownership remains a concern. Deconcentration seems to offer a framework for enhanced dialogue and decision-making at the country level, but the local Delegation will require additional empowerment to undertake such a role convincingly. Further delegation of authority for the more strategic dimensions of field operations should be examined. Once the CSP is approved the delegation of authority might include project authorisation, monitoring and reporting. Further simplification of the Brussels-based layers of oversight and control is the logical counterpoint to further delegation. In the context where the PRSP is to be used as the EC strategy framework, it would seem appropriate for the Delegation to play a more uniformly strong role in assisting its development and use, at a minimum with its own EU Member States. The identification and assignment of Delegation staff more specialised in the strategic areas addressed is yet another area for exploration.

## CHAPTER 6

### COUNTRY OWNERSHIP AND OPERATIONS

*The EC reforms aim to improve operational effectiveness in partner countries. Recent policy emphasis on poverty reduction, host country ownership, the use of CSP and PRSP mechanisms, deconcentration, and results orientation, among other reforms, are now beginning to be systematised in the field. These new directions are at various levels of implementation and already suggest the utility of close Delegation-Headquarters collaboration. Monitoring of system innovations is necessary to adjust to the realities of local implementation. Peer Review feedback suggests that both host country ownership and EC effectiveness would benefit from a further extension of field authority to engage in strategy development and policy dialogue.*

#### Country ownership and sustainability of poverty reduction

The recent EC worldwide policy decision to focus on **poverty reduction** as principal aim is directly or indirectly forcing the Commission to address more squarely the difficult issue of the **sustainability** of its aid. As geographic and sector choices in the allocation of EC aid move progressively toward poor nations and poor people, the sustainability of its investments over time becomes an increasingly important question. Both field visits made for this Peer Review<sup>67</sup> were in countries that fall into the “poor” category. Burkina Faso and Bangladesh are currently 159<sup>th</sup> and 132<sup>nd</sup>, respectively on the UNDP Human Development Index (out of 162 countries worldwide). Clearly, in both of these EC country programmes, serious questions of sustainability can be raised (as they should for all other donor programmes). The review team found that, as yet, neither programme had clearly addressed the sustainability issues in their respective CSPs. On the other hand, the solutions to this question are not obvious and will evolve over time. Numerous sustainability options have been discussed within the context of EC programmes for these two countries. The review team noted that longer-term general policy suggestions with potential to improve sustainability, ranged from an emphasis on international trade in Bangladesh, to an emphasis on national policies for decentralised community development and West African regionalism in Burkina Faso. Whatever the challenges, failure to show results in improving the potential for sustainability in such poor countries will both de-motivate local partners and discourage support for future funding by Member States and parliamentarians.

**Country ownership** is an important concept for the sustainability of development programmes, which the EC has strongly endorsed. Most observers felt it critical for all development partners to work toward a common vision that was generated locally with government and civil society, through widespread participation and local analysis. However, the logistics of EC aid delivery, combined with

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67. Much of the commentary in this chapter was drawn from observations obtained in the context of Peer Review field visits to Bangladesh and Burkina Faso. Trip reports for these visits are located in Annexes VI and VII, respectively.

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the tension between top-down policies from Brussels, have historically meant that country ownership tends to remain more a statement of principle than a function of host country leadership. Strategy analysis still tends to be led by European teams travelling from Brussels and, lacking the capacity to be pro-active indifferent donor strategy processes, host country government leadership is minimal and formal documents drawn up largely based on the initiative of the donors. The EC is not alone in facing this issue and it should continue to collaborate with other partners to find alternatives that permit greater country ownership.

The Delegations in Burkina Faso and Bangladesh both suggested that the **PRSP framework** is the logical mechanism to the development of a local vision. Unfortunately, opinions diverge greatly in both countries as to the amount of local ownership in the PRSP-type documents that have been (Burkina Faso), or soon will be (Bangladesh), produced. The processes and participation used in both countries were perceived as insufficient enough to cause some to label their PRSP “a donor document.” Opportunities will arise in the future to rectify these deficiencies, given the institutionalised process orientation of the PRSP. Both in the case of Burkina Faso and of Bangladesh, the PRSP process seems to be a promising path toward greater country ownership, where only one strategy and process need be developed for all donors. The EC should continue to play a strong role in support of better use of the PRSP mechanism.

The development of the PRSP process and the emphasis on country ownership create challenges for all donors, including the EC, in relation to the means for integrating important **cross-cutting issues**.

In the case of **gender equality**, the EC policy recognises that approaches to poverty reduction should be supported by measures to integrate gender into policies, programmes and projects. (See Chapter 3 and Annex III C.) In both country visits, however, the Peer Review team noted a gap between the policy statements and the actual practice in the countries. This gap arises from the lack of a gender strategy for the countries, of gender analysis of individual programmes and projects, and of a systematic monitoring framework that incorporates gender dimensions. In the case of Burkina Faso, the latest evaluation of the EC country strategy had noted the weaknesses of the gender integration approach, and the Peer Review team noted that the country strategy for 2001-2007 had not really improved matters. These observations point to the necessity of implementing the Action Plan on Gender Equality, and of having sufficient staff resources to engage in policy dialogue with partners in country.

The link to sustainability appears self-evident in the case of **environment**, and the EC policy statements recognise the need to mainstream environmental considerations. As with gender equality, the Peer Review team noted a distinct gap between policy and practice. There was little evidence in Bangladesh, for example, of environmental analysis of trade policy developments. In Burkina Faso, while environmental screening had been carried out for the road rehabilitation projects, there were some wider issues of financial and institutional sustainability.

The Peer Reviewers noted some differentiation between programmes regarding the approach to **human rights and democracy**. In both Bangladesh and Burkina Faso there were ongoing political concerns in the public domain, with implications for political dialogue by the EC. Discussion of these issues arose in the Peer Review meetings with NGOs, but with different results. In the case of Burkina Faso, NGOs expressed concern about the way the EC Delegation was handling relations with the government, while in Bangladesh the NGOs were more supportive. The Peer Review team offers the following observations. We noted in Burkina Faso that the programme to support the NGOs in their human rights work had barely started, so there was as yet little informed dialogue between the NGOs and the EC. These different results may also reflect the importance that the Asia programme, managed by DG RELEX, has traditionally given to political issues. In both cases, however, the NGOs

recognised the importance, potential or real, of the EC's political dialogue with the government in order to underpin its development work.

### **Co-ordination and complementarity**

The theory of EC in-country **co-ordination** is extensively developed in its "3 Cs" policy (Coherence, Complementarity, Co-ordination), already mentioned in Chapter 4. If the two field visits were representative, efforts already undertaken by Delegations to co-ordinate with partner groups are already extensive and demonstrate a clear agreement with the principle of co-ordination. Nevertheless, two operational weaknesses appear to constrain EC efforts to co-ordinate: staff capacity and difficulties in identifying complementarity with EU Member States.

**Staff capacity for analysis and policy dialogue** is limited by various factors. First overall staff numbers and skill mix are a constraint. Second, time for such work is limited. Based on the Peer Review informal polling of key field professionals, the current staff is engaged heavily in implementation process and has little surplus time available to take on the more creative tasks of policy dialogue and partner co-ordination. This limits the extent to which the EC is able to play a more proactive role and gives the general impression to some partners that the EC is "just another donor."

While all sides recognise the logic of the current policy toward optimal **complementarity** in the field between the EC and the Member States, operational approaches in support of this concept have not been extensively developed. For some commentators, the utility of stronger complementarity can be called into question since the efficiency of the whole donor effort in a country is more important than the EU mechanism. There are also Member State national sensitivities to consider, since the EC does not formally have authority over bilateral programmes. Nonetheless, the will to increase collaboration and co-ordination between the Member States and the EC appears to exist where the Delegation is able to demonstrate a strong ability to implement its own programmes efficiently and to play a more informed role of policy leadership. For instance, in Burkina Faso, the new CSP had clarified complementarity in the EC programme. There, the EC specialised in infrastructure and budget support. Similarly, the new CSP in Bangladesh helps point the EC toward a focus on trade, food security, budget support and NGOs. Finally, several observers expressed the concern that strong EC interest in relationships with its Member States should not be to the exclusion of the non-members, such as Canada, Japan or the United States, especially where they have significant complementary programmes in the recipient country.

### **Approaches to country ownership and co-ordination**

The new, standard format, CSP is viewed by Delegations as particularly helpful at the country level. This approach helps to clarify the strategic direction of field operations and provides an outline of strategy from headquarters that permits more proactive work with local partners. The use of this more strategic planning process is also helping to reshape implementation at the more strategic, sector level (*e.g.* education, health, and rural development), and one that is easily related to the organisation of the local PRSP.

Based on the two field visits and discussions with EC officials, it appears that EC Delegations across geographic programmes (*e.g.* EDF and ALA) are using similar approaches to field implementation. **Projects** are still extensively used by the EC although the implementation complexities associated with stand alone projects seem to be making them a second choice after simpler or better co-ordinated sector-wide approaches. No one within the EC system contests the utility of a **co-ordinated sector**

**approach** to donor involvement in the field. Both in Burkina Faso and Bangladesh, the EC expects to pursue its use of sector mechanisms, and even reinforce them in the context of the local PRSP, whether packaged as a project, a programme or as targeted budget support.

It was striking the extent to which the EC Delegations in Burkina Faso and Bangladesh make use of **budget support** instruments in their country operations. Targeted budget support also appears to be an increasingly favoured EC instrument since the EC perceives clear advantages in promoting country ownership and supporting PRSP. The EC has been in the forefront of donor attempts to develop this instrument. Interesting in this respect was the well-known “test on the reform of conditionality” (see Chapter 3 and Box 13) developed jointly over the last four years in Burkina Faso by the EC in association with the World Bank. This results based approach to budget support is now being used in the Burkina Faso version of the PRSP. General or targeted budget support represented some 55% of the Burkina Faso CSP funding and 21% of that of Bangladesh.

Delegations realise that they will need to openly address the possible **risks** associated with budget support at every level because of the potential fiduciary and even political risks of using this instrument extensively in countries with limited management systems. Given the fungibility of resources at the level of budget support, and as an interim step toward eventual direct budget support, the EC approaches reviewed were often targeted to sectors, for which funds are released annually based on some measurable results criteria. The EC, on the basis of the work on conditionality in Burkina Faso, cautions against rapid termination of budget support when there are political problems.<sup>68</sup> Based on the Peer Review team’s discussions with the Court of Auditors, it is clear that EU oversight bodies also were not yet fully comfortable with the level of risk involved with this type of instrument. The Court of Auditors had recommended an increased attention to capacity building in financial management. The Peer Review understands that the EC has now taken up this capacity building work in countries.

**Box 13. Test on the Reform of Conditionality**

In 1997, 12 donors joined forces in Burkina Faso, under the co-ordination of the European Community and the World Bank, to test an experimental approach to development co-operation. Initially an element of the SPA (Special Programme for Africa), the objective of their effort was to arrive at a commonly accepted donor consensus on a series of performance indicators for key sectors of government activity. These indicators were then to be used in disbursement decisions made by donors in the context of their budget support activities. The test was completed in November 2000 and was adopted by the Government of Burkina Faso and the donor community for use in the government’s poverty strategy. The EC made a noticeable contribution to the development of measurable indicators of sector performance that has the potential to be used elsewhere in the world. This experiment has opened new possibilities for greater country ownership around a result-based system that is acceptable to key donors.

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68. This issue had led to some discussion with Member States. The EC view is that political decisions with serious consequences of disruption to the partner country’s budget need to have the full support of all Member States, and cannot be taken by the EC alone.

## **Deconcentration and beyond**

The general principle of deconcentration is: “Anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed and decided in Brussels.” The EC field delegations visited by the Peer Review team were both scheduled to complete their deconcentration by the end of 2002. Delegation understanding of both the new authorities and the roles and numbers of additional staff that they would receive in the context of deconcentration was clearly defined, and discussion with Brussels on evolving issues seemed organised. EC staff and partners in the field were globally optimistic that this new delegation of authority and staff to the field will lead to improvements in EC implementation. Many EC staff and partners believed that the longer-term implications of the officially announced principle of deconcentration were not yet fully understood. Both delegations visited had traditionally been heavily preoccupied with implementation processing (including paperwork) and saw the upcoming deconcentration of financial and contract authorities as a necessary first step to turning around the prevalent local image of EC procedures as being slow and complex. Recent, welcome innovations such as the CSP and deconcentration of responsibility to the field are partially justified because they bring greater opportunity for partner country ownership. Presumably, these linkages will be strengthened over time as people, decisions and strategy come closer to the realities of the field.

While EC field staff are fully preoccupied with the current range of deconcentrated management changes, those looking to the future appreciate the strong strategic role generally characteristic of the more fully decentralised local donor missions (*e.g.* AsDB, DFID, IBRD, Netherlands, USAID). Donors increasingly appear to be confronting “an invitation to dialogue” with their local partners, particularly in this era of the PRSP, sector approaches and other local decision-making forums. To the extent that local dialogue and decision-making progressively becomes an organised feature of country development co-operation, donors such as the EC will need to examine the possibility of further decentralising responsibility for strategy and programme development. Similarly, since the realities of aid implementation and the lessons to be learned are largely field-based there may be an expanded interest in delegation of responsibility for the co-ordination of performance monitoring away from Brussels to the field. These observations would seem to confirm the appropriateness of a worldwide evaluation and review of the overall deconcentration process soon after its completion in 2003. Such an evaluation could confirm the utility of deconcentration decisions already made and more clearly suggest the scope for further enhancement of this new, decentralised approach to EC management.

## **Future considerations on field approaches**

The **sustainability** of EC development co-operation efforts, especially in the very poor countries, should be a high level priority.

The EC **deconcentration** of implementation leadership to the field is viewed positively by most partners. It will help to generate stronger host country ownership of EC programmes, ensure strong co-ordination with partners, and ensure a vision on how to approach the question of sustainability. Care should be taken to monitor, then periodically evaluate, the results obtained.

Progress has been made in promoting **complementarity** between the EC and the EU Member States in the field. However, there is considerable room for improvement and better co-ordination.

The EC needs to have a **capacity to engage** its local partners in a critical process of analysis and continuous policy dialogue. This has several implications:

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- Deconcentration is welcome, but simply transferring implementation functions and administrative burdens to the field may not be sufficient to make deconcentration a success. Consideration should be given to **decentralising strategic responsibility** to the field in countries that seem ready for this next step.
- Proper **staffing** of Delegations with high-level policy and analytical skills will be key to EC success in playing a stronger strategic role in a partner country. In particular, there are weaknesses with regard to specialisation in **gender equality** in the field, and in the context of the Action Plan, the EC might engage a gender specialist to look at the needs of each region.
- The EC is not alone in attempting to address the longer-term, critical issue of staffing, and should look for allies and partners in its attempt to resolve it through **complementarity and co-ordination**. Specific suggestions include staff or task sharing arrangements with local bilateral and multilateral donors, the development of broader approaches to brainstorming (*e.g.* greater inclusion of local civil society or European NGOs), and the better use of contract local expertise by the Delegation. Local expatriate or host country nationals could be authorised to undertake this type of activity.

**ANNEXES**



## ANNEX I

### THE 1998 DAC PEER REVIEW AND EC ACHIEVEMENTS SINCE 2001

The EC **policy and programming** has been strengthened in the following ways:

- A single development policy to cover all developing countries will improve the consistency of EC aid.
- Poverty reduction is the principal aim, in line with DAC Guidelines.
- A focus on six priority areas and three cross-cutting issues will improve the effectiveness of EC aid.
- A series of papers show how the poverty reduction objective is to be translated into sectoral policies.
- The Cotonou Agreement enhances the partnership of the EC with African, Caribbean, and Pacific (ACP) countries to address the challenge of poverty reduction through political, trade and development co-operation.
- Country Strategy Papers (CSP) and Regional Strategy Papers (RSP) follow improved guidelines.
- The CSP gives particular emphasis to the concepts of partnership and country ownership.
- As well as the CSP, there are other improved mechanisms for addressing issues of policy coherence.
- There is a single annual report that, from 2002, will replace the specific regional reports.

Furthermore, several improvements in **organisation and management** tend to improve the efficiency and effectiveness of EC aid:

- Putting the RELEX “family” on a formal basis has improved policy co-ordination.
- EuropeAid was established to unify the project cycle and harmonise the management of all development assistance.
- This harmonisation will be further assisted by the creation of a management information and reporting system (CRIS) for all the external relations areas, and which will in future use DAC classifications.
- There are further institutional improvements in quality assurance such as the creation of the inter-service Quality Support Group (iQSG) focusing on the CSP process and the mandating of the evaluation unit to cover all developing countries, while remaining independent of the operational management.
- There have been several urgent improvements in the area of financial management to reduce the heavy bureaucratic burden of EC aid – *e.g.* reductions in the number of budget lines, of old and dormant commitments, and of procedures for procurement and contracting.

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- An ambitious programme of “deconcentration” is moving about half the staff out from EuropeAid to the country delegations, which are being given new authority to manage their country programmes.
- This programme is accompanied by the dismantling of the Technical Assistance Offices (TAO) that were responsible for contracting independent consultants, and the integration of their work into EuropeAid or the country delegations.
- At the same time, there is now active recruitment of extra staff urgently required to move to the country delegations.

Table I-1 below shows how these reforms have addressed the concerns expressed in the 1998 Peer Reviews.

**Table I-1. Comments on 1998 Recommendations**

Key Issues	Concerns expressed in 1998 <sup>69</sup>	Progress <sup>70</sup>
<i>Overall strategy and policy.</i>	Need for a coherent overall development strategy	Adopted in 2000.
<i>Results and aid effectiveness</i>	Focus on results rather than procedures Evaluation lacking in some programmes	Reform process taking place. Reforms undertaken.
<i>Partnership strategy</i>	Considerable differences between programmes	Strategies still differ.
<i>Poverty Reduction</i>	Need to implement the policy in all regions	Development policy statement. Implementation still a concern.
<i>Gender</i>	Need to integrate into all programmes Weak field capacity	Both still a concern.
<i>Conflict</i>	Others look to EC leadership	Capacities further developed.
<i>Aid co-ordination</i>	Need for capacity in Delegations Need clear accountability in RELEX group	Deconcentration may help. Further work needed.
<i>Country strategies</i>	Further progress required. EC staff should take the lead	Major improvements made. Done.
<i>Aid management</i>	Need a proposal to simplify the complicated system of management and proliferation of budget lines. More staff needed, especially in the field for dialogue. Deconcentrate financial control. Reorganisation of DGs to simplify procedures and reintegrate the project cycle. Train DG RELEX staff in development finance.	Management reforms tackle these issues. More staff moved to the field. Deconcentration doing this. Creation of EuropeAid does this. Training in place.
<i>Institutions for coherence</i>	Complexity of decision making. Develop analytical capacities.	Process being clarified. Problems still at country level.
<i>Policy coherence</i>	Incoherence of Common Agriculture Policy with development. Weaknesses in import policies and Lomé trade agreements. Weak in private sector support. Food aid should link to food security.	Measures taken but seems still to be an ongoing problem. Cotonou is an improvement. Policies being developed. Done.
<i>Public opinion</i>	Need clear message. Common policy needed for different regional programmes. European Parliament oversight could be enhanced.	Development Policy statement provides common policy and message of poverty reduction. EP aiming to be more strategic.
<i>Volume of aid</i>	Gap between commitments and disbursements of ODA. Need to make a series of improvements to ensure effective implementation.	Still a concern. Reform process dealing with the issues raised by the Review.

Source: OECD.

69. Summarised from the 1998 DAC Peer Review.

70. Judgements by the DAC Peer Review examiners in 2001.

**ANNEX II**  
**STATISTICAL TABLES**

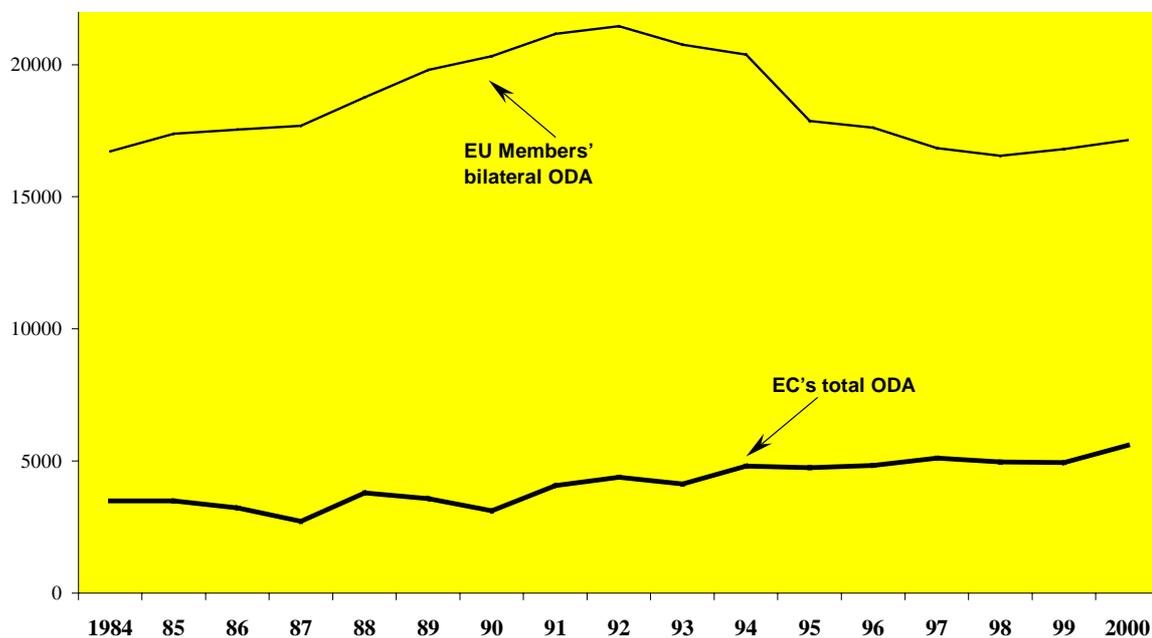
**Table II-1. Total financial flows**

USD million at current prices and exchange rates

EC	<i>Net disbursements</i>						
	1984-85	1989-90	1996	1997	1998	1999	2000
<b>Total official flows</b>	<b>1 611</b>	<b>3 390</b>	<b>7 580</b>	<b>8 031</b>	<b>8 876</b>	<b>8 653</b>	<b>8 393</b>
Official development assistance	1 493	2 777	5 455	5 261	5 140	4 937	4 912
Bilateral	1 347	2 546	5 261	5 156	5 124	4 911	4 414
Multilateral	145	231	193	105	16	26	498
Official aid	<b>n.a.</b>	<b>199</b>	<b>1 434</b>	<b>1 441</b>	<b>2 414</b>	<b>2 818</b>	<b>2 808</b>
Bilateral		199	1 434	1 441	2 409	2 818	2 802
Multilateral		-	-	-	5	-	6
Other official flows	<b>118</b>	<b>415</b>	<b>690</b>	<b>1 329</b>	<b>1 322</b>	<b>899</b>	<b>673</b>
Bilateral	118	415	690	1 329	1 322	899	673
Multilateral	-	-	-	-	-	-	-
<i>for reference:</i>							
ODA (at constant 1999 \$ million)	3 491	3 350	4 824	5 114	4 967	4 937	5 601

**ODA net disbursements**  
 At constant 1999 prices and exchange rates

US\$ million



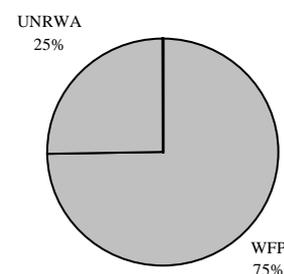
Source : OECD.

Table II-2. ODA by main categories

EC	Constant 1999 USD million					Per cent share of gross bilateral disbursements					Total DAC 2000%
						1996	1997	1998	1999	2000	
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	
<b>Gross Bilateral ODA</b>	<b>4 859</b>	<b>5 244</b>	<b>5 214</b>	<b>5 238</b>	<b>5 430</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Grants</i>	<i>4 378</i>	<i>4 433</i>	<i>4 312</i>	<i>4 514</i>	<i>4 582</i>	<i>90</i>	<i>85</i>	<i>83</i>	<i>86</i>	<i>84</i>	<i>79</i>
Project and programme aid	2 875	2 362	2 634	2 634	3 083	59	44	50	50	51	19
Technical co-operation	200	259	208	195	241	4	5	4	4	4	30
Developmental food aid	312	347	351	382	365	6	7	7	7	7	3
Emergency and distress relief	679	762	484	677	592	14	15	9	13	11	9
Action relating to debt	-	-	-	-	-	-	-	-	-	-	6
Administrative costs	104	109	102	101	116	2	2	2	2	2	7
Other grants	208	593	532	525	185	4	11	10	10	3	6
<i>Non-grant bilateral ODA</i>	<i>481</i>	<i>811</i>	<i>903</i>	<i>725</i>	<i>848</i>	<i>10</i>	<i>15</i>	<i>17</i>	<i>14</i>	<i>16</i>	<i>21</i>
New development lending	481	811	903	725	848	10	15	17	14	16	20
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>169</i>	<i>177</i>	<i>157</i>	<i>184</i>	<i>137</i>						
<i>Associated financing (a)</i>	<i>36</i>	<i>58</i>	<i>25</i>	<i>23</i>	<i>44</i>						
<b>Gross Multilateral ODA</b>	<b>171</b>	<b>102</b>	<b>15</b>	<b>26</b>	<b>568</b>						
UN agencies	80	102	15	26	137						
EC	-	-	-	-	-						
World Bank group	-	-	-	-	431						
Regional development banks	-	-	-	-	-						
Other multilateral	91	-	-	-	-						
<b>Total gross ODA</b>	<b>5 030</b>	<b>5 346</b>	<b>5 230</b>	<b>5 264</b>	<b>5 998</b>						
<b>Repayments and debt cancellation</b>	<b>- 206</b>	<b>- 231</b>	<b>- 263</b>	<b>- 327</b>	<b>- 398</b>						
<b>Total net ODA</b>	<b>4 824</b>	<b>5 114</b>	<b>4 967</b>	<b>4 937</b>	<b>5 601</b>						

a. ODA grants and loans in associated financing packages.

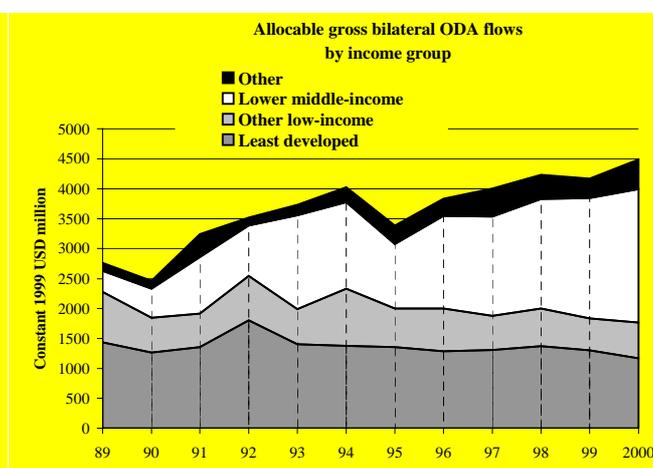
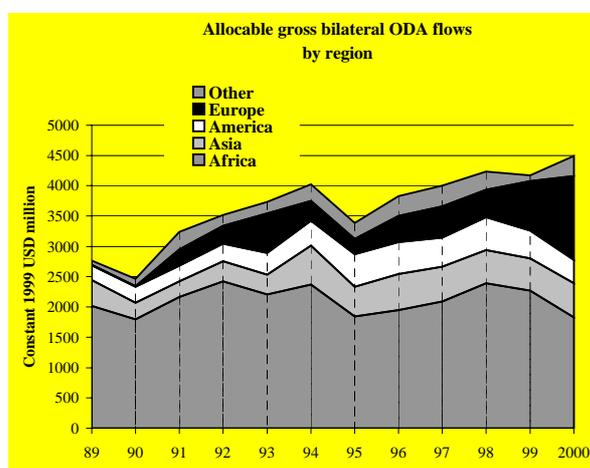
1  
Contributions to UN Agencies  
(1999-2000 Average)



Source : OECD.

Table II-3. Bilateral ODA allocable by region and income group

EC	Constant 1999 USD million					Per cent share					Total DAC 2000%
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	
	<b>Africa</b>	1 947	2 092	2 395	2 272	1 828	51	52	57	54	
Sub-Saharan Africa	1 518	1 506	1 631	1 578	1 367	40	38	39	38	30	<b>29</b>
North Africa	429	586	764	695	461	11	15	18	17	10	<b>7</b>
<b>Asia</b>	598	575	546	532	562	16	14	13	13	13	<b>39</b>
South and Central Asia	411	382	340	338	335	11	10	8	8	7	<b>13</b>
Far East	188	193	205	193	227	5	5	5	5	5	<b>25</b>
<b>America</b>	524	477	542	459	387	14	12	13	11	9	<b>12</b>
North and Central America	347	332	322	272	239	9	8	8	7	5	<b>6</b>
South America	177	145	221	187	148	5	4	5	4	3	<b>7</b>
<b>Middle East</b>	284	281	235	75	257	7	7	6	2	6	<b>4</b>
<b>Oceania</b>	48	65	65	18	75	1	2	2	0	2	<b>2</b>
<b>Europe</b>	430	513	453	817	1 383	11	13	11	20	31	<b>7</b>
<b>Total bilateral allocable</b>	<b>3 832</b>	<b>4 003</b>	<b>4 235</b>	<b>4 172</b>	<b>4 492</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	1 284	1 309	1 372	1 299	1 169	34	33	32	31	26	<b>26</b>
<b>Other low-income</b>	715	568	625	534	599	19	14	15	13	13	<b>33</b>
<b>Lower middle-income</b>	1 547	1 659	1 833	2 012	2 225	40	41	43	48	50	<b>35</b>
<b>Upper middle-income</b>	214	352	360	289	426	6	9	9	7	9	<b>6</b>
<b>High-income</b>	50	104	33	34	73	1	3	1	1	2	<b>0</b>
<b>More advanced developing countries</b>	22	11	12	4	-	1	0	0	0	-	<b>-</b>
<i>For reference:</i>											
<i>Total bilateral</i>	4 859	5 244	5 214	5 238	5 430	100	100	100	100	100	<b>100</b>
<i>of which: Unallocated</i>	1 027	1 240	979	1 066	938	21	24	19	20	17	<b>26</b>



Source : OECD.

Table II-4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

EC	1989-90			1994-95			1999-2000				
	Current USD million	Constant 1999 USD mn.	Per cent share	Current USD million	Constant 1999 USD mn.	Per cent share	Current USD million	Constant 1999 USD mn.	Per cent share		
Côte d'Ivoire	136	164	6	Morocco	153	146	4	F.R. of Yugoslavia (incl. Kosovo)	235	268	6
Cameroon	122	151	6	Ethiopia	134	128	3	Morocco	221	230	5
Mozambique	86	104	4	Egypt	127	120	3	Bosnia and Herzegovina	218	231	5
India	85	106	4	Sts Ex-Yugoslavia unsp.	117	117	3	Sts Ex-Yugoslavia unsp.	176	182	4
Ethiopia	82	96	4	Côte d'Ivoire	102	98	3	Egypt	144	152	4
<b>Top 5 recipients</b>	<b>510</b>	<b>621</b>	<b>24</b>	<b>Top 5 recipients</b>	<b>633</b>	<b>610</b>	<b>16</b>	<b>Top 5 recipients</b>	<b>995</b>	<b>1 065</b>	<b>25</b>
Bangladesh	82	102	4	Mozambique	90	85	2	Tunisia	136	143	3
Sudan	78	93	4	Cameroon	87	83	2	South Africa	128	137	3
Egypt	57	70	3	Zimbabwe	87	82	2	Turkey	127	142	3
Congo, Dem. Rep.	56	68	3	Uganda	87	80	2	Albania	101	107	2
Kenya	54	68	3	Bangladesh	84	77	2	Macedonia/FYROM	86	92	2
<b>Top 10 recipients</b>	<b>837</b>	<b>1 021</b>	<b>39</b>	<b>Top 10 recipients</b>	<b>1 068</b>	<b>1 018</b>	<b>27</b>	<b>Top 10 recipients</b>	<b>1 574</b>	<b>1 685</b>	<b>39</b>
Tanzania	48	59	2	Palestinian Adm. Areas	82	78	2	Mozambique	86	92	2
China	46	56	2	Tanzania	78	74	2	Mauritania	81	86	2
Mali	45	55	2	Senegal	76	71	2	Ethiopia	80	85	2
Malawi	45	54	2	Bosnia and Herzegovina	76	67	2	Malawi	72	76	2
Madagascar	43	52	2	Mali	70	64	2	India	69	73	2
<b>Top 15 recipients</b>	<b>1 064</b>	<b>1 296</b>	<b>49</b>	<b>Top 15 recipients</b>	<b>1 449</b>	<b>1 371</b>	<b>37</b>	<b>Top 15 recipients</b>	<b>1 962</b>	<b>2 097</b>	<b>48</b>
Benin	41	49	2	Azerbaijan	66	64	2	Bangladesh	66	71	2
Somalia	38	46	2	South Africa	64	64	2	Zambia	60	62	1
Angola	37	42	2	Zambia	64	61	2	Jordan	57	63	1
Namibia	37	40	2	Angola	64	59	2	Tanzania	56	59	1
Uganda	36	44	2	Burkina Faso	62	60	2	Senegal	53	56	1
<b>Top 20 recipients</b>	<b>1 253</b>	<b>1 518</b>	<b>58</b>	<b>Top 20 recipients</b>	<b>1 770</b>	<b>1 679</b>	<b>45</b>	<b>Top 20 recipients</b>	<b>2 254</b>	<b>2 408</b>	<b>56</b>
<b>Total (137 recipients)</b>	<b>2 171</b>	<b>2 617</b>	<b>100</b>	<b>Total (160 recipients)</b>	<b>3 943</b>	<b>3 705</b>	<b>100</b>	<b>Total (150 recipients)</b>	<b>4 056</b>	<b>4 332</b>	<b>100</b>
Unallocated	422	511		Unallocated	777	710		Unallocated	945	1 002	
<b>Total bilateral gross</b>	<b>2 593</b>	<b>3 128</b>		<b>Total bilateral gross</b>	<b>4 720</b>	<b>4 416</b>		<b>Total bilateral gross</b>	<b>5 001</b>	<b>5 334</b>	

Source : OECD.

**Table II-5. Bilateral ODA by major purposes**

at current prices and exchange rates (approximate)

EC	2000		Commitments
	USD million	Per cent	Total DAC per cent
<b>Social infrastructure &amp; services</b>	<b>1 824</b>	<b>26</b>	<b>33</b>
Education	392	6	8
of which: basic education	258	4	2
Health	295	4	4
of which: basic health	167	2	2
Population programmes	41	1	2
Water supply & sanitation	228	3	7
Government & civil society	641	9	5
Other social infrastructure & services	228	3	7
<b>Economic infrastructure &amp; services</b>	<b>1 171</b>	<b>17</b>	<b>17</b>
Transport & storage	549	8	9
Communications	131	2	1
Energy	281	4	3
Banking & financial services	103	1	1
Business & other services	108	2	4
<b>Production sectors</b>	<b>622</b>	<b>9</b>	<b>7</b>
Agriculture, forestry & fishing	416	6	5
Industry, mining & construction	164	2	2
Trade & tourism	42	1	0
Other	-	-	0
<b>Multisector</b>	<b>632</b>	<b>9</b>	<b>9</b>
<b>Commodity and programme aid</b>	<b>1 495</b>	<b>22</b>	<b>7</b>
Action relating to debt	-	-	8
Emergency assistance	903	13	8
Administrative costs of donors	184	3	7
Core support to NGOs	96	1	3
<b>Total bilateral allocable</b>	<b>6 927</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>			
Total bilateral	7 226	92	73
of which: Unallocated	300	4	5
Total multilateral	630	8	27
<b>Total ODA</b>	<b>7 857</b>	<b>100</b>	<b>100</b>



Source : OECD.

Table II-6. Comparative aid performance

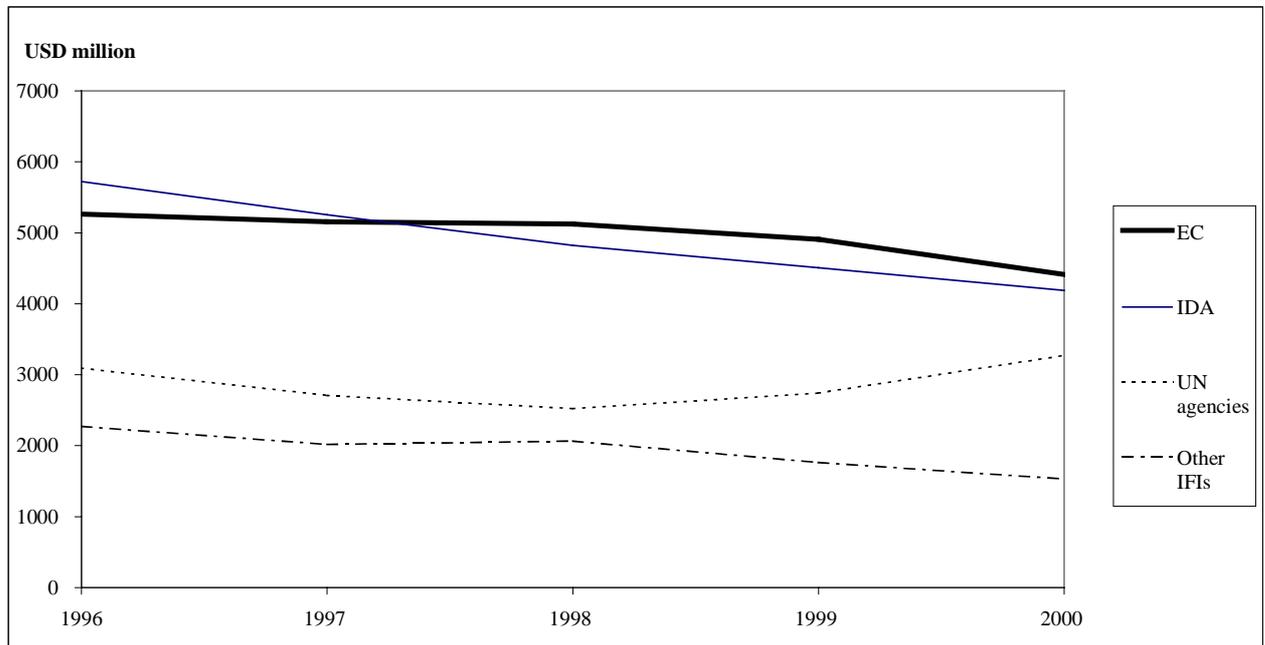
	Bilateral Official development assistance		<i>Net disbursements</i>	
	2000	94-95 to 99-00 Ave. annual % change in real terms	ODA to LLDCs	Bilateral Official aid
	USD million		2000 % of bilateral ODA	2000 USD million
Australia	758	-0.9	16.3	2
Austria	257	-7.9	22.1	144
Belgium	477	3.3	29.8	5
Canada	1 160	-3.3	15.8	165
Denmark	1 024	6.2	36.5	119
Finland	217	3.9	28.8	33
France	2 829	-8.8	24.7	1 084
Germany	2 687	-3.9	24.1	223
Greece	99	..	1.8	10
Ireland	155	16.6	62.4	-
Italy	377	-20.4	59.7	213
Japan	9 768	3.4	12.7	-93
Luxembourg	93	20.5	37.8	2
Netherlands	2 243	6.0	24.7	207
New Zealand	85	4.1	27.0	0
Norway	934	2.3	32.7	27
Portugal	179	1.8	53.2	0
Spain	720	0.7	9.0	12
Sweden	1 242	0.4	27.0	119
Switzerland	627	2.0	26.0	58
United Kingdom	2 710	4.4	36.8	88
United States	7 405	0.2	13.8	2 461
<b>Total DAC</b>	<b>36 043</b>	<b>-0.3</b>	<b>20.7</b>	<b>4 880</b>
<b>of which: EU Members</b>	<b>15 306</b>	<b>-2.4</b>	<b>28.6</b>	<b>2 260</b>
<b>EC</b>	<b>4 414</b>	<b>3.3</b>	<b>21.6</b>	<b>2 802</b>

Notes:

.. Data not available.

Source: OECD.

Figure II-1. Net ODA from multilateral agencies



Note: Other IFIs include mainly the IMF and regional development banks.

Source : OECD.

### ANNEX III

#### EC POLICY STATEMENTS ON SELECTED SECTORS AND CROSS-CUTTING ISSUES

#### **A. Measures taken and to be taken by the Commission to address the poverty reduction objective of EC development policy**

##### **A.1. Introduction**

Poverty<sup>71</sup> is multidimensional. People are poor when they lack the capability to meet adequate standards of well being, in terms of economic, social and human security levels, civil rights and political empowerment. Thus, poverty reduction is closely intertwined with development issues.

Globally, the extent of poverty remains massive. A third of children under five years are malnourished. A third of women are illiterate. Half of the world's population live on less than USD 2 per day, and one in five live in extreme poverty on less than USD 1 per day. Moreover, inequalities are enormous and in many cases rising. In 1960, the ratio between the incomes of the richest 20% of the world's population to the poorest 20% was 30:1. It is now 90:1. The maternal mortality rate in Africa stands at 9.8 per 1 000 births, over twice as high as the world average. Nine out of ten of the more than 35 million people infected with HIV live in the developing world. Two-thirds of the people living in extreme poverty are women and girls.

There is wide consensus within the International Community that poverty reduction is the overarching objective of development co-operation. International development goals have been agreed. In particular, there is commitment to reduce the incidence of extreme poverty by half by 2015.

Poverty reduction is now the overarching objective of the EC's development policy (as set out in the Council Statement on EC Development Policy of 10 November 2000). The objective of this Working Paper of the Commission Services is to determine what methodology has been established in furthering the poverty focus of development co-operation, and what more needs to be done. At the same time, stress is laid on the need to distinguish direct and indirect actions towards poverty reduction.

This paper focuses on:

- The EC's principles for increasing resources to poverty reduction.
- The EC's Country Strategy Papers (CSPs)<sup>72</sup> and contribution to country poverty reduction strategies.

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71. The source of Annex III A is a Commission Staff Working Paper, SEC(2001)1317 of 26.7.2001.

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- Maximising the impact on poverty reduction of EC programmes in the priority areas identified in the EC Development Policy.
- The instruments, tools and working methods for mainstreaming poverty reduction.

### **A.2. The framework for EC development co-operation**

The EC Development Policy [COM(2000)212, 26 April 2000] and the Statement adopted on 10 November 2000 by the Council and the Commission focus on poverty reduction as an overarching objective of EC development co-operation and select main priorities for EC support in this context.

The geographical coverage of the Development Policy is developing countries, which are listed by the OECD Development Assistance Committee as low and middle income aid recipients.<sup>73</sup>

The Cotonou Agreement (2000) provides the legal framework for a comprehensive twenty-year partnership between 77 ACP countries, the Community and its Member States, encompassing trade, political relations and development co-operation. The Agreement states that “*the partnership shall be centred on the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries in the world economy*”.

Apart from the Cotonou Agreement, the EC is responsible for three development assistance and co-operation programmes (plus the strategic partnership with the Western Balkans) covering four regions, and in particular for the preparation of strategy and programming documents. These assistance and co-operation programmes are for the countries of Eastern Europe and Central Asia (Tacis), the Euro-Mediterranean partnership framework, and for Asia and Latin America. These programmes all have an important poverty reduction focus. They also aim at promoting more generally transition, reform and stabilisation.

All programmes include actions that address poverty *directly*. In other cases the attack on poverty will be *indirect*. In general, EC policy recognises that whilst growth is necessary for poverty reduction, it is not sufficient, and the economic, social and environmental policies accompanying the process of growth and development must address inequality in the distribution of the resources generated, and ensure that the resources on which economic growth and livelihoods of the poor depend are used in a way which allows process in poverty reduction to be sustained. Specific measures should be undertaken to make economic opportunities available to poor people, both through direct and indirect measures.

### **B. Environment and sustainable development: Executive Summary**

Article 6 of the Treaty establishing the European Community, as amended by the Amsterdam Treaty, states that “Environmental protection requirements must be integrated into the definition and implementation of the Community policies and activities ... in particular with a view to promoting

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72. The term Country Strategy Papers (CSPs) is used here to cover the Country Support Strategies prepared for ACP countries in accordance with the Cotonou Agreement, as well as the CSPs prepared for other developing countries.

73. See COM(2000) 212, annex 7, for a complete list of the countries to which the Development Policy applies.

sustainable development". To this end, the elements of an EC strategy<sup>74</sup> formulated in this document aim to strengthen the inter-linkages and mutually supportive nature of the spheres of sustainable development with a main emphasis on environmental sustainability.

Developing countries themselves have primary responsibility for identifying and responding to environmental issues and for integrating environmental considerations into their policies. EC economic and development co-operation should support developing countries' efforts to protect their own environment and the shared global environment. In this regard, increased dialogue with partner countries on environmental issues is of particular importance.

All EC policies should be coherent in relation to third countries and the impacts, including environmental impacts, of EC policies on developing countries should be analysed. In the pursuit of sustainable economic and social development through structural reforms, EC co-operation policies and developing countries should give special attention to environmental management capacity and public environmental regulatory and monitoring functions. In the context of integration of developing countries into the world economy, the EC should seek to fully integrate environmental and sustainable development considerations into the next World Trade Organisation (WTO) round. Private sector development should also take environmental considerations into account. Furthermore, the both positive and negative linkages between poverty and environment should be acknowledged in the campaign against poverty.

The EC and the developing countries are parties to a wide range of environmental agreements and processes. The EC should support the efforts of developing countries to participate effectively in the negotiations, to implement their obligations through identifying country specific priorities, and to develop appropriate policies and measures with respect to existing and emerging environmental agreements. In this regard, the Commission is putting particular emphasis on the major UN Environmental Conventions on climate, biodiversity and desertification, and the role which developing countries can play in these global environmental issues.

Although of great significance, EC funding to specifically environmental purposes remains relatively modest compared to the overall flows of EC aid. Therefore, integration of environmental considerations into the use of all EC aid and into the programming and project cycle must be continued and strengthened. In this regard, the revised guidelines on environmental integration are of particular importance, as is the capacity of existing Commission staff to integrate environmental aspects, and partner countries' capacity to assume more tasks and responsibilities. The environmental performance of EC aid will continue to be assessed through regular evaluations and use of indicators.

There are many opportunities and options for further integration of environmental aspects into EC economic and development co-operation. The challenge is to ensure – in a credible and transparent way – that they are fully developed and that the integration process is advancing at a strong pace. Key factors for success are:

- A strong political commitment to the integration process;
- Strengthening of the institutional arrangements; and
- Sound management of the overall quality of the environment integration process.

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74. The source of Annex III B is Communication from the Commission of 20 October 1999, COM (1999)499.

### **C. Gender and development**

Gender<sup>75</sup> is a social, economic and cultural dimension, which cuts across all areas and sectors of development, and has crucial implications for the achievement of all development activities. Integration of gender issues in Community Development Co-operation is a determining factor to achieve a long-term development impact. Women's possibilities to contribute to and benefit from development policy changes and the outcomes of the projects at an equal footing with men are determined not only by their biological sex but also by the roles and interrelations between them and with the community. This is decided by culture traditions, law, prejudices and expectations.

Systematically mainstreaming of gender issues in the conception, design and implementations of all development policies and interventions of the Community is one of the means of the **Council Resolution n° 12847/95 on Integrating of Gender Issues** in Development Co-operation. The process of integrating gender issues in Community development co-operation is now in a critical phase, as operational tools such as gender impact assessment (instruments to measure whether (sic) the needs of both women and men are equally taken into account in programmes and projects), follow-up indicators and the integration of gender issues into project cycle management are available but has to be promoted and used at all levels.

The Support to concept of women in development has been given used supported by the Commission since 1988. (sic) Actual work focuses on mainstreaming of gender issues into development policies, projects and programmes. The Commission has given a substantial input to both the preparations for the Fourth World Conference on Women in Beijing 1995 and the follow-up of the Beijing Declaration and Platform for Action. Internal training and direct support on gender issues is offered to the Commission staff on a regular basis. The Council and the Parliament have been serviced with elaborated communications and reports on integration of gender issues in development co-operation, as stipulated in the Council Resolution and Regulation on Integrating Gender Issues in Development Co-operation. The **Regulation** (the legal basis for the special budget line on gender integration) was approved in December 1998.

Keeping in mind that the integration of gender equality issues in development co-operation is a long-term process, the need to strengthen gender mainstreaming is still considerable. The conditions for doing so are now better, partly due to the availability of new working methods such as a the Source book on Gender Integration, an the Action Plan for Mainstreaming of Gender Issues, gender screening instruments for project proposals and gender as part of the overall terms of reference for evaluations of programmes and projects. Support to National Action Plans based on the Beijing Platform for Action in developing countries has been given and still needs to be given by the Commission.

### **D. EU role in promoting human rights and democratisation**

The European Commission (EC) has adopted a number of Communications relating to human rights and democratisation in the last decade. This Communication<sup>76</sup> does not seek to rewrite the

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75. The source of this statement on gender is the EU website at [http://europa.eu.int/comm/development/sector/social/gender\\_en.htm](http://europa.eu.int/comm/development/sector/social/gender_en.htm).

76. The source of this statement is the Communication from the Commission to the Council and to the European Parliament of 8 May 2001 on *The European Union's role in promoting human rights and democratisation in third countries* [COM(2001)252 final]. Other statements have been: *The European Union and the External Dimension of Human Rights Policy*, COM(95)567 final; *The Inclusion of Respect for Democratic Principles and Human Rights in Agreements between the Community and*

fundamental policy. Rather it seeks to set this policy in the context of the Commission's overall strategic approach in external relations for the coming years. Changes in the external environment, as well as internal Commission reforms, require a re-focussing of human rights and democracy strategies, in particular to ensure that these issues permeate all Community policies, programmes and projects. Prioritisation, focus, delivery and impact are the main threads running throughout the document. The Commission wants to be judged on its performance in meeting the European Union (EU)'s policy goals. This Communication outlines a way forward.

The basis for EU action is clear. The European Union seeks to uphold the universality and indivisibility of human rights – civil, political, economic, social and cultural – as reaffirmed by the 1993 World Conference on Human Rights in Vienna. The EU also upholds the principle that the human rights of women and the girl-child are an inalienable, integral and indivisible part of universal human rights, as reaffirmed by the 1995 Beijing Declaration and Platform for Action. The protection of such rights, together with the promotion of pluralistic democracy and effective guarantees for the rule of law and the fight against poverty, are among the European Union's essential objectives. The Treaty of Amsterdam – which came into force on 1 May 1999 – reaffirms in its Article 6 that the European Union "is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles that are common to the Member States" and emphasises in Article 49 that the respect of these principles also is required by countries which apply for EU membership. It also introduced, in Article 7, a mechanism to sanction serious and persistent breaches of human rights by the EU Member States. This mechanism was further reinforced by the Treaty of Nice concluded in December 2000. This also extended the objective of promoting the respect of human rights and fundamental freedoms, from development co-operation to all forms of co-operation with third countries (Art. 181Bis TEC).

The Commission's action in the field of external relations will be guided by compliance with the rights and principles contained in the EU Charter of Fundamental Rights which was officially proclaimed at the Nice Summit in December 2000, since this will promote coherence between the EU's internal and external approaches. The Charter makes the overriding importance and relevance of fundamental rights more visible to the EU's citizens by codifying material from various sources of inspiration, such as the European Convention on Human Rights, common constitutional traditions, and international instruments.

The European Union is well placed to promote democracy and human rights. It is continually seeking to improve its own democratic governance, and the Commission will shortly adopt a White Paper on the theme. Uniquely amongst international actors, all fifteen Member States of the Union are democracies espousing the same Treaty-based principles in their internal and external policies. This gives the EU substantial political and moral weight. Furthermore, as an economic and political player with global diplomatic reach, and with a substantial budget for external assistance, the EU has both influence and leverage, which it can deploy on behalf of democratisation and human rights.

Since 1992, the EC has included in all its agreements with third countries a clause defining respect for human rights and democracy as "essential elements" in the EU's relationship. This clause is unique in bilateral agreements. This approach has been further developed in the Cotonou agreement signed with

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*Third Countries*, COM(95)216 final; *Democratisation, the Rule of Law, Respect for Human Rights and Good Governance: the Challenges of the Partnership between the European Union and the ACP States*, COM(98)146 final; *Countering Racism, Xenophobia and Anti-Semitism in the Candidate Countries*, COM(99)256 final; and *Communication on EU Election Observation and Assistance*, COM(2000)191 final.

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African, Caribbean and Pacific (ACP) countries in June 2000 which is based on respect for human rights, democratic principles and the rule of law, and on good governance. It constitutes a major step in the development of the European Union's human rights policies.

In November 2000, the Council and the Commission adopted an important Joint Statement on the European Community's development policy<sup>77</sup>, which has been welcomed by the European Parliament (EP). Together with the reform of the management of external assistance it represents a new framework for the implementation of EC development policy. This new development policy is firmly grounded on the principle of sustainable, equitable and participatory human and social development. The promotion of human rights, democracy, the rule of law and good governance are an integral part of it.

Poverty reduction, the main objective of the European Community's development policy, will only be sustainably achieved where there are functioning participatory democracies and accountable governments. Corrupt and autocratic governments are likely to misuse development assistance either to maintain repression or for private enrichment at the expense of their populations. Such governments also generate conflict and instability in their region. Democratic, pluralist governments which respect the rights of minorities are less likely to resort to nationalism, violence or aggression, either internally, against their neighbours or further afield. Conflict and instability is costly in human terms. It is also likely to bear upon the EU as the world's largest aid donor, and a favoured destination for immigrants.

The process of globalisation is a potential force for freedom and justice as well as for prosperity. But it has a dark side, too. There is a danger that globalisation will have a negative effect on the welfare of the world's poorest and most vulnerable groups, that not all countries and populations will be able to reap its potential benefits, and that it will lead to a uniformity of cultural values. Special attention needs to be paid to the rights of vulnerable groups, and to empowering those at risk of exclusion, if the process of globalisation is not to increase the division between the billions who benefit and the billions who are left in squalor and misery. The European Union has a role to play in providing positive answers to those concerns. Through its human rights and democratisation policy, it can contribute to making globalisation a truly inclusive process.

The EU should also encourage other global actors, such as multinational corporations (MNCs), to play a full part in increasing respect for human rights world-wide and to use their often considerable influence within a developing country to support rather than undermine that country's own efforts to achieve sustainable development. It is in the interests of those companies: stable countries and free societies are also the best places to invest and to do business. For that reason, the promotion of human rights and democracy is also an essential complement to the EU's support for multilateral trade and investment facilitation.

The joint Statement on the European Community's development policy stresses the importance of concentrating EC development co-operation on certain sectors. It identifies institutional capacity building (and in particular for democracy and good governance) as a strategic area for Community activities. It also identifies the promotion of human rights, equality between men and women, and children's rights among the principles to be mainstreamed into co-operation activities. This Policy Statement, together with the reform of the management of external assistance currently underway, represent a new framework for the European Commission's activities in support of human rights and democratisation.

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77. Joint Statement on EC Development Policy, Council and Commission, 10 November 2000 available at: [http://europa.eu.int/comm/development/lex/en/council20001110\\_en.htm](http://europa.eu.int/comm/development/lex/en/council20001110_en.htm).

This Communication identifies three areas where the Commission can act effectively.

- Through promoting coherent and consistent policies in support of human rights and democratisation. This applies both to coherence between European Community policies, and between those policies and other EU action, especially the Common Foreign and Security Policy. It also relates to the promotion of consistent and complementary action by the EU and Member States, in particular in the promotion and mainstreaming of human rights through development and other official assistance.
- Through placing a higher priority on human rights and democratisation in the European Union's relations with third countries and taking a more pro-active approach, in particular by using the opportunities offered by political dialogue, trade and external assistance.
- By adopting a more strategic approach to the European Initiative for Democracy and Human Rights (EIDHR), matching programmes and projects in the field with EU commitments on human rights and democracy.

## **E. Conflict prevention**

The ever-growing list of causes of conflict calls for international co-operation and multilateral action of a new order. The EU, itself an on-going exercise in making peace and prosperity, has a big role to play in global efforts for conflict prevention.<sup>78</sup> For this, it has at its disposal a wide range of instruments for long term or short-term action.

Both among its immediate neighbours and throughout the world, the EU seeks to project stability in supporting **regional integration** and in building **trade links**. With a long experience in these fields, the EU is well placed to do so. Direct support to regional structures in Africa and autonomous trade concessions to the Western Balkans are examples of instruments with a long-term stabilisation perspective.

**Development policy and other co-operation programmes** provide the most powerful instruments at the Community's disposal for treating the root causes of conflict. There is a need to take a genuinely long-term and integrated approach, which will address all aspects of structural stability in countries at risk. In doing so, co-ordination between Commission and Member States activities must be ensured. On a practical level, strategic documents (Country Strategy Papers) elaborated for each country receiving EC assistance will be the key tools to mainstream such an approach into co-operation programmes. Appropriate indicators will also be used.

In countries showing conflict potential, there may be a need to focus external aid on the (re)emergence of a favourable political environment (*e.g. support to democracy, rule of law, civil society, independent media, gender equality etc.*). There may be also a need for the Community to become more involved in **security sector reform**. When a country emerges from conflict, the Community should contribute to the consolidation of peace through specific programmes such as **rehabilitation**.

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78. The source of this statement is the Executive summary of the Communication from the Commission on *Conflict prevention* [COM(2001)211] 11.4.2001.

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Another approach to mainstreaming conflict prevention is to find more effective ways, within the Union and in the wider international context, to address **cross-cutting issues** which may contribute to tension and conflict. The most important ones concern drugs, small arms, natural resources, environmental degradation, population flows, human trafficking and to some extent, private sector interests in unstable areas. Community instruments in these areas may be further developed.

In parallel to long term preventive action, the EU should improve its **ability to react quickly** where a situation in a particular country seems to be entering a downward spiral. This clearly requires an effective early warning system. In pre-crisis situations, many Community instruments including new ones such as the **Rapid Reaction Mechanism** can be used. The EU can deploy a variety of options ranging from **political dialogue** to **Special Representatives** and including, in the future, civilian crisis management mechanisms. All of these may be improved, made more systematic and flexible. But in any case they need to be based on a common political line between EU Member States.

Potential conflicts often cross borders. This demands **international co-operation** on long term prevention activities as well as **co-ordination** of responses to pre-crisis situations. The EU will therefore strengthen its co-operation with international partners active in the field of conflict prevention, such as US, Canada, Russia, Japan and Norway, main international organisations such as UN and OSCE as well as NGOs.

### **F. From food aid to food security**

For about ten years now, the European Commission has moved from thinking in terms of food aid<sup>79</sup> to thinking in terms of food security, thus expressing a different approach: the concern is now that the poorest and most vulnerable populations be guaranteed permanent access to long-term food supply of good quality. They must also be given the means, wherever possible, to participate in the economic activities of this vital sector.

The transition from classic food aid to the fight against food insecurity was made in 1996, when the Council adopted a Regulation which defines the present legal framework of the “food security” programme. This ruling is a milestone inasmuch as it **includes food security in sustainable development and in poverty reduction policies**.

It makes possible a global approach to food security by targeting simultaneously supply (increasing agricultural production and/or imports, market information systems and developing the private sector), demand (the diversification and increase of family incomes and the access of vulnerable groups to basic social services) and crisis prevention (early warning system, restructuring buffer stocks).

It also paves the way for strengthening the capacities of active local and national partners (including ministries of agriculture) as well as the development of budget support to beneficiary governments.

In this process, emphasis is placed on **various instruments**. The most important among them are access to production factors (inputs, seeds, equipment, security of land tenure) as well as to credit and information, the development of non-farming jobs and the diversification of family income, increasing

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79. The sources of this Annex are a Staff Working Document on *Implementation of EC External Assistance* D(2001)32947 and Regulation No. 1292/96, adopted by the Council of the European Union on 27 June 1996.

people's ability to participate in decision-making and guaranteeing the rights of communities, all elements closely associated with the treatment of combat poverty.

Lastly, this Regulation recognises that priority must be given to targeting the food security programme on the most vulnerable populations and on least development countries (LDCs).

### **Food security and existing strategies**

In order to be effective, the fight against food insecurity must be conducted with consultation and co-ordination. It must develop opportunities of synergy and complementarity with the different Community development programmes, taking into account the action of other donors. This leads the Commission to respect the international Food Aid Convention. (See Box III-2.)

#### **Box III-1. Evaluation of the programme**

As foreseen in the Regulation, in 2000 the Commission had an independent evaluation made of its food aid and security programme. The evaluation showed the relevance of the food security programme in the fight against poverty and the need to maintain it.

In fact, maintaining this specific instrument the support of community efforts (sic) in three directions:

- In the domain of structural food insecurity (the first step in reducing long-term poverty), the problems caused by insufficient provision of food and specific nutritional conditions.
- The need to fill the gap between urgent aid, rehabilitation and development assistance.
- The EC commitments through international agreements and multilateral initiatives so as to establish the strategic frameworks of the fight against poverty.

The evaluation principally underlined the necessity for coherence, not only in food security but also in other community actions, within the global strategy for each country. In particular, the strategies for each country should take all instruments into account, in a coherent and complementary way.

In order to better measure the impact of this programme, it was recommended that specific criteria and verifiable indicators be developed for all projects and programmes as well as the development of a systematic follow up and evaluation of actions on the ground.

#### **Box III-2. International Food Aid Convention**

This agreement is the reference document for the main donors. It fixes the minimum annual commitments in food aid from the signatory countries\* and specifies common rules in order to limit the negative side effects. As re-negotiated in 1999, this international agreement aims at a better integration of food aid in the overall context of support for food security.

\*Argentina, Australia, Canada, EC and Member States, Japan, Norway, Switzerland, United States.

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### *Community programmes*

The food security programme is applied in different regional areas, each of which has specific co-operation agreements with the EU, on the basis of which opportunities for synergy and co-operation are sought. These regional programmes include the EDF (Africa, Caribbean and Pacific Islands), ALA (Latin America), MEDA (Mediterranean area), OBNOVA (former Yugoslavia and the Balkans) and Tacis (Newly Independent States). This desire for coherence has now been formalised by the drafting of a single Community strategy for each country, which is vital in ensuring complementarity between the different programmes and co-operation with other financial backers, especially in the United States.

Within the Union, Member States approve the strategic guidelines of the food security programme and the funding proposals per country and per partner. There is also a code of conduct on food aid between Member States and the Commission. In practice, co-ordination is established on a case by case basis, according to the degree of commitment of the donors and the nature of the programmes being implemented.

### *Specific agreements*

Furthermore, specific co-ordination agreements exist, with a section on food security, with certain donors. Thus in the context of United States-EC dialogue, co-operation between the Commission and the USAID co-operation agency concentrates on seven pilot countries: Bangladesh, Bolivia, Ethiopia, Haiti, Kyrgyzstan, Malawi and Mozambique.

#### **Box III-3. Intervention countries**

Concentrating the interventions of the Commission on the most vulnerable countries has been one of the priorities of the Community food security policy over the last few years. Whether direct or indirect, these interventions target 34 countries, most of which have low incomes and are not self-sufficient in food production. According to the nature of the food problems, these countries are divided into two groups: structural intervention countries and crisis or post-crisis countries.

##### **Structural intervention countries**

In these 20 countries, the respective governments are motivated to move towards a long-term food security policy, which has already been drafted or is still being negotiated.

*Armenia - Azerbaijan - Bangladesh - Bolivia - Burkina Faso - Cape Verde Islands - Ethiopia - Georgia - Haiti - Honduras - Kyrgyzstan - Madagascar - Malawi - Mauritania - Moldavia - Mozambique - Nicaragua - Niger - Peru - Yemen.*

##### **Crisis or post-crisis countries**

In these 14 countries, the interventions are dictated more by the current economic situation. Supply of food aid, farming implements and seeds predominates, combined with additional technical and financial support, in order to avert the risk of famine or to contribute to the restoration of the social and economic fabric, affected by conflicts.

*Albania - Angola - North Korea - Ecuador - Eritrea - Liberia - Montenegro - Palestine - D.R. Congo - Rwanda - Sierra Leone - Somalia - Sudan - Tajikistan.*

*Geographical distribution*

<b>Geographical zones</b>	<b>Value in EUR million</b>
ACP	236.83
Asia	61.34
Latin America	34.31
NEI	41.43
Europe	11.00
Mediterranean & Middle	24.80
Other	48.70
<b>Total</b>	<b>458.41</b>

**G. Promoting sustainable transport in development co-operation**

This communication guides the Community and Member States support to transport<sup>80</sup> in the developing countries for achieving the main development goals laid down in the Treaty establishing the European Community. The Communication therefore outlines a comprehensive sectoral approach that is valid for all transport modes - roads, railways, air, maritime and waterway transport as well as the services to facilitate movement of goods and people. This approach builds on a framework of principles to achieve the wider development goals, and provide a strategy that will deliver sustainable transport which is safe, economically, financially and institutionally sustainable as well as environmentally sound and socially aware.

The Community's approach draws on the European Commission's experience in working with the EU Member States, recipient countries and other donors. Since 1963, support to transport has largely focused on the Africa, Caribbean and Pacific (ACP) region. In the 1990s transport was included in the development co-operation with the countries of the Mediterranean region, Asia and Latin America, and the New Independent States. The ACP region remains the main recipient of financial support in the transport sector, with allocations currently up to almost 40% of the agreed national and regional indicative programmes. This makes the Community one of the leading donors in the ACP region, the World Bank is the other.

The sectoral approach for reaching development goals is based on principles that transport meets stakeholder needs, is safe, affordable, and efficient, and has minimal negative impact on the environment. To contribute to economic and social development, transport must receive a proper share of national budgets, which give priority to maintenance. Greater transport efficiency relies on public-private partnerships with government taking a more supervisory and regulatory role. The free flow of transit traffic will contribute to integrating the developing countries into the world economy. And, transport must be safe for all and provide mobility, equitable services and opportunities for men and women, particularly the poor.

The strategy for sustainable transport integrates sectoral and cross-cutting issues. Economic sustainability requires balanced public expenditure, fair competition and rational pricing of services. Financial sustainability relies on increasing private sector participation in railways, maritime and inland ports, and airports. But, for roads, it depends on securing sufficient revenue for maintenance. Institutional sustainability calls for more autonomous railways, ports and airports to allow

80. The source of Annex III G is a *Communication to the Council and European Parliament*, COM(2000)422 final 6.7.2000, and some programming guidelines by Commission staff.

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commercialisation and eventual privatisation of operations. But, roads management has to adopt commercial practices. Specific measures are needed to mitigate environmental risks and promote non-motorised transport. And, by providing effective and appropriate means, transport should meet the different needs of people in rural and urban areas.

The way forward to creating sustainable transport in the developing countries for the European Commission and the Member States relies on political commitment and stakeholder ownership in developing countries. This is vital to the co-management of Community development co-operation. It also depends on the adoption of the sectoral approach, commercialisation and privatisation, and requires the mainstreaming of the environment, safety and social awareness. Thus, for the first time at Community level, the priority actions are for developing sound policies and affordable strategies; measures to restructure private and public transport agencies; and optimising existing transport systems before upgrading and expansion. These actions together with a widening of the Commission's co-ordinating role with Member States and other donors will help developing countries build a common approach for sustainable transport to effectively contribute to development.

### **Programming guidelines for the transport sector**

Sustainable transport systems facilitate development and contribute to poverty reduction by facilitating the mobility of the poor and providing physical access to jobs, health and education. Appropriate access is essential for economic growth and trade, and fosters integration. Achieving these development goals requires that transport should meet stakeholder needs, be safe, affordable and efficient, and have minimal impact on the environment. To deliver sustainable transport, partner countries need to adopt a sectoral approach that integrates sectoral and cross-cutting issues. Such an approach must build economic, financial and institutional sustainability as well as being environmentally sound and socially aware.

### **H. Budget support**

The Court examined the Commission's monitoring of the use of the counterpart funds<sup>81</sup> from EDF support for structural adjustment in ACP States, but did not examine the structural adjustment programmes *per se*. The audit mainly considered 23 Financing Agreements concluded with eight ACP States between 1994 and 1999. Most of the support took the form of direct aid to beneficiary countries' budgets and was subject to the national implementing and control procedures applicable to public expenditure in the ACP States, not the EDF procedures.

The observations concerning the Commission's management are about the extent of budget expenditure targeting, the provision of funds, the use of technical assistance and auditing and the administrative organisation of the Commission departments. Some of the weaknesses that were noted in these different areas confirm the importance for the Commission of monitoring more closely the quality of public finance management in beneficiary countries, the volume and regularity of the social sector expenditure and the refocusing of programmes, in co-ordination with all the parties concerned, in order to achieve effective poverty reduction in the beneficiary countries.

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81. The source of this statement is a Special Report from the Court of Auditors: Special Report No. 5/2001 on *Counterpart funds from structural adjustment support earmarked for budget aid (seventh and eighth EDFs)*, together with the Commission's replies. Summary.

Control of the expenditure targeted by EDF support was affected by the Commission's wishing to support balances of payments and priority sectors, and social sectors in particular, at one and the same time by refinancing expenditure. The controls were not always effective, because the data on the actual implementation of budgets were, in some cases, non-existent or inaccurate. Technical assistance was underused. Monitoring the quality and regularity of expenditure is the key to improving social services, but it was slow. From 1998 onwards the Commission's programme audit organisation improved. The irregularities that were uncovered did not result in funds being repaid to the EDF, but in several cases further aid was suspended pending corrective action.

Given the weaknesses in the national implementation and control procedures for public expenditure, it is unrealistic to think that in the priority sectors the beneficiary States' expenditure will always be effected regularly and will have a real impact on the level and quality of social services. The reforms that have been undertaken by these countries in the area of public finance management are recent and will only be fully effective in the longer term. The reality of this was confirmed by the audits that have been undertaken by the Commission from 1998 onwards. The budgetary authority must be aware of the inherent risks of the approach that has been adopted, must insist that the risks be evaluated through audits of public expenditure and should endeavour to reduce the extent of them gradually by encouraging effective implementation of reforms in the ACP States and, in particular, by means of concerted action by all the donors together.

In order to improve control over the implementation of support and ensure that it develops in line with the new guidelines from the budgetary authority, the Commission should:

- Base its programmes on a strategy and a plan for the reform of public finance management and on intensive co-ordination between all the parties concerned.
- Draw up clear guidelines so that its departments are better able to assess progress in the management of public finance in each of the countries concerned and to carry out a qualitative appraisal of the expenditure, otherwise there is a risk that programme objectives might not be achieved.
- Lay down procedures for monitoring and control of each programme, before the Financing Agreements are concluded.
- Effect a better distribution between its own departments of responsibility for monitoring general macro-economic and institutional support, on the one hand, and, on the other, responsibility for appraising the operation of the social sectors.
- In co-ordination with the IMF, improve the predictability of annual budget support, irrespective of the source of the funding.

Within the framework of multilateral approaches integrate its sectoral support into the budgets of the beneficiary countries wherever possible.



## ANNEX IV

### EC STATEMENTS ON ASPECTS OF POLICY COHERENCE

#### Some key policy statements

##### ***The European Community's Development Policy: Communication from the Commission to the Council and the European Parliament, 26.4.2000***

One of the objectives of the EC's new development policy is to ensure effective, co-ordination, complementarity and coherence of policies and actions.

"Art 178 of the Treaty and common sense oblige the EU to check that the objectives of its development policy are taken into account when the implementation of other policies are likely to affect developing countries. This coherence-check is relevant for many areas of Community policy including *e.g.* trade, agriculture, environment, energy, research and technological development, fisheries, immigration, asylum, conflict prevention, health, competition, consumer protection and humanitarian aid..."

"The least that can be expected is that those who make the decisions have full knowledge of these indirect effects of policies. Thorough analysis and quantification of these effects will be promoted ... It is still possible that the EU makes a political choice to go ahead with a policy despite its potentially negative, indirect and unintended impact on developing countries. In these cases, it is important to ensure that this decision is made in full knowledge of its indirect consequences."

##### ***The European Community's Development Policy: Statement by the Council and the Commission, 10.11.2000***

Following debate between the Commission and Council, this joint statement was issued and included the following paragraph on coherence:

"Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. The way to achieve this is to make a systematic and thorough analysis of any indirect effects of measures in especially sensitive areas and to take development problems into account in the Commission decision-making processes."

##### ***Cotonou Agreement on ACP-EU co-operation: Article 12***

The Agreement stipulates that the joint ACP-EU Council of Ministers is responsible for political dialogue and tackling wider policies that have an effect on the sustainable development of ACP countries. It also says the following:

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"... where the Community intends, in the exercise of its powers, to take measures which might affect the interests of the ACP states, as far as this Agreement objectives are concerned, it shall inform in good time the said states of its intentions... At their [ACP states] request, consultations shall be held promptly so that account may be taken of their concerns as to the impact of those measures before any final decision is made ..."

### *The ALA Regulation: EC co-operation with Asia and Latin America*

There are no specific references in the ALA regulation to policy coherence. But it was agreed in 1992 and is about to be revised in 2002 following its evaluation in 2000-2002.

### *DG Trade's Mission Statement*

This includes the following area of responsibility: "to ensure consistency within the Relex Group between the commercial policy and the Union's general external relations policy on the one hand and the contribution of the European Union to global economic governance on the other."

### *Green Paper on Common Fisheries Policy*

"The Community has also to take account of the interests of emerging and developing fishing nations through a more equitable distribution of fisheries resources ... Certain priorities for the international action of the Community have to be established. These can be summarised as:

Promoting, where possible, regional Fisheries Agreements which have the advantage of better addressing the regional aspect of the resource."

The Community's bilateral relations must be adapted to changing circumstances Fisheries Agreements should from now on be able to meet developing States' requirements and legitimate aspirations to develop their own fisheries ..."

### **Main objectives of key EC policies affecting developing countries**

#### *Statement on EC Development Policy*

The EC's new development policy was defined by the Commission's Communication (26.04.2001) (see Chapter 1, Box 2) and the subsequent joint statement by the Council and Commission (10.11.2001). The key objectives of the new policy were outlined as:

- Refocus resources towards alleviating poverty in developing countries.
- Stress the importance of national ownership of poverty reduction policies and the PRSP framework.
- Focus the Community's development assistance in six priority areas:
  - Link between trade and development.
  - Support for regional integration and co-operation.
  - Support to macro-economic policies and promotion of an equitable access to social services.
  - Transport.
  - Food security and sustainable rural development.

- Institutional capacity building, particular in the area of good governance and the rule of law.

In addition the policy will:

- Mainstream human rights, gender, children’s rights, environment, conflict prevention and crisis management.
- Reform management of the EC’s external assistance.
- Ensure effective, co-ordination, complementarity and coherence of policies and actions.

### ***The Cotonou Agreement: EC-ACP co-operation***

On 23 June 2000, the EC signed a new Partnership Agreement with 77 African, Caribbean and Pacific countries in Cotonou, Benin, replacing the former Lomé Convention Agreements. The Cotonou Agreement is a comprehensive framework covering development co-operation, trade and political dialogue for the period 2000–2020 (with a clause allowing revisions every five years and five-year financial protocols).

The Commission describes this new partnership as based on five interdependent pillars:

- A comprehensive political dimension.
- Participatory approaches, especially increased inclusion of civil society.
- A strengthened focus on poverty reduction.
- A new framework for economic and trade co-operation.
- A reform of financial co-operation.

The Commission (DG DEV and EuropeAid) has responsibility for administering the Cotonou agreement and there are various procedures for approval of specific programming documents and financing proposals. This includes presentation to the EDF Committee of Member State representatives who vote on specific proposals for action under the QMV procedure. Key aspects of the Cotonou Agreement include:

### ***The political dimension***

An enhanced political dimension puts more emphasis on regular, comprehensive, deep political dialogue aimed at contributing to peace, security and stability and promoting a stable and democratic political environment. It covers good governance, peace building and conflict prevention and migration.

### ***Focus of development strategies***

The central objectives of ACP-EC co-operation are poverty reduction, and eventually eradication, sustainable development and integration into the world economy. The areas of support covered are the following:

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- Economic Development – investment and private sector development, macro-economic and structural reforms and policies, economic sector development, tourism.
- Social and Human Development – social sector, youth issues, cultural development.
- Regional integration and co-operation.

### ***Economic and trade co-operation***

This sets out a much more comprehensive and ambitious trading arrangement, but which complies with WTO rules. There are three prongs to the strategy:

- Smooth and gradual integration of ACP countries into world economy.
- Enhanced supply and trading capacity of ACP countries.
- Creation of a new trade dynamic between the ACP and EU.

Note: A new trading arrangement will be negotiated during a preparatory period (2002-2008) during which the current system of non-reciprocal trade preferences will be maintained. The LDCs are to in effect keep their preferential access by being accorded non-restricted and quota free access for essentially all their products to the EU market (recently confirmed under the Everything But Arms initiative). For the non-LDC ACPs, the Commission envisages negotiating Economic Partnership Agreements (EPAs) building on existing regional integration initiatives within the ACP. Negotiations on EPAs will begin in September 2002 and enter in force by January 2008 at the latest. In 2004, the Community will assess the situation of the non-LDC ACP countries not in a position to join EPAs and will examine alternative possibilities with a view to agreeing a new WTO compatible framework for trade equivalent to their existing situation.

### ***Improved procedures and financing arrangements***

A single Country Support Strategy (CSS) will now cover all EC operations in an ACP country. It will analyse the country's policy agenda and take account of the activities of other donors and NGOs. Each country will be allocated a resource envelop for use over five years which includes the basic country allocation and additional money for purposes such as debt relief, humanitarian aid and extra budgetary support. The allocations are no longer automatic, but based on performance. In addition, there is a rationalisation of financial instruments - all EDF resources will now be channelled through two financial instruments: the EDF (grants) and the Investment facility (risk capital and loans) managed by the EIB.

### ***The ALA Regulation: EC co-operation with Asia and Latin America***

The current ALA Regulation (No 43/92) was signed on 25 February 1992 and covers financial and technical assistance and economic co-operation with the developing countries in Asia and Latin America. It sets out the following objectives under two main budget lines:

- Financial and technical co-operation (EUR 315.9 million in 2000).  
This is targeted mainly at the poorest populations and countries. It gives priority to the following areas:
  - Developing the rural sector and improving food security.
  - The improvement of the economic, legal and social environment for the private sector.
  - Protection of the environment and natural resources.
  - Measures to combat drugs.
  - Projects to help spread democracy, good governance and respect of human rights.
  - Support for national institutions to strengthen their capacity to manage development policies and projects.
  - Regional co-operation on the environment, trade, institutions, communications, energy etc.
  
- Economic co-operation (EUR 115.6 million in 2000)  
This is devised to serve the “mutual interest” of the Community and its partner countries. It will help ALA developing countries to build up their institutional capacity so as to create an environment more favourable to investment. Support includes three sectors:
  - Improvement of scientific and technological potential and of the economic, social and cultural environment by means of training and transfer of know-how.
  - Improvement of the institutional structure to make the economic, legislative, administrative and social climate more conducive to investment.
  - Support for trade promotion and facilitation, business contacts, training etc.

The regulation lays a lot of emphasis on regional co-operation and also has a broad statement on the promotion of human rights, democratisation, good governance, environmental protection and trade liberalisation. It contains a clause (Article 2) permitting the Community to suspend co-operation in the event of persistent human rights violations or violations of democratic principles.

The Commission (now DG RELEX and EuropeAid) has responsibility to administer the financial and technical assistance and is assisted by a Committee of Member State representatives (ALA Committee) who vote on specific proposals for action under the QMV procedure.

The ALA regulation has recently been evaluated (2000-01) and will be revised in early 2002. It is likely that it will split into separate arrangements for Asia and Latin America.

### ***EC Trade Policy***

Aside from the specific trade arrangements covered by the Cotonou Agreement DG Trade is responsible for the European Community’s external trade policy. Its key tasks include:

- To define the trade interests of the European Community in offensive and defensive terms.
- Where required, to negotiate bilateral, regional or multilateral trade agreements.
- To monitor and ensure the implementation of international agreements using the WTO dispute settlement system and trade defence instruments of the Community.

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- To participate in devising and monitoring internal and external policies which have a bearing on the Union's trade and external investments (*e.g.* single market, consumers, technology).
- To ensure consistency within the RELEX group between commercial policy and the Union's general external relations policy.
- To provide the public – both sides of industry, civil societies and professional circles – with clear and comprehensive guidance.

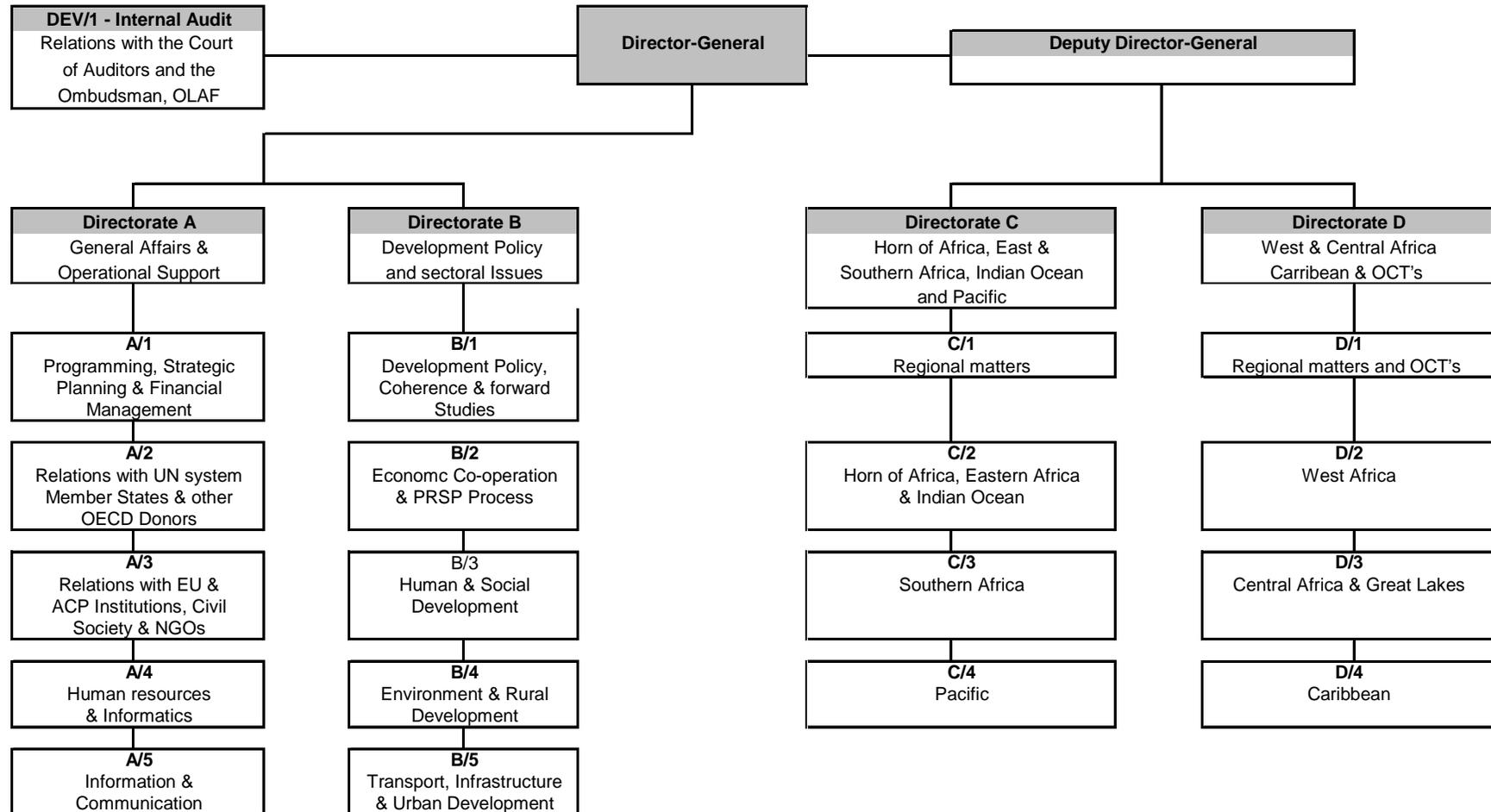
### **Proposed solutions to policy coherence in fisheries**

The European Parliament, Council, DG Development and NGOs in the Coalition on Fair Fisheries Agreements (CFFA) have come up with a range of solutions to improve coherence. These include

- Ensure full compatibility with UNCLOS, where a fisheries agreement is only signed if a surplus of resources exists in the waters of the third country and with priority rights given to local artisanal fisheries.
- Stock assessments and impact studies for every new fisheries agreement.
- A committee of scientists to monitor each agreement.
- Consultation with the local fishing sector about each agreement and its impacts.
- Adoption of a precautionary approach to Total Allowable catches.
- EC provision of training, technical and scientific co-operation to help develop the local fishing industry and meet hygiene standards.
- A joint Fisheries and Development Council Working Group to be established to draw up a Code of Conduct on Responsible Fishing.
- Increase transparency of EC financial compensation, especially where it goes to in developing countries, where it often dwarfs the EC development programme budget.
- Ensure that old agreements coming up for renewal are also subject to these new provisions and those set out in a future CFP.
- Cut the practice of increasing vessel transfers to developing countries.

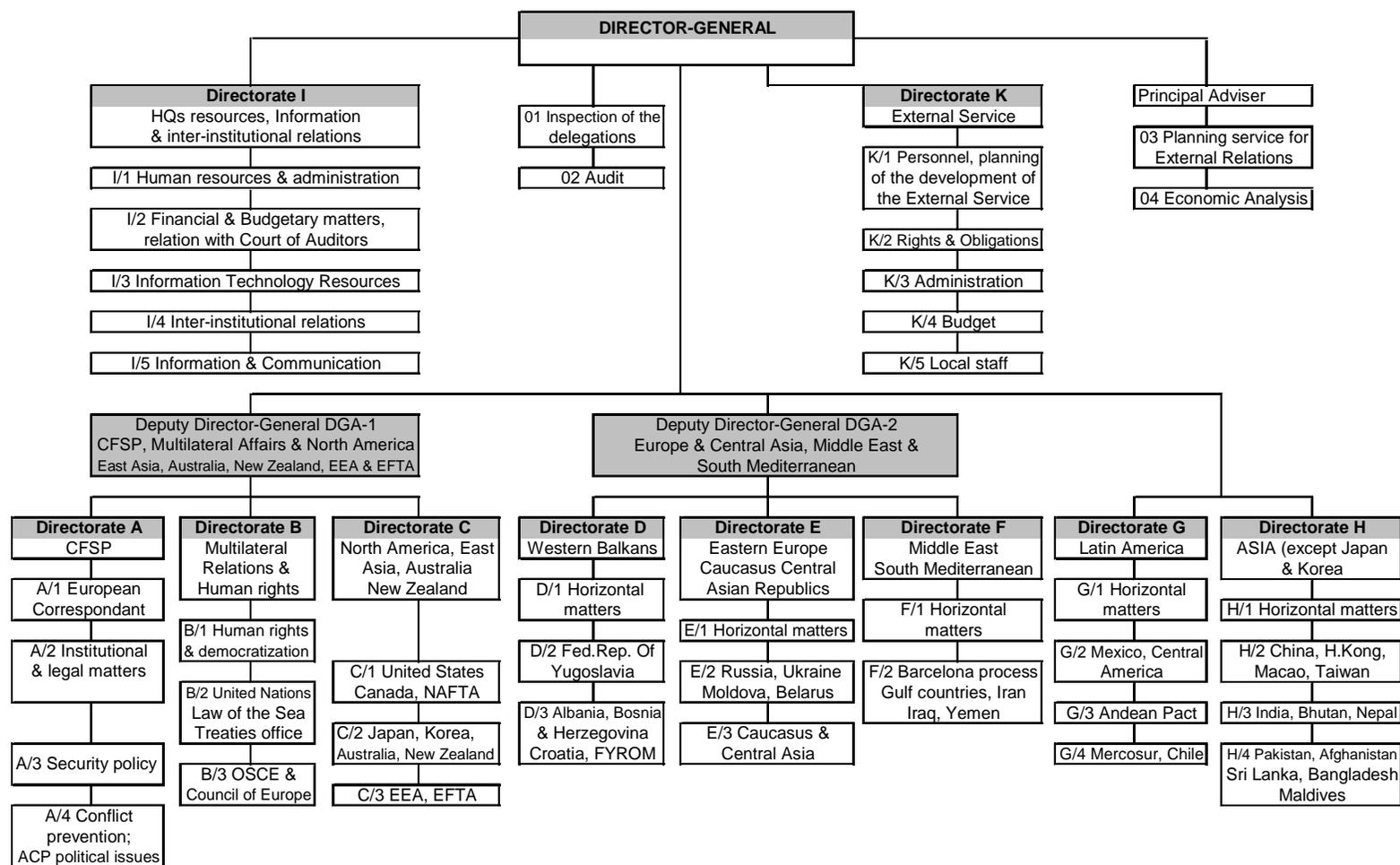
**ANNEX V**  
**ORGANISATION CHARTS**

Chart V-1. Directorate-General Development (DGD DEV)



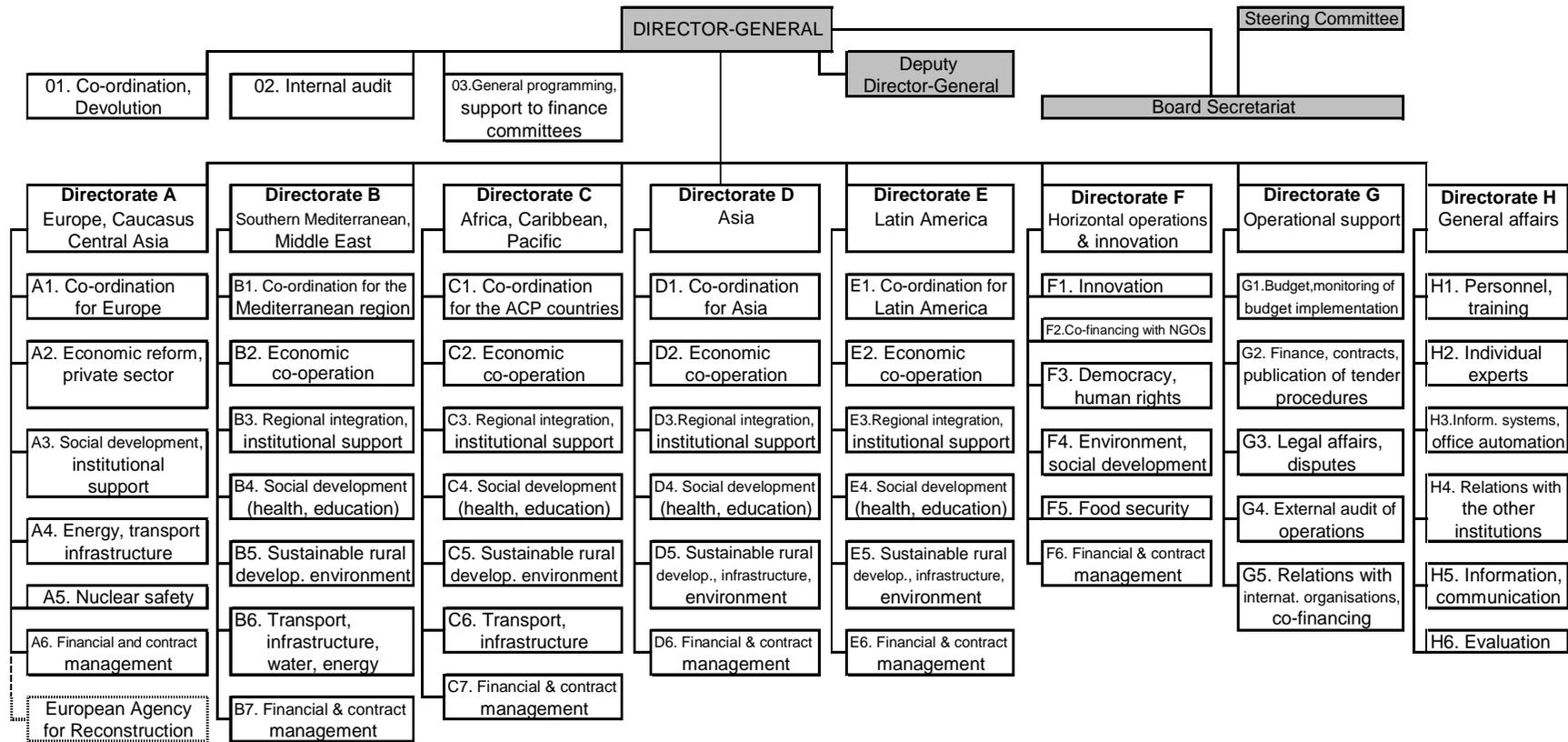
Source: DGD DEV.

Chart V-2. DG External relations



Source : DG-External relations.

Chart V-3. EuropeAid co-operation office



Source: EuropeAid Co-operation Office.

## ANNEX VI

### THE EC AID PROGRAMME IN BANGLADESH

#### **Introduction**

A field visit to Bangladesh was organised from 4-11 March 2002, in the context of the Development Assistance Committee (DAC) Peer Review of the development co-operation of the European Community. The visit was conducted by Examiners from Canada and Norway and two members of the DAC Secretariat. Numerous local personalities, including those in the Government of Bangladesh (GoB), local and European NGOs, informed citizens and other donors, were interviewed.

#### **The developmental context of Bangladesh**

**A context of poverty.** Bangladesh is one of the largest poor countries in the world. It currently has a population of approximately 130 million inhabitants and ranks 132 out of 162 countries on the UNDP Human Development Index<sup>82</sup>. The profile of poverty, yet a sense of hope, is evident in the country's basic socio-economic statistics. Perhaps one-half the population is illiterate. Today's gross enrolment rate in primary schools is 96%, net enrolment is 80% and completion rates were 64% in 1999. In the last twenty years, the infant mortality rate has dropped from 94 to 62 out of 1000 births and the fertility rate from 7 to 3.3 births per woman. Malnutrition rates are among the highest in the world, leaving 48% of children under five years of age underweight, and 45% stunted. Poverty is widespread, affecting some one-half of the total population. Around 30 million Bangladeshis are considered hard core poor, and live in extreme poverty. Per capita income remains close to USD 1 per day.<sup>83</sup>

**The special issue of trade.** The economy of Bangladesh underwent significant pro-market reform in the 1990s and led to annual economic rates of growth approximating 5% in the latter half of the decade. This export-driven growth was significantly stimulated by the European Union agreement to allow tariff and quota-free entry to Bangladesh products, and resulted in major growth in the Ready Made Garment (RMG) area. Today, nearly 80% of the value of national exports is in the RMG sector. Bangladesh will face the probability of strong competition from large producers like China and India as a result of the phasing out of the Multi-fibre Arrangement (MFA) at the end of 2004, and a substantial negative slipover effect into the Bangladesh economy is expected. New opportunities for export diversification may open due to the EU's recent "Everything but Arms" (EBA) initiative, which offers non-restricted, duty-free access for virtually all products.

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82. Life expectancy: 58.9 years; adult literacy rate: 40.8%; primary, secondary and tertiary gross enrolment ration: 37%.

83. USD 1 = 55 takas.

**The sustainability of current policies.** The structural poverty of Bangladesh is undoubtedly the greatest impediment to sustainability of current policies of economic development. This manifests itself in unequal distribution of productive assets, inequitable distribution of income, massive under-employment, and low levels of human resource development. Sustainability is also affected in Bangladesh by an unstable social system, a minimal level of law and order, and a lack of sustained good governance. Possibly a solution to long-term sustainability is the presence of a vibrant civil society, which has flourished since the return of Bangladesh to a democratic political system. While poverty reduction has always been a political priority in this country, it is important to note that the GoB soon expects to produce a more explicit Poverty Reduction Strategy Paper (PRSP), in collaboration with civil society and the donor community. An interim version of the PRSP is currently planned for June 2002. GoB officials informed the Peer Review team that it expects to use the PRSP to project vision for poverty reduction in Bangladesh which addresses sustainability issues, including those of a more political nature such as the calling of decentralised elections to empower local communities.

### **EC presence and strategy for Bangladesh**

**The evolution of EC development co-operation.** EC-Bangladesh relations date from the years soon after independence, and a full-fledged Delegation was set up in 1986. Earliest interest in EU-Bangladesh relations was heavily oriented to trade issues and the provision of food aid. During the 1980s, assistance was provided to large projects in irrigation, rural development and resettlement. The current legal basis for co-operation was established in the context of a 1992 ALA Regulation<sup>84</sup> that covers financial, technical and economic co-operation with the developing countries of Asia and Latin America. In Bangladesh, the 1990's witnessed a gradual shift into more socially oriented portfolio of development activities. This was formally framed in the context of overall EU-Bangladesh relations, including a **political** pillar (human rights, governance), a **trade** pillar (encouragement for trade, capacity building), as well as a **development co-operation** pillar. The formal statement of this more integrated approach was the EC-Bangladesh Agreement on Partnership and Co-operation (1 March 2000). Testimony to the continued perception of the importance of trade is the fact that the Ministry of Commerce represents Bangladesh as Chair of the Joint Commission that implements the Agreement.<sup>85</sup> The Joint Commission set up four sub-groups (Social Development Co-operation, Economic Development Co-operation, Trade Development, Governance and Human Rights), which have the potential to play an important role in more specifically defining the nature of future official EC-Bangladeshi relations. For the moment, these sub-groups play a largely pro-forma and representative role only.

A total of EUR 1.7 billion in EC funds have been contributed to Bangladeshi development over this 25-year period. Bangladesh is now the second largest Asia programme funded by the European Community. The EC is the third largest bilateral donor after Japan and the UK. Taken together, the EU (EC and Member States) provides more than 17% of all aid funds to Bangladesh as is collectively the country's largest donor. Because of the general weakness of GoB structures, the EC programme makes

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84. ALA Regulation (No 43/92), signed on 25 February 1992.

85. Given the overwhelmingly developmental orientation of the current EC portfolio in Bangladesh, it would seem appropriate to re-assess the appropriateness of the position of the Ministry of Commerce in this organisational arrangement. In the current context of deconcentration, it may also be appropriate to examine the possibility of delegating authority (currently located in Brussels) to represent the EC in this Joint Commission to the Head of Delegation in order to place more substantive responsibility for Bangladesh-specific policy and strategy debate in the hands of the mission.

extensive use of non-governmental and private sector implementation agents, although some one-half of EC funds are currently allocated to the GoB.

**The Country Strategy Paper (CSP).** A Country Strategy Paper for 2002-06, which is consistent with the recent EC Asia Strategy,<sup>86</sup> was approved in 2001. The CSP projects the use of EUR 560 million<sup>87</sup> over this five-year period, around the following key strategic themes:

– Improving Human Development Indicators	
Health, Population and Nutrition	120 million €
Education (formal/non-formal primary education)	125 million €
Food Security and Rural Development	120 million €
Employment Creation	10 million €
– Enhancing Trade Capacity, Economic Development and Regional	49 million €
– Other EC Priority Interventions	
EC Co-operation in Chittagong Hill Tracts	60 million €
NGO Co-financing	30 million €
Other (democracy and human rights, refugees, humanitarian aid, disaster preparedness, regional programmes, etc.)	46 million €

This new CSP is widely viewed by partners as a major improvement over past programming. Compared to the previous version in 1999 (produced essentially in Brussels), it is more strategic, more coherent, used a more participative process, and gives a more balanced emphasis on the development co-operation dimension of EC-Bangladesh relations. The May 2000 Agreement squarely states that the main objective of EC-Bangladesh co-operation is to “reduce and eventually eradicate poverty”, particularly as it uses its programme of development co-operation in support of trade. The CSP is unfortunately not very specific in developing an operational approach to that ambitious mandate. It is recommended that the Delegation undertake a formal re-evaluation of the consistency of CSP strategic choices with those of the PRSP<sup>88</sup>, probably sometime in 2003.

**The question of EC comparative advantage.** Based on local discussions with Member States and Bangladeshis alike, it would appear that further analysis by the Delegation of the areas of development co-operation comparative advantage is merited. Some, more specific analysis will take place in the context of the CSP follow-on sector programming exercises, but a bigger picture poverty overview could take place in the post-PRSP exercise suggested above. Among the examples of EC comparative advantage cited by its partners in Dhaka included expansion of “trade and development” themes (noted in the 2000 Agreement on Partnership and Co-operation as an area of EC strategic interest and strength) and a special focus on governance, such as local government or judicial reform (seen as a *sine qua non* of sustainable development and where the EC could provide broader leadership to EU

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86. *Europe and Asia: A Strategic Framework for Enhanced Partnerships*, Brussels, September 2001.

87. It is interesting to ponder the question of how the relatively less generous EC aid allocation for Bangladesh was calculated within the broader world calculus of geographic attribution of EC aid. Per capita annual aid for Bangladesh comes to EUR 0.9, while for Burkina Faso it was a disproportionately larger EUR 38.

88. There is currently a debate over the extent to which the PRSP will truly represent a Bangladeshi perspective and the extent to which it will be “just a donor document”. It is too early to judge, but this will, of course, influence the extent to which the PRSP will become a reference for the CSP.

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Member States). Promising EC initiatives in the food security area may also be a comparative advantage area for future expansion.

This would seem to suggest interesting room for a more in-depth and locally informed analysis of strategic options for EC approaches to poverty reduction over the longer term. This could be simultaneously useful in better identifying an EC comparative advantage in this country and could impact upon the evolving issue of complementarity with EU Member States in Bangladesh, as well.

### **Organisation of EC aid**

**The current organisation.** The Delegation of the European Commission in Dhaka is administratively supervised by the DG Foreign Affairs (RELEX) in Brussels, which until recently, exercised authority over the Delegation for both strategy and operations. The Dhaka Delegation includes two small, separate offices of the Food Security Unit and the humanitarian assistance office, ECHO. The current overall staff configuration of the Dhaka office (political, commercial, developmental) includes a Head of Delegation, 5 EC officials, 5 expatriate contract experts, and 6 local professionals, plus support staff.<sup>89</sup> This 24-person office will be “deconcentrated” in the course of 2002 and by the beginning of 2003 will be increased to 46 persons, the largest percentage of which will be support staff. It should be noted also that the Delegation employs 47 long-term technical assistants, who are generally affiliated directly with a specific GoB ministry.

**A process orientation.** External partners frequently commented that only a few of the current EC professional staff are known to the larger donor community. As was already remarked in the case of Burkina Faso, the officials and other expatriate and Bangladeshi professionals tend to dedicate their entire work day to implementation processes and have very little time for analytical tasks, strategic reflection or brainstorming with partner groups.<sup>90</sup> Because of the weight of these responsibilities, professional staff is limited to an estimated 10% of their time to visit EC field activities. This suggests that Brussels needs to pay special attention to personnel policies that it expects to use in the context of the current deconcentration effort. More senior professionals are needed to support the Delegation, both expatriate and Bangladeshi, if the EC is to effectively carry out leadership responsibilities among peers and partners.

**The future organisation.** The Bangladesh Delegation has been targeted for deconcentration in the course of 2002. According to the formally approved organisational chart (see Chart VI-1) the Dhaka office will contain 46 staff (including some existing expatriate contract experts who will be integrated into the Delegation staff) by early 2003. The new organisation will be essentially structured around a Political-Economic-Trade Section, an Operations Section and a Finance-Contract Section. This new organisation chart appears to effectively translate the EC desire to improve the efficiency and timeliness of their aid by dedicating new staff to the key operational areas. Missing in this new organisation, and reflective of the current headquarters expectations for deconcentration of its field

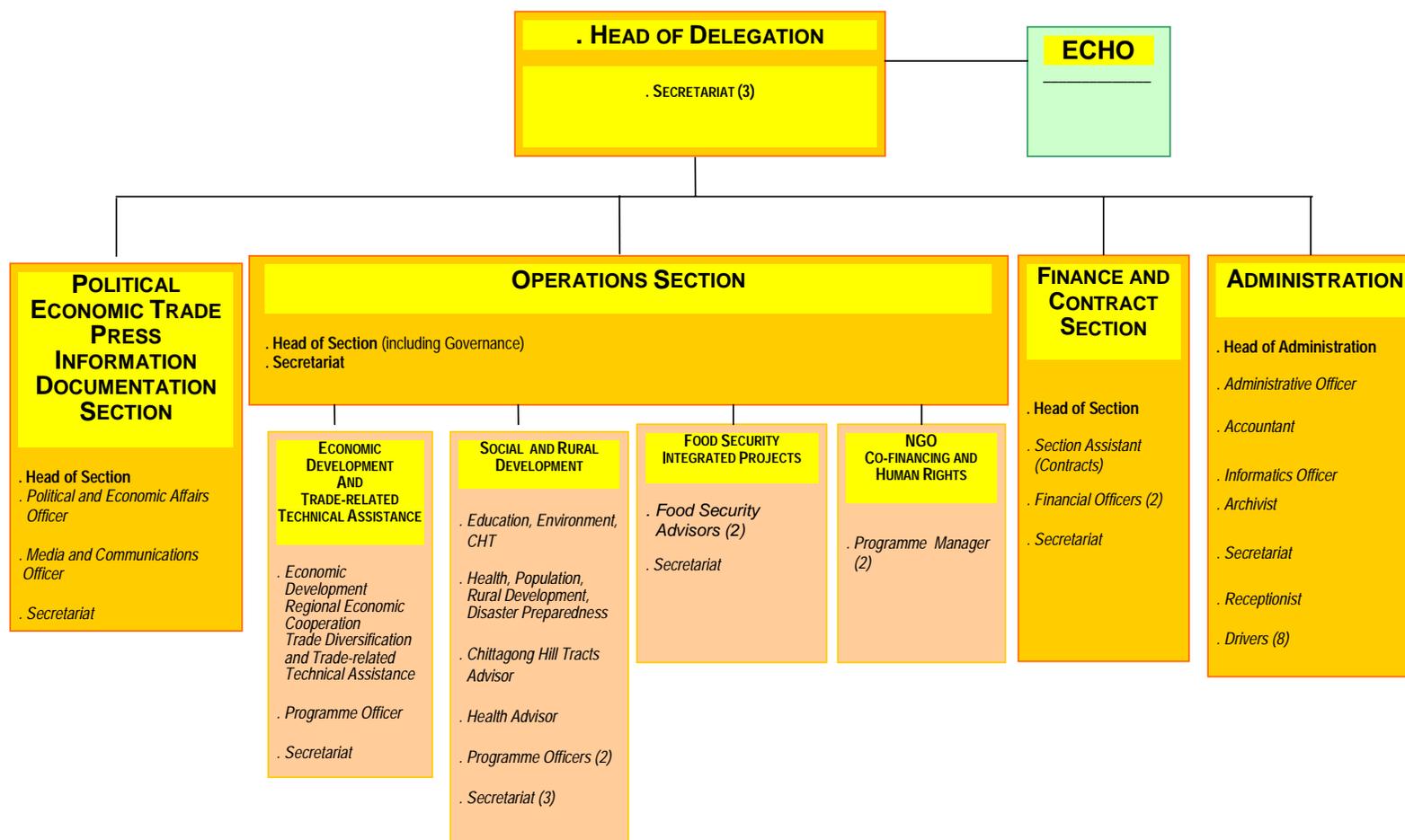
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89. Secretaries, drivers and lower level administrative staff.

90. As a point of comparison, DFID/Dhaka and USAID/Dhaka maintain 22 and 25 professionals respectively for an approximately similar funding level. These professionals work only on developmental issues.

Chart VI-1. Delegation of the European Commission to Bangladesh (Deconcentrated)

Version 1 February 2002



Source: EC/Dhaka.

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delegations, is a clear reinforcement of the policy, strategic and planning capability of the Delegation, most of which will continue to remain in DG RELEX. As is noted elsewhere, this is an existing deficiency in capacity of the Delegation that prevents it from taking more proactive leadership, from more effectively co-ordinating with its partners and from addressing the difficult analytical issues of development in Bangladesh, including sustainability. This could become an increasingly serious omission with new pressures for PRSP-linked, field-based decision-making.

### **Implementation challenges**

**Procedures.** Partner perceptions are practically unanimous concerning the slowness and complexity of EC implementation procedures. Many perceive that these procedures focus too much on control and lead to an emphasis of “formality over development reality”. Two exceptions were in the area of trade and in NGO activities, where partners found the EC reasonably flexible and where there were close relations with the local EC office. As in Burkina Faso, the centralised authority and oversight of Brussels was felt by many partners to be a major obstacle to implementation of EC aid in Bangladesh. Performance in this area will be measured by partners according to the rapidity and the flexibility with which future implementation is carried out.

**Implementation modalities.** European Community activities in Bangladesh are increasingly in the context of consortium approaches. Many of these activities are designed as projects, but notable exceptions are the large NGO projects and the Health and Population Sector Programme (HPSP), for which the EC is one of the four “pure” pool funders, whereas in all there are 18 other donors. Pool funds are used largely to purchase basic medical supplies, including vaccines and contraceptives. The EC is also working on the design of its activities in the education sector and would like to explore the use of a similar sector programme in this area. There are further opportunities for joint approaches in other sectors. Other possibilities may arise as the EC explores opportunities to link trade and development, and promotes better governance in various sectors.

### **Co-ordination with partners**

**A need to co-ordinate.** Given its size and level of poverty, Bangladesh is a major recipient of donor funds (estimate of USD 1.5 billion per year). In-country donors, include some twenty major actors, including eight European Union Member States. Several active donors have large programmes and large decentralised missions in Dhaka (*e.g.* IBRD, AsDB, DFID, USAID, Netherlands). Co-ordination among donors and with other partners is necessarily extensive and frequent.

**An intensive schedule of consultation.** To quote one lead local donor, Bangladesh has perhaps the “most developed donor co-ordination scheme in the world”. At the macro level of consultation between donors and the GoB is the annual **Bangladesh Development Forum** (formerly the CG) system of meetings for Bangladesh, largely co-ordinated by the local IBRD office. As for the donor community, it has organised itself on a more routine basis around a **Local Consultative Group (LCG)** system. It includes an Executive Committee of five (UNDP, AsDB, IBRD and two bilaterals, currently DFID and CIDA) that meets bi-monthly, and 23 sub-committees, that regularly meet to exchange information and co-ordinate on key issue. The sub-committees are commonly chaired by one of the leading donors in that topic area and provide much of the topical analytical input to the LCG discussions. Lacking time to do so, the EC chairs none of the 23 sub-committees. At the level of the European Union, the **Heads of Missions** meet monthly to discuss broader issues and those of a more political nature. To promote co-ordinated action among the Member States, a **Development Council** was put together in 2000 to discuss the more specific technical questions of development co-operation. It meets 4-5 times per year. Finally, depending on the topic, select groups such **the Tuesday Group** (heads of diplomatic missions), the **Utstein Group** (Germany, Norway, Netherlands, UK – ad hoc

meetings), or the **Like-Minded Group** (Norway, Denmark, Sweden, Canada, Netherlands – ad hoc meetings) choose to meet on a periodic basis. A growing interest in the local PRSP process of collaboration, as well as a growing consensus over the utility of sector approaches suggests that partner co-ordination is an area of activity that will become even more important in the future.

### **A special role for civil society**

**Instruments for EC collaboration.** Civil society organisations in Bangladesh have been vibrant and innovative, and undertake much of the development activity with the poor that the government cannot do. In recognition of this fact, the EC channels almost 50% of its funds to NGOs. The EC interacts with these organisations through three main instruments: i) NGO co-financing schemes operated from Brussels. European NGOs are funded as intermediaries and identify Bangladeshi partners to support their activities in community development, human rights, education and health. ii) Other specialised horizontal budget lines managed by Brussels, except for Food Security which has been integrated into the CSP. iii) Contracts from regular projects in the ALA Programme for Bangladesh, mainly with large local NGOs (BRAC, Proshika, Gonoshostro Kendra, RDRS).

**EC relations.** The EC is very positive about its work with NGOs, and NGOs regard the EC as an important partner. It can provide substantial funds and can, in certain circumstances, be flexible about the use of funds. In a few cases, it has even reacted more speedily and with greater funds to meet funding gaps than other donors. These cases, which contradict the general view of slow and bureaucratic procedures, point to the benefits of delegating authority to the Dhaka office and of reducing the role of Brussels in project management.

**Role of NGOs in poverty reduction.** While support to NGOs was established in the past because of their apparent ability to reach the poor, donors are now in the process of rethinking this. NGOs are also rethinking their role, their relation to government, and how to avoid inappropriately competing with the private sector. There is a need to strengthen government institutions and new effort is looking in this direction. While this debate continues, the EC should also review its support. One issue noted by the Peer Review team was NGO participation in the PRSP process. Although the Ministry of Finance did fund a study of the NGO perspective of how to most effectively deal with poverty reduction, several NGO leaders interviewed continued to express the opinion that the new interim PRSP would be written by the Ministry to be a “donor document”, with only symbolic input from civil society.

### **Monitoring and evaluation**

The current project monitoring and evaluation system is largely carried out by NGO or contract implementation agents. A routine exception to this rule is the normal project mid-stream evaluation (largely funded and controlled by Brussels), and selected, locally and jointly tailored M&E efforts with other donors. In this latter category are the large NGO activities funded through BRAC or Proshika (where donors carry out joint evaluations that are co-ordinated with an independent Donor Liaison Office), and the joint donor evaluations of the health sector HPSP activity. A new, worldwide project monitoring system has been used on an annual basis since 2000 by EuropeAid in Brussels. So far, the Dhaka Delegation has received two annual visits from the Brussels contractor and has had little direct input into the reporting system. Delegation staff note disagreement with some of its findings. This expensive system would appear to merit re-examination by Brussels in favour of a less-expensive and more locally-informed monitoring process that could be integrated into normal Delegation responsibilities.

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The current EC leadership in Brussels has made clear the importance of gathering basic feedback and evaluatory information on EC implementation as a key input to broader institutional learning. This feedback is critical to understanding the developmental impact of EC activities so as to learn progressively how to shape the design and manage human and financial resources in increasingly efficient, effective, and country-specific manner. It is the basis of all reporting back to European administrative and political leadership in Brussels, not to mention the European taxpayer. As the EC pays more attention to better quality and more focused implementation feedback, the experience in Bangladesh is a reminder of the need to rethink the entire feedback loop between Brussels and the field (who, when, how, what), especially in the new context of deconcentration. As the Dhaka office works to reinforce its part of this evolving world-wide system, it is suggested that the office be authorised to contract with a specialist to test the validity of its own monitoring and evaluation system and simultaneously inform the broader deconcentration exercise. This specialist should assess the validity of the current project monitoring process and how it can optimally feed into the evaluation process. The specialist could also examine the way in which deconcentration of the local office is structured to deal with today's M&E issues. This could include a review of the capacity of key EC implementation agents to provide appropriate and timely feedback, and an examination of the complementarity of feedback systems between the EC and EU Member States.

### **Main findings and recommendations**

**An improved country strategy.** The Delegation is widely congratulated for the new Country Strategy Paper for 2002-06, which, for the first time, provides a coherent approach to EC policy and programming in Bangladesh. In line with recent policy statements by the Commission, it is suggested that more explicit framing of CSP around the overarching priority of poverty reduction be made, particularly following the expected completion of an interim PRSP this year or next. It is recommended that the Delegation and Member States formally review the CSP for consistency with the new interim PRSP soon after its completion. This could also be an opportunity to re-examine governance or other EC potential comparative advantage areas.

**Complementarity with the Member States.** A special effort was made to involve the Member States in the design of the CSP and most felt that EU-Member State collaboration in Dhaka has never been so strong. Nevertheless, greater clarity in defining the comparative advantage of the Delegation vis-à-vis the Member States is needed, if the value of complementarity is to be realised.

**An invitation to policy dialogue.** The new Agreement on Partnership and Co-operation with Bangladesh offers an opportunity to look carefully at ways of developing relations with government and promoting country ownership. This permits a new focus on trade and the political dimensions of development co-operation, including human rights and governance. There is now a special need to maintain the local analytical capacity required to address evolving issues such as the promotion of trade capacity and how to benefit from the EBA.

**Perceptions of EC procedures.** As was true in Burkina Faso, partner perceptions are widespread concerning the slowness and complexity of EC implementation procedures. Many felt that EC efforts on the ground were too "control" and process oriented, and created the impression of seeking "formality over development reality". Current worldwide attempts by Brussels to simplify and resolve known procedural difficulties must be explicitly tracked and pursued until this perception is reversed.

**Putting the field first.** Partners strongly approve of current efforts to “deconcentrate” authority to the field in those areas where the local delegation can do it best. Current plans for deconcentration are felt important for more timely and efficient implementation, but are seen as only a first phase. Building on the experience of other bilateral and multilateral donors that have already decentralised their missions in Dhaka, it is recommended that a later phase of deconcentration aim at delegation of the lead responsibility for policy and strategy decision-making, as well.

**Staffing and leadership.** The small professional staff within the Delegation is perceived by partners as professional and hard working. They are also seen as overworked and understandably unable to provide sufficient time to partner co-ordination, nor to properly collaborate on the bigger picture issues of strategy and local policy. The EC was graphically described by one donor as a “timid giant” with large resources, but little visibility. Given appropriate staff, the EC has the potential to play a more important role among donors, especially with the EU Member States and with the multilateral institutions. Enhanced Delegation staff capacity was also applauded as an immediate and visible response to current procedural problems, and is a first step toward improved communication and co-ordination with its partners. Additional use of experienced, Bangladeshi professionals, both in the office and in the field activities, is another cost-effective capacity building opportunity that should be fully explored in the context of deconcentration.

**Measuring success.** Current attempts by Brussels to carry out project monitoring in Bangladesh would seem more effective and less costly if left to the Delegation to implement. As Brussels moves progressively toward its new, deconcentrated and reformed management worldwide, it would seem important to carefully reassess the overall feedback system to ensure optimal roles and responsibilities for Brussels and the field. Greater attention to the use of joint evaluations with other partners is another effective option, and could be particularly useful as the donor community attempts to use sector approaches locally.

**The strong role of NGOs in poverty reduction.** Donors recognise the comparative advantage of NGOs in reaching the poor, but are in a process of rethinking how they can best provide support to NGOs, while strengthening government capacity in social development. The EC channels some 50% of its funds through NGOs and should give attention to this debate, along with other donors.



## ANNEX VII

### THE EC AID PROGRAMME IN BURKINA FASO

#### **Introduction**

A field visit to Burkina Faso was organised from 1-8 December 2001, in the context of the Development Assistance Committee (DAC) Peer Review of the development co-operation of the European Community. The field visit was conducted by Examiners from Canada and Norway and two members of the DAC Secretariat. Numerous local personalities, including those in the Government of Burkina Faso (GoBF), Burkina Faso non-governmental organisations (NGOs), informed citizens, and other donors, were interviewed in this effort. The results of this review of EC development co-operation in Burkina Faso follow.<sup>91</sup>

#### **The development context of Burkina Faso**

**A context of difficulty.** Burkina Faso is a landlocked, West African Sahelian state. It is one of the poorest countries in the world and is comprised of 11.6 million inhabitants, has a population growth rate of 2.4%/year. Burkina Faso is currently classified as 159<sup>th</sup> out of 162 countries in the world on the UNDP Human Development Index.<sup>92</sup> Average life expectancy is 45 years and the current literacy rate is only 22%. Burkina Faso has few natural resources and a semi-arid environment that subsists under weak and poorly distributed rainfall. The economy is built largely on rainfed agriculture, which is the primary occupation of 80% of the active population and represents 40% of GDP, but also on a constantly growing service sector that is heavily informal. The modern economy suffers from high factor costs and depends on a limited number of export products (cotton, gold and cattle). Despite recent macro-economic progress (5% average growth over the period 1996-99) and important infusions of foreign development assistance, improvements in the living conditions of the Burkinabe people and reduction in the level of poverty remains limited. The GNP per inhabitant is USD 230 and 45% of the population lives under the poverty threshold. Burkina Faso is a member of the West African Economic and Monetary Union (UEMOA, in French), and shares its CFA Franc currency with seven other West African states.<sup>93</sup> Burkina Faso shares problems of food insecurity and desertification with many of the other states in the region and makes use of regional programmes to help address such issues. Burkina Faso is heavily dependent on donor financing. Some 75% of public investment is funded in this manner, and perhaps as much as 50% of the GoBF total budget.

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91. Because the 9<sup>th</sup> EDF programme and the approaches embodied in the yet-to-be ratified Cotonou Agreement are new, it is important to note at the outset that the activities reviewed by this Peer Review in Burkina Faso were those of the more traditional 7<sup>th</sup> and 8<sup>th</sup> EDF and the approaches contained in the Lomé Agreement.

92. Life expectancy: 44.7 years; literacy level: 22.2%; primary and secondary enrolment rate: 22%.

93. 1 EUR = 655.957 FCFA.

**The Burkinabe Poverty Strategy.** Given this situation of extreme poverty the vulnerability of its people, the GoBF has prepared its PRSP, the *Document cadre stratégique de lutte contre la pauvreté* (DCSLP), around four strategic themes: i) to accelerate growth with equity; ii) to guarantee access of the poor to basic social services; iii) to enlarge the opportunity among the poor for employment and other revenue generating activities; and iv) to promote good governance. This new strategy was developed in 2000 by the GOBF in collaboration with representatives of civil society and the donor community, and has since become a major reference document for Burkinabe and donor funding of development in this country. Burkina Faso was one of the first countries in the world to obtain approval of its full PRSP (June 2000).

### **The EC strategy for Burkina Faso**

**The current strategy.** Through the bias of the various EDF programmes governed by the Lomé Convention, the EC has maintained a development assistance programme in Burkina Faso for more than forty years. This programme was noticeably reinforced in the 1990s and led to the EC becoming the largest donor in the country by 1997. It is significant to note that the combined funding of the European Union (EC and Member States<sup>94</sup>) represents more than one-half of the total aid provided to Burkina Faso.

In the context of the 9<sup>th</sup> EDF, the Ouagadougou Delegation produced in 2001 a new Country Strategy Paper<sup>95</sup> (CSP) for the period 2001-07. The CSP is seen as significantly better focused than previous versions by EC partners. The Delegation formally signed this document with the GoBF in March 2002. The new strategy comes with an estimated budget of EUR 275 million over a six-year timeframe. It builds on the principles of the new Cotonou Agreement and of the recent DCSLP poverty strategy of the GoBF. The new strategy is applauded by EU Member States locally as being consistent with the comparative advantage of the European Community in Burkina Faso and complementary to their own bilateral aid strategies in the country. The key areas of intervention of the EC strategy are:

- 1) Macro-economic assistance, through use of budget support (EUR 150 million).
- 2) Sector support.
  - Transport sector (EUR 100 million).
  - Rural development and food security (funded outside the EDF).
- 3) Selected institutional support actions (EUR 10 million) and support to non state organisations for local development (EUR 15 million).

At the level of the **macroeconomic** portion of the strategy, it is important to note that this is general budget support, although this is partly disbursed on the basis of macroeconomic indicators and partly on sector indicators for health, education and public finance management. This programme directly supports the objectives of the DCSLP, especially the assurance of equitable access to social services. More information on EC macroeconomic assistance can be found in the section on "Implementation" below.

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94. EU Member States with active development assistance programmes in Burkina Faso are France, Germany, Netherlands, Denmark, Italy, Belgium, Austria, Finland, Sweden, and Luxembourg.

95. *Document de stratégie de coopération et programme indicatif pour la période 2001-07*, Burkina Faso – European Community.

As a landlocked country, more than 1000 kilometres from coastal shipping ports, Burkina Faso is highly dependent on its **transport** infrastructure. The EC will contribute essentially to support road maintenance operations in the context of the Transport Sector Programme that is jointly funded by the donor community. Transport is seen as by most EU Member States as a comparative advantage of the EC in this country and a way of permitting the smaller bilateral EU programmes to avoid involvement in these important, but large investments. Germany is the only European bilateral donor that continues to invest in this sector in Burkina Faso.

In the area of **rural development and food security**, the EC will support selected aspects of the GoBF national strategy for food security, once it is developed in 2002. Agriculture and livestock constitute the motor of national development and employ some 80% of the population of the country. The evolution of local efforts at rural development will also directly impact upon the environment and natural resource management.

EC funding for **institutional support**, particularly in terms of governance and human rights, is a feature of the new Cotonou Agreement and is an area where the EC could have a significant comparative advantage over the near future. More specifically, this programme will reinforce local institutional capacity to implement the DCSLP, support broad-based civil society, and to contribute to selected regional programmes.

While mentioned briefly, it should be noted that gender concerns, which have been relegated to the status of a cross-cutting issue, are not explicitly presented in the CSP. Currently one EDF project and a few smaller NGO projects explicitly include gender issues. Indicators used for disbursement of health and education budget support also contain gender references. Given the importance of gender issues for the future growth and equity expectations for the country, it is hoped that gender will be more specifically addressed in the follow-on technical missions for each sub part of the CSP.

### **Organisation of EC aid**

**The current organisation.** The Delegation of the European Commission in Ouagadougou has the responsibility for ensuring the effective delivery of EC development assistance in Burkina Faso and for the regional organisations of UEMOA and CILSS<sup>96</sup>, both of which are headquartered in Ouagadougou. The local EC mission is led by an expatriate Head of Delegation who has been in country since 1999. Other personnel currently include six additional European civil servants, four contract professional staff and 19 local support staff. The European civil servants include five counsellors (economy/health, regional integration, rural development, water/education, infrastructure) and one secretary. It is important to note that the Delegation also funds 22 technical assistants who are generally affiliated directly with a specific GoBF ministry or locally headquartered regional organisation.

**A period of organisational change.** The major organisational reforms currently being carried out by Brussels is having a profound impact on the Ouagadougou Delegation. As part of the EC worldwide effort to “deconcentrate” (decentralise) its organisation, Ouagadougou will receive in 2002 a variety of new delegations of authority and a range of human and financial resources to accomplish these new tasks. It is yet too early to know the exact configuration of this new mission, but it is particularly expected that responsibilities for contractual and financial management will be largely placed at the field level. Considerable additional resources can also be expected, including a significant increase in the

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96. *Comité Inter-Etats pour la Lutte contre la Sécheresse au Sahel* (Interstate Committee for Combatting Drought in the Sahel).

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size of existing professional staff, largely accomplished through a series of contracts for technical skills. This major shift in delegations and resources should be complete by the end of 2002. These changes are widely applauded by local partners who see them as a major achievement that should make the EC a better partner for the EU member states, GoBF and other donors. In the context of Peer Review discussions, the local EU Member State representatives noted their interest in an EC office that is optimally configured for closest possible collaboration between the Delegation and the members – and for which they suggested the utility of some prior, informal consultation.

**Role of headquarters.** Under the current administrative arrangement, the concentration of authority and approval in Brussels headquarters is widely perceived by all partners of the EC in Burkina to be a major constraint to the efficient, and particularly, the timely, delivery of EC development assistance to the country. Of particular note in this regard was the time-consuming task of contract and financial approvals and the need for EU Member State approval of key programmatic documents (*e.g.* strategy, conventions), for which the translation of documentation into all 11 languages of the EU was required. Deconcentration is expected to have a profound impact on the contractual and financial approval aspects of these delays. Under the current plan, contract and financial management will be delegated to the field following the establishment of a new Contract and Financial Unit within the Ouagadougou mission, staffed by two career European civil servants and the existing local budget staff. Technical backstopping will similarly be located in the field, with the hiring of a yet-to-be-established number of technical staff in the key sector areas of Delegation involvement. This staffing up of field capabilities is to be accompanied by a similar reduction in staff and responsibility of the current contract, financial and technical personnel in Brussels (especially EuropeAid) who are currently used by the Delegation to backstop their activities in the field.

It should also be noted that a number of European NGO and “decentralised co-operation” activities are funded directly from Brussels, and some eventually will represent an additional management responsibility for the Commission. The European Investment Bank (EIB) also maintains a modest portfolio in Burkina Faso and is interested in forging public-private sector partnerships as well as its more traditional interest in the cotton sector. While EIB staff operates from Luxembourg, they co-ordinate with the Delegation whenever they travel to Burkina Faso.

**Staffing.** EC professional staff in the local Delegation are heavily used for process tasks related to the implementation of field activities. In our brief oral poll with key professional staff, it was suggested that more than 80% of their time was taken up in this manner, with very little time used for “thinking out of the box”. Because of the strong local interest in co-ordinated decision-making through sector approaches, including the DCSLP, it will be important in the future for the Delegation to develop a capacity to undertake a higher level of analysis and policy dialogue. This year’s deconcentration of staff to the local level will help, although much of this new human capacity will be focussed on contractual and financial issues. One cost-effective option that merits consideration by the Delegation is a greater use of Burkinabe professional staff, which would seem to be a nature complement to deconcentration policy.

### **Implementation**

**The move toward budget support.** The EC has provided varying levels of budget support to Burkina Faso for several years. The level of that support has never been higher than in the newly designed EC strategy. In percentage terms, macro-economic assistance to be provided by the EC to Burkina Faso in the 2001-07 strategy cycle will represent 55% of the cycle total and was suggested by Delegation staff to be possibly one of the highest percentages of budget support in any EC aid programme.

The EC budget support mechanism used in Burkina Faso is that of general budget support, although funds are drawn down based on two separate sets of criteria. A core “basic resources” portion (approximately one-half of budget support resources) is released by the EC following IMF evaluation of basic macroeconomic indicators. It is released annually in an “all or nothing” form. The second half of the budget support programme is released following a review of mutually agreed-upon indicators of progress in education, health and public finance management, and in a manner proportionate to the achievement of targets.

The EC has played a role of innovator in this area and has helped to raise interest and support for budget support approaches from within the donor community<sup>97</sup>. EU Member States represented in Ouagadougou broadly approve of the use of European funds for budget support, although they may not do so themselves<sup>98</sup>. Nevertheless, the EC admits a certain level of accountability risk in using such an approach in Burkina Faso and it recognises a number of methodological questions at the level of indicator measurement. The Delegation currently attempts to address the accountability risks through the use of regular audits on the use of these funds. Recognising the fungibility of this kind of funding, however, it expects to move progressively beyond an audit approach alone and more toward capacity building of financial management, government-wide, so as to more specifically understand (and help to correct) weaknesses identified in GoBF systems. The outstanding questions concerning target indicators are of a methodological nature (type of indicator, realistic targets, quality of data, need to involve all donors at the sector level, need for linkage with reorientation of policies). Here, the EC is playing a role of facilitator and analyst in relation with the IBRD and other interested donors (see Box 10 “A Test on the Reform of Conditionality” in Chapter 6), and hopes to be able to demonstrate the appropriateness of the future use of this approach more broadly.

**The use of projects in a context of sector strategy.** The 7<sup>th</sup> and 8<sup>th</sup> EDF periods were marked by the large number of project management units that they generated, and which created a major administrative burden for the Delegation and support staff in Brussels. One of the new directions in overall EC implementation reform in recent years has been a declining use of projects. According to a recent list furnished by the Delegation, 40 projects are to be closed out in year 2001, leaving 39 to manage as of year 2002, not including responsibilities for three STABEX activities, 27 NGO co-financing activities, four food aid budget lines, and six human right/democracy activities, many of which were funded and organised from Brussels. The Delegation logically is attempting to continue the trend toward reduced numbers of these individual management units, although wishes to maintain a certain number of projects as part of its portfolio mix. Where projects are used, the EC is making every effort to place them in the context of sector strategy and co-ordination. The recent adoption of a much more focussed strategy now offers the EC the opportunity to reshape its projects around the sector poles of interest, each of which has its own, broadly accepted and multi-year plan and investment strategy. Like the DCSLP, the health and education sector strategies used to frame EC budget contributions were developed through local participatory processes and permit general co-ordination among all partners around a common strategic vision. They also serve as a basic reference for the use of funds generated by the HIPC (Highly Indebted Poor Countries) Initiative. Most Member States interviewed indicated that this was a comparative advantage area of the EC. They were also pleased to see the EC take specialised responsibility for watching over the additional risks perceived as part of this type of aid.

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97. Key providers of budget support to Burkina Faso, in addition to the EC, are the Bretton Woods institutions, AfDB, Switzerland, Sweden, and the Netherlands.

98. This would seem to beg the question whether the EC “comparative advantage” in the field is seen by Member States, in part, as doing what they do not want to do themselves.

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**Procedural heaviness.** The most commonly repeated message received from partners on EC implementation was the issue of its procedural “heaviness”. Deconcentration of contract and financial staff and decision-making in 2002 will undoubtedly have a major positive impact on this problem and will hopefully turn around the current perception of EC implementation as being slow and complex. This investment in faster movement of paperwork should be accompanied by a progressive simplification and unification of EC procedures worldwide.

**The role of technical assistance.** Because of its low level of economic development and weak management capacity, targeted technical assistance is still widely admitted in Burkina Faso, and is, in fact requested by the GoBF. Until the new strategy and the advent of the 9<sup>th</sup> EDF, EC technical assistance was defined in accordance with the long-standing tradition in this part of Africa. It was primarily expatriate external assistance and was funded within specific ministries. New thinking about the role of technical assistance is moving the EC increasingly in the direction of greater use of Burkinabe or other African technical assistance, and in a manner that is more targeted to capacity building of indigenous institutions. Increasingly close collaboration between the EC and other donors, particularly the EU member states, means an improved potential for sharing technical capacity in common interest areas, and certainly, at least, avoiding redundancy in the assignment of technical assistance.

**Co-ordination amongst donors.** The co-ordination of the EC programme with member state aid programmes and with other bilateral and multilateral donors is an important aspect of the Delegation’s role in Ouagadougou. Representative of this interest, and already mentioned earlier, was the deliberate design of the 2001-07 EC strategy for Burkina Faso in a manner consistent with the programmes of the EU Member States, and so as to play to the EC comparative advantage. At the level of budget support, the EC programme is co-ordinated through the IMF/IBRD macroeconomic structures, and at the level of sectors (education, health, transport, food security), through the use of the multi-year plans that have been developed for each of these sectors. One possible gap in donor co-ordination identified by the Peer Review team was the need for better co-ordination of all donors at a more general level. No regular meeting of key agency heads currently exists in Burkina Faso, and the EC, by virtue of its preponderant size in this country would logically have an important role to play in ensuring this kind of broad-based, regular co-ordination<sup>99</sup>. The Delegation currently expects that the new PRSP (DCSLP in Burkina Faso) implementation framework should open up this opportunity in the upcoming year and, because of the newly expanded capacity of the EC offered by de-concentration, the Delegation will be well placed to take a strong role in this area.

**Regional activities.** Because the EU is itself a regional entity, and one with direct monetary links with the CFA franc zone, regional programming appears to be an area of particular comparative advantage for the EC. Comments were noted, however, that the EC seems to be caught up a regional relationship with CILSS and UEMOA which may now be more historical than strategic, whereas the current political future seems to lie with the Economic Community of West African States (ECOWAS), headquartered in Nigeria. In programming its assistance in this area, Brussels would seem well advised to co-ordinate future funding with its local missions more broadly located in the region, so as ensure that traditional relationships with the older regional institutions complement and support the new political vision in West African regionalism, especially ECOWAS.

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99. Macro co-ordination does take place at the bilateral level in the context of a PRSP group (SBC-CSLP), although to date the World Bank has not been willing to join the forum.

## **Monitoring and evaluation**

**The current M&E system.** The new CSP contains a logframe type description (*cadres d'intervention*) which contains the elements of an impact monitoring system, including indicators, for all key sectors of EC involvement (combating poverty through budget support, transport sector, food security). Tracking for this measurement system will be carried out largely by the implementation agents of the activities (GoBF, contractor, NGO).

**M&E in the future.** As noted previously, the EC in Burkina Faso has moved increasingly in the direction of using jointly managed sector approaches for the monitoring and evaluation of its development co-operation. Similarly, the EC recognises the major importance of result measurement in the context of the Burkina Faso DCSLP, and has played an important role in elaborating DCSLP indicators. Appendix 3b of the CSP lays out the suggested result indicators for the timeframe 2001-03 in the sectors of education, health and budget support. Other methodological tests are now being carried out for the private sector and that of agriculture. Because of the weakness of Burkinabe statistics and difficulties in their tracking, much remains to be done before the EC and the DCSLP will have a meaningful results tracking systems. Nevertheless, the useful innovations that have been introduced to date represent an interesting point of departure (perhaps a first?) in addressing everyone's need – from the Burkinabe citizen to the European Parliament – for a reliable DCSLP impact reporting system. One of the emerging new issues is to relate local performance indicators to the Millennium Development Goals (MDG), a task for which the local Delegation has a good running start.

The multiple impacts of EC organisational deconcentration will necessarily require a rethinking of the larger EC monitoring and evaluation system, as deconcentration takes place. With additional staff capacity on the ground, it should be possible within the next few years to demonstrate a strong, perhaps predominate, ability for the Delegation to provide or co-ordinate much of the feedback needed by the broader EC monitoring systems.

## **Main findings and recommendations**

**Donor leadership.** By virtue of its large volume of aid and its close association with the other (large) EU member countries in Burkina Faso, the EC is an important and influential donor. It has made progress in recent years toward playing a leadership role among the donor community, but has been constrained by a limited staff capacity.

**Organisational deconcentration.** The increase in staff, the improved communications, and the delegations of authority expected in 2002 as part of EC deconcentration is widely applauded by local partners. It will be a special challenge to EC leadership to implement this ambitious reform efficiently in the short timeframe allotted. If properly carried out, deconcentration can lead to greatly increased capacity to improve operational efficiency, to co-ordinate with other partners, and to take a more important role in the policy dialogue process. Concern is expressed that deconcentration of responsibilities in the policy dialogue and analysis areas be properly staffed. EC staff are now being used preponderantly for administrative purposes and will need to be freed up to take on the policy and analytical tasks of tomorrow.

**Aid modalities.** The new EC approach to development co-operation in Burkina Faso is being restructured around a simpler and more focused, sector programme approach than was previously the case. This more organised approach is appreciated by the GoBF, is complementary to the EU Member State programmes, and encourages government ownership. The heavy emphasis on budget support means that the EC is willing to take on the greater accountability risks associated with Burkina's poor

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capacity environment. Other donors, including EU Member States, are pleased to see the EC accepting this level of risk, although they tend to avoid doing so themselves.

**Procedures.** The most commonly cited issue for EC aid was the heaviness of its procedures. Deconcentration will help move the locus of procedural decision-making to the field, but not simplify the procedures themselves. Although some consolidation and simplification of procedure has been carried out, it is still not clear if reform has been taken far enough for the 9<sup>th</sup> EDF.

**Country strategy and ownership.** The EC sees Burkina Faso's DCSLP as a country-owned document (although not all partners agree) and one which it has built its own planning for the next six years. Primary concern is now focussed on rendering operational the DCSLP structures that will permit the EC and others to work more closely policy dialogue and implementation in a partnership context. The EC Delegation in Burkina Faso has the potential to play a strong role in helping to operationalise the DCSLP and to provide useful co-ordination for the broader community of EU Member States.

**Sustainability.** As is the case for all partners in extremely poor Burkina Faso, it is unclear how many EC activities and programmes will be sustainable over the long term. Most actions undertaken in this country also do not have well-defined exit strategies over the long term. Whether in budget support or in projectised action, the EC could be well placed take advantage of its new deconcentrated technical capacity to provide stronger intellectual leadership in prospecting policy options for the future in its focus areas.

**Results orientation.** The Delegation is applauded by its partners for the work it is promoting in the use of conditionality and results indicators to promote a poverty-based contractual relationship between donors and recipients. This is viewed by many as a model for use elsewhere. Numerous methodological issues remain for the future and, because of their broader importance for donors elsewhere in the developing world, could become a "pilot" feature of the Burkina programme.

## ANNEX VIII

## COUNTRY COMPARISON OF BURKINA FASO AND BANGLADESH

	<i>Burkina Faso</i>	<i>Bangladesh</i>
<b>Similarly Poor</b>	UNDP HDI Rating: <b>159</b> Out of 162	UNDP HDI Rating: <b>132</b> Out of 162
<b>Different View of the Future</b>	<ul style="list-style-type: none"> <li>• Relatively small, enclaved country (Pop: 12 million)</li> <li>• Little coherent vision for sustainability</li> <li>• Long-term aid dependency</li> <li>• Greatest attention to humanitarian needs</li> </ul>	<ul style="list-style-type: none"> <li>• Large country (Pop: 130 million)</li> <li>• Aggressive interest in global issues, particularly in trade</li> <li>• 80% of exports are Ready-Made Garments (RMG)</li> </ul>

## DESCRIPTION OF EC DELEGATIONS

	<i>Burkina Faso</i>	<i>Bangladesh</i>
<b>Mandate</b>	<ul style="list-style-type: none"> <li>• Integrated development mandate from the <i>regional Cotonou Accords</i></li> </ul>	Country-specific mandate with special strategic focus on trade, <i>i.e. "EC-Bangladesh Agreement on Partnership and Co-operation"</i>
<b>Organisation</b>	<ul style="list-style-type: none"> <li>• DG/DEV leadership</li> <li>• Large mission (<b>17 staff</b>) in relation to portfolio size (EUR 46 million/year)</li> <li>• Little use of local staff</li> </ul>	<ul style="list-style-type: none"> <li>• DG/RELEX leadership</li> <li>• Small mission (<b>17 staff</b>) in relation to portfolio size (EUR 112 million/year)</li> <li>• Greater use of local staff</li> </ul>
<b>Funding Modalities</b>	<ul style="list-style-type: none"> <li>• Heavy use (50% of portfolio) of result-based, budget support mechanisms using GOBF systems</li> <li>• Little support for NGOs</li> </ul>	<ul style="list-style-type: none"> <li>• Little use of budget support mechanisms</li> <li>• Extensive emphasis on large local NGOs</li> </ul>

*Note:* This information was presented by the Secretariat at the DAC meeting on 6 June 2002.

SELECTED LESSONS FROM THE FIELD

<i>Themes</i>	<i>EC Action</i>	<i>Local Partner Perception</i>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Generalised use of Country Strategy Papers (CSP)</li> <li>• Emphasis on comprehensive approach to development</li> </ul>	<p style="text-align: center;"><b><u>CSPs</u></b></p> <ul style="list-style-type: none"> <li>• Improve the allocation of funds</li> <li>• Promotes local ownership and co-ordination</li> </ul> <p style="text-align: center;"><b><u>Comprehensive Approach</u></b></p> <ul style="list-style-type: none"> <li>• <i>Bangladesh</i>: EC played lead role in stimulating development through RMG trade</li> <li>• <i>Burkina Faso</i>: EC leadership in overall donor co-ordination through budget support</li> </ul>
<b>Decentralisation</b>	<ul style="list-style-type: none"> <li>• “<i>Deconcentration</i>” of implementation authority and staff to field</li> </ul>	<ul style="list-style-type: none"> <li>• Generally applaud the deconcentration process</li> <li>• Has potential to make EC Aid more efficient and effective</li> <li>• Also suggest need to deconcentrate strategy decisions</li> </ul>
<b>Implementation Modalities</b>	<ul style="list-style-type: none"> <li>• Flexibly apply budget support and project modalities according to local conditions</li> </ul>	<p style="text-align: center;"><b><u>Budget Support</u></b></p> <ul style="list-style-type: none"> <li>• Used in <i>Burkina Faso</i> because of PRSP framework and results-based disbursement system</li> <li>• Perception of corruption and mismanagement of funds in poor countries precludes widespread use</li> </ul> <p style="text-align: center;"><b><u>Project Modalities</u></b></p> <ul style="list-style-type: none"> <li>• Viewed as appropriate in wide-range of cases, especially in the context of sector vision and implementation</li> </ul>
<b>Heavy Implementation procedures</b>	<ul style="list-style-type: none"> <li>• Considerable procedural reform in last 2 years</li> </ul>	<ul style="list-style-type: none"> <li>• EC still confronts widespread perception of heavy and slow procedures</li> <li>• Deconcentration of financial and contract specialist will help, but further simplification of procedures should be addressed.</li> </ul>

<p><b>EC - Member State Complementarity In the Field</b></p>	<ul style="list-style-type: none"> <li>• EC strategies designed with Member States</li> <li>• EC efforts to co-ordinate member states</li> </ul>	<p><b><u>Strategy</u></b></p> <ul style="list-style-type: none"> <li>• Member States satisfied with current levels of complementarity, but reluctant to further integrate strategy</li> </ul> <p><b><u>Co-ordination</u></b></p> <ul style="list-style-type: none"> <li>• EC co-ordination role still operationally ambiguous</li> <li>• Member states do not yet fully identify with 3Cs. Are reluctant to further defer to the EC in matters of development co-ordination</li> </ul>
<p><b>Poverty Reduction</b></p>	<ul style="list-style-type: none"> <li>• Delegations have reshaped programmes to favour poverty reduction, including use of PRSP framework</li> </ul>	<ul style="list-style-type: none"> <li>• Appreciate use of over-arching poverty reduction theme to better integrate cross-cutting issues such as gender or environment</li> <li>• National political and administrative decentralisation and collaborative use of NGOs and civil society have proven central to poverty reduction strategy</li> </ul>



**PRESS RELEASE - DAC AID PEER REVIEW OF THE EUROPEAN COMMUNITY**

The OECD Development Assistance Committee (DAC), meeting in Paris on 6 June 2002, discussed the Peer Review of the European Community. The DAC Chairman, Mr Jean-Claude Faure, summed up the following DAC findings. The European Community is a large donor with global reach and specific capabilities through its regional partnership agreements, linking trade and political aspects with development co-operation. The European Community has substantially improved its development policies and strategies since the last review in 1998, and remains committed to implementing all the elements of its reforms in the upcoming years. The European Commission's ambitious reforms also aim to improve its capacity to fulfil its primary aim to reduce poverty through the European Community aid programme. Further to the positive steps already taken on policy coherence, the DAC noted the need to improve the coherence of a broad range of Community policies with its development objectives, with clear benefits for the world's poor. While commending the efforts in development policy and management reform, the DAC encouraged the Commission to promote further its comparative advantage, to increase its visibility in the field, and to focus on measurable results in its regional and country programmes.

The European Community has increased its Official Development Assistance (ODA) for two consecutive years. It rose by 21.1% to USD 5.91 billion in 2001 and by 13.4% in real terms to USD 4.91 billion in 2000. This is part of broader E.U. external relations activities (some EUR 11.7 billion in 2000) which support countries' efforts to gain accession to the EU, help maintain stability in neighbouring regions, and provide development assistance. The European Commission plays a co-ordinating role with its Member States, encouraging them to raise the average of their ODA from 0.32% to 0.39% of Gross national income (GNI) by 2006. The DAC welcomes these efforts to raise ODA.

The DAC commended the work done by the European Community to enhance its development policy framework since the 1998 DAC Review by setting out six priority areas to achieve the principal aim of poverty reduction throughout the Community's global aid programme. The DAC noted some major challenges for the European Community in translating this poverty reduction aim into more effective ODA country allocations. The European Community should also aim to improve the developmental impact of its sectoral allocations, taking account of cross-cutting objectives of governance, gender equality, and environment within the context of the primary aim of poverty reduction. There is a need to adjust ODA allocations in line with these priorities, recognising the importance for European Community policy of increased economic growth, through trade and development linkages, including support for the private sector, and social sector development, taking account of country ownership. (See Chart on Aid at a Glance).

The European Community's regional, sectoral and horizontal strategies now more clearly display an overall sense of vision, though still requiring attention to implementation issues. Country Strategy Papers (CSP) have become a central mechanism for developing policy coherence and co-ordination with Member States. There has been success with policy coherence through the important "Everything But Arms" initiative that opens market access for the least developed countries. However, there is a

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need to take account of developing country interests in the European Community's internal policies, for example the Common Agricultural Policy and the Common Fisheries Policy and other policy areas. The DAC recommended that the European Commission further develop its analytical capacity to develop the CSP as a management tool and to engage more effectively in dialogue about the impact of Community policies.

The European Commission has made substantial progress since January 2001 with organisational and management reforms of its development and humanitarian aid system. Of particular note are improvements to accountability at all levels, the introduction of the CSP process, the speedy and efficient delivery of humanitarian aid, the clarification of the links between relief and development, improved evaluation systems, and progress in the decision-making process with Member States and with "deconcentration" of authority to field offices. The DAC welcomed the European Commission's commitment to implement speedily the DAC Recommendation on aid untying. The DAC also took note of the aim in the Barcelona Declaration of moving beyond the Recommendation to benefit all developing countries. In this regard, more work needs to be done for further aid untying and harmonisation of procedures with other donors in line with DAC discussions. Several issues for the reform process remain: sustaining political support, including more strategic roles for the Council and Parliament; developing organisational capacity to make deconcentration work; and ensuring appropriate and sufficient staffing to strengthen implementation. The DAC recommended the European Commission simplify its procedures further and delegate greater authority to field offices.

Mr Koos Richelle, Director-General for Development Co-operation, led the European Commission delegation at the Peer Review. The examining countries were Canada and Norway. The Main Findings and Recommendations will be available on <http://www.oecd.org/dac> from next week. For further information journalists are invited to contact Helen Fisher, Media Relations Division (Tel: [33]145248097).

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## DESCRIPTION OF KEY TERMS

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its Members are given at the front of this volume.

**DAC LIST OF AID RECIPIENTS:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC list is updated immediately to reflect any change in the LLDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNI less than USD 760 in 1998 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) between USD 761 and USD 3 030 in 1998. LLDCs which are also LMICs are only shown as LLDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) between USD 3 031 and USD 9 360 in 1998.

**HICs:** High-Income Countries, *i.e.* with GNI per capita (World Bank Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

**DEBT REORGANISATION:** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

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**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of LOAN principal during the same period).

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**GRANT ELEMENT:** Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (*i.e.* the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

**LOANS:** Transfers for which repayment is required. Data on **net loans** include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25%).

**OTHER OFFICIAL FLOWS (OOF):** Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.

**TECHNICAL CO-OPERATION:** Includes both i) GRANTS to nationals of recipient countries receiving education or training at home or abroad, and ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

**TIED AID:** Official GRANTS or LOANS where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all recipient countries.

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.

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