

Development  
Co-operation  
Review Series

# European Community

D e v e l o p m e n t   A s s i s t a n c e   C o m m i t t e e

1998  
No. 30



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Review Series

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1998 No. 30

Development Assistance Committee

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- 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;
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- 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, 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 three years. Some 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, 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. Brief field visits investigate how Members have absorbed the major DAC policies, principles and concerns, and examine operations in recipient countries, particularly with regard to sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main issues for the Review". 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 Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 16 September 1998 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing Canada and the United States, 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.

James Michel  
DAC Chair

## LIST OF ACRONYMS

ACP	African, Caribbean and Pacific States
AIDs	Acquired immune deficiency syndrome
ALA-MED	Asia, Latin America, and Mediterranean countries
CAP	Common agricultural policy
CARICOM	Caribbean Common Market
CDI	Centre for the development of industry
CEECs	Central and Eastern European Countries
CFSP	Common Foreign and Security Policy
CPN	Conflict Prevention Network
DAC	Development Assistance Committee
DIS	Decentralised Implementation System
EAGGF	European Agriculture Guidance and Guarantee Fund
EBAS	Export business assistance programme
ECFI	European Union Finance Institutions fund
ECHO	European Community Humanitarian Office
ECIP	European Community Investment Partners
EDF	European Development Fund
EIB	European Investment Bank
EPRD	European Programme for Reconstruction and Development in South Africa
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FTA	Free-trade area
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GSP	Generalised System of Preferences
HIV	Human immunodeficiency virus
ILO	International Labour Organisation
IMF	International Monetary Fund
LCDNGO	Liaison Committee of Development NGOs to the European Union
LLDCs	Least-developed countries
MEDA*	Mesures d'accompagnement en faveur des partenaires méditerranéens
MFN	Most favoured nation treatment
NGO	Non-governmental organisation
NIPs	National Indicative Programmes
NIS	New Independent States of the former Soviet Union
OA	Official aid
OCHA	Office for the co-ordination of Humanitarian Affairs
OCT	Overseas Countries and Territories
ODA	Official development assistance

PCM	Project Cycle Management
PLO	Palestinian Liberation Organisation
PMUs	Programme Management Units
RELEX*	Relations Extérieures
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SEM 2000	Sound and Efficient Management for Year 2000
SMEs	Small and medium-sized enterprises
SPA	Special Programme of Assistance to Africa
STDs	Sexually Transmitted Diseases
SWAP	Sector-wide approach
UDEAC*	Union douanière et économique d’Afrique Centrale
UEMOA*	Union Economique et Monétaire Ouest Africaine
UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
WB	World Bank
WFP	World Food Programme
WID	Women in development
WTO	World Trade Organisation

\* Denotes acronym in original language.

Exchange rates (ECU per US\$) were:

<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
0.8402	0.7652	0.7878	0.8824

### **Signs used**

()	Secretariat estimate, in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately, but included in total
n.a.	Not applicable
p	Provisional

Slight discrepancies are due to rounding.

## EUROPEAN COMMUNITY AID AT A GLANCE

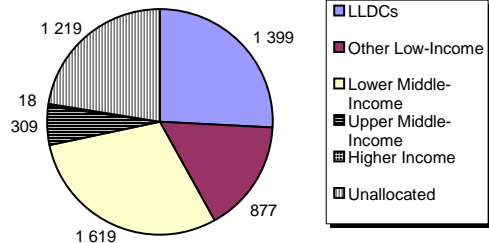
### EC

Net ODA	1996	1997	Change 1996/97
Current (US \$m)	5 455	5 261	-3.6%
Constant (1996 US \$m)	5 455	5 790	6.2%
In ECUs (million)	4 297	4 642	8.0%
ODA/GNP	n.a.	n.a.	
Bilateral share	n.a.	n.a.	
<b>Net Official Aid (OA)</b>			
Current (US \$m)	1 434	1 441	0.4%

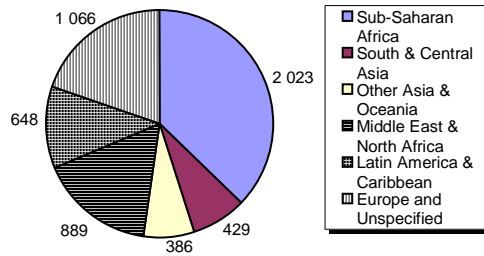
Top Ten Recipients	(US \$m)
1 Poland (OA)	258
2 Morocco	209
3 Egypt	162
4 Russia (OA)	142
5 Bosnia and Herzegovina	141
6 Tunisia	140
7 Ex-Yugoslavia Unspec.	132
8 Palestine/Adm.Ter.	125
9 Bulgaria (OA)	124
10 Romania (OA)	119

Gross Bilateral ODA, 1996-97 average, unless otherwise shown

**By Income Group (US \$m)**



**By Region (US \$m)**



Source: OECD

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## SUMMARY AND CONCLUSIONS

### Overall strategy and policy

As the fifth largest Development Assistance Committee (DAC) Member in terms of official development assistance (ODA) volume and the second largest among multilateral donors, after the World Bank (WB), the European Union (EU) is a key institution in the international development co-operation framework. This is true not only because of the distinctive character, importance and potential of the EU's programme, but also in view of its role in economic and foreign relations with developing countries. The European Union programme combines characteristics of a bilateral donor and of a multilateral institution, which makes it unique among development co-operation organisations.

Over the past decade the EU programme has grown faster than other DAC Member development co-operation programmes because European Union (EU) Members have agreed to channel a growing share of their development co-operation budgets through the EU. In 1970 EU Members were channelling 7 per cent of their aid through the EU. By 1990 it was up to 13 per cent and in 1997 it was over 17 per cent.

A number of EU arrangements with partner countries—African, Caribbean and Pacific States (ACP), Asia, Latin America, and Mediterranean countries (ALA-MED), Phare and Tacis countries—are part of overall frameworks that include trade and non-reciprocal preference agreements, along with development co-operation. Moreover, these arrangements are in some cases based on a multi-year broad-gauged, contractual basis, which is advantageous for long-term planning, although there is a troubling question about the extent to which these have, in some instances, created an entitlement mentality rather than partnership based on mutual responsibilities.

The EU has taken notable roles in speaking out on human rights and there has been marked improvement in recent years on a range of other development co-operation themes, not the least of which has been the Commission's willingness to look frankly at its own performance and to set the foundations for becoming a learning organisation.

In view of the considerable resources available to the EU and its own capacities, this Peer Review has concluded that the potential for improved performance is at hand and policies to do so are taking shape. The Maastricht Treaty of November 1993 provides a broad, general basis for EU development co-operation aimed at fostering: i) the sustainable economic and social development of developing countries, particularly the most disadvantaged among them; ii) their smooth and gradual integration into the world economy; and iii) the campaign against poverty. EU policy is also contributing to developing and consolidating democracy and the rule of law, gender equality and respect for human rights and fundamental freedoms.

Beyond this broad Maastricht Treaty guidance, however, to find EU's development co-operation policies applicable to any given sector or geographical area it is necessary to enter a thicket of regulations, resolutions, declarations, and communications for which there is no road map. For several years the organisational framework for managing development co-operation has been based around geographical structure—ACP, ALA, MED, Phare and Tacis, with European Union Humanitarian Office (ECHO) for

humanitarian assistance—and this divided organisational framework has led to a splintered policy framework. Thus, the organisational framework has appeared to influence policy, rather than the opposite. There is no coherent Commission-wide development strategy or statement on development co-operation and the policies on country macro-economic and sector approaches, project and programme identification, implementation, procurement and evaluation lack Commission-wide consistency and coherence. Because of this divided, splintered framework, the Commission must pay a heavy price in organisational efficiency and effectiveness.

Clearly, different weights are given to the aid elements in each geographical programme depending on the variety of political and economic relationships the EU has with the different groups of countries concerned. Nonetheless, from a comparative DAC perspective and given the fact that within the DAC, Members have agreed on year 2015 goals, it seems that the EU is losing potential benefits and synergies that could derive from a coherent, overarching policy approach in development co-operation and from developing more uniform policies across its geographic and functional organisational units. These would no doubt need to be categorised to take into consideration the differences in the situation of the main groups of partner countries. However, a strong statement of development co-operation objectives and policies could help to frame a more coherent approach to decision-making and to move away from certain confusing tendencies of the past which saw fragmented strategy, policy and implementation.

### **Results, aid efficiency and effectiveness: more emphasis is needed on results**

Over the years the splintered administrative and policy culture at the Commission has tended to focus too much on procedures, inputs and organisational processes and not sufficiently on implementation, outputs and results. It was only in the mid-1990s, long after most other DAC Members had begun to consider evaluation an integral part of the learning process, that the Commission began seriously to pay attention to the evaluation of its work. For some areas, ALA, MED, Phare and Tacis and ECHO, the evaluation process has only seriously started in the past two to four years. It is therefore not surprising that the recent first phase evaluations done of the main geographical areas came to the same result: they found almost no evidence about the impact of the Commission's development co-operation programme over the years. Few evaluations had been done prior to the 1990s to document what had been achieved. Projects and programmes had generally not been designed with clear performance indicators, objectives and results that could be documented and therefore the record on them is scanty.

The 1993 introduction of project cycle management, which is progressively improving the design of Commission programmes, and a more serious approach to evaluation as a tool to provide feedback and learning, have positioned the Commission to become more results-oriented. The evaluation capacity in the Commission has made progress, particularly in DG VIII. The Quality Support Group in DG VIII is an interesting instrument for improving feedback, which might be replicated. Furthermore, a Common Service in charge of the implementation of projects and programmes for the four External Relations Directorates General (RELEX DGs) has just been created with a view to harmonise procedures and speeding up the implementation phase.

However, there is a major concern about the integration of the evaluation capacities into the Common Service. There is no ideal way in the new system to meet the requirements for an evaluation capacity with impartiality and independence, as envisioned in the Evaluation Guidelines of the DAC. However, to ensure integrity and objectivity, the evaluation unit in the Common Service should report directly to the *Comité de Direction* composed of relevant directors-general, rather than to the head of the Common Service. Otherwise, the Commission would be taking a step backwards and would lose the necessary separation from line operations that an evaluation system requires to maintain its integrity, impartiality and independence.

As in other aspects of aid management, discussed below, the Commission would benefit from a central evaluation system that could draw the lessons from across countries, sectors, and instruments. The splintered management system, at present, is not conducive to evaluating and sharing lessons so necessary to a learning organisation.

The Commission needs to put much more emphasis on setting performance indicators for its programmes and designing projects aimed at clearly defined objectives related to the EU's overarching policy goals, which are in harmony with the international partnership strategy.

To come to the realisation that results do count and to make them central to the operations of an aid programme has many implications. Policies, project and programme designs, and evaluations must be conceived with results in mind and performance indicators must be built into them. In this context, the Commission's Sound and Efficient Management for Year 2000 (SEM 2000) process has contributed to the spread of evaluation capabilities in the Commission. However, further actions in the spirit of SEM 2000 are needed to engage development co-operation managers more deeply into a results-oriented management culture.

### **Partnership strategy**

Among the geographical programmes of the Commission, the aid programme with the ACP countries under the Lomé Convention is most consistent with the main thrusts of the new international partnership strategy. This programme is undergoing a major redefinition with a changed vision aimed at helping ACP countries to integrate into the world economy more rapidly and effectively, and to move from an entitlement approach to a more mature partnership approach, with mutual responsibilities. There is considerable difference between the partnership envisaged with ACP countries and the EU's other types of partnership with:

- ALA countries, conceived to provide EU co-operation programmes with developing countries not within the Lomé framework;
- Mediterranean countries, aimed at an eventual free trade zone;
- Phare countries aimed at accession to the EU;
- Tacis to support the economic reform processes in the former Soviet Union; and
- ECHO to provide humanitarian assistance.

Overall, there is a need to orient programmes towards more consistency with the *DAC 21st Century Strategy* values and objectives, to apply them in the field, and to rationalise the instruments of co-operation consistent with the concern for the overall co-ordination of aid.

### **NGOs**

For two decades the co-operation between European development non-governmental organisations (NGOs) and the EU has been carried on through cofinancing of NGO development programmes in developing countries, awareness-raising campaigns on development issues in Europe, and provision of humanitarian assistance. The level of assistance allocated to NGOs varies mostly because of the need for humanitarian aid (it rises when more money goes to emergencies through NGOs), but has fluctuated in the range of

\$950 million to \$800 million in recent years. The Commission has carried on fruitful and continuous dialogue with its NGO partners through the Liaison Committee of Development NGOs to the European Union (LCDNGO) and various umbrella organisations. This is one of the more positive aspects of the EU programme which should continue to develop through dialogue between the partners. However, it, too, needs a more results-oriented overall programme design, and a well-defined monitoring and evaluation system to include stronger accountability, to be elaborated by the partners jointly.

## **Poverty reduction**

The Maastricht Treaty clearly sets out the goal of fostering the campaign against poverty in the developing countries. The Commission approach, on the policy level, has not been dissimilar to other donors, being aimed at promoting economic growth and social sector support. However, the Commission recognises that this has not proved to be adequate. Moreover, this Peer Review suggests that although poverty reduction is said to be an overarching objective, this is not completely apparent in the Commission's operational programming and there is considerable potential to make it a more operational concept. Both organisational, management and policy changes will be necessary to accomplish this. Many elements of such a reform are either in place or are underway.

Recently, the 1993 Resolution and the Communication on Poverty were taken up by an expert group and a working group of the EU Council on strengthening the poverty orientation with a mandate to recommend concrete actions. A key issue is the commitment of partner governments to poverty reduction. The new EU-ACP negotiations are expected to change the nature of the relationship and to reduce the importance of the "entitlement" mentality. This is a positive development if it is taken far enough. However, lip service to the poverty goal will no longer suffice. Additional work is required by the EU, like other donors, to strengthen policy and implementation with respect to gender, human rights, participation, and partnership. Internal steps taken by the EU include:

- Recognition of the importance of staff training and capacity building, both within house and in partner countries. A staff training programme was started in 1997.
- Preparation of a programming manual emphasising the role of poverty assessments.
- Sectoral papers on poverty reduction (started in 1997).
- Creation of the Quality Support Group (started in 1997 in DG VIII) to review programme aspects including poverty reduction; and
- Strengthening co-ordination with other donors with respect to gender, human rights, participation, and partnership [Special Programme of Assistance to Africa (SPA) working group on poverty; OECD/DAC workshops on development indicators; Consultative Group Meetings; bilateral and in-country co-ordination efforts].

The new approach to poverty reduction in the Commission is welcome. By drawing on all of the assets, experience and knowledge of the Commission and that of other donors, poverty reduction efforts can improve. There is, however, a question as to how far the EC policy on poverty is reflected in the allocation of aid resources. The EC allocates a lower proportion of its resources to lower income countries (least developed and other low-income countries) than most other donors and there has been a trend for this share to fall over recent years. In 1996, the EC aid to lower income countries (LICs) was three times less than for lower middle-income countries (LMICs) on a per capita basis. The percentage share of EC aid going to

LICs was less than 56 per cent, while for EU Member countries it was nearly 62 per cent, with half of the EU Member countries giving over 70 per cent to LICs.

With respect to specific actions aimed at poverty reduction some additional avenues could be explored or given more emphasis. One of these is micro-credit which could be strengthened based on experience available in this field. Another (which has been proposed by the European Parliament) is the adaptation of front line technology using local products—in agriculture and health—and more investigation as to how currently available technologies (such as drip irrigation) could be adapted so the poor might benefit from them.

## **Gender**

The Commission has made major strides in the area of gender over the past decade, starting from a low base. There was little or no attention paid to this issue prior to the 1990s and only slight improvement in the early 1990s. Previous DAC reviews have noted weaknesses in this area. The Commission appears to have turned a corner on this issue and made improvements in its staffing and programming. The Gender Equality Resolution of 1995 appears to have a positive effect. The next phase of improvement in the field of gender will come from building on these accomplishments, strengthening them, and making projects and programmes more results-oriented.

The concept of using indicators and objectives with respect to gender is not yet widespread, but the partnership strategy clearly calls for demonstrating progress toward gender equality and the empowerment of women with a key measure being the elimination of gender disparity in primary and secondary education by 2005. Projects and programmes should contain clear indicators and dialogue with partner countries should be aimed at making progress on this issue. The weakness in field capacity for such dialogue needs to be addressed.

## **Conflict, peace and development**

The EU has demonstrated a significant capacity in peace-building and related activities. It is pushing implementation efforts based on agreed international guidelines in peace, conflict and development in accordance with the guidelines and principles established by the Council of the EU. The EU's alert system is among the better ones in operation, and lessons from the field, particularly the Great Lakes and former-Yugoslavia, have generally been discussed and assimilated. The international community can look to the EU for strong leadership in this area.

## **Aid co-ordination**

The EU recognises the need for improved aid co-ordination for reasons of coherence, effectiveness, and the quality of aid. Article 130x of the Maastricht Treaty calls for such co-ordination. In 1993 the EU Council established guidelines to strengthen policy and operational co-ordination. At the time of the last DAC review in September 1995, the EU had, as of May 1994, launched a pilot effort in six countries aimed at establishing modalities to improve co-ordination (Bangladesh, Costa Rica, Cote d'Ivoire, Ethiopia, Mozambique and Peru). Based on lessons from that experience, which showed mixed results, in June 1997 the Council established the principles for strengthening co-ordination in developing countries and guidelines were adopted in February 1998, taking account of the pilot experiences, based on five principles for improved co-ordination which should:

- be adapted to each country and sector;
- be undertaken with the partner country to strengthen its capacity to assume responsibility for its own strategies and programmes;
- be linked to existing co-ordination mechanisms in-country;
- assure a coherent input from the EU and coherence with the policy orientations adopted by the EU Council; and
- be undertaken to optimise the added value for the recipient country.

These efforts and intentions are in the right direction and a heightened degree of co-ordination seems to be slowly growing between the Commission, Member States, and other donors, both bilateral and multilateral. However, the role of Commission field delegations and the question of who takes the lead in given countries and sectors is not clearly resolved. Nor does there seem to be sufficient strength in delegations, which should be provided with strong back-up from headquarters, to assure that this could be done in the short term. In order to attain clear improvement in aid co-ordination, the Commission will need to strengthen staff skills in field delegations, which would enable them to exercise stronger leadership in-country where it counts most. The selection and training of experienced development co-operation leaders for the post of heads of delegations in the field must be given a higher priority. Improved aid co-ordination at the country level would be both an objective and a product of stronger Commission delegations in the field. There should also be clear accountability across all RELEX directorates general for donor co-ordination at the partner country level. This difficult issue will require close monitoring.

### **Country strategies**

In past DAC reviews the importance of country strategies as a tool for improving co-ordination, coherence, and aid management has been raised. Progress has been made since the last review in building the tools of country strategies and there is a move to link these strategies to the review of aid programmes, particularly in the ACP countries. With regard to ALA-MED countries this activity is expected to be completed by early 1999.

Further improvement in country strategies, aimed at a more coherent use of the various EU instruments, is nonetheless of continuing importance. There is also concern about the degree to which the Commission has to rely for this activity on outside consultants and contractors, with the resultant loss of continuity. Just as with project cycle management, there seems to be a need for more in-house training on country strategy preparation. This would enable the Commission to be better prepared to carry out this activity, to the extent feasible, with in-house staff because it is central to the EU's own aid programming and dialogue with partner countries.

### **Aid management**

The aid management system of the Commission has been a matter of concern in past DAC reviews. As noted above, the preoccupation of the Commission with procedures, controls, and administration, rather than results achieved, may in part derive from its complicated organisational framework and the management system that has grown up around it.

Another matter of concern is the proliferation of budget lines and *ad hoc* regulations. There is a need for the Commission to propose ways to clean up, rationalise and simplify the aid management system. The DGs in charge of administering the aid programme are over-managed. Given the workload flowing from the present management system, they are also under-staffed, but this does not lead necessarily to the conclusion that there is an urgent need for more staff. Rather, there is a need for a more modern, results-driven, management approach. Such an approach could benefit enormously from a strong management information system, which appears to be lacking. To strengthen partnership dialogue and advance a results-based management style with more emphasis on the field level, rather than headquarters, ways should be studied to increase and strengthen field staff.

The high transaction costs of the present aid management system should be tackled first. It is essential to find a way to have appropriate measures of control while accepting a level of risk which is inherent to development co-operation financing. “Deconcentrating” financial controls, as is envisaged by the Commission, could help and the idea of seconding financial controllers in support of delegations in the fields deserves to be considered. Pressure on staff could be eased by increased recourse to cofinancing with other co-operation agencies. Staff in external relations DGs need more training, specifically related to the disciplines involved in development finance activities, and they need to have systematic learning of lessons derived from evaluations. Over the longer term, a development co-operation management system which is more unified and not fragmented into different DGs would lead to better staff utilisation, sharing of services, and better learning. After such a reorganisation it is quite probable that a lack of staff will still be evident, in which case targeted increases of staff in specific areas are likely to be warranted.

The Common Service should have as one of its primary functions to harmonise and simplify procedures. However, it seems to be a transitional arrangement and something of a compromise, emerging from more ambitious ideas which could resurface with the reorganisation of the Commission in 2000. The creation of the Common Service means that the project cycle will be split or divided between the DGs and the Common Service itself. How to make accountability work under these circumstances is unclear. Therefore, the establishment of a clear “accountability map” showing who is responsible for what could be helpful.

### **Institutional mechanisms for coherence**

The analysis highlights that efforts to improve coherence through concrete measures are not only constrained by the complexity of the EU policy-making process, but also by the fact that coherence is a multidimensional notion in public policy making. The complexity of EU policy-making, and the virtual impossibility to be consistent in all matters at all times, implies that what matters most is not simply whether inconsistent or mutually contradictory policies are sometimes being pursued, but whether they are being pursued knowingly or unintentionally. When decisions have to be made, they should be made deliberately, and on the basis of information and analysis to enable the EU to mitigate adjustment costs. A high premium should, therefore, be put on developing information systems and analytical capacities at the EU policy-making level.

Diligent implementation of the Council Resolution on policy coherence could improve EU policy coherence since it would strengthen capacity at the centre of EU policy-making, while maintaining organisational flexibility and establishing effective information gathering and processing systems. In addition to the Resolution, consideration might be given to instituting a complaints procedure comparable to that of the Inspection Panel of the World Bank.

## Policy coherence

Questions about the coherence of the Common Agricultural Policy (CAP) of the EU and its development objectives have been raised on many occasions. The case of subsidised beef exports to Western and Southern Africa has been the most publicised recent example of incoherence between the two policies. However, as both cases illustrate, the EU is able to seek solutions when market disruptions have been identified and policy attention has been focused. This ability to consider alternatives serves to emphasise the need for adequate monitoring and an effective complaint mechanism. This implies a need for staff, study funds and mechanisms for bringing such issues to the point where they can be dealt with. The present systems should be carefully reviewed because there is evidence that they do not function well. In fact, it has mainly been actors outside the Commission (NGOs, civil society and academics) that have identified, studied and raised the debate around cases of incoherence and not the Commission itself.

The EU's import policies affecting developing countries are complex, stemming from important sectoral and country variations. However, the general trend is towards greater liberalisation and simplification of the trade regime; this results from the EU's participation in the World Trade Organisation (WTO) multilateral system as well as the Single Market process. Tariffs provide differential access conditions for EU trading partners in several ways. Generally, tariff protection is modest, although some sectors are protected more heavily than others, including textiles and clothing and agricultural goods which are of particular interest to developing countries. Second, escalation provides greater effective rates of protection for processing industries than is evident from nominal rates. Third, and perhaps most importantly in the case of the EU, a pyramid of preferences provides for graded treatment of the EU's trading partners, allowing them to avoid, at least in part, the barriers of tariff protection.

The Lomé Convention has been the framework for trade and development relations between the EU and 71 ACP states. The fourth Convention expires at the beginning of 2000. In its preparatory Communication to the Council and the European Parliament, the Commission proposed to negotiate a new overall agreement with the ACP countries, alongside a series of differentiated economic co-operation agreements between the EU and regional sub-groupings. There is little evidence yet available on the impact of free trade agreements between highly advanced regions such as the European Union and some of the least advanced and marginalised areas of the world. It is significant that the EU has been perceived to be a tough negotiator in the recent negotiations between the EU and South Africa. It must also be borne in mind that negotiating free trade agreements stretches the negotiating capacity of developing countries, especially when multilateral negotiations are conducted at the same time.

The difficulty of attracting foreign direct investment to ACP countries indicates a growing mismatch between the opportunities investors are looking for and those offered by ACP countries. Besides the lack of investment opportunities, the Lomé mechanism is not geared towards business demands. Perceived weaknesses of EU support for private sector development and Foreign Direct Investment (FDI) are the fragmented nature of the support provided and a bureaucratic approach.

On the food security front the EU has adopted an approach aimed at using food aid as a basic element of development policy and of long-term food security policy, particularly in the field of agricultural rehabilitation and of boosting the purchasing power of vulnerable target groups. More information would be useful about the results and impact of this approach as they begin to emerge in practice.

## **Public opinion and information**

There is a need for a clear and straightforward EU message on development assistance, which is one of the reasons why adopting an overarching strategic vision could help. Essentially, there is no reason why DG VIII and DG IB should not have a common policy. The experience of ECHO, which has been able to communicate its humanitarian message which is admittedly simpler, and more understandable to the wider public, might contribute to the experience of all DGs.

The European Parliament, and its relevant Commissions, are testing a variety of roles in providing political oversight and support for development co-operation programmes at the Community level. It remains to be seen whether this involvement will, in future, take the direction of widespread “earmarking” of funds for *ad hoc* or politically popular activities, or, with the requisite effort on both sides, provide a stronger strategic and public base for programmes at the Community level.

## **Volume**

The European Union ODA programme has continued to grow over an extended period, in a period when many other programmes have declined. Over the last decade, net ODA disbursements by the Union grew at an average annual rate of 5.3 per cent in real terms, compared to a fall of 0.8 per cent for DAC Member countries as a whole. Over the last five years the Union programme grew at an average annual rate of 3.3 per cent while the combined effort of DAC countries declined by 4.7 per cent annually. With net ODA disbursements amounting to \$5 261 million in 1997, the EU was the fifth-largest donor among the 22 DAC Members and the second largest multilateral donor of concessional aid, after the International Development Association of the World Bank.

A significant gap between amounts committed for ODA and actual disbursements has become a persistent concern in the Commission’s programmes in the 1990s. Between 1992 and 1996, ODA commitments exceeded gross disbursements by about \$1 600 million each year, with the gap having reached more than \$2 200 million in 1994. The changing nature of the European Union (EU)-ACP relationship is intended to modernise the instruments of co-operation, and to move away from the past inflexibility of fixed funding entitlements by country, regardless of changing circumstances. This difficulty in shifting resources—together with complex administrative procedures and low staffing levels in the field for project implementation—has contributed to this worrying gap during the 1990s.



## CHAPTER 1

### STRATEGIC FRAMEWORK

#### **Basic policy framework and new policy orientation**

##### *Current main guidelines*

The development co-operation policy of the European Union dates to the Treaty of Rome in 1957, which created the European Economic Community. Its legal framework is now based on the Treaty of Maastricht on European Union, which came into effect in November 1993.

The Maastricht Treaty officially introduced development co-operation as an explicit part of European policy, providing both a juridical basis and broad objectives. The key articles are contained in Title XVII, Articles 130u through y. The Union policy, which is to be complementary to the policies pursued by its Member States, shall foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

Title XVII also includes the objective of developing and consolidating democracy and the rule of law, and respect for human rights and fundamental freedoms.

At operational level, the development policy is determined by the European Council of Ministers and the European Commission. The Commission has approved over recent years a number of Communications to the Council of Ministers, which in turn has issued several Resolutions, regarding this policy. A Council Resolution of 2 December 1993, under the heading “Procedures for co-ordination”, refers to articles 130u and 130y of the Treaty of Maastricht, which stipulates that “Union policy in the sphere of development co-operation is to be complementary to the policies pursued by the Member States, and that the Union and its Member States are to co-ordinate their policies and consult each other on their aid programmes, including in international organisations and during international conferences”.

This followed a communication from the Commission of 15 May 1992, and a declaration of the Council of 18 November 1992 on aspects of development co-operation policy in the Run-up to 2000, which had pointed out the existence of three major handicaps affecting the implementation of a truly co-ordinated policy: “the co-ordination shortfall between national and Community development co-operation policies; the linkage and cohesion shortfall between co-operation policies and other Community policies or other aspects of the Community integration process; lastly the fact that the Community does not speak with a single voice and does not provide the necessary impetus in international forum or vis-à-vis other suppliers of funds.”

In order to address this problem, a Council Resolution of 25 May 1993 concluded that in a limited number of priority areas identified for enhanced policy co-ordination, further Resolutions would lay down, on a case-by-case-basis, guidelines and lines of action for the Union and the Member States in their respective policies. The Council considered that initially policy co-ordination would have to be enhanced in the sectors of health, food security, education and training. In certain fields, such as respect of human rights, family planning, and support for structural adjustment, it was thought that the efforts had to concentrate more on the implementation of existing guidelines. In the areas of environment, evaluation, role of women, emergency aid, it was merely required to consolidate and update, if necessary, the previously defined Union policies. These conclusions were re-affirmed by the Council of 2 December 1993.

On this same occasion the Council and the member States also agreed on guidelines for policies in the fight against poverty. It was in particular stated that policies to combat poverty should take into consideration the following key-elements:

- the need for an integrated, long-term approach involving all development instruments forming part of a consistent strategy;
- the necessary priority to be given in this field to the least advanced countries and the most deprived sections of the population of the developing countries;
- the political - and not merely economic - nature of the causes of poverty;
- the importance of the dialogue on policies with the authorities of recipient countries in order to ensure that the objective of reducing poverty is taken into account;
- the support to be provided as a priority for policies to combat poverty in countries in which the principles and objectives of the national strategy correspond to the general guidelines defined by the Council;
- the essential participation of beneficiary populations in the political process and in the formulation, implementation and evaluation of development programmes and projects;
- the varying nature of poverty problems from one country to another and the need to adopt a differentiated approach defined at national level;
- the importance of adequate targeting of interventions at the poorest and most vulnerable groups;
- the need to systematically integrate the role of women into all policies to combat poverty as into development measures in general.

This guidance was complemented by subsequent Council Resolutions:

- On Health and AIDS policy (Resolution of 6 May 1994).
- On Education and Training (Resolution of 25 November 1994).
- On Food security (Resolution of 25 November 1994).
- On Complementarity (Resolution of 1 June 1995).

These themes, and poverty reduction, are discussed below. However, as the foregoing suggests, it is an arduous task to arrive at a succinct distillation of the EU's policy in development co-operation, below the overarching guidance set out in the Maastricht Treaty.

### *New developments and orientations in co-operation policies*

Since the last DAC review (September 1995), the European Union has added to its array of instruments a new Regulation on food aid policy and food aid management (June 1996). Its aim is to make food aid a structural instrument of long-term aid, by promoting not only the food security for the needy, but also overall social and economic development in regions with a food deficit. The list of eligible countries was amended to include the newly independent states of the former Soviet Union.

Another Regulation, of 20 June 1996, laid down the objectives of humanitarian aid and the procedures governing aid and operations in this context, setting out the types of situations and relief operations eligible for Union financing. The Commission adopted a communication on the links between emergency aid, rehabilitation and development.

A new scheme of agricultural preferences, based on the same principles as the scheme for the industrial sector, and covering a much greater number of products, came into force on 1 January 1997, following a Council resolution of 20 June 1996. On 29 October 1997 the Commission proposed that improvements in the social and environmental situation in countries benefiting from the generalised scheme of preferences (GSP) be encouraged by doubling preferences for industrial products and increasing them by two-thirds for agricultural products, providing that certain standards are met.

The Community's development aid legislation was bolstered in 1997 by regulations providing a legal basis for action in a number of fields, including co-operation with NGOs, decentralised co-operation, and protection of environment in developing countries.

In spite of, or perhaps because of, all these regulations, resolutions, declarations and communications, there is no comprehensive, coherent and Commission-wide statement of EU's development policy, between the general formulation of the Treaty and the detailed but fragmented analyses and recommendations of the policy papers. This review strongly suggests that a coherent, overarching policy statement on the rationale, objectives and policies of development co-operation could help to frame a more coherent approach to decision-making across the Commission's geographical and functional units. The guidelines for the negotiation of new co-operation agreements with the ACP are a step, albeit incomplete, in the right direction.

### *Major changes in on-going programmes*

The main changes underway concern ACP countries, with the renegotiation of the Lomé Convention due to start in September 1998, and the CEEC countries in the process of accession to the European Union.

#### *The renegotiation of the Lomé Convention*

The council of Ministers on 29 June 1998 approved the guidelines for the negotiation of new co-operation agreements with the ACP countries, to allow these negotiations to start in September 1998 as planned. The negotiation mandate aims to conclude a new Convention in a long-term perspective, but for a duration which is not yet fixed, and might range between 10 and 20 years. The mandate is based on the following five main guidelines:

- Since the most serious obstacles to development are often political, the European Union wants to give the new partnership a strong political dimension, selectively targeted in terms of the merits

of the partner countries in the areas of democracy, respect for human rights, good governance and the rule of law.

- Poverty alleviation will be the cornerstone of the new partnership. This approach will be three-pronged and based on: i) support to the factors of growth, the private sector, competitiveness and employment; ii) support to social policies; iii) support to regional integration and co-operation. Three guiding principles will also be systematically applied in all areas of co-operation. These are: i) capacity building, support to institutional reforms, and cultural development; ii) mainstreaming a gender-sensitive approach and encouraging positive measures in favour of women; iii) integrating environmental principles and best practice for sustainable development and the protection of natural resources.
- Open up co-operation to economic partnership, with a view to integrating progressively the ACP countries in the world economy. Compatible with the rules of WTO, differentiated regionalised agreements can be negotiated. These economic partnership agreements would include free trade areas, based on geographical proximity, in line with Article XXIV of the GATT. The need for a prudent and gradual move towards reciprocal trading relations is recognised, and the present regime would be maintained during the first five years of the new Convention (March 2000-2005). This would give the time to negotiate the regionalised partnership agreements, and to review the status of the negotiation in 2004, before starting to implement progressively—over a ten to fifteen year transition period—the free trade areas between EU and each of the regional groupings. The European Union in addition committed itself, in margin of the negotiating brief, to examining, at the proper time, the situation of the non-LLDCs ACP countries which would not have joined the free-trade areas (FTA). For LLDCs (ACP and non-ACP) by the year 2000 the EU will start a process which by 2005 will allow duty-free access for essentially all products. The situation of non-LLDC ACP countries which will not be in a position to join FTAs with the EU will be assessed in 2004, and alternative possibilities will be explored.
- The mandate proposes to overhaul the practical procedures for managing financial and technical co-operation, to rationalise and simplify the existing instruments, to curb the “entitlement culture” of Lomé. In addition, an investment facility managed by the EIB would support private sector development.
- Finally, it is intended to preserve the ACP as a whole while introducing the principle of differentiation to address better the various needs of the ACP grouping.

### *The accession process*

The EU has developed political and trade relations with the CEECs through trade and co-operation agreements and Association Agreements (the “Europe Agreements”). The latter have been signed with ten countries: Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia.

The accession process was launched at the Copenhagen Summit (June 1993), when the European Council offered those countries with Europe Agreements the prospect of membership of the European Union, when certain economic and political conditions have been met. This commitment was reinforced at the Essen Summit (December 1994), where the Council adopted a detailed strategy for integration in the Union. Membership requires that the country have stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as capacity to cope with competitive pressure and market forces within the Union. In addition it

must be able to take on the obligations of membership including adherence to the aims of political, economic and monetary Union. This is referred to as the ability to meet the “*acquis communautaire*” (Union status). The enhanced pre-accession strategy adopted at the Luxembourg summit (December 1997) centres on Accession Partnerships, which were adopted in March 1998 for all the ten Central and Eastern European candidate countries, and on increased pre-accession aid.

The ten countries noted above have applied for Membership. Only five, Czech Republic, Estonia, Hungary, Poland and Slovenia, have been considered able to start negotiations towards adhesion, which also concern Cyprus (not a CEEC). Five countries were deemed not able to do so for the time being, namely Bulgaria, Latvia, Lithuania and Romania, for economic reasons, and Slovakia for political reasons.

Negotiations started in March 1998. The first team for the Commission is from DG IA, and is reviewing *inter alia* the Phare strategy for assistance to CEECs. The second team is a high level task force of twenty people who will negotiate with the applicants. Negotiations might last two to three years.

The amount of the Phare programme should increase from around ECU 1 billion a year to ECU 1.5 billion a year by 2000, and two-thirds of these funds should be devoted to helping the applicants narrow the gap with the “*acquis communautaire*”. Also in 2000 they should receive ECU 1 billion from the structural instrument for measures similar to those carried out under the current cohesion fund, to mitigate the social consequences of the adhesion, and ECU 0.5 billion for agricultural restructuring. The EIB has increased its backing for the countries in question by setting up as of 1998 an additional pre-accession support facility of ECU 3.5 billion, thereby doubling its capacity to finance operations in these countries up to the year 2000. Operating without the Union guarantee which covers Bank operations outside the Union, this facility is designed primarily to transpose the Union patrimony to these countries by financing projects aimed at safeguarding the environment, modernising industry and extending trans-European networks.

To complete the picture, relations between the EU and Turkey are based on the Association Agreement signed in Ankara in 1963. The Customs Union completed at the end of 1995 is functioning in a satisfactory manner. Moreover, Turkey applied in 1987 for membership in the Community. The European Commission in 1989 endorsed Turkey’s eligibility for membership (underlining at the same time that progresses in the economic and political fields were necessary), which was reconfirmed by the Association Council of 29 April 1997. The European Council of Luxembourg, in December 1997, called on the Commission to draw up a strategy to prepare Turkey for accession, by bringing it closer to the Union in every field. The Commission subsequently prepared “A European Strategy for Turkey”, which was endorsed by the European Council of Cardiff, in June 1998. Similarly, Turkey prepared and submitted its own Strategy to the EU. The first discussion on these two papers began in September 1998 in Ankara. Furthermore, the Cardiff Council requested the Commission to prepare a report on Turkey’s progress towards accession by the end of 1998, based on Article 28 of the Association Agreement and on the Luxembourg European Council conclusions.

### ***Policy review and Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century***

The Commission seized the opportunity of negotiations for a new Convention with the countries of Africa, the Caribbean and the Pacific (ACP), to replace the expiring Lomé Convention, to embark on a major reflection exercise and to launch a wide public debate prior to these negotiations in September 1998. A Green Paper on relations between the European Union and the ACP countries set out the prospects and options for revitalising the ACP-EU partnership, after nearly 25 years of Lomé conventions, the most recent of which will expire on 29 February 2000.

Following the debate on the Green Paper (published in November 1996), which has also been examined by the Economic and Social Committee and submitted to the European Parliament, the Commission on 29 October 1997 presented new guidelines for the negotiation, proposing that the new agreements follow five major policy guidelines: i) revitalising the partnership and giving it a strong political dimension; ii) shifting the focus of co-operation by adopting an integrated approach to poverty alleviation; iii) opening up co-operation to economic partnership; iv) making the management of co-operation instruments more rigorous and more selective; and v) introducing the principle of differentiation while preserving the integrity of the ACP group.

## **Key themes related to DAC policy principles and recommendations, and concerning capacity development in partner countries**

### ***Highlights of follow-up taken on DAC policy principles and recommendations***

The Commission broadly agreed on the points raised at the last DAC review (19 September 1995), which it needed to address. Many points were taken up with the adoption of a number of measures, in 1996 and 1997. A joint follow-up report was issued by the two most concerned Directorates, i.e. DG IB and DG VIII, in November 1997, dealing with the following points.

#### *Managing coherence*

The Commission has taken steps to minimise policy incoherence. Two co-ordination committees have been set up, regrouping the four external relations (*Relations Extérieures* - RELEX) Commissioners and Directors-General. Two other working groups have also been put in place: RELEX Planners, and the conflict prevention network, with a view to ensuring more coherence in the Commission's external relations activities. These committees are reported to meet regularly and to be yielding useful results. At the same time, they must work within the complexity of the Commission's organisation, to which they themselves add new layers. The context of the restructuring exercise of the whole Commission, due to take place in 2000, could provide important opportunities for more radical strengthening of coherence and co-ordination in areas of development co-operation. If such opportunities were properly prepared and acted upon, the Commission could show major leadership to the whole international community.

#### *Country and regional strategies*

Over the last three years, the Commission has made some progress in preparing development co-operation strategies for partner countries in its various geographical areas.

In the Mediterranean region a strategic framework, aiming at a free trade area by the year 2010, has been adopted. Since 1995 new country strategies have been produced for all the partner countries. A new global Asia strategy has been approved, and some progress has been made in Latin America in preparing country strategies, which have been or will be finalised in 1998, on the basis of three-year rolling cycles.

For the ACP countries a strategic approach has now been used for the programming exercise to prepare the second financial protocol of the fourth Lomé Convention, covering the Eighth European Development Fund (for 1995 to 2000). Based on a strategic analysis carried out for each country, National Indicative Programmes (NIPs), agreed with the governments, put more emphasis on sectoral policies, as well as on the coherence of the various instruments of the Convention. The agreed strategies are not merely

theoretical—progress achieved in their implementation is an essential criterion for the release of the second tranche of the aid programme, which can represent up to 30 per cent of the total.

While these improvements are welcome, it should be noted that in a number of instances the Commission has been obliged to use consultants to formulate the country strategy and to prepare the country strategy papers. This raises some doubts as to the extent to which these strategies are internalised by the EU staff in charge.

### *Poverty*

The fight against poverty was addressed in a Communication of the Commission in November 1993, followed by a Council Resolution of December 1993. While the theoretical bases for poverty reduction were previously in place, this objective had been identified as needing more focus. Much has been done to translate the objective into action in the field, through the combined use of various channels, instruments and approaches, corresponding to the multiple dimensions of poverty, and with funding from the different sources available.

There has been increased recourse in recent years to NGOs as a channel to fund micro-projects, and to target interventions towards the most vulnerable groups in civil society, which also helps develop decentralised co-operation. Some efforts have been made in social sectors, notably health and education, on basic services more likely to reach the poor. Counterpart funds generated from programme aid has been used to meet the local costs of projects in the social sectors.

Many officials in the Commission and Member countries believe that more has still to be done to emphasise poverty reduction at the policy level, and the priority on poverty is still more evident in Brussels' strategies than in the field. While the overarching goal of poverty reduction is unquestioned, operationalising guidelines and methods to show impact is problematic.

### *Aid co-ordination*

Some progress has been achieved towards more effective co-ordination. This has been advanced through more systematic inter-service consultations. Co-ordination with international organisations, in particular the International Monetary Fund (IMF) and the World Bank has been a normal practice for many years. DG VIII is developing a stronger partnership with the latter, concentrating on priority areas and on some pilot countries.

An attempt has been made to reinforce co-ordination with Member States both at the policy and operational level. Following a pilot exercise on local co-ordination in six developing countries launched in 1994, and which had mixed results, the Council decided in June 1997 to strengthen operational co-ordination in all developing countries where there are co-operation relations, although preliminary findings have pointed out disparities between the pilot countries in the results achieved, and to a number of problems hindering the co-ordination process. The corresponding guidelines were approved in February 1998 although a full assessment of these pilot experiences had not been made.

However, an effort was made to improve co-ordination between the Commission and the Member States in connection with the programming of the second financial exercise of the fourth Lomé Convention. Prior consultations were carried out with the Member States on priority sectors and sectoral policies.

## *Aid management and aid effectiveness*

The Commission has started to take measures relating to aid management and effectiveness, aimed at streamlining the management of the aid programmes, and addressing some of the issues raised in the last DAC report with respect to programme or project preparation and design, implementation, monitoring and evaluation. A Quality Support Group was thus set up in DG VIII in November 1996 in order to review financial proposals for projects or programmes before sending them to the decision-making bodies, in an effort to raise the quality of project design practices. In DG VIII yearly country reviews have started to be carried out as of 1998. As for DG IB, it adopted project cycle management beginning in 1996. After a preparation phase the Commission has decided a major reform involving the creation of a Common Service for the Management of Union Aid to Third Countries, due to take effect in 1998. This new administrative structure will be responsible for the various tasks related to project and programme implementation and evaluation, for all the external relations Directorates General (I, IA, IB, and VIII).

Although this reform seems to simplify and rationalise procedures, it will not be sufficient in itself to resolve the problems inherent in the complexity of the organisation, the proliferation of budget lines and regulations, and the heavy reliance on cumbersome financial and formal controls. However, as will be seen below, other reforms are also underway.

## ***Key themes concerning capacity development***

### *Private sector promotion*

The creation of a favourable environment for the private sector and the encouragement of the private investment as an irreplaceable engine for growth has remained high on EU's agenda, while the importance of job creation is increasingly recognised by the developing countries themselves. Both the Commission and the European Investment Bank have developed a number of mechanisms to encourage and support private sector development.

Since grants through public channels are not appropriate to direct funding of the private sector, the Commission has put into place a variety of instruments designed to play a catalytic role in favour of the private sector, and which are specific to each geographic programme.

For ACP countries, the Lomé IV Convention provides the framework for private sector development support, which can be extended by the Commission itself through projects or programmes consistent with the priorities established in the National or Regional Indicative Programmes, by the European Investment Bank (EIB), through its own resources and/or risk capital, and/or by the Centre for the Development of Industry (CDI), a paritary institution established by the Convention.

The Commission (DG VIII) provides financial and technical assistance at four levels:

- at the macro-economic level, with the objective of improving the business environment in which private companies operate (e.g. technical assistance and structural adjustment funds);
- at the meso-economic level [strengthening the role of non-financial intermediaries like local Chambers of Commerce, and helping rebuild the capacity of the financial sector to lend to small and medium-sized enterprises (SMEs), in particular after the bankruptcy of almost all of the public development banks in Africa in the 1980s];

- at the micro-economic level [promoting SMEs, microenterprises (MEs), and craft businesses micro-credit schemes];
- at the level of foreign direct investment and investment promotion, by providing technical support to develop more effective investment promotion policies (investment codes, investment protection,...), and by supporting the organisation of sectoral investment and partnership fora.

Private sector promotion also involves the EIB, to which the Commission provides two types of resources for financing the private sector:

- risk capital, budgeted at ECU 1000 million for 1995-2000 (period of the Lomé IV second financial protocol), allows the EIB to make global loans, on soft conditions, to financial intermediaries which onlend it to SMEs in the private sector, or to provide venture capital. Article 284 of the revised Lomé Convention also indicates that 50 per cent of risk capital shall be assigned globally to the least-developed countries, and that at least 50 per cent of risk capital resources shall be used for assisting ACP States which actively endorse and implement measures to support investment in the private sector. Since 1993 the EIB has created the European Community Finance Institutions fund (ECFI), for the purpose of complementing the venture capital interventions of European and bilateral development finance institutions, and this credit line has just been replenished to the tune of ECU 20 million;
- interest rate subsidies, for which ECU 370 million have been set aside under the same protocol, allow the EIB to make loans out of its own resources with attractive interest rates (between 3 per cent and 4 per cent) to joint EU-ACP companies. The Commission's own resources in this area amount to ECU 1658 million under the second financial protocol, but part of this amount is used outside the private sector, mainly to finance infrastructure projects.

The third instrument for private sector financing in ACP countries is the Centre for the Development of Industry (CDI), located in Brussels, which is dealt with by Articles 87 to 93 of the Lomé Convention. The CDI is a joint ACP-EU institution which works under the supervision of a joint Committee on Industrial Co-operation. Its objective is to encourage and support the creation, expansion and restructuring of industrial enterprises (mainly in manufacturing and agro-industry) in ACP countries. To this end it promotes partnerships between ACP and European companies which may take various forms: financial, technical or commercial partnership, management contracts, licensing or franchise agreements, subcontracts, etc.

The CDI's services are free of charge and divided into four facilities to support the successive stages in the creation, expansion or rehabilitation of industrial companies. It does so mainly by providing appropriate technical assistance in the pre-investment phase. In particular, it helps to identify, appraise, and evaluate economically and financially viable industrial projects: it can finance feasibility studies, identify potential partners of the ACP States and the Union, and assist in securing an appropriate financing package. The total amount invested in these projects must normally be between ECU 200 000 and ECU 10 million.

The CDI is a small structure with less than 60 permanent staff in total, of which half are at expert level. In order to operate in the field, the CDI has developed an extensive network of contacts. In the ACP States in 1997 there were 59 antennas, with 13 country officers, and 5 experts on secondment. In the same year, there were 748 interventions, 292 of which were carried out by EU experts and 107 by EU industrial

partners. One indication of the responsiveness of this institution may be the steady increase in the number of requests registered, from 575 in 1994 to 1 079 in 1997.

For the ALA-MED countries, the Commission (DG IB) has put in place various instruments to promote private sector development, among which the most global is the European Community Investment Partners (ECIP) scheme. This financial instrument was created in 1988, and replenished every three years since then, most recently by a Council Regulation of January 1996. It aims at promoting mutually beneficial investment in the form of joint ventures between Union operators and local operators in the eligible countries. This regulation also extends coverage to South Africa, and for the first time provides for measures to pave the way for privatisation or privately-run infrastructure. Implementation of existing projects is tightened up, especially as regards financial management and monitoring. The Council approved a financial reference amount of ECU 250 million over five years for implementation of the programme. In 1997, the amount allocated to the scheme was set at ECU 52.2 million.

ECIP's main objective is to facilitate the creation in ALA-MED countries and South Africa of viable joint ventures between EU and local companies. To do this ECIP also offers four facilities to contribute to the successive stages of a project. The first one helps to identify a project and its potential partners, while the three others have to do with the latter stages: feasibility studies (facility 2), financial advice to investors in order to meet capital requirements (facility 3), and human resource development through technical assistance and training (facility 4). ECIP operates through a network of financial institutions and provides either grants or interest-free advances (facilities 1 and 2), interest-free loans (facility 4), or equity (facility 3).

#### *Efforts in poverty reduction*

Since the Treaty of Maastricht, the fight against poverty has been put (by Article 130 u) at the centre-stage of the Union's development co-operation activities. A Council Resolution of December 1993 has reaffirmed the priority of this objective. It reflects the donor consensus on the key components of a poverty-reduction approach, in line with the *21st Century Strategy* target of halving by 2015 the proportion of people living in absolute poverty: stimulation of economic growth, support to social sectors, essential participation of beneficiary populations, adequate targeting of interventions on the most vulnerable groups. The corresponding Communication from the Commission to the Council went even further, by stressing the internal and essentially political dimension of the campaign against poverty, recognising inequality as a constraint on growth and poverty reduction, and advocating more emphasis on redistribution policies.

The resolution of Integrating Gender issues in Development Co-operation (20 December 1995), stresses that the Commission's development co-operation should ensure equal access for women to resources such as education, health care, water, sanitation, credit and extension services. Equal access to all ensures more efficiency in the allocation of scarce resources. Also women's access to short-term safety nets and structural social services should be equal to that of men, to reduce the over-representation of women among the most vulnerable of the poor. Gender disintegrated data and indicators shall be presented for resources/inputs and outcome variables to be used to measure gender inequalities in the effects of macroeconomic policies in terms of access to and control over resources and in terms of economic outcomes such as income, leisure time, exports, capital formation, training and poverty. Of the world's poor 70 per cent are women.

Given the variety of objectives pursued in the past, it is difficult (as with other donors' programmes) to assess the overall impact of Union activities on poverty reduction. But there is recognition at the Commission that poverty is not being eliminated, especially in Sub-Saharan Africa and South Asia, and

concern that at the present pace the 2015 agreed target will be difficult to achieve in the poorest countries, especially those affected by conflict.

This has led the Commission to revisit its strategy for the reduction of poverty. A broader approach is contemplated, which puts poverty reduction in the context of reduction of inequality and the fight against social exclusion. Although there is still an ongoing debate, the present thinking on this question suggests that the 1993 formulation is valid but that there is a need to strengthen the political commitment by partner governments to have a substantial impact on poverty reduction. Thus the ownership of policies and the nature of partnership are seen as the essential ingredients of a development co-operation focusing on the reduction of poverty and the decision-making processes will ensure that gender aspects are properly integrated into policy dialogue, planning, monitoring and evaluation of activities aimed at poverty reduction.

Sustained and equitable economic growth and the stability of the economic framework remain important but alone are insufficient to reduce poverty. More attention must therefore be paid to inequality as a constraint to economic growth, and to the linkages between growth and the livelihoods of the poor, who need access to resources (land, credit), so that they can participate in the development process. Gender inequalities in the economy are not limited to inputs and outputs but also impact on economic processes themselves. In this connection there is scope for donors to give greater support to the development of micro-finance institutions, which provide savings and credit facility to develop the microenterprise sector. This can be done in various ways, as mentioned in a Council Resolution of December 1997.

As for the allocation of funds to basic services, there is increasing interest in giving support through sector-wide approach (SWAP) to projects or programmes, and the Commission intends to work with other donors to make this approach an effective component in the fight against poverty, considering the possibility of using country assessments in the design of SWAPs.

In order to protect the poorest, the Commission intends to give more attention to social protection, seen as a means of integrating them back into the economy, and to decentralised co-operation as a mechanism to give support to non-government groups. Greater attention will be given to Social Investment Funds, which operate at Union level. Emergency aid channelled through ECHO is also a major programme targeted at the poorest, with efforts under way to link it more closely to the development process through rehabilitation and reconstruction.

The main vehicles for putting these policies into action have been the ALA Regulation of 1992 and the Lomé Convention. In line with the former, projects in Asia and Latin America in the 1990s have been increasingly directed towards the objective of alleviating poverty, often targeting the rural poor and emphasising a Union-based, bottom up, sustainable development strategy.

Similarly, the National Indicative Programmes agreed with ACP governments in 1997 for the 8th EDF state the overall objective of reducing poverty, with several of the priority sectors related to poverty reduction like food security, and support to social sectors mainly directed to basic services. Micro-project programmes and rural development programmes within the EDF are also frequently of direct relevance to the poor. Apart from these instruments, DG VIII is making efforts to better understand and to strengthen capacity to undertake projects in support of microfinance institutions, a relatively new approach for direct poverty reduction.

Poverty reduction has long been identified, i.e. in the 1993 Resolution, as a main area for reinforced co-ordination between the Union and the Member States, with common principles and objectives, to ensure better complementarity of policies. The Resolution explicitly called for co-ordination mechanisms to be put in place at country level, with seven pilot countries chosen: Bangladesh, Ethiopia, Ghana, Mali,

Mozambique, Nicaragua and Peru. The Commission itself, however, recognises that the results were mixed and difficulties were encountered related to contradictions between donor priorities, partner countries and donors, and between country policies and capacity.

The Commission realised that there was a need for capacity building on poverty among staff, and that skilled staff were needed both in delegations locally in the partner countries and in Brussels. Specific training started in 1997, and should involve all staff, owing to the cross-cutting nature of the goal of poverty reduction, which concerns all sectors.

Other institutional arrangements or mechanisms will play a role in mainstreaming poverty reduction:

- the Quality Support Group set up at the end of 1996 examines all projects and/or programmes before transmission of the related financing proposals to the appropriate decision-making body, and considers *inter alia* whether coherence with overall development and sectoral policies has been adequately taken into account; it does so on the basis of an End of Appraisal Report, which must indicate if the project/programme will bring about a reduction in poverty, even though this may not be an explicit objective;
- starting in 1997, the issue of staff briefing papers on poverty reduction in relation to sectors, with emphasis on mainstreaming poverty-reduction approaches into sectoral policies;
- the use of poverty assessments to be outlined in a new manual of instructions and staff training;
- the introduction of mechanisms for monitoring achievement of poverty reduction targets.

All of these points were endorsed by the Council in May 1998.

Moreover, the negotiating mandate for post-Lomé EU-ACP relations puts poverty reduction as the central objective of partnership with developing countries.

Nevertheless, in poverty reduction as in other areas, effective performance “depends crucially on government ownership of poverty reduction goals”, as stated by the Commission. Since “this is often lacking or there is only lip service to the goals”, good governance again appears to be a key element. It remains to be seen to what extent the new EU-ACP negotiating mandate will be successful in seeking to change the nature of the partnership with a view to internalising the poverty-reduction objective.

#### *Social development: education, health and population activities*

The Union and some Member States have adhered to the 20/20 concept discussed at the Copenhagen Social Summit (1995). It advocates mutual undertakings between beneficiaries and donors based on the principle of spending a minimum of 20 per cent of domestic budgetary and foreign aid resources on the basic social sectors. The Commission reiterated its commitment to the 20/20 concept in a Communication to the Council in October 1996. The amounts actually committed in 1996 and 1997 fell short of the objective, but the programming system of the EU, particularly for ACP countries, does not give the Commission a free hand to meet such targets in the short term.

The share of social sectors in the 8th EDF soon to start, in particular basic health care, and primary education, will increase. The draft mandate for negotiation of the post-Lomé Convention clearly puts support to social sectors at the forefront of the fight against poverty.

A Council resolution of November 1994 puts the emphasis on basic education, considered as a fundamental human right. Funds devoted to education and training in ACP countries have increased accordingly, from ECU 300 million under Lomé II to ECU 800 million under Lomé IV, and are due to increase in the future. The operational approach considers that the problems of the education sector can only be properly analysed on a country-by-country basis, with particular emphasis placed on assistance to the poorest countries.

European aid to education and training must not be a substitute for action by the recipient countries themselves, but must support these countries' own efforts. The sustainability of education and training interventions is seen as a long-term consideration, implying that the creation of a local institutional capacity is a key factor to ensure sustainability. Counterpart funds in local currency generated by structural adjustment facilities have been used to this end. It is estimated that 30 per cent of the overall amount of such funds went to primary education during the first five years of Lomé IV (1991 to 1995).

The health sector is another social sector which has been given priority in the context of the fight against poverty. A Council Resolution of May 1994 on co-operation in the field of health defined the broad lines of the Union's policy in this area, stressing that external aid should tie in with the national health policies of the beneficiary countries themselves and support these policies, while being directed as a priority to the poorest countries and to the least-favoured population groups, with particular attention to women and children. It was considered that a priority objective was to help the beneficiary countries to establish and implement viable health policies, to organise health systems, and to carry out a reform of care systems so that priority be given to the most vulnerable groups and to the most frequent and serious problems.

The Union has started to implement a new investment policy, to curb schemes to create new infrastructure in the hospital sector, which has proved unsuccessful and even counterproductive. Efforts have been made, in contrast, to increase investment in improving living and hygiene conditions, to improve access to potable water, sewage disposal, and more generally to improve basic and first referral health services. Support has also been directed to the strengthening of central administration's technical facilities and resources, particularly with regard to planning, programming, legislation and monitoring.

The Council adopted an Acquired Immune Deficiency Syndrome (AIDS) policy, in a resolution of May 1994, with the objective of minimising the spread of the epidemic while preventing discrimination and exclusion of those at risk, infected or sick, and to help the health sector to cope with the additional burden caused by AIDS. Support to preventive measures has been given priority, with emphasis on actions in the fields of education, awareness, caring for persons affected by Sexually Transmitted Diseases (STDs) and promotion of sexual and reproductive health.

As regards population activities, the Union's support in this area has not been in line with its assistance in other development sectors. Family planning was addressed in a Council resolution of November 1992, which recognises that it is one of the instruments in a policy aimed at ensuring the balanced demography compatible with sustainable development. At policy level, the Union is willing to encourage and facilitate, in the context of national development and co-operation policies, the formulation, voluntary adoption and implementation of family planning policies, and support for existing family planning policies. It is also willing to contribute to the strengthening of family planning services provision, including and emphasising the broad distribution of information and enhancing awareness. Lack of staff and qualified population experts in the Commission has seriously hindered work in this critical field.

A new Council regulation on population policies and programmes in developing countries (1997) builds on the earlier Council resolution of November 1992 and defines a broad set of objectives for support of sexual and reproductive health measures. The objectives give priority to support to: firstly, enabling women, men and adolescents to make free and informed choice about the number and spacing of their children;

secondly, contributing to the creation of a socio-cultural, economic environment conducive to the full exercise of choice, especially for women and adolescents, and in particular through the condemnation and eradication of all forms of sexual violence, mutilation and abuse which affect their dignity and health; thirdly, helping develop or reform health systems in order to improve the accessibility and quality of reproductive health care for women and men including adolescents, thereby appreciably reducing risks to their health.

### *Gender equality issues*

Since the last DAC review some progress has been made in the area of gender equality. In December 1995 the Council adopted a resolution on integrating gender issues in development co-operation<sup>1</sup>, which has laid the basis for a number of actions undertaken for its implementation by DG IB (ALA, MED) and DG VIII (ACP). Previous to that, the overall policy regarding gender issues was not easily discernible, and it had limited practical applications.

The Resolution recognises that redressing existing gender disparities is a crucial issue in development in terms of aid effectiveness and social justice, and states that to address this issue on the necessary scale, gender analysis must be mainstreamed in policy formulation and policy dialogue, in the conception, design analysis, implementation and results-monitoring of all European Union and Member States' development policies and interventions. The development of the internal capacity of the Commission and its Member States is also emphasised. The strategy is based on three elements: utilising analyses of the differences and disparities between women and men as a key criterion for assessing goals and results; raising awareness, training and sensitisation of key decision-makers in the Commission and the partner countries; and creating tools and revising working procedures.

Financial resources for gender equality issues and the Gender desks are supported by a dedicated budget line for sensitisation work. Before the 1995 Resolution, financial resources for catalytic action on gender integration already existed under budget line B7-611 "Women and Development", which was created in 1990 by the European Parliament. This budget line does not finance operational projects in favour of women. The function of the budget line is strategic and catalytic, and seeks to include integration of gender issues, and special interventions to reduce the differentials between women and men, within the mainstream of the Union's development approach. The budget increased from ECU 0.5 million in 1990 to ECU 3 million in 1996 and ECU 5 million in 1997, shared between DG IB and DG VIII with ECU 2.5 million each. The Commission approved a proposal for a Council Regulation in June 1997 on Integrating Gender Issues in Development Co-operation [COM(97)265 final]. It was approved by the Development Council in May 1998. The European Parliament's Development Committee will consider the proposal in September 1998. This Regulation sets out a legal basis for the gender sensitisation budget line B7-611 and sets out clear policy guidelines for its use. Funds from the budget line are mainly used to integrate gender aspects into mainstream country programmes and projects. Integration is achieved both through direct intervention into projects and through methodological development and training. Requests for financial support for projects specifically targeting women are normally referred to the range of other Commission budget lines. Mainstream funds are applied to gender-integrated projects and large-scale positive measures to reduce differential between women and men.

The gender desk has one Detached National Expert in each DG. This is a slight increase (one country expert) from the previous review. To facilitate the dissemination of gender awareness through the organisation, DG VIII and DG IB have established an internal network of gender focal points in 26 units in

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1. Resolution of the Development Council (20 December 1995) [127847/95] and the Representatives of the Governments of the Member States on Integrating Gender Issues in Development Co-operation.

DG VIII and three in DG IB. Where appropriate the number of focal points will be increased or reinforced at the level of Commission units and delegations responsible for development. The Council recently agreed to strengthen the capacity of permanent staff as well as of consultants. However, there is no system in place yet to reinforce the gender focal points. The Commission uses consultants on an *ad hoc* basis to reinforce them on a limited scale. The progress report by the Commission issued in October 1997 and reviewed by the Council in May 1998, agreed that a general staff shortage affects the speed of implementation of the Resolution, both directly at gender desk level and indirectly, because reduced availability of staff for sensitisation, training and implementation advice. As in many other areas, external consultants financed on the above-mentioned budget line are therefore used for short-term technical advice missions on the design and implementation of projects and programmes; for more detailed and comprehensive technical advice tasks; for gender training; and to prepare specific studies or methodologies.

After review of the progress report the Council also adopted the following break-through conclusions that demonstrate a positive jump forward in the EU's operationalisation of its 1995 Resolution. The review considered progress to date by the EU and Member States on implementing the 1995 Resolution on integrating gender in development co-operation. These include agreement that: a gender perspective will be specifically incorporated into regulations and guidelines which govern the development co-operation programme of the EU and its Member States; gender issues will be analysed and considered as part of normal project or programme preparation and follow-up; decision-making processes will ensure gender aspects are properly integrated into policy dialogue, planning, monitoring and evaluation; all staff should receive training to raise awareness and develop gender analysis skills.

Support will be given to understanding the links between gender issues and poverty, and to strategies that tackle the root causes of a disproportionate number of impoverished women, including policy changes where necessary. This would continue the traditional strong support to research on gender issues in public expenditure and in agricultural and financial market liberalisation. The Council also agreed that co-ordination of gender-related policies and practices is particularly important at country level and this will continue to be addressed in regular meetings, as will support to increasing the capacity of developing countries to support gender mainstreaming activities and policies. It was agreed that the EU and Member States should aim to set targets for implementation of the Resolution, taking into account the work done on indicators at the level of the Group of National Gender Experts. The Council will review progress in the year 2000 on the basis of two-yearly progress reports from the European Community and Member States, and other evaluation results. Experience with gender integration work has been collected and analysed through four consultancy contracts, resulting in five reports on the status of integrating gender issues in development co-operation in ten MED/ALA countries, and two consultancy contracts for ACP countries.

Some implementation of integration has taken place, especially in ACP countries, although at this stage only a few projects are classifiable as either WID-integrated or WID-specific. Country-specific gender strategies do not seem to exist as yet. Country strategies and NIPs refer increasingly to gender equality in preambles, but were found by a survey on years 1996 and 1997 to contain substantive sections or proposals for improved gender equality in only 17 per cent of the cases. The new DAC policy marker on gender equality including women in development, which is part of the new DAC policy marker system, will replace the old classification system based on the old DAC "WID-integrated/WID-specific" criteria. The EU will aim to progressively increase the percentage of activities/interventions that satisfy the gender marker criteria.

The Commission/Member States Gender Expert Group has been established to improve co-ordination between the Commission and the Member States. In order to ensure maximum transparency and avoid duplication, the Secretariat to the DAC Working Party on Gender Equality (formally the DAC Expert Group on Women in Development) acts as an observer. The second 1997 expert meeting approved, with

some amendments, a draft set of indicators proposed by the Commission which seeks to assess progress in a practical and concrete way. Sections cover policy, planning, staffing, training, financial resources, and project procedures. To all Financing Proposals presented to the ALA/MED Committee will be annexed the Gender Impact Assessment Form developed by DG IB to help administrators, together with consultants for missions in the field, to manage the nature and quality of the incorporation of gender/WID into the project cycle in the projects for which they are responsible. The Quality Support Group instituted in 1997 in DG VIII addresses gender issues among other aspects, when reviewing financial proposals over ECU 2 million.

The mandate for post-Lomé negotiations with ACP countries focuses on improving equality between women and men as a prerequisite for human development. As a result of the new OECD/DAC Guidelines on Gender Equality and Women's Empowerment and of the DAC Source Book on Concepts Linked to Gender Equality, the EC project cycle management manual will be revised. The Commission (DG VIII and DG IB) will also produce a Source Book which will contain theoretical aspects as well as good practices for operationalising gender equality approaches. The ALA and MED are in the midst of synthesising feedback from field reports in order to produce a gender action plan for the next five years, 1999-2003. Training on topics such as financial analysis and policy dialogue techniques will be modified to better include gender issues, and will be partially based on the DAC Guidelines.

#### *Human rights and democracy, good governance and the rule of law*

Following three Council resolutions of 1991, 1992 and 1993, the Maastricht Treaty on European Union makes it an objective of the common foreign and security policy "to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms". In the field of development co-operation, this objective is re-affirmed by Articles 5, 224 (m) and 366a of the Mauritius agreement, revising the 4th Lomé Convention, which adds an institutional and political dimension to the co-operation policy.

The Union's approach to promoting human rights and democracy is also enshrined in a series of Communications by the Commission to the Council and Parliament: of May 1995, November 1995, March 1996, and finally of March 1998 "on 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". This last Communication aims at establishing with partner countries a deeper and systematic dialogue based on a frame of reference, providing a profile for charting the progress of democratisation and of the rule of law.

The strategy used in pursuit of these objectives has evolved since the beginning of the 1990s. The first strategy was demand-driven. Projects were undertaken at the request of the governments or of actors of the civil society, and mainly oriented towards support of elections or institution building in the public sector (support to the independence of the judiciary, to local or regional decentralisation), or support to local associations.

The approach has now evolved to become more pro-active, with the objective of implementing direct, positive actions, following identification missions in the field, to better analyse the situation and the priorities. The range of possible actions can include measures to fight corruption, to develop human-rights awareness and education programmes, operations in support of vulnerable groups (in particular women, children, victims of torture, refugees), support to the freedom of the press, legal assistance programmes.

A number of financial instruments have been set up to pursue these objectives. The broadest one is Budget Item B7-7020: "support for promoting human rights and democracy in developing countries, with

exception of Latin America and the Mediterranean countries". There are two budget lines for Latin America and Mediterranean countries respectively (DG IB), one line for support of organisations pursuing humanitarian aims and defence of human rights, and another for support of rehabilitation centres for torture victims, and of organisations offering concrete help to victims of human rights abuse (both in DG IA). Funds are also available from EDF resources, and out of counterpart funds generated by various Union instruments. In all an amount of ECU 526 million has been spent in support of democracy and human rights since 1992, out of which ECU 312 million have come from the general budget of the Union, and the remainder, i.e. ECU 214 million, from EDF resources for ACP countries.

The financial protocol to the Eighth EDF earmarks an incentive financing of ECU 80 million from the regional allocation, to finance "institutional and administrative reform measures, with a view to democratisation and the rule of law"[Article 224 (m)]. In conjunction with this positive approach, Article 366a provides for appropriate steps to be taken in the event of serious and persistent human rights violations or interruption in the democratic process. It introduces a "non-fulfilment clause" and a special procedure for consultations between the parties in a joint forum, unless there is special urgency. Although the suspension of co-operation is a measure of last resort, the Commission adopted it in several ACP countries in recent years (e.g. Nigeria, Sudan, Sierra Leone and Zaire). When it is no longer possible to work with a government, funds may be redirected to the civil society, as recently in the case in Nigeria, where ECU 3 million have been provided for NGOs.

As in other areas, the whole EU organisational apparatus for democracy and human rights is complicated, since the decision-making procedures needed for the mobilisation of resources vary, owing to geographical disparities and to the need to find the procedure best suited to the nature of each project. A co-ordination committee of representatives of all the departments administering the various budgets exists to work towards coherence in this field.

### *Environment*

A major review on the integration of environmental considerations in the Union's development co-operation policy was conducted on behalf of the OECD/DAC and issued in June 1997. The conclusions of this in-depth research are still valid, and have therefore been included in Box 1 below. However, some developments in 1997 and early 1998 have taken place concerning DG VIII's activities concerning sustainable development/environment which are worth mentioning:

- Establishment of framework contracts for technical assistance for environment impact assessments in order to overcome staffing constraints. In early 1997, in DG VIII the first framework contract was concluded for two years. However, the demand for services was higher than anticipated so that after 15 months additional financial resources had to be made available. In 1998, a new tender was launched with an expanded set of terms of reference.
- Finalisation of the evaluation report on environmental performance in development co-operation and the subsequent formulation of six priority actions for DG VIII to improve the environmental performance of its aid. These priority actions include: improved integration of environmental aspects into country programmes and thematic issues, environmental training and capacity building, improved management information system for environment assessments through the project identification sheets, improved reporting, easier access to external technical support.
- Integration of environmental aspects as the third main horizontal axis into the mandate for the negotiation of the new development partnership agreement with ACP countries.

- Joint review of the environment assessment procedures in 1998 by the RELEX DGs in order to allow for a better integration of environmental assessment procedures into the current overall project cycle.
- Increased support for the review and development of sectoral policies which are in support of the concept of sustainable development.
- Initiation of improved co-ordination with Member States through expert groups in the fields of water, energy, environment assessments, biodiversity, desertification.

### *Peacebuilding and conflict prevention*

Following the Commission's Communication on "The European Union, and the issue of conflicts in Africa: Peacebuilding, conflict prevention and beyond" of 6 March 1996, the approach of the Commission to peacebuilding and conflict prevention has been confirmed by the Council of the European Union with the Common Position and Council conclusions on "Conflict prevention and resolution in Africa" of 2 June 1997, and the Resolution on "Coherence" of 5 June 1997.

The Commission has actively participated in the broad international debate on peace and conflict issues, and has made a recognised input to these discussions, in particular through its Communications on conflicts in Africa and on "Linking relief, rehabilitation and development", and its contribution to the formulation of the *DAC Guidelines on Conflict, Peace and Development Co-operation* (OECD, 1997).

Based on the principle of ownership, the Commission actively supports the enhancement of the capacities of developing countries in the field of peacebuilding, conflict prevention, management and resolution at the regional, national and local level. The Commission has recognised that an effective policy of peacebuilding and conflict prevention necessitates addressing the root-causes of violent conflicts at an early stage with a coherent combination of all available instruments, and is reviewing its aid strategies accordingly. It has also taken first steps to integrate conflict prevention aspects into the actual design and implementation of its development programmes. In addition, the key principles of the Commission's approach on peacebuilding and conflict prevention have also been introduced into relevant documents concerning the envisaged EU-ACP Partnership agreement ("Post-Lomé").

To enhance the capacity for political analysis, and the identification of root-causes of violent conflicts in the countries and regions concerned, the Commission has established the Conflict Prevention Network (CPN), a network of academic institutions, NGOs and independent experts which provides the Commission with rapid analysis and policy recommendations. Furthermore, the Commission has established training programmes for its staff, and is in the process of elaborating a manual on peacebuilding and conflict prevention.

## **Box 1. Case Study: European Commission**

### **Environmental Considerations in Development Co-operation**

#### **Conclusions of updated survey of DAC Members' activities in support of environmental goals: main study**

Although in 1986/87 environment received some attention in the legal base of the EU through the Single European Act, it was not until 1992 that the priority for environment became more explicit in the Union's legal base. This is reflected in the funding level for development co-operation for the environment. Although commitments were at a fairly high level between 1990-95, disbursements lagged behind considerably, due to a lack of commitments prior to 1990.

The largest part of environmental funds were committed and disbursed under the EDF VI and the EDF VII, as well as under the specific budget lines for environment and tropical forests. The integration of environment in projects funded through regions-specific budget lines is still in progress. Although relatively high commitment rates are evident, disbursements are still relatively low. The Commission, along with other donors, faces a number of difficulties in calculating the precise amount of environmental expenditure. There is no generally accepted definition of an "environmental project" or of the environmental component of an integrated development/environment project. This is also reflected in the differences in figures reported by and to various organisations.

When looking at the organisational structure and staffing, the main challenge for the coming years will be to overcome the staffing and expertise problems.

With regard to the integration of environment in policy formulation, implementation and evaluation, the conclusion can be drawn that environmental issues are only partially integrated in sectoral policy guidelines and in National Indicative Programmes. They are however fully integrated in Regional Indicative Programmes, in which environment has been targeted as a priority focal area. Additionally, sustainable development is one of the overarching objectives and principles for EU-ACP development co-operation.

Major instruments for the use of environmental impact assessments (EIA), are the Environmental Manual and the Guidance note on Environmental Procedures. In the recent past, follow-up has been given to the criticism concerning the lack of systematic integration of these instruments. The effect of these measures could not yet be determined in the timeframe of this study. Another instrument which can play a major role in the integration of environment is the Project Cycle Management (PCM) approach.

It was not until 1996 that a review of overall environmental goals and activities was conducted. It will be a challenge for the Commission to provide follow-up to the 1996 evaluation study, in terms of feedback into its policies, programmes and projects. Two instruments which can be identified as having potential for integration of environment in monitoring on project level are the new annual Project Monitoring Form, and the annual report from each Union Delegation.

Finally, since United Nations Conference on Environment and Development (UNCED), several measures have been taken to integrate environment and development in the Union's development co-operation itself: "The Spirit of Rio and Agenda 21 has marked EC's development co-operation".

## *Regional integration*

As a regional organisation itself, the EU is well positioned to understand and support regional integration in developing countries. Regional integration, as defined by the Commission, refers to efforts and initiatives whose objective is the elimination of policy-induced barriers to intra-group movement of goods, services and factors of production. These efforts include all activities that contribute to the establishment of a single market in goods and services, and therefore go beyond trade aspects. They can, for instance, cover the co-ordination of macroeconomic or sectoral policies which influence the formation of a single market, with many legal implications in areas like company law or common standards. Regional co-operation is a broader concept which refers to all efforts on the part of mainly neighbouring countries to address all issues of common interest.

The EU's development co-operation policy has always been supportive of regional integration perceived as a means for developing countries to increase their competitiveness through economies of scale, reduction of transaction costs, encouragement of foreign private investment, to cite but a few benefits deriving from a wider market, which can help to establish sustainable growth. Regional integration therefore should help facilitate the smooth and gradual integration of developing countries into the world economy which Article 130u of the Maastricht Treaty specifies as a goal of this development co-operation policy.

Regional integration has registered impressive progress among industrialised countries with the creation of NAFTA and the launch of the European Monetary Union, while the conclusion of the Uruguay Round and the creation of the World Trade Organisation have strengthened the multilateral trading system. There has also been an increasing number of initiatives aimed at regional integration among developing countries. Efforts to increase the effectiveness of EU support to these initiatives are guided by a Communication from the Commission followed by a Council Resolution of June 1995.

The priority areas for action set up by the Resolution were:

- capacity building (including technical assistance, training and research) on the subject of regional economic integration at the level of regional institutions and national governments;
- assistance to the private sector to facilitate restructuring in the larger regional and world market, including improvements in the financial sector;
- support to governments committed to implementing regional integration to help them cope with net transitional reduction in budgetary resources deriving from lower tariffs (balance-of-payments or budgetary support, complementary to structural adjustment support).

As regards the ACP countries, Title XII of the Lomé Convention is entirely devoted to Regional Co-operation, but Article 157 on operations covered under this heading requires that one or more ACP States agree to them. It has been suggested that a strong regional strategy would allow more scope for support to regional institutions with less tight control by their Member States.

In Sub-Saharan Africa progress in this area has been slow, despite the number of regional co-operation initiatives. ECU 1 300 million have been set aside in Lomé IV for this purpose, as well as for regional projects in general, by the financial protocol covering 1995-2000. These ECU 1 300 million include ECU 73 million for the Centre for development of industry (CDI), 85 million for regional trade promotion, 4 million for the joint Assembly, and 80 million for institutional support. The focus in projects has been on cross-border infrastructure, education and the struggle against endemic cattle diseases. The

Commission has collaborated with the Global Coalition for Africa on defining ways to increase the effectiveness of regional integration in Africa. It has co-operated with, or given support to a number of regional institutions:

- in Eastern and Southern Africa and the Indian Ocean the Preferential Trade Area (PTA), which has transformed into the Common Market of Eastern and Southern Africa (COMESA), the Southern Africa Development Community (SADC), the Southern Africa Customs Union (SACU) and the Indian Ocean Commission (IOC); since 1992 EU support has been focused on a broad initiative to facilitate regional trade, investment and payments known as Cross-Border Initiative (CBI) which is co-sponsored by the African Development Bank (AfDB), the IMF and the World Bank;
- in Western and Central Africa, the devaluation of the CFA franc has been followed by new steps towards regional integration, which have received support from the Commission under the Regional indicative programme of Lomé IV; and support for the Club du Sahel/Permanent Inter-States Committee for Drought Control in the Sahel (CILSS) process.

In other regions the Commission has supported a variety of regional initiatives, such as:

- in Latin America [Central American Integration System (SICA), Central American Common Market, the Andean Community and Mercosur];
- in the Mediterranean region and the Middle East (encouraging the establishment of a free trade area under the Barcelona agreement); and
- in Asia [Association of South East Asian Nations (ASEAN)].

## **Aid co-ordination, development strategies and country strategies**

### ***The mechanisms for aid co-ordination***

Article 130u of the Maastricht Treaty stipulates that Union policy in the area of development co-operation shall be complementary to the policies pursued by the Member States. This confirms the existence of a Union policy alongside the bilateral policies of the Member States, and at the same time recognises improved co-ordination as a necessary condition for exercising this complementarity. Article 130x adds that “the Union and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences”. This provides a legal framework for strengthening co-ordination at three levels: co-ordination of policies, co-ordination of operations, and co-ordination of positions taken in international bodies.

The Declaration of the Council of November 1992 on the run-up to 2000 insisted upon the need for improved co-ordination in particular in two areas, namely sectoral co-ordination on policy development and implementation, and country-level co-ordination. It also emphasised the importance of continued co-operation with other bilateral and multilateral donors, and stressed the need to co-ordinate the positions of the Union and its Member States in international development meetings.

Since then there has been a Communication of the Commission in March 1993 on priority areas for co-ordination, with the corresponding conclusions of the Council in May 1993. Initially the sectors concerned were health, food security and education and training, but reduction of poverty was also

considered as a priority area, together with the implementation of the policy on women in development. Another Communication on procedures for co-ordination in May 1993 was followed in December 1993 by a Council resolution which asked in particular for regular contacts between Commission delegations and representatives of the Member States in the field. They were considered essential to reciprocal exchanges of information on measures envisaged or underway in the country concerned, and also to promote greater coherence.

In October 1994, it was decided to launch a pilot exercise on operational co-ordination in six countries: Bangladesh, Costa Rica, Côte d'Ivoire, Ethiopia, Mozambique and Peru, with the aim of testing the modalities of reinforced co-ordination. This exercise had mixed results from one pilot country to another, and also between different sectors or areas of development co-operation in the same country. These results were nevertheless considered as encouraging enough for the Council to decide, through a Resolution of June 1997, to generalise the principles of reinforced co-ordination in all developing countries with which the EU has established co-operation relations, on the basis of new guidelines. These guidelines were adopted in February 1998, and are based on the following principles:

- co-ordination activities must be tailored to the specific situation in each country, and in each area of development co-operation.
- they must be carried out in close co-operation with the recipient country, with a view to strengthening its capacity to assume its responsibility for and ownership of its development strategies and programmes and reinforcing the government's leading role in general aid co-ordination;
- EU co-ordination must be linked to other existing donor co-ordination mechanisms at the country level;
- the co-ordination activities must ensure a coherent EU input in wider donor co-ordination mechanisms and consistency with common policy guidelines adopted by the Council;
- EU co-ordination must be undertaken in such a way that it maximises the added value for the beneficiary country.

### *Host country dialogue*

For the Commission one major objective of donor co-ordination is to reduce the administrative burden on beneficiary countries, and another is to ensure complementarity of the co-operation activities of the Union and its Member States within the framework of a single strategy developed by the beneficiary country itself. It is therefore important to ensure active involvement of the beneficiary country in the process of donor co-ordination, as attempted in two pilot countries, Côte d'Ivoire and Peru.

The Commission, in a working paper of April 1997, asked for continued and increased efforts to gradually involve the governments in major co-ordination activities, especially at sectoral level, by establishing better links with the governments' own donor consultation mechanisms. It specified that governments be kept informed, at the level of the relevant Ministries, of the objectives and outcomes of the EU co-ordination mechanisms with regard to sectoral policies, required government commitments, and envisaged donor activities.

## **Box 2: European Community Development Co-operation in Ghana**

### **Field Mission by the Secretariat, 6-8 July 1998**

Although Ghana had been considered as an economic miracle at the end of the 1980s, its economic performance in the 1990s has been disappointing, not least because the democratic elections at the end of 1992 and 1996 were preceded by large fiscal deficits which rekindled inflation, and because of the slow pace of reform of the parastatal sector. Moreover, the country has been hard hit since the beginning of 1998 by an energy crisis which owes much not only to a severe drought, but also to heavily subsidised electricity prices, which for several years have encouraged an unsustainable increase in demand. However, the Government is making serious efforts to put the economy back on track, and this allowed the International Monetary Fund (IMF) to resume in March 1998 an enhanced structural adjustment facility which had been suspended for 18 months. This agreement has cleared the way for financial support from aid donors announced at the meeting of the Consultative Group in November 1997, and totalling \$1.6 billion in 1998 and 1999.

Co-operation between the European Community (EC) and Ghana dates back to 1976. From 1993 to 1997 the EC provided Ghana a yearly average of ECU 48 million, which makes the EC one of the main donors to this country. Out of this total, disbursements under the National Indicative Programmes (NIPs) have represented only ECU 12 million yearly on average, but are increasing and reached ECU 19.3 million in 1997. A new NIP corresponding to the 8th EDF (European Development Fund) was negotiated in the first half of 1997, and signed in June. It allocates ECU 130 million to Ghana in grant project aid for a five-year period and an additional ECU 40 million from the European Investment Bank (EIB). Under the rules of the revised Lomé Convention, 70 per cent of this amount (i.e. ECU 91 million) is immediately available.

Following the preparation in 1996 of a Strategy Paper on EC co-operation with Ghana, the European Commission has engaged in a dialogue on development policies which led to the adoption of the NIP. Both sides agreed that the overall objective pursued under this programme was poverty reduction through the induction of a broad-based and self-sustained growth process, with two areas of concentration, namely transport infrastructure (40-45 per cent of NIP) and rural development and natural resources (35-40 per cent of NIP). Focus in the transport sector is mainly on the roads sub-sector, and specifically on roads in south-west Ghana. Activities in rural development are oriented towards reducing poverty of the rural population, targeting rural communities and small towns in rural areas. Interventions outside the focal sectors will absorb the balance of the NIP to support private sector development, health and education and programmes to improve governance. In this connection the European Union (EU) played a very useful role in support of the democratic process on the occasion of the last presidential and legislative elections in December 1996, which were recognised as free and fair by international observers.

The EC Delegation in Accra is relatively well staffed compared to EC delegations elsewhere. It has indeed eight expatriate staff members: five advisers (two technical ones, two for rural development and one economic adviser), a junior expert, an administrative attaché, plus the Head of Delegation. The skill mix does not correspond to the projects mix, so some staff are overloaded. There is also a need for longer, i.e. 2-3 weeks, and more frequent missions of experts from the head office in Brussels, for certain sub-sectors like water, health or ports. Although the Delegation is not asking for more deconcentration, maybe because it would imply an increased workload without any reinforcement, some decisions seem to take too much time in the Commission.

The Government of Ghana is appreciative of its co-operation with the EU, noting that it is funded only through grants (apart from loans from the EIB), and that the amounts of assistance have been maintained in real terms. The National Authorising Officer (a Ghanaian official in the Ministry of Finance) considers that there is an agreement on a broad framework and on the prioritisation of poverty alleviation and eradication, with the 20/20 objective. Aid in the focal areas is seen to have a catalytic effect, in a region of the country which has been chosen precisely because of the lack of basic infrastructure. Although the procurement procedures are viewed as cumbersome, Ghanaians are actively involved in the tendering process, and it is easy to obtain waivers regarding tied aid.

Donors in Ghana are fairly active in co-ordination on development assistance. Ghana was not one of the six countries selected for the original pilot exercise in operational co-ordination in 1994, but it was picked up later as one of the four pilot countries in Africa under the joint initiative of the Commission and the Member States on poverty alleviation. The overall framework for development partnership between Ghana and its external partners has on occasion been strong, as both sides undertook and carried out clear commitments towards stabilisation and development. However, this partnership has also been set back by the two episodes of major budgetary and macro-economic slippage in 1992 and 1996. On this basis, there is still much to be done to rebuild a credible base of mutual commitments, and many in the donor community feel that they must sometimes try to help compensate for the shortfalls of strategic leadership and discipline on the Ghanaian side.

In practice there are bi-monthly meetings of the European heads of mission and the Delegate. There is also a monthly luncheon of all donors, including representatives of multilateral institutions: World Bank, IMF, United Nations Development programme (UNDP). An interesting innovation has been the organisation on a quarterly basis of local meetings of the Consultative Group, co-chaired by the Ministry of Finance and the World Bank, and with the same agenda as in Paris: the first one took place in April 1998. At the sectoral level there are frequent meetings with the experts of the countries involved, usually with the participation or under the chairmanship of the Ghanaian authorities. There are two sectors: roads and health, where co-ordination is strong. There is in particular an advanced sectoral programme in the health sector. But in some other areas, like the private sector, education and energy, co-ordination is not working well, presumably because the government is not so eager in these sectors, or - as in the area of poverty alleviation - , does not wish to face a common front of donors.

## **Aid efficiency, evaluation and performance measurement**

### ***Overall effectiveness***

It was only in 1992/93 that the Commission introduced a project management system that required the setting of objectives and performance indicators. This is likely to have had a positive effect on project quality although even recent evaluations do not yet cover programmes prepared and managed using the Project Cycle Management System. Since 'historic' evaluation information is lacking on the project and programme level it is so far difficult to establish trends in the overall record or to assess the Commission's performance over time.

The need for better information on the effectiveness of EU programmes is one of the reasons for undertaking the current large-scale evaluations of ACP, ALA, MED and ECHO. These evaluations are not yet finalised and the conclusions are therefore still tentative. However, the Commission and Member states should use and draw upon intermediate findings, as the elaboration of these reports comes at a moment where important negotiations and structural changes are under consideration. The evaluations should also provide valuable contributions to the reflection on the wider issue of the re-organisation of the Commission's external relations' functions.

As the Court of Audit has pointed out, there is a need for standardised procedures and routines. Computerised management information systems are weak in parts of the Commission—for example, in MED and ALA, technical co-operation could not be analysed properly due to lack of information. The Court's findings led to a freeze of the decentralised MED programme, now starting up again. The financial and performance audits conducted by the Court provide the Commission, the Parliament and Member States with important information to improve the EU development assistance programmes.

The Commission's efficiency and delivery capacity is hampered by formalistic application of rules, and by micromanagement. There should be more focus on results and effective operationalisation of the policy statements and orientations provided. This finding is supported by the conclusions from the ongoing major evaluations of the EU development programmes and performance audit findings by the Court of Audit.

Obviously, the Commission is not solely responsible for this system and Member states have their share of responsibility. The various committees in which Member States participate, notably the EDF committee and its equivalents, have a role to play in improving programme quality. At present, these committees seem far too absorbed by project-by-project approval and a focus on micro management prevents attention to broader policy and results-oriented discussions. At some multilateral institutions, specific committees on aid effectiveness have been established to provide increased attention to results. This may be a consideration for the Commission and Member states, unless the current work agendas of the relevant Committees can be reformed.

### ***In-house evaluation capacity***

All development programmes have established evaluation units since the last review, with DG VIII having the most developed capacity and feedback system. Thus, evaluation capacity has been strengthened since the last Peer review.

The stronger focus on evaluation stems from a Commission-wide initiative: Sound and Efficient Management 2000 (SEM 2000) where systematic evaluation is recommended for all programmes. In

addition to the geographical directorate-generals, ECHO has an evaluation unit which produces assessments available to Member States upon request.

An evaluation unit was created at the European Investment Bank in 1996. So far, only projects in European countries have been evaluated but a developing country evaluation in the water sector has been initiated. The role of the evaluation unit is to assess impact. In addition to evaluations, project completion reports are done six to twelve months after project completion and a synthesis of the completion reports is conducted every second year using a grading system. The PCR analysis shows a high success rate when comparing actual results with expected results. Still, over-optimism in project design in terms of cost, timing and rate of return is common. As evaluation experience accumulates it will be important to compare the results of PCRs with *ex post* evaluation findings. It would be desirable for the Bank to consider publishing the PCR synthesis studies to inform the public about the results of the EIB's work. The *ex-post* evaluation studies have been published.

The reorganisation of parts of the RELEX DG's into a common service brings together the evaluation units of DG 1 A, IB and VIII. The Commission hopes to make efficiency gains by merging the units. As noted elsewhere in this report, the results orientation and evaluation capabilities need to be reinforced. More emphasis on evaluation and feedback, both within the organisation and with partners, and wider sharing of development lessons learned would be a good investment for improving the quality of the programmes.

The merger of the evaluation units within the Common Service poses several questions. While the merger of evaluation services is a step in the right direction in line with recommendations of the last DAC review, its location in the institutional structure is puzzling. The recently reconfirmed DAC Principles for Evaluation of Development Assistance stress the principles of independence and impartiality of the evaluation function. It is not clear how these key principles will be met in the new set-up.

A further question relates to the separation of evaluation and feedback responsibilities. Feedback from evaluations into programme design and policy will remain the responsibility of the geographical DGs. In terms of reporting it would be preferable if the merged evaluation services reported to the *Comité de Direction*, composed of the relevant director-generals, rather than to the head of the new Common Service. The essential point is to provide an organisational framework that ensures the independence and impartiality of the evaluation function; experience suggests that otherwise its credibility and impact will be weak.

According to a survey of users of evaluations conducted for the review of the Evaluation Principles, Commission staff found joint evaluations difficult and cumbersome in practice. However, there seems to be frequent involvement of partner institutions and some use of local consultants in evaluations. In order to transfer evaluation skills and knowledge to partner countries, the Commission should continue and deepen the practices of partner country involvement.

### ***Feedback systems and evaluation as learning tool***

The efforts by DG VIII to strengthen feedback via the Quality Support Group (QSG) are important and noteworthy. The quality support group is a middle-management group representing the various functions (geographical, policy and evaluation, administration and finance). The QSG reviews the conformity of project and programme proposals with policy and evaluation findings. It also ensures that indicators to measure progress have been included in the project proposals. Lessons from the QSG should be integrated into the new evaluation set up to preserve and build on the experience gained.

Evaluation information is made available in various forms. In addition to evaluation reports, synthetic notes are produced, with main findings and recommendations. DG VIII has produced a binder with evaluation summaries 'EVINFO' which is a user-friendly collection and easy to update. Evaluation information is available in electronic form. However, operational managers seem not to use the electronic system as frequently as one would expect. The database contains over 400 evaluation summaries covering almost all evaluations completed over the last six years.

One possible solution for some major evaluations is to establish interim feedback loops as evaluations are progressing. This has been the case for the major ongoing EU aid evaluations with communications on progress and interim results to the Council.

The evaluation service of DG VIII took part in the DAC review of the Evaluation Principles, participating in both the self-assessment part and the independent survey of users, and should be commended for this. Evaluation functions should not be exempted from scrutiny and this was a first ever evaluation user survey in the Commission, in which other Commission evaluation units did not participate. Overall, the quality of evaluations was found by users to be mixed. In some cases, such as the transport sector, evaluation was found to be a high quality product and to have strong impact as transport-sector guidelines were subsequently produced on the basis of lessons learned.

As a follow-up to the self-assessment and user survey results, the Commission reports that the central evaluation function plans to leave mid-term and end-project evaluations to operational services and concentrate on specific issues, thematic and sector-programme evaluations. Shorter and more operational syntheses requested by many users, will be produced. The EVINFO series will be put on the Commission's Internet site and will be linked to the DAC Evaluation Inventory site. These are useful planned developments.

### **Public opinion and information**

For the DAC review of the EU of November 1991 the Secretariat Report quoted the Independent Group on British Aid (IGBA) as saying "... information about European aid is extraordinarily hard to find, scattered around different parts of the Commission, usually out of date and often very uninformative." Due to the divided aid management system of the EU described in this report, there are structural difficulties for the information services in the various RELEX DGs and ECHO, all involved in development co-operation, to inform the public. Some progress has been made since 1991 and this trend should continue.

There is no central place one can go to in the Commission to obtain information about the EU's development co-operation programme. As is the case for other subjects, each DG and ECHO has separate public information units and programmes. This is another instance of duplication and of the costs the Commission must pay for its splintered management system. In this case it makes it difficult for the EU to convey its messages to the public and difficult for the public to access such messages.

DG VIII has the most developed public information service for development co-operation in the Commission. With a staff of six and a budget of approximately ECU 2 million it produces the ACP-EU Courier, a bi-monthly magazine, as well as numerous other publications. It maintains a library, a documentation room, and an internet site (<http://europa.eu.int/comm/dg08>). In addition, the DG VIII information service manages a scheme for raising awareness of development issues in general among the European public. Under this scheme (of approximately ECU 1 million) it supports television productions and numerous grass-root initiatives. Other DGs and ECHO also have information services. ECHO publishes a bi-monthly information bulletin (ECHO News) and with its humanitarian message, which is easier to convey to the public than long-term development, has been able to publicise its activities

positively. Additional efforts in information and public awareness-raising are conducted through the NGO programme where up to 10 per cent of the funds are available for public education.

The most recent opinion poll was carried out for DG VIII as a contribution to Eurobarometer No 46.0. This poll followed on the publication of the *Green Paper on Relations between the European Union and ACP countries on the eve of the 21st Century* and was widely distributed and discussed in national and international fora and in the media. The poll confirmed that there was an information gap among EU citizens concerning development aid. However, a large majority (83 per cent) of EU citizens agree that EU resources for development aid should be increased while 67 per cent agree that the national budget should rise. A majority, 69 per cent thought Africa should be the main target for European aid. An earlier Eurobarometer 44.1 (April 1996) found that aid to developing countries is perceived as one of the most worrying problems by EU citizens and almost 70 per cent believed that Union Member states should act together to help the people in poor countries in Asia, Africa and South America.



## CHAPTER 2

### AID MANAGEMENT

#### **Aid management system, organisation, functioning and staffing**

##### *Organisation and institutions in charge of aid*

The European Commission is the central administrative body for aid management. The Commission proposes decisions to be put before the European Council of ministers and the European Parliament. Once the Council has adopted such policies, the Commission is responsible for their implementation. The Commission is headed by 20 commissioners designated by Member States. By common agreement among Members of the Commission, each commissioner is given a “portfolio” encompassing one or more areas of administration or Union policy (see Table 1).

Chart 1 shows that at present five commissioners have portfolios directly related to the management of ODA. These portfolios are as follows:

- relations with ACP States and Overseas Countries and Territories (OCT), Lomé Convention;
- relations with the developing countries in Asia, Latin America and the Mediterranean;
- relations with some other developing countries (including China);
- relations with Central and Eastern European Countries (CEECs), New Independent States of the former Soviet Union (NIS), Phare and Tacis programmes;
- humanitarian aid and emergency assistance.

Each of these portfolios, apart from the last one, corresponds to a single directorate.

- The Directorate-General for Development (DG VIII) covers co-operation with ACP States and the Lomé Convention, development food aid, and evaluation for non-associated developing countries’ programmes, and consequently not for humanitarian aid nor Phare or Tacis programmes nor EIB. Charts 2 and 3 show the organigramme of DG VIII. The Directorate maintains contacts with the ACP Secretariat based in Brussels, and which represents the 71 ACP States in their collective dealings with the Union.
- Relations with the developing countries in Asia (with the exception of China, South Korea, Hong Kong and Chinese Taipei), Latin America and the Mediterranean fall under the responsibility of DG IB. Chart 4 shows its organigramme.

- Relations with China, South Korea, Hong-Kong and the Chinese Taipei are dealt with by DG I, and are the responsibility of a different commissioner.
- DG IA deals with CEECs and NIS.

**Table 1. Organisation of Development Co-operation in the Commission**

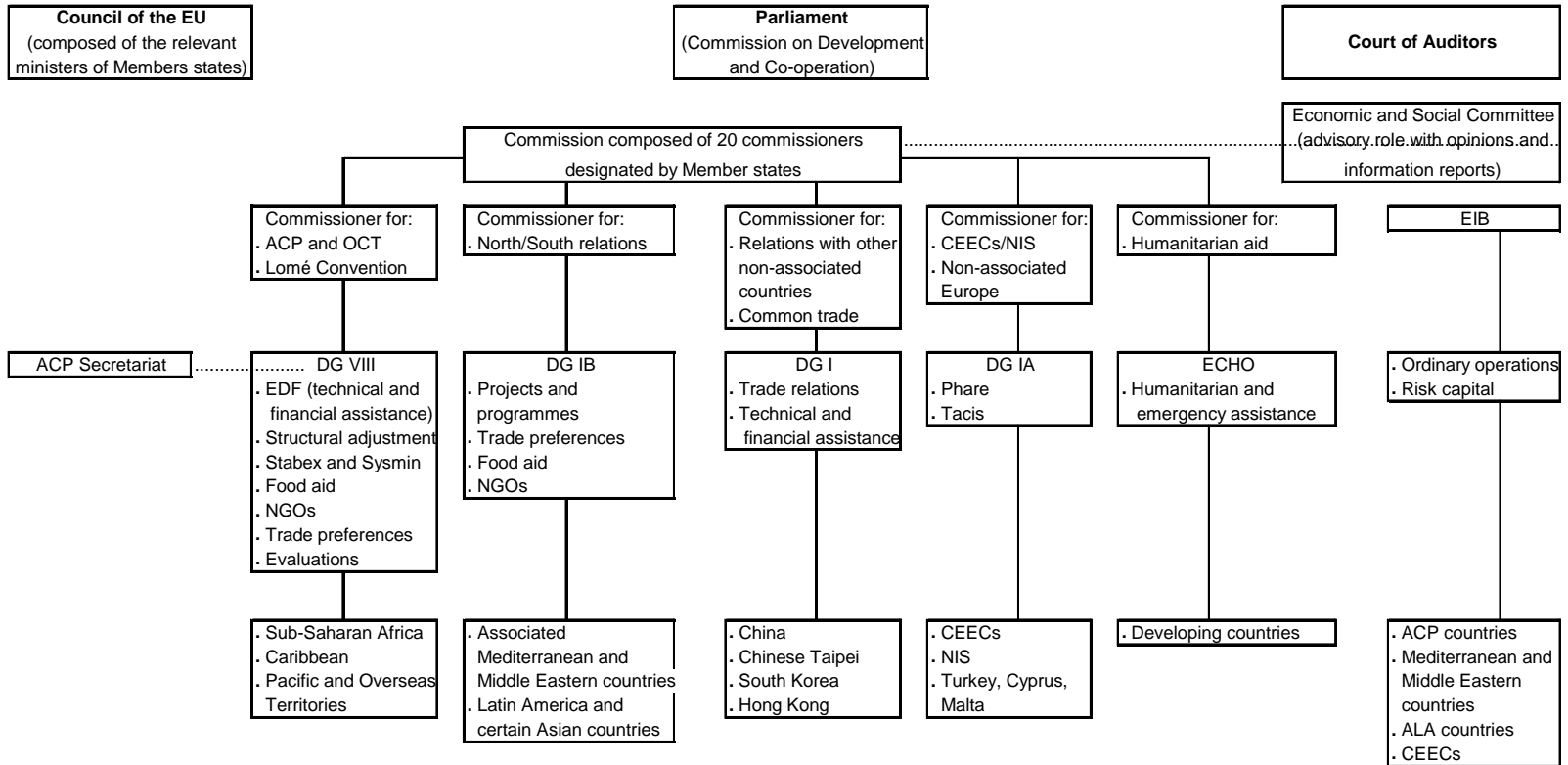
Directorate-General for Development - DG VIII	<ul style="list-style-type: none"> <li>• Co-operation with the ACP countries</li> <li>• Aid from Union budget lines benefiting all developing countries (e.g. co-financing for NGOs, non-emergency food aid)</li> </ul>
Directorate-General for External Relations - DG IA	<ul style="list-style-type: none"> <li>• Co-operation with the CEECs and NIS, Mongolia Turkey, Cyprus and a number of Southern European countries</li> <li>• Management of the EU initiative of the CEECs (Phare) and the EU initiative for the Tacis (Technical assistance for the CIS) programmes</li> </ul>
Directorate-General for External Relations - DG IB	Co-operation with developing countries in the Southern Mediterranean, Middle East, Latin America and most Asian countries
Directorate-General for External Relations - DG I	<ul style="list-style-type: none"> <li>• External relations developing countries of the Far East</li> <li>• International negotiations e.g. the GATT</li> </ul>
European Community Humanitarian Office	Management of the Union's humanitarian aid and co-ordination with the Member States' efforts

The European Community Humanitarian Office (ECHO) is a separate administrative body in the Commission, in charge of managing humanitarian and emergency assistance. ECHO reports to a commissioner, who is also in charge of fisheries and consumer protection.

The European Investment Bank (EIB), based in Luxembourg, originally confined its activities to Member States. Beginning in 1963 its operations were extended gradually outside the Union to the ACP countries, the Mediterranean countries, the CEECs, and lastly the ALA countries in 1993. These activities are reviewed below.

The European Court of Auditors, based in Luxembourg, monitors the European Union's finances and points out areas where the management needs to be improved. It has 15 Members, one per Member State and a staff of 400. It carries out its control and consultative functions independently and autonomously. Its primary function is to ensure that revenues and expenditures comply with all legal provisions in accordance with the Union's budgetary and accounting principles. It publishes a highly informative annual report and special reports, and may also deliver opinions on particular questions, at the request of other Union institutions. Published reports of the Court include the replies received from institutions audited, which give an account of the measures taken to improve the quality of management.

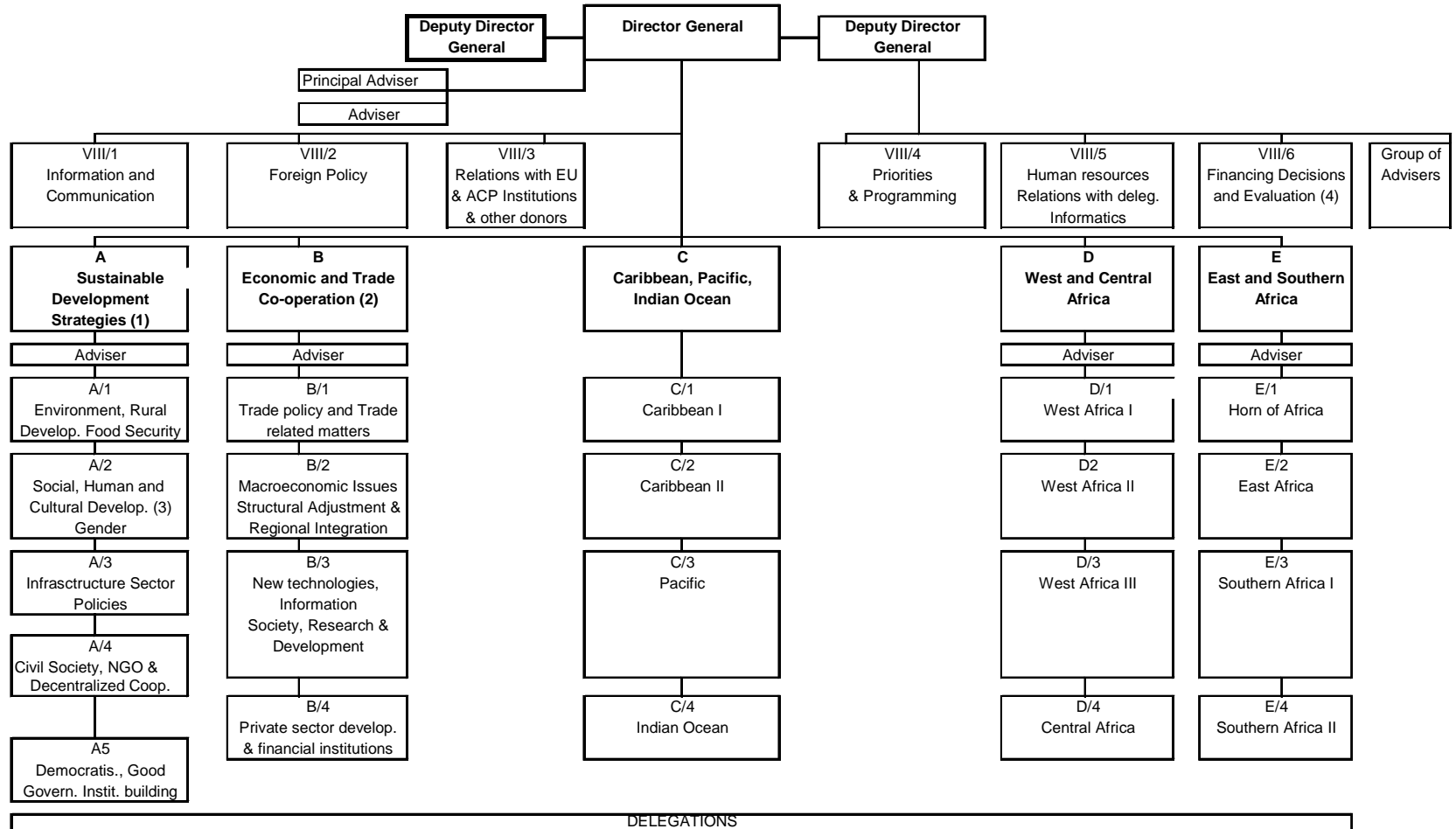
**Chart 1. Actors in the European Union aid effort**



For questions of coherence  
 DG VI: Agriculture  
 DG XI: Environment  
 DG XII: Science, Research and Development  
 DG XIV: Fisheries

Source: OECD.

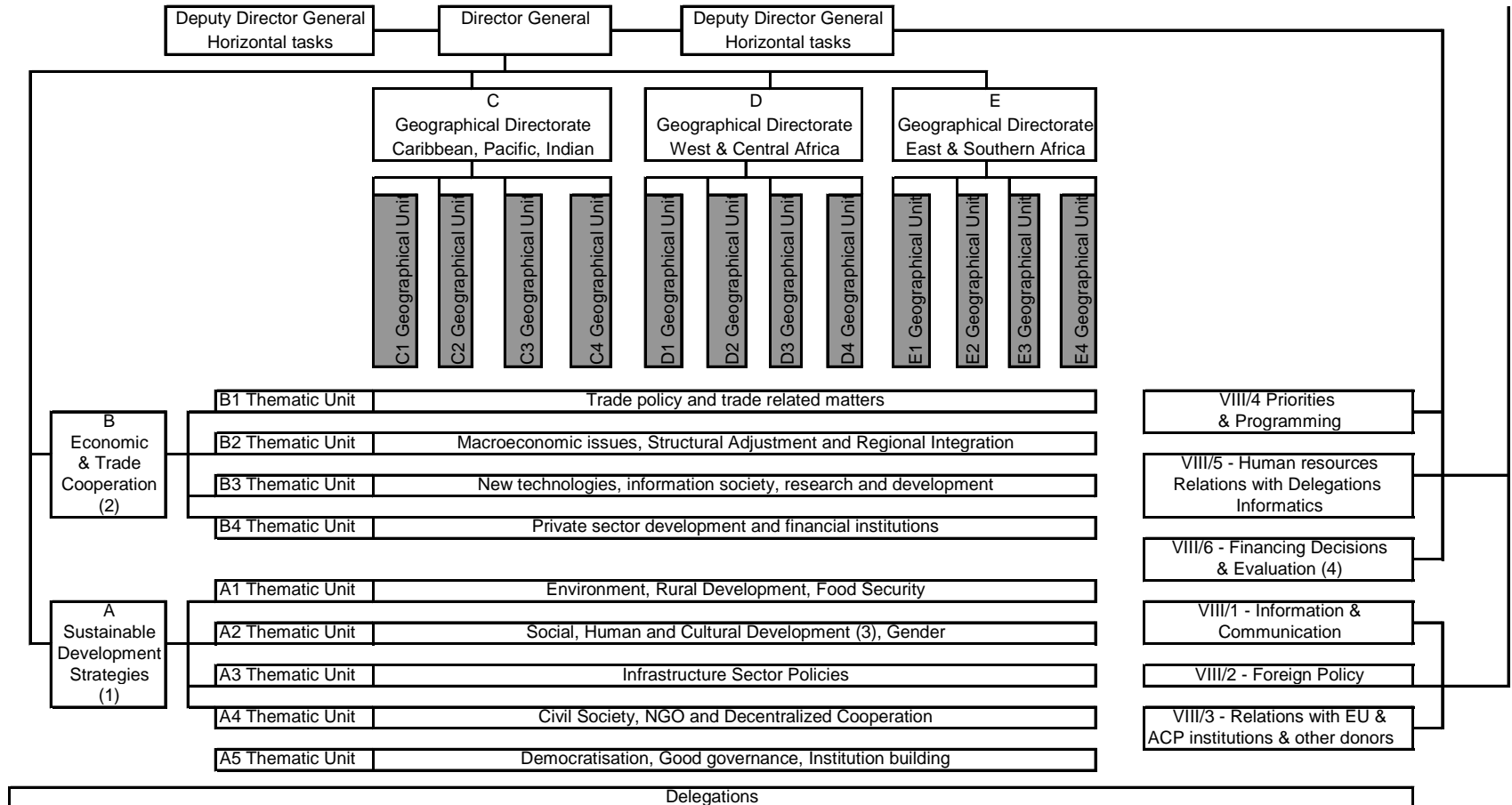
**Chart 2. Directorate General for Development - DG VIII**



- 1) Director with special responsibility for poverty eradication.
- 2) Director with special responsibility for integration of the ACP States in the world economy
- 3) Including microfinances and integrated local development initiatives
- 4) Identification, appraisal, decisions, evaluation, interface with Common Service.

Source: EC.

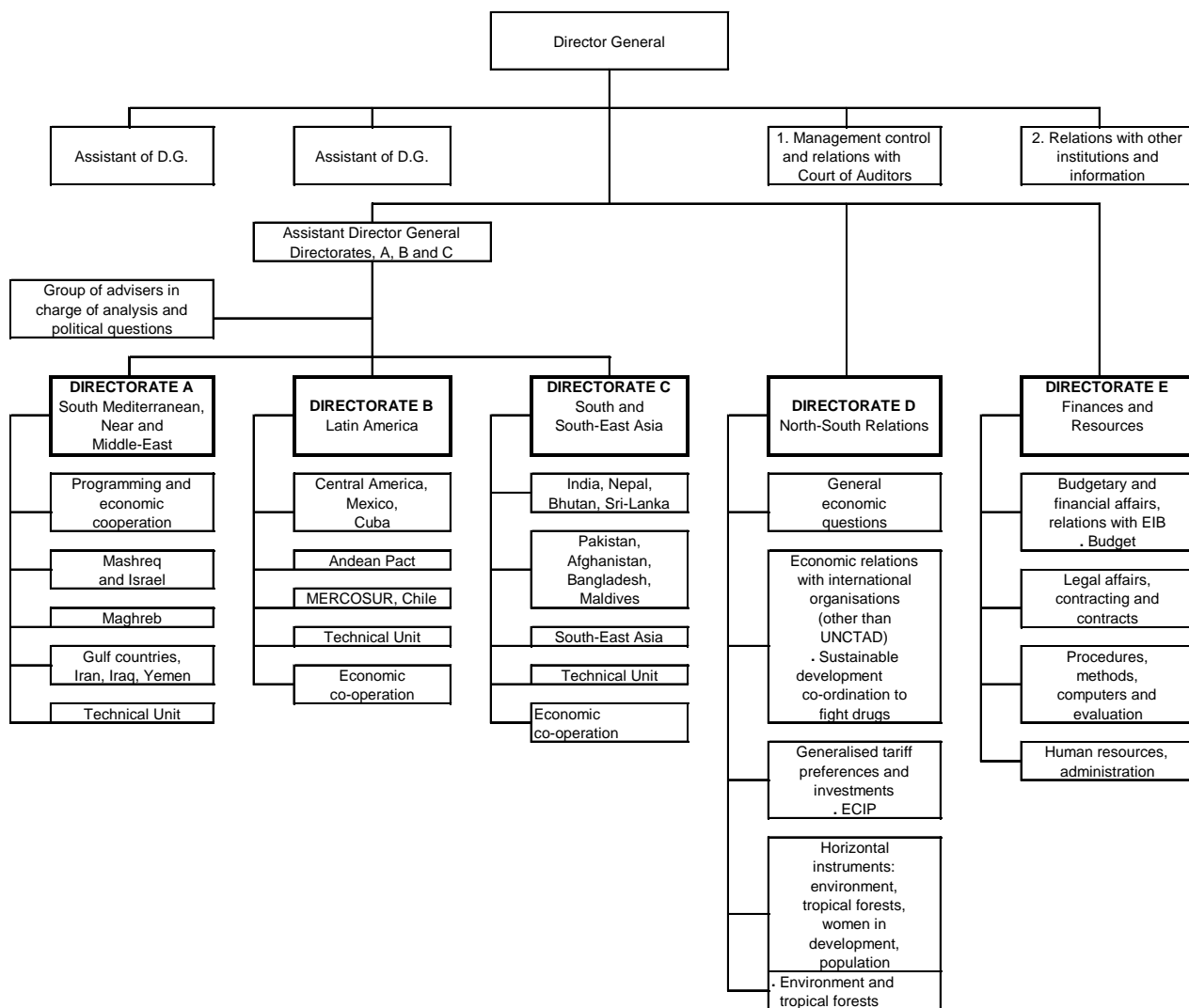
**Chart 3. Directorate General for Development - DG VIII (co-ordination aspects)**



- 1) Director with special responsibility for poverty eradication.
- 2) Director with special responsibility for integration of the ACP states into the world economy.
- 3) Including microfinances and integrated local development initiatives.
- 4) Identification, appraisal, decision, evaluation, Interface with Common Service.

Source: EC.

**Chart 4. DG IB - External Relations: South Mediterranean, Middle and Near East, Latin America, South and South-East Asia, and North-South Co-operation**



Source: OECD.

The European Court of Auditors also monitors activities outside the geographical boundaries of the European Union. Since the last Review, the Court has produced several reports covering development co-operation, including humanitarian aid and assistance to CEECs and NIS. These reports addressed various points made by the last DAC Review such as: country strategies, staff capabilities, evaluation and feed-back, internal co-ordination, authorities and staffing of field delegations, efficiency of humanitarian aid, and the effectiveness of the Phare programme.

### *The functioning of the system*

The Commission's development co-operation system is complex, being based around geographical entities, with five commissioners, four DGs and ECHO. Each of them has units or staff Members in charge of cross-cutting issues or functions (e.g. women in development, environment, evaluation). As the last review noted, no unit or development official has overall responsibility for co-ordination of Union development co-operation below the level of the Commissioners. Although there are some elements of co-ordination deriving from the existence in almost each area of development policy of various policy papers, communications, conclusions resolutions, regulations, guidelines, this organisational framework has led to a splintered aid management system.

The need to consider new issues or methods of aid delivery (like decentralised co-operation) has resulted in the proliferation of *ad hoc* budget lines and regulations, approved by the Parliament. Given the difficulty of mainstreaming certain issues or of measuring the impact of such mainstreaming, a side-effect of this otherwise commendable attitude has been the general proliferation of small *ad hoc* projects. Small projects can be as much or even more management intensive than big ones, which are large enough to pay for built-in implementation or monitoring by consultants. The effect of small project proliferation is to add to the overloading of staff, both in Brussels and at the field delegation level.

The decision-making process is centralised, with stringent procedures, financial controls and procurement guidelines. Approval of policies, regional and country strategies, individual projects and contracting is centralised in headquarters. Committees of representatives from the Commission and Member States approve individual project financing in all regions. Delegations monitor implementation of projects and programmes in the field, but have limited approval authority. Comparatively, the EU system appears to have retained more authority at headquarters and delegated relatively little to the field.

The aid management system has progressively tended to become sluggish. Evidence of this is the amount of uncommitted funds and of undisbursed funds: as of December 1996 the committed but undisbursed funds had reached ECU 11.6 billion, including ECU 1.3 billion on commitments made before 1992. For DG VIII alone, as of end July 1998 and on a cash basis, no funds had yet been drawn from Member States out of the Seventh EDF, started in 1990, although 85 per cent of the funds had been committed and over half of the funds had been disbursed.

### *Staffing*

DG VIII had 620 staff (all categories) as of May 1997, corresponding to an increase of 5.6 per cent over January 1995. In addition there were 281 staff assigned to the field in 71 ACP countries. The staffing of DG IB, like that of DG VIII, has a mix of permanent and external (contract) staff, totalling 433, plus 147 staff based in 25 countries outside of headquarters. ECHO has a staff of 115 with about 70 temporary consultants world-wide (see Table 2 below).

**Table 2. Development staff of the EU (a)**

	Headquarters		Delegations		Total		Change %
	1995	1997	1995	1997	1995	1997	
DG VIII	587	620	286	281	873	901	3.2
DG I	370	512	54	88	424	600	41.5
DG IA	n.a.	808	n.a.	145	n.a.	953	n.a.
DG IB	n.a.	433	n.a.	147	n.a.	580	n.a.
ECHO	96	115	50 (b)	70 (b)	146	185	26.7
Total	n.a.	2 488	n.a.	661	n.a.	3 219	n.a.

a) Table does not include staff years from EIB (estimated at about 15 staff years for ODA work) or staff years expended on policy by Commissioners, their staff for the Council and its staff.

b) Contractors working in the field.

Source: EU.

This puts the total development co-operation staff at about 3 219, which is a little more than three years ago, when the Secretariat had suggested that the staffing situation for development co-operation in the Commission remained comparatively weak (precise figures for DG IA and DG IB in 1995 were not available).

Since 1990, the aid programme has doubled, and the staff has increased by 50 per cent. In 1997 the Union's aid to non-Member countries totalled almost ECU 7 billion (plus ECU 2-3 billion in loans and guarantees). In DG VIII and DG IB alone, there are 1 053 people to manage ECU 3.5 billion. Moreover, from a qualitative point of view, for social aspects, Women in Development (WID), population, environment, and more generally sectoral or cross-cutting issues, there is a shortage of specialised staff. In addition there seems to be a lack of staff in delegations, which not only need to be strengthened, but should receive training so that they could play a stronger co-ordination role in the recipient country. This is particularly true of heads of delegations.

The Commission has reacted to this situation by increasingly using external consultants for the design and implementation of projects and programmes, for country programming, or the elaboration of country strategies. This way of solving the human resources problem has been easier for all DGs other than DG VIII. Under EDF, the programme is jointly managed by the Commission and recipient countries. Therefore, DG VIII cannot contract-out these functions as easily as other DGs. Indeed, other DGs have been authorised to use 2.5 per cent to 3 per cent of their budget lines to pay for such administrative costs.

DG IB, with the help of consultants, has begun to develop country strategies for ALA-MED countries, which had been virtually non-existent for many years. However, it can hardly be considered a satisfactory solution, since it results in programmes which vary from one country to another, and not as well integrated or conceptually coherent from a strategic viewpoint with other Union instruments or programmes as Commission staff themselves might produce. It does not seem appropriate to externalise this type of conceptual activity because in-house expertise about partner countries and continuity are not harnessed. This way of externalising various tasks, because staff is unavailable to the extent required for a smooth delivery of the Union's aid, also ultimately translates into higher costs, because consultants are more expensive than staff.

The Commission has 128 representative offices abroad. Most of them are delegations, and the smaller ones are offices. They are staffed by a unified external service of 600 expatriates and 1950 locally recruited agents, managed by DG-IA on behalf of all the RELEX DGs. The annual cost of this network is ECU 203 million paid from the Union's budget, which represents less than 3 per cent of the EU's external aid. This is a rather low percentage by usual standards—consistent with the finding of a serious lack of human resources in the field, especially in view of the need for increased deconcentration.

The Commission is trying to address the problem by hiring more local staff (who are on average five to six times less expensive than expatriates) including senior staff with advanced training and skills. For historical reasons, there have been comparatively more staff in the ACP countries, and this is the rationale behind the current downgrading of ten delegations, in the process of being transformed into offices with only one expatriate. In 1998, 23 expatriates will be removed from the ACPs and redeployed to other regions, with 60 more to follow in the near future.

The average length of stay in a post abroad is four years, and return to Brussels is compulsory after two assignments. Starting in April 2000, an obligation to serve abroad will be instituted for all the senior staff in the RELEX DGs, which should prove a highly productive initiative.

### **Measures taken to strengthen aid management**

In large part to tackle the staff constraint problem, the radical solution of creating an independent aid agency, distinct from the Commission, and flexibility to recruit staff, had been contemplated in recent years. The idea encountered resistance, and after preparatory work by representatives of all RELEX DGs, which co-operated with DG IX, DG XIX and the Secretariat General, the Commission decided instead in October 1997 to establish a joint service to manage Union aid to non-member countries.

The objectives are to simplify and rationalise the management of Union aid, to make practices more consistent, to make dealings with economic operators more transparent, to generate economies of scale, and “to take account of the highly political nature of the Union's aid programmes... and their specific management requirements, including the degree to which administration is devolved to the national authorities of the recipient countries”. The Common Service will handle implementation for the four DGs responsible for Union aid: I, IA, IB, VIII and ECHO, but ECHO's involvement will be limited to the administrative and financial aspects of managing outside project support staff.

Strategy and policy making will continue to be handled by the external relations DGs responsible for the geographical areas concerned. All implementation tasks will be transferred to the Common Service. The programming activities will thus remain in the province of DGs, as well as the overall terms of reference, the decisions authorising the commitment of appropriations and the signing of the financing agreements. The geographical DGs will retain political responsibility and representation outside the Commission.

The Common Service will be *chef de file* for all the implementation phases starting with the preparation of “specific”, i.e. technical, terms of reference, up to final payments and financial closure of projects. This includes all the tasks relating to the tendering process, the signature of contracts and the monitoring of their execution and completion, up to evaluation, which will imply the use of common standards and methodologies of evaluation.

The Common Service will start its activities before the end of 1998, and its staff will come from the RELEX DGs in accordance with the following Table 3. (See also Chart 5).

**Table 3. Development staff of the EU, before and after the creation of the Common Service**

	<b>DG I</b>	<b>DG IA</b>	<b>DG IB</b>	<b>DG VIII</b>	<b>ECHO</b>	<b>Total</b>
Existing personnel	512	808	433	620	115	2 488
Personnel after the creation of CS	503	563	286	408	115	1 875
Difference	9	245	147	212	0	613

Source: Figures provided by the Commission.

The Head of the Service will have the powers of a Director-general. He will manage the Common Service under the supervision of a Management committee comprising himself and the Directors-General of DGs I, IA, IB, VIII, and the Director of ECHO as an observer.

The SEM 2000 initiative aims, *inter alia*, to deconcentrate implementation. In EU parlance, “decentralisation” is the transfer of authority and responsibility from the Commission to the beneficiary country. “Deconcentration” is the transfer of authority and responsibility from Headquarters to the head of delegation. Certain programmes like Phare and the EDF are in the process of a major re-orientation towards a more decentralised/deconcentrated implementation. In particular, delegation of authorising payments and to maintain accounts to heads of delegation is underway for the EDF. Deconcentrating financial controls could indeed help and the idea of seconding financial controllers in support of delegation in the field deserves to be considered.

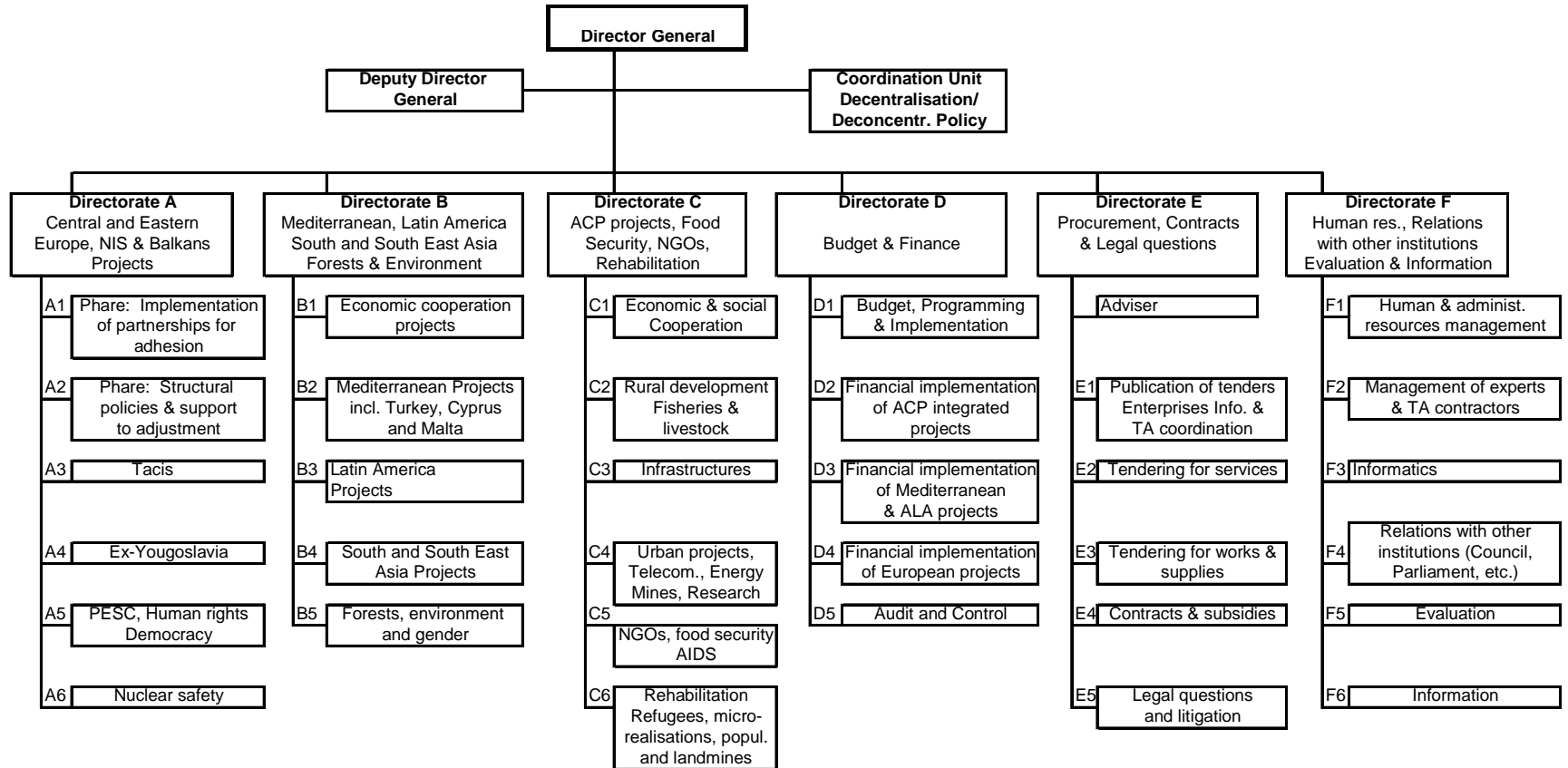
The creation of the Common Service means that the project cycle will be split or divided between the DGs and the Common service itself. It will therefore be crucial to have, as is planned, a good circulation of information between geographical DGs and the Common Service, with systematic consultation between the *chef de file* and the associated service, and procedures for formal consultation each time an explicit agreement of the associated service is required.

This important institutional reform appears on balance positive, although it is not likely to solve the problem of the lack of human resources, despite some economies of scale. It could be a good transitional or bridging arrangement. A major and Commission-wide screening exercise for designing “Tomorrow’s Commission” was launched in March 1998 to be ready by the end of 1998. This will be followed by proposals around the middle of 1999, for implementation in 2000, when a new Commission is designated.

### **Responses to international humanitarian operations and emergency situations**

The European Union Humanitarian Office (ECHO) was created in 1992 to improve effectiveness and visibility in the provision of emergency assistance to victims of conflicts and natural disasters world-wide, and to co-ordinate all the resources at the disposal of the Commission. The present section is devoted to its organisation and management, while the humanitarian and emergency aid programme is examined in Chapter 4.

**Chart 5. Common Service**



ECHO is an autonomous department of the European Commission, under the direct responsibility of a Commissioner, who is also in charge of fisheries and consumer protection. It has three geographical units, each corresponding to a geographical DG: DG VIII, DG IA and DG IB. There are task forces to co-ordinate with these DGs. A Committee on humanitarian aid, with representatives of the Member States and a representative of the Commission, has been set up by the Council Regulation of June 1996. It meets once a month and must approve by a qualified majority of the Member States all plans above ECU 10 million.

These plans cover a wide range of areas: general humanitarian aid, for those affected by protracted civil wars; emergency humanitarian aid, financing first aid crisis management for victims of natural disasters or civil wars; emergency food aid, sent to people threatened by famine as a result of natural disasters or civil wars; aid for refugees or displaced people, earmarked for those who need it, both in the country or region where they find sanctuary, or to help them resettle when they return to their home; disaster preparedness, covering early warning systems and the financing of disaster prevention in high-risk countries.

Some emphasis has been put in recent years on this last area, based on the fact that a number of natural disasters are “predictable”, especially when man-made factors exacerbate “natural catastrophes”, or when man-made emergencies involve violent conflict often resulting from local economic and social problems of a structural nature. A disaster preparedness programme, DIPECHO, takes a proactive regional approach, concentrating on the first instance on the Caribbean, Central America, South East Asia and Bangladesh. The preparatory phase will be completed in 1998, allowing for Regional Frameworks and Action Plans for all four focus areas to be presented to Member States and implemented.

Linking relief with rehabilitation and development has become a major priority, following a Communication from the Commission of April 1996. It is indeed considered extremely important, beyond the demand-driven and short-term goal of saving lives, to keep sight of longer-term perspectives of ensuring a smooth transition to a long-term development process. This implies ideally that relief should be immediately followed up and where possible implemented in parallel with rehabilitation and reconstruction programmes.

ECHO has a staff of 115 people in Brussels, and 70 correspondents at field level in the disaster zones. The latter are not Commission civil servants, but highly experienced experts and report directly to ECHO. All programmes are implemented in the field by partners, not by EU delegations (except operations linking relief and development). Among these partners are NGOs, which must be:

- registered in their base country as organisations whose mission is to help save lives and relieve suffering without regard to race, nationality, religion or political convictions;
- experienced in humanitarian operations and offering specialised services;
- expert in organising and managing efficient operations, with the human and material resources required; and
- willing to commit their organisation and resources to operations that the European Union has agreed to finance.

ECHO has just completed the process of revising a Framework Partnership Agreement, to be signed by NGOs and other partners: United Nations agencies, especially the United Nations High Commissioner for Refugees (UNHCR), World Food Programme (WFP) and United Nations Children’s Fund (UNICEF), and other international organisations like the Red Cross. To help strengthen international co-ordination ECHO provides support, including financial, to the United Nations Office for the Co-ordination of Humanitarian

Affairs (OCHA). ECHO has regular contacts with third-country administrations responsible for humanitarian aid, notably the United States and Japan.

ECHO has embarked on various activities intended to strengthen its response to emergency situations. The evaluation manual is being revised to take into account the experience acquired, the Regulation of June 1996 concerning humanitarian aid, and current thinking in the field of humanitarian aid. Two global evaluations are being carried out in 1998, examining the different aspects of the humanitarian elements of EU external aid, between 1991 and mid-1996 for the first evaluation, and since then for the second one. ECHO also intends to better link evaluation and policy, and to establish a system of dissemination of evaluation results, in particular through Internet. The main lessons learnt include the need for co-ordination between donors as well as implementing partners at headquarters and on the ground. At the same time the inclusion of political aspects like human rights and conflict prevention in humanitarian activities is becoming more important. ECHO also stresses that, on a lower level, the experience of recent years has led to an increased accent on the following areas of policy: the need for security of humanitarian aid workers, both international and local staff, an increased emphasis on gender and human rights questions, and a more strategic approach to natural disaster mitigation.

ECHO attaches great importance to the visibility of its operations, since it considers itself responsible for informing the public about the use of aid funds. It has a full-fledged information strategy focused primarily to Member State audiences, with information campaigns, exhibitions, seminars, concerts, media back-up and publications, but also information and awareness campaigns intended to reach recipient countries, in co-operation between operational units and implementing partners. The cost of all these actions is said not to exceed 1 per cent of the programme.

### **Budgetary flexibility and shifting funds**

The EU aid programme suffers from a general lack of flexibility, a result of its budgetary procedures. Once the various and numerous budget lines have been approved by the European Parliament for the general budget, funds which are committed under a budget line cannot be shifted to another budget heading. This would require a new vote by the Parliament. Consequently, funds which have not been committed at the end of the year are lost. This produces adverse effects in that it is an incentive to commit funds too quickly, even when all the conditions for doing so are not met. However, once funds have been committed they can be disbursed over several years, which is the reason why there are backlogs of committed but undisbursed funds. Although the Commission has tried to introduce an element of flexibility through multi-annual programmes (usually for three or five-year periods), Parliament approval of annual appropriations is still necessary.

The European Development Fund differs in that the amounts available are decided for five-year periods, during which they do not have to be committed on a yearly basis (by tranches) before 31 December of each year. Paradoxically, the element of rigidity comes from the fact that, once the amount of its NIP has been notified to an ACP State, it is entitled to receive the funds, even if they have not been formally committed for a particular project at the end of the five-year period. NIPs can be revised. Even when a State no longer functions as such, like Somalia, the funds remain committed and cannot be transferred. Some flexibility has been introduced by the revised Lomé Convention of November 1995, concerning 30 per cent of the overall financial envelope, with the funds still available for the people of the country in question, if not for the State.

Another element of rigidity comes from the fact that, whichever the DG concerned, there is insufficient decentralisation of budgetary management to the delegations in the field. Many problems could be resolved quickly in the field, if Delegations had sufficient authority and were not obliged to ask for prior

authorisation from Brussels. A larger part of procurement activities could be carried out directly by the Delegations, and, in particular, disbursements could be decided in the field, as is the case for other donors, with controls *a posteriori* by headquarters. Appropriate training would need to be provided to the field staff.

## **Co-operation with NGOs**

The Union's co-operation with European development NGOs has evolved over 20 years to represent a significant feature of the EU's aid programme, for which NGOs act both as a channel and a matching source of finance. The rationale behind the involvement of NGOs has been to target EU's assistance in the field on the poor, through small replicable projects, while demonstrating solidarity with the citizens of Europe who provide additional funds to NGOs. Moreover, the only way to deliver some types of aid at low cost with quick reaction time is through NGOs. The Commission also supports the work of NGOs in order to reach those populations deprived of assistance due to war and in situations where government-to-government aid has been suspended.

### ***EU cofinancing of projects with NGOs***

The cofinancing programme, started more than 20 years ago, is the oldest form of co-operation with NGOs. This programme is carried out through budget line B7-6000 which in 1998 amounts to ECU 200 million. In the last few years about 90 per cent of the budget has been used for cofinancing, with over 800 development NGOs, covering an average of 600 projects in developing countries. The remainder went to around 150 awareness raising projects in Europe. The funds come from the general budget, but are managed by unit B2 in DG VIII, also in charge of decentralised co-operation. The unit is directly responsible for co-ordination with DG IB on cofinanced projects: about 60 per cent of projects cofinanced in developing countries are implemented in Asia, Latin America, and the Mediterranean.

The main partner of the unit is the Liaison Committee of Development NGOs to the European Union, which brings together 15 platforms of national NGOs, representing over 800 European NGOs.

Dialogue between the Commission and the Liaison Committee takes place on both policy and programme management issues. In the past year this dialogue has developed at the so-called meso-level, at the initiative of the Commission, with a view to increasing the coherence between its support to NGOs and its countries and sectoral approaches, and with the prospect of developing multi-annual programme contracts. The objectives are to exchange information, experiences and views on current approaches in a specific sector or country, to improve coherence and complementarity between these approaches by consulting on development of sectoral guidelines and methodologies, and to facilitate on certain occasions a division of tasks based on comparative advantages. Dialogues have recently taken place on Nigeria and the Democratic Republic of the Congo, and are in preparation for Palestine and Haiti. Other initiatives are taking place at the country level in Bangladesh and India. A dialogue on microfinance is also planned.

Projects are supported both in rural and urban areas, the main sectors of intervention being health, education and training, agriculture, microfinance, and small businesses. They are implemented through the criteria and approach laid down in cofinancing guidelines established in 1988: "General Conditions for the cofinancing of projects undertaken in developing countries by non-governmental organisations". The Commission supports small development projects for a duration of a maximum of five years and a total contribution of up to ECU 500 000 (the average contribution amounted to some ECU 260 000 in 1997) paid out in two to three instalments spread over the life of the project. It usually provides 50 per cent of the project costs, but in justified cases can contribute up to 75 per cent. NGOs must provide at least 15 per

cent of the project cost from private European resources. The Commission only provides 6 per cent of administrative costs. No sectoral or geographic limitations are set for the cofinancing programme. The Commission gives priority above all to the quality of the project itself and to strengthening the North-South NGO partnership, in order to reinforce the capacity of action of local NGOs.

Block grants are provided to a number of European NGOs with whom the Commission has established a satisfactory long-term partnership. The main aim of block grants is to provide a flexible tool for small actions (e.g. purchase of equipment, construction of small-scale infrastructure, training assistance, and so on). Their amount is limited to ECU 250 000 per year and per NGO for financing up to 75 per cent of a project cost, which was on average ECU 13 400 in 1997. Such operations often complement larger projects and many also serve to establish the initial contacts for co-operation with new partners in the South.

It is implicitly considered that 10 per cent of the budget line for cofinancing is set aside for cofinancing of information and awareness raising campaigns in the European union, with the aim of mobilising the European public with regard to development issues, in order to increase support for policies and schemes which would have a positive impact on the people of the developing countries. The average EU contribution amounts to around ECU 100 000. There are multi-project programmes including smaller projects, the latter amounting on average to ECU 5 000/6 000. The main areas concerned are the formal education sector; consumer and trade issues: protection of tropical rain forests, biodiversity, workers rights, child labour; the impact of globalisation democracy, and human rights.

A revision of the General Conditions for co-financing with NGOs is taking place to update them in the light of current NGO practices and changes in the nature of the Commission-NGO relationship, and with a view to reducing the Commission's administrative workload. The main thrust of the revision is to put more emphasis on real partnership and capacity-building between European and local NGOs, to create multi-annual programme agreements to reduce the project-by-project approach, and to move from *ex ante* to *ex post* control and evaluation. The revision should enter into force in 1999. At the same time, the Commission is harmonising the conditions for NGOs which access its other development budget lines to improve transparency and efficiency of administrative procedures.

### ***Other areas of co-operation with NGOs***

Apart from co-financing there are other areas of EU development aid, financed by the EU budget and under Articles 254 and 255 of the Lomé Convention, in which NGOs play an important role.

#### *Food aid, humanitarian aid, refugees, returnees and displaced persons, rehabilitation programmes*

About one quarter of food aid financed by the EU and almost half of indirect food aid is delivered by NGOs. A majority of this food aid is implemented via the utilisation of EURONAIID, a service organisation created and managed by 24 NGOs to centralise food aid requests (even non-European NGOs can apply for food aid) and to organise transport to recipient countries. The rest is implemented via a direct contract between NGOs and the Commission. Technical assistants in the field play an important role in the allocation of funds to specific projects. About half of ECHO funding goes to NGOs (45 per cent for 1996, 65 per cent for 1997), which are used as a channel under the Framework Partnership Agreement. The relevant issues are discussed in sub-section 5.3 of Chapter 1. Co-operation in this important area takes place under budget line B7-212, for Asia and Latin America, and Article 255 of the Lomé Convention for sub-Saharan Africa. Co-operation with NGOs also plays a major role in respect of rehabilitation, under two different budget headings, in the context of the links between emergency aid, rehabilitation and

development, and in countries like Angola, Malawi, Mozambique and Zimbabwe. The main sectors of activity are rehabilitation of basic infrastructure for rural production, education, health and water supply.

### *South Africa*

The EU is financing a European Programme for Reconstruction and Development in South Africa (EPRD), aiming to assist this country in its peaceful transition to a stable, democratic, non racial and prosperous society. In 1996 a budget of ECU 129 million was allocated to 15 programmes. A country strategy paper for South Africa for 1997-99 has been drafted by the Commission in the same format as in the ACP countries. The main sectors identified for interventions are education and training, good governance, urban development and rural development. NGOs will continue to play an important role in implementing projects within the EPRD.

### *Health and AIDS*

NGOs have been key partners in the health sector where one of the prime objectives has been to improve basic health care for the maximum numbers at grassroots level. A programme of support to reproductive health in Asia with special focus on adolescents is being implemented through partnerships between European and local NGOs. A special budget heading supports EU's strategy on Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), based on the following objectives:

- prevention of transmission and promotion of non-discrimination vis-à-vis infected persons;
- reinforcement of the health system in order to make it better able to handle the epidemic;
- consideration of the socio-economic impact of the AIDS epidemic and of measures to promote scientific training.

A special budget heading also exists for support of population and reproductive health policies and programmes in developing countries based on objectives relating to maternal health, safe-motherhood, access to family planning, adolescent services, prevention of sexually transmitted infections and prevention of sexual violence and abuse. NGOs usually receive more than half the budget available.

To achieve these objectives the Commission relies upon its partnership with NGOs in seeking specifically to develop the capacity of local NGOs.

### *Environment and forest sectors*

NGOs usually receive more than half of the budget lines which have been created by the European Parliament for environment and tropical forest. Their activities focus on biodiversity and soil conservation, on the one hand, and on the creation and the sustainable management of forest resources, on the other hand.

### *Overall assessment*

Over the years the Union's co-operation with NGOs has grown to become perhaps the most important programme of this type in the world, along with USAID's. It represented in 1995 (a peak year) ECU 822 million, and ECU 704 million in 1996. Furthermore, these amounts do not take into account the significant role played by NGOs in the implementation of the geographical programmes, i.e. the country

NIPs funded by the EDF and the Asia and Latin America programmes funded from the general budget, and for which precise statistics are not available.

There have been several evaluations, including external ones, some of them on thematic issues like credit and capacity-building. They suggest the need for NGOs to become less dependent on EU financing in order to improve the sustainability of their projects. A 1994 evaluation also showed under-utilisation of a special facility to encourage European NGOs to take their Southern partners' institutional and capacity-building needs into account. In response to this and other findings regarding Southern NGOs' need for long-term moral, political and financial commitments, the Commission has been supporting a move from its present project-based approach to a longer-term programme approach. Special actions have been taken by the Commission to enable the lessons learned to be applied in the preparation of new projects and programmes.

Although European NGOs sometimes question certain aspects of the overall EU aid programme, e.g. on trade issues, they seem to be generally satisfied with its NGO component, and of the level of dialogue with the Commission.



## CHAPTER 3

### POLICY COHERENCE

#### Introduction

The Treaty on the European Union, signed in Maastricht in 1992, provided an overall framework for EU development co-operation policy and the legal obligation to pursue coherent economic and external policies that take account of the interest of developing countries<sup>2</sup>. The ensuing debate on the implementation of the EU development goals revolve around three concepts: complementarity, co-ordination, and coherence.

The first two objectives aim to strengthen the linkage between policies pursued at the Union level and those at the level of Member States. Even though this goal is a prerequisite to improve overall EU policy coherence, it falls outside the scope of this section. This section focuses on the third objective, i.e. coherence (as defined in Article 130V of the Treaty), which obliges the Union to take account of its development co-operation goals in the formulation and implementation of policies that affect developing countries.

The analysis in this section highlights that efforts to improve coherence through concrete measures are not only constrained by the complexity of the EU policy-making process, but also by the fact that coherence is a multidimensional notion in the context of public policy-making. However, there exist “best practices” which the EU can pursue to strengthen its performance on coherence.

In 1996, NGOs started a campaign for greater adherence to Article 130V, especially in relation to the Common Fisheries Policies. The EU was blamed for exporting the overcapacity of its fishing industry to developing countries. As a result of this perceived incoherence of EU policies, the item of policy coherence re-emerged on the agenda, with the objective of bringing a largely theoretical discussion back to concrete issues<sup>3</sup>. The Council subsequently adopted a Resolution on “coherence of the EU’s development co-operation with its other policies”.

The Council considered that “existing institutional arrangements should be further enhanced to ensure that aspects relating to policy coherence are examined and dealt with appropriately”. To that end, the Council invited the Commission to: i) highlight any coherence question that may arise; ii) consider the introduction of coherence impact assessments; iii) discuss matters in the relevant Council framework; iv) present an annual report on coherence; and v) investigate the possibility of joint monitoring procedures with developing countries<sup>4</sup>.

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2. OECD (1996) *Aid review European Community*, Paris.

3. Netherlands Presidency (1997), *Coherence report drawn up by the Netherlands presidency of the Informal Development Cooperation Council*.

4. EU Council Secretariat (1997), Press Release 8631/97.

Diligent implementation of the Resolution could improve EU policy coherence since it would strengthen capacity at the centre of EU policy-making, while maintaining organisational flexibility and establishing effective information gathering and processing systems. In addition to the Resolution, consideration might be given to instituting a complaints procedure comparable to that of the Inspection Panel of the World Bank.

## Agriculture

The level of coherence between the EU's Common Agricultural Policy (CAP) and its development objectives has often been questioned over the years. The cases of beef exports to Western and Southern Africa have been the most publicised examples. However, as both cases illustrate, when market disruptions have been identified and its attention is drawn to it, the EU can consider remedies. This ability to adjust also demonstrates the need for adequate monitoring and an effective complaint mechanism.

The CAP has an impact on world supply and prices. Since the CAP results in higher EU production levels than would occur in its absence, and because the EU is a substantial producer, world production is increased. This results in lower world prices than otherwise would have been the case. One of the mechanisms through which the CAP supports European farmers is by restricting access of foreign suppliers to the domestic market in order to maintain high EU price levels. This results in lower import volumes and higher import prices when preferential access is granted. The EU has been accused of disrupting agricultural production and trade in some developing country regions, not just through its effect on supply, but by subsidising EU exports which leads to low prices for specific products<sup>5</sup>.

Pressures to adjust the CAP have come from both within and outside the Union. The 1992 CAP reform centred on reducing price support for cereals, oilseeds, protein crops, and beef. To compensate for diminishing price support, direct income compensation payments were introduced. Due to high world market prices in 1995, the EU taxed their grain export. However, access conditions for third-country suppliers did not improve<sup>6</sup>. The Uruguay Round Agreement on Agriculture imposed a number of changes to EU trade policy in this area. Under the Agreement, all border measures have to be converted to tariffs, while any further use of non-tariff measures is prohibited. Tariffs will be brought down by an unweighted average of 36 per cent, with a minimum reduction per tariff line of 15 per cent by the end of the implementation period (1 July 2000). Export subsidies and subsidised volumes will have to be cut by the year 2001 by 36 and 21 per cent, respectively<sup>7</sup>. Even though committed tariff reductions under the WTO Agreement might appear ambitious, OECD studies indicate that the final level of tariffs is likely to be so high that the overall impact on trade will be limited. Furthermore, it has been estimated that there will be little short-term impact on world prices as a result of the WTO Agreements<sup>8</sup>.

The Commission has proposed to continue the CAP reform<sup>9</sup>. Its *Agenda 2000* is primarily oriented towards sectors: arable crops, protein crops, dairy, beef and wine<sup>10</sup>. Though one of the stated objectives is

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5. STEVENS, S. KENNEN, J. YATES, J. (1997), *How will the CAP reform affect Developing Countries*, Institute of Development Studies (forthcoming).

6. OECD (1997), *Agricultural Policies, Markets and Trade in OECD Countries*, Paris.

7. WTO (1997), *Trade Policy Review European Union*, Geneva, (forthcoming).

8. OECD (1995), *The Uruguay Round - A Preliminary Evaluation of the Impacts of the Agreements on Agriculture in the OECD Countries*, Paris.

9. EU Commission (1997), *CAP 2000: long-term prospects*, Brussels.

10. EU Commission (1997), *Agenda 2000: The Legislative Proposals*, Brussels, ip/98/258.

to enable producers to export at world market prices (with the support of adjustment aid), the *Agenda 2000* proposals address the internal EU stock problem, rather than the level of EU imports and exports. An important new academic study indicates that, at an aggregate level, the *Agenda 2000* reforms may have a net adverse effect on developing countries because they aim to reduce some of the distortions from which some developing countries benefit, while leaving unchanged other important distortions discussed below. Since the proposed reforms are modest, the scale of the adverse impact on developing countries is unlikely to be great<sup>11</sup>. The proposals in terms of the broader task of reforming the CAP appear to be a step in the right direction, limited only by the political inability to achieve consensus on more substantial moves in the short term. The forthcoming post-Lomé negotiations, however, offer an opportunity to improve market access for developing countries in a manner that will not prejudice the EU's negotiating position in the WTO.

The early years of the 21st Century will witness a new round of agricultural trade negotiations which might result in further erosion of EU agricultural protectionism. If this is the case, the environment within which developing country agricultural policies operate is likely to change. It would be imprudent to promote agricultural exports to the EU that can survive only with high, supported EU prices. But, it might be appropriate for the EU to provide financial and technical support to developing countries to stimulate exports that benefit from the temporary higher prices and yet have some chance, once they are established, of being sustainable on a 'world market price' basis.

### **Agricultural protocols**

ACP exports of certain agricultural products to the EU benefit from four protocols annexed to the Lomé Convention. The protocols for sugar, beef and veal, bananas and rum give free access (or preferential access in the case of beef) to EU markets for a fixed quantity of exports from selected and traditional (or all, in the case of rum) ACP suppliers. The protocols reflect a concern to preserve traditional trade flows. Supporters of the protocols argue that they have contributed substantially to the development of economies of countries that are granted access to the quotas. Apart from the beef and veal Protocol, the protocols have mostly been used (and beneficiaries have been able) to expand their exports to the EU. The success of Mauritius, which used earnings from the sugar protocol to diversify its economy, is an exemplary case. Others reason that the protocols have caused a high degree of dependence on certain exports and failed to substantially stimulate economic diversification.

Under the banana protocol, the EU is charged with ensuring that no ACP State shall be placed, as regards access to its traditional markets and its advantage on those markets, in a less favourable situation than in the past or at present. Since 1993, the EU has implemented the terms of the protocol within the framework of the common market organisation for bananas. These provisions include duty-free access for a set volume of ACP production (totalling 857 700 tonnes) and within this volume, individual country-specific allocations corresponding to their traditional level of exports. It also provides for tariff and quota restrictions on other third-country suppliers.

Implementation of the Single Market in 1993 required substantial changes in the banana market since bananas were not subject to a common market organisation, nor to the common commercial policy. The Union's dilemma was to create a uniform system, while continuing member States'—notably France, Italy and the United Kingdom—preferential access and advantages for their traditional suppliers. The EU also had to balance the obligations arising from the Lomé Convention with those of the General Agreement on Tariffs and Trade (GATT) and the internal market rules. An import regime was finally adopted, by which

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11. STEVENS, S. KENNEN, J. YATES, J. (1997), *How will the CAP reform affect Developing Countries*, Institute of Development Studies (forthcoming).

ACP suppliers no longer had an absolute advantage on some Member States' markets but still maintained a tariff advantage over Latin American suppliers. Moreover, a system of import licences was created which gave 30 per cent of the licences for importing dollar bananas to those that had a history of importing EU and ACP fruit. The new regime was considered by some to affect substantially the balance of interests and was opposed internally by Germany, and externally by Latin American exporters, supported by the US.

Some features of the EU's banana regime were recently found inconsistent with its WTO obligations, in particular the EU's complex licensing system for distribution, which was found to discriminate against US and Latin American companies. The WTO, however, upheld the EU's right to grant preferential tariff treatment to ACP countries, for which the EU has a WTO waiver<sup>12</sup>. The EU is now in the process of modifying its rules to ensure that its banana regime is fully GATT compatible. The deadline for compliance is 31 December 1998. Overall, the CAP reform, together with the trend towards trade liberalisation, will increase access to EU markets by non-ACP producers and reduce prices in Europe. This will result in an erosion of revenues and the preferential margins for the current beneficiaries. Countries depending on the protocols will need to re-structure their economies.

## **Fisheries**

Issues of coherence between the EU external fisheries policy and its development objectives were raised during the negotiations of a fisheries agreement with Senegal.<sup>13</sup> The Community has concluded different types of agreements with partner countries. At present, the Union has 26 agreements, of which 15 with countries in Africa and the Indian Ocean<sup>14</sup>. The responsibility for the Union's external fisheries policy rests with the Directorate General for Fisheries (DG XIV). Development co-operation is managed by the Directorate General for Development (DG VIII). The policies of the two Directorate Generals in pursuing their respective goals display some inconsistencies. On the one hand, DG XIV has negotiated fisheries agreements with African countries to allow European vessels to fish in their waters, in order to satisfy EU demand for fish and to supply the EU fisheries industry with raw materials for processing. On the other hand, the EU, through the Lomé Convention, aims to support the development of artisanal fisheries in ACP countries.

The fisheries agreements have come under a great deal of scrutiny both in and outside the EU. The European Court of Auditors pointed out that the fishing agreements place an unjustifiable burden on the Union budget<sup>15</sup>. The Union subsidises up to 80 per cent of the cost of long-distance fishing fleets under the fisheries agreements with vessel owners only paying 20 per cent. ACP parliamentarians contended that both the spirit and the letter of the agreements are frequently violated. They argued specifically that catch conditions were not always complied with and that development objectives remained a dead letter<sup>16</sup>. In addition, the European Parliament expressed concerns about the EU's reputation as a tough negotiator, and stressed the need for these negotiations to be carried out in a spirit of co-operation that would benefit both parties. The Parliament suggested consultation with partner countries and the local fishing sector about the consequences of a proposed agreement, as well as formal consultation within the Commission between DG XIV and DG VIII.

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12. WTO (1998), *Panel report on importation, sale and distribution of bananas*, Geneva.

13. EU Commission (1996), *ACP-EU Fisheries Research Initiative*, Dakar, Senegal.

14. EU Commission (1996), *Fisheries Agreements; Current Situation and Perspectives*.

15. EU Court of Auditors (1993); *Auditors report on International Fisheries Agreements*.

16. CRAMPTON, P.D. (1997), *Report on the International Fisheries Agreements*, European Parliament Committee.

The EU has acknowledged the need to ensure coherence between fishing agreements and development policy. A Council Resolution of 5 June 1997<sup>17</sup> calls on the Commission to adopt an “integrated approach” where, in addition to the interests of the Community fishery sector, “the interests of the local fishery sector, as well as the principle of sustainability of the resources” are preserved. The Resolution sets certain criteria to achieve this objective:

- reinforced research and scientific knowledge on fishery resources;
- improved monitoring and management of fish stocks;
- implementation of the FAO Code of Conduct for responsible fishery;
- increased exchanges and consultations between experts specialising in external fisheries and development co-operation.

On the basis of this Resolution, an Inter-services Group (DG XIV/DG VIII) has been established aiming at guaranteeing maximum coherence between the objectives of the two policies. Moreover, the European Union has decided to make, in future fishing agreement negotiations, all efforts “to convince third countries that an important part of the financial compensation” paid by the Community “is allocated to the financing of fishery development actions in order to promote the sustainable development of the concerned sector”.<sup>18</sup>

Finally, efforts are under way in the European Community to negotiate “second generation” agreements, which follow the above objectives and are based on the establishment of joint ventures in the fisheries sector.

However, the new arrangements enable EU fishing companies to gain a foothold in the developing countries’ fisheries, and to share in total available catches. Aid is given to both local and EU operators to establish joint ventures, often involving vessels that were decommissioned from EU waters with the help of EU subsidies. Sometimes the conversion of the arrangements only increases pressures on the local fishing industry. Under the first generation agreement with Mauritania, for example, the EU paid ECU 8.6 million per year for access between 1993 and 1996; under the renegotiated agreement, signed in June 1996, the annual cost is ECU 53.3 million. But, the number of eligible EU vessels increased from 165 to 240, and enabled EU harvests to increase from 76 050 to 183 392 tonnes a year. In response to Mauritanian industry complaints that the agreement harms domestic fishermen, the authorities are considering subsidies to the local fishing industry<sup>19</sup>. Moreover, Community shipbuilding subsidies for trawlers with many times the capacity of competing domestic trawlers may have an impact on competition. Joined with EU fishing access agreements, these subsidised vessels make competition difficult for African and other operators. In the absence of precautionary resource management limits and the institutional capacity to enforce them, the subsidisation of these new, large-capacity trawlers destined for African waters can undermine attempts to develop the continent’s fisheries on a sustainable basis.

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17. 2012th Council meeting - Development - doc.8631/97.

18. Conclusions of Fishery Council 30/10/97, on “Fishing Agreements policy with third countries” doc. 11687/97.

19. World Bank (1998), “Subsidies in World Fisheries” WB technical paper no. 406, Washington D.C.

## Trade policy

The EU's policies on imports from developing countries are complex, stemming from important sectoral and country variations in policy. However, the general trend is towards greater liberalisation and simplification of its trade regime; this results from the EU's participation in the WTO multilateral system as well as the Single Market process.<sup>20</sup> Tariffs provide differential access conditions for EU trading partners in several ways. Generally, tariff protection is modest, although some sectors are protected more heavily than others, including products such as textiles and clothing and agricultural goods which are of particular interest to developing countries. Second, escalation provides greater effective rates of protection for processing industries than is evident from nominal rates. Third, and perhaps most importantly in the case of the EU, the pyramid of preferences provides for graded treatment of the EU's trading partners, allowing them to avoid, at least in part, the negative biases caused by the structure of protection (see Tables 4-6).<sup>21</sup>

Over the years, the EU has developed a dense, multi-layered network of preferential agreements, covering the large majority of its trading partners and taking the form of customs unions, free-trade areas, and non-reciprocal preferential trading arrangements. These arrangements respond to, and evolve with, commercial interests and wider geo-political objectives, which include the strengthening of political, economic or strategic links with specific countries and regions, and the provision of economic and financial assistance to former territories<sup>22</sup>. Products qualify for preferential treatment under Lomé IV bis when they are originating in an ACP country, either because they have been wholly obtained there, or have undergone sufficient working or processing there. Thus, for textiles and clothing, manufacture from yarn is a widely-used rule. For fisheries, the general rule is that fish must be wholly obtained in the ACP countries, the Community or its overseas countries and territories (CT). This means that the fish must be obtained by fishing in the ACP States, the Community or the OCT, or taken from the sea by "their vessels". One of the criteria for defining this notion of "their vessels" is that ACP, EU or OCT nationals should at least own 50 per cent of the vessel.

However, notwithstanding the above core principles, the Convention also provides for a "tolerance" from the processing requirements as long as the value of non-originating materials used in manufacturing a product does not exceed 15 per cent of the product's ex-works price. Under the cumulation provisions of Lomé, ACP countries are allowed to meet the processing requirements by using products wholly obtained in other ACP countries, or in the Community or its overseas countries and territories. Likewise, processing carried out in other ACP countries, or in the Community or its overseas countries and territories are taken into account for conferring origin. Lomé IV bis extended the cumulation principle to neighbouring non-ACP countries. However, exceptions exist for rice, tuna and certain clothing products. The GSP contains stricter rules of origin than Lomé. Additional requirements are set for specific products, such as textiles and clothing. Moreover, cumulation among the GSP recipients is more complex than Lomé IV bis and is limited to specific regions.

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20. WTO (1998), *EU import measures and the Developing Countries*, Geneva (forthcoming).

21. OECD (1997), *Market Access for Least Developed Countries: Where are the obstacles?*, Paris.

22. WTO (1997), *Trade Policy Review European Union*, Geneva (forthcoming).

## GSP

As the EU's only non-binding preferential scheme<sup>23</sup>, the Generalised System of Preferences (GSP) ranks low in the pyramid of preferences. Since its introduction in 1971, the scheme has been regularly renewed, with a comprehensive revision taking place every 10 years. The new system, which entered into force in 1995, simplified its administrative procedures, improved the distribution of benefits, and supplied it with new roles in the social and environmental fields<sup>24</sup>. However, the GSP for agricultural products only entered into force in July 1996.

Unlike the previous scheme, the new one does not impose preferential limits (e.g. quotas, ceilings), i.e. the preferential duty is applicable for as long as the scheme remains in force, with no quantitative limits. To allow for product sensitivity, the preferential duty is no longer automatically zero, but is modulated in line with the category of sensitivity established for each product. The second major innovation is the principle of graduation, which assesses the industrial capacity achieved by each beneficiary in each major production sector to determine which countries still need the GSP to maintain satisfactory export levels. When a country has reached that level, its GSP benefits will be gradually withdrawn in the sector concerned.

As in the past, the preference scheme for agricultural products is far more limited in scope than the one for industry<sup>25</sup>. This is because the priority GSP objective is to foster industrialisation of the developing countries rather than to encourage exports of primary goods. Moreover, the constraints of the CAP have made it extremely difficult to offer concessions in sectors subject to the common market organisation. However, unlike GSP schemes of other major world traders, the EU GSP scheme does not completely exclude textiles and apparel products from preferential access.

The revised GSP includes specific social and environmental clauses aimed at helping beneficiary countries "to improve the quality of their development through the application of advanced social and environmental policies". GSP beneficiaries can obtain additional reductions in tariffs if they demonstrate that they implement in the social arena certain International Labour Organisation (ILO) Conventions and in the environmental arena the standards set by the International Tropical Timber Organisation. Such additional tariff preferences can be given to a country or a sector in the case of the social clause and to a country in the case of the environmental clause. This incentive scheme contrasts with the negative approach of withholding GSP benefits from countries that do not respect basic labour rights

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23. EU Commission (1995), "The European Union; the new GSP Scheme" memo 95/1.

24. EU Council Regulation No. 3281/95, OJ L 348, 31.12.1994; Bull. 12-1994, point 1.3.149.

25. EU Council Regulation No. 1256/96, OJ L 160, 29.06.1996; Bull. 06-1996, point 1.4.37.

**Table 4. EU Total trade with major groups of partners, 1975-95**

In billions of US dollars

<b>Partners</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>
<i>a) Imports</i>					
European Union 15	198.7	455.5	417.8	976.5	1158.9
EFTA 3	13.4	37.7	34.5	72.1	87.6
Other Developed	45.6	106.3	93.5	202.3	246.4
Central / Eastern Europe	6.8	13.3	10.6	19.7	44.6
Baltic States	0.0	0.0	0.0	0.0	4.2
Israel	0.9	2.6	2.3	4.9	6.2
Turkey	0.9	1.6	3.0	8.1	12.0
Meditarrearan Agts.	2.6	8.6	7.1	11.6	15.2
ACP Countries	12.4	29.5	23.8	25.1	26.1
GSP Countries	54.4	123.0	109.6	213.9	293.9
Rest of World	8.6	24.6	23.7	37.5	68.6
World	358.0	841.7	722.4	1536.7	1889.8
<i>b) Exports</i>					
European Union 15	196.4	457.8	420.5	974.8	1240.4
EFTA 3	17.6	44.4	35.7	74.2	90.7
Other Developed	29.3	59.6	94.6	159.2	206.1
Central / Eastern Europe	9.9	14.0	9.2	18.3	53.5
Baltic States	0.0	0.0	0.0	0.0	4.3
Israel	1.7	2.5	3.1	6.9	12.7
Turkey	2.5	2.8	4.4	10.2	17.0
Meditarrearan Agts.	6.0	14.3	12.9	19.1	27.3
ACP Countries	11.9	26.0	16.7	26.6	30.6
GSP Countries	64.5	120.3	102.5	195.1	326.1
Rest of World	10.6	18.2	20.2	26.7	47.9
World	338.1	750.3	704.9	1476.0	1995.5

Source: UNSTAT Contrade Database.

**Table 5. Average annual growth rate of EU total trade with major groups of partners, 1975-95**

Per cent

<b>Partners</b>	<b>1975-80</b>	<b>1980-85</b>	<b>1985-90</b>	<b>1990-95</b>
<b>a) Imports</b>				
European Union 15	18.0	-1.7	18.5	3.5
EFTA 3	23.0	-1.8	15.9	4.0
Other Developed	18.4	-2.5	16.7	4.0
Central / Eastern Europe	14.3	-4.5	13.2	17.8
Baltic States	..	..	..	..
Israel	23.8	-1.9	16.0	4.9
Turkey	13.3	13.9	21.7	8.1
Meditarrear Agts.	27.6	-3.9	10.3	5.6
ACP Countries	18.9	-4.2	1.1	0.7
GSP Countries	17.7	-2.3	14.3	6.6
Rest of World	23.4	-8.0	9.7	12.8
World	18.7	-3.0	16.3	4.2
<b>b) Exports</b>				
European Union 15	18.4	-1.7	18.3	4.9
EFTA 3	20.3	-4.2	15.8	4.1
Other Developed	15.3	9.7	11.0	5.3
Central / Eastern Europe	7.2	-8.1	14.8	23.9
Baltic States	..	..	..	..
Israel	7.3	4.9	17.1	13.0
Turkey	2.4	9.2	18.4	10.7
Meditarrear Agts.	19.0	-2.1	8.3	7.4
ACP Countries	17.0	-8.5	9.8	2.8
GSP Countries	13.3	-3.1	13.7	10.8
Rest of World	11.4	2.1	5.8	12.4
World	17.3	-1.2	15.9	6.2

Source: UNSTAT Contrade Database

**Table 6. Regional structure of EU (1) trade**

Per cent of total

	1961	1965	1970	1975	1980	1985	1990	1995
<b>Exports</b>								
<b>Western Europe</b>								
EU 12	43.3	49.9	53.5	52.7	55.6	54.8	60.1	56.9
EFTA6	13.2	13.0	11.7	10.5	10.9	10.0	10.1	9.3
Total	56.5	62.9	65.2	63.2	66.5	64.8	70.3	66.1
<b>Eastern and Southern Neighbours</b>								
Eastern and Central Europe	3.9	3.3	4.5	5.9	4.1	3.4	2.9	4.6
Mediterranean Partners	5.5	3.7	3.2	4.6	3.9	4.0	3.0	3.3
ACP (2)	4.6	4.2	3.5	3.5	3.4	2.3	1.6	1.1
Total	14.0	11.3	11.1	14.0	11.5	9.7	7.6	9.1
<b>Rest of the World</b>								
Developing Countries	16.3	12.7	10.9	13.5	13.7	11.7	11.3	14.6
Industrial Countries	13.3	13.2	12.8	9.2	8.4	13.8	10.8	10.2
Total	29.5	25.9	23.7	22.7	22.0	25.5	22.1	24.8
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Imports</b>								
<b>Western Europe</b>								
EU 12	40.2	45.1	50.4	50.5	49.2	52.7	57.1	55.9
EFTA6	9.5	9.0	8.6	7.5	8.0	9.0	9.3	9.1
Total	49.7	54.1	59.0	58.0	57.2	61.7	66.4	65.0
<b>Eastern and Southern Neighbours</b>								
Eastern and Central Europe	3.6	3.7	3.4	3.6	3.8	4.0	3.2	4.6
Mediterranean Partners	3.7	2.9	2.2	2.3	2.6	3.3	2.4	2.4
ACP (2)	5.2	5.0	4.3	3.6	3.7	3.5	1.9	1.4
Total	12.5	11.6	9.9	9.5	10.1	10.9	7.5	8.4
<b>Rest of the World</b>								
Developing Countries	18.7	16.1	14.7	19.2	19.7	13.7	12.9	13.6
Industrial Countries	19.1	18.2	16.5	13.3	13.0	13.7	13.2	13.1
Total	37.8	34.3	31.2	32.5	32.7	27.5	26.1	26.7
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Notes:**

1. EU 12
2. African, Caribbean and Pacific Countries which have signed the Lomé Convention

Source: OECD, Foreign Trade Statistics Database, November 1997

The EU's GSP for least-developed countries (LLDCs) applies to 50 countries, 41 of which belong to the ACP group. Building upon initiatives agreed upon at the WTO Ministerial meeting in Singapore to improve market access and trading opportunities for LLDCs, the Commission proposed to harmonise the trade preferences granted to LLDCs to match the best available under the GSP and Lomé, and to offer extended possibilities of cumulation for LLDCs<sup>26</sup>. The Lomé equivalent treatment of all non-ACP LLDCs was implemented in March 1988. In the medium term, taking account of the 1995 GSP revision and of the renewed Lomé Convention in 2000, the Commission will consider further proposals to improve market access for LLDCs, which might include duty-free access for essentially all products<sup>27</sup>. This would only have consequences for agricultural products currently receiving restricted preferences under the Lomé Convention. However, LLDCs export only a very limited number of these products.

### **Lomé Convention**

The Lomé Convention has been the framework for trade and development relations between the EU and 70 ACP states. South Africa, who became the 71st ACP member in 1997, does not benefit from the Lomé trade regime. However negotiations for a FTA are underway. The Convention has provided a substantial part of the support received by these ACP countries. The combination of trade and aid within the same co-operation agreement provides opportunities for establishing a coherent approach based on common objectives. The Convention eliminates duties and other restrictions on most products, except for a range of textile products and for agricultural products subject to a common organisation of the market, for which, however, a preferential access (i.e. better than MFN) is granted. Three key principles underpin the trade preferences: i) stability: preferences are granted for long periods; ii) contractuality: preferences are jointly agreed and cannot be modified unilaterally by the EU; and iii) non-reciprocity: the ACP countries are not obliged to extend reciprocal preferences to EU exports.

Despite preferential access, ACP exports to the EU declined by 11 per cent in the period 1990-95, although recovering somewhat between 1993 and 1995 (from ECU 15 billion to 19.4 billion). ACP imports from the EU followed a similar trend, with a decrease of 8 per cent between 1990 and 1995. As a result, the share of ACP countries in extra-EU imports and exports has been declining in recent years, from 5 per cent in the mid-1980s to 3 per cent in 1995. The vast majority of ACP countries rely on agriculture or petroleum, minerals and metals for the bulk of their export earnings on the EU market. Few ACP countries have succeeded in diversifying the product composition of their exports, despite the virtual absence of barriers to trade in the EU market. Indeed, to the extent that barriers are imposed on ACP exports, they tend to fall on agricultural products. Yet, this sector is the source of most ACP exports. All this suggests that the preferences themselves have not been a key determinant of trade flows<sup>28</sup>.

The mid-term review of Lomé-IV was completed in 1995. In the field of trade, discussions focused on the way to help ACP countries to improve their competitiveness through increased sectoral integration and to take greater advantage of the benefits available under the Convention. Market access provisions of the agreement reflected a shift away from the product-by-product policy towards a more generalised approach. Concrete measures included the extension of preferences to almost all ACP products, and a liberalisation in tariff quotas, ceilings and reference quantities. Concerns about the possible erosion of benefits deriving

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26. EU Commission *Improving market access for the least developed countries* COM(97)156/7.

27. "High-Level meeting on Integrated Initiatives for the least developed countries' trade development, Communication from the European Union, WT/LDC/HL/6, 13 October 1997.

28. OECD (1997), *Market access for the least developed countries: where are the obstacles?*, Paris.

from the reduction of preferential margins as most favoured nation tariffs were lowered under the EU Uruguay Round commitments, and as a result of the EU enlargement, were addressed through reductions of preferential rates and quota increases<sup>29</sup>.

The fourth Convention expires at the beginning of 2000. In view of the major changes that have occurred over the last twenty years, the Commission published a Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century<sup>30</sup>. In its paper, the Commission asserts that economic and institutional constraints have led to disappointing economic performance in most ACP countries, despite EU's trade preferences and financial support. Concerning the trade regime, several options are suggested to better integrate these countries into the global economy: i) the status quo; ii) integration into the GSP; iii) uniform reciprocity meaning establishment of free trade areas with each of the ACP countries; iv) differentiated reciprocity meaning the establishment of regional economic partnership agreements with ACP sub-regions; v) differentiation in a single framework which is a combination of the first four options.

The Green Paper launched extensive consultation on the future of ACP-EU relations with EU Members, ACP countries, NGOs and the private sector. The Commission concluded from the debate that there was a strong preference to "keep the ACP group intact". In its negotiating directives, adopted by the Council on 30 June, the EU proposed to negotiate a new overall agreement with the ACP countries, alongside a series of economic partnership agreements between the EU and regional sub-groupings willing to enter into negotiations of such agreements with the EU. In the EU's view, such regions could be, for instance, the Union Economique et Monétaire Ouest Africaine (UEMOA), the Union Douanière et économique d'Afrique Centrale (UDEAC), and Caribbean Common Market (CARICOM). The proposed regionalised economic co-operation agreements are intended to help consolidate the ACP economic base and their integration into the world economy.

ACP countries are already eligible for the EU's GSP. ACP countries not willing to enter into a regional economic partnership agreement with the EU would therefore continue to benefit from the GSP agreement. However, EU has agreed to assess, in 2004, the situation of these countries in order to provide them with a new framework for trade, compatible with the provisions of WTO, which is equivalent to their existing situation under the Lomé Convention. LLDCs, not party to a regional partnership agreement, would not be asked to grant reciprocity. In addition, LLDCs, whether they are parties to such agreements or not (including non-ACP LLDCs), would be granted duty-free access for essentially all products.

This so-called "differential approach" would allow for account to be taken of different levels of integration and development of different ACP countries. For each ACP region willing to enter into a regional partnership agreement, a plan and a schedule for free trade with the EU will be defined. The Commission anticipates that the overall agreement would be negotiated in the first stage (1998-2000) and the various regionalised agreements in a second stage (2000-2005). The Commission expects that, in the long run, the harmonisation of EU preferences offered and the proliferation of WTO compatible economic co-operation agreements, would ultimately imply that the EU future trade relations would be in line with the WTO provisions.

There is little evidence available on the impact of free trade agreements between highly advanced regions such as the European Union and some of the least advanced and marginalised areas of the world. Only now have some studies been commissioned for which the results may be available in the coming months.

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29. WTO (1997), *Trade Policy Review European Union*, Geneva (forthcoming).

30. EU Commission (1996), "Green Paper on the relations between the European Union and the ACP countries on the eve of the 21st Century", Brussels.

Relevant evidence can be found from the delicate negotiations between the EU and South Africa (See section 9 below on South Africa). Moreover, negotiating free trade agreements will stretch the negotiating capacity of developing countries, especially when multilateral negotiations are conducted at the same time.

### **Agreements with Mediterranean countries**

The Union has strengthened its political, economic and cultural links with Mediterranean countries, in line with the objectives set at the 1994 Corfu European Council. Political impetus to the process was given at the 1995 Barcelona conference when EU representatives and the governments of Algeria, Cyprus, Egypt, Israel, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and the Palestine Territories adopted a formal declaration establishing a new “Euro-Mediterranean Partnership” in the areas of security, social and cultural exchanges, and economic and financial relations<sup>31</sup>. In the context of the partnership, a new generation of association agreements are being negotiated, to replace the earlier agreements dating from the mid-1970s. These new agreements provide for the creation, by 2010, of free trade areas between the EU and the countries concerned, covering goods, services and capital.

The main features of the European Mediterranean Agreements (EMAs) are: i) progressive elimination of all tariffs on industrial goods over 12 years; ii) gradual and limited trade liberalisation for agricultural products with substantive discussions only by the year 2000; iii) concerning services, EMAs simply refer to the obligations of each party under the GATS; iv) adoption and application of the basic EU competition rules; v) a progressive elimination of non-tariff barriers; and vi) harmonisation of safeguard and anti-dumping provisions within five years. During the transition period, WTO rules with respect to countervailing duties and anti-dumping legislation will remain applicable. Even though, in principle, Mediterranean countries already have duty-free access to EU markets for manufactured goods, in practice, rules of origin may be such as to require the use of EU inputs in order to benefit from duty-free treatment. Furthermore, the absence of binding commitments in the supply of services, the exclusion of government procurement and the maintenance of anti-dumping and broadly worded safeguard provisions imply that the EMAs do not go significantly beyond existing WTO disciplines<sup>32</sup>.

Several studies have analysed the welfare implications of such trade agreements which have already been concluded by a number of Mediterranean countries. These studies estimate that Morocco and Tunisia would experience welfare gains equivalent to around 1.5 per cent and 4.5 per cent of Gross Domestic Product (GDP) per annum, respectively. The benefits would rise further in the event of most favoured nation treatment (MFN) liberalisation on a multilateral basis to 2.5 per cent of GDP a year for Morocco and 5.25 per cent of GDP a year for Tunisia. On the other hand, in the case of Tunisia, it is suggested that overall welfare could actually be lower, due to the sizeable fall in tariff revenues<sup>33</sup>.

### **South Africa**

Trade between the EU and South Africa is significant: the EU is South Africa’s main trading and investment partner, accounting for over 40 per cent of its imports, almost 30 per cent of its exports and over 50 per cent of foreign direct investment. Since the introduction of South Africa’s limited GSP status in September 1994, around 80 per cent of South African exports enter the EU market duty-free.

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31. EU Commission: “Barcelona Declaration” Final version 2, Rev. 1.

32. OECD (1997), *The European Union’s trade policies and their economic effects*, Paris.

33. Ibid.

Negotiations on building a long-term, comprehensive and stable framework for co-operation began in June 1995. The complementary negotiating directives on the trade component of the proposal were adopted by the EU Council in March 1996<sup>34</sup>. The EU's proposals are based on three broad objectives: i) to provide the basis for long-term co-operation between the EU and South Africa; ii) to promote economic co-operation in the Southern African region; iii) to help integrate South Africa into the world economy. The proposal is built around two pillars: i) membership of the Lomé Convention; ii) a comprehensive bilateral agreement between South Africa and the EU. In addition, three separate sectoral agreements were negotiated in the following areas: i) science and technology (which entered into force in November, 1997); ii) wine and spirits; and iii) fisheries.

Since January 1997, South Africa is a normal beneficiary of the new EU agricultural GSP, without any exceptions. South Africa's qualified membership of the Lomé Convention was approved in April 1997. While not eligible for non-reciprocal trade preferences and access to funding from the European Development Fund, South Africa will be able to participate fully in the Lomé Institutions and have access to tenders for EDF projects in all ACP countries.

The proposed bilateral agreement would cover all subjects that are not dealt with in the context of South Africa's Lomé membership, such as development co-operation, political dialogue and economic co-operation. The agreement will include provisions that will lead, after a ten-year transition period, to a Free Trade Area between the EU and South Africa. Under the proposals, South Africa would have to remove tariffs on some 45 per cent of its present imports from the EU, while the EU would have to remove tariffs on only 3 per cent of its imports from South Africa.

The agreement would incur substantial adjustment costs for South Africa, without a similar impact on European industries. South Africa's fruit canning industry, for instance, has been a world player for many decades. Since European canned tomatoes have been allowed unrestricted access to the South African market, one of the chief processors has announced rationalisation involving the loss of 2 000 seasonal jobs and 400 permanent jobs. The South African tomato canning industry is regarded as efficient and competitive in the world market, but the EU provides a huge subsidy to its tomato growers, paying ECU 384 million in 1996 alone.

South Africa formulated its own counter proposal, the Trade and Development Agreement, at the beginning of 1997. While this proposal does not reject a Free Trade Agreement, it expresses the minimum demands that such an agreement should comply with. The South African proposal calls for greater recognition of developing status, which would translate into greater asymmetry in the volume of trade and product coverage, and greater sensitivity towards its relations within southern Africa, especially the Southern African Development Community (SADC)<sup>35</sup> and Southern African Customs Union (SACU)<sup>36</sup>.

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34. EU Commission (1997), "European Union - South Africa: proposals for long-term co-operation", Memo/97/30, Brussels.

35. South African Development Community Members include: Angola, Botswana, Mozambique, Namibia, Mauritius, Democratic Republic of Congo, Malawi, Seychelles, Tanzania, Zambia, Zimbabwe, Lesotho, Swaziland and South Africa. Republic of South Africa, TDA proposal, "basis for negotiations for a trade and development agreement between the Republic of South Africa and the European Union", 1996.

36. SACU's Members include: Namibia, Lesotho, Swaziland, Botswana and South Africa.

## Investment

The Lomé Convention has been the vehicle of EU investment relations with the majority of the developing countries. Initially, the Lomé Conventions gave priority to industrial co-operation. In its later versions the focus shifted to the financing and promotion of investment and private sector development. Lomé IV contains articles devoted to different aspects of investment, including investment protection, financing of investment and support to investment. In spite of Lomé and the parallel endeavours of the donors, Foreign Direct Investment (FDI) flows to the ACP have lagged behind, and in the case of Africa, far behind flows to the developing countries generally (see Table 7). The ACP countries attracted only an average of \$2.7 billion in FDI over the period 1988-92, a little less than 8 per cent of the total FDI flows to all developing countries during this period.

The Lomé Conventions have evolved a range of instruments for supporting and encouraging different parts of the private sector in ACP countries - EDF for micro, small and medium enterprise support, CDI for technical assistance to enterprises in project preparation and implementation, EIB for the financing of larger scale enterprises and revenue generating infrastructure. The Conventions have also sought to assist ACP countries with trade development and investment promotions. However, they have not succeeded in overcoming the lack of confidence with which local and foreign investors have viewed economic prospects, particularly in Sub-Saharan Africa, nor in granting the higher levels of local savings needed to finance substantially higher levels of private investment expenditure. Moreover, there has been a lack of coherence in the thrust of EU private sector development strategy at the country level due to simultaneous operation of different agencies with different, and bureaucratic, procedures. The Commission has newly formulated proposals to reintegrate its private sector support activities in ACP countries and to make them coherent and transparent.

The European Community Investment Partners (ECIP) Scheme, which is more successful in promoting FDI in partner countries, offers an example of such a business-friendly approach. Although ECIP is managed by the Commission, it derives its strength from its market-driven character, in which a network of participating banks and financial institutions identify and propose projects to the Commission.

## Monetary union

The creation of the European Monetary Union (EMU) and the introduction of a single currency will have important implications for the relationship between EU and the developing world. In an optimistic scenario, higher economic growth in the EU, stemming from the introduction of the euro, the completion of the Single Market, and further trade and investment liberalisation, will have positive spill-over effects for developing countries with strong economic ties with the EU. In the long run, they could benefit from an increased demand for exports and expanded foreign direct investment inflows. In a pessimistic scenario, in which the EU would not be able to resolve the problem of high structural unemployment, the challenges of globalisation for European competitiveness and country-specific demand shocks, developing countries could face increased protectionist measures against their products.<sup>37</sup>

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37. MEMDOVIC, O. (1998), *Standing on the Brink: an overview of advantages, problems and risk of introducing the euro*, EU-LDC news, Vol. 5, no. 1.

**Table 7. European Union Foreign Direct Investment, flows and stocks, 1992-95**

Million ECU

	1992	1993	1994	1995	1994 (stock, year-end)
<b>ACP</b>	<b>759</b>	<b>- 144</b>	<b>696</b>	<b>939</b>	<b>13 173</b>
o African ACP	598	- 256	294	505	8 374
o Caribbean ACP	- 16	244	338	502	3 903
o Pacific ACP	177	- 131	65	- 70	897
<b>Central &amp; Eastern Europe</b>	<b>2 117</b>	<b>3 238</b>	<b>2 868</b>	<b>5 590</b>	<b>11 582</b>
<b>Mediterranean Basin</b>	<b>732</b>	<b>880</b>	<b>1 010</b>	<b>655</b>	<b>8 927</b>
<b>CIS</b>	<b>33</b>	<b>409</b>	<b>450</b>	<b>309</b>	<b>891</b>
<b>Africa Total</b>	<b>702</b>	<b>108</b>	<b>556</b>	<b>1 096</b>	<b>15 400</b>
o North Africa	11	234	177	163	3 537
- Morocco	74	147	216	29	1 029
- Egypt	- 17	29	51	103	700
o Other Africa	691	- 126	380	936	11 863
- Republic of South Africa	341	135	75	434	4 358
<b>America</b>	<b>10 213</b>	<b>16 164</b>	<b>12 651</b>	<b>27 596</b>	<b>274 050</b>
o North America	7 237	13 629	7 873	23 455	209 233
o Central America	1 911	1 876	1 805	1 502	31 995
o South America	1 064	659	2 976	2 642	32 822
- Brazil	166	195	291	848	16 701
- Argentina	304	226	494	813	5 198
- Colombia	51	24	366	349	2 013
- Chile	- 45	65	134	128	1 666
- Venezuela	126	101	44	192	580
<b>Asia</b>	<b>1 592</b>	<b>933</b>	<b>3 417</b>	<b>5 249</b>	<b>47 971</b>
o Near & Middle East	213	53	499	391	3 762
- Arabian Gulf	159	- 39	372	286	2 229
- Israel	23	36	36	102	235
- Iran	4	0	0	7	344
o Other Asia	1 379	880	2 918	4 855	44 210
- Singapore	232	- 62	384	654	9 684
- Hong Kong	- 299	130	- 334	483	6 803
- Malaysia	401	568	408	- 188	4 609
- South Korea	200	160	271	370	1 831
- Thailand	246	164	254	554	1 750
- China	112	181	521	739	1 645
- Philippines	87	63	512	15	1 592
- India	- 53	256	225	243	1 524
- Taiwan	- 17	80	65	- 31	1 436
- Indonesia	- 76	187	305	582	1 143
<b>Oceania, Other Territories</b>	<b>1 325</b>	<b>97</b>	<b>- 517</b>	<b>2 502</b>	<b>24 201</b>
<b>World not allocated</b>	<b>- 286</b>	<b>1 267</b>	<b>218</b>	<b>- 66</b>	<b>14 947</b>
<b>OECD Total</b>	<b>59 902</b>	<b>54 846</b>	<b>63 817</b>	<b>85 463</b>	<b>763 972</b>
<b>Non OECD Total</b>	<b>7 205</b>	<b>9 515</b>	<b>10 870</b>	<b>12 681</b>	<b>139 922</b>
<b>European Union Total</b>	<b>49 279</b>	<b>40 204</b>	<b>50 320</b>	<b>53 776</b>	<b>462 580</b>
<b>Non European Union Total</b>	<b>17 828</b>	<b>24 157</b>	<b>24 129</b>	<b>44 472</b>	<b>441 314</b>
<b>Grand Total</b>	<b>67 107</b>	<b>64 361</b>	<b>74 687</b>	<b>98 144</b>	<b>903 894</b>

Source : *European Union Direct Investment Yearbook 1997 (Eurostat)*

The euro is expected to become the main vehicular currency in the field of EU development co-operation with developing countries. This will imply that all procurement associated with the implementation of EU development programmes will be denominated in euros. The creation of local currency-denominated counterpart funds in the recipient country would imply that clear monetary and exchange rate relations have to be established between the euro and the EU development partners.

The former French colonies in Sub-Saharan Africa have a common currency called the CFA, which has been linked to the French franc since 1948 and the convertibility of which is guaranteed by the French Treasury. The introduction of the euro for the CFA countries will mean expressing the parity of the CFA franc in euros. The rate will be derived from the conversion rate of the French franc against the euro. The current monetary arrangements governing the CFA zone will remain unchanged if the French authorities continue to guarantee the convertibility of the CFA francs by providing the necessary budget resources, and member countries of the CFA zone are willing to continue the arrangement<sup>38</sup>.

### **Improving coherence**

The EU has special challenges, and potentials, for strengthening the coherence of many policies affecting developing countries. The complexity of EU policy-making, and the impossibility of being consistent in all matters at all times, implies that systems should serve to the maximum to avoid contradictory policies being pursued, insofar as possible to ensure that this does not occur without anticipating the consequences.

The experience of OECD countries has shown that effectiveness in coherence depends significantly on intangible factors, such as political dynamics, working methods, the administrative culture, and the nature of the relationships among key actors. This experience has led to the identification of the following basic tools and “best practices” of coherence<sup>39</sup>:

- Commitment by the political leadership is a necessary pre-condition to coherence, and a tool to enhance it.
- Establishing a strategic policy framework helps ensure that individual policies are consistent with the overall goals and priorities.
- Decision-makers need advice based on a clear definition and in-depth analysis of issues, with explicit indications of possible inconsistencies.
- The existence of a central overview and co-ordination capacity is essential to ensure horizontal consistency among policies.
- Mechanisms to anticipate, detect and resolve policy conflicts early in the process help identify inconsistencies and reduce incoherence.
- The decision-making process must be organised to achieve an effective reconciliation between policy priorities and budgetary imperatives.

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38. KHEMANI, R. and NORD, R. (1997), *The European Monetary Union: Implications for the real outsiders*, World Bank.

39. OECD (1997), *Building Policy Coherence*, Paris.

- Implementation procedures and monitoring mechanisms must be designed to ensure that policies can be adjusted in the light of progress, new information, and changing circumstances.
- An administrative culture that promotes cross-sectoral co-operation and a systematic dialogue between different policies contributes to the strengthening of policy coherence.

This suggests that when EU decisions are made, they should be made on the basis of information and analysis to enable the EU to mitigate adjustment costs. Greater priority should, therefore, be put on developing information systems, analytical capacities and mechanisms at the EU policy making level. See paragraph on “Managing coherence” above.

## CHAPTER 4

### CHARACTERISTICS OF THE PROGRAMME

#### Overall characteristics

The European Union is not only a major source of concessional finance for a large number of developing countries, but it has also entered into several arrangements, both on a bilateral and regional basis, designed to promote trade between the Union and the developing countries involved and to boost their economic performance. The Union has over the years developed complete and complex systems for development co-operation, encompassing a wide range of economic relations with its partner countries.

The aid programme is composed of several components which are managed and financed differently. It can be broadly divided in six parts:

- aid to the 70 ACP states and to South Africa, which is governed by the Lomé Convention and financed mainly through the European Development Fund (EDF) based on special contributions and not from the EU budget (South Africa qualified membership was approved in April 1997);
- aid to the rest of the developing world composed of ALA-MED countries, all financed under the EU budget;
- assistance to CEECs and NIS;
- humanitarian and emergency aid, which has a world-wide coverage, and is administered by ECHO;
- food aid, which is also extended world-wide, but managed by DG VIII;
- ODA managed by EIB.

#### The ACP States, the Lomé Convention and the European Development Fund

##### *The contractual nature of the system*

The Lomé Convention has established a contractual development aid system which defines a series of rights and obligations for the signatories concerning the volume of aid, instruments of aid, areas of co-operation and procedures to follow. The present Lomé IV Convention, instead of lasting five years as did the previous conventions, spans a ten-year period starting 1 March 1990, in accordance with Article 366 of the Convention (see Table 8). It is intended to provide a regular and predictable flow of development co-operation assistance. It is also designed to encourage trade and stimulate exports through a system of privileged market access and trade promotion programmes.

The European Development Fund is the financing instrument of the Lomé Convention. Each Fund is established by a financial protocol and covers a five-year period. Since this period has not changed for Lomé IV, there has been a first Fund, the 7th EDF, which ended on 29 February 1995, and a second protocol has been negotiated to establish the 8th EDF covering the five-year period starting from 1 March 1995. However disbursements from this fund have not yet started, since the revised Lomé IV Convention, signed in Mauritius on 4 November 1995 with 70 ACP States, has not been ratified as yet by all the Member States. It is expected that it will come into force on 1 June 1998.

South Africa's membership was approved in April 1997, as indicated above. While not eligible for non-reciprocal trade preferences and access to funding from the 8th EDF, South Africa will be able to participate fully in the Lomé Institutions and have access to tenders for EDF VIII projects in all countries. Simultaneously a bilateral agreement is being negotiated, and will cover all subjects that are not dealt with in the context of South Africa's Lomé membership, such as development co-operation, political dialogue and economic co-operation. It will include provisions that will lead, after a transition period, to a free trade area between the EU and South Africa.

**Table 8. Lomé Conventions**

ECU million

	Lomé I	Lomé II	Lomé III	Lomé IV a)	
	1975-80	1980-85	1985-90	1990-95	1995-2000
Total b)	3 462	5 409	8 500	12 000	14 625
EDF c)	3 072	4 724	7 400	10 800	12 967
of which					
Grants	2 150	2 999	4 860	7 995	9 592
Special loans	446	525	600	-	-
Risk capital	99	284	600	825	1 000
Stabex	377	634	925	1 500	1 800
Sysmin	-	282	415	480	575
EIB loan resources	390	685	1 100	1 200	1 658

a) The Lomé IV Convention runs 10 years (1990-2000) but the Financial Protocols to the Lomé IV Convention run for two 5-year periods (1990-1995 and 1995-2000).

b) Excluding OCT (200 ECU million, of which 165 ECU million through EDF and 35 ECU million through EIB).

c) The numbering of EDFs causes confusion. EDFs 1-3 related to the Yaoundé Conventions, EDF 4 to Lomé I, EDF5 to Lomé II, EDF 6 to Lomé III and EDFs 7 and 8 to Lomé IV.

Source: EU.

The EDFs are funded through specific contributions determined under an internal agreement decided by the representatives of the Member States at Council level and not funded from the Union's budget. With

the adhesion of three new Members to the EU in 1995—Austria, Finland and Sweden—the relative weight of contributions has been changed for the 8th EDF. The contributions of Member States and their votes in the EDF Committee for EDF 8 are shown in Table 9. There are discussions under way on the EDF's inclusion in the General Budget.

**Table 9. Eighth EDF - Contributions, percentages and weighting of votes**

<b>Member State</b>	<b>ECU million 1995-2000</b>	<b>% of total 1995-2000</b>	<b>Weight of EDF Committee votes 1995-2000</b>
Austria	340	2.7	6
Belgium	503	3.9	8
Denmark	275	2.1	5
Finland	190	1.5	4
France	3 120	24.3	50
Germany	3 000	23.4	48
Greece	160	1.3	4
Ireland	80	0.6	2
Italy	1 610	12.5	26
Luxembourg	37	0.3	1
Netherlands	670	5.2	11
Portugal	125	1.0	3
Spain	750	5.8	12
Sweden	350	2.7	6
United Kingdom	1 630	12.7	26
<b>Total a)</b>	<b>12 840</b>	<b>100.0</b>	<b>212</b>

1. Including OCT.

Source: EU.

While the overall funding obligations of the Community towards ACP States as a group under Lomé IV are set out in the two financial protocols, decisions concerning country allocations to individual ACP States are made exclusively by the Commission and communicated to the ACP States. Operations are governed by five-year programmes of priority needs drawn up jointly by the recipient country and the Commission at the beginning of each protocol period, and called National Indicative Programmes (NIPs). The method of programming, set out in the Convention itself, involves several steps: a) notice by the Commission of the

amount of programmable resources (excluding Stabex, Sysmin, food aid and emergency aid, which by their nature cannot be predicted); *b*) each recipient ACP State submits to the Commission a draft NIP which is then discussed; and *c*) upon agreement a document is signed.

A NIP is supposed to set out development priorities, define key sectors of concentration and the resources for meeting objectives, earmark projects and programmes and set a timetable for implementation. Where applicable, it also makes provisions for structural adjustment, which was financed through sectoral programmes prior to 1990, but has been incorporated into Lomé IV. The NIP is considered a flexible document which can take account of changes and shifts in priorities and can be revised. But there is evidence that NIPs are sometimes established too quickly, on the occasion of a programming mission from Brussels, and are not always based on a complete strategic analysis of the recipient country's situation. Consequently some NIPs may look like shopping lists and fail to provide a proper basis for prioritising all Union development co-operation instruments, with the potential for incoherence.

### ***The revised Lomé Convention***

The revision of the Lomé IV Convention has introduced some limited flexibility into the programming procedures, both to offset their tendency to be unproductive and to provide an incentive for good performance in the implementation of indicative programmes. Articles 281 and 282 dealing with programming have been modified to incorporate the principle of two-tranche programming. The procedure is the following:

- At the beginning of the five-year period (1995-2000) covered by the new financial protocol, the Community gives each ACP country a clear indication of the total programmable resources available to it during this period.
- After an exchange of views on the draft indicative programme drawn up by a recipient country, the Community and that country reach agreement on an indicative programme. This specifies the amount of the first tranche of funds, representing 70 per cent of the overall financial envelope, envisaged for the state in question.
- The indicative programme must be reviewed when that country has achieved a high level of commitment in its implementation, and in any case no more than three years after the entry into force of the second financial protocol.
- After the review of the indicative programme, the resources necessary to complete it may be allocated, taking due account of elements such as the total initial indicative budget, progress in the first tranche, and the state of preparation of activities for the second tranche.

A Community declaration (Annex LXXXI) makes it clear that ACP countries with which co-operation has been suspended will not be notified of the indicative amounts. Similarly, in the case of those countries unable to sign or to implement their national indicative programme, a proportion of the resources allocated to them may, under certain conditions, be used directly for the people as emergency aid, humanitarian aid, or in the form of rehabilitation actions (Article 254.3).

Finally, new Article 283 invites the Union and the ACP States to ensure that the indicative programmes were adopted within 12 months of the signing of the second financial protocol, meaning that programming had to be completed by October 1996.

### *The main figures*

Funding for the revised Lomé IV has been set at ECU 14 625 billion for the five years 1995-2000, an increase of 22 per cent over the Lomé IV first protocol, which was ECU 12 billion. Funds for these five years were divided between EDF (ECU 12 967 million), and EIB (ECU 1 658 million). EDF itself was divided between grants (ECU 11 967 million) and risk capital allocated to EIB (ECU 1 000 million). The grants will finance Stabex, Sysmin, emergency/refugee assistance, interest rate subsidies for EIB loans out of its own resources, structural adjustment, regional co-operation and other grants. This last item represents pure project financing (of National as opposed to Regional Indicative Programmes), to the amount of ECU 6 262 million, and compares to ECU 6 215 million for the same item for the previous five-year period, which is a very small increase in current terms. Table 10 shows how the funding for ACP States will be distributed under the second financial protocol of the 4th Lomé Convention. All EDF funding apart from funds managed or extended by EIB, are in the form of grants (including Stabex and Sysmin).

**Table 10. Lomé IV Convention: Financial Protocol 1995-2000**

ECU million

Overall amount = 14 625					
EDF = 12 967 (1)					EIB = 1 658
Stabex = 1800	Sysmin = 575	Grants = 9 592			Risk capital = 1 000
		Interest rate subsidies = 370	Emergency/refugee assistance (2) = 260	Structural Adjustment = 1 400	
					Regional co-operation (3) = 1 300

1. Of which: ECU 292 million in unutilised funds from previous EDFs.
2. Of which: Emergency assistance = 140  
Refugees = 120 with the possibility of transferring funds to these amounts if they are exhausted. The Community may contribute an additional ECU 60 million from its budget.
3. Of which: CD I= 73  
ACP Secretariat = 4  
Regional trade development. Art. 138 = 85  
Development finance. Art. 224 = 80

Source: EU. Revised Lomé IV Convention.

For South Africa, a bilateral agreement will cover the provision of continued financial assistance under the Community budget through the European Programme for Reconstruction and Development (EPRD), for which ECU 500 million have been earmarked for 1996-99.

While the financial protocols cover five-year periods, it takes much longer to disburse, which is why several EDFs, having reached different stages of maturity, may run concurrently. As of April 1998 there was ECU 1.4 billion of uncommitted funds. In order to absorb this backlog, amounts uncommitted out of the Sixth EDF will be added to the Eighth EDF, and amounts committed but undisbursed by the end of 1998 from all the previous EDFs, some going back to the Fourth EDF, will be added to the Eighth EDF in 1999.

ACP States can receive food aid or humanitarian assistance, financed from the Community budget outside the budget Convention. They also benefit from two commodity facilities: Stabex and Sysmin.

### *Stabex*

Stabex aims to help compensate for foreign exchange losses brought about by price slumps or accidental drops in production. Stabex transfers are intended, in some cases, to help diversify exports so that the recipient country can free itself from the dependence on a limited number of agricultural commodities. In the Eighth EDF, Stabex has been set at ECU 1.8 billion, an increase of 20 per cent over the Seventh EDF. Finally the main innovation of the revised Convention is that transfers may be used in line with structural adjustment efforts and to support any coherent reform policy (Article 209, new paragraph 5).

A number of analyses, including by the European Court of Auditors, have been made of the Stabex programme pointing out its strengths and weaknesses:

- In principle it should help to compensate ACP countries for variations in export receipts from the Union for 50 products, mainly agricultural ones, but also some forestry or fisheries products, with the exception of sugar, meat and tobacco. However, the system has little impact on the fundamental problem of over-production of certain agricultural products, like cocoa for instance.
- There has been a chronic lack of resources to fund the programme.
- Most Stabex support has gone to only a small number of countries.
- There has been no revision, on the occasion of the mid-term review, of procedures concerning the use of resources, which provide for transfers to “be devoted, in accordance with a framework of mutual obligations to be agreed between the ACP State concerned and the Commission in each case, either to the sector, interpreted to the widest possible sense, that recorded the loss of export earnings and be used there for the benefit of economic operators affected by this loss, or, where appropriate, to diversification, either for use in other appropriate productive sectors in principle agricultural, or for the processing of agricultural products” (Article 186).
- There is a problem of coherence between the purpose of Stabex to meet immediate needs from export shortfalls, delays in transfers due to the complexity of the system, and to attempts to institute better accountability. There exists a lack of complementarity between Stabex and other Union financing instruments.

## *Sysmin*

The Sysmin financial facility provides funds to assist ACP countries, heavily dependent on the mining sector, in case the sector registers a substantial decline in mineral export earnings (10 per cent) and the viability of one or more of the sector enterprises is affected. For the period 1996-2000, an amount of ECU 575 million is available. If the funds made available are used to finance projects in private mining companies, then an on-lending agreement must be signed, in order for the company to repay the money to the State and pay interest. Sysmin funds may also be used outside the mining sector to finance diversification projects or programmes outside the mining sector in case of heavy dependency on mining.

A total of 27 projects have been financed under the 5th, 6th and 7th EDF with commitments of about ECU 850 million equal to about 70 per cent of total funds available (ECU 1 175 billion). The average size of projects has been about ECU 30 million. There is little evidence that Sysmin has made a positive impact on the ACP countries generally.

## *Structural adjustment*

The EU has been deeply involved in reform programmes and structural adjustment for many years. The Lomé Convention and Council resolutions concerning counterpart funds, support for reform, and donor co-ordination provide the framework for EC work on structural adjustment. The specificity of Commission support for economic reforms can be summarised in six points:

- taking account of social aspects in defining reform programmes and including measures to soften negative social effects;
- recognising the priority for long-term development and the links with structural adjustment;
- taking into account the regional dimension of structural adjustment and support for regional integration processes;
- internalisation or local ownership by national authorities;
- adopting a rhythm or sequence to reforms specific to the country's own structural adjustment; and
- improving the effectiveness of conditionality.

The Commission believes recipient countries should have one reform programme and the Commission does not suggest alternative structural adjustment programmes. Rather, it supports the programme the country adopts and which is supported internationally by all donors and IMF/WB, with which the Commission has tried to strengthen its co-ordination in recent years.

Financial support of the EC for structural adjustment formally started with Lomé III with balance-of-payments programmes and within the Special Programme of Assistance to Africa (SPA) starting in 1998. Lomé IV formalised and increased structural adjustment by creating a specific instrument and providing resources (ECU 1 150 million in the seventh EDF) which were increased in the eighth EDF to ECU 1 400 million. Other resources can also be provided from NIPs (ECU 350 million), Stabex, and food aid. In agreement with recipient countries, counterpart funds from EC balance-of-payments programmes for general import programmes are used to support social aspects of reform.

### ***The Lomé trade regime***

The Lomé trade regime and prospects for its modification have been discussed in Chapter 3 on coherence. The regime gives free access to the European Union for products originating from ACP countries, with the exception of agricultural products covered by the Common Agricultural Policy, which are granted preferential treatment. According to Commission estimates and concerning tariffs, about 94 per cent of total exports enter the Union at zero tariff (duty free tariff quotas) under the Lomé trade regime: 100 per cent for industrial products, and 80 per cent for agricultural and fish products. When taking into account the agricultural duty free tariff quotas, nearly 99 per cent of total EU imports from ACP are exempted from tariffs.

In the new revised Lomé Convention, changes for a new approach on this question have been made. A regional pilot programme for ACP-EU trade development has been launched. A new and extensive export business assistance programme (EBAS) for all ACP countries will begin in 1999. The Commission has offered assistance to ACP countries, to help in implementing the Uruguay round, to take advantage of the trade opportunities in the Marrakech Agreement, and to participate more actively in the future developments of the multilateral trading system.

### **Asia, Latin America and Mediterranean countries**

The General budget of the European Union contains a chapter entitled “External Actions” for the financing *inter alia* of co-operation with developing countries. Most of these resources go to non-ACP countries, i.e. countries in the Mediterranean area (MED) and developing countries in Asia and Latin America (ALA), as well as to the Middle East and the Republics of former Yugoslavia. In 1997, this budget represented ECU 4 156 million, on a commitment basis, and ECU 2 916 million in disbursements. The largest share of the latter amount i.e. 22 per cent, went to emergency and distress relief operations, and 14 per cent were used for food aid worldwide; 13.7 per cent, or ECU 400 million, went to ALA countries; and 11.5 per cent, or ECU 336 million, to MED countries.

Aid to Asia and Latin America is governed by a Council regulation of February 1992, which indicates that any ALA developing country not violating human rights or basic democratic principles can be eligible, with priority given to poorer countries. Aid is allocated through a five-year envelope, although authority to commit and disburse funds is on an annual basis. The planning figure for 1996-2000 is ECU 4 865 million.

The relations and co-operation policies of the European Union with developing countries remain differentiated with respect to the various regions. Relations with the nearest countries of Africa (including Caribbean and Pacific island countries) are based on a contractual approach (Lomé), while for Latin America and Asia the policies are established by the EU for each country, in the general framework defined in the Commission Communications to the Council and the Parliament.

### ***Latin America***

In Latin America, guidance for the Union’s interventions is a Commission Communication of October 1995, entitled “the European Union and Latin America—The present situation and prospects for closer partnership”, which defines a global strategy for the period 1996-2000. The document proposes that the Union’s co-operation focus on three priorities:

- a common commitment to democracy through institutional support and consolidation of the democratic process, to consolidate the rule of law, reform government, back decentralisation,

and support rural development by means of institution building and the mobilisation of civil society;

- combating poverty and social exclusion, with special aid programmes particularly in the areas of health, education and housing;
- to encourage economic reform and to improve international competitiveness through support for the private sector, and co-operation in industry, science and technology, and the information society (development of trade and investment, synergy between industrial co-operation and co-operation on science and technology, and private sector partnership programmes such as ECIP or AL-Invest).

There is a political relationship with Latin America, via the political dialogue with the Rio Group, the San José Group, the Andean Community, Mercosur, Chile and Mexico. Since 1997, country strategy papers have been prepared on a systematic basis covering economic and financial co-operation. They contain indicative orientations for three years, and exist for 17 countries (all except Cuba). These documents are completed by sectoral orientations that are currently being elaborated. Co-operation agreements with all the countries (Cuba excepted) have been concluded.

The total estimated budget for the period 1995-99 is ECU 1 343 million for the heading B7-301 “co-operation with the developing countries of Latin America”, compared with ECU 925 million for the period 1990-94. The European Union is Latin America’s largest source of ODA, accounting for more than half of it, and exceeding the combined shares of Japan and the United States. In 1997 a total of ECU 480.5 million were committed for 654 projects and operations in 18 countries. Some specialised programmes are:

- The AL-Invest programme, which aims to promote better collaboration between European and Latin American businesses concerning commercial transactions, direct investment, joint ventures, subcontracting and economic alliances. This programme started in 1993. For its second phase, covering the period 1995-2000, its budget amounts to ECU 41 million.
- ALFA (Latin American Academic Training), a programme to promote co-operation between higher education institutions, started in 1994. ALFA phase I (1994-98, ECU 32 million) has already been concluded. The second phase of the programme (1998-2004) will be granted ECU 42 million.
- ALURE (Optimal use of Energy Resources in Latin America), a programme which aims to promote co-operation between operators in the field of energy, improve their technical economic and financial performances and tackle new economic, social and environmental challenges. The second phase of ALURE has been granted a budget of ECU 25 million.
- URB-AL, which is a programme to develop a direct and lasting partnership between European and Latin American local authorities. Established for a duration of four years, its activities consist in the implementation of eight thematic networks, each of them giving rise to various joint projects. Two biennial political and technical meetings between mayors will also be realised within this framework. The budget for URB-AL is ECU 14 million (1995-99).

EIB acts since 1993 as a complementing partner to the Commission in Latin America. From 1993 to June 1997, it has committed ECU 532 million towards operations to be carried out in the region. It has ECU 900 million available for ALA countries during the 1999-2000 period. These loans are for projects in

different areas, namely water and sanitation, energy, industry, tourism and services, transportation, communications, agriculture, forest and fisheries.

## *Asia*

The growing importance of Asia, both economically and politically, has led the European Union to attach higher priority to its relations with Asia. This was concretised in the communication of the Commission: "Towards a new Asia Strategy", endorsed by the European Council in December 1994. The amount of aid for Asia is about the same as for Latin America, and translates into low per capita figures because the Asian population (2 billion) is about four times higher.

The focus in Asia has been on poverty alleviation, with related emphasis on environment, gender, and population. Development aid as such (also called "financial and technical co-operation") is supposed to go to poorest countries and population groups, and economic co-operation, specifically separated from financial and technical co-operation by the ALA Regulation, to countries or regions with high growth potential.

The programme gives priority to assisting the most vulnerable groups, consolidating democracy and promoting human rights in Asia, including support of elections, NGOs and free media. Many Community budget lines for energy, environment, tropical forests, science and technology, AIDS prevention, narcotics control and NGOs have been used, in addition to humanitarian aid, refugees and emergency assistance. Projects have been financed in the fields of agriculture and rural development, fisheries, forestry and irrigation.

Economic co-operation is designed to serve the mutual interest of the EU and the developing countries, facilitating contacts and exchanges between economic operators, increasingly in response to the interests of the private sectors in both Europe and Asia. Some activities aim to improve the business and regulatory environment in partner countries, to stimulate two way trade, and to encourage investment in the private sector.

In 1997, EIB financing totalled ECU 173 million, shared between the public sector (energy in Pakistan, airports in the Philippines) and the private sector, bringing European operators into private infrastructure projects (energy in the Philippines, water supplies in Indonesia). The European Union Investment Partners facility (ECIP) provides financing for the creation of joint ventures between European and local operators, for privatisation and private infrastructure projects. In addition, the Asia-Invest Programme, launched at the beginning of 1998, aims to promote business co-operation between SMEs in the European Union and Asia. It covers a five-year period with a budget of ECU 45 million.

As in Latin America, the European Commission has initiated a decentralised co-operation programme, ASIA Urbs, to establish new links and reinforce existing ones between European and South or South-East Asian local governments. Most of the projects implemented within the programme will be relatively small scale. One output of the programme should be the transfer of know-how about the preparation of dossiers to be submitted to national and international donor agencies, or to the private sector, for project financing. The programme will be managed by an Asia-Urbs Agency, appointed by the Commission, to deliver financial and technical support to the projects.

## *Mediterranean countries*

In recent years, stepping up Mediterranean co-operation with the European Union has been a priority. A new approach was proposed by the Commission in communications of October 1994 and March 1995: "Strengthening the Mediterranean policy of the European Union: Proposals for implementing a Euro-Mediterranean Partnership". This new approach was approved by the European Council of Cannes in June 1995, which agreed on a political commitment to allocate ECU 4 865 million to financial co-operation with Mediterranean partners for the period 1995-99. This engagement was noted in the Barcelona Declaration adopted at the Euro-Mediterranean Conference in November 1995, signed by the foreign ministers of the 15, the Commission and the 12 Mediterranean partners of the EU on 28 November 1995, and which jointly endorsed the Euro-Mediterranean partnership. The main objective of the partnership is the gradual establishment of a free-trade area, with 2 010 as the target date.

This new approach is ambitious, and goes beyond economic co-operation, recognising the strategic importance of the Mediterranean to Europe. It involves: supporting political reform, defending human rights and freedom of expression, promoting economic and social reform to produce sustained growth (to create jobs) and increase standards of living, with the aim of stemming violence and easing migratory pressure.

A Regulation was adopted by the Council (July 1996), relating to financial and technical measures to support the reform of economic and social structures within the framework of the Euro-Mediterranean partnership (MEDA). It has an indicative amount of ECU 3 424.5 million (out of the above-mentioned 4 685 million) for the MEDA programme, which is the principal tool of EU support for economic transition, the development of Mediterranean partners and for regional co-operation in the Mediterranean. The remainder is composed primarily of the unused balance of the previous bilateral financial protocols, a separate budget heading for assistance to Gaza and the West Bank in the context of the Peace Process, and aid for Turkey in the context of the MEDA programme. The implementation of the protocols will be pursued in parallel until the appropriations earmarked for this purpose have been used up.

An audit of the implementation of the financial protocols (now replaced by the MEDA programme) in the seven Maghreb and Mashrek countries was carried out by the Court of Auditors (March 1998). The Court criticised the slow process of negotiation and conclusion of the protocols; the absence of a procedure for the closure of the protocols which, as a consequence, leads to the simultaneous implementation of four series of protocols; and the negative consequences of the inflexible framework of the protocols with a fixed and guaranteed amount for each recipient country.

Approximately 10 per cent of the MEDA programme is allocated to regional co-operation. The remainder is allocated bilaterally by means of equally triennial indicative programmes, revised annually and which establish priorities agreed with the eligible partners, which no longer dispose of a guaranteed amount of aid. These countries are Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and the Gaza/West Bank. Criteria used to define the financial breakdowns (which are not a precise financial commitment) are the per capita GNP, population, the capacity to absorb the appropriations and progress in the implementation of the Association Agreements.

The Association Agreements contain provisions for the progressive dismantling of customs duties, but the only four in force in May 1998 were the Association Agreements with Tunisia and Turkey (since 1963), Malta (since 1971) and the Palestinian Liberation Organisation (PLO, since 1997). Others have been signed with Israel, Jordan and Morocco, and four more are being negotiated with Algeria, Egypt, Lebanon and Syria. A Customs Union with Turkey is already in force since 1995 and is being implemented. Cyprus is linked with the EU via an Association Agreement which should lead to a Customs Union.

The Community uses a broad range of instruments: structural adjustment facilities, non-repayable aid for programme or project financing, risk capital and interest rate subsidies managed by the EIB. The amount available for risk capital managed by the EIB for the period 1995-99 was set at ECU 200 million by the Cannes Council. The Bank has also received a mandate to lend up to ECU 2.3 billion from its own resources during the period from 31 January 1997 to 31 January 2000. In 1997, lending in the Mediterranean countries amounted to an all-time record of ECU 1 122 million, of which risk capital was 36 million. The European Parliament, in a resolution adopted on 13 March 1997, called for the EIB to give greater support to cross-border projects favouring co-operation between countries in the Union and those in the Mediterranean region.

Beyond reviewing the financial protocols, the Court of Auditors examined the management of the projects. The main weaknesses already pointed out in a previous report in 1991 persisted despite the commitment to remedy them given by the Commission. The Court considered that “the inadequacy of human resources, the lack of clarity in the division of responsibilities between the various departments and of competencies between the Commission’s headquarters in Brussels and its Delegations in the field—all these aspects had contributed to the Commission’s failure, on the whole, to cope with the management of projects”. The Court expressed the fear that the increase in appropriations foreseen under MEDA would only aggravate the situation. The Court reviewed EIB’s operations and found an excessive volume of dormant commitments for interest rate subsidies.

Weaknesses signalled at the last DAC review related to decentralised co-operation. A number of decentralised programmes: MED-Urbs, MED-Campus, MED-Invest, and MED-Media, were criticised for their lack of a logical framework, focus or identifiable, realistic goals. In practice, the situation had not improved and had even deteriorated further with respect to financial implementation, with programmes having to be suspended for more than one year. These programmes have recently been restarted after a number of measures are said to have been taken to avoid the recurrence of problems identified.

## **Assistance to CEECs/NIS**

### ***Origin and scope of the Phare and Tacis programmes***

To support the countries of the former communist bloc in transition to democracy and a free market economy, the Commission, on behalf of the EU, has set up two distinct assistance schemes:

- The Phare programme started operations in January 1990. Initially it covered operations in Poland and Hungary, but was extended to the other Central and Eastern European Countries (CEECs). At present it covers twelve countries, *i.e.* Albania, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The aim of the programme was originally to support the process of reform in the CEECs, and in particular to finance economic restructuring projects. Phare is the main financial instrument supporting the enhanced pre-accession strategy, and focuses on strengthening institutions that are key to accession and supporting investments in priority accession-related areas. The Commission considers that the Phare programme has a significant comparative advantage in helping candidate countries prepare themselves for accession. Not only is it the largest technical assistance programme to the region, but it is also unique in its ability to draw on expertise from within the Commission itself and other EU institutions, and from all the existing Member States.
- The Tacis programme was formally established in July 1991 to assist the Soviet Union in its reform efforts. After the dissolution of the Union of the Soviet Socialist Republic (USSR) it

was extended to the twelve New Independent States of the former Soviet Union (NIS), and since 1994 also covers Mongolia. It is a programme of technical assistance focused on transfer of competence and know-how.

In addition to these programmes, the Community provides emergency assistance, food aid, and financial assistance on commercial terms. The latter includes balance-of-payments loans, credit guarantees, credits extended by the EIB (only to the CEECs), and loans for the purchase of food and medical equipment for the NIS.

### ***Management of the programmes***

The Commission is responsible for the management, direction and implementation of Phare and Tacis for which two separate directorates have been set up within DG IA.

Both programmes are funded from the EU's general budget and operate under its rules. The budget is determined annually by the Parliament and the Council of Ministers. The amounts allocated to each programme are divided between the various partner countries on the basis of criteria such as population, GNP, and commitment to the reform process. The final decision lies with the Commission. Food aid delivered to the NIS (the CEECs have graduated) is financed through the European Agriculture Guidance and Guarantee Fund (EAGGF) and ECHO. Emergency and humanitarian assistance for the NIS are funded through ECHO and the Tacis budget. Macro-financial assistance is extended on a case-by-case basis and financed from funds borrowed on the capital markets. It is managed by the Commission in consultation with the EU Monetary Committee.

For Tacis, indicative programmes are drawn up in co-operation with each partner country. They outline the various measures envisaged for each sector of activity. The programmes usually cover a three-year rolling period, although disbursements are made out of annual budgetary appropriations. Phare programmes are based on the Accession Partnerships approved in March 1998. These outline the priority areas in which each candidate country needs to make progress in order to become eligible for accession, and how Phare will help.

The Commission has field Delegations in all countries covered by the Phare programme, as well as in Georgia, Kazakstan, Russia and Ukraine. Reciprocally, most of these countries have established embassies in Brussels and have regular contacts with the Commission.

### ***Co-ordination***

At the G-7 Paris Summit meeting of July 1989 the Commission was entrusted with the co-ordination of assistance of the 24 most industrialised countries to the CEECs. To this effect the G-24 Co-ordination Unit was set up within DG IA. It organises specific country or sectoral meetings. Senior level meetings, prepared and chaired by the commission, usually take place once a year. For the NIS, the Union participates in World Bank-sponsored Consultative Group meetings.

### ***Implementation***

In each partner country a national co-ordinator, usually a Minister or State Secretary, has been designated to assure that programmes and projects are compatible with national priorities, and to co-ordinate the allocation of funding between ministries on behalf of his government.

In the CEECs, the start-up and management of the programmes themselves is handled by Programme Management Units (PMUs), usually run by local civil servants from the relevant ministries, and other implementing agencies. They are supported by outside experts when necessary. Specific procedures, known as the decentralised implementation system (DIS), have been in place for several years; the DIS manual was updated and reissued in 1997. All tenders launched under DIS must follow the EU's rules on external aid. In 1997 Phare's implementation procedures were simplified, and PMUs began to be phased out. The aim is to speed up implementation and to align Phare procedures better with those used for the EU's structural funds, thereby helping to lay the groundwork for membership.

In the NIS, there are Co-ordinating Units under the supervision of the National Co-ordinator. They are supported by a small number of experts financed by Tacis. They are responsible for the elaboration of the Indicative Programmes and of the Action Programmes, and for their implementation and evaluation. The delegations (in Moscow, Kiev, Tbilissi and Almaty) participate in the preparation of the indicative programmes and assist with the preparation of the action programmes at all stages through to completion. There is also a limited number of Technical Offices (TO), six in Russia and one in Belarus, which provide technical assistance to the partner countries, supporting the preparation and implementation of Tacis programmes. They consist in one or several Tacis-funded experts, both western and local.

The PMUs or the Co-ordinating units work in close co-operation with the delegations on the spot or, in the absence of such a delegation, directly with Brussels.

In a report of June 1997 concerning the decentralised system for the implementation of the Phare programme, the European Court of Auditors raised a number of issues. The Court considers that the Commission, with limited staff resources and little experience of the countries of Central and Eastern Europe, has been under pressure to commit the Phare programme budget in full each year, which it has done.

However, the report states that contracting and disbursements of funds have not been accomplished at the same rate, and that the decentralised procedures have slowed down, rather than accelerated, the award of contracts. There has been insufficient limitation in the number of programmes, projects and contracts in the light of the limited staff resources available in Brussels. At the same time decentralisation to the delegations has only been partial, with the Brussels-based departments continuing to play a major part in day-to-day management. The Court recommends that the Delegations be made responsible for the day-to-day monitoring of Phare measures, which calls for strengthening of Delegation staffing, with financial and contract management specialists in particular.

Similar findings have been made by the Court of Auditors for the Tacis programme. In a report of June 1997 concerning the management of the Tacis subsidies allocated to Ukraine, the report states that in the matter of assessment and monitoring, the Commission delegated too much responsibility to consultants, without providing adequate supervision. This is indeed a general remark, which holds true whatever the country or the DG involved: the acute lack of staff at all levels is compensated by large-scale recourse to consultants for a number of tasks which should normally be assumed by the Commission staff itself in Brussels or preferably in the Delegations. The Court also noted that funding was concentrated on projects which were still in progress, without evaluating the results properly and without seeking to assess the impact of projects beyond the period during which they receive finance. This finding could also be generalised.

Measures introduced by the Commission to respond to these criticisms include a reduction in the period allowed for implementation of programmes, an increase in the minimum size of contracts, and the transfer of significant responsibilities and staff resources to the Delegations in-country. Results include an increase

of 41 per cent in the level of contracting and of 50 per cent in the level of disbursements in the first six months of 1998, as compared to the same period in 1997.

### *Evaluation and efficiency*

Progress has been made with respect to project evaluation. An Evaluation Unit was set up in DG IA, and became operational in January 1997. The Unit has published two interim evaluation reports, in May and June 1997, respectively, for Tacis and Phare. The basis for the Phare report was a series of previously conducted individual evaluations. In the case of Tacis the exercise was carried out by the contractors supplying the Tacis monitoring teams. These interim reports conclude that, while the general reform process has been slower and the ability to implement reform weaker than initially envisaged, both programmes can be considered to have been effective, with a positive impact in contributing to market-oriented reform. However they have suffered from the same weaknesses as those pointed out by the Court of Auditors, i.e. the fact that, as stated in the interim evaluation report, the “Commission does not have enough staff resources to utilise existing tools to their full potential and thereby ensure efficiency in accordance with increasingly tight financial and management requirements”.

To monitor the evaluation process, internal newsletters provide feedback on lessons learned, but there is no corresponding training of operational staff, as in DG VIII. However, in another area, training in the new DIS manual was carried out in all the candidate countries over the past year. What remains to be done is to develop and generalise the collection and utilisation of performance indicators to measure output, success or impact, as a precondition for an output-oriented culture. Introduction of the logical framework has set the stage for improving performance in this area.

### *Volume*

Since the last peer review, the EU has remained an important provider of finance for the CEECs and NIS (see Table 11). Over the five-year period 1990-94, commitments have reached ECU 4.3 billion for the CEECs, and the financial package agreed upon for them at the Cannes Summit meeting in June 1995 has been set at ECU 6.7 billion for the years 1995-99, corresponding to a 56 per cent increase. For the NIS, commitments have amounted to ECU 1.76 billion during the four year period 1991-94, and should reach ECU 2.8 billion (an increase of 59 per cent) from 1995 to 1999.

Compared to annual commitment levels, disbursements under both schemes have been slow (see Table 11). As a result, there is still a sizeable backlog estimated at end 1996 at ECU 2.3 billion for CEECs and 0.7 billion for NIS (defined as budgetary commitments for which contracts have not yet been signed). If the rate of contracting remains constant at end 1996 levels and commitments continue as foreseen at Cannes the backlog would reach ECU 3.5 billion at end-1999, for the Phare programme alone (Commission’s estimates). Both Phare and Tacis are entirely funded in the form of grants.

**Table 11. Commitments and disbursements to CEECs/NIS**

1990 to 1999, current ECU million

	PHARE		TACIS	
	Commitments	Disbursements	Commitments	Disbursements
1990	495	171	-	-
1991	774	284	397	0
1992	1 013	436	419	32
1993	1 009	521	472	180
1994	973	723	470	310
1995	1 154	762	501	..
1996	1 234	..	528	..
1997	1 273	..	541	..
1998 (estimate)	1 397	..	565	..
1999 (estimate)	1 634	..	590	..

*Source:* EU.***Main sectors of activity***

As indicated above, Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. Phare catalyses funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the integration process to the European Union progresses.

The key sectors of Phare support are restructuring of state enterprises and private sector development, which have accounted for 23.5 per cent of Phare funds so far. Agricultural restructuring and reform, public administration and institutional reform, reform of social services and employment, education and health, infrastructure, environment and nuclear safety are other key sectors of Phare support.

The Tacis programme extends assistance in the form of know-how transfer either through advisory and consultancy teams or individual experts. The priority sectors are nuclear safety and environment, which accounted for 17 per cent of total commitments over the period 1991-96, followed by support for enterprises (14 per cent), human resources (12 per cent), and food production and distribution (10 per cent).

### ***Main recipients***

Over the years 1990-96, Poland accounted for 30.8 per cent of total commitments under the Phare programme, followed by Hungary and Romania, both with 21.5 per cent, and the Czech Republic (9.8 per cent). Multi-country programmes represented 14 per cent. The Russian Federation was by far the main recipient of funding under the Tacis programme, accounting for 32 per cent of total commitments during 1991-97. Ukraine ranked second with 6 per cent.

### ***Financial terms and tying status***

All projects and programmes funded through the Phare and Tacis budgets are grants. Procurement of goods and services is limited to EU Member States, CEECs and NIS partner countries and—for the NIS—on a case-by-case basis to Mediterranean countries with long-standing historical and commercial links.

### **Humanitarian aid and emergency aid**

The organisation and management of humanitarian and emergency aid having been examined in Chapter 2, this section deals with operational issues in the humanitarian aid programme.

As regards first the issue of co-ordination within the Commission, a division of labour exists between ECHO, in charge of managing humanitarian food aid, and DG VIII/Food aid division, which handles development-related food aid, structural aid and food-security projects. In the event of a serious food crisis, or humanitarian crisis in which food is a major factor, all Union food instruments will be co-ordinated by ECHO in case of humanitarian crisis or by DG VIII/Food aid division in food crises. Concerning actions for refugees, internally displaced people and returnees, a permanent inter-service group chaired by ECHO with representatives from DG I, DG IA, DG IB, DG VIII and the Secretariat General was established in 1995. It discusses selected refugee issues and serves as a clearing house for all Commission refugee projects.

Concerning the humanitarian aid budget managed by ECHO, in 1997 it stood at ECU 442 million. Although a large amount, this was a smaller budget than ECHO disbursed in each of the two previous years (ECU 656 million in 1996 and ECU 692 million in 1995). The relative improvement on the ground in former Yugoslavia and Central Africa, as well as in other theatres of crisis in the world, has contributed to this development. But the level of activity in fact remained the same, due to the usual delay between the commitment of substantial resources at the end of 1996 and the signature of the corresponding contracts, which took place the following year. As a result, contracts signed amounted to ECU 557 million in 1996 and to ECU 612 million in 1997.

In 1996 over 42 per cent of humanitarian aid went to ACP countries, 28.5 per cent to ex-Yugoslavia, and 8.1 per cent to NIS. In 1997 the share of funds between regions was more balanced than in 1996, with ECHO's two main areas of activity, former Yugoslavia and ACP countries, receiving 30.1 per cent and 26.7 per cent of the budget respectively, 8.6 per cent going to Latin America, and again 8.2 per cent to NIS (see Table 12). It is noteworthy that between 21 October 1993 and December 1997, financial decisions in favour of the victims of the crisis in Central Africa (Rwanda, Burundi, D.R.C., Congo) reached a total of ECU 574 million, which is quite a large amount.

A breakdown of items for humanitarian assistance shows that in 1996 the main item was foodstuffs with 17.1 per cent of total, followed by personnel at 15.4 per cent, transport at 12.9 per cent, and health inputs and implements with 11 per cent.

In 1998, ECHO has been focusing *inter alia* on gender issues, highlighting the problem in Afghanistan with a campaign launched on the initiative of the European Parliament and which culminated on Women's day, 8 March. Other issues in the public domain which ECHO is supporting are the "Ottawa process" for a total ban on land mines, and the establishment of an International Criminal Court.

**Table 12. Financial decisions for humanitarian aid**

Percentages

	<b>1996</b>	<b>1997</b>
ACP	42.3	26.7
North Africa/Middle East	3.2	4.1
Iraq	4.5	0.6
Ex-Yugoslavia	28.5	30.1
Eastern Europe	0.3	7.3
Commonwealth of Independent States	8.1	8.2
Asia	8.1	11.7
Latin America	2.9	8.6
Global	2.1	2.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: EU.

### **Food aid**

Food aid has evolved since the last review, in particular with the adoption of a new Regulation in June 1996. Food aid has been an important aspect of the Union's development policy for many years. The rationale behind the changes is to integrate it better into the developing countries' policies to improve their food security, through food strategies aimed at alleviating poverty with the ultimate objective of making food aid superfluous. When the food aid programme started, in the 1960s, it operated mainly not as a development tool but as a means of promoting exports and running down the surpluses produced by the European Union.

It is now recognised that food aid should not have adverse effects on the normal production and commercial import structures of the recipient countries, but on the contrary must aim at developing agriculture in these countries. Food aid should therefore be allocated on the basis of an objective evaluation of the real needs, and should be purchased to a much larger extent on local markets or on regional markets in neighbouring countries, thus constituting a major incentive to local production and regional trade. Food aid should not be handed out free of charge, except to vulnerable groups. The proceeds of the sale, or counterpart funds, can be used primarily in support of programmes for rural or agricultural development or for budget support to sectoral reforms.

The new orientations tend to reduce the share of food aid in kind and to replace it by the provision of technical and financial assistance to fund various inputs like seeds, tools and inputs essential to the production of food crops, storage schemes, rural credit support schemes targeted particularly at women and early warning systems. In some cases, food aid in kind may be substituted by the provision of foreign currency under a new aid instrument, the foreign currency facility, whereby foreign currency is put at the disposal of private sector operators who can then import food and/or agricultural inputs. The objective is to support the participation of the private sector in the process of economic reform of low-income countries.

The management of the programme has been with DG VIII since 1986 (it was previously part of the Common Agricultural policy, managed by DG VI). Delivery of food aid is made either directly by the Commission, or indirectly through NGOs or multilateral institutions such as the WFP, the Food and Agriculture Organisation (FAO) or others. In 1996, 49 per cent of food aid, which totalled ECU 560 million, was delivered directly, and ECU 232 million, or about 40 per cent was delivered indirectly. Resources managed by the NGOs, including the allocation to Euronaid, amounted to ECU 108.5 million. The allocation to WFP was slightly below, representing 19 per cent of the overall budget.

In 1997 the budget was set at ECU 530 million and was executed at 98 per cent. ACP countries were the main beneficiaries with 47 per cent of the total, followed by Asia with 20 per cent, Latin America and NIS receiving around 12 per cent each. The main deviation from the budget was due to the magnitude of the North Korean food crisis, which caused the amount allocated to Asia to soar to ECU 102 million instead of the programmed ECU 69 million. The implementation of national food security strategies, with programmes directly negotiated between the Commission and the country concerned, has resulted in an increase in the share of aid registered as directly delivered, up to 55 per cent, and a reduction to 17 per cent in the share allocated to NGOs. However, since NGOs are involved in the implementation of these programmes they have finally increased their participation up to 25 per cent (a figure which does not take into account the fact that NGOs are carrying out around ECU 60 million of the WFP allocation of ECU 111 million).

Financial aid, which accounted for only 3 per cent of the total in 1994 represented 42 per cent of the envelope in 1997. Reciprocally, aid in kind amounted to ECU 189 million, or 36 per cent of the budget. Transport costs decreased from 30 per cent to 16 per cent of the budget, following a new regulation. As for the future, it is planned to continue to reorient the programme towards food security and to reduce simultaneously food aid in kind.

### **European Investment Bank**

The European Investment Bank (EIB), located in Luxembourg, is the European Union's lending institution. It was created by the Treaty of Rome and its shareholders are the fifteen Member States. The EIB, which is financially independent, is the world's largest multilateral lending institution. In 1997 EIB loans totalled ECU 26.2 billion, of which ECU 23 billion were within the European Union. The Bank also participates in the planning and implementation of the Union's co-operation programme towards third countries, where the corresponding amount of signed loans reached ECU 3.2 billion.

The EIB operates under Financial Protocols attached to their respective co-operation agreements with the EU in 71 African, Caribbean and Pacific states, 12 countries in the Mediterranean region, and 30 countries in Asia and Latin America. As part of the Union's co-operation policy with the Central and Eastern European countries (CEECs) implementing economic reform, the EIB has projects in 12 of them. Since June 1995 it has been authorised to operate in the Republic of South Africa.

The EIB lends funds through two different windows:

- Loans from its own resources, on terms which are the same as in Member States, with an average maturity of 10 to 12 years. They may include an interest subsidy:
  - when there is no subsidy, the interest rate is equivalent to the cost of borrowed resources to which is added a spread of 0.15 per cent, only to cover administrative charges, since the EIB is a non-profit organisation;
  - if there is a subsidy, the rate is lowered by 3 to 4 per cent; which is the case for all loans to ACP countries, excluding loans to foreign (i.e. non-ACP ) companies. The subsidies come from the EDF or from the Community budget. It is likely that subsidised loans as a whole would qualify as ODA, although currently interest subsidies alone are reported as ODA.
- Operations financed out of EDF or budgetary resources, called risk capital, provided by the Commission to EIB, which manages these resources on behalf and at the risk of the Community. A small part of risk capital is extended to take equity participation, to provide indirect equity or quasi-capital in the form of convertible shares or subordinate loans, or to finance feasibility or pre-project studies. Most of it is used to make long-term loans. Risk capital is available only for ACP countries and—in small amounts—for MED countries. Risk capital qualifies as ODA.

Unlike other multilateral institutions, EIB does not extend balance-of-payments or programme aid, and is therefore not involved in conditionality at a macroeconomic level, although it participates in Consultative Group meetings and co-ordinates closely with other multi- or bilateral financial institutions, if only because cofinancing represents 60 per cent of its lending (outside the Union). Another 20 to 25 per cent of its operations correspond to global loans to local banks or development finance companies, public or private, which onlend the money at their own risk to small- and medium-sized enterprises in the private sector. Individual sub-loans range from ECU 20 000 to ECU 12.5 million.

Outside the Union the EIB finances projects in the productive sectors: energy, communications, industry, water management, tourism and services to enterprises, while the Commission is responsible for social projects. Financing provided in 1997 spread over 41 partner countries (see Table 13 for geographical and sectoral breakdown). These operations were financed either from the EIB's own resources (ECU 3 190 million), or from European Union or Member States' budgetary resources (ECU 55 million).

The projects must have the capacity to generate revenues covering at least operating costs, including repayment of the loans. Before being presented to the Board for approval, projects are appraised in the field by a loan officer, an engineer and an economist, to determine their technical, financial and economic viability, and their impact on the environment, in compliance with EIB's Environmental policy statement issued in 1996.

**Table 13. Geographical and sectoral breakdown of finance contracts signed (ECU million)**

	Total	Energy	Communications	Water management and Sundry	Industry, Services	Global loans
Africa, Caribbean, Pacific (ACP)	60	39	3	0	2	16
South Africa (RSA)	199	45	0	0	0	154
Mediterranean (MED)	1 122	346	310	265	65	136
Central and Eastern Europe (PECO)	1 486	70	804	520	47	45
Asia and Latin America (ALA)	378	93	75	65	105	40
Total	3 244	593	1 192	850	219	391

Source: EIB.

EIB requires adequate guarantees on all commitments from its own resources. They may be government guarantees, in the case of loans to the public sector, or any other type of guarantees deemed acceptable by the Board. EIB benefits from global guarantees, granted by the Commission or by Member States, and which can represent up to 100 per cent of its exposure (in the case of loans to CEECs, ALA countries, and South Africa). Like other multilateral institutions, the EIB does not provide debt forgiveness, or enter into rescheduling agreements.

Two different units in EIB are concerned with aid evaluation of operations outside the Union:

- The monitoring division, in the directorate for operations outside the Union. It produces project completion reports (PCR) which are established usually six months to one year after the last disbursement on a project. The report compares the actual results of the implementation phase with what was planned at the outset in terms of timing, cost, and other relevant parameters, and tries to draw lessons for future projects in the same area. All PCRs are sent to the Court of Auditors and the Commission but are not available to the general public.
- The second unit is the operations evaluations unit created in 1995, headed by a special counsellor to the President, and staffed by three senior professionals. It has started carrying out post-evaluation in 1995, on a thematic basis, reviewing projects three to five years after completion. The first evaluation report has been submitted to the board, but has not yet been published.

The Commission is the EIB's principal partner in the Union system. It is represented on the Board of Directors of the EIB and delivers an opinion on Bank financing proposals. Inter-institutional co-operation covers a wide range of subjects, particularly implementation of EU policies on regional development, environmental protection, transport and development aid co-operation with non-member countries.

EIB has a total staff of approximately 980 of which 100, 60 professionals in 1997, work on projects outside the Union, and with geographical responsibilities. The sectoral experts in the Bank handle projects both inside and outside the Union. Sectoral policies are evenly applicable both inside and outside the Union

with the sole exception of procurement policy. The Helsinki disciplines are not applied to EIB operations at present.

EIB is subject to three levels of auditing: internal auditing; external auditing by an accounting firm; and that carried out by the European Court of Auditors (in the case of projects funded or subsidised by EDF or the Commission's budget, or guaranteed by the Commission).

The role of the EIB as a development co-operation institution, the value-added that it may bring to that effort as an EU instrument, and the extent to which its operations complement the EU's work in support of the overarching goals for development co-operation set out by the Maastricht Treaty are themes that seem to have received little attention. They deserve more thorough debate within the EU. As the EIB proceeds with work on evaluation, only begun in very recent years, and an enlarged role in promoting private investment, the elements for a fruitful debate on the EIB's role and perhaps a better definition of it will be possible.

## CHAPTER 5

### BASIC PROFILES

#### **Official development assistance, other financial flows and official aid**

##### *Aid volume*

##### *Official development assistance*

The European Union ODA programme has continued to grow over an extended period during which many other donors' programmes have declined. Over the last decade, net ODA disbursements by the Union grew at an average annual rate of 5.3 per cent in real terms, as compared to a fall of 0.8 per cent for DAC Member countries as a whole (see Table 14). The contrast is even more pronounced over the last five years: the Union programme grew at an average annual rate of 3.3 per cent while the combined effort of DAC countries declined by 4.7 per cent annually. With net ODA disbursements amounting to \$5 261 million in 1997, the EU was the fifth largest donor among the 22 DAC Members and the second largest multilateral donor of concessional aid, after the International Development Association of the World Bank.

With the exception of Greece, all European Union Member States are also Members of the DAC. Collectively, the 14 EU Member States in the DAC disbursed \$26 542 million of net ODA in 1997, more than half the total DAC effort. When added together, the combined bilateral programmes of the European Union and those of the individual EU Member States formed the largest source of ODA to developing countries in each region of the world in 1996, with the exception of the Middle East (where the United States has a larger programme) and Far East Asia (where Japan is the principal donor).

A significant gap between amounts committed for ODA and actual disbursements has become a distinct aspect of the Union's programme in the 1990s. Between 1992 and 1996, ODA commitments exceeded gross disbursements by more than \$1 600 million each year, with the gap reaching more than \$2 200 million in 1994. This can be attributed to a range of factors, some within the Union's sphere of influence—such as low staffing levels and complex administrative procedures slowing down implementation—and others beyond it—such as the absorption rate and administrative capacities within recipient countries.

##### *Other financial flows*

Aside from official development assistance, the European Union's only other type of transaction with developing countries is bilateral loans which are not sufficiently concessional to qualify for recording as ODA. These other official bilateral flows have grown in amount in recent years, from \$151 million in 1995, to \$303 million in 1996, reaching \$836 million in 1997.

**Table 14. Main ODA volume indicators**

i) Disbursements and commitments

	Two-year averages over ten-year period			1995	1996	1997
	1986/87	1991/92	1996/97			
<u>ODA net disbursements</u>						
Current prices and exchange rates (\$ million)	1 925	4 162	5 358	5 398	5 455	5 261
-- Bilateral	1 703	3 875	5 209	4 723	5 261	5 156
-- Multilateral	222	287	149	675	193	105
1996 prices and exchange rates (\$ million)	3 350	4 779	5 623	5 369	5 455	5 790
-- Bilateral	2 961	4 451	5 468	4 697	5 261	5 675
-- Multilateral	389	327	154	671	193	115
ECU million	1 810	3 285	4 470	4 130	4 297	4 642
-- Bilateral	1 600	3 059	4 347	3 614	4 145	4 550
-- Multilateral	210	226	122	516	152	92
<u>ODA commitments</u>						
Current prices and exchange rates (\$ million)	3 230	5 374	6 910	7 642	7 741	6 079
-- Bilateral	2 862	5 069	6 717	6 741	7 482	5 952
-- Multilateral	369	305	193	902	259	127

ii) Average annual growth rates of ODA disbursements in real terms

<i>Percentages</i>	1986/87-	1991/92-	1986/87-	For reference: Total DAC (a)		
	1991/92	1996/97	1996/97	1986/87-	1991/92-	1986/87-
				1991/92	1996/97	1996/97
Total ODA	7.4	3.3	5.3	3.3	-4.7	-0.8
-- Bilateral	8.5	4.2	6.3	3.6	-5.5	-1.0
-- Multilateral	-3.4	-14.0	-8.8	2.6	-2.9	-0.2

a. DAC Member countries only (excludes EC).

Source: OECD

### *Official aid*

In 1997, net Union official aid (OA) disbursements amounted to \$1 423 million, close to the \$1 434 million figure registered in 1996. Among DAC Members, the European Union has now moved ahead of Germany to become the second-largest provider, after the United States, of net OA to countries and territories on Part II of the DAC List of aid recipients—a group comprising the more advanced Central and Eastern European Countries and the New Independent States of the former Soviet Union (CEECs/NIS) as well as the more advanced developing countries and territories. Union aid disbursed to nine out of twelve countries in the context of the Phare programme is recorded as official aid (the remainder qualifies for recording as ODA). From the Tacis programme, only aid to Belarus, Russia and Ukraine is recorded as OA<sup>40</sup>.

The 14 EU Member States in the DAC disbursed bilaterally a total of \$3 478 million of official aid in 1996, more than 60 per cent of total DAC bilateral assistance in that year to recipients on Part II of the DAC List.

### *Sources of European Union aid*

The Union's aid programme has two distinct sources of funding: monies budgeted from the EU's own resources<sup>41</sup> and contributions by Member States for specific development activities, especially EDF activities in ACP States under the Lomé Convention (see Table 15).

The Commission's General Budget funds both official development assistance to developing countries and official aid to recipients on Part II of the DAC list. Nearly three quarters of EU budgeted aid qualifies for recording as ODA (see Table 16). In 1997, ODA disbursements from the Union's own resources represented 3.8 per cent of total EU disbursements with official aid accounting for a further 1.4 per cent.

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40. Until 1996, aid disbursed to Moldova was also recorded as official aid. However, by agreement in the DAC and with effect from 1 January 1997, aid to Moldova is now recorded as ODA.

41. The European Union's own resources which finance the Community budget are: i) sugar levies and levies charged on imports of agricultural products from non-member countries; ii) custom duties derived from trade with non-member countries; iii) a share of receipts from the value-added tax collected in Member States; and iv) a contribution from Member States proportional to their GNP. Total own resources are limited by a ceiling, determined as a fixed share of the combined GNP of Member States. This ceiling was 1.20 per cent of total GNP in 1994 and has been rising progressively towards the 1.27 per cent level fixed for 1999.

**Table 15. Main components of European Union aid**

Disbursements at current prices

	1992		1993		1994		1995		1996		1997	
	\$ million	% of total	\$ million	% of total	\$ million	% of total	\$ million	% of total	\$ million	% of total	\$ million	% of total
<b>EDF</b>	<b>2 514</b>	<b>55.2</b>	<b>1 663</b>	<b>39.8</b>	<b>2 120</b>	<b>44.9</b>	<b>2 044</b>	<b>40.3</b>	<b>1 672</b>	<b>33.1</b>	<b>1 374</b>	<b>29.3</b>
<i>of which:</i>												
Grants	1 548	34.0	1 439	34.4	1 602	34.0	1 419	28.0	1 247	24.7	1 162	24.8
Stabex	788	17.3	39	0.9	418	8.9	396	7.8	209	4.1	21	0.5
Sysmin	15	0.3	99	2.4	30	0.6	25	0.5	36	0.7	44	0.9
Loans	163	3.6	87	2.1	71	1.5	203	4.0	180	3.6	147	3.1
<b>Budget</b>	<b>2 036</b>	<b>44.7</b>	<b>2 520</b>	<b>60.2</b>	<b>2 597</b>	<b>55.1</b>	<b>3 027</b>	<b>59.7</b>	<b>3 387</b>	<b>66.9</b>	<b>3 317</b>	<b>70.7</b>
<i>of which:</i>												
Food aid	747	16.4	516	12.3	530	11.2	650	12.8	546	10.8	462	9.8
Asia and Latin America	379	8.3	421	10.1	433	9.2	569	11.2	554	10.9	455	9.7
<i>of which:</i>												
Asia	233	5.1	227	5.4	232	4.9	337	6.7	360	7.1	286	6.1
Latin America	173	3.8	179	4.3	184	3.9	232	4.6	193	3.8	169	3.6
Mediterranean	261	5.7	420	10.0	353	7.5	299	5.9	335	6.6	386	8.2
Others	649	14.3	1 163	27.8	1 281	27.2	1 508	29.7	1 952	38.6	2 014	42.9
<i>of which:</i>												
Humanitarian aid	157	3.5	399	9.6	541	11.5	537	10.6	704	13.9	743	15.8
<b>Total</b>	<b>4 550</b>	<b>100.0</b>	<b>4 183</b>	<b>100.0</b>	<b>4 718</b>	<b>100.0</b>	<b>5 071</b>	<b>100.0</b>	<b>5 059</b>	<b>100.0</b>	<b>4 691</b>	<b>100.0</b>

Note: European Investment Bank (EIB) loans are not included in the table.

Source: European Commission.

**Table 16. Breakdown of disbursements of EU budgeted aid**

Percentages

	<b>1995</b>	<b>1996</b>	<b>1997</b>
Official development assistance	70.3	73.2	73.5
Official aid	29.7	26.8	26.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: EU.

While the share of ODA from the Community's budget has grown to reach approximately two thirds of total Union ODA, Member States' additional contributions remain a substantial complementary source of funding (see Figure 1).

EU Member States' total contribution to the European Union is made up of three components:

- an imputed amount for ODA budgeted from the Community's own resources, allocated back to each Member State on a *pro rata* basis;
- grants in cash or in kind to the European Development Fund (to which the three newest EU Member States—Austria, Finland and Sweden—have not yet started contributing); and
- interest subsidies provided to soften the terms of loans administered by the European Investment Bank.

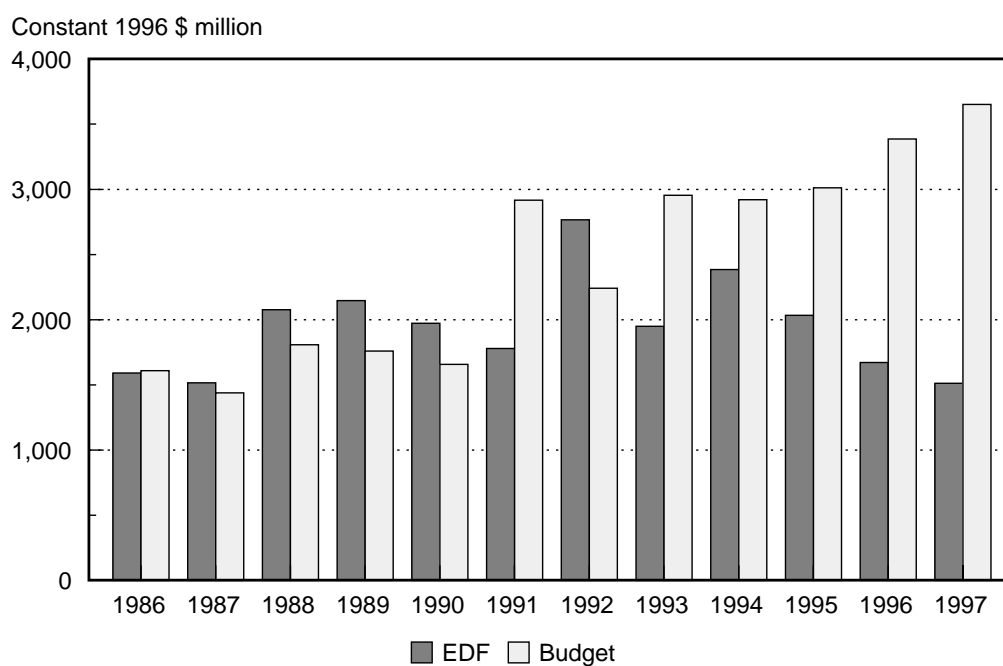
Table 17 presents the breakdown of DAC Members' contributions to the Community in 1996, the latest year for which such data are currently available. Germany was the largest contributor to the EU in 1996, providing 29.3 per cent of net disbursements, followed by France, the United Kingdom and Italy. Together, these four Member States contributed three quarters of the Union's ODA.

In 1997, 18 per cent of EU Member States' ODA was channelled through the Union (see Figure 2). ODA channelled through the Union made up a substantial share of Italy's total ODA programme (49.8 per cent in 1997), while Belgium, Ireland, Portugal, Spain and the United Kingdom channelled around one quarter of their ODA through the EU. For Denmark, the Netherlands and Sweden, the only EU Member States to exceed the United Nations' 0.7 per cent of GNP target, EC contributions were a comparatively small component of their overall aid effort (between 5 and 10 per cent of each country's total net ODA).<sup>42</sup>

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42. Greece is a Member State of the European Union but not a Member of the DAC and so excluded from these analyses. For reference, Greece's contributions to the European Community amounted to \$128 million in 1996, representing over two thirds of that country's total net ODA disbursements.

**Figure 1. Sources of funding for European Union ODA**



Note: EIB loans not included.

Sources: European Commission, OECD.

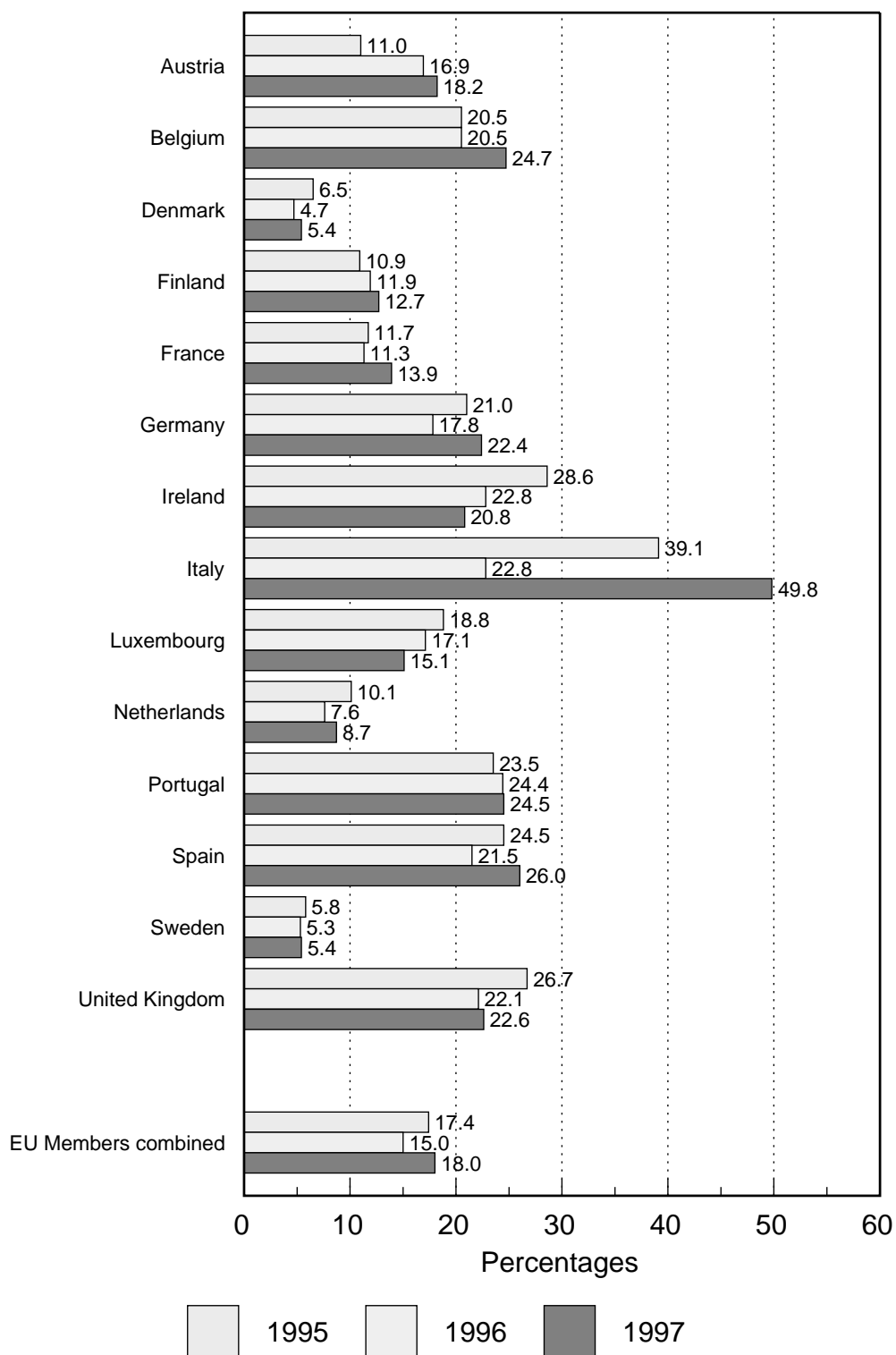
**Table 17. Breakdown of DAC Members' contributions to European Union aid**

Net disbursements in 1996, \$ million

	<b>European Commission</b>	<b>EDF</b>	<b>EIB</b>	<b>Total</b>	<b>For reference: % of total</b>
Austria	94	-	-	94	2.1
Belgium	138	48	-1	185	4.0
Denmark	59	25	-	84	1.8
Finland	48	-	-	48	1.1
France	554	290	-	845	18.4
Germany	1 041	314	-13	1 342	29.3
Ireland	34	7	-	41	0.9
Italy	390	156	6	551	12.0
Luxembourg	12	2	-	14	0.3
Netherlands	178	67	-	245	5.4
Portugal	43	11	-	53	1.2
Spain	198	71	-	269	5.9
Sweden	105	-	-	105	2.3
United Kingdom	505	195	5	706	15.4
<b>Total</b>	<b>3 402</b>	<b>1 184</b>	<b>-3</b>	<b>4 583</b>	<b>100.0</b>

*Source:* OECD.

**Figure 2. DAC Members' contributions to European Union aid**



## ***Composition and sectoral distribution***

### *Official development assistance*

The European Union programme is largely concessional with bilateral grants representing nearly 90 per cent of its ODA (see Table 18). Bilateral grants mainly consisted of project and programme aid, with emergency aid and food aid being other important components. Technical co-operation is a comparatively small part of the EU programme. Bilateral loans have been increasing in size and share in recent years and in 1997 represented 11.3 per cent of Union ODA.

The EU also makes some contributions to multilateral institutions, particularly to specialised agencies which can serve as distribution channels for its food aid and humanitarian assistance. The EC does not participate in multilateral institutions on behalf of Member States.

The sectoral distribution of the Union's overall ODA programme cannot be provided due to incomplete reporting to the DAC. However, some comments can be made about the sectoral distribution of EDF commitments on the basis of notifications made to the Creditor Reporting System. In 1995, EDF commitments principally took the form of commodity aid and general programme assistance (28.4 per cent of EDF commitments) and support for social infrastructure and services (26.5 per cent of commitments). Actions to improve transport and storage infrastructure (14.2 per cent), agriculture, forestry and fishing (7.4 per cent) and industry, mining and construction (6.4 per cent) were other important areas of EDF intervention.

### *Official aid*

Over nine tenths of EU official aid in 1996 was disbursed in grant form, complemented by loans extended to four countries—Bulgaria, Poland, Romania and the Slovak Republic. More than one quarter of OA disbursements financed technical co-operation, mainly in those countries benefiting from assistance through the Tacis programme.

### ***Tied aid and procurement policies***

Various policies guide the procurement of goods and services in the Union's ODA programme. Aid from the EDF is tied to procurement in ACP States or EU Member countries while the procurement component of aid to other recipients is tied to the recipient country, its neighbours or EU Member States. Procurement of goods and services as part of the Phare and Tacis programmes is limited to the partner countries for each programme, EU Member States and, in the case of the Tacis programme and on a case-by-case basis, Mediterranean countries with long-standing historical and commercial links.

**Table 18. ODA net disbursements by main categories**

	At constant 1996 prices and exchange rates \$ million				% of total net ODA				<i>For reference:</i> Total DAC (a): Share of total net ODA (%)			
	1991/92	1995	1996	1997	1991/92	1995	1996	1997	1991/92	1995	1996	1997
<b>Bilateral</b>	<b>4 451</b>	<b>4 697</b>	<b>5 261</b>	<b>5 675</b>	<b>93.2</b>	<b>87.5</b>	<b>96.5</b>	<b>98.0</b>	<b>71.1</b>	<b>68.9</b>	<b>70.5</b>	<b>66.4</b>
Grants	4 394	4 431	4 951	5 019	91.9	82.5	90.8	86.7	58.8	61.4	65.9	64.5
-- Project and programme aid	2 717	3 084	3 251	2 674	56.9	57.4	59.6	46.2	16.2	14.2	17.9	...
-- Technical co-operation	88	217	226	294	1.8	4.0	4.1	5.1	21.3	24.3	25.5	15.0
-- Food aid	662	216	352	393	13.9	4.0	6.5	6.8	2.8	2.3	1.5	1.5
-- Emergency aid (other than food aid)	736	584	768	863	15.4	10.9	14.1	14.9	4.1	5.2	4.9	3.7
-- Debt reorganisation	-	-	-	-	-	-	-	-	7.4	6.4	6.3	...
-- Core support to NGOs	140	178	191	201	2.9	3.3	3.5	3.5	1.8	2.1	2.5	...
-- Administrative costs	-	116	118	124	-	2.2	2.2	2.1	3.8	4.9	5.2	...
-- Other grants	51	3	44	471	1.1	0.1	0.8	8.1	1.3	1.5	2.2	...
Loans	58	266	311	656	1.2	5.0	5.7	11.3	12.3	7.5	4.7	1.9
<i>For reference:</i>												
Associated financing	-	0	41	65	-	0.0	0.7	1.1	0.9	0.7	0.7	...
<b>Multilateral</b>	<b>327</b>	<b>671</b>	<b>193</b>	<b>115</b>	<b>6.8</b>	<b>12.5</b>	<b>3.5</b>	<b>2.0</b>	<b>28.9</b>	<b>31.1</b>	<b>29.5</b>	<b>33.6</b>
-- UN agencies	327	361	90	115	6.8	6.7	1.6	2.0	7.5	7.2	7.9	7.1
of which: WFP	207	181	90	115	4.3	3.4	1.6	2.0	1.3	1.4	1.0	...
UNDP	-	-	-	-	-	-	-	-	1.7	1.5	1.6	...
UNICEF	4	9	-	-	0.1	0.2	-	-	0.7	0.6	0.7	...
UNFPA	-	-	-	-	-	-	-	-	0.4	0.5	0.6	...
-- World Bank group	-	-	-	-	-	-	-	-	9.9	9.5	7.8	...
of which: IDA	-	-	-	-	-	-	-	-	9.1	9.2	7.2	...
-- Regional development banks	-	-	-	-	-	-	-	-	2.5	2.2	2.8	2.2
-- EC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.2	9.1	8.3	10.0
-- Other multilateral	-	310	103	-	-	5.8	1.9	-	1.9	3.0	2.6	...
<b>Total ODA net disbursements</b>	<b>4 779</b>	<b>5 369</b>	<b>5 455</b>	<b>5 790</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
of which: Food aid	923	393	442	508	19.3	7.3	8.1	8.8	5.8	4.5	3.1	...

a) DAC Member countries only (excludes EU).

Source: OECD

The EU does not provide the DAC with data on the tying status of its ODA. The restrictions on procurement outlined above mean that, apart from a few exceptions, all EU aid is tied under DAC definitions.

The EU legal framework for public procurement was completed in 1993 as part of the 1985 Internal Market White Paper programme. When awarding contracts for their own operational requirements or for the purposes of implementing the different policies for which the Union is responsible, the European institutions are required to follow the same rules as those applicable to national contracting entities under the Directives on public procurement.

However, only contracts awarded by the Council and the Commission are covered by the provisions of the Government Procurement Agreement of the World Trade Organisation. The exceptions to the obligations laid down by these instruments concern: i) in the case of the GPA, contracts concluded in connection with food aid; ii) in the case of the obligations deriving from the EU Financial Regulation, the same derogations as those laid down in the Directives plus contracts awarded in the context of external aid financed from the Union budget.

Although they fall outside the scope of the Directives, all of these contracts, which are financed from Union resources (general budget, and under EDF) and under Union programmes (e.g. Phare, Tacis, MEDA, etc.), are still subject to specific rules and the fundamental principles governing the award of contracts, in particular transparency and equality of treatment, i.e. i) they must be open to recipient firms and European firms; ii) be transparent; and iii) comply to the requirement to select the tender offering the best value for money (positive discrimination is allowed in favour of firms in recipient countries).

### ***Geographical distribution***

Over the past decade, Union aid has expanded, especially to meet the new demands for technical co-operation in Eastern Europe, and humanitarian emergencies in the Balkans. In 1986/87, nearly three quarters of the EU's aid was directed to ACP States, a proportion that fell to half in 1991/92 and nearly one third in 1996/97 (see Figure 3). The decline in the share of aid to these recipients has been due to major new programmes commencing in 1991/92. By 1996/97, the Phare programme absorbed a quarter of EU aid, while the Tacis programme accounted for almost 6 per cent of Union assistance. As total Union aid has been increasing, these reductions in the share of aid disbursed to ACP States do not imply a reduction in the total amount of their aid. Aid disbursed as part of the ALA, MED programmes has nevertheless increased in real terms over the last decade.

### ***Official development assistance***

The European Union was the largest source of bilateral development assistance to developing countries in Europe in 1996 and among the principal donors to Northern Africa, Sub-Saharan Africa, North and Central America and the Middle East. As a share of its total allocable ODA, Union aid to Sub-Saharan Africa has fallen dramatically over the last decade while aid to all other regions except Oceania has increased. The percentage of EU aid disbursed to least-developed countries has also declined, from more than one half in 1986/87 to one third in 1997, but remains above the average for DAC countries combined. ODA to lower and upper middle-income countries has increased, to reach proportions above the DAC average (see Table 19).

The main recipients of Union ODA over the last decade are shown in Table 20. During this period, the number of recipients has increased from 127 in 1986/87 to 153 in 1996/97, while the share of allocable

bilateral ODA disbursed to the 20 largest recipients has fallen from 60.7 per cent to 47.3 per cent. The largest recipients in 1996/97 were Morocco, Egypt, the States of ex-Yugoslavia, and Tunisia. The table shows a change in focus in the Union programme, with the 20 largest recipients being predominantly African countries in 1986/87, while a significant number of countries in the Mediterranean region appear in 1996/97. Consistent with the declining share of EU aid being financed from the EDF, only one of the ten largest recipients in 1996/97 was an ACP country, as opposed to 1986/87 when seven of the ten largest recipients were ACP States. Egypt is the only country to remain among the ten largest recipients in the three time periods shown.

In some cases, a large Union programme complements a large combined effort by individual Member States. For example, the \$217 million of EU aid to Morocco in 1996 complemented the \$343 million disbursed by EU Member States themselves and the \$113 million of Union ODA to Bangladesh was additional to the Member States' combined aid of \$322 million. In other cases, the Union's programme alone is larger than the combined effort of Member States, such as in Haiti (Union ODA of \$67 million in 1996 as compared to Member States' combined effort of \$44 million) or Mauritania (\$107 million of EU aid in 1996 while Member States' ODA totalled \$65 million).

### *Official aid*

The largest recipients of EC official aid in 1996 were Poland (\$282 million), Russia (\$145 million) and Romania (\$113 million).

### *Distribution by income groups*

It appears from an analysis of allocable net disbursements that EC provided about 56 per cent of allocable net disbursements to LICs in 1996, less than its Member States provided bilaterally. There has been a trend since 1990 for proportionally less EC aid to go to LICs and more to UMICs. LICs received three times less on a per capita basis than did UMICs in 1996. It should be remembered that LICs include LLDCs and other lower-income countries. This last category covers countries like China, India and Pakistan whose large populations lower per capita figures. See Tables 21 and 22 and Figure 4.

### **Statistical reporting**

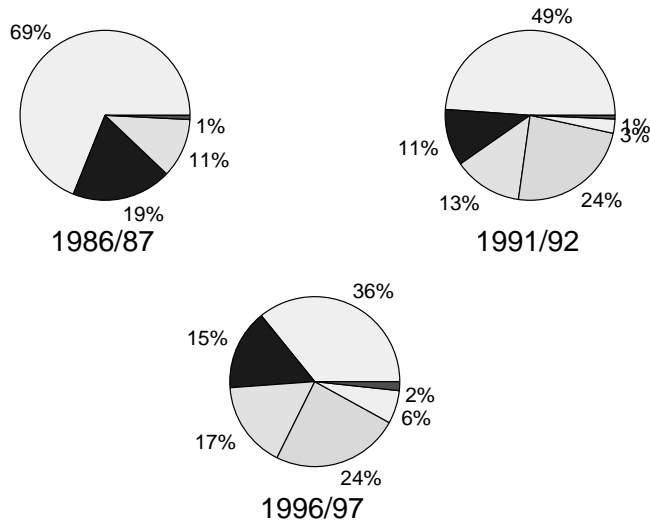
Collecting data on the aid activities of the European Commission and other Union bodies presents special difficulties. A large number of disparate programmes is involved with different aims and methods of operation.

Over the last three to four years, the Commission has addressed this problem by building up an automated system for collating the data in according with DAC reporting norms. This system has led to impressive gains in the consistency and robustness of data. Timeliness has also improved: in 1998, the main disbursement tables were submitted in good order in late June, before any other DAC Member.

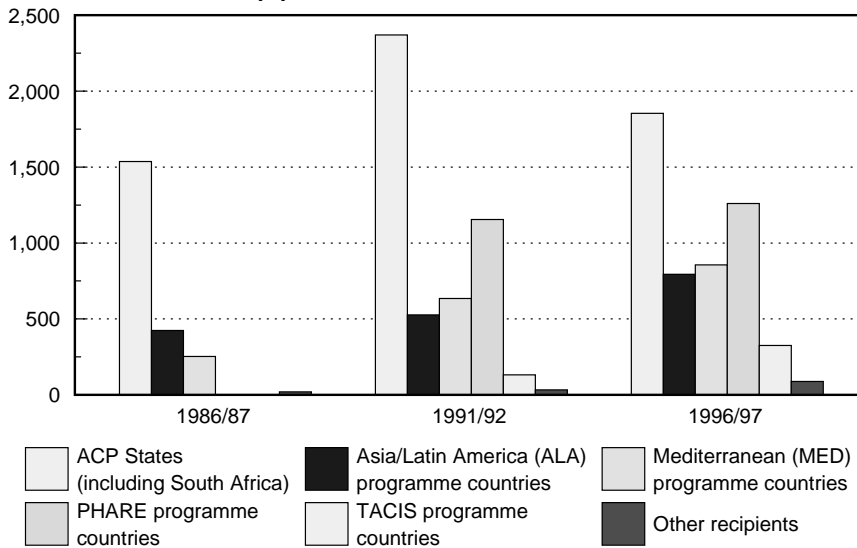
The main remaining gap in aggregate reporting is on the sectoral breakdown of aid from sources other than the EDF. This is expected to be filled in the remaining 1998 reporting on 1997 flows. Work is also under way to extend coverage of project-by-project data in the Creditor Reporting System, currently limited to the EDF and the EIB, to include projects funded from the Commission budget.

**Figure 3. Regional distribution of European Union aid**

**(a) Percentage shares**



**(b) Constant 1996 \$ million**



Note: Includes humanitarian assistance from ECHO and EIB loans.

**Table 19. Allocable ODA net disbursements by major groupings and regions**

	ODA disbursements at constant 1996 prices & exchange rates				Average annual change in real terms		Share of bilateral ODA				For ref.: Total DAC (a): share of bilateral ODA			
	<i>\$ million</i>				<i>Per cent</i>		<i>Per cent</i>				<i>Per cent</i>			
	1986/ 87	1991/ 92	1996	1997	1986/87- 1991/92	1991/92- 1996/97	1986/ 87	1991/ 92	1996	1997	1986/ 87	1991/ 92	1996	1997
Sub-Saharan Africa	1 371	2 210	1 595	1 559	10.0	-6.5	61.4	59.2	38.8	36.5	32.0	30.0	30.6	..
-- Low-income countries	1 326	2 122	1 466	1 329	9.9	-8.0	59.4	56.8	35.7	31.1	30.6	28.6	28.0	..
-- Other	45	88	130	229	14.3	15.3	2.0	2.4	3.2	5.4	1.4	1.4	2.6	..
North Africa & Middle East	167	521	765	936	25.5	10.3	7.5	14.0	18.6	21.9	19.6	22.7	20.5	..
-- Low-income countries	2	7	7	18	29.1	12.0	0.1	0.2	0.2	0.4	0.6	0.5	0.4	..
-- Other	165	514	759	918	25.5	10.3	7.4	13.8	18.5	21.5	19.0	22.1	20.1	..
Asia	323	328	677	651	0.4	15.1	14.5	8.8	16.5	15.3	28.8	28.1	26.6	..
-- Low-income countries	261	266	553	502	0.4	14.6	11.7	7.1	13.5	11.7	18.2	16.6	19.2	..
-- Other	62	62	124	150	0.2	17.0	2.8	1.7	3.0	3.5	10.6	11.5	7.4	..
America	167	308	575	520	13.0	12.2	7.5	8.2	14.0	12.2	12.9	11.8	13.3	..
-- Low-income countries	48	70	135	95	7.9	10.5	2.1	1.9	3.3	2.2	2.2	2.7	3.7	..
-- Other	119	238	441	425	14.9	12.7	5.3	6.4	10.7	9.9	10.7	9.2	9.6	..
Oceania	117	82	42	63	-6.9	-8.6	5.2	2.2	1.0	1.5	5.1	3.4	5.3	..
Europe	87	285	453	543	26.8	11.8	3.9	7.6	11.0	12.7	1.7	4.0	3.6	..
<b>Total bilateral allocable</b>	<b>2 232</b>	<b>3 735</b>	<b>4 107</b>	<b>4 272</b>	<b>10.9</b>	<b>2.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>..</b>
<i>Memo items:</i>														
-- Least-developed countries	1 145	1 753	1 400	1 417	8.9	-4.3	51.3	46.9	34.1	33.2	31.1	25.4	25.7	..
-- Other low-income countries	537	842	896	798	9.4	0.1	24.0	22.5	21.8	18.7	20.9	24.1	28.3	..
-- Lower middle-income countries	494	1 017	1 534	1 675	15.6	9.5	22.1	27.2	37.3	39.2	31.8	39.4	31.9	..
-- Upper middle-income countries	40	76	256	372	13.9	32.8	1.8	2.0	6.2	8.7	4.7	3.5	3.9	..
-- High-income countries	17	48	22	10	22.8	-20.0	0.8	1.3	0.5	0.2	11.5	7.6	10.1	..
-- Unallocated (additional to total shown)	508	654	1 154	1 395	5.2	14.3	22.8	17.5	28.1	32.7	20.7	22.1	29.9	..

a) DAC Member countries only (excludes EU).

Source: OECD

**Table 20. Major recipients of bilateral ODA net disbursements**

Rank	1986/87			1991/92			1996/97					
	Recipient	Constant 1996 \$ million	% of bilateral allocable	Cumulative % of bilateral allocable	Recipient	Constant 1996 \$ million	% of bilateral allocable	Cumulative % of bilateral allocable	Recipient	Constant 1996 \$ million	% of bilateral allocable	Cumulative % of bilateral allocable
1	Ethiopia	157	7.1	7.1	Ethiopia	257	6.9	6.9	Morocco	218	5.2	5.2
2	India	139	6.2	13.3	Egypt	214	5.7	12.6	Egypt	157	3.8	9.0
3	Sudan	126	5.6	18.9	Côte d'Ivoire	150	4.0	16.7	Bosnia & Herzegovina	152	3.6	12.6
4	Senegal	120	5.4	24.3	Cameroon	143	3.8	20.5	States of ex-Yugoslavia	134	3.2	15.8
5	Egypt	76	3.4	27.7	Jordan	139	3.7	24.2	Tunisia	133	3.2	18.9
6	Turkey	76	3.4	31.1	Sudan	130	3.5	27.7	Palestinian Adm. Areas	130	3.1	22.0
7	Tanzania	62	2.8	33.9	Mozambique	111	3.0	30.7	Jordan	105	2.5	24.5
8	Côte d'Ivoire	61	2.7	36.6	Turkey	110	3.0	33.6	India	103	2.5	27.0
9	Papua New Guinea	57	2.6	39.2	Albania	105	2.8	36.4	Bangladesh	101	2.4	29.4
10	Mozambique	52	2.3	41.5	Uganda	103	2.8	39.2	Mauritania	98	2.3	31.8
11	Bangladesh	50	2.3	43.8	Tanzania	86	2.3	41.5	Angola	86	2.0	33.8
12	Ghana	47	2.1	45.9	Zambia	71	1.9	43.4	Côte d'Ivoire	75	1.8	35.6
13	Mali	46	2.1	47.9	Burundi	70	1.9	45.3	Mozambique	70	1.7	37.3
14	Chad	46	2.1	50.0	Angola	68	1.8	47.1	Jamaica	68	1.6	38.9
15	Thailand	44	2.0	51.9	Mali	66	1.8	48.9	Madagascar	63	1.5	40.4
16	Uganda	41	1.8	53.8	India	65	1.7	50.6	Burkina Faso	60	1.4	41.8
17	Niger	40	1.8	55.6	Bangladesh	64	1.7	52.3	Uganda	58	1.4	43.2
18	Congo, Dem. Rep.	39	1.7	57.3	Guinea	63	1.7	54.0	Mali	58	1.4	44.6
19	Malawi	38	1.7	59.0	Namibia	60	1.6	55.6	Tanzania	57	1.4	46.0
20	Madagascar	37	1.7	60.7	Kenya	59	1.6	57.2	Haiti	57	1.4	47.3
	<b>Total bilateral allocable</b>	<b>2 232</b>	<b>100.0</b>	<b>100.0</b>	<b>Total bilateral allocable</b>	<b>3 735</b>	<b>100.0</b>	<b>100.0</b>	<b>Total bilateral allocable</b>	<b>4 190</b>	<b>100.0</b>	<b>100.0</b>
	Unallocated (additional to total shown)	508	22.8		Unallocated (additional to total shown)	654	17.5		Unallocated (additional to total shown)	1 275	30.4	
	<i>Memo item:</i> Total number of recipients	127			<i>Memo item:</i> Total number of recipients	145			<i>Memo item:</i> Total number of recipients	153		

Source: OECD

**Table 21. Share of allocable net disbursements by major income groups (a)**

Per cent

	European Commission							EU Member States
	1990	1991	1992	1993	1994	1995	1996	1996
Total LICs	77.3	59.7	78.5	58.2	61.3	65.1	55.9	61.6
Least developed countries	51.8	41.9	51.6	38.3	34.7	41.1	34.1	31.9
Other low-income countries	25.4	17.8	26.9	19.9	26.7	24.0	21.8	29.8
Lower middle-income countries	19.1	36.7	18.5	36.3	32.2	26.5	37.3	25.7
Upper middle-income countries	3.0	2.0	2.1	5.0	5.5	7.2	6.2	6.7
High-income countries	0.7	1.6	0.9	0.5	1.0	1.2	0.5	6.0
<b>Total ODA to developing countries</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<i>For reference:</i>								
Total foreign assistance	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ODA	84.7	65.3	80.7	82.6	75.2	74.5	74.1	82.0
OA	15.3	34.7	19.3	17.4	24.8	25.5	25.9	18.0

a. DAC list of aid recipients as at 1 January 1996.

Source: OECD

**Table 22. Distribution of allocable net disbursements per capita by major income groups (a)**

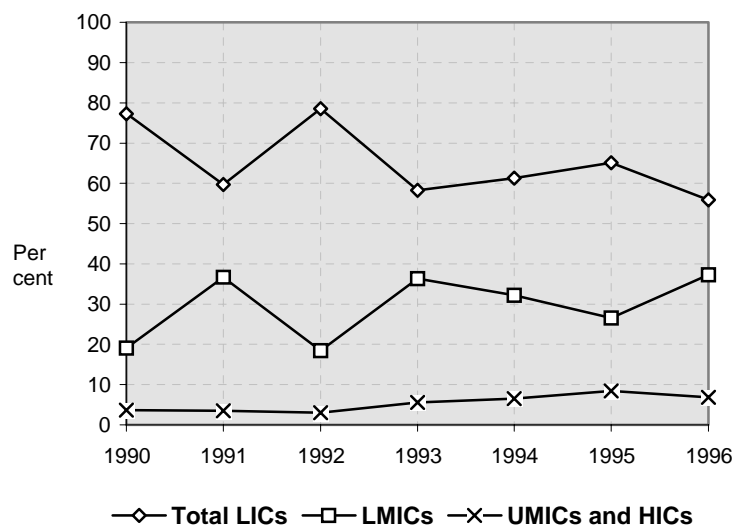
Current dollars

	1990	1991	1992	1993	1994	1995	1996
Total LICs	0.6	0.6	0.9	0.7	0.8	0.8	0.7
Least developed countries	2.4	2.6	3.6	2.6	2.6	2.8	2.5
Other low-income countries	0.2	0.2	0.4	0.3	0.4	0.3	0.3
Lower middle-income countries	0.5	1.4	0.8	1.5	1.5	1.1	1.8
Upper middle-income countries	0.2	0.1	0.2	0.4	0.5	0.6	0.6
High-income countries	15.0	46.9	29.7	16.9	35.9	38.5	17.7
<b>Total Part I countries</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
<b>Total Part II countries</b>	<b>1.2</b>	<b>4.7</b>	<b>2.5</b>	<b>2.2</b>	<b>3.8</b>	<b>3.7</b>	<b>4.3</b>

a. DAC list of aid recipients as at 1 January 1996.

Source: OECD

**Figure 4. Share of allocable net disbursements by major income groups (a)**



(a) DAC list of aid recipients as at 1 January 1996.

Source: OECD



## PRESS RELEASE OF DAC PEER REVIEW OF THE EUROPEAN COMMUNITY

The European Community (EC) is the world's second largest multilateral channel for development assistance (after the World Bank). Its combined programmes are the fifth largest among the 22 Members of the OECD Development Assistance Committee (DAC), and EC programmes have grown an average 3.3 per cent annually over the last five years, while the combined effort of DAC countries declined by 4.7 per cent annually. The importance of these large and growing EC programmes is accentuated by the unique opportunities of the Commission with respect to complementarity and co-ordination of development co-operation policies and programmes within the European Community.

The policies of the EC are consistent with the development partnership goals and strategies agreed in the DAC in 1996, in *Shaping the 21st Century: The Contribution of Development Co-operation*. However, EC programmes operate within a complex organisation and management structure, and Brussels faces serious challenges of implementation in adapting its operations to achieve agreed development objectives.

These issues were the focus of the regular peer review of the European Community's aid policies and programmes, held on 16 September by the OECD Development Assistance Committee. The European Commission Delegation was led by Mr. Athanassios Theodorakis, Deputy-Director General for External Relations and Development Cooperation with Africa, the Caribbean and the Pacific (DG VIII) in the European Commission. The examining countries were Canada and the United States. The Chair of the DAC, Mr. James Michel, summarised the Committee's review:

- The Maastricht Treaty provided the basis for overall orientation and policies for development co-operation. A coherent Commission-wide strategy statement on development co-operation would highlight the directions defined in a number of declarations, resolutions, communications and regulations. This would also help the Community explain its growing programmes to the European public.
- Progress has been made in the Commission's policies and programmes on poverty reduction, gender equality and its work with civil society and NGOs since the last DAC review in 1995. In the discussion of poverty reduction, the review showed that the Community's allocation of resources to lower income countries has not kept pace with the overall growth of the ODA budget over recent years. At the same time, the Committee took note of EC efforts to give effect to internationally-agreed poverty reduction goals, including efforts towards free access for exports from least-developed countries. Improvements in staffing and programming in gender and other cross-cutting areas now need to be matched with clearer monitoring and measurement of impact achieved.
- The EC's approach to partnerships with African, Caribbean and Pacific (ACP) countries has evolved with the revision of the 4th Lomé Convention and the mandate to negotiate a successor arrangement. More emphasis is being put on the broad political dimensions of development, including the need for a stable and democratic environment, the respect of human rights, and the vital importance of good governance and conflict prevention for development success. The changing nature of the European Union (EU)-ACP relationship is intended to modernise the instruments of co-operation, to strengthen its performance, and to move away from the past inflexibility of fixed funding entitlements by country.

- This difficulty in shifting resources in the EC's wide-ranging programmes—together with complex administrative procedures and low staffing levels in the field for project implementation—has contributed to a worrying gap during the 1990s between the amounts committed for ODA and actual disbursements by the Community to partner countries. This gap has reached an annual average of about \$1 600 million between 1992 and 1996.
- An important step in the evolution of the European Commission structures is the creation of a Common Service to implement co-operation activities for the four Directorates General that will remain responsible for strategy, policy formulation and project design. DAC Members will want to track this new system, with some concern about the need to maintain a coherent cycle in EC projects and programmes. The Committee discussed the need for the new structure to strengthen the capacity of delegations in the field to work fully with partners in advancing local ownership and co-ordination. The creation of a single consolidated evaluation unit was seen by the DAC as positive. The Committee considered that it should be kept separate from line operations and its independence assured, as prescribed in the DAC's agreed Evaluation Principles.
- A Quality Support Group in DG VIII is expected to improve feedback, project preparation and design, including in key areas such as gender, environment and private sector involvement.
- DAC Members look to the EC to play a strong role in improving the coherence of policies affecting developing countries. On the aid front, complementarity and co-ordination with the bilateral co-operation programmes of the EU Member States have been somewhat strengthened since the last DAC review, especially at field level. Co-ordination with other donors also seems to be improving, which bodes well for better overall partnerships between donors and partner countries. In the trade area, a major change is the Community's proposal to ACP countries to negotiate new trade agreements with regional sub-groupings of developing countries. The review also examined policy coherence in fields such as agricultural trade, fisheries agreements and Community fishing fleet subsidies, and support for conflict management, humanitarian aid, and peacebuilding in developing countries.

The Summary and Conclusions of the Development Assistance Committee are now available on the OECD/DAC Internet web site, <http://www.oecd.org/dac>. The full report of this peer review, including the summary and conclusions, the report of the Secretariat and related statistical material, will be published in the OECD Development Co-operation Review Series.

EC: Comparative aid performance

	ODA net disbursements 1997		Average annual growth in real terms(%) 1986/87-1996/97	Grant element of ODA commitments (%) 1996 (a)	Aid appropriations as a share of central government budget (%) 1997	Share of multilateral aid 1997				ODA to LLDCs Bilateral and imputed multilateral 1996	
	\$ million	% of GNP				% of ODA		% of GNP		% of ODA	% of GNP
			excl. EC	incl. EC	excl. EC	incl. EC	% of ODA	% of GNP			
Australia	1 076	0.28	-0.3	100.0	1.1	27.4		0.08		20.4	0.06
Austria	531	0.26	5.4	97.5	..	23.3	41.5	0.06	0.11	13.8	0.03
Belgium	764	0.31	-1.7	99.1	..	18.1	42.8	0.06	0.13	24.1	0.08
Canada	2 146	0.36	-1.4	100.0	1.3	39.0		0.14		19.0	0.06
Denmark	1 637	0.97	3.5	94.1	2.7	32.9	38.3	0.32	0.37	31.5	0.33
Finland	379	0.33	-2.2	97.3	1.1	34.5	47.2	0.11	0.15	28.8	0.10
France	6 348	0.45	0.1	92.3	..	10.2	24.1	0.05	0.11	19.0	0.09
Germany	5 913	0.28	0.2	91.7	..	15.0	37.4	0.04	0.11	22.3	0.07
Ireland	187	0.31	9.0	100.0	..	13.5	34.3	0.04	0.11	42.5	0.13
Italy	1 231	0.11	-6.9	99.5	..	14.9	64.7	0.02	0.07	24.5	0.05
Japan	9 358	0.22	-0.2	78.2	..	30.0		0.07		15.0	0.03
Luxembourg	95	0.55	16.5	100.0	..	14.8	29.9	0.08	0.16	26.8	0.12
Netherlands	2 946	0.81	1.0	100.0	..	18.9	27.6	0.15	0.22	27.7	0.23
New Zealand	145	0.25	-0.5	100.0	0.6	20.6		0.05		21.2	0.04
Norway	1 306	0.86	0.9	99.3	1.8	29.9		0.26		38.7	0.33
Portugal	251	0.25	14.7	100.0	..	10.5	35.0	0.03	0.09	67.8	0.14
Spain	1 234	0.23	13.4	89.6	0.9	12.0	38.0	0.03	0.09	11.3	0.02
Sweden	1 731	0.79	0.5	100.0	..	24.8	30.2	0.20	0.24	28.7	0.24
Switzerland	839	0.32	2.0	100.0	3.2	31.0		0.10		29.6	0.10
United Kingdom	3 371	0.26	1.3	96.4	1.1	21.2	43.9	0.05	0.11	25.3	0.07
United States	6 377	0.08	-4.7	99.6	1.1	28.8		0.02		13.4	0.02
Total DAC	47 864	0.22	-0.7	91.8	..	23.0	33.0	0.05	0.07	20.6	0.05
Memo: Average country effort		0.39									
<i>For reference:</i>											
<b>EC</b>	<b>5 261</b>	<b>n.a.</b>	<b>5.3</b>	<b>..</b>	<b>n.a.</b>	<b>2.0</b>		<b>n.a.</b>		<b>26.6</b>	<b>n.a.</b>

Notes:

- .. Indicates that data are not available.
- n.a. Indicates not applicable.
- a. Excluding debt reorganisation.



## 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.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than \$765 in 1995 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between \$766 and \$3 035 in 1995.

**UMICs:** Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between \$3 036 and \$9 385 in 1995.

**HICs:** High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than \$9 385 in 1995.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and the 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.

**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 transaction: 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 per cent; it is 100 per cent for a GRANT; and it lies between these two limits for a soft LOAN.

**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 per cent).

**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 aid recipient countries.

**PRIVATE NON-CONCESSIONAL 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.

**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 aid 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 aid recipients.

**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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