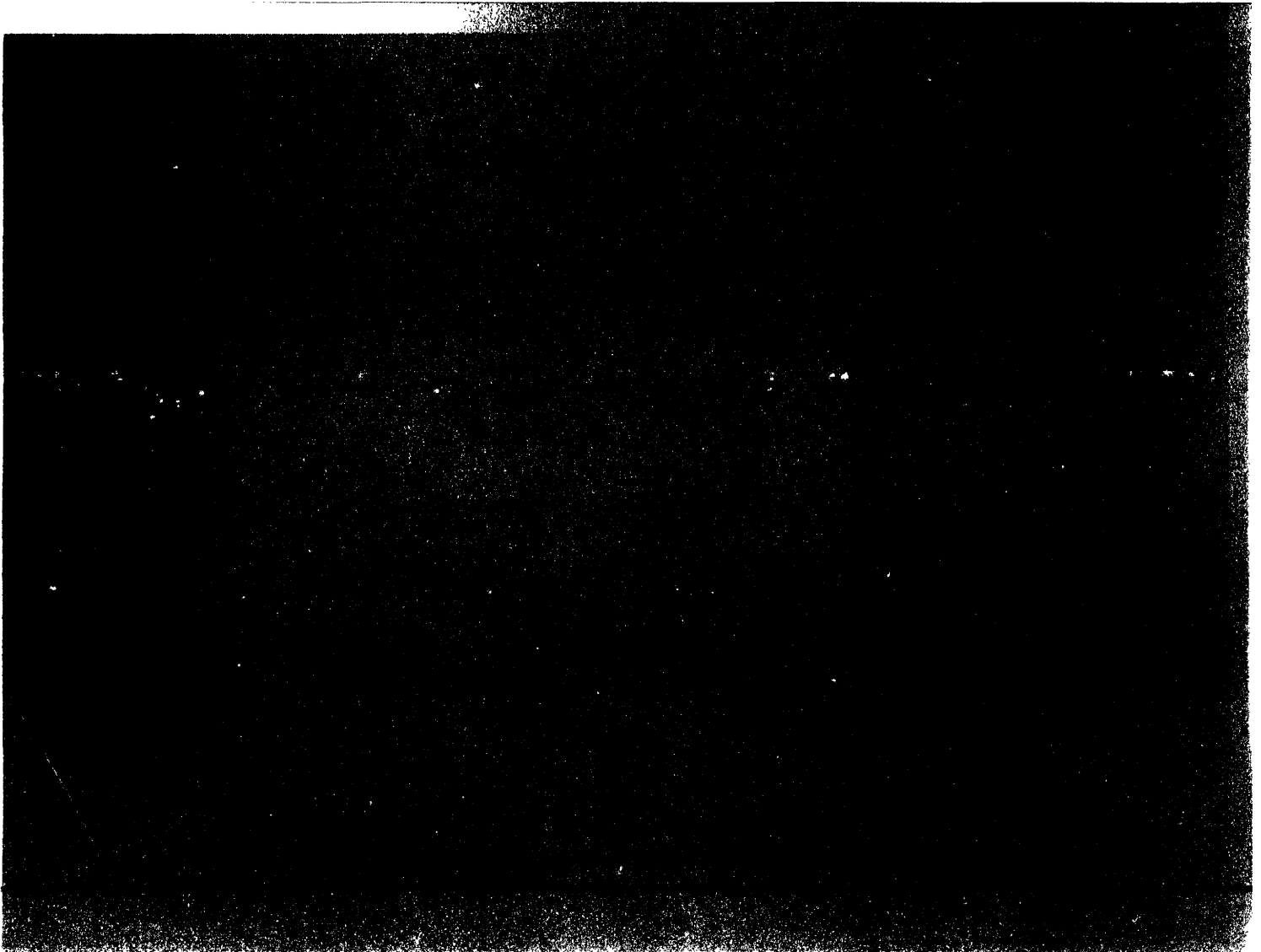


November 1998

Evaluation of
European Union Aid
managed by the Commission
to African, Caribbean and
Pacific Countries



Evaluation of European Union Aid

(Managed by the Commission)

to ACP Countries

Synthesis Report

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The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission.

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LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific (Lomé Convention)
ASMP	Agricultural Services and Management Project
BWI	Bretton Woods institutions
CARIFORUM	The Caribbean Forum
CDI	Centre for the Development of Industry
DAC	Development Assistance Committee, OECD
DG	Directorate General of the European Commission
EC	European Community
ECHO	European Community Humanitarian Office
ECOMOG	Peace-Keeping Force of the West African States
EDF	European Development Fund
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Fund
EU	European Union
IMF	International Monetary Fund
IRDP	Integrated Rural Development Programme
MS	Member States of the EU
NAO	National Authorising Officer
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OED	Operations Evaluation Department, World Bank
PER	Public Expenditure Review
PFP	Policy Framework Paper
RELEX	External Relations DGs of the Commission
RUSIRM	Ruvuma and Southern Iringa Road Maintenance Programme
QSG	Quality Support Group
SASP	Structural Adjustment Support Programme
SPA	Special Programme for Africa
TA	Technical Assistance
UEMOA	<i>Union Economique et Monétaire Ouest-Africaine</i>
WB	World Bank

PREFACE

This evaluation of European Union Aid managed by the Commission (hereafter called European Community or EC aid) to African, Caribbean and Pacific countries is part of the global evaluation of EC aid requested in June 1995 by the EU Council of Ministers responsible for Development Cooperation. The global evaluation was to draw lessons from experience in order to prepare the future aid policy of the EC and to improve the effectiveness, efficiency and transparency of European aid instruments and procedures. It was to include aid to African, Caribbean and Pacific (ACP) countries, to Asia and Latin America, and to the Mediterranean region.

This evaluation of EC aid to ACP countries has involved three phases:

1. The *desk study phase* involved collecting and analysing existing information on aid programmes and instruments, including previous evaluations, and selecting a representative sample of countries and regions. (*August 1996-July 1997*)
2. The *field phase* involved visiting the selected sample of countries to examine the quality of policy dialogue between the Commission and the ACP governments, donor coordination and the operation of arrangements for aid implementation. Visits were made to six countries (Zimbabwe, Tanzania, Côte d'Ivoire, Cameroun, Liberia, and Jamaica) and one region (the Eastern Caribbean). In these visits, we paid as much attention as was possible to the operation of other donors, particularly Member States. This is important given our emphasis on the work of aid as a whole, and its importance is reflected in this report (see for example section 2.5). This phase also included an examination of the process by which ACP-EC development policies are formulated. (*January-September 1998*)
3. The *synthesis phase* has involved summarising and drawing the most important conclusions from the evidence of the desk and field study phases, with a particular view providing clear recommendations on the future direction of EC aid. (*Mid-September to mid-November 1998*)

This is the report of the *synthesis phase* of the ACP evaluation. It is based on the reports from the previous two phases and selected recent documents. It focuses on a few key arguments and recommendations. The reports from the previous phases constitute an integral part of this synthesis report. While their main conclusions and evidence have been included in this synthesis report, the synthesis report uses evaluation criteria that allow a clear focus on the key priority objectives (particularly poverty reduction), institutional strengthening and donor coordination. Of necessity, much of the richness of the evaluation, particularly the country studies, has not been fully captured in this report.

This evaluation report covers aid to ACP countries managed by the Commission in the period since 1985. Trade issues and humanitarian aid (ECHO) fall outside the scope of this evaluation. Within the Commission, the evaluation focuses on the operations of DG VIII and associated delegations.

The authors of this evaluation report are Carlos Montes (overall coordinator), Stefano Migliorisi and Toby Wolfe. They acknowledge the valuable advice provided by Andrew Bird. The evaluation has benefited from consultations with Commission officials in headquarters and delegations.

The evaluation was supervised by the Working Group of Heads of Evaluation Services (Development) of the European Union and the European Commission. The European Commission funded the evaluation.

Those wishing to obtain further copies of this report, or copies of the reports from the earlier phases of the evaluation, should contact the Head of the Evaluation Unit, Common Service Relex of the European Commission. Eight reports are available from the field phase of the evaluation – seven Case Study reports and the Case Study Synthesis.

Executive summary

This is an executive summary of the Evaluation of European Union Aid (Managed by the Commission) to African Caribbean and Pacific (ACP) Countries. This evaluation is part of the global evaluation of EU aid requested by the Council of Ministers responsible for Development Cooperation in June 1995.

This report is based on the findings of an evaluation process which included a desk study and field case studies in 6 countries and 1 region. The evaluation benefited from consultations with Commission officials, and supervision by the Working Group of Heads of Evaluation Services (Development) of the EU Member States and the Commission. The executive summary provides a strategic overview of the main conclusions and recommendations.

In this report, European Union aid managed by the Commission is referred to as European Community aid (EC aid) to distinguish it from Member State bilateral aid.

If the European Community is to help meet the OECD development targets – especially that of reducing by half the proportion of people living in extreme poverty by the year 2015 – and if it is to build a *new partnership* with ACP countries, EC aid programmes

must be results-oriented. This evaluation of EC aid since 1985 (policy, results and Commission activities) has been guided by principles derived from donor experience for making aid programmes more results-oriented and effective:

Key principles for results-oriented and effective aid[‡]

1. *Clear objectives.* Aid should focus on a small number of clear objectives which should be the bottom line for aid organisations. The central objectives of aid have been defined at the highest political levels as poverty reduction and a higher quality of life for all people.

2. *Focus on strengthening institutions and policies.* 'Aid can only be as effective as the policy, economic, and administrative environment in which it operates' (DAC 1985). Donors should focus less on the disbursement of funds and more on helping to strengthen the policies and institutions of those governments *committed* to reform ('ownership' and 'selectivity').

3. *Donor coordination.* Aid is typically fungible. Donors should be concerned with the quality of the entire framework of public expenditure management, and not just with their own interventions. Donors should therefore act together. Each should act on its strengths, taking into account the activities of other donors ('complementarity').

4. *Transparency and accountability* are necessary for critical monitoring of results, for improving the operation of aid organisations, and for winning greater public support.

[‡] Principles based on: the operational lessons of the OECD/DAC 1985 'Review of Twenty-Five Years of Development Cooperation' (also quoted in the 'DAC Principles for Effective Aid', 1992); the OECD/DAC 1996 'Shaping the 21st Century'; and the World Bank Policy Research Report 'Assessing Aid: What Works, What Doesn't and Why', 1998.

Policy

Has EC-ACP aid policy matched these principles?

The **policies and approach** of EC aid have in a number of respects become more in line with the key principles for effective aid:

- **Poverty reduction and other priority objectives** have become more explicit objectives of EC development cooperation with ACP countries. For example,

democratisation and human rights have been given a central place in Lomé IV bis. However, the focus of aid policy has been affected by the escalation of objectives and instruments introduced by Lomé Conventions, Council Resolutions and special budget lines.

- There has been a gradual policy shift from aid being an 'entitlement' for all ACP countries, to 'good' **policies and institutions** being emphasised, particularly through 'conditionality' (Lomé IV). While the EC's conditionality has been more flexible than that of many donors, policy conditionality in some cases has contributed to weaker local ownership of reforms.
- **Donor coordination** policies have been weak for most of the period covered by this evaluation. However, since Maastricht there has been consistent pressure by the Council of Ministers and often by the Commission on the need for European aid programmes to work in the same direction. Coordination at international level has also begun to be tested in the field.
- Progress in increasing **transparency and accountability** has been limited. Information available on EC aid is still difficult to obtain. The recent reorganisation should enhance accountability. However, the placing of the merged evaluation unit within the new implementation service (Common Service) raises concerns over its independence and impartiality.

It remains the case, however, that EC aid policies make it difficult for the Commission to be **results-oriented**. Progress has been slow in identifying a role for EC aid which would allow it to concentrate its activities where its

strengths lie, taking into account the activities of other donors (*complementarity*). EC aid results have not been adequately monitored by the EU Member States or the Commission. Policy-makers, who do not have sufficient feedback from the field, have added to the constraints imposed by Lomé on the Commission, further reducing its operational flexibility. As a consequence, there has been a mismatch between an expanding policy agenda and the Commission's capacity to implement this agenda.

These policy outcomes are explained by the complexity and fragmentation of the development policy formulation process within the EC. There is weak coordination between the main actors in this process. There are weak links between the EDF Committee, the Council of Ministers, the ACP-Fin and other Council working groups, and the development and budgetary committees of the European Parliament. The role of the EDF Committee in enhancing coordination has not been realised. In addition, each Member State has its own particular policy emphasis, and even within a Member State there may be weak coordination, for instance between finance and development ministries. Member States are involved at all stages of the policy formulation process, but their level of representation and their degree of involvement are variable.

Results

Results achieved by EC aid in ACP countries

EC aid has often had limited impact on the priority objectives of poverty reduction, good governance (including democracy and human rights), gender equality and the protection of the environment.

Some targeted programmes and budget lines (e.g. micro-projects, and the budget line for democratisation and human rights) have addressed these objectives with some success, although at a localised level and often with

high administrative costs.

EC aid has had more success in delivering immediate project outputs, including physical outputs, than in following a policy-based approach (i.e. than in working with committed governments to strengthen institutions and in coordinating with other donors). However, our country visits found evidence of moves towards a policy-based approach, with enhanced sectoral policy dialogue.

Some EC aid results

Programme aid. The Commission's participation in structural adjustment operations is facilitating its transition to being a policy-based donor. However, the Commission's interventions have often had similar weaknesses to those of the Bretton Woods institutions. The Commission has often faced difficulties in achieving institutional objectives. The effectiveness of Stabex and Food Aid has been limited in the past because they did not adequately address the policy environment.

Project aid. Too strong a focus on physical outputs has often meant that key sectoral policy constraints have not been addressed. This has contributed to low sustainability of most projects. Nevertheless, when measured in terms of physical outputs the results of EC aid were often good, especially in the transport sector and in infrastructure-building, because of the Commission's expertise in these areas. While it is too early to assess the impact of the adoption of a more policy-based approach, we found some evidence that the approach has been most successfully adopted in the health and transport sectors.

The relatively good performance of EC Micro-projects (and to a lesser degree of cooperation with NGOs) suggests that close contact with direct beneficiaries helps to improve the design, delivery and sustainability of interventions. In contrast to these participatory interventions, the weak commitment of ACP countries to regional organisations has led in the past to weak results in regional cooperation programmes. However, the Commission has adopted innovative approaches in its more recent interventions (e.g. support to the Cross Border Initiative).

What explains these results?

Our country visits confirmed that the principles of local commitment and capacity and of donor coordination, which affect all donors, are as central as the performance of the Commission (which is evaluated in the next section) in explaining EC aid results.

- **The capacity and commitment of ACP governments.** The EC's early approach, in which aid was an 'entitlement', involved little 'selectivity', and meant that support was given to states with limited commitment to 'good' institutions and policies. However, the move to 'conditionality', following the move of the Bretton Woods institutions in this direction, often has not encouraged local commitment to reforms. Moreover, in many countries, weak civil services have had limited capacity to prepare, supervise and coordinate donor interventions. This has affected EC aid in particular, given its co-management with ACP governments. Competition among donors for rapid implementation of their own interventions, under their own procedures, has resulted in donors setting up parallel government structures which weaken further, rather than strengthen, government institutions.
- **Weak donor coordination** has contributed to insufficient complementarity. Donors, including the Commission, have often tried to be present in most sectors and particularly in the most popular sectors (e.g. recently education and health). Donors have done this without adequately taking into account the overall needs of the country, the activities of other donors, or where their own strengths lie. The quality of donor interventions has been affected by limited information-sharing, the insufficient number of joint actions (such as monitoring, evaluation, appraisal and programming), and limited co-financing. Donors' incentives to focus on aid disbursements rather than results, and differences between donors in organisational set-ups and in-country capacity, have contributed to weak coordination.
- **The Commission's performance in managing aid,** presented in the next section (activity by activity), is central to explaining EC aid results. This performance reflects both constraints imposed on the Commission and limitations within it (see final section).

Activities

The Commission's performance in managing EC aid

The country visits found a recent improvement in the Commission's policy dialogue with a number of ACP governments, particularly in indicative programming and sectoral dialogue. However, results vary widely. Aid management continues to be strongly affected by burdensome administrative procedures and problems with technical assistance, while quality support and monitoring are still weak. However, the introduction of Project Cycle Management has led to some improvements in project preparation. Finally, we found that in-country donor coordination is still mostly limited to information-sharing.

Policy preparation at headquarters

In some recent cases, the Commission has increased its consultation with experts in Member States and other stakeholders. However, the Commission has been unable to persuade policy-makers of the need to adopt a strategic role for EC aid and to recognise the Commission's constraints. In its policy function, it faces difficulties in the incorporation of the priority objectives into EC aid, and in monitoring them.

Policy dialogue with ACP governments

Indicative programming has been strengthened for EDF8. Consultations with ACP governments and Member States have become more extensive in many cases. The EDF8 Strategy Papers are often more analytical than the previous Pre-Programming documents. However, we often found insufficient concentration of EC interventions and insufficient selectivity in the choice of focal sectors.

Dialogue. (i) *Overall economic dialogue.* At headquarters, the Commission has supported the programmes of the Bretton Woods institutions while using international forums effectively (such as the Special Programme for Africa) to support the social dimensions of adjustment, local ownership of reforms and improvements in ACP budgetary institutions. However, in-country involvement in economic policy dialogue and participation in public expenditure reviews have often been limited by staffing constraints. (ii) *Sectoral policy dialogue.* The Commission was often found to be effective, although results varied widely, in part due to the high administrative demands of EC aid (see next page).

In-country donor coordination is mostly limited to information sharing but we found progress in some countries we visited, particularly Côte d'Ivoire and Liberia. Success in donor coordination and policy dialogue was found to depend strongly on the expertise and staffing of delegations.

Management of programmes and projects

Preparation. Some improvements in quality have resulted from the introduction of Project Cycle Management in 1993. However, there is still insufficient rigour and consultation in project identification, and insufficient clarity and realism in design. Priority objectives remain difficult to incorporate.

Preparation is also affected by an excessive reliance on consultants and by insufficient quality support and peer review. In the past, because of the EDF Committee's limited technical capacity, it was possible for interventions to be processed without adequate scrutiny. The quality review process has recently been reinforced through the creation of an internal Quality Support Group.

Implementation has often been characterised by (i) delays, (ii) inefficient administrative controls, (iii) weak monitoring of on-going projects, and (iv) problems with technical assistance.

Extensive *ex ante* administrative and financial controls, which result from EC financial arrangements and the Commission's 'visa' culture, are extremely time-consuming and inefficient. They are carried out without selectivity and impose high costs, particularly on delegations. *Ex post* financial audits, on the other hand, have not been used systematically. At the same time, weak monitoring of the performance of on-going projects has resulted in insufficient flexibility in EC interventions.

The high administrative demands of EC aid have often resulted in excessive reliance on technical assistance (TA), which nominally supports ACP governments but in practice also supports central Commission functions. This dual responsibility of TA has weakened both *accountability* and its contribution to *strengthening the institutions* of ACP governments.

Evaluations, transparency and accountability

Evaluation. In recent years the Commission has carried out many *ex post* evaluations. While the quality of evaluations is mixed, the design of some new projects is beginning to benefit from the lessons learned. The dissemination of evaluations has improved but is still limited. Joint evaluations with other donors are still infrequent.

Transparency in Commission activities is limited by the complexity of EC aid. Activities are scrutinised by a number of EU institutions, including the Court of Auditors, and also by DAC Peer Reviews (one of which has recently been completed). However, this is done in a fragmented way. Public information on EC aid, particularly using electronic media, is still limited.

What explains the Commission's performance?

The Commission has been focused not on achieving results – on reducing poverty – but on administrative procedures and levels of disbursement. While this in part reflects constraints imposed on the Commission, it also reflects limitations within the Commission. The positive results of many EC aid interventions are explained by the hard work of its staff, particularly in delegations, and often by the quality of the partnership with ACP policy-makers and technical staff.

Constraints imposed on the Commission.

The Commission has not been given clear objectives or sufficient operational flexibility, while EC aid results have not been adequately monitored by policy-makers. The Lomé Convention provides too many objectives and instruments, and specifies complex procedures, including co-management with many governments with weak capacity. The EC policy formulation system has expanded the policy agenda and the number of instruments, while introducing extensive and time-consuming administrative and financial controls, and providing for limited budgetary and staffing flexibility. All of this has constrained the operational flexibility of the Commission. The policy formulation process does not include an effective system for monitoring EC aid results.

The limitations within the Commission

reflect these constraints and its history as an organisation which initially focused on projects and administration and which has grown rapidly, spreading its resources too thinly. The Commission's transition to being a policy-based donor is difficult. It requires an organisation that is results-oriented, knowledge-based, and self-critical. The recent reorganisation is intended to address some of the limitations identified in this evaluation.

The limitations within the Commission are:

1. **a fragmented structure and weak accountability.** A fragmented structure, in which policy and operational units within

DGVIII are unduly separated, has resulted in a 'culture' of weak team-work and limited accountability for results. The current reorganisation is intended to address this, but there is a risk that the new Common Service will reinforce fragmentation if it is not merged with the RELEX directorates as soon as possible.

2. **inadequate systems and procedures.**

The Commission still relies on limited and unsystematic information flows. Neither staff and departmental responsibilities, nor operational procedures, are clearly defined. This is a particular problem for delegations, which in addition have only limited decision-making authority. The organisation is characterised by a 'visa' culture, with overly complex and inefficient administrative and financial controls, and little demand for quality support or peer review.

3. **over-stretched capacity.** The excessive demands of administration, policy dialogue and donor coordination have over-stretched the Commission's capacity, given its involvement in many sectors and activities. Budget resources appear insufficient for key areas, including monitoring, delegations and investment in professional development and training. In terms of staffing, there is a clear shortage of in-house specialist skills in institutional development, poverty reduction, and other priority areas.

4. **weak learning capacity.**

Learning is carried out individually or by consultants. Delegation staff, who have the most direct information on developments in the field, have limited resources and weak networks connecting them with headquarters and other delegations. There has been little demand within the Commission for monitoring of results or for learning lessons from evaluations, either internal or carried out by other donors. The capacity to ensure that knowledge and best practice are disseminated and incorporated systematically within the organisation is weak.

Key recommendations

To make EC aid programmes more results-oriented requires actions by both the Member States and the Commission. The Member States should help to identify a strategic role for EC aid and provide greater operational flexibility (financial controls, budgets and recruitment). The Commission should reform organisational structures and incentives, equip its staff better, and improve its learning from performance.

A clear role for EC aid

1. *A more realistic policy agenda.* We recommend a review of ways to integrate the policy formulation process, enhancing coordination between the EDF Committee, the Council of Ministers, the ACP Fin Group and other Council Groups, and relevant European Parliament committees. We suggest that the EDF Committee focus more on policy orientation, coordination with Member States and the monitoring of implementation.
2. *Pragmatic specialisation, for complementarity.* We recommend a gradual and pragmatic specialisation of EC aid, which does not imply a scaling down but a refocusing based on relative strengths. Possible areas for specialisation include the transport sector, because of the Commission's expertise, structural adjustment, because of its high coordination requirements, and areas which require in-depth political dialogue (e.g. democratisation). Regional cooperation, though central to the EC, requires caution, considering the difficulties in achieving results in this area in the past.
3. *Independence of evaluations and transparency.* We recommend a review of ways to achieve greater separation of the Commission's evaluation function from the new implementation Common Service. One possibility is for it to report to the Comité de Direction[‡] with the collaboration of the Member States (possibly through a restructured EDF Committee). Information on EC aid should be disseminated more widely (particularly through electronic media).

Jointly strengthening ACP institutions

4. *EU coordination.* Member States and the Commission should appoint lead coordinators in sectors of intervention in each recipient country to lead dialogue with ACP countries and to facilitate a common approach. The Commission should increase its joint activities with other donors (including appraisals and evaluations) and co-financing. We note that the shift from a project to a sector approach requires caution. Weak civil services, and the difficulties of donor coordination, constrain both project and sector approaches.
5. *Strengthening institutions.* Support to parallel government structures and salary supplements for civil servants should be discontinued. Institutional support to ACP governments should be provided and monitored jointly by donors and should focus first on public expenditure management (particularly in social sectors), management of technical assistance, and civil service reform.

Making the Commission more results-oriented

6. *Preventing further organisational fragmentation in the Commission.* It is essential that, as planned, the Common Service is integrated with the RELEX Directorates as soon as possible. In the meantime, we recommend that team work between DGVIII, the new Common Service and delegations be closely monitored.
7. *Simplifying administrative and financial controls.* We recommend a more selective use of *ex ante* administrative and financial controls, an extension of *ex post* financial audits to all projects and programmes, and wider monitoring of performance. We also recommend a simplification and reduction in the number of special EC budget lines
8. *More resources to delegations.* Delegations should be reinforced through the use of more local staff at technical level, and that the Commission be given resources to use Technical Assistance to support its *own* capacity to monitor and implement programmes. However, we recommend that core functions should be the responsibility of Commission staff.

[‡] Suggested in the 1998 DAC Review of EC Aid.

1. EC-ACP aid policy¹

In 1985, a DAC review of twenty five years of development cooperation identified essential operational lessons to make aid more successful.² In 1996, a similar reflection by the DAC on 50 years of development cooperation reaffirmed and developed many of the principles identified eleven years before.³

These principles guide the approach followed in this evaluation of EC aid to ACP countries. In this chapter, we compare these principles with the *policies and general approach* of EC aid to ACP countries in the last ten years. In the next chapter, we evaluate how well the *results* of EC aid measure up against the same principles.

Section (1.1) sets out the key principles which should guide aid if it is to be results-oriented and effective, including the need to focus on clear objectives, to improve the institutional and policy environment in developing countries, and to coordinate with other donors. In section (1.2), we assess the policies and general approach of EC aid by comparing them with these principles. For EC aid policy to be 'relevant', not only should its stated objectives be consistent with the needs of ACP countries, but also its policies and general approach should be ones that are likely to achieve those objectives.

Section (1.3) discusses the EC's gradual move from 'aid entitlement' to conditionality. The discussion suggests that in the future the sense of ownership that was present in the early EC-ACP partnership must be combined with greater selectivity, and greater donor coordination.

1.1 Principles for results-oriented and effective aid

Both the 1985 and 1996 DAC reflections on several decades of development cooperation indicate principles for results-oriented and effective aid.⁴ The OECD 21st Century strategy sets development targets and reaffirms the importance of locally-owned strategies, enhanced co-ordination and monitoring and evaluation.⁵ These principles apply to all donors, not just the EC. They provide the framework for this evaluation of EC aid policy and results achieved.

¹ In this report, the term 'European Community aid' ('EC aid') refers to that portion of European Union aid managed by the European Commission, rather than Member State bilateral aid. The Annex contains background information on EC aid to ACP countries.

² *Review of Twenty-Five Years of Development Cooperation*, OECD/DAC, 1985. Also quoted in *DAC Principles for Effective Aid, Development Assistance Manual*, OECD/DAC, 1992, p. 5

³ *Shaping the 21st Century: The Contribution of Development Cooperation*, OECD/DAC, 1996. See also the recent *Assessing Aid: What Works, What Doesn't and Why*, Policy Research Report, World Bank, 1998.

⁴ See also Burnside and Dollar, *Aid, Policies and Growth*, Policy Research Working Paper No. 1777, World Bank, 1997; Botchwey K., Collier P., Gunning J. and Hamada K., *Report of the Group of Independent Persons Appointed to Conduct an Evaluation of Certain Aspects of the Structural Adjustment Facility*, IMF, 1998; and the survey by Tsikata, *Aid Effectiveness: A Survey of the Recent Empirical Literature*, Paper on Policy Analysis Assessment, IMF, 1998.

⁵ See also *Development Partnerships in the New Global Context*, OECD/DAC, 1995.

Clear objectives. Aid aims to foster a higher quality of life for all people,⁶ particularly for the poorest.⁷ If aid is to be successful, the reduction of poverty should be an explicit target, as should other priority objectives which are essential components of sustainable development such as democracy and human rights, protection of the environment, and gender equality.⁸ (See Box).

Donors should have a small number of clear objectives, which should be the bottom line for all their activities. If a donor has too many objectives, it may spread its resources too thinly.

OECD 21st century goals for economic and social development

At the G8 Summit in Birmingham in May 1998, international leaders endorsed the goals for economic and social development in the OECD's '21st Century' strategy. The OECD proposes a global development partnership effort through which the following goals are to be achieved by the year 2015:¹

Economic well-being

- A reduction by one-half in the proportion of people living in extreme poverty.

Social development

- Universal primary education in all countries.
- Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education.
- Reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality.
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

Environmental sustainability and regeneration

- The current implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

The OECD also identifies a number of qualitative factors which it regards as essential to the attainment of the measurable goals above. These include:

- Democratic accountability, the protection of human rights, and respect for the rule of law.

1. See *Shaping the 21st Century: The Contribution of Development Co-operation*, OECD, May 1996. The partnership approach was also endorsed in the Second Tokyo International Conference on African Development (TICAD II) by representatives of about 80 countries and 40 international and civil society organisations (October 1998).

⁶ This is the goal of sustainable development according to the 1995 G7 Summit at Halifax.

⁷ 'Support for development is a compassionate response to the extreme poverty and human suffering that still afflict one-fifth of the world's population', OECD/DAC, 1996, *op. cit.*, p. 6. The April 1998 High Level meeting of DAC reaffirmed economic well-being and poverty reduction as the primary targets of the Development Partnership Strategy. Article 130u of the Maastricht Treaty also includes support to democracy, the rule of law, respect for human rights, and the smooth and gradual integration into the world economy. The other key legal framework of EC cooperation policy, the Declaration of the Council of the 18 November 1992, 'Run-up to 2000', section 20, reiterates the Maastricht objectives and further explains that 'The Community and its Member States will seek to respond in particular to the needs of the poorest sections of the population and of the poorest countries'.

⁸ Elements included in *Development Partnerships in the New Global Context*, produced for the DAC at the May 1995 meeting of Development Cooperation Ministers and Heads of Aid Agencies. See also Annex to OECD/DAC, 1996, *op. cit.* These are also the policy objectives specified for evaluation in the 'Procedures and Organization for the Evaluation of the European Union's Development Instruments and Programmes', Council of Ministers, June 1995, p. 6

Institutions and policies. The experience of several decades, shared by many donors, is that sustainable development and the reduction of poverty depend above all on the political and economic environment in developing countries themselves.⁹ Firstly, poverty is reduced more effectively where the institutions of government and civil society are participatory, and where the government is committed to improve the capacity of the public sector to manage public expenditure and deliver services. Secondly, sustainable development and the reduction of poverty depend on governments developing policies that encourage investment and growth.

Where institutions in developing countries are not yet sufficiently strong, aid is effective only if it can help to *strengthen* the policies and institutions of governments that are *committed* to reform. Aid cannot buy or replace this commitment. For effective aid, donors must be *selective*, supporting governments committed to reform and opening their support to partners in civil society. All this should be done in the context of an open dialogue with local partners.

Donor coordination. Aid financing is typically fungible. It often finances public investment, but it does not increase investment any more than any other source of revenue would. Similarly, aid financing to a particular sector often does not result in additional spending in that sector.¹⁰ Instead, each donor effectively finances a share of the entire government budget.

A donor should therefore be principally concerned with the quality of the whole framework of public expenditure management, and not just with the quality of its individual intervention. Aid results, particularly the reduction of poverty, need to be judged by looking at what all donors achieve together – the impact of an individual donor cannot be considered in isolation.

In this context, donors' interventions need to be closely coordinated.¹¹ Donors should act together, even if different donors focus on particular sectors or activities. While each donor should act on its strengths (see Box), all should try to ensure that their roles are complementary. *Complementarity*, which is a difficult process, requires some specialisation, but does not imply that any individual donor should scale down its overall resources.

Acting on strengths – applying the principle

The EC too should act where its relative strengths lie. The EC has experience of diverse institutional and political models, and often has less direct foreign and commercial policy interests than other donors. It is therefore in a good position to foster a genuine partnership with developing countries: economic, commercial and political. The EC is the second largest multilateral donor, and maintains close consultations with the Member States of the EU. It is therefore in a good position to support activities which have high coordination requirements. These considerations, together with the particular strengths which EC aid reveals in the field,¹ should guide a gradual and *pragmatic specialisation* of EC aid.

1. Some of the strengths and weaknesses of EC aid in the field are presented in the next chapter.

⁹ 'Aid can only be as effective as the policy economic, and administrative environment in which it operates', OECD/DAC, 1985, *op. cit.*

¹⁰ See for example 'Assessing Aid' World Bank, 1998, *op. cit.*, chapter 3.

¹¹ These are also key principles in OECD/DAC, 1985 and 1996, *op. cit.*

Transparency and accountability. Aid performance should be monitored and evaluated independently, and information on all donors' interventions should be disseminated widely. Transparency in the workings of EC aid and in its results is essential if it is to retain public support. It is only if EU citizens know and value what is being done in the EC aid programme that the programme will be supported. Transparency and accountability are also essential if donors are to learn from each other's experience, improve through external appraisals, coordinate their actions, and play complementary roles. They are essential components of a results-oriented approach.

1.2 Has EC aid policy matched these principles? ¹²

In the period covered by this evaluation (1985 to date), and particularly in the most recent years, the *general approach and policies* of EC aid have, in a number of respects, become more in line with the principles for results-oriented and effective aid mentioned above.

Poverty reduction and other priority objectives¹³ have gradually become more explicit objectives of EC development cooperation with ACP countries, although there has continued to be an escalation in the number of objectives and instruments of EC aid. Similarly, a greater emphasis has gradually been given to 'good' institutions and policies, through greater conditionality. However, in many cases conditionality has weakened the local commitment or 'ownership' of aid programmes by ACP States. Conditionalities have often not been internalised, and often result from the increasing inequality in the EC-ACP partnership.

For much of the period covered by this evaluation, donor coordination has been extremely weak. Since Maastricht, there has been consistent pressure by some Member States, and often by the Commission, to focus on the need for European aid programmes to work in the same direction. However, there has not been so much progress in identifying a strategic role for EC aid vis-à-vis other donors. Progress in enhancing the transparency and accountability of EC aid has also been relatively slow.

- A more explicit and clear emphasis on poverty and other priority objectives

Until 1985, poverty reduction and other priority objectives were not explicit and central objectives of EC aid. During this period, the partnership's policy priorities changed over time (e.g. from rapid industrialisation to rural development).

The evolving priorities of EC aid may have reflected concern about poverty, but the reduction of poverty only became an explicit policy objective of EC-ACP cooperation in 1985 (Lomé III). Lomé III stated that the objectives of EC-ACP cooperation were 'to promote and expedite the economic, cultural and social development of the ACP states' and 'improving the living conditions of the poorest sections of the population'.

¹² Because the purpose of this evaluation is to suggest lessons for the future, the principles used for assessment are those regarded as valid in recent years (for example, the principles in OECD/DAC, 1985, *op. cit.*). The assessment of aid results is discussed in the following chapter.

¹³ Trade cooperation instruments (e.g. general trade agreements) are not part of the evaluation. The Maastricht objective of smooth and gradual integration of the developing countries into the world economy has not been covered by this report.

Related priority objectives have also been incorporated in EC-ACP cooperation, with the joint declaration on human rights and protection of the environment (Lomé III), and the introduction of gender objectives (Lomé IV). Lomé IV bis (1995) introduced a greater emphasis on respect for human rights, democratic principles and the rule of law. Within the 'internal' EC policy formulation process, the Council of Ministers and the Commission have produced a number of resolutions supporting (and expanding) these priority objectives.¹⁴

However, while a more explicit and clear emphasis has been given to priority objectives, there has continued to be an escalation in the number of objectives and instruments of EC aid. The accumulation of instruments (and related objectives) is partly explained by the nature of the Conventions, since it is easier to create new instruments than to remove instruments that have created entitlements. But it is also explained by the weak coordination among policy-makers in the EC (see Box).

Faced with an expanding policy agenda, EC aid has spread its activities too thinly, and does not concentrate its resources where its strengths lie.

Weak coordination among EC policy-makers

As a result of weak coordination among EC policy-makers, there has been a mismatch between an expanding policy agenda and the Commission's capacity to implement this agenda:

- Member States bring to the policy formulation process their own agendas (or multiple agendas), which are not integrated and which contribute to expand the number of policy priorities. Policy outcomes appear principally to reflect political compromises.
- There has been weak coordination between different actors within each Member State, between headquarters and delegations, between finance ministries and development ministries.
- Insufficient feedback from operations to policy-makers has meant that realities in the field have not been adequately recognised: the weak capacity of ACP governments, the large number of (often competing) donors, and the constraints on the Commission. In part this is because of insufficient coordination between the Council of Ministers and the EDF Committee.
- The European Parliament has created numerous special budget lines as a way to support additional priorities for EC aid. Many of these budget lines have been difficult to administer efficiently.
- The Commission, which plays a key role in policy initiation, has been unable to persuade Member States of the need for a more strategic and realistic policy agenda.

- Increasing conditionality of aid on 'good' institutions and policies

Previous policies of ACP governments (many supported by donors) and external shocks contributed to the severe crisis of the 1980s, which resulted in the structural adjustment conditionality of the Bretton Woods Institutions (BWI). The conditionality of the BWI, and increasing realisation of the failure of the EC's aid 'entitlement' approach, slowly resulted in a gradual but consistent move of the EC towards policy conditionality.

The EC's first steps towards conditionality began with the introduction of policy dialogue on National Indicative Programmes, the Special Import Programmes, and the explicit recognition of the need to focus on all institutions and policies (Lomé III). However, at this stage conditionality was minimal.¹⁵ Conditionality was significantly increased with the introduction of the Structural Adjustment Facility and the Framework of Mutual Obligations on the use of Stabex (Lomé IV). Finally, the EC objective of increasing policy and governance conditionality has been given a firm legal basis in the latest Convention.

The EC's embrace of conditionality has been more recent and moderate than that of the BWI, and in many cases the EC continues to be seen by ACP States as a more understanding

¹⁴ See, for example, the Declaration of the Council of 18 November 1992, *Run-Up to 2000*.

¹⁵ See discussion in the Desk Study (*Evaluation of EU Aid to ACP Countries Managed by the Commission, Phase I: Analysis of Existing Documents*, ADE, July 1997), pp. 16-17

development partner (see discussion on programming in chapter 3). However, as with other donors, the conditionalities of EC aid have in some cases resulted in attempts to buy and micro-manage reform efforts by ACP governments. The conditionality approach has often underestimated the internal politics of reform – the need for local ownership – and the resources which are needed for effective in-country policy dialogue and institutional support.

- Recent pressures to enhance donor coordination

For much of the last 10 years, donors underestimated the importance of coordination. The EC, like other donors, assumed that their financial support for ACP projects would contribute to growth, and left to ACP governments the responsibility for coordinating aid. In this context, the weakness of the ACP civil services often contributed to poor donor coordination and donor competition. Structural adjustment conditionality and the Policy Framework Papers brought some focus to donors' support for the reform programme of ACP governments. However, these initiatives were sometimes seen as dominated by the BWI,

initially with limited genuine coordination among key donors.¹⁶

Coherence of EC policies

The Maastricht Treaty included the obligation to pursue consistency in the different Community policies. Community policies have to take into account the goals of the Community development cooperation policy.

The political focus on coherence appears to have led to closer coordination among senior management within a given Directorate General, between Directorate Generals, and between Commissioners.

Within DGVIII, responsibilities have been assigned for monitoring consistency in the areas of food aid (including exports under the CAP), fisheries policy, and post-conflict situations, as well as for coordination with relevant DGs.

The **Green Paper** has noted the importance of ensuring greater consistency between trade and aid policies.

Problems of inconsistency arise particularly in the **agriculture sector**. For example, under the CAP, beef exports to West Africa used to be heavily subsidised, to the benefit of EU producers. However, these subsidies harmed local producers, and therefore conflicted with aid policy. Through consultation and coordination between services, this inconsistency has been largely removed (see Case Studies Synthesis p. 27).

This case may provide a model for dealing with other cases of inconsistency. To facilitate this, there should be effective mechanisms for alerting the Commission to the existence of problem areas.¹

1. See the suggestion in the 1998 DAC Review of EC Aid on 'instituting a complaints procedure comparable to that of the Inspection Panel of the World Bank' (draft, p.50).

Although, institutionally, the European Union would seem to offer a promising setting for effective donor coordination, the EC has resembled other donors in focusing largely on committing resources, with limited emphasis on coordination with other donors. Even so, in the Commission there is a perception that there has been a greater flow of information on EC aid from the Commission to Member States than there has been in the other direction. Moreover, the potential for a two-way flow of information through the EDF Committee has not been realised.¹⁷

Recently, the Maastricht Treaty has given political momentum to donor coordination efforts. It specifies clear priority objectives and it provides a common Community policy which complements the bilateral policies of the Member States (*complementarity*). It commits the Commission and the Member States to coordinate their policies on development cooperation. It also requires greater coordination to ensure that Community policies are consistent with one another (see Box on the *coherence* of EC policies).

At the policy level, the coordination objective has recently been decisively

¹⁶ The difficulties of coordination between different organisations cannot be underestimated. According to the recent external evaluation of the ESAF, even coordination between the IMF and the WB appears to be weak. Botchwey K., *et al.*, IMF, 1998, *op. cit.*

¹⁷ See Case Studies Synthesis, p. 29.

supported and monitored by the Council of Ministers. The Council mandated and monitored a pilot coordination exercise in 6 countries, and in February 1998 it issued Guidelines for strengthening operational coordination. This political pressure and efforts by the Commission have contributed to increased contact between experts, officials and Director Generals of Development of EU Member States and of the Commission. Within the EC, the Director Generals for Development have been focusing in recent meetings (June and September 1998) on looking for operational ways to enhance aid coordination in the EU. However, policy efforts have not yet been sufficiently translated to the field (see next chapter).

At the international level, increased contacts between most donors have contributed to a growing recognition of the need for enhanced coordination to achieve better results and greater complementarity and coherence.¹⁸ Donor coordination has begun to improve through mechanisms such as the Special Programme for Africa (SPA), donor discussions in Consultative Groups and Round Table donor meetings and the High Level Meetings between the Commission and the World Bank.¹⁹ In particular, the Special Programme for Africa has slowly allowed major donors to influence some of the policies of the BWI. However, the translation of coordination efforts to the field has been found to be slow.²⁰ A recent example of the potential of enhanced coordination is the Commission's initiative to pilot a new approach to conditionality in Burkina Faso.

Transparency and accountability

Problems of transparency and accountability in the Commission's management of EC aid result in part from fragmentation and complexity in the Commission's aid programme (the multiplicity of programmes and budget lines), from fragmentation within DGVIII, and more generally from the complexity of the policy formulation process (see Box above). While DGVIII's activities are scrutinised by a number of EC institutions, including the Court of Auditors, this is a fragmented and *ad hoc* system.²¹

Some steps have been taken to make EC aid more transparent. However, it is still difficult to find information on the nature and performance of the EC aid programme. The in-house capacity to evaluate the EC aid programme, although still limited, has improved recently, and the dissemination of evaluations has also begun to improve. However, the recent placing of the merged evaluation function within the new implementation service (Common Service) raises some concerns.²²

1.3 From entitlement to conditionality

The early partnership: entitlement

The vision that guided the first Lomé Convention (1975) was of a partnership (see Box), in which ACP States were expected to take the lead in formulating development policies and

¹⁸ See, for example, commitments by DAC members in OECD/DAC, 1996, *op. cit.*

¹⁹ These meetings were formalised in July 1996. Pilot coordination with the World Bank in Ethiopia and Mozambique is on-going.

²⁰ See the recent evaluation of the SPA, *Independent Evaluation of the SPA as a Mechanism to Promote Adjustment and Development in Sub-Saharan Africa*, OED, November 1997.

²¹ The EC aid programme is also subject to the DAC Peer Review.

²² The performance of the Commission in evaluations and in the dissemination of information is considered in more detail in chapter 3.

designing projects.²³ At this stage, the **institutions** and **policies** of ACP States were not questioned. In part, this reflected the assumption that the ACP governments would identify the development needs of their countries. It also reflected the realisation that, by involving ACP governments as co-managers of the aid programme, they would gain ownership of the programme. The partnership was reinforced by the establishment of high-level joint EC-ACP institutions to oversee the aid programme.

For the first 10 years of the Lomé Convention, then, EC aid was in effect an 'entitlement' for ACP countries. EC-ACP cooperation policy changed over time in line with the changing priorities of ACP states, political compromises and, like other donors, in line with prevailing thought on development. Aid instruments and sector priorities were added to successive EC-ACP Conventions to accommodate changing policy objectives (with a time-lag introduced as a result of the duration of the Conventions). Over time, this contributed to a 'tendency for development instruments to dictate policy'.²⁴

With hindsight, we can see that some of the priorities and instruments did not reflect clear and strategic objectives, and resulted in a multiplicity of objectives and instruments. Cooperation with ACP countries under EDF 1 focused on support to rapid industrialisation led by the public sector, while EDF 2 and 3 introduced trade preferences. Lomé I, in a context of pessimism about commodity exports, created an instrument for the stabilisation of export earnings. Lomé II shifted the focus from industrialisation to rural development, with its emphasis on food self-sufficiency.²⁵

However, since Lomé III in 1985, a slow move away from 'entitlement' has begun, and this has facilitated the explicit incorporation in the Lomé Convention of priority objectives such as the reduction of poverty and democracy and the protection of human rights. Lomé III also took initial steps, although with minimal conditionality, in transforming the 'entitlement' approach. As a consequence of the entitlement approach, the EC, like some other donors, financed governments with weak commitment to democracy and human rights, and with inappropriate economic policies.²⁶

²³ 'Initially, it was intended that the ACP governments would provide the leadership for the development policies that EU aid was supporting, and the ACP states would therefore have the responsibility for ensuring that EU aid would meet their needs and fit with their policies' (Desk Study, p. 39).

²⁴ *Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century*, European Commission, 1997.

²⁵ An instrument to cover fluctuations in revenues of mineral exports was also introduced (Sysmin).

²⁶ For example Ethiopia until the early nineties. See *An Evaluation of Development Cooperation between the European Union and Ethiopia, 1976-1994*, IDS, 1996.

EC-ACP partnership

The Yaoundé and, subsequently, the Lomé Conventions embodied a partnership between the Member States of the EEC (EC) and ACP countries.¹ The contractual nature of the Conventions, the co-management of the EDF, and indicative programming have allowed ACP countries a degree of participation (and certainty) in policy formulation and in the management of the aid programme higher than they have had with most other donors.

Many of the policies and implementation procedures that apply to EC-ACP cooperation are derived directly from the Lomé Convention. The Convention goes beyond aid to include trade and (since Lomé IV bis) political issues. Negotiations on the Convention are the principal opportunity for ACP countries to influence the formulation of development cooperation policies.

The Convention provides for a framework of Joint Institutions, established on a basis of parity between ACP States and the EC: a Council of Ministers, Committee of Ambassadors, and Joint Assembly.

Growing inequality....

Over time, however, the partnership has changed. As the Green Paper notes, 'The principle of partnership enshrined in the Lomé Convention has diminished in substance and has not been fully realized'. In recent Conventions, the bargaining power of EU countries has increased relative to ACP countries. The effectiveness of the joint institutions has been reduced by the increasing weakness of ACP institutions and a shift within the EU towards other priorities. There is now limited participation by EU ministers. In addition, the increasing 'conditionality' of EC aid has made the partnership less contractual.

....but potential for the future

Nevertheless, the partnership principle has proved resilient, and is highly valued by ACP States. Other donors are now trying to include a similar principle in their operations, including the World Bank initiative 'World Bank Partnership for Development' (May 1998). Unfortunately, initiatives of this type have often overlooked the long experience of the EC-ACP partnership.

1. See Annex. See also Case Studies Synthesis, pp. 12-14.

Growing conditionality but less partnership

The initial partnership was gradually transformed through the growing emphasis on conditionality, particularly in Lomé IV and IV bis. Conditionality has focused EC aid more clearly on priority objectives, particularly the reduction of poverty and also on the need for focusing on policies and institutions. However, in many cases this emphasis has resulted from pressure from the EC rather than from the internalisation of these objectives and approach by ACP governments. Therefore, while the objectives of EC aid and its approach have become gradually more relevant, they may now be less fully shared by ACP governments.

The economic crisis of the 1980s, the increased economic and institutional weakness of many ACP states, the failure of many aid interventions, the reform conditionality of the BWI, and the end of the Cold War have all contributed to weaken the influence of the ACP States, and have motivated the EC to take a more active role. The Joint Institutions have become weaker, and while negotiations on the Convention remain the most important opportunity for ACP states to have an input into decision-making, increasingly policy formulation within the EC – rather than the Lomé framework – leads the process of development policy formulation.²⁷

The risk is that the Commission has been moving from under-involvement in addressing institutions and policies in the initial period of the partnership to over-involvement in aid

²⁷ 'The more recent Conventions have given growing weight to common priorities, such as cross cutting issues and economic policy conditionalities, mainly introduced at the request of the EU' (Desk Study, p. 39). The central role of the 'internal' EC policy cycle is examined more fully in the Case Studies Synthesis, pp. 14-22

conditionality (with micro-management of ACP reforms). While there are benefits in aid no longer being an entitlement, the introduction of too many and unrealistic conditions may undermine the commitment of ACP governments to reform.

However, the Commission's move towards conditionality has been more moderate and gradual than that of other donors (particularly the BWI), given the contractual nature of the Conventions and the continued importance of the partnership concept. Compared with other donors, the Commission's conditionality often involves a more flexible policy dialogue with recipient countries (as we observed in many of our country visits). Nevertheless, in practice it has been difficult for the Commission to avoid the weaknesses of the 'conditionality' approach.

The conditionality of EC aid has been further complicated by the escalation in the number of objectives and instruments. While some of the EC's aid objectives may be seen to be heading in the right direction, the problem with the escalation in their number, the introduction of budget lines and the conditionality approach is that they over-burden the capacity of both ACP governments and the Commission. Conditionality and the insufficient internalisation of policy objectives by ACP governments mean that their commitment to the EC aid programme has been weakened.

While both the entitlement and conditionality approach have led to problems, they also both provide us with lessons on how to move towards a more genuine partnership that combines aid selectivity (support to governments committed to reform and to non-government partners) with a partnership based on a contractual agreement.

Towards a genuine partnership

In a genuine partnership, firm commitments from ACP governments need to be matched by similar responsibilities from the EC. Transparent and simple performance criteria, produced jointly, should be used to monitor these commitments. Greater selectivity in aid allocation to ACP countries would make aid more effective by ensuring that aid is provided to governments that are committed to (a) 'good' governance¹ and (b) economic policies that encourage growth. Firm EC commitments could include enhanced aid coordination (focusing on support for ACP institutions), efficient aid management, and greater transparency. The new partnership could be supported by restructured and simplified Lomé Joint Institutions, which could be used to monitor the reciprocity of commitments, as well as to increase 'ownership' of the policy agenda (e.g. through discussions of EC Council Resolutions in the Joint Council).

This new partnership would also involve more flexibility in the Commission's involvement in aid management in ACP countries. Where the capacity and commitment of an ACP government is high, the government should be given considerable control over aid planning and implementation, with systematic *ex post* financial audits by the Commission. Where this capacity or commitment are absent, the focus should be on the strengthening of ACP institutions and on extending partnership to non-State actors (civil society, private sector).²

A partnership of this kind would make EC aid more in line with the principles for successful aid. Priority objectives would not only be the right ones, they would also be shared by ACP governments. Monitoring the implementation of these priority objectives would then become essential. If aid is to be supported by EU citizens it must be able to show its results, particularly in terms of the reduction of poverty.

1. Including democracy, the rule of law, and respect for human rights and fundamental freedoms.
2. Extending the partnership is one of the recommendations of the recent Council Guidelines for the negotiation of a new agreement with ACP countries.

2. Results of EC aid

Having assessed EC aid policies, we now review the results of EC aid. In part A of the chapter, we present some of the strengths and weaknesses of EC aid interventions. We begin by explaining the criteria which have guided our assessment (2.1). We suggest that the first measure of EC aid results should be what impact it has had on the priority objectives, especially the reduction of poverty (2.2). We then look at the results of different EC aid instruments in terms of strengthening institutions and policies, and immediate project outputs, including physical outputs. (2.3).

In Part B of the chapter, we explore the key factors which explain EC aid results: the commitment and capacity of ACP institutions (2.4), donor coordination (2.5), and the performance of the Commission itself (2.6). The performance of the Commission is examined in more detail in chapter 3.

The first two factors in this list also affect the aid effectiveness of other donors. Many aspects of the EC aid results presented in part A of this chapter are therefore shared by other donors.

A: Results – strengths and weaknesses

2.1 Assessing results

When assessing EC aid results, the first question should be to ask what the contribution of EC aid has been to the reduction of poverty, and what its beneficial impact has been on the related priority objectives: good governance²⁸, gender equality and the protection of the environment. The second question, based on the principles discussed in Chapter 1, should be to ask what the contribution of EC aid has been in supporting institutions and policies (which are necessary to obtain a beneficial impact on poverty), and what project outputs (including physical outputs) have been obtained.

This framework is based on an understanding of how aid works which emphasises the importance of a sustainable impact on poverty and other priority objectives, and therefore focuses on the effect of aid interventions on institutions, policies and coordinated donor action. Since aid to one sector does not generally increase government spending in that particular sector, each donor intervention in effect finances a share of all government spending. The reduction of poverty (and therefore the success of aid) does not depend on the outcome of a particular project, but on how all donor interventions affect policies and institutions (in both government and civil society). Our evaluation of whether EC aid works therefore focuses less on the individual results of particular projects (e.g. the number of roads and hospitals built), and more on how the interventions have been carried out.

While we continue to use the criteria of 'effectiveness' and 'sustainability', we principally assess these in terms of their contribution to strengthening institutions and policies, and not simply in terms of physical outputs or short-term results. We also assess interventions in terms of the quality of coordination with other donors.

²⁸

Including democracy, the rule of law and respect for human rights.

Therefore, to answer if EC aid has worked:

- (1) we need to assess its impact on the priority objectives (particularly the reduction of poverty);
- (2) at an intermediate level, we need to assess if particular interventions have:
 - provided support to governments committed to 'good' policies and institutions;
 - involved effective policy dialogue with governments (or civil society) and careful programmes of institutional support;
 - involved close coordination with other donors (including joint actions).
- (3) we need to take into account project outputs (including physical outputs).

The Desk Study of this evaluation was based on a review of existing evaluations, and gave some indication of the effectiveness, impact and sustainability of EC instruments. It argued that the design of EC interventions has traditionally been more concerned with resources required (inputs) than with results. It argued that EC programmes have not provided baseline scenarios to allow quantitative assessments of effectiveness, and that information on impact has rarely been collected in the field.

In presenting this chapter, the qualitative evidence gathered in the Desk Study of this evaluation has been complemented with findings from the six country and one regional Case Studies. The Case Studies focus on the key criteria for assessing whether aid contributes to the poverty reduction and other key priorities: the quality of policy dialogue, institutional strengthening and donor coordination.

2.2 Impact on poverty and other priority objectives

The impact of EC interventions on the priority objectives of poverty reduction, good governance, gender equality and the protection of the environment is difficult to assess. However, available information suggests that EC aid has often had limited impact on these objectives, in part because of the weak initial focus on strengthening policies and institutions. This difficulty has been shared by other donors.²⁹

The impact of EC aid depends in part on incorporating priority objectives into the design of EC programmes, but also, and more importantly, on the commitment of ACP governments to these objectives. However, the internalisation of some of these objectives by ACP governments is sometimes a slow process. Many of the priority objectives have only recently become central to the EC-ACP partnership.

While the impact of programmes and projects has often been limited, a number of specific interventions have had a strong impact. Some targeted programmes (e.g. Micro-projects) and budget lines (e.g. for democratisation and human rights) have addressed these objectives with some success, although at a localised level and often with high administrative costs.

The impact of EC interventions should improve as a result of the increased political pressure to monitor results in these areas, the gradual transition to being a more policy-based donor, and the EC's important role in democracy, human rights and governance conditionality.

²⁹ See for example review in the *Independent Evaluation of the Special Programme for Africa*, OED, 1997.

Reducing poverty

The impact of the EC aid programme on poverty appears so far to have been limited. The impact of the Structural adjustment Support Programme (SASP) has produced mixed results in terms of poverty and growth,³⁰ and much project aid has similarly had a limited impact. The strength of EC aid seems to lie in its targeted interventions involving strong local participation.

While the EC's approach to the SASP has been more flexible than the conditionality approach of the BWI, in general conditionalities have not facilitated government commitment to reforms, and have often not been targeted to committed reformers.³¹ It has been difficult for the SASP to protect social sector budgets, although in some cases it has contributed to keeping this issue high on the reform agenda and to making improvements in budgetary processes (for example in Côte d'Ivoire and Cameroun³²). However, the SASP has in some cases facilitated sector reform, particularly in the health sector. While programme food aid and Stabex have sometimes targeted beneficiaries successfully, until recently their impact was affected by their failure to link interventions to policy reform. This has now changed, with the reorientation of programme food aid since 1996.

The impact of project aid on poverty was limited by an insufficient focus on policies and institutions, and by the specific activities pursued. While public infrastructure has often led to (short-term) improvements in the quality of life of the poor, transport projects have suffered from insufficient assessment of the impact on the poor and from insufficient local participation. Agriculture and rural development projects have shown little success in improving life in rural areas, while education projects have targeted high skills rather than basic education, and have involved insufficient monitoring to ensure that allocated funds reach their targets. However, EC interventions in the *health sector* have recently supported reforms in the sector, and rural health centres have made successful contributions to improving the health conditions of the poor.

The EC has achieved a greater impact on the poor through its targeted interventions (see *Case Studies* box), including its Micro-projects interventions. Evaluations conclude that Micro-projects have had an important, though localised, impact on poverty. Similarly, local participation in some projects involving Cooperation with NGOs also appears to have contributed to improve the lives of the poor, by fostering people's own capacity for development.³³

³⁰ The impact of the SASP is the impact of the BWI structural adjustment operations. See ToR for Evaluations of SASP Programmes, Evaluation Unit.

³¹ On lack of selectivity by BWI, which set the pace for SASPs, see Bottchwey *et al.*, IMF, 1998, *op. cit.* According to OED, World Bank, 1996, 'Poor and weak compliers with programmes received \$ 11 billion out of the \$15 billion lent for adjustment from 1980 to 1996'.

³² Case Studies Synthesis p. 41

³³ Desk Study, Annex 5, p. 4

Case studies: How the Commission has worked to reduce poverty

Micro-projects

In Zimbabwe, the Micro-projects Programme, which uses explicit poverty criteria to guide the selection of projects, has funded several successful projects. We visited the Rutope Rural Health Centre, which provided a very good example of community participation (Zimbabwe Case Study p. 25). Other donors have recognised the quality of the Micro-projects Programme in Zimbabwe and some have expressed their willingness to co-finance such projects.

Stabex

Stabex funds in Cameroun, Tanzania and Côte d'Ivoire were distributed directly to farmers as compensation payments. An evaluation study of the programme in Tanzania shows that farmers used these resources on food, school fees and inputs (Tanzania Case Study p. 31).

Sector reform

In Côte d'Ivoire, the Commission has supported the progressive liberalisation of the coffee-cocoa sector, thus increasing the revenue of farmers (Côte d'Ivoire Case Study p. 4). In the Eastern Caribbean countries, the gradual approach to the phasing out of preferential treatment of the banana regime is intended to allow time for farmers to move to different crops (Eastern Caribbean Case Study pp. 12-16)

Governance and the rule of law

While in the past EC interventions have generally had a limited impact on governance, specific interventions, recent sector policy dialogue and the use of budget lines are beginning to have an impact on governance in ACP countries. In our country visits, we observed that in some cases, the EC's impact in this area appears to have been greater than that of other donors.

In the earlier years of the EC-ACP partnership, the EC, like most other donors, did not focus sufficiently on democracy, the rule of law and governance. However, more recently the EC has become one of the first donors to tie aid to conditionality on this priority area, particularly with Lomé IV bis. While this conditionality is a sensitive issue for many ACP governments, it appears to be supported in principle by civil society in ACP countries.³⁴

The SASP was one of the first Lomé instruments to allow conditionality, but it was based on BWI conditionality, with too many conditions and with micro-management of the reform programme, and therefore the effect on governance was limited. However, the introduction of the IMF guidelines on Governance, the focus of the World Bank on corruption, and the Commission's pilot conditionality approach in Burkina Faso (in the framework of the SPA) might all contribute to improving the impact of EC aid on governance.³⁵

Most *projects* have in the past had little impact on governance, with the EC giving insufficient attention to institution building (see failures of IRDPs in this area). However, some specific interventions have had a high impact, such as the innovative approach followed by the EC in supporting the consolidation of peace in Liberia (see Box). In many cases, delegations have also begun to play an important role in raising difficult governance issues with ACP governments. In Tanzania, we found that the delegation had recently taken a strong stance on governance in the transport sector.³⁶ Similarly, targeted interventions such as Micro-projects and Co-financing with NGOs have in many cases supported governance through the strengthening of civil society. The impact of project aid on governance should

³⁴ *Performance Criteria in Future ACP-EU Cooperation*, ECDPM, October 1997.

³⁵ A recent description of the problems of ownership of reform programmes can be found in the Bottchwey *et al.*, IMF, 1998, *op. cit.*

³⁶ Tanzania Case Study pp. 22-27

improve in the future, as the EC has begun to focus projects more closely on improving the governance of public sector institutions.

Finally, budget lines have often been used very effectively in providing direct support for democracy and human rights. Budget lines have been used successfully in supporting elections and in supporting NGOs' activities on human rights. In Zimbabwe, for example, the EC has supported the Legal Resources Foundation and, through Transparency International, the Fight Against Corruption.³⁷

Effective conflict prevention in Liberia

Following the Second Abuja peace agreement for Liberia, signed in August 1996, the EC, with an established presence on the ground, played an influential role in quickly developing a well-coordinated set of measures aimed at consolidating peace.

A key initiative was a three day workshop organised by the EC in September 1996, which was attended by faction representatives from the National Disarmament and Demobilisation Committee as well as by other donor agencies. Bringing the faction leaders together was a key stage in the peace negotiations.

At the workshop, the EC took the lead in presenting proposals for the reintegration of the fighters into civil society. These included a 'jobs for guns' programme, assistance for the reintegration of child combatants into the community, and a programme to support the restoration of democratic government and the holding of elections in 1997. Another critical area of EC support was a programme for the rehabilitation of roads and bridges, which facilitated the deployment of ECOMOG peace-keeping forces throughout the country.

The preliminary evidence is that the EC's programme in Liberia has achieved considerable success in delivering aid efficiently and effectively. The main factors behind this success are:

- delegated and decentralised management within an accountable framework;
- strong operational capacity within the EC's Aid Coordination Office (ACO);
- recruitment of high quality staff to the ACO;
- strong coordination with other donors; and
- efficient management and administration.

Source: Liberia Case Study

Gender equality

The impact of past EC aid interventions on gender equality has been low. Recent progress in this area is slow, given the often limited commitment of ACP governments and the very limited financial and human resources available for mainstreaming gender issues. Lomé IV was the first Lomé Convention to focus on gender issues, and a supporting Resolution was adopted by the Council in December 1995.

Information in this area is particularly limited. Evaluations show that most EC interventions in the past have been 'gender blind', with no gender dimension or disaggregated data on gender. Many projects under Lomé II and III had a negative impact on women, while in multisector projects the impact on beneficiaries was not considered.³⁸ Only in water supply projects and fisheries projects were women the prime beneficiaries. Our Case Studies also show very limited activity in gender equality.

However, the Commission notes that progress has been made recently, with the updating of the Gender Manual, more frequent use of the gender questionnaire in financial proposals, and the designation of staff in different DGVIII units to promote gender sensitivity. A budget line has supported the use of consultants to provide gender sensitisation work in delegations and

³⁷ Zimbabwe Case Study p. 25

³⁸ Desk Study, Annex 19, p. 2

ACP governments. In May 1998, after a review of progress on the 1995 Resolution, the Council agreed on wide-ranging steps to enhance the operationalisation of the Resolution.

Protecting the environment

The environmental impact of EC aid to ACP countries is difficult to assess. The EC is a signatory of many environmental conventions,³⁹ and Lomé IV has made the environment a policy priority in the EC-ACP partnership. However, there is not yet an integrated EC policy which presents clear targets and responsibilities nor has there been a significant increase in financial support for the environment.⁴⁰ The Commission has been slow, compared to other donors, in introducing procedures to integrate environmental factors into the project cycle (including systematic Environmental Impact Assessments).⁴¹

A thorough sector evaluation⁴² found that there has not been a clear strategy for integrating environmental objectives into country programmes or project identification. Environmental issues are only partially integrated in sectoral policy guidelines and National Indicative Programmes,⁴³ though they appear to be better integrated in Regional Indicative Programmes. The application of environment instruments to non-programmable aid has not been consistent, 'leading to a real and significant risk that Food Aid projects, Sectoral Import Programmes and Stabex funds could lead to adverse environmental and social impacts' (p. 9).

The sector evaluation also provided information on the impact of *environmental projects*.⁴⁴ It found that about half of a sample of EDF-ALA environment projects had no visible positive impact, while only a small proportion of projects have demonstrated the likelihood of sustainability (particularly institutional).⁴⁵ The evaluation concluded that the *environment budget line* (B7-6200) 'has not very successfully managed to promote sustainable development and the integration of the environmental dimension into the development process over the period 1990-1995 as demonstrated by the low levels of effectiveness, impact and sustainability'.⁴⁶ However, the 1997 Council Regulation should contribute to greater clarity of objectives and accountability in the use of this budget line.

Because of the difficulties of designing and implementing environmental projects (which require inter-disciplinary and specialised skills), and because of limited ownership and participation of ACP governments and local communities, some of these outcomes are shared by other donors. However, environmental instruments were introduced by the Commission later than they were by other donors, and effectiveness is still severely compromised by the very limited number of specialised staff in DGVIII and in delegations – funds managed by each DGVIII environment staff-member are eight times the size of those managed by DFID

³⁹ These include the 5th Environmental Action Programme (adopted by the Council of Ministers and Member States in February 1993) and agreements made at UNCED (including the Rio Declaration, and Agenda 21 for global action).

⁴⁰ *Evaluation of the Environmental Performance of EC Programmes in Developing Countries, Synthesis Report*, vol. I, ERM, December 1997, pp. 4-5. See also vol. II (main text).

⁴¹ An environment manual was introduced in 1993 but its use has been mandatory only since May 1996.

⁴² ERM, 1997, *op. cit.*

⁴³ IIED, 1995. Often when indicative programmes include the environment dimension as a priority, this is insufficiently translated into strategic plans or targets.

⁴⁴ The evaluation involved an inventory and a desk study phase of evaluation policies and instruments, as well as a field phase. The field phase focused on a sample of EDF-ALA-MED projects in which the environmental component was either primary or secondary, as well as projects funded through the Environment Budget Line. The Inventory of Environment and Tropical Forest Programmes (ERM, May 1996) recorded that 8.5% of total funds committed by DGVIII and DGIB in 1990-1995 went to either primary or secondary environment projects.

⁴⁵ However, success was more likely in the extension phases of projects that were already being funded.

⁴⁶ Cost-effectiveness was also found to be low.

staff and more than seventy times those of a World Bank staff-member. Among Commission staff, there is still limited awareness of the role that the Environmental Unit should play in country programming and EDF projects.

However, following the sectoral evaluation, the Commission has taken measures that should strengthen the environmental impact of its programmes. Recent measures include the updating of the environmental manual, training on awareness of environmental issues, and framework contracts to facilitate Environmental Impact Assessments. In the field, we observed that in the transport sectors in Cameroun and Tanzania environmental appraisal techniques are increasingly being applied in the planning and implementation of projects.

2.3 Supporting institutions and delivering project outputs

EC aid has had more success in delivering immediate project outputs, including physical outputs, than in following a policy-based approach. The impact of EC aid on poverty depends not only on the delivery of project outputs (including physical outputs), but also, and more importantly, on the success in engaging committed ACP governments in policy dialogue, in helping to strengthen local capacities, and in coordination with other donors. Until recently, these areas did not receive sufficient focus in EC aid. This is reflected in the evidence from the Desk Study and recent evaluations and from our own country visits showing the limited 'effectiveness' of many EC programmes and projects until the early 1990s. However, the recent emphasis on policy dialogue should contribute to better performance of EC aid in the future.

The insufficient focus on institutions and policies is in part explained by the 'entitlement' approach that characterised much of the history of the EC-ACP Lomé partnership. There was no policy or governance selectivity or conditionality attached to EC aid, and the Commission had no instruments to reward committed governments. Instead, programme objectives were initially driven by ACP governments' support to state initiatives, controls and large investments. In this context, donors focused on the individual contributions of their own projects and coordination was not seen as a priority.

This section of the report offers a broad assessment of the contribution of EC aid instruments to supporting institutions, policies and delivery of project outputs, drawing on the evidence presented in the Desk Study and the Country Case Studies of this evaluation. More details on the performance of individual instruments are presented in the Boxes on pages 21 to 23.

Programme aid⁴⁷

The Commission now recognises the importance of a policy-based aid programme, 'selectivity' and donor coordination. The Commission's involvement in structural adjustment operations is facilitating its transition to this new approach. Up till now, the Commission's involvement in overall policy dialogue and its support to public expenditure reviews have often been limited by staffing constraints, by the limited ACP ownership of reform programmes, and by over-detailed

⁴⁷ 'Programme aid' (as used in *Understanding European Community Aid: Aid Policies, Management and Distribution Explained*. ODI/European Commission, 1997) includes support for structural adjustment (including import support programmes initiated under Lomé III), Stabex and Sysmin. In this report, we also include programme food aid.

earmarking of counterpart funds. Nevertheless, in Zimbabwe and Côte d'Ivoire we did find effective overall economic monitoring in spite of limited resources.⁴⁸

The Commission's early focus on the importance of public expenditure management has encouraged other donors to focus on these areas (as seen with the new Public Expenditure Review guidelines).⁴⁹ However, although there have been some successes (e.g. in Côte d'Ivoire⁵⁰), the Commission's work in the field has encountered difficulties. Support to policies and institutions requires a more coordinated donor approach in capacity building and in addressing the problems of conditionality (see the Commission's pilot work with other donors in Burkina Faso).

The effectiveness of earlier programme aid such as Stabex and Food Aid was limited because they initially did not address the policy environment. The introduction of conditionality into Stabex has in some cases supported sector reform, as we saw for example in the proposed innovative use of Stabex to support restructuring of the banana industry in the Eastern Caribbean region.⁵¹ However, in many cases the delays introduced by Stabex conditionality have neutralised the potential stabilising effect of Stabex on export earnings. A recent change in policy on programme food aid should enhance the effectiveness of programme food aid by linking it to food security strategies. However, donor coordination in this area still appears to be weak.⁵²

Sector projects

Until the early 1990s, EC projects in different sectors (see Boxes on pp. 21-23) focused on the delivery of physical outputs rather than on policies or institutional strengthening in the sectors. These project interventions were therefore unable to address key sectoral policy constraints, which limited the effectiveness of the interventions in producing physical results, and resulted in low sustainability of most projects. In agriculture and rural development, Integrated Rural Development Programmes and large-scale irrigation projects were carried out in a distorted agricultural sector and created infrastructure that was often not integrated with national policies. Similarly, projects to support small and medium scale enterprises did not focus on the environment for private sector development. The focus on education and health was on scholarships, vocational training and curative and specialised services, rather than on sector reform that could contribute more directly to the reduction of poverty. In our own country case studies, we saw in Jamaica, for example, that EC assistance in the water sector had been a success in engineering terms, but had initially neglected the issues of water supply management, financial sustainability and social policy.⁵³

However, the results of EC aid were often good when measured in terms of physical outputs, especially in the transport sector and in infrastructure-building. This has been possible because of the Commission's strong engineering and technical expertise. Projects have been less effective in physical terms in agriculture and rural development, in education, and in support for industry. In most sectoral interventions, however, sustainability has been low, as

⁴⁸ Case Studies Synthesis p. 39

⁴⁹ The evaluation of the PER for the SPA was presented in the report 'Strengthening Budget Management in SPA Countries', NEI, September 1995. The work, sponsored by the Commission and SIDA, was carried out by the SPA Working Group on Public Expenditures and benefited from two seminars with African participation. The new guidelines were presented in July 1997. The approach is being tried out in Uganda and Tanzania.

⁵⁰ Case Studies Synthesis p. 41

⁵¹ Eastern Caribbean Case Study p. 15

⁵² *Joint Evaluation of European Union Programme Food Aid*, ODI, 1996. However, note the Commission's promotion of the Donors' Code of Conduct on Food Aid.

⁵³ Jamaica Case Study pp. 22-23

a result of the insufficient attention given to strengthening the policy and institutional framework.

New approaches. As a result of the lessons learned in recent evaluations, EC aid has increased its focus on policies, institutions and donor coordination. It is too early to assess the performance of different sectors in adopting this new approach. However, our country visits found some evidence that the approach has been most successfully adopted in the health and transport sectors. The health sector in Côte d'Ivoire is an important success (see Box). Success in implementing this new approach depends in large part on the in-country capacity of delegations. For example, we found that the strong capacity of the Zimbabwe delegation was a key factor in the initial success of agriculture sector reform.⁵⁴

Successful policy dialogue on health in Côte d'Ivoire

The EC is considered, by both the Government and other donors, to have made a valuable contribution to the restoration of the public health sector in Côte d'Ivoire. The existence of a *clear sectoral strategy*, and its support by donors through intensive policy dialogue, have formed an enabling environment for donor activity in the sector. However, the *capacity of the Government to co-ordinate and manage donor activities* has been equally important in ensuring the coherence, complementarity and success of donors' interventions. The EC has also played a lead role amongst donors in the health sector policy dialogue due in part to its important financial involvement, and to its very good relations with the Ministry of Health, facilitated by the presence of *competent EC-financed TA* adviser to the Ministry. Health is a sector in which the Commission has developed its *own sector strategy* and *institutional and technical expertise*, which have enabled it to contribute effectively to international discussions on health and to offer support in the field. Since mid-1997, the EC has taken the lead in a pilot initiative for improving *coordination amongst Member States and other donors* in Côte d'Ivoire, in particular in the health sector.

Participatory projects

The relatively good performance of EC Micro-projects (and in many cases also of cooperation with NGOs) suggests that close contact with direct beneficiaries helps to improve the design, delivery and sustainability of interventions. These interventions have often successfully contributed to strengthening the capacities of local communities.⁵⁵ While co-financing with NGOs has faced some problems of coordination and coherence, Micro-projects are (together with transport sector projects) the EC interventions that most evaluators regard as the most successful. In our country visits, we found Micro-projects to be successful in Zimbabwe⁵⁶ and also in Liberia, where the flexibility of the Micro-projects programme facilitated the delivery of aid in the absence of a stable government.⁵⁷

Regional cooperation

In contrast to the participatory interventions, the weak commitment of ACP countries to regional organisations has led in the past to weak results in regional cooperation programmes. Regional cooperation has been a priority in EC aid. The bulk of regional funds is allocated to programmes which are regional in conception and intent, but national in execution. However, their regional specificity makes these programmes lengthier and more complex than national projects.

⁵⁴ Zimbabwe Case Study pp. 21-23

⁵⁵ However, their effect on policies and on broader institutional strengthening has been more limited.

⁵⁶ Zimbabwe Case Study p. 25. See also Box in Chapter 3.

⁵⁷ Liberia Case Study pp. 10-12

Programmes setting up and running regional institutions (including those supporting regional integration) have been weak. This is explained by limited government ownership and insufficient focus. They have made some contribution towards a gradual intensification of cooperation, but there has been no noticeable impact on regional integration. 'Programmes for trade cooperation are rated among those with low impact and have failed to affect the negative trend of exchanges among members of regional groups'.⁵⁸

In our case study in the Eastern Caribbean, we found that the EC's policy dialogue to support the restructuring of the banana industry has been very active (see the Box in section 2.5), whereas the support to regional integration may have insufficient focus.

The EC has decided to give renewed priority to regional cooperation and particularly to regional integration.⁵⁹ Many of the weaknesses of previous regional interventions are addressed in the new approach, seen in interventions such as the Cross Border Initiative and support to UEMOA (West Africa). These actions were co-sponsored by the Commission in collaboration with other donors, they include the private sector and rely on existing regional organisations. Early indications of the new approach are positive.

⁵⁸ Desk Study, Annex 17, page 3

⁵⁹ See Council Resolution of 1 June 1995. It states that these programmes are a major feature of EC development policy and may contribute to fostering 'the smooth and gradual integration of the developing countries in the world economy' (one of the Maastricht objectives for development policy). The new approach will be based on developing capabilities and strengthening institutions, support for the private sector, and the support of structural adjustment instruments to intra-regional economic liberalisation.

Assessments of instruments and sectors: (1) Programme aid¹

Programme food aid, which began in 1967, was the first form of balance of payments support used by EC aid. It was initially focused on the supply side and self-sufficiency, but following the Joint Evaluation and a 1996 Council Regulation it was better integrated with food security strategies and food entitlement. Stabex was set up in 1975 (Lomé I) to mitigate the harmful consequences of instability by acting as an automatic system for stabilising export receipts, to maintain the purchasing power of populations affected. Stabex conditionality was introduced under Lomé IV, together with the Structural Adjustment Facility (1990). The structural adjustment support programmes (SASP) were set up to support the general BWI structural adjustment programmes, taking into account the social dimensions of adjustment and the requirements of long term development, adapting the speed of reforms to the constraints and capacities of specific countries, facilitating the internalisation of this process, and focusing on the regional dimensions of adjustment.

Structural adjustment¹

The SASP has supported policy dialogue between the BWI and ACP governments. At headquarters level, the strategy has been to support the BWI programmes while using international forums (such as the Special Programme for Africa) to support the ownership and social dimensions of the overall adjustment programme. The Commission's in-country involvement in the overall policy dialogue on structural reforms and its participation in public expenditure reviews have often been limited by staffing constraints, by the degree of ownership of the reform programme, and by over-detailed earmarking of counterpart funds. A more general constraint has been the mixed results of the BWI reform programmes. The close monitoring of macroeconomic conditions and reforms, and participation in public expenditure reviews, are essential for supporting sectoral policy dialogue and for the effective implementation of the SASP. Nevertheless, the Commission's involvement in structural adjustment operations is facilitating its transition to being a policy-based donor.

The systematic earmarking of counterpart funds has proved difficult. While earmarking to sectors has in some cases facilitated sector dialogue, over-detailed earmarking has been administratively burdensome, as we saw in Zimbabwe and Jamaica (Jamaica Case Study 18-21). The SASP focus on the budgetary process in the social sectors is in some cases contributing to initial improvements in public expenditure management, for instance in Côte d'Ivoire and Cameroun. Significant counterpart funds have been targeted at the social sectors, but there has been only limited effectiveness in protecting budgeted expenditure in these sectors. As with other donors' structural adjustment programmes, sustainability has also been affected by conditionalities being too numerous and unrealistic and by the difficulty of strengthening public administration (particularly in budgetary management in the social sectors).

Stabex¹

Prior to 1990, Stabex did not include conditionalities. Stabex funds were often used to support inadequate projects and monitoring was very limited. However, this facilitated some effectiveness in the stabilisation of export earnings.

The introduction of conditionality (through the Framework of Mutual Obligations) and the monitoring of activities have improved effectiveness. However, the resulting delays have neutralised the stabilisation effect of the Stabex funds, which were already limited by the size of Stabex. Compensation to producers has sometimes achieved positive results (for instance in Tanzania), but there has been no clear effect on sector diversification. However, the use of policy conditionality has in very recent cases facilitated sector reform and restructuring, which could be sustainable. The flexibility of Stabex has also in some cases allowed a rapid response where urgent action was needed.

Programme food aid

In the past, the effectiveness of food aid was weakened both because of the modest scale of resources and because the Commission did not address the causes of food insecurity. Food aid provided balance of payments support, and in most cases it substituted for commercial imports, with no clear effect on food security. It created counterpart funds, with some difficulties, but they were not conditional on sector reform, and there is little evidence that the programme has supported agricultural development. Moreover, programme food aid was not effectively targeted to the poor. Food aid's effectiveness has been greater when responding to a transitory food insecurity situation. But this is often affected by management inefficiencies - a 1994 evaluation noted that the time needed for the food to reach beneficiaries ranged between 31 weeks and 44 weeks. The effect of the change in policy since 1996 has not yet been evaluated, but food security strategies have been negotiated in a number of countries.

Coordination through the Food Aid Committee has not been systematic and appears to have been one-way, with information running only from the Commission to Member States. In-country coordination by the World Food Programme mostly consists of information sharing. The EU however took an important step by carrying out a Joint Evaluation of Food Aid, which was completed in 1996.

1. Boxes on following 3 pages largely drawn from the Desk Study. Stabex drawn from CERDI evaluation, March 1998. Structural adjustment drawn from Case Studies Synthesis.

Assessments of instruments and sectors: (2)

Transport

Investment programmes in transport have been successful as far as physical output is concerned. The Commission has a strong engineering and technical presence, and there is agreement that the implementation of infrastructure projects has been one of the strongest areas of EC aid. However, as with other donors, an emphasis on policies and institutions has only appeared recently. Evaluations have shown that the weakness of ACP institutions and management was underestimated, and that this has affected road maintenance and the financial sustainability of transport projects.

There has been insufficient assessment of the broad impact of transport projects on the poor, and limited local participation in project design. However, recent interventions and new policy guidelines have attempted to address these problems. For example, the financing agreement on a recent road maintenance programme in Tanzania (RUSIRM) includes policy conditions and monitoring indicators (Tanzania Case Study p. 37). Donor coordination also appears to be gradually improving.

Agriculture and rural development

Until the 1990s, the focus was on Integrated Rural Development Programmes and large-scale irrigation schemes. IRDP programmes were often too dispersed, and many projects were not sustainable. Increases in production were uneven, given the many policy constraints facing the agricultural sector. While public infrastructure was built, which did often have a short-term impact on the quality of life in rural areas, it was often not part of a national plan and sometimes exceeded the capacity of local areas. Results were often disappointing in the environmental protection component of programmes and in the organisation of local civil society. These projects were therefore often rated as not sustainable. Their impact on rural incomes has not been monitored, but it is likely to have been uneven.

These problems have led to sector approaches and support to liberalisation. While these programmes have often been affected by limited government commitment, sector approaches, with their emphasis on gradual institutional strengthening and donor coordination, are beginning to show their potential, as seen in the Agricultural and Services Management Project in Zimbabwe (Zimbabwe Case Study pp. 20-23).

Education

The focus was initially on scholarships, and later on vocational training, infrastructure and teaching materials. There have been few evaluations in this area, but programme objectives appear often to have been unclear, leading to weak results (particularly in regional programmes). Interventions did not involve significant policy dialogue. Since Lomé IV and the SASP, the emphasis has gradually begun to change to basic education and more policy dialogue. However, progress in policy dialogue has been difficult (see for example the difficulties in the Sector Development Programme in Tanzania, in the Tanzania Case Study pp. 28-31).

Health

The focus was initially on curative services and specialised activities. There were few evaluations in this early period. More recently, there has been a shift to support for reforming health systems towards primary health care policy, AIDS programmes and family planning. The new approach has given a clear focus to strengthening policies and institutions in the health sector. With a small but motivated health unit in DGVIII, staff have been involved in developing innovative programmes in the sector, using project and programme aid coherently and coordinating with other donors, as we saw in Côte d'Ivoire (see Box on p. 18). While it is too early to assess the impact, the focus given to institutions is important for sustainability. Previous evaluations have noted some concerns, such as the small size of the AIDS programme and the emphasis on infrastructure and equipment.

Small- and medium-sized enterprises and industry

The effectiveness of the instruments for the support of industry was limited in the past because, until Lomé IV, there was little focus on creating an appropriate environment for private sector development.

An evaluation of support for small- and medium-sized enterprises found some impact on job creation, although at a relatively high cost per job. Sustainability has been affected by the weaknesses of credit mechanisms and the neglect of physical components of investments.

The Commission shares responsibility for the support of industry with the European Investment Bank (EIB) and the Centre for the Development of Industry (CDI). No recent evaluations on EIB and CDI are available.

Assessments of instruments and sectors: (3)

Micro-projects

The Micro-projects instrument was introduced in 1975 and its principles were reaffirmed under Lomé IV: promoting small-scale operations with collective benefits which are initiated, managed and financially supported by the beneficiaries. It has been used mostly to finance physical infrastructure in rural areas, which has in most cases been properly constructed. The success of Micro-projects depends on the operational capacity of grassroots organisations and its effective support to local organisations. The programme concept and design is clear, and the orientation towards beneficiaries is often clearer than with other instruments. Evaluators conclude that this instrument has had a positive impact on democracy, decentralisation, human resources development, and poverty reduction. Successful examples were found in our field studies in Zimbabwe and Liberia. Sustainability has been enhanced by local participation but there has been extensive use of TA. Initially there were some problems with the administration of funds, but implementation units have addressed the credibility and efficiency of these programmes.

Cooperation with NGOs

Co-financing of NGOs, which is the main instrument of EC cooperation with NGOs, started in 1976. It has supported interventions in many sectors, targeting in particular the poorest segments of society. NGO projects have also been financed in the context of food aid, rehabilitation programmes, human rights and democracy.

The strength of cooperation with NGOs derives from the close contact between NGOs and beneficiaries. This often produces greater 'ownership' of interventions, and may increase the impact and sustainability (with, for example, communities making contributions to maintenance).

However, there have been some weaknesses. The large number of small projects involved raises problems of management for the Commission, and of coordination and coherence of these interventions with other instruments and with national policies. They have often suffered from a short-term perspective, with insufficient analytical understanding of the roots of problems. In addition, procedures for planning, financing and monitoring are often weak. Sustainability is often affected by the weakness of Southern NGOs. While many of these weaknesses are being addressed through new guidelines (e.g. on food aid), it is too early to judge the results of recent interventions.

Regional cooperation

Regional cooperation has always been a priority in EC aid (14% of EDF funds between 1986 and 1995, see ODI 1997 p. 53), however initial programmes involved a spectrum of uncoordinated interventions (Lomé I and Lomé II). Later Conventions brought more focus, but some problems remained. The bulk of regional funds is allocated to programmes which are regional in conception and intent, but national in their execution. Programmes have focused particularly on transport and communications, but have also frequently been concerned with agricultural research, education, training, and trade promotion. The regional specificity makes these programmes lengthier and more complex than national projects, particularly given the absence of regional officers in delegations and the weaknesses of regional organisations (despite technical assistance provided). However, project execution appears not to be different from national programmes.

The experience has been less favourable with programmes setting-up and running regional institutions. Institutions have proliferated, but ownership by governments is weak and the programmes are not sustainable. This has also been the case for institutions supporting regional integration. Evaluations conclude that interventions have made some contribution towards a gradual intensification of cooperation, but there has been no noticeable impact on regional integration. Programmes for trade cooperation have failed to reverse the negative trend in trade between members of regional groups.

The EC has decided now to give priority to regional integration, focusing on staff training, institution-building, and the negotiation of short-term compensation for the transitional cost from reforms, as well as persuasion to ensure government ownership. Many of the weaknesses of previous interventions are addressed in the new approach, seen in interventions such as the Cross Border Initiative in Eastern and Southern Africa, initiated in 1992, and the support to UEMOA (West Africa) for tariff reform and macroeconomic convergence. These actions were co-sponsored by the Commission with other donors, they include the private sector, and they rely on existing regional organisations. The focus is on capacity-building and technical assistance for regional institutions which have a mandate for economic integration. While traditional regional cooperation still accounts for the bulk of project funding, early indications of the new approach are positive.

B: What explains these results?

The evaluation found that the following three factors are central in explaining EC aid results: the commitment and capacity of ACP institutions (2.4), donor coordination (2.5), and the performance of the Commission itself (2.6).

All three factors affect EC aid results across all programmes and projects. Below, we consider each in turn. For each, we assess the ways in which it affects EC aid results. The performance of the Commission is examined in more detail in chapter 3.

We could have presented these issues in other ways. In our presentation, some issues cut across more than one of the three factors. However, our presentation allows us to show clearly that observations in the field confirmed the importance of the principles for results-oriented and effective aid, identified at the beginning of this report, namely:

- the importance of the commitment and capacity of ACP institutions. Reducing poverty and achieving other priority objectives depend above all on the institutional and policy environment in developing countries themselves. That is why the Commission should help to strengthen institutions and policies in ACP countries committed to reform. However, the Commission, and other donors, have found difficulties in this institutional role.
- the importance of donor coordination. Since aid financing is typically fungible, donors should not be concerned just with the quality of their individual interventions, but should act together. That is why it is important for the Commission to coordinate with other donors. However, donor coordination in the field is often still weak.
- the importance for the Commission of having clear objectives, of measuring results against these objectives, and of being a results-oriented organisation.

2.4 The commitment and capacity of ACP institutions

Aid can only reduce poverty and have an impact on the other priority objectives in the 'right' institutional and policy context. The capacity and commitment of ACP institutions (government and civil society) are key determinants of the results of EC aid. They affect both the success of the overall reform programme⁶⁰ and the success of individual projects.⁶¹ This was confirmed in our case studies.

⁶⁰ See Dollar D. and Svenson J., *What Explains the Success or Failure of Structural Adjustment Programs?* June 1998, WPS 1938, and World Bank, Washington DC. See also Bottchwey *et al.*, IMF, 1998, *op. cit.*

⁶¹ A recent analysis of more than 900 completed projects confirms that 'borrower performance is most critical to determining project outcome. Good borrower performance raises the probability of a satisfactory outcome by 35 to 40 percentage points.' OED, *The Annual Review of Development Effectiveness (ARDE)*, November 1997. The World Bank, Washington DC.

Ways in which ACP institutions have affected the performance of EC aid

Commitment determines the implementation of policy reforms

Because of the 'entitlement' approach embodied in the EC-ACP partnership, EC aid was in the past provided to countries which were not committed to 'good governance'⁶² or policies for promoting investment and growth.⁶³ This limited the effectiveness of EC aid. The EC's shift towards the 'conditionality' approach was intended to address this problem. The EC structural adjustment programme supported the conditionalities of the BWI, and introduced also a number of specific conditionalities. However, the 'conditionality' approach has had a number of weaknesses. All the evaluation country visits looked at policy dialogue in structural adjustment, and confirmed the difficulties of the 'conditionality' approach.

In many cases, the weakness of ACP civil services and the ACP need of donor funds, has resulted in ACP governments accepting reform policies which were prepared by the BWI (including Policy Framework Papers, Letters of Intent and Public Expenditure Reviews). The weakness of ACP civil services made it difficult to elaborate quickly alternative policies to discuss with donors from a position of strength. In this context, the BWI often relied on too many conditions, many of them unrealistic, resulting in an attempt to micro-manage the reform process. For example, see the discussion on policy dialogue in the SASP in the Tanzania Case Study.⁶⁴ In Tanzania we found that the government was often confused by the large number of conditionalities from different donors.

All this has contributed to insufficient government 'ownership' of the reform programme, which contributes to a lack of commitment (and capacity) to implement reform policies. In practice, many ACP governments have had to agree to policy and institutional conditionalities which they knew they could not (or were not willing) to fulfil. The insufficient focus on building civil society's support and consensus for reform has also undermined conditionality and contributed to the reversal of policy reforms.⁶⁵ See also the Zimbabwe Case Study.

The conditionality approach has been further weakened by donors' incentives to disburse funds even when a government's track record on implementing reforms is poor.⁶⁶ Conditionality has not in practice been very 'selective' in BWI programmes. Some of the countries we visited have been undergoing 'stop-go' structural adjustment for more than 10 years (e.g. Tanzania and Jamaica).⁶⁷

The problems associated with the insufficient 'ownership' and insufficient 'selectivity' of reform programmes have recently been recognised by the IMF itself.⁶⁸ The EC SASP programmes have shared many of the difficulties of the conditionality approach. However, the Commission has been among the first donors to be concerned about 'ownership' and institutional capacity. It is currently testing (with other donors) a new approach to conditionality in Burkina Faso, to reinforce government ownership of reforms through intensified preparation of the reform programme.⁶⁹

⁶² Including democracy, human rights and the rule of law.

⁶³ IDS, 1996, *op. cit.*

⁶⁴ Tanzania Case Study pp. 20-22

⁶⁵ Botchwey K., *et al.*, IMF, 1998, *op. cit.*

⁶⁶ See discussions on the selectivity of the Higher Impact Adjustment Lending of the World Bank.

⁶⁷ 'Sitting with the IMF and the World Bank over the last ten years in structural adjustment loans is something like being in the dentist chair for ten years.' Address by Prof. J. Sachs at the 1998 World Economic Forum, Windhoek, Namibia.

⁶⁸ *Distilling the Lessons from the ESAF Reviews*, July 1998, IMF.

⁶⁹ The pilot also aims to link structural adjustment disbursements to agreed performance targets and to enhance donor coordination by carrying out joint donors assessments.

Participation affects the realism of donor projects

In our country visits, we observed that many EC aid projects, which should have been identified and prepared by ACP governments, have in fact been prepared by foreign technical assistance or by the Commission, often with inadequate supervision from ACP civil services. Where ACP governments have weak capacity, their participation in sectoral policy frameworks and the identification and preparation of donor projects is often limited. This also contributed to limit consultations with other stakeholders. (See, for example, the Box on the preparation of a project in Zimbabwe in chapter 3). Where donors and foreign consultants play the lead role, the result can be projects and policies that do not reflect realities on the ground.

By contrast, the close involvement of civil society in project preparation can in some cases be very effective. This is seen in Micro-projects programmes. And, in Jamaica, the success of policy dialogue on the Banana Support Programme was in large part due to the involvement of the private sector.⁷⁰

Government capacity affects both policy dialogue and aid implementation

While many donors suggest policies and projects which point in the right direction, they often underestimate their institutional requirements. In particular, ACP governments have difficulties in implementing institutional reforms.

The co-management of EC aid makes it particularly dependant on the capacity of ACP civil services. The capacity of ACP governments has heavily influenced the way in which EC interventions have been designed and implemented, and this in turn has affected the EC's contribution to the process of institutional-strengthening.

Where capacity has been high, the Commission has been able to rely more on ACP governments. In such cases, the office of the National Authorising Officer has been integrated in a particular ministry (usually the Ministry of Finance) and has been staffed with civil servants, the EC's procedures have been more in line with the government's, projects have been managed by the normal civil service, and donor coordination has been more in government's hands. By contrast, where implementation capacity has been low, the Commission and ACP governments have found themselves in a vicious circle. To circumvent government's low capacity, the Commission has sometimes adopted parallel structures, and the NAO office has been staffed mainly with consultants, which may further weaken capacity (see Box).

Institutional arrangements for EC aid management in Cameroun

- There are three support units to the NAO responsible for managing the three most important instruments of EC aid to Cameroun: a Stabex unit, a SASP Unit and a Co-ordination Unit.
- These units are staffed with consultants. No civil servants work with them. Counterparts were not designated.
- There is no structure officially in charge of donor co-ordination.
- There is a general use of TA-staffed Project Management Units loosely attached to line ministries and monitored by a Co-ordination Unit (also staffed by TAs).
- A separate Tender Board has been created for EDF-funded projects, using EDF procurement procedures instead of local procedures. While this has speeded up procurement, it is regarded as an unsustainable solution.

Government capacity is not evenly distributed – it varies not only between countries, but also between sectors within a country. In the countries we visited, capacity was found to be higher in Zimbabwe, Côte d'Ivoire and Jamaica than in Tanzania and Cameroun. Within Cameroun, capacity was found to be higher in the transport sector than in the cocoa sector. In the

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Jamaica Case Study p. 23

transport sector in Cameroun, high capacity, together with a good sectoral framework, has resulted in active policy dialogue.⁷¹

We found many cases where weak government capacity made policy dialogue more difficult – transport and education in Tanzania, cocoa in Cameroun, water in Jamaica, and trade in Zimbabwe.⁷² In Tanzania, the Commission and other donors identified road maintenance as the key policy issue, and identified ways to address the issue. However, they underestimated the institutional difficulties in implementing the road maintenance policy.⁷³

Public expenditure management is a key government capacity which contributes to enhance aid effectiveness. It should link sector priorities with planning, provide a sectoral framework for coordinated government and donor interventions, use reliable accounting and auditing controls, and strong monitoring and evaluation functions.

Government capacity is key for effective donor coordination

When governments have had insufficient capacity to take the lead in donor coordination, donors have found it very difficult to coordinate themselves in the field (see section 2.5 below). Failure to coordinate has often led to situations in which each donor pursues its own aims, often with competing programmes and projects which may undermine each other and which distract the management capacity of ACP governments.

ACP governments themselves should take the lead in donor coordination. This requires a clear policy framework, a strong public expenditure management system, and an effective donor coordination unit. These allow a government to inform each donor where and how it can fit in with the government's own plans, ensuring that both domestically and internationally financed programmes are integrated into the country's development strategy and budget system. In our field visits we found very few countries that had this capacity.

The difficulty of strengthening institutions in ACP countries

Institutional development is a complex process that only works with local commitment and participation in the process.⁷⁴ The task of strengthening institutions in ACP countries is a very difficult one. Ten years of structural adjustment have been accompanied by a trend of falling real wages and wage compression in civil services. There are poor work incentives, while (donor-financed) seminar and travel allowances distort work decisions. Civil services in Africa are often still over-staffed, even after retrenchments.

Civil service reform programmes in Africa have improved the effectiveness of civil services to only a limited degree.⁷⁵ Until recently, their emphasis has been on reducing the size of civil services, rather than on improving efficiency or delivering better services. While most donors have now recognised that reform programmes have often been constrained by weak government civil services, few have a successful record in technical assistance for institutional strengthening in ACP countries.⁷⁶

The use of TA to strengthen government institutions by training local government counterparts has proved difficult given the poor incentives in many ACP civil services.

⁷¹ Case Studies Synthesis p. 46

⁷² Case Studies Synthesis p. 45

⁷³ Tanzania Case Study pp. 22-27

⁷⁴ See, for example, *Making Democracy Work: Civic Traditions in Modern Italy*, by R. Putnam *et al.*

⁷⁵ See *Decade of Civil Service Reform in Sub-Saharan Africa*, IMF Working Paper 179, 1997, I. Lienert

⁷⁶ 'Outcomes have varied widely, but overall the efficacy and cost-effectiveness of TA has been disappointing, especially in sub-Saharan Africa' OED/WB, *Lessons & Practices*, May 1996.

Effective use of technical assistance requires government capacity for selection, management and supervision. Where there is such capacity, TA can represent their client's interests when dealing with the donors who fund their assignments. Support to institutional reform in the Ministry of Agriculture in Zimbabwe shows some examples of successful technical assistance compatible with policy ownership.⁷⁷ However, more frequently we found that TA are perceived as working on behalf of the donors which fund them. Therefore, management of TA is a key capacity for ACP governments to develop. In the case of the Commission, we found in our country visits that TA often has dual responsibility to ACP governments and the Commission (see discussion of TA in chapter 3).

Donor competition has also further contributed to weaken the capacity of ACP civil services (see Box in the next section).

2.5 Donor coordination

Since aid is typically fungible, each donor effectively finances a share of the entire government budget, and the impact that each donor has depends on the impact that all donors collectively have. Donors should therefore be concerned with the quality of all public expenditure management and the quality of all aid interventions, not just with their own specific interventions. It is essential for donors to act in a coordinated way, even if each focuses on particular sectors. Weak coordination between donors means that any donor, however great its efforts, could have its performance undermined by the work of other donors. Donor coordination needs to be led by ACP governments, and this requires strong government capacity and a clear policy framework. Where government capacity is weak, donor coordination is more difficult but equally important, and should be aimed primarily at strengthening ACP institutions, particularly in public expenditure management and the delivery of social services.

Ways in which coordination has affected EC aid results

Has not facilitated donor complementarity

Where there has been weak coordination, individual donors, including the Commission, have often tried to be present in most sectors, and particularly in the most popular sectors (e.g. recently in education and health). Donors have done this without adequately taking into account the overall needs of the country, the activities of other donors, or where their own strengths lie. In this way, when considered together, donors have duplicated each other's interventions in some areas, while not paying sufficient attention to other areas. Insufficient donor specialisation has weakened the quality of aid – it also makes coordination more difficult, as it increases the number of donors who have to be coordinated in any given sector.

Effective coordination should make it possible for individual donors to play complementary roles in meeting the aid requirements of a recipient country. What matters is that the aid requirements of a country are met by all donors collectively, not by any one donor, and that each donor focuses on the areas where it has relative strength. Where this happens, each donor maximises its contribution to the performance of aid.

EC aid also has not found a strategic role to play, taking into account the roles of other donors. In the countries we visited we found that the Commission's resources are spread

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Zimbabwe Case Study pp. 20-23. See also Box in Chapter 3.

thinly over too many areas, and it does not focus on those areas where its strengths lie (see discussion on indicative programming in the next chapter). Delegation staff in most of the countries we visited noted the difficulties they face in working in too many sectors and projects.

Donor competition

Coordination is also important for ensuring that when donors perform similar roles they act together rather than compete. Where there have been coordinated actions, important results have been achieved (see Box on Effective Coordination in the Country Cases below).

Weak coordination, by contrast, has often resulted in donor competition, which is particularly burdensome to ACP civil services. In all these cases, aid has weakened, rather than strengthened, the institutional capacity of ACP governments (see Box). Donor competition results from donors focusing on the implementation of their own projects, rather than in the work of all donors in a particular sector. Donors lobby for government approval for their policies, and their projects compete with each other for the attention of civil service managers. Interacting separately with a large number of donors, each with their own aid conditionalities and procedures, uses up the limited time and energy of senior ACP civil servants. We have observed instances of donor competition in most countries that we visited, but particularly in those with weak government institutional capacity. Donor competition affects both projects and also some of the new 'sector approaches'.

Donor competition has affected all levels of programme and project implementation. Donors have carried out their aid programming exercises separately, and they have also required governments to respect their own – the donors' – implementation procedures. In neither case have donors' activities been integrated with governments' normal budgetary or implementation procedures. Donors have made ACP governments adapt to the requirements of their own aid instruments, rather than modifying their aid instruments to improve their support for public expenditure management systems.

Donor competition weakening ACP governments' civil services.

Far from strengthening institutions, donors' actions, including those of the Commission, have often contributed to further weaken the capacity of ACP civil services. Donors are often under pressure to commit resources and implement their own programmes quickly, so they find it difficult to adjust the planning of their programmes to governments' implementation capacity or commitment to institutional reform.

The use of parallel government structures has probably been the most popular response by donors to get their own aid programmes implemented quickly in a context of weak government capacity. Too often donors seem to believe that every problem should be addressed by creating a new unit (e.g. in the 1990s the World Bank has recommended the creation of 15 different units to work on the Integrated Roads Project in Tanzania).

Parallel structures are not sustainable and fragment the civil service. Donors overlook the fact that they still need to interact with normal government structures. These structures, outside the normal civil service, are staffed with consultants. As they pay attractive salaries, they tend to recruit the best civil servants, which may weaken government capacity in priority areas.

Furthermore, to help them implement their programmes, donors sometimes recruit senior civil servants as short-term consultants, or supplement civil servants' salaries¹ (contradicting the DAC Principles for effective aid²). Some donors believe this to be justified because they believe their programmes and projects to be the most valuable for the country. The country visits found evidence of this both in the traditional 'project' approach and also, more recently, with the new 'sector approaches'. These problems were observed in most of the countries that we visited.

1. '...in Tanzania the official policy is not to supplement local civil servant salaries. However, given the unsustainably low remuneration level in public service, donors provided and employees obtained supplements through indirect means. In fact donors competed for capable civil servants to improve the chances for proper implementation of their projects' OED, 1997, *op. cit.*, p.62.

2. 'Rather than topping-up salaries, donors should encourage recipient governments to articulate a strategy to address civil service reform. Donor assistance can only be effective when governments themselves are seriously committed.' OECD/DAC, 1992, *op. cit.*, p. 55.

Sharing of expertise

Insufficient sharing of expertise and experience has weakened the quality of all donors' interventions in institution-building and the reduction of poverty. Donor coordination has mostly been limited to information-sharing and even this has not been very effective. In the countries we visited, though there were regular meetings between delegations and Member States, these often lacked a clear focus. Similar problems are found in wider donor coordination meetings.

Similarly, donors, including the EC, have not often carried out joint monitoring or joint evaluation of each other's projects, and they only rarely co-finance each other's operations. This has affected the transparency of aid processes, and limited their ability to learn from best practice and to obtain a more independent and transparent assessment of their operations. In the few cases where coordination has moved further (e.g. the agriculture sector in Zimbabwe), the process has been slow and time-consuming, but has been much more coherent and has been supported by ACP governments.

Factors explaining weak donor coordination

A government policy framework

As discussed at the beginning of this section, we found that the existence of a well developed policy framework and institutional capacities within ACP governments are the most important factors facilitating donor coordination. These promote coherent and transparent policy dialogue, encourage donors to adopt common positions in their dealings with governments, and guard against different donors introducing divergent approaches into the programmes and projects which they support. The relative success of the operational coordination initiative in Côte d'Ivoire was in large part due to these factors. In Cameroun, a strong transport sector policy framework (*'Programme Sectoriel de Transport'*) has provided the basis for coordination of donor inputs, and has led to some *complementarity* among EU donors, with the EC supporting maintenance of unpaved roads, Germany supporting the maintenance of paved roads, and France concentrating on financing national bridges and air transport.

Willingness of donors

Coordination is more difficult where government capacity is low and where there is no clear government policy framework, but it is still necessary, even if donors have to take the initiative. Donors may be unwilling to engage in extensive coordination because it is often time-consuming, and because they have internal incentives to disburse and implement projects rapidly. What is more, few donors have a clear view of their strategic role vis-à-vis other donors, and there is often disagreement between donors on what policies and projects should receive priority (see the case study on the education sector in Tanzania⁷⁸). We found that donor coordination is often more effective among groups of 'like-minded' donors who share similar objectives.

The success of EU coordination depends as much on the political will of Member States as on that of the Commission. We found that, in many cases, there is a perception that the sharing

⁷⁸ Tanzania Case Study pp. 28-30

of aid information runs only in one direction, from the Commission to the Member States, and that this affected the quality of donor coordination efforts.

Where there has been strong political will, coordination has improved. Positive developments on the Commission's side include discussions with Member States on Strategy Papers and National Indicative Programmes. Liberia provides a good example of effective coordination where there is particularly strong common purpose between the Commission and Member States (see our Case Study on Liberia).

Although we observed few concrete actions in the countries that we visited, in many cases Member States' delegations stated their willingness to increase joint operations and evaluations with the Commission in order that each might learn from the other's strengths.

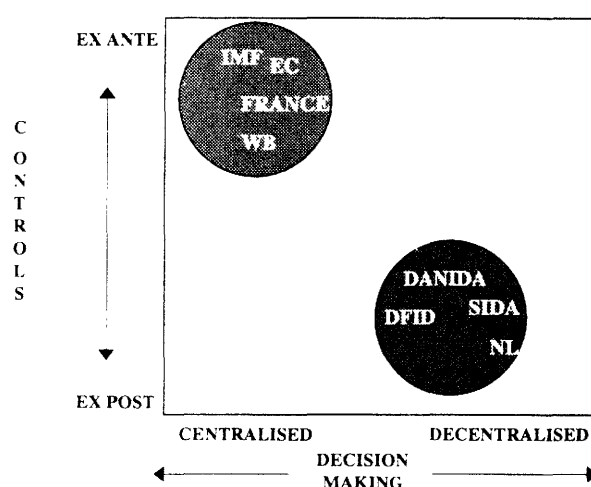
Donors' in-country capacity and organisational set-up

Coordination takes time and energy, both as a result of the capacity of some ACP governments and as a result in many cases of the large number of donors active in each country. Coordination is often limited by the capacity and expertise available in their delegations. Some donors (such as the World Bank) rely more on missions from headquarters, but this can introduce discontinuity into coordination and policy dialogue. On our visit to Tanzania, several Member States noted that coordination in the transport sector was difficult because the World Bank had limited in-country capacity in that sector.⁷⁹ Other donors have only generalist staff, and this can limit their contribution to strategic sectoral co-ordination. There has as yet been little progress towards the pooling of expertise within the European Union as a whole – Member States and Commission – to strengthen the capacity of European aid.

In the case of the Commission, the demands of coordination in some cases appear to strain further the capacity of delegations which are already over-stretched. In Tanzania, the Commission was chosen to act as coordinator for Member States in the education sector, even though it had very limited in-country capacity in that sector. In the countries we visited, capacity was found to be strongest in the agriculture and transport sectors, although in a few delegations, such as Zimbabwe, we also found strong macroeconomic monitoring capacity.

Weak donor coordination is also explained by differences in donors' organisational set-ups, both in their presence in the field and in the delegation of decision-making to field offices. For some donors decision-making is centralised, with *ex ante* controls in aid management, while others are more decentralised and have less administration-intensive organisations (see Figure). Where donors differ in their organisational models, coordination is complicated, as in-country representations have very different responsibilities, powers and procedures. The Commission has a relatively strong presence in the field but centralised decision-making.

Decision-making by selected donors



⁷⁹ Tanzania Case Study pp. 22-27

Coordination and coherence in country case studies

Some progress has been made towards improving donor coordination. Positive developments on the Commission's side include the discussion of Strategy Papers and National Indicative Programmes with Member States. The practical benefits of effective donor coordination were seen in Liberia (where coordination took place in the absence of a functional government), Côte d'Ivoire (pilot country chosen by the Council), Zimbabwe (agricultural sector), and the Eastern Caribbean (international trade in bananas). However, these are still exceptions rather than the rule.

In the country cases we found two examples where policy incoherence appears to have been addressed: in the policy dialogue on international trade in bananas in the Eastern Caribbean and in the transition from emergency to development assistance in Liberia (see Case Studies Synthesis, pp. 49-51).

Policy dialogue on bananas¹

The banana trade in the Eastern Caribbean, which has enormous social and economic significance for many countries in the region, has had to face falling prices and production levels, and the threat of further loss of market share following a ruling by the World Trade Organisation against the EU banana regime.

In 1994, the Secretariat of the Organisation of Eastern Caribbean States (OECS) requested assistance from a number of different donors.

In response, the EC took the lead in coordinating a donor group, which included the BWI, to engage in policy dialogue with the producer countries of the OECS. The donor group recognised that the industry needed to be restructured, and adopted a common stance.

Intensive negotiations between the donors and governments of the OECS resulted in an action plan, and two subsequent Agreements: Castries I (November 1996) and Castries II (January 1998). On the EC side, these provided for the innovative use of Stabex financing, to support implementation of the restructuring plan, and to make available budgetary support to meet the additional fiscal demands caused by restructuring.

1. See Eastern Caribbean Case Study pp. 12-16

2.6 The Commission

While many aspects of the results of EC aid are attributable to the weakness of the whole aid system, the Commission's difficulties in strengthening ACP institutions and donor coordination and its weaknesses in aid management have also directly contributed to EC aid results. The Commission has been focused not on achieving results – poverty reduction and other priority objectives – but on administrative procedures and levels of disbursement. While this in part reflects constraints imposed on the Commission, it also reflects limitations within the Commission. External constraints include the fact that it has not been given clear objectives or sufficient operational flexibility, while EC aid results have not been adequately monitored by policy-makers. Internal limitations reflect a history as an organisation which initially focused on projects and administration and which has grown rapidly, spreading its resources too thinly.

In chapter 3, we assess the Commission's performance in managing EC aid activity by activity, and examine in more detail the factors which explain the Commission's strengths and weaknesses. First, in this section, we summarise key factors in the Commission's performance which contribute to an explanation of EC aid results.

Clear objectives and complementarity of EC aid

EC aid policy has not yet provided clear objectives or facilitated '*complementarity*' with other donors. Moreover, EC aid results are not adequately monitored by EU Member States (or the Commission). At the same time, policy-makers, who do not have sufficient feedback from experiences in the field, have added to the constraints on the Commissions' operational flexibility introduced by Lomé. This has led to a mismatch between an expanding policy agenda and the Commission's capacity to implement this agenda. In this context, policy-makers have not yet been able to identify the role that EC aid should play in ACP countries taking into account the overall needs of these countries, the activities of other donors, or where its own strengths lie.

The Commission is required to pursue too many objectives and to manage too many different instruments and budget lines. While our case studies confirm that the latest Country Strategy Papers⁸⁰ have improved significantly, the Commission continues to be involved in too many sectors. It has not specialised sufficiently. This matters not only because it means that the Commission is spreading its resources too thinly, but also because it may not be acting where its strengths lie. In the view of the evaluators, the Guidelines for the Negotiation of New Cooperation Agreements⁸¹ point in the right direction but they may still include too many potential focal sectors to ensure *complementarity*.

Commission's results-orientation

The limitations within the Commission reflect both constraints imposed on it and its history as an organisation which initially focused on projects and administration and which has grown rapidly, spreading its resources too thinly. Internal fragmentation, inadequate systems and procedures, excessive centralisation in decision making have all contributed to a 'visa culture', with overly complex and inefficient administrative and financial controls,⁸² with weak team work and little demand for quality support or peer review. Limited accountability for results is also reinforced by a weak system for monitoring the performance of on-going projects, and EC aid co-management with many ACP governments with weak capacity. All this has contributed to weaknesses in aid management.

Excessive administrative demands have resulted in over-stretched capacity in key areas. This has particularly affected delegations' capacity for policy dialogue, institutional strengthening and donor coordination. For example, in our country visits we found that delegation staff have limited time to work closely with ACP governments in institutional strengthening. Furthermore, EDF technical assistance ends up supporting the capacity of delegations rather than that of ACP governments (see next chapter). Support to ACP governments' capacity to focus on poverty and other priority objectives is severely constrained by the shortage of in-house staff with specialist skills in these areas.

⁸⁰ These documents replaced the Pre-Programming documents of Lomé IV.

⁸¹ *Guidelines for the Negotiation of New Cooperation Agreements with the African, Caribbean and Pacific (ACP) Countries*, Communication from the Commission to the Council and the European Parliament, COM(97) 537 final, 29.10.1997.

⁸² Reinforced by the Financial Regulation of the EDF and other controls by the Member States.

3. The Commission's performance in managing EC aid

In chapter 2, we identified three key factors which explain EC aid results: the capacity and commitment of ACP institutions, donor coordination, and the performance of the Commission itself. In this chapter, we focus more closely on the performance of the Commission.

In (3.1), we assess the contribution made by the Commission in: policy preparation in headquarters, policy dialogue with ACP governments, management of programmes and projects, and evaluations, transparency and accountability.

In (3.2), we then discuss the factors which explain the performance of the Commission, both the constraints imposed on the Commission and its own internal limitations. The Commission has been focused not on achieving results – e.g. on reducing poverty – but on administrative procedures and commitment of resources. Finally, we briefly discuss recent changes in the Commission in the light of the need to move towards a more results-oriented organisation (3.3).

Background: EC aid and the Commission¹

EC aid to developing countries, at US\$ 5.3 billion in 1997,² makes the EC the second largest multilateral donor of concessional aid, and the fifth largest donor among the 22 DAC Members.

The European Union's external relations with developing countries are managed by five different parts of the European Commission (four Directorates General for External Relations – RELEX – and one Service),³ for which since 1995 five different Commissioners have been responsible. DGVIII is responsible for ACP countries, non emergency food aid and NGO co-financing.

Before the recent reorganisation, DGVIII employed a staff of about 620 at headquarters. In addition, 280 Commission staff were employed in delegations and offices in 71 ACP countries. In general, delegations in the RELEX DGs have relatively low budgets (less than 3% of EC external aid).

EC-ACP development cooperation

EC aid to ACP countries has two main sources of funding: the EC budget and the European Development Fund (EDF), the latter being financed through direct contributions by Member States. Most of the growth in EC aid over the last five years is explained by the increase in budget lines, created by the European Parliament, as EDF disbursements have declined in real terms during this period.

Development policy formulation

Development cooperation policies, which set the objectives and responsibilities of the Commission, are formulated both at the level of the Lomé convention (including its joint institutions) and through the EC 'internal' policy formulation process. In the EC policy formulation process, the decision-taking body is the Council of Ministers, which consists of the Ministers for Development Cooperation (or their equivalents) of the 15 Member States. Several working groups, attended by representatives of the relevant Ministries of the Member States, usually assist the Council in reviewing policy proposals presented by the Commission (who has the monopoly of policy initiation).

1. See Annex for more background information.

2. Net ODA disbursement (Source: DAC).

3. In addition, the Common Service (*Service Commun Relex*) has recently been created for implementation (after the completion of financing agreements) in the RELEX services.

3.1 The Commission's performance

The Commission is involved in both the formulation of development cooperation policies and in their implementation. Policy formulation begins with policy initiation by the policy units of DGVIII and leads to the preparation of Communications to the Council and draft Resolutions. The Commission's work in the implementation of policies occurs at several levels. In indicative programming, the Commission prepares a financial envelope for each country and works with ACP countries and regions in outlining development strategies, and in identifying specific policies and accompanying projects. It also engages in overall policy dialogue with ACP governments in structural adjustment and sector operations. In the preparation and implementation of projects, although the Lomé Convention provides for a division of responsibilities between the Commission and ACP governments, in practice the Commission carries out many stages of the project cycle, from preparation through to implementation. The Commission also evaluates its interventions and disseminates information on EC-ACP cooperation in order to provide more accountability and transparency.

Policy preparation at headquarters

The role of the Commission in policy initiation has been affected by the fragmentation between policy and geographical units and the limited staffing in the policy units that deal with the priority objectives (poverty reduction, governance, gender and the environment). In this context, policies sometimes do not have enough focus and they do not sufficiently reflect the Commission's experience on the ground. In its policy function, the Commission faces difficulties in the incorporation of the priority objectives into EC aid, and in monitoring them.

However, in some recent cases the Commission has increased its consultation with experts in Member States and other stakeholders before producing policy proposals. This is contributing to a more transparent and participatory process and one which also results in more operational policies. Examples of good practice include the Relief and Long-Term Development Communication and the current preparation of a Communication on private sector development. Similarly, in the Green Paper exercise the Commission initiated a wider debate on the future of ACP development policies, presenting and discussing its own internal reflections (see Box).

Notwithstanding its efforts, the Commission has been unable to persuade policy-makers of the need to adopt a strategic role for EC aid and to recognise the Commission's constraints. There appears to be scope for improved coordination between the Commission and the Council in the policy formulation process.

The Green Paper on future EC-ACP relations - opening up the policy debate

In November 1995, at the signing ceremony of Lomé IV bis, the Commissioner announced that a Green Paper on the future of EC-ACP relations would be prepared by the end of 1996, and would serve as a basis for debate on the reform of development cooperation.

In the following 12 months, the Commission 'Reflection Group' engaged in a consultation process. The group was composed of high officials from DG VIII headquarters, two heads of delegations from Africa, and a member of the Forwards Studies Unit (attached to the President of the Commission). The group organised a conference (January 1996 in Brussels) and two seminars (February 1996 in Maastricht, and April 1996 in Abidjan), and it commissioned a number of expert papers.

After publication of the paper, a year-long consultation with a wide variety of interested parties took place, both in the fifteen MS, and in the three ACP regions. A conference in September 1997 concluded the consultations, following which the Commission presented a communication to the Council outlining more specific guidelines for the upcoming EC-ACP negotiations.

The Green Paper exercise was the first time that the Commission had attempted such a wide-ranging consultation on development cooperation policy. Many welcomed the initiative, the impetus that it gave to the debate on the future of Lomé, and the responses that it drew. Both the European Parliament and the Economic and Social Committee presented reports on the Green Paper. Many MS provided comments on the documents, and a number of external groups, including academics and NGOs, contributed to the discussion. Private sector and civil society groups in the ACP countries were particularly positive about the extension of the policy debate beyond the confines of government. However, discussions also revealed the different level of capacity between the preparations in the Commission and in the ACP countries for the negotiation of the post-Lomé Convention.

Policy dialogue with ACP governments

Indicative programming

Progress has been gradually achieved in transforming *indicative programming* from an *ad hoc* collection of projects (EDF 1 and EDF 2) into a more effective instrument for planning and dialogue. In particular, the most recent Indicative Programming exercise (EDF 8) has benefited from the new *Strategy Papers* prepared by the Commission, which are significantly more analytical than the previous Pre-Programming documents (EDF 7). The Strategy Papers often note programme constraints and interventions by other donors, and in some cases even include lessons learnt from previous evaluations. However, the Strategy Papers in some cases still continue to underestimate programme risks. The Strategy Papers have been subject to consultation with Member States. Although the degree of consultation is considered adequate, it varies between countries and between sectors. Strategy Papers are internal Community documents and are not normally shared with ACP countries.

Similarly, some of the weaknesses of previous *National Indicative Programmes* have been addressed in the most recent ones (EDF 8). The latest NIP also benefited from increased consultation with ACP governments and Member States (both in-country and through the EDF Committee). In some cases, there has been extensive consultation with ACP governments, including, for example, discussion on specific conditionalities on institutional reform, e.g. in the transport sector in the Cameroun NIP. In general, the quality of consultation (with ACP governments and Member States) has been lower in the countries and sectors where ACP government capacity is low.

While the Commission still has the strongest role in the choice of focal sectors, in some cases ACP governments' pressure to maintain and even increase the areas for EC intervention has contributed to insufficient concentration of EC interventions and insufficient selectivity in the

choice of focal sectors (for example, note the inclusion of the education sector in Zimbabwe and Tanzania). In addition, the fact that donor programming exercises are carried out for each donor independently, and are not linked to governments' budgetary processes, means that they overload rather than strengthen government capacity.⁸³ Insufficient integration into ACP governments' medium-term expenditure frameworks (which in any case do not always exist) means that sectoral choices are probably not optimal.

Overall economic dialogue

Through the Structural Adjustment Facility the Commission has supported the policy dialogue between the Bretton Woods Institutions and ACP governments. At Headquarters level, the strategy has been to support the BWI country programmes, while using international forums effectively (such as the Special Programme for Africa) to support the social dimensions of adjustment, local ownership of reforms, and improvements in ACP budgetary institutions. However, staffing constraints have limited headquarters' support to delegations in the preparation and implementation of Structural Adjustment Support Programmes (SASPs).

The Commission's in-country involvement in the overall policy dialogue on structural reforms and its participation in public expenditure reviews have often been limited by staffing constraints in delegations, by the degree of government ownership of the reform programme, and by over-detailed earmarking of counterpart funds. The success of the SASP in supporting improvements in the budgetary process in education and health has been limited so far, usually because of poor fiscal performance and insufficient co-ordination with other donors and with the civil service reform programme. However, it appears that some initial progress has been achieved in strengthening institutions in both Côte d'Ivoire and Cameroun.

While the Commission has recognised from the beginning the need for ownership and a more selective conditionality approach, it has had some difficulties in implementing this approach in the field.⁸⁴ The Commission was often recognised by ACP governments, on our country visits, as more willing to 'listen' than other donors. However, even in the case of the Commission, the conditionality approach has often led to too many conditionalities and too much micro-management (although less than the BWI). A more general constraint on the Commission's overall policy dialogue has been the mixed results of the BWI reform programmes in the countries that we visited.

Nevertheless, the Commission's involvement in overall policy dialogue through structural adjustment operations is facilitating its transition to being a policy-based donor. More effective work in this important area requires strengthening of the macroeconomic capacity in DGVIII.⁸⁵ The close monitoring of macroeconomic conditions and of general structural reforms, and participation in public expenditure reviews, are essential to support sectoral policy dialogue and the effective implementation of SASPs.

The Commission has been active in sectoral policy dialogue in many countries, in spite of the many constraints on its work. The Commission was often found to be effective, although results varied widely. It has also been active in international forums in identifying ways to improve the implementation of sector-wide approaches. The shift from a project to a sector approach requires special caution. Weak civil services, and the difficulties of donor coordination, constrain both project and sector approaches (e.g. in the education sector in Tanzania).

⁸³ EC programming is based on a 5-year cycle.

⁸⁴ Case Studies Synthesis, pp. 37-41

⁸⁵ This does not imply any duplication of the specialised work of the BWI in this area.

However, in some cases sectoral policy dialogue is facilitating more effective ways of managing aid, of strengthening government institutions and policies, and of improving donor coordination. Effective sectoral policy dialogue was found to depend on factors such as delegations' staffing and sectoral expertise and the capacity of ACP governments. In the health sector in Côte d'Ivoire, for example, the EC successfully assisted the Government in developing a financially viable system of public medicine supply and distribution. Strong capacity, a clear and selective strategy and strong co-ordination were among the key factors for its success. A case study of successful policy dialogue in the agriculture sector in Zimbabwe is given in the Box.

Preparation of the ASMP in Zimbabwe: a case study of policy dialogue

The Economic Structural Adjustment Programme, signed in 1991, contained elements for the reform of the agriculture sector. Recognising the need to articulate an appropriate sector policy linked to the macroeconomic reform process, in 1994 the Government set about preparing an agricultural policy framework, which was approved by the Cabinet in 1996.

The Agricultural Services and Management Project (ASMP) was then proposed, 'to put in place improved institutional arrangements and operational capacity for policy formulation and for the sustainable and efficient management, financing, and delivery of agricultural services in Zimbabwe'.

Although there was agreement between the Government and donors on the main objectives of the ASMP, during the joint pre-appraisal mission of May 1997 (World Bank, EC and DFID) differences emerged on how best to pursue the project objectives.

In particular, the Ministry of Agriculture was concerned about insufficient donor recognition of the 'change process' within the Ministry. This process began in 1991 with the introduction of a Management Institutional Performance Programme, funded by Germany and co-ordinated by a resident adviser. The Ministry's comments on the mission Aide-Memoire were that it 'appears to reflect the World Bank standard project procedures and ignores those of other donors...'. Further, it 'seems to be advocating for the traditional project approach rather than the process approach' and it 'lacks the concept of ownership and negatively reflects the issue that the Government should become the owners, but rather depicts a donor driven thrust.'

This reaction could be attributed to problems on both sides. Donors had included some interventions that were new to some of the Ministry's departments, while some officials in the Ministry believed that the project focus should be on 'strengthening' (i.e. reversing the recent decline in Ministry resources) rather than 'reforming and rationalising'.

Further friction was caused by capacity constraints within the Ministry, which delayed the preparation of various documents. The Ministry wanted the ownership of the project and this meant that it was going to produce documents at its own speed (which didn't necessarily fit donors' timetables).

Closer co-ordination was achieved during the appraisal stage, particularly on the management structure for the project. Instead of adopting a parallel management unit, the Ministry suggested allowing the existing management structure of the Ministry to manage the project. The Ministry, which is quite sceptical about Technical Assistance, will also screen TA carefully through special 'Change Project Teams'.

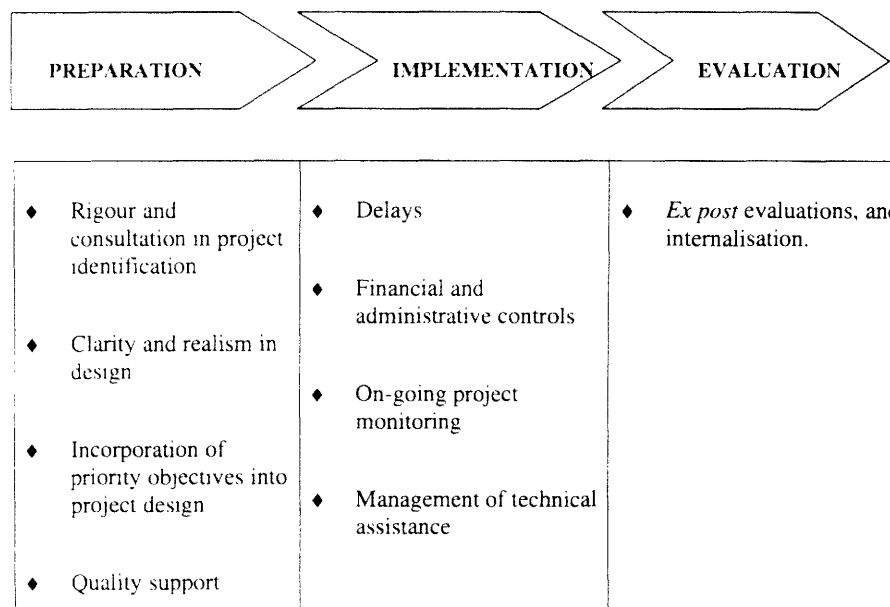
Some frictions resurfaced during the appraisal mission workshop (November 1997). There were disagreements over the content of the project log-frame. At some point, Government participants were close to abandoning the workshop altogether. Interviews with participants at the workshop suggest that the Government believed that both the World Bank and DFID were perceived as too interested in achieving their own goals. According to our interviews, the EC was perceived by the Government and some other donors as being a more neutral player. In this context, the EC was able to play a facilitating role between donors and the Government. Only after the workshop co-ordinator had mediated the discussions did donors make some concessions to the Government's position. The Government's negotiation position was very firm. The ASMP would only happen if the Government was in the driver's seat.

Source: Zimbabwe Case Study pp. 21-22

Management of programmes and projects

The introduction of Project Cycle Management in 1993 has contributed to improvements in the process of project implementation. However, some issues affecting project cycle management, which also affect many other donors, are still of concern.⁸⁶

Main issues affecting EC aid management



Project preparation

Some improvements in quality have resulted from the introduction of Project Cycle Management in 1993, which now guides the preparation of financing proposals. Its impact on aid implementation was noticeable in our country studies. Recently, lessons from experience have also been better incorporated into the design of several new projects. However, a number of issues are still of concern:

- In many cases, there has been *insufficient rigour and consultation in project identification*. Identification, in the view of the evaluators, is one of the weakest points in the preparation of EC aid. Continuity with the past seems to have been a decisive factor in many instances reviewed in the country visits. Projects were often identified by the Commission, consultants or other donors. Consultation with ACP governments and beneficiaries and sector dialogue are often limited by staffing constraints in delegations and by excessive reliance on consultants who are not sufficiently supervised. However, there has been greater participation of beneficiaries in EC Micro-projects and NGO co-financing.
- There has often been *insufficient clarity and realism in design*. Project design should correspond to the managerial and technical capacity of recipients and proposed projects should be 'affordable'. In our case studies, we found that unrealistic assumptions,

⁸⁶

More details are available in the Case Studies Synthesis pp. 68-77

especially in terms of sustainability and government commitment, were common, particularly in structural adjustment and transport.⁸⁷ We found this problem to be common for other donors (see Case Studies Synthesis).

- *Priority objectives remain difficult to incorporate into project design.* Some of the reasons for this are: shortages of specialist staff, difficulties of 'mainstreaming' approaches, disbursement pressures, and heavy workloads on the staff who would need to adopt the new approaches. However, in the health sector, good results have been achieved through efficient networking between policy staff in DGVIII, geographical desks, delegations, and field-based technical assistance.
- Some of these problems are in part attributable to *insufficient quality support and peer review*. Until recently, the EDF Committee was the only forum for quality support. While it has had some impact in a screening role, its role in quality control has been limited by its limited technical capacity, by its fragmentation, and by the fact that it intervenes only at the end of the project preparation stage. Member States' representatives have little influence on project design. It has therefore in the past been possible for interventions to be processed without adequate scrutiny either within the Commission (e.g. by policy units) or outside it. Being the target audience for the advocacy that is found in financing proposals, the EDF Committee may even have a negative impact on the quality of project preparation 'as risks may be minimised and benefits exaggerated to facilitate the passage of the project through the committee'.⁸⁸

The system of quality support has recently been reinforced through the creation of an internal *Quality Support Group*, whose mandate was adopted in February 1997. Early indications on the work of the QSG are promising, but it is as yet too early to judge its full impact. It will probably require both more support from policy advisers in headquarters and delegations and more resources, to allow it to focus on the initial stages of project design, identifying the key issues to be addressed.⁸⁹

Project implementation

Overall, EC aid implementation has been characterised by: delays, extensive and inefficient financial and administrative controls, weak monitoring of on-going projects, and frequent problems with technical assistance.

Delays in processing projects and in procuring goods and TA are one of the most visible examples of inefficiency in EC aid, particularly in programme aid and rural development.⁹⁰ However, evaluations have found that large works have been implemented efficiently (even when compared with some other donors). The same applies for locally managed micro-projects. In a sample of projects in our sectors of analysis in Zimbabwe and Tanzania, we found delays in project preparation, although project implementation delays were within the reference limits set in the 1992 Post-Fiji study.⁹¹ This may indicate that delays have not been growing longer.

The extensive nature of ex ante administrative and financial controls has contributed to these delays. The controls are a result both of Community arrangements and of requirements from Member States, together with the 'visa' culture within the Commission. These financial and

⁸⁷ Case Studies Synthesis p. 71

⁸⁸ *Project Monitoring and the Use of Indicators*. ITAD, 1996, p. 21

⁸⁹ Initial steps in this direction are currently being taken. The QSG examines project identification sheets for 10-15 minutes each.

⁹⁰ Desk Study, p. 50.

⁹¹ Price Waterhouse, *Study of the causes of delay in the implementation of financial and technical cooperation*, 1992.

administrative controls are extremely time-consuming and inefficient. They are carried out without selectivity and impose high costs, particularly on delegations. In a sample of four countries which we visited, 60% of procurement decisions under EDF 6-7 accounted for only 5% of expenditures,⁹² the effect being that delegations spend considerable time processing payment orders.⁹³ Furthermore, in Delegations these controls are carried out by advisers who often do not have the necessary financial expertise. In some sectors over-stretched staff verify every expenditure, while in other sectors (such as structural adjustment) there is no systematic use of *ex post* financial audits in some countries. This approach diffuses accountability and diminishes ACP governments' responsibility for financial management. Substantial time would be saved by a move towards more selective *ex ante* controls and more systematic use of *ex post* financial audits. We found some good examples of more selective financial controls in the Road Maintenance Programmes in Tanzania and Liberia.

Weak monitoring. Monitoring of on-going projects has generally been weak, as illustrated in the Box by the case of SASP counterpart funds in Tanzania.⁹⁴ While the results of evaluations of completed projects are starting to be fed into the design of new ones, only a few on-going projects have been flexible enough to adapt their design to changing circumstances (e.g. Stabex projects in Tanzania and Micro-projects in Zimbabwe⁹⁵). This weakness is in part due to: (a) the sharing of monitoring responsibilities between ACP governments and delegations; (b) the focus on financial management of projects rather than on overall performance; and (c) the lack of a standardised monitoring system.

Monitoring SASP counterpart funds in Tanzania

Since July 1992, the EC has provided Tanzania with three SASPs, totalling 120 million ECU. The SASPs are intended to support the overall reform programme as well as the accessibility and quality of health and education services. This was to be achieved through counterpart fund support to the Government budget and through the support given to sectoral budgetary improvements. The SASPs were to provide counterpart funds to the non-wage recurrent budget of the health and education sector, and SASP conditionality was linked to both the ESAF and the social sectors. However, during implementation this budgetary approach proved difficult to follow.

SASPs represent almost 40% of the EC's total commitments to Tanzania under EDF 6 and EDF 7. It is the largest EDF financed operation. However, insufficient manpower in the Delegation and support from Headquarters limited economic monitoring and policy dialogue with the Government on reforms in the social sectors (including budgeting).

A Programme Support Unit, supporting the NAO and the administration of EDF-funded interventions, was in charge of the monitoring of counterpart funds. However, it has faced difficulties in carrying out its functions adequately. As a unit staffed with consultants working exclusively in EC programmes, its communication with Government departments has sometimes been insufficient. Its weakness in accounting and financial controls may have affected the monitoring of some EDF projects, particularly the management of counterpart funds. In the case of the SASP, implementation and monitoring arrangements were weak. Neither the Government nor the Commission had the manpower to monitor such an ambitious programme effectively.

Problems with technical assistance. The high administrative demands of EC aid have often resulted in excessive reliance on technical assistance (TA). The most common problem in the implementation of TA programmes is the dual role of many TA (supporting both ACP governments and delegations) and the weak monitoring and management of these

⁹² Out of 1,800 procurement decisions under EDF 6 and 7 in four ACP countries analysed during the field phase, less than 40% (those above ecu 100,000) accounted for 95% of the total amount of ecu involved.

⁹³ We estimated up to 2 person-years (estimate based on two of the country case studies in the field phase).

⁹⁴ 'Basic monitoring of the physical progress of projects within DGVIII remains rudimentary.' ITAD, 1996, *op. cit.*, p. 35

⁹⁵ Case Studies Synthesis p. 75

programmes. The effective use of TA requires both careful design (to ensure government ownership) and management capacities in ACP government and delegations. On the government's side, the constraints on its management capacity, as well as the fact that TA is in many cases perceived as an additional conditionality of an aid package, contribute to weak supervision (e.g. the TA programme in the Tanzanian SASP⁹⁶).

While TA (financed by the EDF) is nominally provided to support the government, in many cases, because of delegation staffing constraints, the TA supports central Commission functions. Dual responsibility can often compromise the contribution of the TA to strengthening the institutions of ACP governments. It has sometimes created problems of accountability, with the TA representing both governments and donors. It can also have a large impact on both project preparation and implementation (see Box). The Green Paper noted that 'the EC has tended to rely excessively on TA consultants to determine the procedures for the implementation of its aid operations.'⁹⁷

The role of consultants in the preparation of a project in Zimbabwe

The project was identified in 1991 by the consulting company that was implementing its predecessor. The process started with the preparation of a draft financing proposal by the consultant, with limited input from Government or the delegation.

The proposal, both in its draft as well as in its final form, did not include cost-benefit analysis nor detailed implementation arrangements.

The consulting company designed and negotiated the project with the EC delegation. The project (10.2 Mecu) included a TA project of over 7 Mecu. The project was supply-driven at a time when best practice in the sector was already pointing to the advantages of demand-driven approaches. The project files contain very limited evidence of consultations with the Government.

The consulting team advised the delegation on the type of contract to use and prepared the project budget. It then took part in the tender for the contract and eventually won it.

Evaluation, transparency and accountability

In all the countries we visited, we found evidence of the Commission's thorough work carrying out *ex post* evaluations of its projects in ACP countries. While the quality of evaluations is mixed according to the first user survey in the Commission,⁹⁸ the design of some new projects is beginning to benefit from the lessons learned. However, the limited in-house staff of the evaluation function⁹⁹ may have limited the organisational learning of the Commission and the strength of this function. Given the resources available to the evaluation function, there is a need to concentrate resources on key evaluations and to ensure that the main lessons are implemented. Joint evaluations with other donors are still infrequent.

Finally, it is important to note that the recent placing of the merged Relex evaluation unit within the new implementation service (Common Service) raises concerns over its independence and impartiality.¹⁰⁰

⁹⁶ Case Studies Synthesis p. 76

⁹⁷ Green Paper. *op. cit.*, p. 7

⁹⁸ DAC *Review of the Development Co-operation Policies and Programme of the European Community*, OECD/DAC, 1998, draft, p. 32. We commend the participation of DG VIII in the independent DAC survey of users.

⁹⁹ Most evaluations are carried out by external consultants.

¹⁰⁰ See also Summary and Conclusions of the 1998 DAC Review of EC aid, available on the OECD website.

Disseminating information

Information on EC programmes towards ACP countries is still very difficult to obtain. This is in part because of the fragmentation of the EC aid programme and the complexity of the operations with ACP countries (EDF and budget lines). The Courier is the main publication from DGVIII and is distributed to 80,000 people. The inventory of EC aid policies and programmes (mandated by the Council of Ministers) may contribute to the understanding of EC aid.¹⁰¹ However, while DGVIII has the most developed public information service for development cooperation within the Commission, most of the information that the Publication and Information Service (PIS) provides to the public is descriptive.

Delegation annual reports could be made more systematic and could be made available to wider audiences. DGVIII's website should also be used more effectively to include more information on the aid programme to ACP countries (see for example information on the web sites of the BWI). The recent dissemination of evaluation summaries through DGVIII's website is an important step towards greater transparency. However, key evaluation reports should also be disseminated more widely.

3.2 What explains the Commission's performance?

The Commission has been focused not on achieving results – on reducing poverty – but on administrative procedures and levels of disbursement. While this in part reflects constraints imposed on the Commission, it also reflects limitations within the Commission. The positive results of many EC aid interventions are explained by the hard work of its staff, particularly in delegations, and often by the quality of the partnership with ACP policy-makers and technical staff.

The Commission has not been given clear objectives or sufficient operational flexibility, while EC aid results have not been adequately monitored by policy-makers. The development policy formulation system (which includes both Lomé and the policy formulation within the EC) strongly constrains the Commission's actions. The Lomé Convention provides too many objectives and instruments, and specifies complex procedures, including co-management with many governments with weak capacity. The EC policy formulation system has expanded the policy agenda and the number of instruments, while introducing extensive and time-consuming administrative and financial controls, and providing for limited budgetary and staffing flexibility. All of this has constrained the operational flexibility of the Commission. The policy formulation process does not include an effective system for monitoring EC aid results.

The limitations within the Commission reflect these constraints and its history as an organisation which initially focused on projects and administration and which has grown rapidly, spreading its resources too thinly. The Commission's transition to being a policy-based donor is difficult. It requires an organisation that is results-oriented, knowledge-based, and self-critical. The limitations within the Commission are a fragmented structure with weak accountability, inadequate systems and procedures, over-stretched capacity, and weak learning from performance.

¹⁰¹ *Understanding European Community Aid*, ODI/EC, 1997.

Constraints imposed on the Commission

Too many objectives and instruments

As discussed in chapter 1, the Lomé Convention and the 'internal' EC policy formulation process have given rise to an expanding policy agenda for EC aid and, going hand in hand with that, an expanding number of aid instruments. In spite of the momentum given by the Maastricht Treaty, there is no overall statement of development policy, and the policy formulation process has not been guided by a sufficiently clear sense of direction.

This is explained by the complexity and fragmentation of the development policy formulation process within the EC. Much of the complexity is unavoidable and even desirable, arising from the large number of actors and institutions involved. However, there are some specific complications. There is weak coordination between the main actors in this process. There are weak links between the EDF Committee, the Council of Ministers, the ACP-Fin and other Council working groups, and the development and budgetary committees of the European Parliament. The role of the EDF Committee in enhancing coordination has not been realised. In addition, each Member State has its own particular policy emphasis, and even within a Member State there may be weak coordination, for instance between finance and development ministries. Member States are involved at all stages of the policy formulation process, but their level of representation and their degree of involvement are variable. What is more, the environment is one in which, at the moment, development policies towards ACP countries do not constitute one of the key priorities for the Community.

The expanding policy agenda has not been sufficiently realistic, either with regard to the Commission's constraints or with regard to implementation realities in the field. There is a mismatch between an expanding policy agenda and the Commission's capacity to implement this agenda. The Commission is limited in terms of human resources, finances, and organisational limitations. The policy agenda has expanded in both scope and detail, but the Commission's capacities and resources have not kept pace.

The complexity of EC aid instruments has also had a negative impact on all stages of the project cycle. Even when a country team makes a special effort to coordinate the use of these instruments (e.g. SASP and NIP in the health sector in Côte d'Ivoire), the fragmentation of instruments introduces different procedures and inefficiencies. The creation of a multiplicity of special budget lines, by the European Parliament, also introduces further complexities in the EC aid system, as each of them is small and difficult to manage. This was a concern expressed by many of the delegation staff during the country visits.¹⁰²

The Commission's work would benefit from a strategic reduction in the number of aid instruments and areas of concentration, allowing it to focus more pragmatically on its strengths and relative advantages.

Insufficient operational flexibility

The Commission's operational flexibility has been constrained. Administrative burdens have limited its ability to focus its efforts where they have been most needed. Constraints on the use of financial and human resources have limited its ability to respond flexibly to changing needs or to adopt a more results-oriented approach. Consultation with the EDF Committee on projects takes considerable time without achieving close technical scrutiny, and contributes to the centralisation of decision-making.

¹⁰²

On the difficulties of managing budget lines, see also ERM, 1997, *op. cit.* On the incentive to commit budget line funds too quickly, see 1998 DAC Review of EC Aid, draft, p. 44

Because of EC financial arrangements and requirements from Member States (particularly the provisions of the Financial Regulation applicable to the Convention), *ex ante* financial controls are applied without selectivity, placing a *heavy administrative burden* on delegations

The Commission's work, both at headquarters and in the field, is affected by *limitations on its financial resources*. In many cases we found in our case studies that delegations' operational budgets were affecting the efficiency of aid implementation. One possible solution is to increase the Commission's resources. Another is to increase the flexibility with which the Commission can use its financial resources. The Commission has up to now had limited operational flexibility. If it is to be results-oriented, the Commission needs to be given the flexibility to reallocate financial resources both between projects and between units. Matrix organisational structures, like the one recently introduced within DG VIII, are based on this premise.

Staffing constraints have also been a major limitation within DGVIII. While DGVIII grew considerably up to 1994, there have been constraints since then as a consequence of pressures from the European Parliament and other Directorate Generals and the priority given to Eastern Europe. The number of advisers in Delegations has been reduced. This is in a context where demands on staff resources may be higher than for other aid organisations as a result of the EC policy formulation cycle, the co-management of aid, and the role of DGVIII in coordinating with the bilateral agencies of Member States. However, it is hard to assess what the optimal level of professional staff should be, since perceptions of shortages are affected by both external constraints and organisational limitations.

The Commission's ability to respond to staffing shortages has also been constrained by *limited flexibility in recruitment policy*. DGVIII cannot independently recruit professional staff – recruitment is carried out on a Commission-wide basis. In fact, there has been no competitive recruitment at all for the last five years.¹⁰³ The Commission has therefore had to use consultants¹⁰⁴ and seconded experts to fill gaps, making its skill acquisition only temporary. Flexibility is also constrained by compensation being based on seniority.

Co-management with weak ACP capacity

While the co-management established in the Lomé Convention in principle hands over to ACP governments most of the tasks involved in aid management, in practice, as a result of the weak capacity of some ACP governments, the Commission has had to carry out many of these. Co-management is highly dependent on the capacity of both partners, and in practice often implies the duplication of functions and the dilution of responsibilities and accountability. As shown in the Table below,¹⁰⁵ in the sample of countries visited during the field phase of this evaluation the Commission has been involved in many of the functions assigned by the Lomé Convention to its ACP partners. It is therefore very difficult to determine accountability for actions taken at most of the stages described in the Table.

With the benefit of hindsight, it is now recognised by both the Commission and most ACP countries that co-management of EC aid has diminished the effectiveness of its implementation.¹⁰⁶ The Green Paper also notes that 'Joint management as practised hitherto with Lomé has revealed its limitations. It has hampered the effective management of

¹⁰³ A competitive recruitment for the entire Commission is presently under way.

¹⁰⁴ Moreover, the EDF place restrictions on the use of consultants by the Commission.

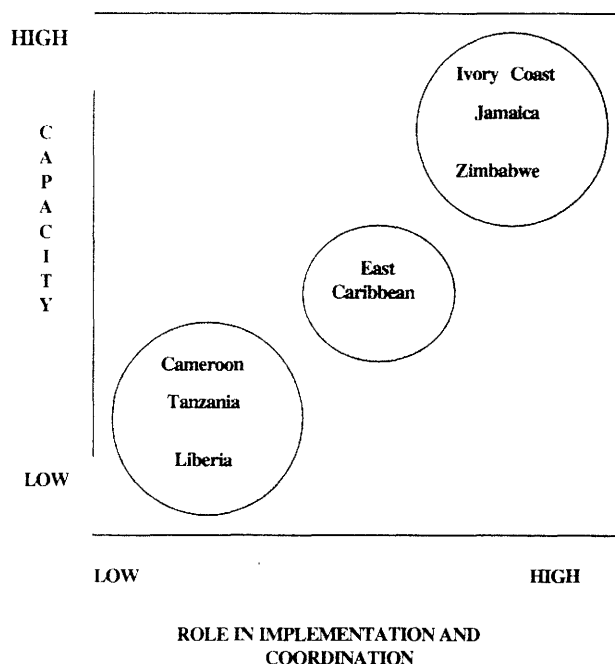
¹⁰⁵ Whenever we found a situation substantially in line with the provisions of the Convention, we wrote 'Real = Lomé', while any discrepancy has been shaded, with what we observed on the ground marked as 'real' and what the Convention envisages marked as 'Lomé'.

¹⁰⁶ See for example ECDPM, *Beyond Lomé IV: Exploring Options for Future ACP-EU Cooperation*, 1996 and Price Waterhouse, 1992, *op. cit.*

disbursements and has discouraged the internalisation of reforms or development programmes by their beneficiaries'.¹⁰⁷

In practice, the institutional arrangements for EC aid vary from country to country. The capacity of ACP governments has determined the ways in which EC projects have been designed and implemented, and this in turn has affected the EC's contribution to the process of institution-building. Institutional arrangements vary at three levels: in the co-ordination of EC aid with aid from other donors; in the overall management of EC aid; and in the management structures for EC projects/programmes. In the countries we visited during the field phase of the evaluation, we found two institutional models for EC aid, as shown in the Figure.¹⁰⁸

Aid management structures and capacity in six countries and one region



The first model comprises countries whose governments have relatively greater capacity (Côte d'Ivoire, Zimbabwe and Jamaica). In such cases, the Commission has been able to rely more on the ACP government. The office of the National Authorising Officer has been well integrated in a particular ministry (usually the Ministry of Finance) and has been staffed with civil servants, the EC's procurement and disbursement procedures have been consistent with the Government's, projects have been managed by line Ministries or by units mostly staffed with civil servants, and donor coordination has been in the Government's hands.

The second model (Tanzania and Cameroun), where government capacity is weaker, is characterised by a detached NAO office staffed mainly with consultants, donor coordination more centred around the donors themselves, and a proliferation of parallel management structures.

Co-management can be problematic in both models. In ACP countries with well-functioning governments and sufficient capacity, it can be resented as 'paternalism'. In countries with poor governance or administrative capacities, it leads to most tasks being carried out by the Commission. This may both strain the capacity of the Commission, and weaken further the capacity of ACP governments (see chapter 2).

¹⁰⁷ Green Paper, *op. cit.*, p. XIII

¹⁰⁸ The East Caribbean is in between the two models, as projects and programmes are identified and prepared by a regional structure (CARIFORUM) but implemented by national ones. Its Regional Authorising Office is separate, not because governments lack capacity to manage EC aid but because of its regional nature. Liberia is another exception because it refers to an emergency situation where a consultant-staffed unit, the Aid Co-ordination Office (ACO), linked directly with Headquarters.

Main roles and responsibilities under Lomé IV bis

Stage	EC Only	Joint			ACP Only
		EC Leads	EC-ACP	ACP Leads	
A. PROGRAMMING					
1. Indication of the total indicative programming allocation (Art. 281.1)	Real =Lomé				
2. Prepare draft NIP (Art. 281.2)		Real			Lomé
3. Exchange views on draft NIP (Art. 282.1)			Real=Lomé		
4. Adoption of NIP (Art. 284.2)			Real =Lomé		
5. Report on Implementation of NIP (Art. 284.3)			Real =Lomé		
B. PROJECT PREPARATION					
1. Identification & preparation of projects and programmes (Art. 285)		Real			Lomé
2. Appraisal of projects and programmes (287)		Real	Lomé		
3. Preparation of financing proposals (288.1)		Real =Lomé			
4. Adoption or rejection of financing proposals (288.4)		Real =Lomé			
5. Drafting of financing agreements (291)		Real	Lomé		
6. Signing of financing agreements (291)			Real =Lomé		
C. PROJECT IMPLEMENTATION					
1. Prepare invitations to tender (313.1.c)			Real	Lomé	
2. Approve invitation to tender (317.d and e)	Real =Lomé				
3. Issue invitations to tender (313.1.b)				Real =Lomé	
4. Open tenders				Real =Lomé	
5. Evaluate tenders and select contractor				Real =Lomé	
6. Sign contracts and orders				Real =Lomé	
7. Approve delegated appropriation		Real	Lomé		
8. Payments (319.4)		Real	Lomé		
9. Monitoring and evaluation (320 & 321)		Real	Lomé		

Limitations within the Commission

Fragmented structure and weak accountability

The managerial structure within which DGVIII operated until recently was highly compartmentalised, with 7 directorates and 49 units. The fragmented structure has resulted in responsibility for particular policy areas being divided between different units, and in policy and operational units being unduly separated. This fragmentation has resulted in a 'culture' of weak team-work. Coordination between directorates and between the technical units in the Geographical Directorates has varied considerably, often depending on personal initiative. In some areas, such as health, coordination has been close and effective, while for thematic policies (governance, gender, poverty and environment) it has been more difficult. Team-work and professional networks have not been common in the Commission.

One important consequence of the fragmentation of responsibilities (combined with some duplication of functions with ACP governments) has been limited accountability for results.

Where responsibilities are divided, it is hard to link results to units or individuals, and it is therefore difficult to reward good performers.

On-going initiatives

The weaknesses of the present structure have been recognised within DGVIII. The recent *reorganisation* is intended to address these weaknesses. The reorganisation of DGVIII merges together the Development Policy and Sectoral Implementation directorates, and the technical units in the Geographical Directorates. The new DG VIII is organised in 12 geographical units and 9 thematic units, each with a clear mission statement and permanent tasks to undertake. The reorganisation will also be accompanied by the introduction of a task-oriented approach, team work and the creation of flexible, thematic teams providing both policy and programming support to the geographical units. Using the NIP and the newly introduced annual country reviews,¹⁰⁹ the geographical units and the delegations will establish the priorities for each country and identify specific tasks to be carried out.¹¹⁰ Each geographical unit, to which resources in terms of person-months and administrative credits will be allocated, will then assemble a team for each task/ group of tasks and agree with it on a work programme and budget. Each team will then have the authority to make most decisions on matters included in the work programme.

This reorganisation is accompanied by the creation of the Common Service (*Service Commun Relex*), responsible for implementation after completion of financing agreements. While the merging of implementation units in the RELEX services is clearly a positive step, there is a risk that the Common Service will reinforce the fragmentation between policy and operations in development cooperation with ACP countries. This is particularly significant at a time when Community aid is increasingly concerned with supporting policy reforms in ACP countries. The problem will be reduced if the RELEX directorates are merged as soon as possible with the Common Service. In the meantime, strong and close team work between DGVIII, the Common Service and delegations is particularly important.

The introduction of results-oriented aid management would require a stronger incentive system, in which clearly-defined staff responsibilities are linked to measurable performance objectives, and in which performance is linked to pay and career development (see end of Chapter).

Inadequate procedures, and over-stretched capacity

Systems and procedures

Internal systems and procedures within DGVIII are inadequate.¹¹¹ While the organisation has become increasingly complex, it has continued to rely on limited and unsystematic information flows.¹¹² Staff responsibilities are not clearly defined, and individual staff operate with insufficient job descriptions and terms of reference. Mission statements for units and departments have not been completed. There are a number of manuals available, but their contents have not always been adequately transformed into working procedures. The last full revision of the Manual of Instructions occurred in 1988. The lack of an up-to-date operations manual may have made it more difficult for staff to work within a single, clear framework. Some other manuals have been introduced with limited training.

¹⁰⁹ Annual Country Reviews will introduce more flexibility in programming, as they will allow lessons learnt in a given year to be incorporated in revised plans.

¹¹⁰ E.g. preparation of country strategies, processing of financing proposals, preparation of draft Communications, negotiation of trade agreements, management of crises.

¹¹¹ However, changes are being introduced as part of the reorganisation of DGVIII.

¹¹² See ITAD, 1996, *op. cit.*

These factors combine to lead to wide variations in the role of staff, unclear definition of responsibilities, *ad hoc* decision making, and unsystematic information flows.

A significant success was achieved through the introduction of the Project Cycle Management Manual, which was accompanied by an effective training programme and which now guides the preparation of financing proposals. Its impact on aid implementation was noticeable in our country studies.

The Commission is characterised by a 'visa' culture, with overly *complex and inefficient administrative and financial controls*. This has contributed to a focus on processes and inputs, rather than results and the monitoring of performance. While financial probity is crucial, the Commission has not been able, as yet, to simplify administrative and financial controls by using *ex ante* controls selectively while relying systematically on *ex post* financial audits of all projects. We found that a move in the direction of more selectivity in the use of financial controls is essential for the better management of EC aid. However, such a move would require the support of the Member States (see discussion above).

There is *little demand for quality support or peer review systems* because of the focus on procedures. DGVIII staff need a quality support system that is not based on a series of 'visas' but that rather guides them using mentoring and peer reviews. The recent introduction of the Quality Support Group is a step in the right direction. It should be given both more resources, particularly for quality support at the identification stage, and more access to information from the field. More peer reviews should also be encouraged.

Budget resources and deconcentration

Budget resources often appear inadequate, and have not been allocated in an optimal way. There have been insufficient resources for a number of activities: quality support, specialist skills, measuring of performance, and particularly the work of delegations. There has also been insufficient flexibility in the budgeting of financial resources across departments and units.¹¹³ To do this, the way budgets are prepared would need to be reformed and would need to start from country strategies rather than from the work plans of the various units.

Delegations, in particular, have been affected by insufficiently defined responsibilities and decision-making authority, and by limited budget resources. The decision-making authority of delegations has been very limited. The concentration of authority at headquarters has meant that in many cases the staff who have the most direct information on developments in the field – usually in delegations – have had very little input into the decision-making process. The capacity of delegations varies significantly from country to country. In recent years, the number of delegation advisers in ACP countries has been reduced. In our country visits, we found some delegations to be relatively understaffed, particularly in key specialist areas. Some delegations also suffer from protracted vacancies, frequent turnover of staff and a mismatch between the skills of staff and their project portfolio. Understaffing is particularly noticeable in the areas of poverty reduction and other priority objectives. In addition, the Commission frequently allocates insufficient manpower resources for project preparation where other donors would normally require a larger project preparation team. Delegations receive limited technical back-up from headquarters and have weak networks connecting them with other delegations.

Due to insufficient resources, the Commission frequently recruits consultants to work on project preparation, paid using EDF resources. This weakens the Commission's ability to learn from experience and often leads to the importance of local conditions being understated.

¹¹³

This is in part because of external constraints described above.

Specialist skills and training

There is a clear shortage of in-house *specialist skills*. The deployment of specialist staff within DGVIII reflects the traditional emphasis on project implementation in infrastructure and agriculture. There are relatively few specialist staff in institutional development or in the areas of poverty, gender or the environment, despite the increasing emphasis given to these areas in the EC aid programme. The shortage of such staff in delegations in part explains the difficulties of following through policy initiatives at the field level. In theory such skills could be either recruited externally or developed internally.

Skills are sometimes already available within the Commission but not allocated strategically. For example, the staff in delegations who are required to monitor the financial management of projects do not usually have finance or accounting skills, while the delegations' Administrative Attachés, who do have such skills, monitor only the delegations' operating budgets.¹¹⁴ Economists are used to monitor payment orders instead of focusing on monitoring policy implementation or engaging in policy dialogue.

At the same time, there has been inadequate investment in *professional development and training* due to budget limitations. There is no requirement for training as part of career development. There is also very limited training for staff going to delegations.

Learning from performance

Monitoring performance

The introduction of Project Cycle Management has improved monitoring, but the lack of a standardised system¹¹⁵ to summarise the indicators from various logical frameworks using a common format has made comparing performance among projects practically impossible. There has been little demand within the Commission for monitoring of results. The Commission continues to focus on processes and inputs rather than outputs and results, on *ex ante* financial controls but not on the monitoring of performance.

Performance of staff has not been adequately measured. Time sheets have not been used in DGVIII, but they will be introduced as part of the on-going reorganisation. Monitoring of performance would also be supported by a clearer definition of staff responsibilities and by the completion of mission statements by departments and units. It is currently very difficult to trace changes in project performance to individuals or teams. Annual performance reviews, common in other organisations, are not carried out in DGVIII as yet.

A standardised monitoring system that starts with projects would allow an assessment of the overall performance of DGVIII, and allow it to be traced back to the performance of teams and individuals, supporting project adaptation. Performance should be assessed independently and on a regular basis.

Learning from performance

The capacity to ensure that knowledge and best practice are disseminated and incorporated systematically within the Commission is weak, although the current restructuring into a matrix organisation may help address some of the problems. The Commission currently learns from experience mainly at the individual level (and sometimes the knowledge is obtained by external consultants), while team-learning and organisation-wide learning are

¹¹⁴ In the past, financial attachés were responsible for the monitoring of financial matters in projects and programmes.

¹¹⁵ Different monitoring tools have been used by the Commission over time. The 'traffic light' report was introduced in 1988/89 but not used for long. The Impact Fiche was introduced in 1994 but was later put on hold. Both systems were deemed by some staff to be too subjective (ITAD, 1996, *op. cit.*, p.34).

limited. There has been little demand for learning lessons from evaluations, either internal or carried out by other donors. The fact that most of our findings had already been identified by other scattered evaluations but had not been acted upon illustrates the difficulties of implementing evaluation lessons.

To ensure that performance is objectively analysed and that the resulting lessons are acted upon, there is a need for a strong, independent unit in charge of both. The evaluation function has carried out very important activities. However, it does not have, as yet, a strong enough profile.

The EDF Committee should play a greater role in the EC aid learning cycle as it is an ideal place to discuss broader policy, system and implementation issues, and to ensure that lessons learnt are duly incorporated both in projects and in policies. The fact that the Committee comprises representatives from Member States should give it both the authority and the independence to exercise such a function.

3.3 Looking forward

The reorganisation of DGVIII and the creation of the Common Service (discussed above) are important steps in making EC aid more results-oriented. The current initiatives on Country Reviews and greater coordination (see Box) are important tools for the reorganised Commission.

A results-oriented organisation needs to have clear objectives and needs to be able to measure its performance based on those objectives. Once there is an understanding of the factors explaining performance, this knowledge should be effectively communicated and translated into new approaches and procedures. For performance to be improved, teams may need to be strengthened

with additional skills, or resources reallocated to where they are most needed (operational flexibility). The success of change towards a results-oriented organisation depends on how external constraints limit room for manoeuvre, on the 'culture' of the organisation, and on its incentive system.

The Commission's move towards a more results-oriented system is limited by some external constraints. These include: the lack of clear overall policy objectives and a strategic role for EC aid, and limited operational flexibility in financial and human resources. In the Commission, operational budgets are rigid and competitive recruitment is infrequent (and does not focus on specialists), while compensation is based on seniority. Experience elsewhere suggests that these constraints must be addressed in a move towards more results-oriented management of EC aid.

Some recent initiatives

Country Reviews

In June 1998, the Director General of DGVIII issued guidance for the setting up of Country Reviews, to be carried out at least once a year. These are formal meetings that will bring together relevant staff (both EDF and budget lines) from the different units of DGVIII, the delegations, and where appropriate from other services (SCR, Echo, etc.) These reviews are to provide a complete and up-to-date overview of the Commission's actions, and to examine the adequacy of the Commission's strategy, in particular with a view to facilitating complementarity with Member States and other donors. The Country Reviews will be followed by in-country meetings with ACP representatives.

Coordination

The June and September 1998 meetings of the Director Generals of Development of the EU outlined principles and practical proposals for coordination at sectoral, operational, and international levels. These proposals, if implemented, will be an important step to operationalise the objectives of coordination and complementarity set out in the Maastricht Treaty.

Member States should consider taking steps to adopt an overall statement of development policy, to provide EC aid with a more strategic role, and to make the policy formulation process more realistic. Member States should also consider allowing the Commission greater operational flexibility, in the use of the Commission's budget and in the recruitment of staff, while at the same time making the Commission more accountable for its actions.

Changes in external constraints should facilitate a more strategic focus by the Commission. However, these changes may also require a change in organisational 'culture', which will require time, strong leadership, and possibly some external recruitment of middle managers. More flexible use of human and financial resources is also important. Financial budgeting needs to be consistent with real priorities, and choices need to be constantly revised and reallocated according to performance and reality on the ground. Flexibility in the use of staff is also necessary, because the system should be demand-driven.

4. Recommendations

If the European Community is to help meet the OECD development targets – especially that of reducing by half the proportion of people living in extreme poverty by the year 2015 – and if it is to build a new partnership with ACP countries, EC aid programmes must be results-oriented. EC aid should be assessed by the results of aid interventions in reducing poverty and achieving other priority objectives and in strengthening the institutions of government and civil society in ACP countries. If EC aid is to continue to be supported by EU citizens, it will need to deliver results, and progress towards the OECD targets must be monitored and made known.

Our recommendations on (1) ways to build a new partnership with the ACP countries and with EU citizens, (2) ways for donors to work together in supporting ACP institutions, and (3) ways for Member States and the Commission to improve the effectiveness of EC aid; are all targeted towards one objective: strengthening institutions to provide a context in which poverty can be eliminated.

- ◆ We make recommendations on ways to build a new partnership with ACP countries and EU citizens.

We make recommendations on ways to build a new partnership between the EC and ACP countries which supports the development of ACP institutions, including those in civil society. Such a partnership should involve reciprocal responsibilities for ACP governments and the EC. Only in this way will one-sided conditionality be replaced by a cooperative approach in which the EC works together with ACP governments committed to reform. We also emphasise the need to build a partnership between the EU and its citizens, based on a results-oriented aid programme, transparency and accountability, to reinvigorate support for development cooperation. **(Recommendations 1-6).**

- ◆ We make recommendations on ways in which donors should coordinate their actions to strengthen institutions in ACP countries.

This evaluation has described the difficulties in strengthening ACP institutions and the problems that arise where donors compete with one another in efforts to get their own projects implemented. Donor coordination should involve some specialisation, with each donor acting where it has strengths and in-country capacity, to achieve complementarity. But it will also require joint action. Donor coordination will help to identify a strategic role for EC aid. It will allow donors to learn from each other's experiences. And it will make it easier to work together with ACP partners. **(Recommendations 7 –9).**

Strengthening ACP institutions will be a demanding and long-term task. There is limited understanding of the process of institutional development, and there are few success stories in ACP countries from which to learn. But there is no other way to reduce poverty. The reduction of poverty requires working together with ACP governments and civil society. In particular, donors must ensure that they jointly support the strengthening of ACP governments' capacity. All donors must ensure that the structures they use for implementing aid strengthen, rather than weaken, ACP civil services. **(Recommendations 10-12).**

- ◆ We make recommendations on ways for EC aid to become more results-oriented, through actions by both Member States and the Commission.

The Member States need to take actions to address some of the constraints on the Commission's activities, such as the multiplicity of objectives and instruments, co-management with weak ACP governments, and limited operational flexibility. Member States and the Commission must together also ensure that the EC acts where its strengths lie, and that both its objectives and its instruments take into consideration the Commission's constraints in the field. **(Recommendations 13-18).**

To enable the EC to fulfil its responsibilities within the new partnership with ACP countries and the EU citizen, these actions by Member States (moving towards strategic monitoring of results) need to be complemented by changes in the Commission. The Commission should become a more results-oriented organisation. It should be an organisation which assesses its performance less in terms of processes and inputs, and more in terms of the results it achieves, and which learns from its own successes and failures, and acts on the lessons it learns. **(Recommendations 19-29).**

New partnership

With ACP countries

1. **Reciprocal responsibilities.** ACP governments and EC aid should both be subject to transparent and simple performance criteria, which should be produced and monitored jointly. We endorse the Commission's Negotiation Guidelines¹¹⁶ on the need for a strong political dimension to the partnership and the linking of funding to 'merits'. However, EC aid, for its part, should also be subject to performance criteria, on coordination (see below), the efficiency of the Commission's aid management, and transparency.
2. **Joint institutions.** We recommend restructuring and simplifying the joint Lomé institutions, which is necessary if they are to become central actors in the political and management aspects of aid, as envisaged in Article 30 of Lomé IV bis. This could include, for example, more systematic participation in the discussion of EC Council Resolutions and Commission initiatives relating to cooperation with ACP countries. They could also play a role in the monitoring of reciprocal responsibilities.
3. **Joint aid management.** We endorse a differentiated approach, as suggested in the Guidelines. Where possible, the management of aid resources by ACP governments should be monitored *ex post*, with sanctions imposed where there is lack of probity (see 'merit' criteria above). Where few responsibilities lie with ACP governments, aid management is not conducive to institutional strengthening and over-stretches the capacity of Delegations. In such cases, if the government shows *commitment*, the priority should be to strengthen the government's aid management capacity rapidly. Where government commitment is low, partnerships with civil society should be the priority.
4. **Opening up the partnership to civil society.** We endorse the suggestion made in the Green Paper on opening up the partnership to civil society in ACP countries (including the private sector and local government), to engage its representatives in dialogue and aid implementation. This will require marked changes in the way aid instruments operate. We also suggest examining ways to establish independent mechanisms through which stakeholders can provide direct feedback on EC aid programmes.

¹¹⁶

Guidelines for the Negotiation of New Cooperation Agreements with ACP Countries, EC, 1997.

With EU citizens

5. **Transparency.** More information on the programmes and performance of EC aid (including key evaluation reports, and progress towards meeting the OECD development targets for 2015) should be disseminated widely, particularly through electronic media, in order to strengthen the partnership with EU citizens.
6. **Co-financing.** In order to enhance collaboration with EU non-government institutions in development cooperation, we recommend more emphasis on the co-financing of non-government (and local government) institutions, though with greater attention to cost-effectiveness.

Jointly strengthening ACP institutions

Ensuring coordinated donor action

7. **EU coordination.** Member States and the Commission should appoint lead coordinators in sectors of intervention in each recipient country to lead dialogue with ACP governments and to facilitate a common approach. This arrangement should also support coordination with non-EU donors.
8. **Increased contacts at all levels.** Contacts between Member States and the Commission should be intensified at all levels: director generals, desk officers and experts, particularly in the field. These contacts should facilitate the internalisation of EC policy objectives and greater agreement on country strategies and sectoral policies. In-country coordination should be a two-way process between the Commission and Member States, and should be improved by setting up data banks on European aid interventions.¹¹⁷
9. **Joint activities.** The Commission should exercise leadership in expanding the number of joint activities, particularly annual reviews, appraisals and evaluations, but also the co-financing of operations. The Commission should also pilot joint programming exercises with Member States, which should be integrated with ACP governments' normal budget processes.

Strengthening institutions

10. **Joint donor support to institutions.** We recommend that the support to the capacity of ACP governments, a pre-condition for successful interventions, should be given by donors jointly. Institutional support should initially focus on public expenditure management, essential education and health services, and the management of technical assistance.
11. **Civil service reform.** Support to parallel government structures and salary supplements for civil servants¹¹⁸ should be discontinued by all donors, including the Commission. Donors should instead jointly support civil service reform programmes.
12. **Technical assistance.** Technical assistance programmes should, whenever possible, be jointly monitored by donors. These programmes should be small and simple, should focus on training ACP counterparts, and should be 'owned' and managed by ACP governments. Whenever possible, TA programmes should also be jointly financed by donors.

¹¹⁷ See also related suggestions on page X (in 'Main Topics') of the Green Paper, *op. cit.*

¹¹⁸ *Principles for Effective Aid, Development Assistance Manual, OECD/DAC, 1992, pp. 51-64*

Making EC aid programmes more results-oriented

A more strategic role for EC aid

13. **Overall statement of development policy.** The Council of Ministers should develop an integrated and strategic statement of policy to guide work throughout the Commission, to help identify a strategic role for EC aid, and to facilitate coordination with Member States. This requires a move towards Council agendas that are planned on the basis of common priorities (e.g. through multi-year work plans). Council outputs should then be widely disseminated by all the Member States and in the field.
14. **A more realistic policy agenda.** We recommend a review of ways to integrate the policy formulation process, enhancing coordination between the EDF Committee, the Council of Ministers, the ACP-Fin Group and other Council Working Groups, and relevant European Parliament committees. This is to help produce policies that are more coherent and better informed of operational constraints, and to facilitate monitoring of the implementation of policies. We suggest that the EDF Committee move its focus from individual projects, which reduces the Commission's flexibility, to more strategic tasks: policy direction, monitoring implementation, learning from evaluations, and coordination with Member States. This may require changes in the seniority of representation on the Committee.
15. **Pragmatic specialisation, for complementarity.** Based on coordination with Member States and realistic policy formulation, we recommend a gradual and pragmatic specialisation of EC aid, which does not imply a scaling down but a refocusing based on relative strengths.¹¹⁹ Possible areas for specialisation include the transport sector, because of the Commission's expertise, structural adjustment, because of its high coordination requirements, and areas which require in-depth political dialogue (e.g. democratisation). Regional cooperation, though central to the EC, requires caution, considering the difficulties in achieving results in this area in the past.
16. **Fewer and simpler instruments.** We endorse the Guidelines' recommendation to simplify and reduce the number of Lomé aid instruments. This should be complemented by a simplification and reduction in the number of special EC budget lines.
17. **Structural adjustment programmes.** We endorse the important initiatives of the Commission to reform the conditionality approach at international level. Given that these programmes rely upon intensive coordination, and given the scale of EC operations, there is a *prima facie* case for the Commission to remain in this area. However, we recommend that the Commission's macroeconomic capacity be strengthened,¹²⁰ to enhance the monitoring of the reform programme, and to enhance sector policy dialogue, SASP implementation and donor support for public expenditure management. This should be accompanied by a reform of the detailed earmarking and conditionalities of the SASP.
18. **Sector approach and programmes.** While we endorse the efforts of the Commission in international forums to improve the implementation of sector-wide programmes, the Commission's shift from a project to a sector approach nevertheless requires caution. Weak civil services, and the difficulties of donor coordination, constrain both project and sector approaches. We recommend that projects continue to be used, whenever the Commission has the necessary knowledge, to pilot innovative approaches to institutional strengthening and the participation of beneficiaries.

¹¹⁹ In our view, although the priorities in the Guidelines point in the right direction, further specialisation may be needed in order to ensure complementarity. By specialisation, we do not mean an *a priori* rigid specialisation but a pragmatic concentration, based on the relative strengths of the organisation, which may evolve over time.

¹²⁰ This does not imply duplication of the specialised work of the BWI.

Making the Commission more results-oriented

To make the Commission itself more results-oriented, both the Member States and the Commission must take actions. The Member States should help to identify a strategic role for EC aid and provide greater operational flexibility. The Commission should reform organisational structures and incentives, equip its staff better, and improve its learning from performance.

Actions for the Member States:

19. **Providing operational flexibility.** In order that the strategic choices (above) contribute to a more results-oriented management in the new DGVIII and Common Service, we recommend that the following measures be considered by the Member States:
- a) Facilitate flexibility in the use of *ex ante* administrative and financial controls in EC aid management, with systematic *ex post* financial audits. This may require revisions to the Financial Regulation adopted by the Council on 29th July 1991.
 - b) Allow greater flexibility in the use of the Commission's budget, for consistency with a matrix organisation (DGVIII's new structure).
 - c) Provide greater flexibility for the recruitment of junior staff with specialised backgrounds (special competitions), and allow for some external competitive recruitment, at senior (department) and middle manager (unit) levels. The manpower requirements of EC aid demand these and other approaches to staffing to be considered.

Actions for the Commission:

Managerial structures and incentives

20. **Preventing further organisational fragmentation in the Commission.** We agree with the DAC Review that, on balance, the creation of the Common Service is a positive transitional step. However, in order to prevent further fragmentation in the management of aid to ACP countries, it is essential that, as planned, the Common Service is integrated with the RELEX DGs as soon as possible. In the meantime, we recommend that team work between DGVIII, the new Common Service and delegations should be closely monitored.
21. **Responsibilities and incentives.** We recommend that mission statements be completed by all departments and units, with measurable performance objectives, and clearly defined staff responsibilities. Performance objectives should be related to policy priorities rather than the commitment of resources. Career paths and salaries should be more related to performance.¹²¹ We suggest considering the introduction of *annual* performance reviews and a system for recording time usage.

Equipping staff

22. **Clear operational procedures.** We recommend that the Commission simplify and integrate its procedures, and update its manual of instructions accordingly, to ensure that all staff operate within a single, clear framework. In particular, we recommend that responsibilities between headquarters and the field be well defined.

¹²¹

We endorse the current moves to reform staff regulations to address this issue.

23. **Simplifying administrative and financial controls.** We recommend a more selective use of *ex ante* administrative and financial controls, according to the country and the amount involved, with *ex post* financial audits of all projects and programmes.¹²²
24. **Budget resources.** We recommend flexibility in the budgeting of resources across departments and units to ensure that country strategies are effectively implemented. We suggest that more resources be given for quality control, specialised skills, delegations and the measuring of performance.
25. **Better quality support.** We recommend a move from a 'visa' system towards a peer review system (formal and informal). We endorse the work of the Quality Support Group and recommend that it be given more resources for its work at the identification stage. We also suggest that project preparation be given more resources. The quality of project preparation should also be enhanced through early consultation with other donors and with beneficiaries and through systematic use of evaluations. The quality of appraisal should be enhanced through the use of cost-benefit and institutional assessment.
26. **Specialised skills.** We recommend that the Commission should identify where it has gaps in specialised skills (e.g. the integration of priority objectives into programmes), and acquire those skills through flexible recruitment (see above) or quality specialist training. Quality training should be given higher priority, should be an element in career assessment, and should be complemented with more exchange programmes.
27. **Resources for delegations.** Subject to adequate capacity and controls, we suggest that more responsibilities and decision-making authority be transferred to delegations (deconcentration). We recommend that delegations be reinforced through the use of more local staff at professional level on fixed term contracts. We also recommend that the Commission be given resources to use Technical Assistance specifically to support its own capacity to monitor and implement programmes, so that it no longer depends on TA nominally provided to ACP governments. However, core functions should be the responsibility of Commission staff, to ensure 'donor ownership' of aid programmes.

The performance learning cycle

28. **Monitoring performance.** We recommend that the Commission significantly improve its system for monitoring project and programme performance, both at headquarters and in delegations. This will require strong management support. It will also require identifying a clear set of performance indicators at the outset which should be monitored independently and regularly, and incorporated into the Commission's monitoring system. This standardised information should be made widely available.
29. **Independent evaluation.** We recommend a review of ways to achieve greater separation of the Commission's evaluation function from the new implementation Common Service. One possibility is for it to report to the *Comité de Direction*¹²³ with the collaboration of the Member States (possibly through a restructured EDF Committee). In addition, evaluations should be carried out, whenever possible, in collaboration with Member States and ACP countries.

¹²² This needs to be consistent with Commission-wide procedures and the financial regulation of the EDF (see above).

¹²³ Suggested in the 1998 DAC Review of EC Aid.

Annex

For more background on European Community aid, see *Understanding European Community Aid*, which was the inventory for the global evaluation of EC aid.¹²⁴ This annex is drawn from this report and from the Desk Study of the ACP evaluation.

EC aid in context

'European Community aid' here refers to the portion of European Union aid that is managed by the European Commission and the European Investment Bank rather than Member State bilateral aid. Of the total official aid disbursed by EU donors in 1990-95, 18 % was EC aid. When comparing EC aid with aid from other donors, it is important to bear in mind that a very large proportion (91 %) of EC aid is in the form of **grants**, rather than loans.

In 1990-95, of all official aid from OECD donors, 9 % was EC aid. Adding this to the aid managed by the Member States of the EU, in 1990-95, 51 % of all aid came from the European Union. In 1995, 5510 million ecu of EC aid was disbursed. Of these disbursements, using EC's own regional categories, 42% went to ACP countries, 17% to Central and Eastern European Countries (CEECs), 12% to New Independent States of the Former Soviet Union (NIS), 12% to Asia and Latin America (ALA), and 10% to Mediterranean and Middle East (MED).

The main sources of EC aid during the 1986-1995 period were the **EC Budget** (56%) and the **European Development Fund** (37%) of EC aid commitments. Over time the proportion of EC aid constituted by the EDF (exclusively ACP countries) has decreased.

The organisation of the Commission

EC aid to ACP countries is managed by the European Commission and the European Investment Bank. The section of the Commission responsible for aid to ACP countries is DGVIII – the Directorate General for Development. Until 1985, DGVIII was responsible for all aid managed by the Commission. In the following years, there were several changes in management structures. From 1995, the EC's external relations with developing countries were managed by five different parts of the European Commission, for which five different Commissioners were responsible. Responsibilities have primarily been divided on a geographical basis, although they have to an extent been divided on a functional basis. In 1998, a further managerial reorganisation took place, with the creation of the Common Service, responsible for the implementation of EC aid (after the completion of financing agreements) to all countries.

¹²⁴ *Understanding European Community Aid: Aid Policies, Management and Distribution Explained*, ODI/European Commission, 1997.

Relex DGs and services	Areas of responsibility
DG VIII	<ul style="list-style-type: none"> • ACP countries • Non-emergency food aid (<i>for all countries</i>) • NGO co-financing (<i>for all countries</i>)
DG IA	<ul style="list-style-type: none"> • Central and Eastern Europe, the Republics of the Former Soviet Union, Mongolia, Turkey, Cyprus, Malta and other non-EU European countries • Phare and Tacis programmes
DG IB	<ul style="list-style-type: none"> • Southern Mediterranean, Middle East, Latin America and most Asian developing countries
DG I	<ul style="list-style-type: none"> • China, Korea, Hong Kong, Macao and Taiwan • International negotiations (<i>for all countries</i>)
ECHO	<ul style="list-style-type: none"> • Humanitarian aid (<i>for all countries</i>)

EC aid to ACP countries

This report evaluates aid to ACP (African, Caribbean and Pacific) countries. The ACP countries are defined as those which are signatories to the Lomé Convention. Today there are 71 ACP countries.

Over the period 1986-95, the ACP countries received 51% of EC aid disbursed. However, the proportion of aid they have received has been declining in recent years (ACP countries received 63 % of disbursements in 1986, but only 42% in 1995). This change principally reflects the increase since 1990 in the volume of EC aid going to Central and Eastern Europe and to the Newly Independent States of the former Soviet Union.

The European Development Fund (EDF) was created in 1957 by the Member States of the newly formed European Economic Community, to provide aid to dependent territories. Many of these territories gained independence in the following years, and in 1963 the Yaoundé Convention was signed by the Member States of the EEC and 18 sub-Saharan francophone countries. The first Yaoundé Convention was in force for 5 years, and was then succeeded by a second, which was in force until 1975.

Lomé

A new Convention was signed in 1975 –**Lomé I**– following the UK's accession to the EEC. Many Commonwealth countries became ACP states, and signatories now included not only countries in sub-Saharan Africa, but also islands in the Caribbean and the Pacific Ocean. The first Lomé Convention (1975-80) was succeeded by Lomé II (1980-85), Lomé III (1985-90), and Lomé IV (1990-99, revised in a mid-term review in 1995, the revised Convention being termed Lomé IV bis). A new Convention is currently being negotiated.

The Conventions have set out the objectives of the EDF, the instruments through which it is channelled, and the institutional framework which governs its implementation. With each revision of the Convention, the EDF has been renewed – most recently Lomé IV bis established the 8th EDF (see Table below). The EDF is not part of the regular budget of the EC, although, like the budget, the EDF is managed by the Commission.

ACP countries are also financed through the EC budget, and there has been an increase in the proportion of ACP aid funded through the budget. During the period 1986-1995, 79 % of EC

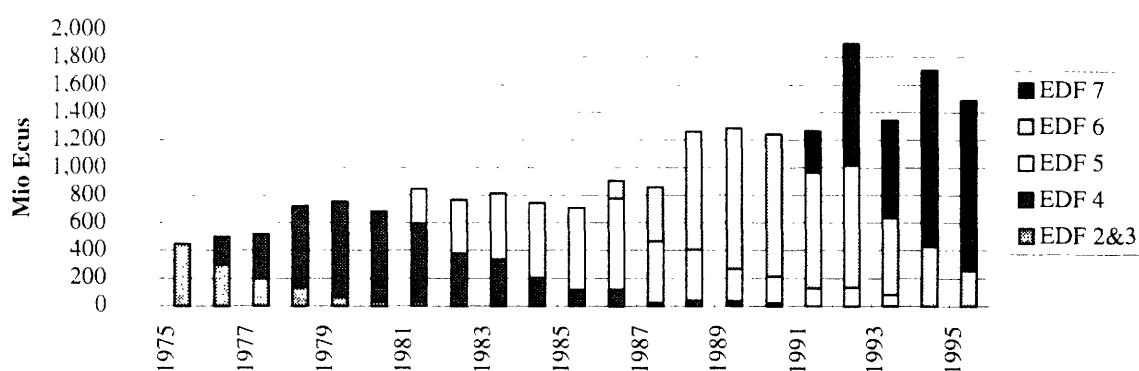
aid to ACP countries was channelled through the EDF, 14 % through the budget, and 7 % through the EIB.¹²⁵

EIB. In addition to its operations within the EU, the European Investment Bank provides loans to developing countries. A small proportion of these loans carry a subsidy of at least 25%, and therefore count officially as aid. Most of these loans are financed from the EIB's own resources. In addition, the EIB manages some risk capital finance for ACP countries, with funds drawn from the EDF.

EC cooperation with ACP countries						
Agreement	Period	No. of countries	Population (Mio)	EDF allocations (Mecu)	EIB (Mecu)	EC aid
Yaoundé I (EDF 2)	1964	18	69	666	64	
Yaoundé II (EDF 3)	1971	19	80	843	90	
Lomé I (EDF 4)	1976	46	250	3124	390	NIPs Stabex NGO programmes
Lomé II (EDF 5)	1981	57	348	4754	685	Sysmin
Lomé III (EDF 6)	1986	66	413	7754	1100	Rural development Human rights Environment SIPs and GIPs
Lomé IV (EDF 7)	1991	68	460	10800	1200	Democracy SAFs Selectivity FMOs for CFs Private sector CBI/UEMOA
Lomé IV bis (EDF 8)	1996	70	571	12967	1658	Two tranches

Source: Desk Study, ADE, p. 5 and p. 27

EDF disbursements - 1990 prices



Source: Desk Study, p. 6

¹²⁵

The figure for the EIB only includes concessional loans.

A substantial proportion of EDF funds has been channelled through National Indicative Programmes (NIP) and Regional Indicative Programmes (RIP) ('Programmable aid'). NIPs (or RIPs) are documents in which the governments of ACP countries (or regions¹²⁶) set out their priorities for the use of project aid for 5 year periods. The EC provides the funds to finance these programmes. In addition, EDF funds also finance aid instruments like structural adjustment, Stabex and Sysmin.

With budget lines, the Commission maintains control over the selection and implementation of the activities. They mainly finance humanitarian and food aid. They also finance projects in areas such as: the environment and forestry, and democratisation and human rights.

**Sectoral allocation of EC aid to ACP countries
(commitments, Mecu)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Programme aid	159	523	972	481	338	715	892	487	988	492
Structural adjustment	37	222	351	188	104	183	403	419	316	277
Stabex	122	301	554	278	219	515	397	4	615	131
Sysmin	0	0	66	16	15	18	92	64	57	84
Food aid	6	0	14	248	224	410	279	331	365	337
Humanitarian aid	18	36	61	83	72	79	117	144	348	417
Humanitarian	18	33	55	76	57	62	104	127	316	187
rehabilitation	0	3	5	7	14	17	13	17	33	229
Nat Res Prod sectors	29	328	374	107	85	61	112	265	191	102
Agriculture	27	302	352	86	54	43	70	220	146	87
Forestry	0	23	0	8	27	6	31	18	18	14
Fisheries	2	4	21	12	3	12	11	27	27	2
Other productive sectors	149	242	299	233	76	250	252	295	166	258
Industry, mining	139	231	272	208	43	239	196	216	139	210
Trade	7	10	13	16	12	10	43	52	21	25
Tourism	3	1	14	9	21	1	12	27	5	21
Eco Infrastructures	126	578	313	354	229	411	388	462	653	533
Transport & communications	49	442	197	278	128	299	288	259	358	287
Energy	77	135	114	75	98	104	99	187	262	206
Banking, Finance	1	1	2	1	2	9	0	16	33	40
Social Infrastructures & services	38	142	174	111	106	57	268	393	235	226
Education	7	48	48	38	41	4	67	96	86	24
Health & population	0	27	43	14	9	12	108	143	40	78
Water supply	30	40	78	49	51	37	77	108	62	88
Others	0	26	4	10	6	5	16	46	48	36
Governance and civil society	0	3	7	8	28	19	41	22	10	31
Aid to NGOs	13	22	23	27	29	34	29	36	36	41
Multi sector/crosscutting	15	557	564	279	114	86	295	265	322	63
Environment	3	4	6	20	8	13	20	66	14	19
Rural Development	4	529	516	239	77	52	145	47	18	7
Others	8	24	43	20	29	21	128	152	289	37
Unallocable	587	201	69	63	63	1	94	74	199	99
Total	1141	2632	2869	1993	1362	2123	2765	2774	3514	2599

Source: ODI, 1997, *op. cit.*, p. 49

¹²⁶

ACP 'regions' consist of groups of neighbouring ACP countries. The regions are: Sahelian and Coastal West Africa, the Horn of Africa and East Africa, Southern Africa, the Indian Ocean, the Caribbean, and the Pacific.

