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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL,
THE EUROPEAN PARLIAMENT AND THE COURT OF AUDITORS**

**FINANCIAL INFORMATION ON THE 6th, 7th AND 8th EUROPEAN
DEVELOPMENT FUNDS
2001**

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Annex

1. INTRODUCTION

The EuropeAid Cooperation Office was created on the first of January 2001 by Decision of the Commission of 29 November 2000 in the context of the Reform of the management of external aid adopted by the Commission on the 16th of May 2000. Since the first of January 2001, the Directorates-General for External Relations and Development are still responsible for programming while the EuropeAid Cooperation Office is responsible for the management of the project cycle (identification, instruction, Financing Decision, implementation, evaluation).

The reform has established the principle that 'everything that can be better decided and managed in the field should not be decided and managed in Brussels'. This reorganisation is certainly paving the way for more effective assistance but, as in any reorganisation, there has been a 'settling in' period. The parallel process of decentralising decision-making and resources to Commission Delegations on the ground ('deconcentration') will place more responsibility in the hands of EC Delegations enabling a more immediate response to partners' needs.

The Cotonou Agreement was signed on 23 June 2000. This succeeds the Lomé Conventions in setting out a new Partnership Agreement with 77 African-Caribbean-Pacific countries until 2020. In order to enter into force, the agreement must be ratified by at least two thirds of the ACP States, by all the Member States and be approved by the Community (article 93.2 of the Cotonou Agreement). As of 18 January 2002, 36 ACP countries, 4 EU Member States EC and the Community had completed this process.

In 2001, the framework for co-operation with the ACP States therefore took the form of transitional measures agreed by the ACP-EC Council of Ministers on 27 July 2000. These measures apply most of the provisions of Cotonou, with the exception of the release of the financial resources of the 9th EDF.

In 2001 the main priority has been to establish Country Support Strategies and the programming process following the new ways of working provided by the Cotonou Agreement. Co-operation strategies are focused on the objective of poverty reduction and based on respect for social, economic, political and human rights. The effectiveness of partnership should be improved by new approaches including a focus on good governance, linking allocations to results and rationalising the mechanisms for distribution of aid. Most importantly, recipient governments are to play a much greater role in setting priorities and taking forward change on the basis of their own policy agenda.

Under the 9th EDF more emphasis will be placed on the role of EC Delegations and a further effort will be made to target specific areas of assistance in order to maximise impact. This new approach strengthens the principle of participatory development by extending the co-operation partnership to a wider range of non-governmental actors, and by linking all aspects (political, economic, social, cultural and environmental) to ensure the coherence of EC activities within an integrated framework.

The politically volatile situation in some ACP countries can impede this process, as can a lack of political will in partner governments to reform. The ACP countries include some of the world's poorest countries with serious governance problems and are often directly affected by conflict and crises. Their capacity to take ownership, to live up to the challenges of

partnership set out in the Lomé Conventions and the Cotonou Agreement - and thus their absorption capacity - is therefore limited.

2. GENERAL OVERVIEW

2.1. Commitments and payments

EDF activity has been in line with our forecasts in 2001, achieving € 1.9 billion¹ in commitments and an unprecedented € 2 billion in payments.

There are a number of reasons why the record level of EDF primary commitments achieved in 2000 (€ 3.7 billion) could not be matched in 2001. Firstly, € 1 billion of the 2000 commitments figure was the result of a single one-off decision on debt relief for Heavily Indebted Poor Countries (HIPC). In addition, the EDF operates on a five-year or longer cycle of programming in which the year 2000 was a natural 'mid EDF' peak for commitments² preceding a natural dip for the duration of the subsequent (2001) programming exercise. In 2001 the well performing countries also suffered from a lack of resources as the 6th, 7th and 8th EDF funds ran down in anticipation of new National Indicative Programmes (NIP) under the 9th EDF due to be signed in 2002. (Furthermore a programme for structural adjustment in Eritrea (60 mio €) was withdrawn from the agenda of the EDF Committee at the request of Member States.)

Important points to note on 2001 commitments:

- Average size of projects

There are a large number of small and very small projects/commitments (see annex 3). This indicates the necessity to prepare Financing Agreements for ACP countries covering their global needs, especially concerning Technical Assistance (e.g. institution building) for the next five years (9th EDF).

- Unequal distribution over the year 2001

It is important to note the unequal distribution of primary commitments over the year: 38 % of the total commitments were made during the first 8 months and 62 % were made during the last 4 months. In order to assure a more equal distribution of primary commitments over the year and to reduce the gap between the forecasts at the beginning of the year and the year-end realisations, AIDCO/C is preparing a monitoring system for all the projects in the pipeline for 2002.

The total payments amount to € 2.067 billion at the close of the 2001 exercise. The 2001 figure represents an increase of 33% compared to the total payments in 2000 (1.55 billion €). This increase is mainly due to payments concerning Stabex (2000: 70 mio €; 2001: 353 mio €) and Structural Adjustment (2000: 147 mio €; 2001: 304 mio €).

The results regarding the assigned funds (secondary commitments) i.e. the translation of decisions into contracts - of € 2.263 billion - have been maintained on the level of 2000 and thus well above the yearly average of 1.6 billion since the start of the 7th EDF in 1991.

¹In 2001, and following the recommendation of the Court of Auditors on the reliability of the accounts in 2000, an amount of €366 mio has been decommitted (see annex 3), out of which an amount of € 195.1 mio corresponds to the cancellation of financing agreements (Art. 3 of the Financing Agreement: (non) respect of start date of the Financing Agreement). Of the latter amount € 176.4 mio has been recommitted.

²See Annex 1

The figures presented above should be seen in the context of EDF performances since the start of the 7th EDF (1991): the average yearly primary commitments were approximately € 1.9 billion, the secondary commitments € 1.6 billion and the average annual payments amounted to € 1.5 billion.

The table in annex 2.1 provides an overview of the **financial transactions by instrument** during 2001. Concerning decisions, 56% was decided at the National and Regional Indicative Programmes (NIP /RIP) level and 44% on non-programmable activities. Amongst the latter the two main instruments were ‘Risk Capital’ and ‘Structural Adjustment’, respectively 25% and 14% of the total amount of decisions.

On the level of assigned funds, 49% concerned NIP/RIP and 51% ‘hors programme’ activities (main instruments: Risk Capital – 15%, Stabex – 14% and Structural Adjustment – 13%).

The largest portion of payments fell under non-programmable activities: 63% against 37% on NIP/RIP programmes. The main instruments were HIPC (17%), Stabex (17%), Structural Adjustment (15%) and Risk Capital (9%). This confirms the increasingly important role played by the ‘rapid disbursement instrument’ budgetary aid, the use of which has been extended to include HIPC as well as the already established structural adjustment projects. These instruments may also include sectoral programmes in the future. When comparing the percentages (between non-programmable and NIP/NIR) of the 2001 annual payments with the global or total payments on the 6th, 7th and 8th EDF (cumulative since their starting date - annex 2.2) the difference is less marked (respectively 51% and 49%).

The table in annex 2.2 confirms as well the global distribution within the programmable resources (commitments and payments) between national and regional programmes: respectively 80% and 20%.

2.2. RAL (Reste à Liquider) and dormant commitments

- *Global situation of the RAL (6th, 7th and 8th EDF) for all primary commitments ever concluded.*

In the context of the European Development Fund, the Financing Agreement (primary commitment) is implemented through secondary commitments (« delegated appropriations »). The RAL is defined as the difference between the primary commitments and payments made on secondary commitments, in other words, money which has been allocated but not yet spent on the ground. In 2001 (€ 8,469 mio) the RAL decreased by € 514 mio compared with the situation in 2000 (€ 8,983 mio).

- *Outstanding (primary) commitments concluded before 1996*

	1999	2000	2001
< 1995	€ 901 mio	€ 621 mio	€ 498 mio
1995	<u>€ 504 mio</u>	<u>€ 375 mio</u>	<u>€ 246 mio</u>
< 1996	€ 1,405 mio	€ 996 mio	€ 744 mio

Outstanding ‘old’ commitments are decreasing progressively and currently represent 9 % of total outstanding commitments.

- Reasons for outstanding commitments

More than half of the RAL is explained by the absence of a secondary commitment (contract or delegated appropriation) on a primary commitment (financing agreement). There are a number of possible causes:

- Most of the RAL is explained by the multi-annual nature of EDF programming ('normal' RAL). The implementation through secondary commitments of a financing decision is therefore not entirely done during the first year after adoption of the Financing Agreement but is spread over the total duration of the Financing Agreement.
- Implementation of some of the primary commitments has been suspended in some countries due to difficult political situations (e.g. Togo and Sudan).
- Delays occur in the implementation of projects (mainly due to difficulties in tendering procedures: annulments in the absence of compliant bids, procedural mistakes, etc...)
- Successive extensions of project end-dates which prohibit the closure and decommitment of 'old' commitments.

On the level of secondary commitments (contracts or delegated appropriations), the following problems have been identified in the implementation of contracts and work programmes:

- A lack of co-ordination between the Contracting Authority and project supervisor of the beneficiary country.
- Insufficient monitoring by the Contracting Authority.
- Disputes/litigation/audits
- Absence of final acceptance documents/ final statement of accounts.

- Dormant RAL

'Dormant' EDF commitments are defined as primary commitments for which no movement on both the primary level and secondary level has occurred since the last 18 months, i.e. no action has been taken in the last eighteen months on an activity for which money was allocated:

1999	2000	2001
€ 399 mio	€ 536 mio	€ 648 mio

- Origin of Dormant RAL

The majority of dormant commitments in 2001 concern projects falling under the programmable aid instruments of € 370 mio and under Stabex of € 148 mio.

In the programmable aid category, most of the dormant commitments concern the 8th EDF. Consequently, most of the primary commitments in programmable aid without movement for the last 18 months have been adopted quite recently (since 1998 with the launching of the 8th EDF). The main reasons why no action has been recored on these primary commitments during the last 18 months are the following:

- Considering the multi-annual programming of the EDF, part of the dormant RAL is explained by the fact that implementation is spread over several years
- Difficulties in tendering procedures : annulments in the absence of compliant bids, procedural mistakes, etc ...
- Implementation of primary commitments suspended due to difficult political situations.

As concerns « Stabex » (€ 148 mio), an amount of € 103 mio is related to projects in Soudan (7th EDF) which have been suspended due to the difficult political situation.

2.3. Availability of resources and forecasts 2002

The pipeline of projects to be committed in 2002 is estimated at € 2.6 billion, while the still available resources at the beginning of the year amount to € 4.4 billion. A risk assessment of the projects in the pipeline indicates that a realistic figure for new commitments in 2002 is € 1.8 to 2 billion.

Million €

EDF	Programmable Resources			Non Programmable Resources		
	Amounts available 01/01/2002	Pipeline 2002	Amounts available 01/01/2003	Amounts available 01/01/2002	Pipeline 2002	Amounts available 01/01/2003
6 th EDF	299	10	289	16	0	16
7 th EDF	466	28	438	88	8	80
8 th EDF	1556	958	598	809	495	314
Reserves 8 th EDF*	1200	1108	92	-	-	-
Total	3521	2104	1417	913	503	410
9 th EDF			8300			** 4200
Total			9717			4610

* 8th EDF reserve foreseen for country allocations under the Cotonou Agreement

** 9th EDF non programmable resources: B-envelope of country allocations (excluding Sysmin) + Investment Facility

Table 1: European Development Fund: Total Resources – 01 / 01 / 2003

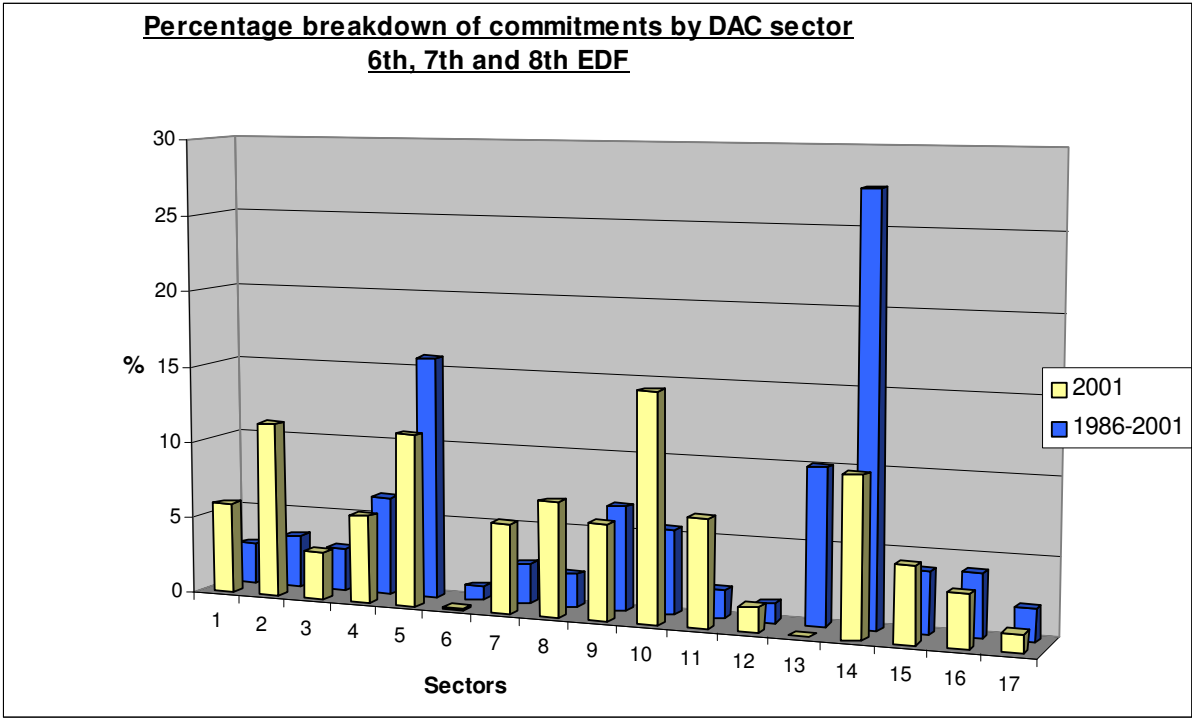
The availability of the above amounts needs to be qualified:

- (1) Of the € 1410 million of programmable resources (6th, 7th and 8th EDF) that are theoretically available for new commitments, around 40% have been allocated to countries in crisis (e.g. Sudan, Congo RD, Congo Braz., Burundi, Rwanda, Haiti, Sierra Leone, Liberia) and around 20% to less performing countries. Commitments on these allocations will be slow to materialise. The best performing countries are running out of resources.

- (2) AIDCO has no direct influence on the (timing of) commitments concerning the non-programmable resources: for the 6th, 7th and 8th EDF mainly risk capital and interest rate subsidies managed by the European Investment Bank.
- (3) (3)Availability of the resources of the 9th EDF depends on the timely ratification of the Cotonou Agreement.

2.4. Sector distribution

The sector breakdown shown in the figure below combines the figures of the commitments for the 6th, 7th and 8th EDF and shows a comparison between the overall figures (1986-2001) and the year 2001.



- | | |
|--|---|
| 1. Education | 10. Industry and mineral resources |
| 2. Health and population policies | 11. Trade and tourism |
| 3. Water and sanitation | 12. General environment protection |
| 4. Government, civil society and other social services | 13. Other multi-sector |
| 5. Transport | 14. Structural adjustment, balance of payments/budget support |
| 6. Communication | 15. Actions relating to debt |
| 7. Energy | 16. Emergency relief, refugees |
| 8. Financial intermediaries , business services | 17. Not specified |
| 9. Agriculture, livestock and fisheries | |

Social infrastructures and services (sectors 1-4 in the above list – DAC Group 1) represent 15.3% of the total commitments in the overall figures and 26% for the year 2001, confirming the increasing importance of this sector - more in particular health and education – in the implementation of our development policies.

During the year 2001 commitments concerning the sectors energy (mainly solar energy), financial intermediaries, industry and mineral resources (mainly EIB operations) and trade/tourism saw their relative importance increase as well compared with the overall figures.

On the other hand, a decrease in relative importance may be noted concerning transport, other multi-sector and structural adjustment, balance of payment/budget support during the year 2001.

2.5. Regional Co-operation

Regional co-operation continued to play an important role in the relations between the EC and the ACP countries throughout 2001. The Regional Indicative Programmes (RIP) focus primarily on transport, agricultural research, conservation of natural resources as well as regional economic integration e.g. promoting economic communities, customs unions and free trade areas. Implementation of the RIPs of the 8th EDF, which were agreed for a five-year period in 1996-97 remained the principal activity and, for the seven programming regions, € 305 million was committed in 2001 covering all sectors. The programming process of the 9th EDF has also started. It was decided that initially the total amount of funds available for regional co-operation would be divided into € 700 million for Regional Indicative Programmes, € 300 million for intra-ACP programmes and € 300 million as a reserve. During the review process the reserve could be used to provide additional support in relation to performance and needs.

Regional Integration and institutional support are key elements of EC support since these are essential for better integration of ACP countries into both their regional and the global economy. Major programmes of technical assistance in trade, customs, statistical and other areas with COMESA, UEMOA and CARICOM (Caribbean Community), continued in 2001. Three new programmes totalling € 13.2 million were approved for the five PALOP (Portuguese language) countries covering legal systems, statistics and administration at all levels; these will be implemented in co-operation with the Portuguese Government, which is contributing financial and technical support. Political initiatives were also taken on a regional level, such as contributing to the inter-Congolese dialogue (€ 1.96 million) and to the peace-keeping and conflict prevention activities of ECOWAS.

The intra-regional dimension has remained important in 2001 with programmes started, for example, to prepare the ACP countries for the Economic Partnership Agreements (€ 20 million) and to enable them to participate more effectively in the World Trade Organisation negotiations (€ 10 million). In this context, the EC also contributed € 1.45 million towards the establishing of an ACP Delegation to the various international bodies based in Geneva (WTO, UNCTAD etc.), to be formally opened by Commissioner Lamy at the beginning of 2002. Following the Cairo EU-Africa summit, contacts with Pan-African organisations capable of taking forward specific actions have been intensified.

2.6. Impact on poverty reduction

The November 2000 Statement on EC Development Policy states that “The main objective of Community development policy must be to reduce and, eventually, to eradicate poverty. This objective entails support for sustainable economic and social and environmental development, promotion of the gradual integration of the developing countries into the world economy and a determination to combat inequality.”

A Commission Staff Working Paper produced in July 2001³ establishes the main elements to better address the poverty reduction objective in EC Development Policy. This work programme is progressively being implemented.

For the year 2001 the following elements were key:

Allocation of financial resources

As regards the allocations of funds for the ACP countries, the 'primary poverty' focus of the 9th EDF overall allocation (A (programmable) + B (non-programmable) envelopes) is witnessed by the fact that close to 90% of EDF resources are earmarked to Least Developed Countries (LDCs) and other Low Income Countries.

Poverty focus in Country Strategy Papers

Each Country Strategy Paper (CSP) describes the positive impact of EC support on poverty reduction. In this context, the motivation of transport/rural roads as a focal sector is a case in point, as it is the main focal sector for EC support in many ACP countries and its impact on poverty reduction is not always obvious. The concerned CSPs therefore generally highlight the way the poor will benefit directly from improved roads and recalls past EC involvement in the sector.

The Poverty Reduction Strategy Paper (PRSP) process

The Commission strives to integrate its CSPs wherever possible in a wider framework, in particular that provided by the PRSPs. This integration has been made difficult by the lack of full PRSPs in most countries (only 8 full PRSP by end 2001), but the process of updating CSPs is expected to allow them to adapt to progress with the development of full PRSPs. For this, however, PRSPs need to have stronger performance indicators, including a core set of annually-measured indicators, for which country Governments hold themselves accountable to their citizens and by which the Commission (and other external partners) can judge progress. The Commission has played a leading role in international work to develop tools for such monitoring, and will aim to integrate into its CSP monitoring process appropriate indicators drawn from the PRSPs.

Development of the PRSP approach offers a major opportunity to enhance the effectiveness of the global development effort. The Commission has contributed strongly to the development of the approach, both through its own strategic refocusing (including a shift towards budget support where the fiduciary and other conditions are met) and through its contribution to international policy development. Its role as co-Chair of the Technical Group of the Strategic Partnership for Africa (SPA), and the impact of its role as leader of the Burkina Faso-based pilot exercise on reforming conditionality in macro-economic support, testify to this.

³SEC(2001)1317

3. IMPLEMENTATION BY SECTOR

3.1. Economic co-operation

3.1.1. Macroeconomic policies

Providing macro-economic budgetary support has become an integral part of the Community's financial and technical co-operation with ACP countries. Since 1992, the Community has provided budgetary support amounting to about €2.604 million in 40 ACP countries. Formerly, these funds were mostly used to support economies experiencing 'balance of payments' problems. The current approach is to assist countries in changing the way in which their economies work.

Consequently, in 2001 the Commission continued to implement its approach to link its budgetary support programs to poverty reduction and thus to Poverty Reduction Strategy Papers elaborated by developing countries. Therefore the majority of the budgetary support programmes contained performance indicators relating in particular to health, education and public finance management. On the latter aspect the Commission has concluded an agreement with the World Bank establishing a joint EC/World Bank Trust Fund for Public Expenditure and Accountability Assessments.

In addition the Commission is working toward the establishment of joint arrangements with other donors in order to provide more efficient and effective donor assistance to the recipient countries.

During 2001, the Commission committed € 263 million in direct budgetary support programmes in ACP countries. It authorised over € 300 million in payments to 38 ACP countries which have ongoing structural adjustment programmes.

Highly Indebted Poor Countries initiative:

Two joint ACP-EC Council decisions were adopted in November 1999 on the Community's participation in the Highly Indebted Poor Country (HIPC) Initiative. As a creditor, the European Commission will contribute € 360 million to the European Investment Bank administered HIPC Trust Fund to alleviate the debt of eligible ACP countries. As a donor, the EC will contribute a maximum of € 680 million to the World Bank administered HIPC Trust Fund.

Framework agreements between the EC and the World Bank and the EC and the European Investment Bank set out the legal and practical basis for the provision of the EU's debt relief. Subsequent to the signature of those agreements, a first payment of € 250 million was released to the World Bank Trust Fund (July 2000) and a first payment of € 100 million was made to the European Investment Bank Trust Fund (December 2000).

To date, 24 out of 41 HIPC countries (of which 34 are ACP countries) have reached their decision point and are therefore entitled to receive interim debt relief through the World Bank Trust Fund. With regard to the EC's role as a creditor, the evaluation of needs, which the World Bank and African Development Bank (ADB) made in the previous case, relies on the EC services. As countries reached their decision point, the Commission, in close co-operation with the European Investment Bank, established the total outstanding debt to the EC on a country by country basis (special loans and risk capital operations). It then identified loans

which could be considered for debt relief and reached agreement with the countries concerned on the loans to be finally selected.

As of end-December 2001, the Commission has sent a proposal for debt relief to almost all eligible countries. A second payment of €250 million was transferred in December 2001 to the HIPC Trust Fund administered by the International Development Association and a second payment of € 100 million was made to the HIPC Trust Fund administered by European Investment Bank. As at 31 December 2001, only Uganda, Mozambique and Tanzania reached their completion point under the enhanced HIPC initiative. Funds freed up by the cancellation of debt servicing obligations are then used to finance poverty reduction initiatives, in particular for the social sector.

3.1.2. Private Sector Development

The EC's objective is to ensure long-term and sustainable economic development. The private sector is perceived as an engine of economic growth, and thereby an important source of employment in the ACP countries. Its development is closely associated to the achievement of the major objectives of development co-operation. The Cotonou Agreement has strengthened EC activity in what has always been considered a priority area.

Private sector development is a crosscutting issue and as such is incorporated in the programming of other sectors like health, education and infrastructure. The European Commission's strategy combines support at the macro level: the business environment and investment climate; the meso (financial and non-financial) intermediary level and the micro level: enterprise competitiveness.

At the macro and meso level, ACP national and regional authorities can benefit from DIAGNOS, a programme which provides assistance in analysis of the private sector environment in order to identify the main constraints that impede economic growth in the ACP countries. Diagnostic studies were undertaken in more than 20 ACP countries in 2001 to help design strategies to provide an 'enabling' business environment for the private sector.

At the meso and micro level ACP private enterprises and service providers can benefit from the EU-ACP Business Assistance Scheme (EBAS). It aims at increasing access to effective business development services. EBAS is under full implementation and by the end of 2001 more than 700 projects had been approved, supporting enterprises, service providers and intermediary organisations in more than 60 ACP countries. Out of a total of € 20 million grant funds available, € 17 million had already been committed one year before the programme end.

The objective of PROINVEST is to promote investment and North-South and South-South partnership agreements, and it aims primarily to improve the provision of investment services. The total budget is estimated at €110 million over seven years. The final administrative formalities setting up the PROINVEST programme were completed in December 2001.

Additional instruments and facilities are available through the operations of the European Investment Bank and the Centre for the Development of Enterprises (CDE). These other opportunities are complementary to the initiatives described above.

In addition, many ACP countries and regions have allocations for private sector development included in their national or regional indicative programmes.

With regards to regional initiatives resulting from the Cotonou Agreement, a € 70 million programme to support the Caribbean rum sector has been approved and committed in 2001. The programme aims to assist local rum producers in facing the challenge of a fully liberalised spirits market by modernising their plants, improving their capacity to deal with the possible environmental impact, increasing their competitiveness and identifying new markets to be developed. The programme will play a fundamental role in strengthening a key sector within local economies, thereby contributing to job creation and export and tax earnings on the basis of strong local ownership.

The Pesticides Initiative Programme (PIP) is an ‘all ACP’ country programme, which was drafted at the request of the ACP/EU Council of Ministers meeting in Cotonou in July 2000. The overall cost of the PIP is € 40.1 million, of which € 29.1 million will be paid by the EDF. It is a response to the critical situation facing ACP horticultural sector operators following the harmonisation of European regulations which set stringent maximum pesticide residue levels. The objective of the PIP is to contribute to the creation of a sustainable and competitive private horticultural sector in ACP countries, to be reflected in, at a minimum, the maintenance of current market share of ACP products in the EU.

3.2. Institutional strengthening

Respect for human right - including fundamental social rights, democratic principles, the rule of law and accountable governance - form an integral part of sustainable development and are fundamental elements of the Cotonou Agreement. These issues are the subject of regular political dialogue between EU and ACP States and are areas for strong Community support. Institution building is one effective way of realising these objectives. The Commission Communication of 11 April 2001 on Conflict Prevention calls for the inclusion of more peace, democracy, political and social stability into assistance programmes as a means of conflict prevention. This is therefore an area where EC activities are increasing all the time. The EC is also increasing its expertise in the relatively new field of institutional support through experience gained from projects and contacts with other donors.

In total, there were 254 new and ongoing projects in this field in 2001 totalling € 727 million. They covered a wide range of ‘institution building’ activities and can be divided into two broad categories: (1) respect for human rights, improvement of legal systems, elections and civic education; (2) good governance through capacity building, civil service reform and decentralisation. Given the nature of these activities, any assessment of success of these programmes will have to be made in the medium to long term.

3.2.1. Human Rights and Justice

The EC’s Human Rights’ programmes aim at bringing about and maintaining peace, e.g. the € 800,000 allocated from the rehabilitation programme for Burundi to promote national reconciliation through training the ‘bashingantaha’ (village elders) as para-legals and sending them to “collines” (districts) throughout the country where they are under-represented. The United Nations Development Programme is managing this programme.

A properly functioning system of justice is fundamental to the respect for human rights. There are currently EDF financed programmes in eight countries totalling €48.4 million specifically targeting this area, e.g. a € 16 million programme in Burkina Faso in support of democracy, law and good governance. This project focuses in particular on legal reform working through the University of Ouagadougou, and directly links democratic government with sustainable social and economic government. It also has a prison reform component, including assistance

with the provision of defence lawyers. Work has also started on the € 7.2 million justice programme for Rwanda. This supports various state institutions, including the “gacaca” i.e. the traditional system of justice which it is intended will hear prisoners accused of all but the most serious crimes committed during the 1994 genocide. It also supports projects promoting community service as an alternative to prison and NGO projects linked to justice and national reconciliation.

3.2.2. *Elections*

Democracy also depends on the environment for free and fair elections. As the number of elections increases in ACP countries, the amount of support from the EDF has also increased from four projects in 2000 to seven in 2001 in Congo; Lesotho, the Solomon Islands, Sierra Leone, Chad, Togo and Zambia. (In 2002, there will be still more with some 36 elections programmed in ACP countries.) EDF support begins prior to the election with activities such as voter education and registration, e.g. in the forthcoming elections in Sierra Leone. Support can take the form of, for example, the printing of ballot papers, as well as longer term civic education programmes. With the exception of Chad and Zambia, all the financial support outlined above (and approved in 2001) is focused on elections to be held in 2002.

The results of both the Chad and Zambia elections have been contested. Reflection is underway within the Commission on how to make EDF support more effective in this area. In some cases, additional support is provided for international electoral observers from the budget line B7-7. Electoral support is generally provided in consultation with other donors, including the United Nations Development Programme, as in Chad and Zambia. Once elected, representatives often need help with obtaining the facilities required to carry out their tasks such as staff, libraries and computers. The EC has various projects of this kind, for example, institutional support to the National Assembly in Angola, which has the potential to contribute to strengthening this fragile democracy.

3.2.3. *Good Governance*

Governance issues are being given increased priority within co-operation strategies, on the basis of an analysis of problems and needs in terms of institutional development. There are many needs which the EC is helping to meet, often in consultation with other interested donors e.g. Kenya where the EC is a member of the Economic Governance Group. One of the main forms of support in terms of the number of projects - and a support which can have an effect far beyond the financial cost - is the provision of technical assistance to National Authorising Officers. In most ACP countries this support exists in some form, often in the framework of a larger programme of aid to the Minister of Finance and/or Planning with economic, civil service or other reforms. Assistance is given not only to Government Ministries but also to other public bodies that play a role in national policy.

Thus, in Ethiopia, the National Bank will receive support to modernise and streamline some of its activities. In the Dominican Republic, a € 25 million programme of state reform and modernisation includes decentralisation to the municipal, regional and provincial levels. Devolution of certain powers to lower levels is a trend that is likely to continue. The € 1.91 million pilot project for the promotion of secondary towns in Guinea, which originated from the decentralisation of the 1990s, started in 1998 and aimed at empowering people at the commune level to play an active role in development. The recent evaluation found that, despite the problems, this experiment should be built upon and should be followed in other parts of the country. With the emphasis in the Cotonou Agreement on greater inclusion of civil society in the development process and thus on capacity building, pilot programmes like

this one will be a useful source of experience. Censuses - which are an invaluable tool for macro-economic planning - are also financed from the EDF. A recent example is Mali. All these activities are closely co-ordinated with structural adjustment, HIPC and other relevant EC or other donor programmes.

3.3. Social development

Lessons learnt from past projects in the social sectors led the EC and many partners to move, where possible, from project support towards developing sector approaches that contribute better towards poverty reduction. The sector-wide approach (SWAP) is a new means of aid delivery that implies more involvement in regular sector dialogue between beneficiaries and donors. Traditional projects nevertheless continue in a number of countries.

Poverty Reduction Strategy Papers (PRSPs) call for greater support for agreed public expenditure plans with a special focus on social sector budgets.

The EC has been progressively establishing a link between SWAPs (i.e. sector policy dialogue with governments, civil society and partners on sector priorities, work plans, related expenditure frameworks and performance indicators) and poverty reduction budgetary support.

3.3.1. Health sector

ACP countries differ widely in terms of their political stability, and their governmental capacity and commitment to deliver results in the health sector. The EC responses have been tailored to the country specific situation leading to a mix of interventions under the EDF and other EU instruments (thematic budget lines, NGO co-financing, etc...).

Wherever possible, on-going projects have been re-orientated towards sector dialogue, the launching of sector-wide approaches and support to sector programming and finance management. An increasing emphasis was given to improving the quality of projects implemented. Project management has focused on speeding up implementation and reducing the time necessary to deliver aid at beneficiary level.

The 2001 health-portfolio for ACP countries was estimated at € 960 million (€ 854 million under the EDF and € 107 million under the South Africa budget line). There were 139 projects in 47 countries with 94 % under national indicative programmes and 6 % under regional or intra-ACP EDF.

An amount of € 165.7 million was committed in 2001. Commitments involve eight projects under national indicative programmes and one regional project.

At the time of identification of EC intervention, special consideration was given to the specific needs and situations of individual countries with emphasis on access to basic health services and capacity building. At the same time, special attention was given to the reduction of ad-hoc projects, the merging of requests covering different sub-sectors into a single global intervention and to the increase of the average size of commitments to reach a critical mass for impact.

National projects range from post-crisis situations (Angola), resuming of co-operation through a key sub-sector (support to immunisation in Nigeria), nascent SWAPs (Mozambique) to "sector accompanying measures" within poverty reduction budgetary support projects (Ghana). The regional projects focus on continuation of the fight against

onchocercosis in western Africa through the co-financing of a donor trust fund managed by the World Bank and implemented by the WHO.

A contribution was made to the setting-up of a Global Fund for the fight against communicable diseases such as HIV/AIDS, tuberculosis and malaria. Special attention was given to the complementarity and coherence of the Global Fund in relation to country level support through other funding mechanisms.

The EC has also taken part in discussions of ways of joint working on projects at country level with UN agencies (such as the World Health Organisation, UNICEF, UNFPA) and set-up a health issues network to bring the sector together, exchange experience and develop good practice.

3.3.2. Education, Training and Culture Sector

In 2001, the Commission approved 8 new projects in ACP countries, representing € 98.7 million of aid to the education and training sector. This involved 7 commitments under National Indicative Programmes and a regional project. The financial support to the ACP countries in this sector increased by 38 % compared to the year 2000, with larger projects and a more 'sector-wide' approach.

The focus during this period was on improving national capacity (Ethiopia, Uganda, Pacific region) and support for basic education (Gabon, Haiti, Niger). Both sub-sectors are directly linked to poverty alleviation and contribute to economic growth, greater democracy and the rule of law.

The global **education and training** portfolio in 2001 is estimated at € 540 million, involving 111 projects. Small projects accounted for a larger share of the portfolio. However is expected that, in countries where conditions are favourable, the average size of commitments will increase, and improve the level of impact.

Furthermore, the Commission decided to approve an amount of € 9.5 million to finance a set of **cultural projects** to support creative capacity and promote cultural identity among ACP countries.

In November 2001, the EC approved the 'Common Framework for Co-operation in Higher Education with Third Countries'. This initiative aims to harmonise the Commission's approach to the implementation of programmes and projects in order to improve the effectiveness of existing co-operation and maximise impact.

The Common Framework is based on the principles of support for institutional networks, a flexible approach that respects the priorities set for each country/region, and use of the existing legal basis for each geographical area (Cotonou Agreement for ACP countries). In the future, the Commission will appraise and carry out operations in accordance with the guidelines laid down in this document.

3.3.3. Micro-projects and refugees

In order to respond to the needs of local communities, the EC has continued to participate in the financing of micro-projects at local level. In 2001, the EC approved 4 projects for a global amount of € 5 million. Particular attention was given to projects with active local participation that have a positive economic and social impact on the life of local communities.

Moreover, particular attention was also paid to countries with refugee problems. Where possible, the EC aims to facilitate self-sufficiency, integration or reintegration of refugees. During 2001, € 42 million was approved to finance projects in five ACP States.

3.4. Sustainable rural development

Three quarters of the 1.2 billion people living in extreme poverty live in rural areas, and are frequently affected by severe environmental problems. As a result, sustainable rural development and natural resources management - the basis for economic growth in most developing countries – are priorities in the work towards the reduction of rural poverty.

Although substantial amounts of resources being programmed for the social and infrastructure sectors will go to rural areas, the Commission has not yet succeeded in systematically adopting a more strategic approach to rural development. This is also reflected in the programming of the 9th EDF where only 11 out of the 50 ACP Country Strategy papers prepared in 2001 have indicated rural development as a focal sector.

3.4.1. Agricultural Development

Agricultural development aims to increase the food supply by improving the agricultural sector's productivity. Primary commitments for this area in 2001 amounted to € 99 million.

The major changes in the international (liberalisation and globalisation of markets at the regional and global level) and national (i.e. less central control of productive sectors) environments necessitate change in the implementation of projects and programmes. The new programmes within a Sector Wide Approach (SWAP) framework support national agricultural sector policies in order to strengthen agricultural producers' organisations, to encourage the participation of the private sector and facilitate access to financial services (microfinance and other credit).

In Burkina Faso the ongoing PAOSA (Plan d'Action pour l'Organisation du Secteur Agricole) programme for € 24,2 million is providing support - within the framework of the Agricultural Structural Adjustment Programme funded by the World Bank - for capacity building in the existing agricultural professional organisations, for access to local finance, for institutional support and improvements to the productivity of the rice industry. In the Ivory Coast a new € 16 million programme will also strengthen the agricultural professional organisations. However, co-operation in the agricultural sector is still very much project based and there has been insufficient progress in increasing EC support to multi-donor initiatives.

During 2001, the Commission continued support to the 12 traditional ACP suppliers of bananas by means of special technical and financial assistance as specified in the Council Regulation 856/1999. Ten financing proposals were approved for a total amount of € 43 million. Implementation of the two previous years' agreements also continued with support to improve productivity (irrigation and drainage), quality (cold storage) and the marketing of the banana crop and to encourage diversification in countries where banana production is not sustainable.

3.4.2. Livestock Development

In 2001, 2 new financing agreements for a total amount of € 12,5 million were approved to support the livestock sector in Madagascar and Guinea. The projects will focus on institutional support, animal health, privatisation of the veterinarian services and improvement

of the animal production commodity services. It is hoped that the sustainability and efficiency of these projects will be substantially enhanced both by the active involvement of the beneficiary small livestock holders in the project design and by the strengthening of the livestock farmers' organisations who are responsible for implementation.

At regional level, two programmes are implemented through the International Bureau for Animal Resources based in Nairobi:

- The 'Farming in Tsetse Controlled Areas' project (€ 20 million) which started with Ethiopia, Kenya and Uganda, but which will be extended to Tanzania, Rwanda and Burundi. The project aims to improve the well being of the rural population through sustainable livestock development in areas free of tsetse. A mid term review will be carried out in 2002.
- The 'Pan African Control of Epizootics' programme (€ 72 million) covers 32 sub-Saharan African countries. Regional co-ordination is partly in place and technical assistance to the national programmes will be recruited in 2002. Close co-ordination between the beneficiary countries, the donor community and other international organisations (ILRI, IEO, FAO), has been established in order to set up a global animal health system.

3.4.3. *Research*

Agriculture research is contributing to the alleviation of hunger and rural poverty by improving rural productivity and increasing agricultural incomes. With the growing scarcity of land and water future increases in food supplies have to come from increased productivity. Two major programmes (CORAF in West Africa and ASARECA in East Africa amounting to € 41,3 million) have started their activities in 2001 with the overall objective of improving the agricultural research capacity and services to beneficiaries. These programmes are characterised by capacity building of national and regional research institutions, a new innovative approach of accessing funds through competitive bidding and co-funding of regional networks on specific commodities.

3.4.4. *Rural Water Supply*

The international community has adopted an international development targets for the increase of access (for the population of sub-Saharan Africa to an improved water source, from 49% to 74%, by 2015⁴). One of the EC's most important projects is the 'Programme Regional Solaire', where 626 solar pumps and 660 solar electrification systems have been installed between 1990 and 1998 in nine CILSS (Comité Inter Etats pour la Lutte contre la Sécheresse au Sahel) countries for the benefit of a total number of one million rural people. After a positive evaluation it has been decided to launch a phase two for € 60 million. The second phase aims to establish a long-term improvement to the availability of drinking quality water for the rural populations of the Sahel. This will involve the active participation of the beneficiaries and the private and public sectors in exploiting available resources using solar based technology.

3.4.5. *Fisheries*

In 2001, the Commission analysed the importance of the fisheries sector to developing country societies and a Council resolution was adopted, by which, given the increasing

⁴ Millennium development goals

pressure on stocks, fisheries resource management is set to become a priority. A number of projects - in particular those in the Pacific (ProcFish), Indian Ocean (Monitoring Control and Surveillance) and Lake Victoria (Fisheries Implementation plan) were launched to build aquatic resource management competence in target ACP countries and to facilitate regional collaboration. Two new important national projects on rural coastal fisheries also started in the Pacific promoting private sector involvement. In co-operation with FAO/SIFAR (Support unit for International Fisheries and Aquatic Research) a number of other fisheries management projects are in preparation. To ensure improvements in production and trading capacity in relation to fishery products, a € 45 million programme on the raising of hygiene standards was also financed.

3.4.6. *Environment*

Environmental degradation is creating major challenges to developing countries, which suffer annual losses of productivity and natural capital as high as 4 to 8 % of their GDP. In 2001 environmental work has been very intensive in Conservation and Wildlife (C&W), Forestry (For) and Sustainable Management of Natural Resources (SMNR) with the implementation of 7 new programmes/projects for a global amount of € 55.1 million, and the approval of four new programmes totalling € 26 million.

The major ongoing programme in this sector is ECOFAC (ECO-systèmes Forestiers d’Afrique Central), with a third phase started in 2000 for € 23 million with activities related to the conservation of bio-diversity, the sustainable use of the natural resources such as forests for sustainable development and lasting improvements in people’s well being. Programme activities, co-ordinated by a recently strengthened environmental unit based in Libreville, are taking place in 6 Countries of the Congo forestry basin. The programme has managed to substantially improve the capacity and the awareness of the national authorities in the management of their natural resources. For example in 2001 the size of the Odzala National Park (Congo Brazzaville) has been increased by five times from 2800 km² to 13 280 km² and the Monte Alen National Park (Equatorial Guinea) has been extended from 1004 km² to 2000 km².

Furthermore, it is important to note the establishment of the Network of Protected Area of Central Africa (RAPAC). The desire of the five world heritage sites in the Democratic Republic of Congo to join the network and the new membership of the Zakouma National Park in Chad gives a very positive impulse to RAPAC. Another important activity is the dialogue with the logging companies in order to draft or to improve the concession management plans and to involve the local communities in the control of the illegal bush meat trade and the establishment of communal forest plots.

3.4.7. *Stabex*

In 2001 the following activities may be mentioned concerning the ‘Conventions d’Obligations Mutuelles’ (COM) :

- The preparation of 5 ‘COM’ for a total value of	133M €
- The signing of 5 ‘COM’ for a total value of	57 M €
- The preparation of 1 rider to an existing ‘COM’ for a total value of	19 M €
- The preparation of 1 rider to an existing ‘COM’ for a total value of	344 M €

These 'COM' and riders to de 'COM' concern 17 countries (Bénin, Burkina Faso, Burundi, Cameroun, Comores, Côte d'Ivoire, Ethiopie, Jamaïque, Madagascar, Malawi, Mayotte, République Centrafricaine, Rwanda, Ouganda, Tanzanie, Togo, Zimbabwe). The foreseen programmes are coherent with the 'Country Strategy Papers' (finalised or in preparation) for the 9th EDF.

3.5. Transport and infrastructures

This sector covers transport, water and sanitation, mining sub sector, energy and also support to information technologies and telecommunications. Support to the transport sector is recognised as a key element in reducing global poverty, and in promoting sustainable development and enhanced integration of ACP countries. Improving access to basic services is also essential for the enhancement of the quality of life for all and - in particular - for the poorest.

3.5.1. Transports

In May 2001, the Council adopted a resolution on 'Sustainable Transport in Development Co-operation' ⁵. The resolution welcomed the Commission communication on 'Promoting Sustainable Transport' ⁶, which provided a framework for supporting the role of transport in country and regional development strategies. This communication and resolution, taken together, establish a clear policy platform for EU action in this sector.

The EC is currently supporting implementation of 87 major projects (more than € 5 billion) in the transport sector focusing on sector reforms, capacity building, maintenance and rehabilitation, and regional integration. This reflects the existing deficits in reliable transport services particularly in Africa.

The year 2001 has been characterised by a substantial acceleration of the implementation of existing programmes in this sub sector, particularly in countries that suffered implementation delays at an earlier stage of the programming cycle. New contracts for projects committed before 2001 amounting to a total of € 495 million have been concluded in the transport and infrastructure sectors. A handful of countries (Benin, Ethiopia, Guinea Conakry and Mali) share, between them, roughly 50 % of this sum. Mali ranks first in this group with € 73 million in new secondary commitments, followed by Benin (€ 56 million), Guinea Conakry (€ 44 million) and Ethiopia (€ 41 million). In Mali, new contracts cover the rehabilitation of 437 km of the main road link to Senegal. This project also opens up access to one of the poorest regions of the country. In Benin, new contracts signed cover the periodic maintenance for 2 years of 490 km of principal roads (roughly 25 per cent of the country priority network) and the upgrading of 102 km in the north of the country. In Guinea Conakry, contracts signed in 2001 focus on the rehabilitation and improvement of the interregional connection with Senegal, where the nearest harbour is located, allowing, in the near future, better international integration of the country. In Ethiopia, the contract for improvements to the 514 km Addis Ababa –Woldiya road, crossing a region with a population exceeding 2 million, is a major contribution to the government's Road Sector Development Programme and will substantially improve road access between the capital and the north of the country. At regional level, the close of 2001 also saw the signature of the works contracts for two major road links for a cumulative value of € 165 million. One of these roads will allow better international

⁵ Resolution 9985/01

⁶ COM 422 (2000)

integration of Chad via Cameroon (400 km Link Moundou –Touboro-N’Gaoundéré) and thereby substantially contribute to the improved economic integration of the Central Africa region. The other contract covers the 130 km link between Kankan (Guinea Conakry) and Bamako (Mali). Due to its current condition this road limits the development opportunities of the north west of Guinea Conakry and the South West of Mali. These regions, with an estimated population of one million, are currently cut off from the rest of the country for several months a year.

With regards to the programming of the 9th EDF, 23 of the 44 ACP Country Strategy Papers presented for consideration in 2001 included transport as a priority sector. Almost all of these 23 countries were in Africa. It is expected that by the end of the programming exercise, approximately 30 ACP countries and 3 regions will have adopted transport as one of their priority sectors, with an estimated allocation of approximately € 2 billion. This is a similar amount to that allocated under the 8th EDF, in recognition of the continuing high priority given to the sector by the partners, particularly in Africa, and the Commission's established expertise in this area.

3.5.2. Water and sanitation

In 2001, the Commission drafted a communication on ‘Water Management in Developing Countries’ with the objective of highlighting how policies surrounding water and development should be integrated in the EC development priorities. The focus of EC support to the provision of water and sanitation in developing countries has progressively evolved from a project approach concentrating on water supply and addressing mainly technical issues, into a programme approach, including stronger social and environmental concerns, and support for improved management of the resource.

€ 52 million was committed in 2001 to activities related to safer water supply and the improvement of sewerage and sanitation services in urban areas.

Regarding ongoing projects, the EC is currently supporting government policy in improving water supply and sanitation access in small towns in rural areas or in urban centres in 6 countries. In Ghana, 30% of the planned € 32 million allocated to the National Community Water and Sanitation Strategy has been executed to date. It is expected that at the end of this project more than 560,000 people will have access to safe water and to basic sanitation services. In Mozambique, the EC is directly supporting integrated water resources management in the Zambesi basin, the second largest water-catchment area in the Southern African Development Community Region, in order to improve the quality of life of the population, especially in rural areas. The EC contribution of € 11,7 million should permit the establishment of the Zambezi Catchment Management Authority and the development of rural water supply and sanitation planning/promotion capacity in the basin. The technical assistance for the project implementation was recruited in 2001. In Uganda, the ‘mid-western towns water supply’ programme also started in 2001. This € 17.5 million programme will benefit an estimated population of 100,000 by reducing the incidence of water-borne diseases. In Samoa, a € 18,7 million rural water supply programme is currently coming to an end. This programme is achieving its objective to improve the existing water supply system in the most populated rural areas of each of Samoa’s two main islands, thereby benefiting about half of the whole rural population i.e. some 55,000 Samoans. In Mauritius, the implementation of the €16,7 million programme for the St Martin sewerage treatment plant expansion - serving a population of 220,000 - is on schedule. In Ethiopia, 30% of the €19.5 million allocated to address the inadequate water supply and the poor sanitation situation among the low-income households has been implemented as planned.

As regards the programming of the 9th EDF, 11 ACP countries (Cape Verde, Chad, Djibouti, Dominican Republic, Lesotho, Mauritius, Nigeria, Papua New Guinea, Rwanda, Samoa, Swaziland) have identified water supply and/or sanitation as possible priority sectors for poverty reduction in their strategies, with an indicative allocation of about € 500 million. In addition, several countries include water-related activities as part of their rural development priority sector.

3.5.3. *Mining sector*

The 'Sysmin' facility was used under the second, third and fourth Lomé Conventions to improve the export capacity of the ACP countries and Overseas Countries and Territories (OCT) mining products. During 2001, EDF mining support programmes were underway in thirteen countries with a total financing envelope of € 452 million. Eight of these countries (Botswana, Burkina Faso, Dominican Republic, Gabon, Mali, Mauritania, Namibia and New Caledonia) are being supported in their efforts towards sustainable development of their mining sector. In some of these countries institutional support and appropriate basic geological information has been improved, in others efforts have focused on the recovery of main public or private companies and ways of reducing the negative impact of mining activities. In the other five countries diversification programmes are underway mainly focused on the transport sector.

Since 1st January 2001, following the decisions on the transitional measures between Lomé and Cotonou, the uncommitted Sysmin funds (around € 411 million) are being programmed into the framework of the Cotonou Agreement. Priority was given to mineral sector institutional strengthening programmes (which may include a wide spectrum of projects, such as revision of mining and/or environmental codes, development of geological infrastructure, dissemination and communication activities and training), support to small and medium-sized mining enterprises and environmental protection. In 2001, nine appraisal studies were under implementation.

3.5.4. *Energy/telecommunications*

The EC was also active in ACP countries through specific programmes, generated according to specific regional or local constraints, in other fields like energy and information technologies and telecommunications systems.

In the energy sector, activities including institutional strengthening, support to power supply including rural electrification and renewable energy are underway in the Dominican Republic, Eritrea, Ethiopia, Ghana, Kiribati, Mali, Mauritania, Senegal and Sierra Leone. In 2001, efforts have been initiated to mainstream energy, in order that links between energy and development priorities (health, education, enterprise development, gender etc) are recognised in the implementation of the 9th EDF.

Several projects to improve information and telecommunication systems are underway. In the Caribbean region, a € 750,000 project to ensure a regulated and integrated development of telecommunications has started as well as a € 3.5 million project modernising existing broadcasting. In Africa - within the €11 million 'Meteorological Transition' programme - the tender for replacing equipment for all meteorological services in 47 countries was launched in November 2001. When completed, these regional interventions will improve the access of ACP countries to basic reliable information for sustainable development.

3.6. European Investment Bank

Some project highlights for 2001:

€ 144 million for the Chad-Cameroon Pipeline Project⁷ in a combination of € 88 million of own resources and € 56 million of risk capital resources. The Chad-Cameroon Pipeline is part of a broader integrated oil development and pipeline project, supported by the World Bank and international oil companies. In close co-operation with the World Bank, the environmental and social issues connected with the project were scrutinised.

€ 15 million for micro-finance ventures channelled through micro-finance specialist funds. The objective of the Bank is to help these funds develop and reach commercial maturity and financial self-sustainability. Ventures will be co-financed with other donors and, where necessary, combined with grants from other sources for institution building measures.

Lending to ACP :1997-2001

Lending by sector :	ACP (1997-2001)	ACP 2001 Figures
(€ million)		
Energy	655	260
Transport & Telecomms	191	16
Environment	159	69
Industry, Services	307	48
SMEs (Global loans)	584	127
TOTAL	1 896	520

⁷ Classed as "Oil and Gas deal of the Year" by Project Finance International magazine and "Project Finance Loan of the Year 2001" by the International Financing Review

4. DIVERS

4.1. Monitoring and evaluations

4.1.1. Monitoring

The Commission, during 2000, conceived an improved results-oriented monitoring system for the ALA/MED/ACP and Balkan regions, which is rooted in the Commission's Project Cycle Management method and tested the system during 2001. The conception and test-phase having ended, first interesting insights have been gathered concerning the efficiency, effectiveness, impact, relevance and likely sustainability of projects and programmes.

These insights are to be regarded with caution, as the sample of projects monitored is relatively small (213 projects in 29 countries) in comparison with the total volume of aid. In addition, certain instruments, such as budgetary support, have not been monitored.

Performance of projects/programmes vary according to size, region or sector but a first general conclusion is that the average of projects assessed is progressing "according to plan" or slightly better. For a strict average note of 2.5 on a scale of 1 - 4, projects' average varies from 2.51 to 2.64, depending on the criterion assessed.

- Relevance and design (criterion rating of 2.57): Projects are generally relevant and inputs adequate, but the design is often a major weakness. Successful projects are characterised by their clear reference to the national context and the existing needs and demands of stakeholders. Poor performance in these areas is associated with lack of a proper identification study or needs assessment to clearly identify the circumstances and problems of the intended beneficiaries.
- Efficiency (criterion rating of 2.53): Projects have generally shown good, flexible reaction to changing needs and situations. However, the timeliness of activities is commonly estimated to be a serious deficiency. Successful projects employ high-quality management staff and make good use of logical frameworks, work-plans, other schedules and internal monitoring systems. Poor performers lack the necessary qualified and stable management capacities, and make too little use of standard project management tools; co-ordination with other involved donors and/or sub-contractors is difficult; EC procedures are also associated with extended delays in implementation.
- Effectiveness (criterion rating of 2.64): Successful projects are characterised by good beneficiary involvement, participation and communication. The results have sometimes secondary effects, which are received very positively. Weak performers suffer from problems with beneficiary communication and contact; inadequate EC procedures were also cited as a cause for low effectiveness.
- Impact (criterion rating of 2.59, average note of 2.5): Quite often, the wider unplanned effects receive high positive ratings. Strong performance in this area is typically associated with support to capacity building and awareness-raising, and good contacts to local populations. Impact may be low if crosscutting issues and potential linkages to other projects and programmes are neglected.
- Sustainability (rating of 2.51 in a scale of 1 - 4): Social-cultural (including gender), technological and environmental issues are frequently considered to be good or very good

but financial and economic soundness is often weak. Sustainable projects tend to interact well with policy makers to ensure high levels of policy support. Capacity building is important at various levels, responding to local needs with high involvement of beneficiaries in the design of the project. Sustainability will be weak if governments do not provide sufficient policy support as well as local capacities and resources.

4.1.2. Evaluations

During the reorganisation in 2000 of the external co-operation related parts of its organisation, the Commission decided on a major repositioning of the evaluation function to strengthen its independence and to ensure its findings are used more effectively. The Governing Board of EuropeAid took over responsibility for the new evaluation service in January 2001.

The Board adopted the evaluation Units' work programme for 2001 at its kick-off meeting in February. In addition to the usual policy-level analysis of major sectors, crosscutting themes, instruments and country programmes, also the programming process and the "policy mix" are about to be evaluated. This so confirms that delegations together with their colleagues in Brussels have firmly taken in hand the management of project-level evaluations, be it mid-term, final or ex-post.

In order to be better equipped for those tasks, many colleagues participated in the PCM training courses, including the specific module on project evaluations, which were organised in Brussels and in ACP countries.

During 2001, the Evaluation Unit completed country strategy evaluations in Burkina Faso, Namibia and Uganda. The regional co-operation between the PALOP countries (Pays Africain de Langue Officielle Portugaise) was evaluated. Furthermore, EC support to the education sector in ACP countries, which included fieldwork in Uganda, Burkina Faso, Zambia, Botswana and the Dominican Republic, was evaluated. As regards EDF support to National Authorising Officers of ACP countries, the evaluation was started last year, and will be completed in 2002.

The reports and summaries concerning the above evaluations can be found on the Evaluation Unit's part of EuropeAid's web site, in the section 'ACP'.

4.2. Audits

The audit environment for EDF-funds is very wide ranging and cannot be just described by the numbers of audits during a given period. The value of audit contracts for example ranges from some € 10.000 to several hundreds of thousands of Euro. Their duration can vary between days and months. The type of operation determines the type of audit, the audit's objectives and what method or approach should be adopted. The type of audit then, in turn, determines who should carry out the work, which is in charge of co-ordination and supervision and finally what follow-up is necessary and who is responsible.

In the context of the EDF operations, audits are broken down in the following categories:

Financial audits These are audits carried out on financial statements relating to a project or an organisation funded by the EDF. Such audits usually judge the eligibility of expenditure.

Systems audits These are audits on the functioning of financial and control systems relating to a project or a programme. These audits assess the functioning of systems like

accountancy, procurement and staff management and are frequently combined with financial audits.

Public Finance Audits These audits require specialised skills and knowledge in the areas of public finance systems and usually focus on system diagnosis and on their testing (compliance and performance). However, they may also be deployed for financial assessments e.g. the quantification of public debt.

Products of all audit types could be divided into three groups:

Findings and conclusions that have a direct and immediate impact on the eligibility for financing These issues usually lead to financial decisions by EuropeAid and the Head of Delegation such as the establishment of recovery orders or the suspension of further payments until problems are resolved. In some cases it may be necessary to collect complementary evidence and thus to launch a complementary audit.

Recommendations as to the implementation or the improvement of systems Though auditors should give precise recommendations as to how system weaknesses or failures should be overcome, the Commission services in agreement with national governments may agree on alternative solutions e.g. other ways of achieving the objectives of the recommendation. This is documented in what is called a 'matrix of measures', a catalogue of measures to which the government of the beneficiary country commits itself. In some cases, the 'matrix of measures' includes provision for additional audits which are more specifically targeted, or that give corrective measures time to operate before their functioning is tested.

Audit findings that give indications for the existence of **irregularities or fraud**. Such findings are communicated to the European Anti-fraud Office (OLAF).

Since the creation of an audit unit for external operations in 1998, the SCR/now EuropeAid, at the beginning of each exercise, requests the delegations to communicate audits they have launched during the past exercise and audits they intend to carry out during the ongoing exercise. On the basis of these communications, EuropeAid keeps a simple inventory of decentralised audits. In order to eliminate weaknesses in this system, EuropeAid has started to develop an audit module for its central project management database application (CRIS – expand). This module is intended to link audit information with projects/contracts. When delegations are given access to CRIS, they will be able to directly register data relating to audits. The audit module is expected to be operational by 2003 for data entry and consequently by 2004 for annual reporting on audits.

4.3. Devolution of resources and decision-making powers to the Commission's delegations

On 16 May 2000, the Commission adopted an ambitious reform of the management of external aid to improve the management of aid, the quality and speed of project implementation and the visibility of EU financed activities.

The devolution of the management of external aid to the Commission's delegations in third countries (known as 'deconcentration') is a key element of this reform. Anything that can be decided and managed better on the ground will be placed under the responsibility of Delegations. The timetable that the Commission has set itself for the implementation of 'deconcentration' is very ambitious, since the objective is to extend 'deconcentration' to all

the delegations in 3 successive waves before the end of 2003. This has obliged the Commission departments to undertake - in parallel – the necessary conceptual, technical and logistical preparation.

‘Deconcentration’ must be implemented using procedures, rules and management systems which allow for adequate internal controls and allow authorising officers and Financial Control to assume their own responsibilities under appropriate conditions.

Despite the complexity of this process - which started simultaneously with all the other elements of the Commission’s administrative reform within and without the external relations services⁸ - all crosscutting and conceptual issues linked to the ‘deconcentration’ of the geographically based programmes have now been resolved.

The deconcentration of 6 ACP -Delegations has been foreseen for 2001 (South Africa, Senegal, Kenya, Mali, Ivory Coast, Dominican Republic).

Good progress has been achieved. As of 31st December 2001, the state of play is as follows:

- a harmonised concept of devolution covering all the ACP programmes has been defined with the participation of all the actors concerned at headquarters and in the delegations;
- most technical constraints which could have presented obstacles to the implementation of an ambitious concept of ‘deconcentration’ have been lifted (computer connections, operational information systems in a decentralised context, etc.);
- an action plan for the finalisation of the preparatory work of an horizontal nature has been established (procedure handbooks, guidelines on financial and operational channels, internal control and reporting system, etc...); the implementation of these action plans is well underway;
- necessary strengthening in human, technical and material resources which are necessary for the implementation of the concept have been established in detail with each of the 6 delegations.

⁸ Directorates-General External Relations, Trade, Development, Enlargement, plus ECHO and EuropeAid