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EU Development Policy: Delivering Aid Effectiveness

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EU Development Policy: Delivering Aid Effectiveness*

Stephen Dearden ♦

Introduction

Aid to the developing countries is a shared competence between the European Union, administered by the Commission (EC), and the Member States (MS). The EC should offer a number of advantages over national bi-lateral aid programmes, such as administrative economies of scale, as well as achieving the coordination of EU aid programmes and harmonisation of their administrative requirements. In addition it has a central role in ensuring policy coherence, especially between aid and trade policies where it has sole competence.

Politically it is possible that the multilateral funding of the EC may offer more ‘objective’ and consistent development assistance, free of the commercial and political considerations that often characterise national aid policies. However this ignores the reality of the complexities of EU development policy. The forces and interests at work are complex and changing and in part determined by the internal organisation of the EC itself, in particular the split between DG Development (DG DEV) and DG External Relations (DG RELEX), with their respective Commissioners. But of even greater import is the relationship between the individual Member States and the EC. For example, the degree of ‘poverty focus’ for the EC aid programme, emphasised by the UK and the Nordic States, has been compromised by historic associations (e.g. Spain’s links with Latin America) or ‘security’ considerations (e.g. the Southern Member States concern with migration from North Africa) in determining aid priorities. Other commentators (Carbone 2007) have seen the EC as driving the agenda, with initiatives on aid co-ordination and harmonisation in 2004, the volume of aid in 2005, aid effectiveness in 2006 and aid and trade in 2007.

A considerable academic debate has also taken place as to the significance of EU development policy both to the process of EU integration itself and to the expression of the EU’s collective interests on the world stage. Holland (2002) for example, argues that the increased effectiveness of collective EU action over national bi-lateral aid programmes can make an important contribution to strengthening the legitimacy of the EU itself. Meanwhile Arts and Dickson (2004) views EU development policy as having shifted from an innovative model of north-south relations to an assertion of the EU’s identity in the international arena.

However this paper addresses the much narrower question as to whether the EC’s development programme has realised its potential for efficient aid delivery, for demonstrating a comparative advantage over national programmes and for contributing to the co-ordination and harmonisation of the Member States policies

Development Aid

Development assistance is provided both from the general budget of the EU and through the European Development Fund (EDF). The latter is available only to the 79 members of the African, Caribbean and Pacific group (ACP) of developing countries who principally had colonial

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ties with the EU MS. This aid is provided under the auspices of the Cotonou Partnership Agreement (previously Lomé) which commenced in 2000 and will run for 20 years, with associated five yearly EDFs. The Cotonou Agreement also makes provisions for trade concessions and the EUs MS contribute on a different basis to their contributions to the general budget of the EU. While the EDF is managed by a specific EDF Committee the funds are dispersed by the EC.

The EDF was the major source of EU development assistance in 1990 (€ 1,256 mn) but by 2003 expenditure from the EU's general budget for 'external actions' had reached €6,524 mn, whilst the EDF had grown to only €2,437 mn. This expansion in the funding of aid from the general budget is explained by the significant shift in the focus of EU assistance towards Central and Eastern Europe; the PHARE programme alone accounting for €1,547 mn in 2003.

From 1984 to 1993 the aid disbursed by the EU had been increasing at an average annual rate of 20 % and by 1994 totalled €4.1 bn, making the EU the second largest multilateral donor after the World Bank. However this represented only 17 % of the total official aid given by the Member States and was smaller than the bi-lateral aid budgets of France or Germany. But by 2003 EU Official Development Assistance and Official Aid expenditure had grown to €8.9 bn., of which 30 % was provided by the EDF. The EC is now the third largest aid donor, in its own right, after Japan and the US.

Evaluation

Concern as to the effectiveness of the EC administered aid programme rose up the political agenda in the mid-90s. It was driven by the impending renegotiation of the ACPs Lomé Convention, the increasing share of total EU aid represented by the EC's own aid programme and the poor economic performance of the developing world. Thus, in 1995, the Council of Ministers requested a comprehensive evaluation of EC aid to the Mediterranean, Asia and Latin America and the ACP countries (e.g. Montes 1998).

A number of serious deficiencies were identified. Until 1985 the objectives of the EC's development policy were not explicit, but at the same time the number of instruments multiplied; a product of the expanding policy agenda of the EU. In particular the European Parliament had contributed to an increasing number of special budget lines. Coordination was poor, both internally and externally with the IMF and World Bank. This failure led to donors pursuing competing objectives, duplicating programmes and overburdening ACP administrations. Nor had donors attempted to share their expertise, carry out joint evaluations or exploited any specialist 'comparative advantage'. In terms of transparency and accountability problems arose not only from the complexity of the EC's aid programme but also from the weaknesses of the Commission's own management structure. Overall the EC was an organisation with a focus upon administrative procedures and disbursement rather than results, with little effective monitoring or evaluation of EC aid.

The Statement on Development Policy

The problem of a lack of clear policy objectives was tackled in April 2000 with the adoption of a 'Statement on Development Policy' by the Council (EC 2000b), complemented by detailed administrative reform proposals (EC 2000a). Poverty reduction was identified as the main objective of Community development policy, with priority in resource allocation being given to low-income developing countries, but this was qualified. The EU recognised the need to focus upon those areas of activity where the Community had a comparative advantage. However, again this was broadly drawn to include seven areas – the link between trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building.

The Statement is of particular value in that it outlines the approach that was to be taken to implementing these broad objectives. It incorporates the arrangements agreed in the post-2000 Cotonou Agreement for the ACPs, as well as outlining the proposed administrative reforms of the external aid programme. It signals the move to decentralised decisions making and the reallocation of resources to the Delegations ('deconcentration'), the strengthening of the programming process and the enhancement of the evaluation function. The move to 'rolling programming' was regarded as central to this process of flexible but efficient allocation of resources. The need to shift the focus of the EDF Committee from detailed control to consideration of strategic issues is specifically mentioned, as is the need to address the relationship between emergency relief and long-term development assistance i.e. the European Community Humanitarian Office (ECHO) problem.

Complementing the broader Statement on Development Policy is the 'Communication on the Reform of the Management of External Assistance' (EC 2000a). The inadequacies of the administration is seen most graphically in the long lags between commitment and disbursement. By the end of 1999 this was averaging 4.5 years and €20 bn. remained outstanding. The existing multi-annual programming documents were seen as failing to 'define the framework for the management of different phases of the project cycle in sufficient detail. Expected results are often vaguely described and therefore difficult to monitor and control.'

Organisationally EuropeAid was formed from the Common Service (SCR) and given responsibility for the implementation of development assistance. However the determination of the overall strategies remained with DG Development (DG DEV) for the ACPs and DG External Relations (DG RELEX) for the remainder¹.

Progress?

Critics of the EU continued to express concern as to the failure to fully realise the commitment to poverty reduction as the prime objective of development policy (e.g. International Development Committee (2002))²; in 2000 EC Official Development Assistance to low-income developing countries had fallen to 39% of the total. In part this reflected the EU's focus upon the "near-abroad" (the Mediterranean and the Central/Eastern Europe) where security issues, rather than development objectives, dominated. The tendency to raid development budget lines to fund unforeseen needs - e.g. the Balkans crisis – had also been a cause for concern.

Organisationally concern remained at the division between policy (DG DEV and DG RELEX) and implementation (EuropeAid); a view expressed by the DG DEV Commissioner Poul Nielson. An attempt was made to clarify the relative roles of the two DGs and EuropeAid in an Inter-Service Agreement (2001) but a subsequent Internal Audit Service report criticised the current external relations structure.

Although by 2004 considerable progress had been made (EC 2004), the EC's own monitoring of its aid administration had identified a number of areas requiring improvement (EC 2005b). Reviews of the Country Strategy Papers (CSP) that provide the basis for individual country aid allocations had found that they often failed to adequately address problems of poor governance, corruption, human rights and weak government commitment to development policies. The expected impact of EC aid programmes was often found to be far too ambitious, with an over optimistic assessment of the recipient countries administrative capacity. Particular problems also arose with the integration of the cross-cutting gender objectives into development programmes (Lister and Carbone 2006). Finally, lengthy administrative processes were still

¹ Some exceptions remained. DG ENLARG would continue to manage all of the cycle for the pre-accession instruments, DG ECOFIN macro-financial assistance (eg. debt relief) and ECHO for emergency aid.

² For earlier reviews of the effectiveness of EC development assistance see Bossuyt et al (2000) and House of Commons (2000)

impeding implementation, with management hampered by the limited use of proper reporting, monitoring and evaluation. A further assessment is provided by the Results-Orientated Monitoring (ROM) undertaken by the Evaluation Unit, which in 2003 reviewed 903 projects, worth € 7 bn. (EC 2004). Whilst overall the results were satisfactory, the sustainability of EC funded projects was identified as the major weakness, suggesting the need for more clearly defined exit strategies.

The 2005 ‘Development Consensus’

With the installation of a new Commission and a new emphasis upon the international development effort, as expressed in the Millennium Development Goals, the need for a restatement of the EU’s development policy was felt to be overdue. A review (ECDPM 2005) was generally positive in its assessment of the original Development Policy Statement but some weaknesses had been identified, in particular its need to place development policy in the wider external relations framework and to ensure ‘ownership’ across all of the Commission. It had also failed to adequately identify the EC’s comparative advantage in its aid programme and to sufficiently prioritise the realisation of complementarity between the EC’s and MS bi-lateral aid programmes.

The adoption of the new Statement faced political opposition from the Northern Member States and the UK, who wished to defend the autonomy of their national development policies, and those States, including Germany and the Netherlands, who supported enhanced coordination, but not led by the EC, but a compromise statement was adopted by the GAERC in November 2005. This new ‘Development Consensus’ (European Commission 2005), was accompanied by a series of Communications from the Commission addressing aid effectiveness. These outlined in detail the ‘strategic deliverables’ (COM(2006)87), the approach to monitoring Member States aid performance (COM(2006)85) and the future of joint programming (COM(2006)88).

In response to previous criticisms the document asserts the priority of assistance to the low-income developing countries, but this is qualified by a commitment to the medium-income developing countries on the grounds of their large low-income populations, inequalities, weak government and their importance as ‘regional anchors’. Again, while it emphasises the need for the EC to concentrate upon its areas of comparative advantage these are broadly defined, with the addition of water, energy, rural development and agriculture, and “social cohesion and employment”, to the original list of areas of activity. Aid will be based upon “the use of standard, objective and transparent resource allocation criteria based on needs and performance.” Unfortunately the “needs and performance criteria” are based upon those of the Cotonou Agreement, which remain rather imprecise. Whilst the ‘Development Consensus’ recognises the difficulties that have arisen with mainstreaming the ‘cross-cutting issues’ and commits the EC to re-launching its approach through the use of impact assessments, the CSPs, etc, it has also expanded the themes to include children’s and indigenous peoples rights and HIV/AIDS. This may reflect political expediency rather than administrative realism.

Finally the Commission proposed to enhance EU coordination through greater emphasis upon a rationale division of labour, exploiting individual partners comparative advantage. In particular the potential for co-financing is emphasised, either with MS providing additional funding for EC-led programmes (‘passive’) or the EC supplementing MS-led programmes (‘active’).

A major step forward in aid coordination and complementarity was taken in May 2007 with the adoption of a Code of Conduct on Complementarity and Division of Labour (EC 2007a). This addresses the division of labour amongst the MS and the EC, across DC and across sectors within each DC, but it remains voluntary³.

³ see Murle (2007)

Policy Coherence

So far I have concentrated upon the efficiency of the EC's aid administration and its contribution to achieving coordination and complementarity across all EU aid programmes. However a third 'C' is of importance – that of policy coherence, i.e. ensuring the consistency of other policies with development objectives, both at the national and EU level (Policy Coherence for Development (PCD)).

Policy coherence has a number of dimensions (Evaluation Service 2005). Development policy itself should be internally coherent but, more challengingly, it should also be consistent with other government policies (intra-government). Externally policy should also be consistent with other MS and EC policy (inter-governmental/multilateral). Finally, aid programmes should be consistent with the priorities and needs of recipient governments (donor-recipient). The EC has sought not only to achieve PCD within its own process of policy formation, but has also seen itself as having a central role in promulgating PCD within the MS. The document 'Policy Coherence for Development' (COM(2005)134) signalled the new priority to be given to this objective and the acceptance by the MS of the central role to be played by the EC. It included a commitment to improve PCD in twelve specific policy areas, including trade, agriculture, fisheries, migration and security.

In 2007 the first bi-annual report on PCD was published (EC 2007b). At the EU level progress was regarded as satisfactory. The findings confirmed those of a previous study (Evaluation Service 2007) in that "the mechanisms examined were relatively effective" but "the most common obstacles included the lack of adequate political support, unclear mandates and insufficient resources." The assessment of practice at the national level was far more mixed. Overall the MS viewed the commitment to PCD of Ministries other than Development as being only moderate, and varying according to policy areas and the level of understanding of PCD issues, while they also noted a lack of transparency and accountability for PCD. Even at the EU level accountability presented a challenge, particularly in the implementation of new and politically sensitive policies.

Outstanding Issues

In 2007 the Development Assistance Committee (DAC) of the OECD published its most recent peer review of the European Communities development cooperation policies. It recognised the substantial progress that had been made since the 2002 review, including the "major strategic success" represented by the Development Consensus. But it observes that the ambitious and multiple objectives of the Consensus, including its political agenda, could undermine the focus on development and the longer term strategic priorities, especially poverty eradication, as well as the 'cross-cutting' issues.

The report highlights the central importance of achieving policy coherence across both the EC and the MS, which will be facilitated by the EU's commitment to the Millennium Development Goals and the identification of the 12 priority policy areas. Policy coherence is particularly important when dealing with fragile states, where defence and security instruments need to be integrated with other aspects of assistance and where the EC's involvement may offer particular advantages over that of the individual MS.

Complementary to policy coherence is the issue of harmonisation. The DAC report urges the strengthening of inter-service coordination and the provision of clearer and more coherent policy guidance to Delegations and MS. Externally the EU needs to provide a more explicit framework to improve cooperation with other multilateral development organisations such as the

World Bank and the UN. The report paid particular attention to the issue of good governance, a political priority for the EU, and recommended closer coordination between the EC, MS and other key donors at the country level, as well as the development of consistent and transparent performance standards to enhance the predictability of aid disbursements

In 2006 EU had undertaken a reform of its financial instruments and reduced them from 35 to 10, but the DAC has called for further streamlining of the budgetary arrangements and believes that the EU should again address the issue of the integration of the EDF into the general budget of the EU ('budgetisation') in 2013 when current arrangements expire. Similarly it supports the principal of a unified DG dedicated to the EU's development objectives and providing greater development policy coherence and aid effectiveness. It also endorses the demands of some MS that the EC should increase its focus upon low income developing countries, especially as bilateral MS ODA to these DCs has levelled off since 2003, and should consider completely untying its aid in line with the DAC's 2001 recommendation.

While the EC has frequently presented its internal reform process as having been completed many of its development partners commented on the need for greater devolved authority, simplified procedures and the need to accelerate programme implementation. The process of 'deconcentration' to the Delegations has yet to be fully exploited, with the need to strengthen their capabilities to undertake project approval, results reporting and country analysis. With the move to general budget support and away from project focused aid, an understanding of the local context becomes of prime importance. The local Delegations must have a central role in designing and managing such support and it must be provided in a pragmatic manner suited to individual country circumstances. DAC warns that the EC should guard against utilising budget support merely to achieve administrative economies and a greater rate of funds disbursement. Performance management is one of the areas where significant advantages will arise from greater harmonisation between the EC and MS as well as with other international donors. The commitment by the EU MS to the Paris Declaration on Aid Effectiveness provides an opportunity for the EC to fulfil a leadership role within the Community, setting an example by successfully implementing its own aid effectiveness measures.

But the DAC report also identifies a number of long standing problems that still require attention. As with other assessments it found that the cross-cutting issue of gender equality is not consistently addressed in programming and requires strengthening. The integration of ECHO humanitarian relief with longer term development programmes remains unsatisfactory and the report calls for more coherent liaison between ECHO and the MS and for more generous funding of its base budget. Similarly it calls for more structured dialogue with civil society partners both in Brussels and in the DCs. Finally the EC should work closely with the EU's new MS to assist their integration into the increasingly coordinated international approach to development.

Conclusion

The 2005 Development Consensus and its accompanying Action plan addressed many of the criticisms and weaknesses that were identified ten years earlier. But as with the first reform proposals the effectiveness of the new programme will be determined in its implementation. As we have seen a number of issues remain outstanding. Some are of an administrative nature e.g. the adequate resourcing of the Delegations to undertake their new analytical and policy-driving role, the relationships of the Delegations to Brussels and the reconciliation of country flexibility with development policy consistency. Other issues have a political dimension e.g. budgetisation or the current organisational structure of the Commission. Of particular interest is the policy split between DG DEV and DG RELEX, which many see as reflecting the unresolved issue of the relationship between a 'poverty-reduction' orientated development policy and the wider concerns of EU external relations. These wider EU interests can be seen expressed in the emphasis upon migration or money laundering in the country assessment framework and in the increasing

emphasise upon 'security' objectives in prioritising EU aid programmes. This was made explicit in 2003 when a new security framework was adopted⁴ (see Wood 2003). The EU's 'world view' is also mirrored in its emphasis upon regional integration and integration into the world economy through the adoption of freer trade; a fundamental premise reflected in the EU's approach to the current Economic Partnership Agreement trade negotiations with the ACPs. Further the EC has proposed more formal coordination in international fora, for example amongst the MS Directors at the World Bank, in order to enhance the collective influence of the EU. But whether the increasing emphasis upon international aid harmonisation will enhance or inhibit the emergence of a distinctive 'European voice' in the development policy debate is likely to prove an interesting question.

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