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COMMISSION STAFF WORKING PAPER

10th EDF PERFORMANCE REVIEW

LIST OF ACRONYMS

ACP	African, Caribbean and Pacific
AFD	Agence Française de Développement
AfDB	African Development Bank
AMCOW	African Ministerial Council on Water.
APF	African Peace Facility
APSA	African Peace and Security Architecture
APT	Annual Performance Tranche
CAP	Common Approach Paper
CCM	Country Coordinating Mechanism
CFSP	Common Foreign and Security Policy
CSDP	Common Security and Defence Policy
CSP	Country Strategy Paper
CTA	Technical Centre for Agricultural and Rural Cooperation
DAC	Development Assistance Committee - OECD
DCI	Development Cooperation Instrument
DRR	Disaster Risk Reduction
EACEA	Education, Audiovisual and Culture Executive Agency
EDF	European Development Fund
EFCC	Economic and Financial Crime Commission
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ENPI	European Neighbourhood Policy Instrument
ENRTP	Environment and Natural Resources Thematic Programme
EPA	Economic Partnership Agreements
EUEI	EU Energy Initiative for Poverty Eradication and Sustainable Development
EUWI	EU Water Initiative
FDI	Foreign Direct Investments
FLEX	Mechanism for Compensation of Export Losses
GAP	Governance Action Plan
GBS	General Budget Support
GCCA	Global Climate Change Alliance
GFATM	Fund to Fight Aids, Tuberculosis and Malaria
GIT	Governance Incentive Tranche
ICA	Infrastructure Consortium for Africa
IMF	International Monetary Fund
INCAF	International Network for Conflict and Fragility
ITF	Africa Infrastructure Trust Fund
JAES	Joint Africa-EU Strategy
JAST	Joint Assistance Strategy for Tanzania
JPA	EU-ACP – Joint Parliamentary Assembly
LDC	Least Developed Countries
LRRD	Linking Relief Rehabilitation and Development
MDG	Millennium Development Goals
MFF	Multi-Annual Financial Framework
MTR	Mid-Term Review
NAO	National Authorising Officer

NFIU	Nigerian Financial Intelligence Unit
NIP	National Indicative Programme
NSA	Non-State Actors
OCT	Overseas Countries and Territories
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
RIP	Regional Indicative Programme
ROM	Results Oriented Monitoring
RSP	Regional Strategy Paper
SBS	Sectoral Budget Support
SPD	Single Programming Document
SSATP	Sub-Saharan Africa Transport Programme
STABEX	Compensatory Finance Scheme to Stabilise Export Earnings of the ACP Countries
SWAP	Sector-Wide Assistance Programme
TCF	Technical Cooperation Facility
TRI	Training and Research Institute
UNODC	United Nations Office on Drug and Crime
VFLEX	Vulnerability FLEX Mechanism

CONTENTS

INTRODUCTION

The European Union (EU) maintains privileged political, trade and development cooperation relations with the African, Caribbean and Pacific (ACP) group of developing countries under the revised ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 for a period of 20 years. Development finance under the Cotonou Agreement is provided from the European Development Fund (EDF) and set by a multiannual financial protocol. The 10th EDF covers the period 2008-2013. It comprises €21.966 billion for ACP countries and €0.286 billion for overseas countries and territories (OCT).

The Cotonou Agreement calls for a performance review of the 10th EDF to be undertaken by the Council, together with the ACP States, on the basis of a proposal to be prepared by the Commission. The Cotonou Agreement (Annex 1b, Article 7) and the 10th EDF Implementing Regulation (Article 14(5)) stipulate that the performance review shall assess the financial performance, as well as the quantitative and qualitative performance, and in particular the results and the impact, measured in terms of progress towards achieving the Millennium Development Goals.

The presentation of this paper has been delayed due to the Multi-Annual Financial Framework (MFF) process. The present Staff Working Paper restricts itself to: (i) providing a summary of the programming, activities and results of the 10th EDF, (ii) examining the value added by the 10th EDF in its main areas, (iii) reporting on financial performance and (iv) as far as possible, assessing the performance.

As regards impact, progress towards achieving the MDGs is very difficult to define, to identify and indeed to measure. Direct linkages between EU development support and development progress in the partner countries are very difficult to establish since the impact of development policy does not equal the sum of the impact of projects and programmes. Moreover, numerous interacting factors (other donors, other actors including non-state actors and the country itself, as well as other policies) must be taken into account as they necessarily influence the overall environment in which the policy and action take place. For these reasons, the present paper presents the evaluation methodology of the Commission and its results in some areas including, in some cases, specific impact of EU action. In order to contribute to a decision on the amount of the financial cooperation with ACP States after 2013, as foreseen by the Cotonou agreement, the paper proposes an assessment of the degree of realisation of commitments and disbursements of the 10th EDF.

CHAPTER I. THE 10TH EDF PROGRAMMING EXERCISE

This first chapter provides a summary of the four levels of EDF programming: national, regional, intra-ACP and the Investment Facility. It aims to offer an *ex-post* assessment of the first programming carried out on the basis of the European Consensus and the EU Code of Conduct. The objective is to explain EU programming choices and to examine the added value provided by the EU.

The ACP-EU partnership is an original model of North/South partnership, combining a strong political dialogue, a system of trade preferences and considerable amounts of aid. The aid programming exercise, involving both the ACP State concerned and the EU, is a vivid illustration of the partnership approach and bears witness to the EU's commitment to a strategic common approach to poverty reduction. The programming exercise for the 10th EDF built on the experience under Lomé conventions and Cotonou agreement which have made it possible to implement the core principles of the Paris Declaration on Aid Effectiveness at all levels of aid programming: cooperation is based on mutual rights and obligations, emphasises the importance of predictability and security in resource flows and promotes local ownership at all levels of the development process.

The EDF offers a global reach, whereas Member States tend to concentrate on a limited number of partner countries. For many ACP countries, it is the only significant presence in development cooperation. Thanks to the EDF, the EU is able to pursue a consistent and coherent set of objectives across 77 ACP countries. Therefore, in terms of presence, scale and focus, EDF operations offer significant advantages over national action. The EU's role as the biggest global donor gives it a strong voice on issues such as governance, budget support, regional cooperation, economic development and infrastructure, areas in which an isolated action of individual Member States would have less impact.

The EU also offers huge potential for a better division of labour between European donors, promoting significant economies of scale, a single contact point for beneficiaries and a clear European voice. The 10th EDF programming exercise was the first conducted on the basis of the European Consensus for Development. For the first time in fifty years of development cooperation, a political declaration defined, at European Union level, the common values, principles, objectives and means for poverty eradication. It commits the Commission and the Member States, not only as members of the Council but also as bilateral donors. Under the European Consensus, the EU Member States, the European Parliament and the European Commission share a single vision for a more efficient and more coordinated development policy. Since the European Consensus was adopted, considerable progress has been made on pooling resources from all European aid donors to prevent overlaps and bring concentration where necessary. However, aid remains fragmented, causing inefficiencies and ineffectiveness with both financial and political consequences. Moreover, consideration should be given to strengthening synergies with other policies, such as research and innovation. Human and institutional capacity building should be a transversal priority across the whole programme.

The general question for the next programming exercise is how to create more synergies in EU aid flows and reduce fragmentation between: (i) EU instruments (the EDF and the budget), (ii) levels of action in the EU (national, regional and thematic/horizontal) and (iii) EU Member States' bilateral, European Commission-managed and European Investment Bank interventions.

EDF resources are channelled via two instruments: one which groups together all non-reimbursable aid and one providing loans, risk capital, and guarantees with a view to supporting development of the private sector and of a commercially run public sector from an Investment Facility managed by the European Investment Bank (EIB). Non-reimbursable assistance is broken down into three 'envelopes': national, regional and intra-ACP.

EDF 9/EDF 10 breakdown into envelopes

	EDF 9 final (M€)	EDF 10 (M€)
1. National and regional cooperation	**12 146**	**17 766**
1.1 National indicative programmes (NIP)		
➪ A envelopes (programmable funds)	9 632	**13 500**
➪ B envelopes (unforeseen needs)	1 585	**1 800**
1.2 Regional indicative programmes (RIP)	929	**1 783**
1.3 Reserve for programmable NIP/RIP allocations		**683**
2. Intra-ACP cooperation	**3 059**	**2 700**
Sub-total managed by the Commission	**15 205**	**20 466**
3. Investment Facility (managed by the EIB)	**2 220**	**1 500**
Sub-total for ACP operational credits	**17 425**	**21 966**
OCT	329	286
Support expenditure	331	430
Total ACP + OCT + support	**18 086**	**22 682**

SECTION 1. NATIONAL LEVEL — OWNERSHIP AND ALIGNMENT IN SUPPORT OF POVERTY ERADICATION

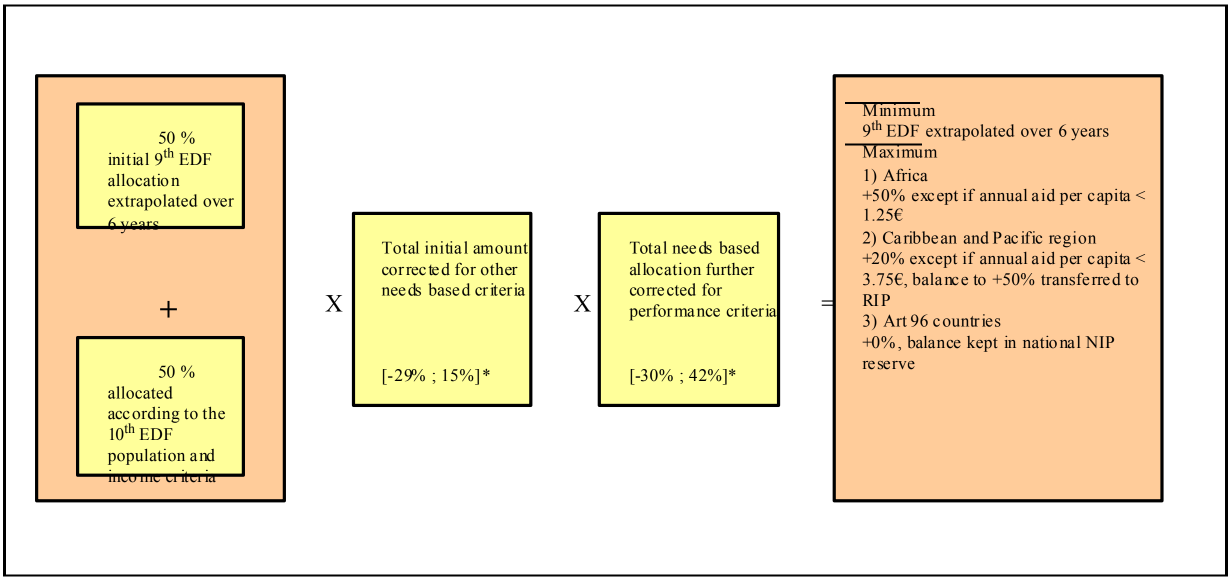
Considering that two of the core objectives are ownership and alignment, the national level is the first level of EU intervention. Given the diversity of partners and challenges, differentiation is an absolute necessity. EU development cooperation is therefore necessarily country-specific, tailor-made to each partner, based on its own needs, strategies, priorities and assets. EU Delegations, in charge of programming with the partner countries' governments, are always working to identify the best ways to provide development assistance, based on what will work in each individual situation.

At the same time, the EU's global reach permits the EU to implement a consistent and coherent set of objectives across all ACP countries. This global presence is built on objective and transparent criteria for resource allocation, based on needs and performance and set by the European Consensus and the Cotonou Agreement. For each ACP country, the resources allocated comprise two components: (i) a programmable part ('A envelope') to cover macroeconomic support, sectoral policies, programmes and projects to support the focal or non-focal areas of assistance plus (ii) an unallocated part ('B envelope') to meet unforeseen needs.

A highly elaborate aid allocation model has been developed under the 10th EDF[1]. A two-step approach was used to determine the programmable country allocation:

[1] Commission Decision C(2007)3617, 1.8.2007.

(1) An initial allocation based on a statistical model which develops the needs and performance criteria, based on data published by recognised international institutions and financial performance data extracted from the Commission's accounting system.
(2) A possible additional incentive tranche, based on more qualitative criteria concerning democratic governance which cannot easily be fed into a quantitative model.



1. Sector breakdown of the national indicative programmes (NIPs)

The European Consensus, confirmed by all the EU commitments on aid effectiveness[2], underlines that the principle of concentration has to guide the EU in its country programming. This means selecting a strictly limited number of areas for action when EU aid is being programmed, instead of spreading efforts too thinly over too many sectors. The Consensus underlined that one of the Commission's roles is to be a delivery agent in areas where size and critical mass are of special importance. The selection process for the 10th EDF was performed at country level by means of a transparent and indepth dialogue with partner countries on the basis of a joint analysis and in such a way as to ensure complementarity with EU Member States. **This section provides a summary of how effectively the 10th EDF country programming applies the principle of sector concentration and shows the value added by the EU in each of the main sectors.**

In line with the principle of concentration, the 10th EDF country programmes are strongly focused. Almost 50% of EDF funds are concentrated on two sectors: infrastructure and governance. In 90% of the small national indicative programmes (NIPs), 85% of the funds for each programme are focused on one area and on budget support. For large NIPs, the number of sectors is often larger: in one out of every four cases, four sectors or more, including general budget support (GBS), are required to reach 85% of the NIP and in one in three the total aid is spread over more than six sectors. The EU had, however, to adapt the principle of concentration to reality. In some cases, the Commission is one of very few EU donors or even the only one. In such cases, concentration is less applicable, as it would create orphan sectors. The fact that the EU and the Member States have not yet synchronised their

[2] Made in Paris/Accra in the EU Code of Conduct on Complementarity and Division of Labour and the Council conclusions on an Operational Framework on Aid Effectiveness (17 November 2009).

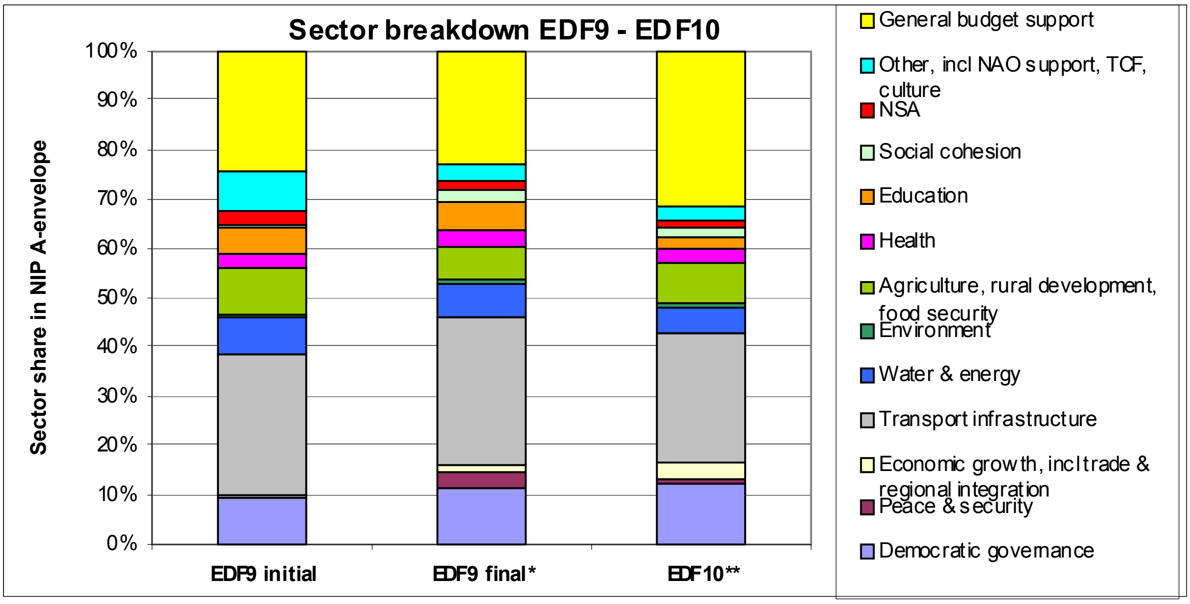
programming cycles to build a coherent support strategy can also be an explanation in some cases. Strengthening support to human and institutional capacity building would moreover enhance the possibility of local action and growth.

Recent evaluations of EU support to African States (2009: Angola, Botswana, Chad, Namibia and Uganda; 2010: Burkina Faso, Liberia, Niger and Nigeria) show that operations are generally relevant to national needs and in line with the objective of poverty reduction. Some evaluations found that the efficiency of programme implementation has been hampered by weaknesses in the institutional capacity of partner countries and/or insufficient human resources at EU Delegation level in comparison with the amount of aid to be spent, especially in crisis or post-crisis situations.

Sector breakdown: 9th/10th EDF NIPs

Sector	EDF 9 final	EDF 10
Democratic governance	11.5%	13.4%
Peace and security	2.8%	2.6%
Economic growth, including trade and regional integration	1.5%	3.7%
Transport infrastructure	30.0%	24.9%
Water and energy	7.1%	4.6%
Environment	1.1%	1.3%
Agriculture, rural development, food security	6.4%	8.0%
Health	3.5%	3.3%
Education	5.5%	2.1%
Social cohesion	2.7%	1.7%
Non-State Actors (NSA)	1.7%	1.8%
Other, including National Authorising Officer (NAO) support, Technical Cooperation Facility (TCF), culture	3.5%	3.3%
General budget support	22.9%	29.3%
Total	100.0%	100.0%

Comparison sector breakdown A envelopes EDF 9/EDF 10



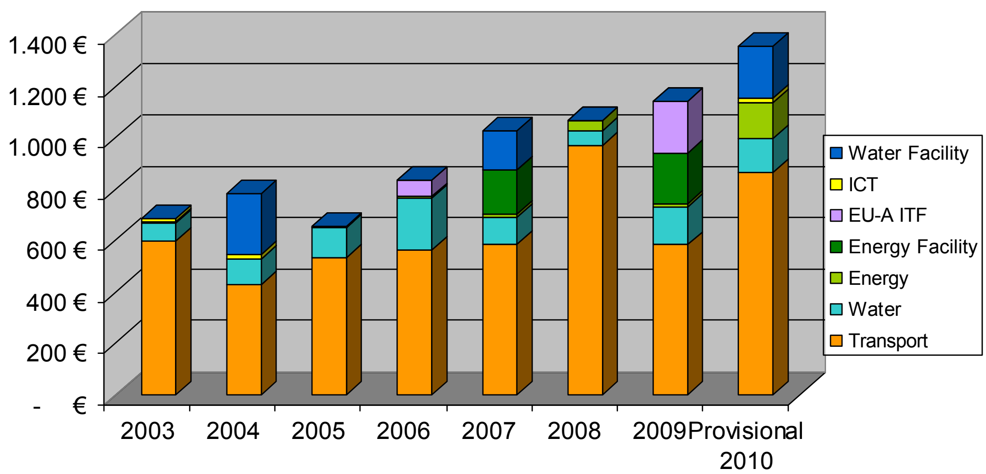
1.1. Infrastructure

For 2008-2013, the programmable aid allocation from the 10th EDF to infrastructure, including water and energy, totals over €4.1 billion[3]. This makes infrastructure the biggest sector in the 10th EDF.

With a track record of spending about €800 million per year over the last ten years in African, Caribbean and Pacific (ACP) States, the European Commission is therefore a major player in the field of infrastructure, where size and critical mass are of special importance, not only to respond to major needs but also to implement a coherent approach at both national and regional levels. True to the twin principles of ownership and partnership, the overall framework for EU action on infrastructure is the EU-Africa Infrastructure Partnership, created in 2006 to respond to the ambitious goals of the African Union's Infrastructure Action Plan.

Reflecting the principle of concentrating aid on Africa, the main trend in EU policy for infrastructure development is to support Africa's regional interconnectivity in the areas of water, energy, transport and ICT. The Joint Africa-EU Action Plan is the main vehicle for implementing this strategy, along with national and regional programmes, the Water and Energy Facilities and the EU-Africa Infrastructure Trust Fund, one of its new innovative instruments.

2003-2009 EDF Infrastructure Commitment and Pipeline 2010 per 12/11/2010



3 In addition, under non-programmable instruments, €200 million is allocated to the Infrastructure Trust Fund, €200 million to the Water Facility and €200 million to the Energy Facility. Transport is a focal sector in 30 Sub-Saharan African countries, water in 12 and energy in 10.

Transport and related services are essential for economic and social development (e.g. trade, investment and access to health and education services) and regional integration. Provision and operation of transport infrastructure are linked to the demands of the beneficiaries: transport infrastructure (roads, railways, ports and airports) responds to the needs of economic and social sectors and contributes to regional integration objectives. The Commission strongly promotes continuous sectoral dialogue between governments and donors to make sure that the transport sector responds to demand in a sustainable way. In such a sector-wide approach, strategies are based on realistic priorities, taking into account available resources for operations and maintenance and applying a multi-modal conception of transport infrastructure and services, covering transport by land (road and rail), air and water (sea and inland waterway). The EU is promoting substantial reforms of transport policies in a relevant number of ACP countries and regions. These reforms aim the improvement of physical infrastructure management and maintenance, cheaper transport prices paid by final customers, the improvement of the accessibility to basic education and health services for poor/ isolated people …

Access to sustainable energy is crucial since it is a pre-requisite to attain most MDGs. The access to reliable and stable priced energy, and in particular electricity, directly influences health, education, agriculture and economic standards, and, thus, it contributes to poverty eradication. These objectives have been fostered through the 10th EDF, while tackling climate change, by taking advantage of new methods for cooperation under the 10th EDF and by working with local actors and the local private sector among others.

In June 2009, the Commission developed a strategy for supporting developing countries in coping with the crisis, including labour-intensive local infrastructure and maintenance and faster delivery of large-scale regional infrastructure to make Africa more competitive. Some of the main challenges on the recipients' side relate to ownership, administrative capacity and realistic priority-setting at regional and continental levels.

Chapter 3 gives an overview of results and of the main lessons learned. The main challenge on the EU side is to widen the scope for EDF instruments to work with multilateral banks and non-EU countries, giving priority to improving project pipelines to speed up infrastructure delivery, in particular by harnessing the full potential synergies between instruments (National Indicative Programmes (NIP), Regional Indicative Programmes (RIP) and EU-Africa Infrastructure Trust Fund).

1.2. Governance

The 10th EDF has put forward a stronger vision of governance, based on both a holistic and an incentive approach. It has also intimately linked its programming to the political dialogue provided for by the Cotonou Agreement (Article 8), at the heart of the EU's partnership with each individual country.

In the 10th EDF, the EU approaches governance in a broad and holistic manner, integrating a wide range of dimensions (political, economic, environmental, cultural and social) to reflect the State's ability to deal with its core functions and serve citizens in a responsive, effective and transparent way. Democratic governance includes issues such as respect of human rights, democratisation, the rule of law, access to justice, gender equality, management of migration flows, access to basic public services, effective, transparent, responsive and accountable State institutions, sustainable management of resources and promotion of sustainable economic growth. All levels of governance — local, national, regional, continental and international — are relevant.

The Commission puts governance at the core for achieving sustainable development in all sectors and, hence, for timely achievement of the MDGs. Democratic governance touches upon the fundamental principles of participation, transparency, accountability and inclusion that are crucial for a democratic society and for respect for human rights. Better governance is thus expected to bring positive progress in these fields too. Furthermore, the Commission considers it a basic measure for the stability and performance of society and, therefore, of great importance in situations of fragility too, where improved governance can contribute to stabilisation.

While recognising that improvements in democratic governance are a domestic issue specific to each country, the Commission is committed to addressing democratic governance both as a specific area for support (i.e. human rights, democracy, public administration, decentralisation, civil society and rule of law) and as a cross-cutting issue in all programmes in every sector (i.e. support for democratic governance within sectors such as food security, education, transport, justice, etc.).

Governance is also crucial for sectoral development and outcomes and, thus, for efficient service delivery: while poor governance is not the only reason for weaknesses at sectoral level (education, roads, health, etc.), there is strong evidence that it tends to be a serious obstacle and puts at risk the opportunities for sustainable sectoral development.

Promoting democratic governance and supporting partner countries' efforts are therefore an integral part of EU-ACP cooperation strategies. Respect for ownership, dialogue between partners and focus on incentives for result-oriented reforms are the main principles of EU support for governance. The Commission put this approach into practice in ACP countries for the first time with the 'Governance Initiative'.

The Governance Initiative

Dialogue and incentives are preferable to and more effective than conditions and sanctions. In order to put this approach into practice, the European Commission launched the 'Governance Initiative for ACP countries' and the 'Governance Facility' for which countries covered by the European neighbourhood and Partnership Instrument are eligible.

The 'Governance Initiative for ACP countries' serves a twofold purpose:

(1) First of all, it is an innovative incentive mechanism that gives ACP partner countries access to additional funding in proportion to their commitments to achieve practical results in their democratic governance reform programmes. €2.7 billion from the 10th EDF were reserved for this 'governance incentive tranche' (GIT).

2) Second, under the Governance Initiative, the EU will continue providing political and financial support for the African Peer Review Mechanism, with due regard for African countries' ownership of the process. The EU is providing support for the process and the reforms it generates at national level.

The analytical tool of the Governance Initiative is the governance profile that gives an overview of nine areas and helps to identify the main weaknesses, the priority areas and needs for reform. The partner country is encouraged to make relevant, ambitious and credible commitments to reform and to put forward a Governance Action Plan (GAP), formalised in an Annex to the country strategy paper. A qualitative assessment of plans presented by partner countries determined the allocation of this financial incentive that tops up the overall country allocation ('the tranche').

Initial assessment of the Governance Initiative was done in 2008. It resulted with a staff working paper and was followed by Council Conclusions on democratic governance in 2009.[4] The first results argued that GIT is innovative and well adapted to approach to supporting democratic governance. It has good potential to promote reforms owned by partner countries and to facilitate dialogue between partners. It was indicated that the main shortcomings of this Governance Initiative process lie in the uncertainties and changes in the method in the months immediately after the process was launched. When the allocation methodology was decided, the programming process had already been launched: in certain cases, the timeframe did not allow proper implementation of every aspect of this method. This did not provide for the highest level of ownership by ACP countries nor allowed in all cases for consultation with key actors including parliaments or civil society. Furthermore, this did not provide for sufficient development of a methodology and process to monitor and assess progress in commitments.

The Council conclusions of May 2009 ask for a Commission report to Council in early 2012. Therefore a study on GIT was launched in the end of 2010. This study is supposed to assess the Governance Initiative and provide recommendations for the future. The results should be available by end 2011.

The key governance areas supported by the 10th EDF are:

- **Justice and rule of law,** mainly to improve the functioning of the justice system and open up better access to justice for all citizens. Reform of the justice system is also an absolute requirement for judicial certainty without which investors might turn away from the country, in which case its development is doomed to failure. It is therefore crucial that the EU should support the justice sector in cooperation with partner developing countries, when the proper functioning of the judiciary is a *sine qua non* for economic development and poverty reduction (e.g. Burkina Faso, Cameroon, the Central African Republic, the Democratic Republic of Congo, Rwanda, and Togo and).

- **Reform of public administration and decentralisation:** EU support focuses on strengthening the capacity of national, regional and local governments to deliver adequate public services to the people. Assistance is also given to enhance transparency and accountability and reduce corruption. Often decentralisation is a key requirement in order to deliver more efficient services to local populations and promote democratic governance. Decentralisation strategies are embedded in broader reforms of the State. In most decentralisation processes supported by the EU (in Benin, Gambia, Ghana, Mali, Madagascar, Senegal, Sierra Leone, South Africa, Tanzania, Uganda, etc.), the decentralisation debate raises broader questions on the type of government needed, on ways and means to improve State-society relations or on the necessary adaptation of the central State to both regionalisation and decentralisation trends.

- **Electoral support,** including establishing a legal framework for elections, providing voting material and equipment for the national electoral body, helping with registration of political parties and of voters and with voter and civic education and supporting media monitoring and training of journalists. Elections are an essential

[4] http://ec.europa.eu/development/icenter/repository/CSWP_SEC_2009_0058_governance_en.pdf

component of a functioning democracy. Action supporting genuine elections can make a major contribution to peace and development (Nigeria and Uganda).

- **Economic governance,** including reforming public finance management, helping to put in place policies to combat corruption and providing support for improving the business and investment climate, customs reform (Angola, Burkina Faso, Chad and Gambia) and improvement of good governance in tax matters.

1.3. Budget support

The Paris Declaration (2005) commits donors to harmonise aid better and work more through country systems, while the European Consensus for Development (2005) specifically calls for greater use of budget support where circumstances permit[5]. Budget support is the direct transfer of financial resources to the national Treasury of a partner country, on fulfilment of agreed conditions, and is an important instrument for making the aid to which EU Member States are committed more effective. Budget support made up 30% of total funding under the 9th EDF (2001-2007) (general budget support (GBS): 21%, sectoral budget support (SBS): 9%) and this is expected to rise to 45% (GBS: 29.4%, SBS: 15.4%) under the 10th (2008-2013).

It is widely recognised that achieving the MDGs will require both more and better aid, with budget support being a particularly important means of improving aid effectiveness. Budget support is favoured because it increases ownership, promotes a more stable macroeconomic framework, provides a better framework for public expenditure and policy-making, increases the coherence of the budget, promotes harmonisation by donors, encourages alignment with government priorities and programmes, reduces transaction costs, strengthens partners' institutions and national systems and increases domestic accountability (including parliamentary scrutiny). It also allows a much deeper and more meaningful dialogue between donors and partner countries.

The EU provides budget support only to countries that meet the following three eligibility criteria[6]: having in place or being in the process of implementing (a) a well defined national policy and strategy (or sectoral in the case of sector budget support), (b) a stability-oriented macroeconomic framework and (c) a credible and relevant programme to improve public financial management. Each disbursement requires continuous fulfilment of these standard eligibility criteria.

Typical EU budget support arrangements involve a three-year commitment, with annual disbursements in the form of a fixed ('all or nothing') tranche linked to general eligibility conditions, plus a variable tranche (on average about 35% of the total) that depends on actual performance against an agreed set of indicators. These are typically in the areas of health (for example, vaccination rates and attendance of skilled personnel at birth), education (for example, school enrolment and completion rates) and public financial management, although

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[5] For example: *Article 26*: 'Where circumstances permit, the use of general or sectoral budget support should increase as a means to strengthen ownership, support partners' national accountability and procedures, to finance national poverty reduction strategies (PRS) (including operating costs of health and education budgets) and to promote sound and transparent management of public finances'; *Article 113*: 'Where conditions allow, the preferred modality for support to economic and fiscal reforms and implementation of PRS will be budget support, for specific sectors or for the general public spending programme'.

[6] Derived from the various legal frameworks (Cotonou/EDF, DCI, ENPI and IPA) covering the different regions.

indicators from other priority areas identified in the country's development strategy may also be used, for example infrastructure or agriculture. In the case of sector budget support, the indicators typically come from the sector programmes and there is an increasing tendency for the sectors to be 'non-traditional', i.e. related to governance, to the legal sector, to private-sector developments, etc. The EU is also at the forefront of providing longer-term, more predictable budget support to strong performers in the form of 'MDG contracts', plus budget support to fragile States[7].

The Commission places particular emphasis on result ('outcome') indicators rather than policy measures. This is because results are visible and what really matters to poor people and are the best justification for the use of budget support before European taxpayers and final beneficiaries. A focus on results also creates space for governments to decide their own policies, thus fostering ownership and local accountability, encourages evidence-based policy-making and analysis and stimulates demand for high-quality data.

In 2008, the Commission also launched MDG contracts for countries with a track record of successfully managing budget support and demonstrating commitment to making progress towards the MDGs. In response to evidence regarding the costs arising from unpredictable aid, MDG contracts provide longer-term (six-year), more predictable commitments of budget support that enable governments to plan their strategies and budgets to achieve the MDGs with greater certainty about future resource inflows (see Chapter 3).

The Commission also launched a Green Paper on the future of EU Budget Support in October 2010 (see chapter 3) to consider the views of a wide range of stakeholders and to improve its future policy and approach on budget support.

1.4. Support for social sectors

The support for social sectors (health and basic education) can be estimated at up to 33.6% of national programming.

Direct support for projects and programmes or sector budget support makes up 6.5% of NIPs (against 8.2% under the 9th EDF), whereas general budget support linked to social sectors accounts for 27.1%. The relative decline in direct support for social sectors is explained precisely by the increase in general budget support, but also by the division of labour between donors that prompted the Commission to focus on other sectors, where local partners felt it has clear comparative advantages. In Tanzania, for example, but also Zambia and Benin, the partner country and other donors have asked the Commission to withdraw from social sectors in favour of another donor.

Withdrawal by the Commission: division of labour in action in Tanzania

Based on the Joint Assistance Strategy for Tanzania (JAST), the Government of Tanzania and the European Commission prepared the 10th EDF country strategy paper (CSP) and national indicative programme (NIP) in close consultation with the main development partners, notably the EU Member

[7]Further details on this topic are provided on page 45.

States and representative non-State actors. The NIP is intended to align with Tanzania's poverty reduction goals and to reflect the areas where the Commission holds comparative advantages in the country, thereby contributing to a more effective division of labour between donors.

In Tanzania, as in many Sub-Saharan countries, the social sectors suffer from quite high aid fragmentation and donor crowding. This leads to high transaction costs both for donors and for the partner country. In accordance with the EU Code of Conduct, the Commission and EU Member States agreed on a better sectoral division of labour. The Commission withdrew from the education sector in which it had been active under the 9th EDF. Other donors, notably the UK and the Netherlands among the EU members, but also the World Bank, the USA, Japan and Norway remain involved in the education sector (annual donor disbursements in the fiscal year 2008-2009 estimated at € 72.9 million). Similarly, the other donors active in the health sector, notably Germany, the Netherlands and Denmark among the EU members and the World Bank, the USA and Japan, did not consider it useful for the Commission to enter this sector (annual donor disbursements in the fiscal year 2008-2009 estimated at € 90 million).

The EU decided to consolidate its position as the leading donor of general budget support and in infrastructure (which will be supported to a large extent by sector budget support).

1.5. Trade and private-sector development

The Cotonou Agreement underlines the importance of the support for development of the private sector in the ACP countries, recognising the key role played by enterprises in accelerating economic growth and reducing poverty. While poverty reduction requires more than just economic growth, growth is an essential ingredient to increase incomes, employment and State budget revenue and, ultimately, to alleviate poverty.

The economies of developing countries suffer from a general shortage of capital, which is aggravated in low-income countries by a prevalence of public capital (Africa has twice as much public capital as private capital). Many developing countries are struggling to create a business-friendly climate and to attract or even retain foreign and domestic investors. Foreign direct investment (FDI)[8] flows are low and domestic capital tends to flee abroad towards high- and middle-income countries which are perceived as safer havens. Inevitably, lack of capital translates into lack of productive capacity.

While resources for external assistance remain scarce, financing needs are continuing to grow globally, a situation exacerbated by the financial and economic crisis. Therefore, it is of paramount importance to leverage private funding and other resources and fully involve private stakeholders in achieving the Millennium Development Goals.

Following the 2003 Commission Communication on support for the business sector[9], EU assistance to the business sector in developing countries has focused on improving the

[8] World foreign direct investment flows fell moderately in 2008 following a five-year period of uninterrupted growth, in large part as a result of the global economic and financial crisis. While developed economies were initially those most affected, the decline has now spread to developing countries, with inward investment in most countries falling in 2009 too. The decline poses challenges for many developing countries, as FDI has become their largest source of external financing (source: World Trade Report, UNCTAD, 2009).

[9] Communication from the Commission to the Council and the European Parliament on 'European Community Cooperation with Third Countries: The Commission's approach to future support for the development of the business sector', COM(2003) 267 of 19.5.2003.

macroeconomic framework and regulatory environment for enterprises, promoting investment, inter-enterprise cooperation and access to credit and upgrading finance and microfinance systems. Since then, both the economic and political context in developing countries and the EU development strategy have significantly evolved. The focus of the EU Consensus on Development[10] on governance, on enabling infrastructure and on promoting regional integration and trade has a direct link with the investment climate.

In order to back up the contribution made by European companies to business development in African countries and to secure cooperation between the various stakeholders (European Union, African Union and European and African businesses), the idea of a common platform for discussion was launched. In November 2006, the European Commission organised the first EU-Africa Business Forum in Brussels. The third EU-Africa Business Forum, held in Nairobi on 28-29 September 2009, offered a great opportunity to capitalise on the growing awareness of the importance of the private sector on the part of African governments and regional institutions, but also to step up private involvement within the Africa-EU strategic partnerships.

2. <u>The ownership and partnership principles in practice</u>

The European Consensus (paragraph 14) committed the EU to the principle of ownership of development strategies and programmes by partner countries. The 10th EDF incorporates a number of inherent procedural principles that allow a high level of ownership. For instance, country strategy papers are co-signed by the EU and by the partner government and the EDF channels most of its funds through governments in partner countries, permitting the highest level of ownership. The European Consensus (paragraph 15) committed the EU to align on partner countries' strategies, systems and procedures. The EDF is aligned with national development plans by drafting the country strategy papers jointly with the national government.

The revised Cotonou Partnership Agreement makes aid effectiveness principles, including ownership and alignment, the fundamental principles of cooperation (Article 2) and the basic principles of EU programming: CSPs are based on the partner's medium-term development objectives and strategies, taking into account the principles of joint programming and division of labour, a process led by the partner country (Annex IV, Article 1). The underlying principle is that partner countries are in the best position to identify their needs and therefore the focal sectors of programmable EU country aid are tailored to their national development strategies.

One key aspect of alignment is use of the partner country's systems. In 2009, the Accra target of channelling 50% of aid through country systems was about to be reached, *including by increasing the percentage of EU assistance provided through budget support or Sector-Wide Assistance Programme (SWAP) arrangements* (up from 34% in 2006 to 44% in 2009). Worldwide, 50% of EU assistance was channelled through country systems in 2009. The main mechanism for using country systems is budget support, both general and sector budget support. Apart from countries under Article 96, and a group of some 21 countries where budget support is not used, it is used in nine 'fragile' countries, and 37 countries that are

[10] Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus' (Official Journal C 46 of 24.2.2006).

eligible in any case to receive budget support, equivalent to some 63 % of the allocations for this group of countries. Other than budget support, use of country systems remains negligible.

In line with the ownership and alignment principles, the EU and ACP States are committed to the principle of mutual accountability. Beyond disclosure and access to the details of donors' development activities, mutual accountability entails transparency about use of development resources. ACP States are consequently committed to facilitating parliamentary oversight (Article 61(2)) by introducing greater transparency in the management of public finances.

Consultation with civil society organisations and local authorities

The leading role of the partner government in defining the national strategy cannot lead to a strategy based on the actual needs of the population unless civil society and national parliaments are involved in preparing the strategy.

To this end, civil society is recognised as one of the stakeholders involved in the cooperation under the Cotonou Agreement and benefits from support for capacity-building to boost its contribution to the design and implementation of development strategies. The revised Cotonou Agreement also recognises national parliaments as players in cooperation. Their key role and contribution justify specific support to build up their capacity (Article 4).

Along these lines, the CSP is prepared by the ACP State concerned and the EU and draws on prior consultations with a wide range of stakeholders, including civil society organisations, local authorities and ACP parliaments (Annex IV, Article 2). The same approach now governs the preparation of regional (Article 8) and intra-ACP strategy papers (Article 12, Annex IV). In practice, this joint preparation and adoption of the strategy papers and indicative programmes reflects the differentiated approach, tailored to the needs of the ACP partner, in which the EU Delegation has a key role to play in the dialogue with the partner government.

The dialogue with civil society organisations and local authorities is, first and foremost, the responsibility of each ACP State, but the Commission is an active advocate and consults civil society via its Delegations.

The mid-term review of the 10th EDF was an opportunity to check the involvement of non-State actors in the programming process, based on a questionnaire sent via the EU Delegations. Based on an earlier categorisation of countries and on the replies received from 44 Delegations, the overall picture is one of slow progress. Indeed, It was found that, of the 44 countries concerned, 31 have neither improved nor regressed, nine have improved and four have regressed. The answers to the questionnaire clearly show that EU Delegations can be a catalyst for the consultation process in most cases, either on their own or in cooperation with the National Authorising Officer. In only a few cases were stakeholders the key to starting the process. Only once was a local authority involved in taking the initiative to organise a consultation meeting. Occasional attempts to include the parliaments were reported.

2.1. Mid-term review of country programmes

The Cotonou Agreement takes an incentive approach to programming. The multiannual financial envelopes are indicative. To keep operations constantly in line with the objectives of the EU-ACP partnership and take account of any changes in the economic situation or in the priorities and objectives of the ACP State, the National Authorising Officer (NAO) and the Commission conduct an annual operational review of the indicative programme and a mid-term and end-of-term review of the CSP and the indicative programme in the light of needs and performance. The mid-term and end-of-term reviews may involve adaptation of the level of resources allocated to each country or region on the basis of needs and performance.

While the annual operational reviews are, essentially, an assessment of fulfilment of the national indicative programme (NIP), the mid-term review (MTR) conducted between mid-2009 and mid-2010 had much more ambitious aims. This section reports on the main findings of this exercise. It shows that the procedure for preparing and revising the A envelope of the NIP has proved more rigid than expected. Changes made at this stage are minimal. The process is useful to address long-term goals but does not seem to allow a prompt reaction to any change in the political context or to any substantial change in demand.

2.2. A performance-oriented approach

The MTR of the country strategies concerned the bulk of the resources, i.e. both the A envelopes (€ 13 500 million) and the initial country allocations in the B envelopes (€ 601 million). The objectives were:

(i) to assess the need to adapt the response strategy to changing priorities and circumstances and to progress made in the division of labour between donors; and
(ii) to assess the progress by the partner country in key development areas and with implementation of EU cooperation, with a view to possibly revising the aid allocations in the light of current needs and performance.

In order to streamline and steer the exercise, an assessment method was established, based on standard, objective and transparent criteria. First, four key dimensions of performance were identified: governance, the economic situation (macro and micro), the poverty situation/progress towards achieving the MDGs and EU cooperation.

Second, for each of the dimensions, the analysis started with a lead question followed by underlying questions with a score system applied to each level of performance. Third, based on the combined scores obtained, a global rating system was developed to guide the final decisions on the financial envelope (increase, decrease or keep at the same level). The questions and rating system were standardised for all countries involved in the MTR. The analysis focused on the trend in recent years and not on pre-determined absolute levels nor on comparisons with other countries.

Duly documented special considerations adversely influencing the results were occasionally taken into account to spare countries in complex situations a cut in their allocation following the MTR. These special considerations were limited to two specific issues:

- The impact of the economic and financial or food and energy prices crises on a country's performance. As a result, the allocations for Djibouti, Kenya, Lesotho and Swaziland were not reduced.
- Fragility. As a result, the allocations for Comoros, Guinea Bissau and Timor Leste were not reduced.

Following application of the MTR performance assessment methodology to 64 country strategies and multiannual programmes[11] signed in 2008 for the period 2008-2013, 19 ACP

[11] The MTR was not conducted in a number of ACP countries: (i) which are or were under Article 96 of the Cotonou Agreement, (ii) which have not ratified the revised Cotonou Agreement or (iii) are in other specific situations (CSP late or *ad hoc* review).

partner countries will receive additional development cooperation financed by the EDF to reward their good performance and to support their efforts to achieve the MDGs, but three will see their allocations reduced.

In terms of cooperation strategy, a dozen[12] countries expressed, as an outcome of the MTR, the need to prioritise sectors of the CSP/NIP. For example, the dialogue with partner countries led to considering changing strategies in Papua New Guinea (to address weaknesses in governance), Lesotho and Swaziland (to enhance Government ownership of policies in favour of orphans and vulnerable children), the Dominican Republic (to allow programmes in the education sector and support for non-State actors), Grenada (to re-allocate towards general budget support) and St Lucia (to re-allocate resources from private-sector support to the health sector). Most of the countries reviewed underlined that their agreed strategy did not need to be overhauled in the wake of the financial and economic crisis in 2008-2009.

2.3. Overview of the results of the MTR

In terms of performance, particular attention was paid to implementation of *governance* commitments and the Governance Action Plans, for which countries received an incentive allocation when the 10th EDF was launched. Overall, the trend is positive but uneven between countries. In general, the assessment of implementation of the Governance Action Plans was quite encouraging and a positive correlation was found between the quality of the initial GAP, its implementation and the final rating.

When looking at the *economic situation,* special attention was paid to the impact of the economic and financial, food or energy prices crises. As mentioned earlier, however, the crises has not led to any massive reorientation of strategies. The Delegations and the partner countries seem to consider the longer-term priorities in the CSPs to be still valid. Nevertheless, the vulnerability of many countries to external shocks was generally seen as a major challenge for development of ACP countries.

As regards good governance in tax matters, several countries made under the10th EDF encouraging commitments to good governance in the tax area. These are being assessed notably on the basis of the OECD Global Forum Peer Review work. It is worth to be noted that these countries were removed from the OECD list of non cooperative jurisdictions in the tax area and that further review of their tax practices is under way[13].

Concerning *poverty/the social situation*, the analysis was somewhat hampered by the limited capacity of partner countries to produce and update statistics on the social sectors, coupled with the low quality of the information that could be made available. This analysis will probably have to be deepened and fine-tuned by the end-of-term review. One main finding of the MTR, however, secured a consensus: most ACP countries are still lagging behind on their path to achieve the MDGs by 2015. This finding was a key factor in the decision to launch an 'MDG Initiative' during the UN high-level meeting on the MDGs in September 2010 (see Chapter III, Section 2).

[12] Grenada, Benin, the Dominican Republic, Kenya, Lesotho, Niger, Togo, Congo Brazzaville, Ghana, Papua New Guinea, Swaziland, Zambia and St Lucia.
[13] http://www.oecd.org/dataoecd/32/45/43757434.pdf

As regards *EU cooperation*, on the whole, the picture was the most positive. It appeared as one of the key factors in proposals to increase the allocations. Globally, implementation of EU development programmes has evolved positively. This is shown by ever increasing commitments, contracting and disbursement rates over the last few years, highlighting the efficient devolution of the Commission's management of external assistance (see Chapter III, Section 1).

Regionally, the overall good performance of the *Pacific* zone stands out. In particular, as far as governance and MDGs are concerned, seven countries in the region are on track to achieve most of the MDGs by 2015. In these countries the MTR was also a way to raise awareness of the necessity to integrate climate change issues into the cooperation development strategies.

In the *Caribbean,* the overall performance is average and shows relative stagnation. For example, while the countries of the region can boast undisputable achievements in governance (fundamental rights are generally respected) and in reducing poverty in the last few years, they nevertheless face persisting challenges in the same areas (corruption in governance and stability but no real progress as far as achievement of MDGs is concerned). Most of the economies of the region depend on tourism and exports of a few commodities and were therefore highly vulnerable to the financial crisis.

In *Africa*, the overall performance is average or low in *West Africa*, *East Africa/Indian Ocean and Central Africa* and average to good in *Southern Africa*. Regarding governance, remarkable exceptions like Mauritius cannot hide the fact that the achievements are stagnating and uneven at best, although somewhat better in the countries where Governance Action Plans are being implemented. As for MDGs/poverty, some overall progress is reported on achievement of MDGs, but only a few countries are on track to meet most of the MDGs by 2015: Cape Verde and Ghana in *West Africa*, Rwanda in *Central Africa*, Mauritius and Seychelles in *East Africa* and Malawi and Botswana in *Southern Africa*. Finally, in all the regions, undeniable progress has been made on macroeconomic management by most countries, but the vulnerability of economies has been revealed and worsened by the food, energy, and financial crisis.

The MTR was also an opportunity to look into a number of cross-cutting issues, particularly implementation of the principles of aid effectiveness and division of labour between donors. The main finding is that the more constraining these principles are, the less they are implemented. For example, donor coordination mechanisms have been established in 60% of the countries covered by the review and donor mapping in 38%. The situation is far less positive when it comes to launching and consolidating much more demanding exercises like agreements on division of labour (finalised in 20% of the countries) or joint programming (only 5%). This is, of course, quite disappointing but not that alarming, considering that division of labour and joint programming require an in-depth change in the working culture of development partners, which unavoidably takes time[14].

Adaptation to climate change was another topic analysed. Awareness of climate change was found to have increased considerably over recent years. Nevertheless, when it comes to mainstreaming climate policy into other policy areas, progress has been rather limited in the

[14] Further details are provided on pages 36 and 37

ACP group, despite some exceptions like Mauritius and Seychelles, and some Pacific countries.

MTR FINAL RATINGS

REGION COUNTRY	RATINGS (purely apply methodology) A, B, C, D				SPECIAL CONSIDERATIONS		CHANGE OF ALLOCATION		
	GOVERNANCE	ECONOMIC SITUATION	POVERTY/ SOCIAL	EC COOPERATION	FRAGILITY	ECONOMIC AND/OR FOOD CRISIS	+	=	-
PACIFIC									
Cook Islands	A	B	A	B			+		
Fiji	UNDER ARTICLE 96 COTONOU								
Kiribati	A	B	B	B			+		
Marshall Islands	A	B	C	B			+		
Micronesia	B	B	B	C				=	
Nauru	A	B	B	C			+		
Niue	A	B	B	C			+		
Palau	B	B	B	B				=	
Papua New Guinea	C	C	D	D					-
Samoa	A	B	B	A			+		
Solomon Islands	A	B	B	B			+		
Timor-Leste	B	C	C	C	X			=	
Tonga	B	B	A	B			+		
Tuvalu	A	B	B	C			+		
Vanuatu	B	B	B	B				=	
EAST AFRICA									
Comoros	C	C	C	D	X			=	
Djibouti	C	B	B	D		X		=	
Eritrea	WITHHELD								
Ethiopia	C	C	B	B				=	
Kenya	C	B	C	D		X		=	
Madagascar	UNDER ARTICLE 96 COTONOU								
Mauritius	A	A	B	A			+		
Seychelles	B	B	B	C				=	
Somalia	AD HOC REVIEW								
Sudan	NON-RATIFICATION								
Tanzania	C	C	B	B				=	
Uganda	B	B	B	B				=	
SOUTHERN AFRICA									
Angola	WITHELD								
Botswana	A	A	B	B			+		
Lesotho	B	C	C	D		X		=	
Malawi	A	C	B	B			+		
Mozambique	B	B	B	B				=	
Namibia	B	A	B	B			+		
South Africa	NO EDF								
Swaziland	C	C	C	D		X		=	
Zambia	B	B	B	B				=	
Zimbabwe	UNDER ARTICLE 96 COTONOU								
WEST AFRICA									
Benin	B	C	B	B				=	
Burkina Faso	B	B	B	A			+		
Cape Verde	A	B	B	B			+		
Côte d'Ivoire	C	B	C	B				=	
Gambia	C	B	C	C					-
Ghana	B	B	B	B				=	
Guinea	UNDER ARTICLE 96 COTONOU								
Guinea Bissau	C	C	C	B	X			=	
Liberia	C	B	B	C				=	
Mali	B	B	B	B				=	
Mauritania	UNDER ARTICLE 96 COTONOU								
Niger	UNDER ARTICLE 96 COTONOU								
Nigeria	DELAYED MTR								
Senegal	C	B	B	B				=	
Sierra Leone	B	B	C	B				=	
Togo	B	B	C	C				=	
CENTRAL AFRICA									
Burundi	B	B	B	B				=	
Cameroon	B	B	B	B				=	
Central African Republic	B	B	B	C				=	
Chad	B	C	C	B				=	
Congo	B	C	C	B				=	
Democratic Republic of Congo	C	B	C	B				=	
Equatorial Guinea	RATIFICATION Under Reservation								
Gabon	C	C	C	D					-
Rwanda	A	B	B	A			+		
São Tomé and Principe	B	B	B	A			+		
CARIBBEAN									
Antigua and Barbuda	B	B	B	A			+		
Bahamas	B	B	B	B				=	
Barbados	B	B	B	B				=	
Belize	B	B	C	B				=	
Cuba	NO EDF								
Dominica	B	B	B	B				=	
Dominican Republic	C	B	C	B				=	
Grenada	B	B	C	B				=	
Guyana	C	C	B	B				=	
Haiti	AD HOC REVIEW								
Jamaica	B	B	B	A			+		
St Lucia	B	B	B	B				=	
St Kitts and Nevis	B	B	B	B				=	
Saint Vincent and Grenadines	C	B	C	B				=	
Suriname	C	C	B	B				=	
Trinidad and Tobago	B	B	B	C				=	

Cooperation with the overseas countries and territories (OCTs)

Association with the OCTs is based on the Overseas Association Decision 2001/822/EC, as amended by Council Decision 2007/249/EC. The 10th EDF Internal Agreement of 17 July 2006 allocated €286 million to the OCTs. Out of this overall allocation, €195 million were allocated to territorial programming while €30 million are allocated to the EIB, as a revolving fund, to finance investment facility operations.

Programming of development support to the OCTs has slowly expanded, to reach 21% of the territorial allocation in March 2011. Single programming documents (SPDs) for Saint Pierre et Miquelon and New Caledonia have been adopted and signed worth a total of €40.55 million. The reserve for unforeseen needs is, however, being consumed rapidly (€4.5 million for Turks and Caicos and €1.1 million for Wallis and Futuna).

There are various reasons for the low level of commitment of the OCTs' EDF allocation. First, the limited administrative and planning capacity of the OCTs must be taken into account and the Commission's input to preparation of the ACP CSPs/NIPs is certainly greater than its involvement in drafting the OCTs' SPDs. As regards preparation of the strategy papers, the analysis of the public finance systems of the OCTs conducted in 2008 as a prerequisite for budget support, the preferred method of implementation, might also have delayed preparation of the programming documents. Developing budget support programmes is considered a difficult task for OCTs, in particular identification of relevant and dynamic indicators to be achieved for disbursement.

Second, the adoption procedures for the programming documents for OCTs, derived from the EDF rules, have certainly had an impact on preparation of the SPDs. Annex IIa to the EU-OCT Council Decision 2001/822/EC allocates €195 million to finance SPD activities, including social development and environmental protection 'within the framework of the fight against poverty'. However, the methods and expertise required in the case of OCTs are related more to economic, trade and social development than in the case of middle-/high-income countries. In addition, the rules governing the programming of the OCTs, though drawing on the EDF ACP framework, differ to a certain extent from the EDF ACP rules, for instance the format of the SPD, which caused delays in preparation and adoption. This framework has therefore very probably generated efficiency losses that contribute to the low level of commitment and implementation of the EDF allocation for OCTs.

SECTION 2. REGIONAL LEVEL — SUPPORT FOR POLITICAL STABILITY, ECONOMIC DEVELOPMENT AND REGIONAL PUBLIC GOODS

1. A programming exercise in parallel to negotiation of Economic Partnership Agreements

Given its own history, the EU has always considered supporting regional economic integration and cooperation schemes as its natural vocation. This has been a cornerstone of EU development policy for decades. For a long time the EU was the only significant donor in this area. Even if many more donors have come on board in the meantime, regional organisations still see the EU as a reliable, vital and often the most important partner.

For the EU, regional integration is the process of overcoming, by common accord, political, physical, economic and social barriers that divide countries from their neighbours and of collaborating in management of shared resources and regional commons. In Sub-Saharan Africa in particular, the tiny market of most countries and the regional dimension of many conflicts call for closer regional cooperation. This objective applies to the regulatory framework, to the transport, energy and telecommunications infrastructure and to regional cooperation in a wide range of areas where the regional approach has a comparative advantage, including cross-border natural resources, regional political dialogue and conflict prevention. Three main objectives of regional integration can be distinguished:

- Political stability: This is a pre-requisite for economic development. Regional organisations play an increasing role in defusing conflicts within and between countries and in promoting human rights. Regional integration also helps to build trust, increase understanding between groups and deepen interdependence.

- Economic development: In larger, more harmonised markets, free movement of goods, services, capital and people generates economies of scale and stimulates investment, thus spurring economic growth and increasing South-South trade. The right mix of gradually increasing regional and extra-regional competition and of measured protection allows smooth integration into the global trading system and makes regional integration a vehicle for growth and faster poverty reduction.

- Regional public goods: Cooperation between neighbouring countries is the only way to address trans-national challenges such as food security, natural resources, biodiversity, climate change and disease and pest control. This regional dimension needs to be complemented by larger-scale cooperation commensurate with the scale of the challenge. Public repositories of scientifically validated information are valuable public goods in the context of addressing global and regional challenges.

The 10th EDF has added a new dimension to regional cooperation in the form of the EPAs (Economic Partnership Agreements) and a greater emphasis on the political side of regional cooperation. This has resulted in a doubling (from the 9th to the 10th EDF) of the financial envelope allocated to regional cooperation (€1.75 billion over six years) and in a broad initiative on (EU and non-EU) donor coordination in favour of regional economic integration: the regional 'aid for trade' packages.

The Cotonou Partnership Agreement, signed in 2000, established that the Lomé Convention trade preferences would expire by the end of 2007. The objective of replacing these preferences by trade agreements compatible with the WTO is to address the supply-side constraints that limit the capacity of the ACP countries to produce and export manufactured products and services to regional and world markets and to replace the traditional unilateral trade preferences granted to the ACP countries by reciprocal, fully-fledged, trade agreements compatible with the WTO[15]. EPAs are being negotiated between the EU and five ACP regions. The Caribbean region signed an agreement in October 2008. Unlike other trade negotiations, EPAs were not intended to focus on market access only but rather on building regional markets (based on regional rules) and fostering development with the aid of innovative provisions and appropriate links with EU and Member States' development assistance.

Regional aid for trade packages are an attempt by the EU to secure greater and more effective support for regional integration between ACP countries, including EPAs. Momentum has been built up, but the coordination efforts and capacity required to advance are very great. Although the Commission has invested considerable resources, progress on the packages has generally been slow. The regional integration organisations are the natural leaders for this ambitious donor coordination effort. Yet many lack the capacity or authority to coordinate their own Member States and donors in a strategic way and collectively to define regional needs and priorities. EU Member States have been engaged in the process in principle, but many have remained lukewarm in practice so far. However, the picture is more positive in some regions, in particular in West Africa, where the region has come up with an integrated aid for trade strategy, in Eastern and Southern Africa and in the Caribbean. Other donors, notably the World Bank, the African Development Bank and the US, have repeatedly expressed interest in closer coordination of support for regional integration but actual progress in the regions remains too slow.

In this context, the regional strategy papers (RSPs) and regional indicative programmes (RIPs) were conceived as a range of possible operations to be prioritised at a later stage. As a matter of fact, since the EPA negotiations were not yet finalised when the programming was concluded, it was difficult to anticipate the priorities for the regional integration process and preparation of the EPA implementation phase.

Six RSPs/RIPs were signed on[16] 15 November 2008 with a total budget of € 1.783 billion, with the following breakdown:

[15] Unilateral preferences were considered to have entrenched the specialisation of ACP countries in exporting primary products and to have failed to halt their continuously declining share of world trade. They were also inconsistent with the WTO principle of non-discrimination, as they favoured the ACP over other developing countries at a similar or lower level of development — a situation increasingly challenged by other developing countries.

[16] But Central Africa on 30 September 2009.

ACP region (1)	EDF10 updated consolidated RIP, rounded
Africa	1.523.000.000
West Africa	*597.000.000*
Central Africa	*165.000.000*
Eastern and Southern Africa	*645.000.000*
Southern Africa	*116.000.000*
Caribbean region	165.000.000
Pacific region	95.000.000
Total RIPs	**1.783.000.000**

(1) Regions according to EPA configuration

The main focus, in terms of financial volume, is on regional economic integration (REI), a wide focal area which encompasses broad-based support for economic integration and trade policies, structural reforms, but also infrastructure development, food security, the environment, etc. This focal area was conceived, *inter alia*, as a flanking measure to support implementation of the EPA. On average[17], 75% of the financial envelopes have been allocated to REI.

The second focal area, with the exception of the Pacific[18], is support for regional political cooperation, including good governance, peace and stability and political integration, which are also key priorities of the Joint Africa–EU Strategy (JAES). This area mainly comprises two components:

(i) Developing regional mechanisms and action in the areas of peace and stability and good governance, including for conflict prevention, management and resolution, mediation, better management of migration flows, the fight against organised crime, etc.;

(ii) For African countries, support for the JAES Partnership on Peace and Security, including support for the African Peace and Security Architecture (APSA) and its regional and sub-regional building blocks (e.g. the regional standby forces).

Preparation and adoption of RSPs and RIPs are inevitably more difficult than in the case of national programmes. Specific issues for regional programmes are their complexity, the low management capacity of regional organisations, the often insufficient coherence between regional and national activities and the issue of overlapping regional organisations with similar mandates, even if efforts on streamlining and harmonisation are being made by the African Union and some of the regional economic communities.

Despite significant progress over recent years, regional economic and political integration still faces long-standing challenges. It is in this light that EU-ACP regional programmes should be assessed. Between the 9th and 10th EDFs, regional financial envelopes have been significantly increased and, at the same time, programme implementation increasingly centralised with the relevant regional organisations. Despite some progress, the technical and managerial capacity of the regional organisations has not kept up with these further responsibilities. In a number of cases, the regional decision-making process is rather slow and cumbersome, thus delaying implementation. To remedy such issues and to enhance ownership by regional organisations, 'contribution agreements' were encouraged more systematically.

[17] Within a range from 85% in East Africa down to 47% in the Pacific region.
[18] In this region the second focal area is 'sustainable management of natural resources and the environment'.

However, this tool has been only partially successful. Most of the regional organisations did not pass the administrative and financial management assessment, which would make them eligible for such contribution agreements. Given these issues, some regional programmes have found it difficult to spend the funds allocated in time.

Achievements and challenges in regional integration in ACP countries
Since the mid-1990s, integration in the ACP region has been steadily deepened and broadened. The most notable achievements are the efforts to create free-trade areas and customs and monetary unions, as well as cooperation in the area of peace and security. Yet a lot more needs to be done to match the regions' own ambitions with concrete integration steps. Specific challenges vary from region to region but, overall, some issues are found everywhere: - Political mandates and ambitions of the regions are not sufficiently underpinned with operational capacity and resources of their regional organisations. - Preparedness of member states for real transfer of sovereignty to regional entities is weak and varies strongly. - In many regions there are countries which are experiencing or have been going through political crisis and/or civil war or military conflict. - In many member states regional integration is not yet a priority, as they are still striving to build up national administrations able to satisfy the basic needs of their populations. - Member states often belong to various regional organisations with identical or similar mandates. - The lack of ownership and institutional capacity at regional and national levels. This includes inadequate mandates, lack of legal and political tools for effective policy implementation and insufficient ownership by stakeholders, in particular civil society and national administrations. Strengthening the secretariats of each regional economic organisation, notably through support for a research and innovation focal point would be valuable in this context.- The need to overcome the fragmentation of regional markets and to implement economic integration agreements better. This should be accompanied by streamlining any overlapping and inconsistent integration agendas, taking into account the specifics of each region (in particular, island regions). - Insufficient economic diversification, which results in heavy dependence on a small number of export commodities and lack of complementarity between national economies. - Inefficient infrastructure interconnections which generate excessively high costs for intra-regional transport and utilities. There is however, a growing understanding that regional integration is the most appropriate response to these challenges. As the European experience demonstrates, integration processes need to be measured in decades rather than in years and programming cycles.

2. A mid-term review to target regional indicative programmes better

Considering the late finalisation of the programming process, the broad scope of the RIPs, the implementation difficulties and, therefore, the slow start to implementation, the RSP mid-term review launched in April 2011 is an opportunity to target the regional programmes better. The fact that the MTR will be completed around the same time as the end-of-term review as well as the preparations for the next programming cycle are launched has to be taken duly into account: the MTR should lead to more result oriented regional cooperation strategies.

As regards implementation, particular attention will be paid to the right balance between financial envelopes, implementation capacity and regional decision-making processes. In this context, another consideration is that regional objectives can also be achieved with the help of other implementation bodies (national authorities or other regional and international organisations) or joint delivery methods (delegated cooperation or regionally established funds).

SECTION 3. INTRA-ACP LEVEL — SUPPORT FOR GLOBAL, PAN-AFRICAN AND ACP-WIDE INITIATIVES

1. A programming approach for a more focused and results-oriented intra-ACP strategy

Drawing on the lessons learned from the 9th EDF, the ACP side and the EU agreed to a more focused and results-oriented strategy to programme intra-ACP funds. For the first time, the intra-ACP funds from the 10th EDF are subject to a multiannual strategy. Prior to this, intra-ACP funding was allocated on an *ad hoc* basis, without any specific strategy or indicative programme. This led to a fragmented approach and first-come, first-served access to funds. After lengthy negotiations with the ACP side, the strategy/multiannual indicative programme was adopted by the Commission, after approval by the EDF Committee, and the strategy was signed by the relevant Commissioner and the President of the ACP Committee of Ambassadors on 13 March 2009[19]. Overall, the whole process took more than a year and a half.

Also, by contrast with the past, specific emphasis was put on the added value of the intra-ACP approach, with the overall strategy and yearly choice of activities being based on the principles of subsidiarity, complementarity and visibility of the ACP funding. In particular, clear priority is given to avoiding overlaps with national and regional programmes. Consequently, the intra-ACP funds are to be used for three clusters of issues:

- Global challenges which particularly affect ACP countries and for which the EU has an interest in being a visible player at international level (such as the fight against HIV/AIDS, climate change or biodiversity);
- Issues affecting the development of all ACP countries and where addressing them at an all-ACP level is more cost-effective (e.g. upgrading capacity for agricultural or trade standards) or to which insufficient attention is given in national programmes but which should be upgraded (e.g. research and technology, energy or water). Global issues that affect the entire ACP region (such as trade, migration, food security, climate change and prevention of and response to natural disasters) cannot be addressed at country/regional level alone but justify macroresponses at ACP level;
- Support for the pan-African integration agenda, when this cuts across the boundaries of the sub-regions of Sub-Saharan Africa and of the EU financial instruments (EDF, Development Cooperation Instrument (DCI) and European Neighbourhood Policy Instrument (ENPI)). Over time, this chapter of the strategy has become the key financial arm of the Joint Africa-EU Action Plan agreed in Lisbon in 2007.

[19] Prior to this, programming guidelines were approved, on the one hand, by the ACP Committee of Ambassadors on 26 November 2007 and, on the other, by the Council of the European Union on 18 February 2008, and then by the Joint EU-ACP Committee of Ambassadors on 5 May 2008.

In addition, the Cotonou Agreement (Annex III, Article 1) states that the EU will support institutional mechanisms that provide assistance for businesses (CDE, Centre for the Development of Enterprise) and support for agriculture and rural development (CTA, Technical Centre for Agricultural and Rural Cooperation), which makes such support mandatory. Institutional support has also been agreed to cover the Joint Parliamentary Assembly, part-funding of the ACP Secretariat and the funding of an intra-ACP Technical Cooperation Facility (TCF). The detailed financial breakdown is set out below.

	Heading	**Total (€million)**
1.	**Global initiatives**	
1.1	**Public health:** Global Fund to Fight AIDS, Tuberculosis and Malaria	**300**
	Total 1	**300**
2.	**All-ACP initiatives**	
2.1	**Climate change**	**490**
	GCCA	40
	Environment	70
	Renewable energy	200
	Natural disasters prevention	180
2.2	**Infrastructure and networks**	**500**
	Water and sanitation	200
	Infrastructure (interconnectivity)	300
2.3	**Science and research**	**40**
2.4	**Education and culture**	**90**
	Education	60
	Culture	30
2.5	**Migration**	**40**
2.6	**Trade and private sector**	**100**
2.7	**Public health**	**30**
	Total 2	**1 290**
3.	**Pan-African initiatives**	
3.1	**Peace and security**	**300**
	- African Peace Facility 2008-2010	300
3.2	**African Union support**	**40**
3.3	**Specific thematic support**	**100**
	Education	30
	Agriculture and rural development	40
	Sanitary services	30
	Total 3	**440**
4.	**Institutional and support expenditure**	
4.1	**Institutional expenditure** (Joint Parliamentary Assembly, CDE, CTA)	**214**
4.2	**Support expenditure and visibility**	**63**
4.3	**Unallocated amount (reserve to increase items 4.1 and 4.2)**	**23**

Total 4	**300**
5. Reserve	
- Peace/stability/conflict prevention sub-reserve (2011-2013)	300
- Unallocated sub-reserve	70
Total 5	**370**
Grand total 1+2+3+4+5	**2 700**

An annual breakdown of funds was included in the agreement on the intra-ACP strategy/multiannual programme. As a result, each year, the requests from the Committee of Ambassadors and ensuing Commission decisions are based on this agreed breakdown, on the activities already agreed for the previous year and on an indicative list of activities planned for the remaining years of the 10th EDF period. The second revision of the Cotonou Agreement institutionalised the intra-ACP funding, the role of the ACP Committee of Ambassadors as 'regional authorising officer' and the multiannual approach to programming.

By the end of 2010, the new more structured approach had already led to commitment of over 65 % of the intra-ACP envelope.

Examples of intra-ACP programmes

Energy and Water Facilities (€ 400 million)

The Energy and Water Facilities were developed as part of two EU initiatives launched in 2002 during the World Summit on Sustainable Development to achieve the MDGs related to energy and water: the EU Energy Initiative for Poverty Eradication and Sustainable Development (EUEI) and the EU Water Initiative (EUWI). The Energy Facility also implements the Joint Africa-EU Action Plan adopted in Lisbon in December 2007.

The main objective of the ACP-EU Energy Facility is to improve access to sustainable and affordable energy services for the unserved population living in rural and peri-urban ACP areas; it emphasises use of renewable energy sources and energy efficiency measures.

The ACP-EU Water Facility was set up in 2004, with the principal objective of providing water and basic sanitation to the poor and to improve water management governance in ACP countries.

The first Energy and Water Facilities (9th EDF) were implemented by means of calls for proposals. These mechanisms allowed mobilisation of diverse players (especially local stakeholders, who were systematically associated, and the private sector, which was involved in more than a third of the projects under the Energy Facility) and increased the awareness and understanding of these sectors by non-State actors, governments and EU Delegations. They also helped to promote innovation with the aid of diverse approaches. They reached marginal populations who would otherwise have remained excluded from development. Almost seven million people have already benefited from projects funded from the Energy Facility and more than 20 million from Water Facility projects.

However, calls for proposals often lead to selecting projects which do not provide significant leverage for other sources of funds (particularly from the private sector), thus weakening the catalytic effect desired from the Facilities. Improvements in the design of calls for proposals for future Facilities have reduced, but not totally eliminated, the structural weaknesses of the Facilities. This applies in particular to the difficulties with linking with the NIPs and the governments' sectoral policies and to operational coordination with donors in the sector, for which informal coordination groups have been set up to involve the Member States in the process.

The new Facilities have also diversified approaches. Pooling mechanisms are now available to overcome the limitations of the calls for proposals and, by blending grants with loans, generate a greater leverage effect and impact while improving European coordination. They allow financing of large projects by pooling, in addition to smaller projects and support for governance by means of calls for proposals.

Global Fund to fight AIDS, Tuberculosis and Malaria (€ 300 million)

The EU contribution to a global partnership is useful in that only a broad partnership can raise enough funds to attain far-reaching objectives. This is the case with the Global Fund to fight Aids, Tuberculosis and Malaria (GFATM) which, between 2001 and 2010, spent €13.1 billion (of which 51% from the EU, including 6% from the Commission). Setup only ten years ago, the Global Fund has shown remarkable success in bringing modern, live saving medicines to the poorest populations in the world and is estimated to have saved 6.5 million lives. The GFATM brings together all the major donors supporting the health sector in developing countries. It provides a forum for discussion (the Commission is a member of the GFATM board) which facilitates alignment of the GFATM-funded activities in the beneficiary countries with those supported by its donors under their own bilateral cooperation. At national level, country coordinating mechanisms (CCM) involve the various national stakeholders and ensure coherence between the GFATM grants and the main national health programmes. This often works well when the CCM is properly integrated within the government's working procedures. GFATM-funded programmes are, to a large extent, implemented by civil society. This is not only a good opportunity for NGOs from developing countries to grow but has also shown to be effective in channelling essential services to the marginalised sections of the population. The GFATM has developed recently undertaken large scale reforms to strengthen its fiduciary control mechanisms in response to findings of the Fund's own Inspector General who detected misuse of programme funds in four recipient countries. A European Commission Audit and a High Level Review Panel instituted by the Global Fund Board are currently examining the Fund's fiduciary control mechanisms and how the reforms undertaken by the Global Fund have further strengthened risk mitigation mechanisms. A positive outcome of these investigations will allow the European Commission to resume payments to the Global Fund in the second half of 2011, which it had temporarily suspended as a precautionary measure.

Over the coming decade the Global Fund will need to build on its past successes and adapt to a changing international environment – where its role in sustaining national health systems to deliver treatment and prevention programmes will be critical. Recent reforms undertaken will prioritise Global Fund support more to low-income, high disease burden countries. For these countries it needs to be ensured that large scale support through the Global Fund does not distort national priorities, the financing is sufficiently aligned with national mechanisms, and predictability and sustainability of the funding is ensured.

2. Financing the Joint Africa-EU Strategy

Despite the partnership's continental scale and ambition which also include Northern Africa, the intra-ACP programme for Sub-Saharan Africa has *de facto* been the main instrument for implementing the Joint Africa-EU Strategy and its three-year Action Plans, both under the pan-African heading (peace and security and African Union support) and under thematic headings (the environment, climate change, energy, infrastructure, science, education, migration, trade, etc.).

The Africa-EU Strategic Partnership and the Joint Africa-EU Strategy (JAES) were adopted by African and EU Heads of State and Government at the Lisbon Summit in 2007. The third Africa-EU summit in Tripoli in November 2010 reaffirmed the partnership's fundamental principles and directions. This innovative, overarching, inclusive political strategy put the relationship between the two continents on a new strategic level. Eight thematic areas were agreed, with priority activities developed in subsequent Action Plans for the periods 2008-10 and 2011-13. The main innovation as regards the financial instruments was the unified approach to Africa, bridging the traditional divide between Sub-Saharan Africa (included in the ACP group) and Northern Africa (included among the EU Neighbourhood countries).

Concerning the EU contribution, the financing provisions of the Joint Africa-EU Strategy state that 'the implementation of the Joint Strategy and initiatives […] will be supported by existing financial instruments in accordance with their respective scope and their relevance to the objectives and activities concerned, such as the European Development Fund (EDF), the Development Cooperation Instrument (DCI), the European Neighbourhood Policy Instrument (ENPI), the Instrument for Stability, as well as by EU financial institutions, such as the European Investment Bank (EIB)'.

The synergies required with EDF programmes at national and regional levels, and with other EU budget instruments, have failed to materialise to the extent necessary for a real integrated approach to the whole of Africa. This over-reliance on the intra-ACP programme created obstacles that continue to hamper implementation of the partnership's Action Plan. In addition, mobilisation of funds beyond the EDF proved difficult. The ENPI, the thematic budget lines of the DCI and other budget-financed programmes have made no more than a marginal contribution to implementation of the Joint Strategy and its Action Plans. In addition, the mid-term review of the EDF NIPs carried out in 2009-10 showed that the expected mainstreaming of the JAES into national programmes and priorities had not taken place. This lack of ownership and appropriation of the strategy in African capitals has limited the available funds and reduced the strategy's political impact. It has also increased the pressure on intra-ACP funds as the main source of financing for the JAES.

The African Peace Facility

The African Peace Facility (APF) is an innovative instrument, financed from the intra-ACP envelope, which enables the EU to channel funding to peace and security in Africa, including to African-led peace operations. The APF is a unique instrument, which is highly valued by African partners and EU Member States alike.

The APF plays a central role in strengthening institutional capacity and linkages between the EU and African partners and also within the African Union and the regional organisations with a mandate covering peace and security. Since 2004, the APF has channelled more than € 700 million to peace and security in Africa. It is permanently open for additional voluntary contributions from EU Member States and is thus designed to channel EU Member States' funding in a simple, fast manner. This 'pooling' of funds is much appreciated by African partners because it considerably reduces their transaction costs.

A major challenge facing the APF lies in its approach to aid delivery, which is generally based on 'joint management' by the European Commission and the African partners. Experience has revealed institutional weaknesses within African partner institutions and considerable efforts have been made to address these.

Another challenge is the need to provide responses offering peace and security at pan-African level. In practice, this is complicated to put in place due to the fragmented funding of the EU instruments concerned. This challenge raises the long-term question of an alternative and sustainable source of funding for the APF, together with the related question of the OECD definition of Official Development Assistance (ODA).

3. Implementation challenges

The institutional environment of the 10th EDF intra-ACP Strategy is complex. A large number of regional or thematic stakeholders are concerned by this process, including not only the ACP Secretariat but also the African Union Commission and regional organisations. This implies a complex consensus-building process, in particular to decide the content of each Annual Action Plan. This process can lead to lengthy negotiations, although this has been very much facilitated by the existence of a multiannual strategy which has brought better mutual understanding of the priorities and concerns of both sides.

The mismatch between the geographical mandate of the Joint EU-Africa Strategy[20] and the coverage of existing geographical instruments (EDF and ENPI) has an impact on intra-ACP cooperation. In this sense, the complexity of institutional relations between the African Union Commission and the ACP Secretariat poses a challenge to smooth management of operations. However, this has been partly mitigated by the 10th EDF intra-ACP Strategy that provides a dedicated window for pan-African initiatives and cooperation with the African Union.

Implementation of programmes at intra-ACP level encourages regional cross-fertilisation and creates incentives to develop benchmarking and common approaches to similar situations among ACP countries. Greater consideration could be given to disseminating good practices that should be replicated where appropriate. Intra-ACP cooperation acts as a catalyst by launching activities and spearheading regional dialogue on new development themes or on innovative approaches (e.g. climate change, commodities, innovative insurance schemes, phytosanitary standards and the EU-Africa Infrastructure Trust Fund).

The possibility for non-ACP countries or countries not benefitting from EDF funding (e.g. South Africa) to contribute to intra-ACP programmes was introduced under the 10th EDF. Such initiatives could be encouraged in the future in order to address the constraints resulting from the division between geographical instruments. Some intra-ACP programmes are implemented by EU agencies (such as the EACEA for the Erasmus Mundus programme or the ACP mobility programme/Nyerere). This method of implementation has proved successful to avoid duplication of implementing entities for programmes with wide geographic coverage, such as the intra-ACP programme.

[20] Cf. 2007 Joint Africa-EU Strategy, First Action Plan for implementation of the Africa-EU Strategy and Second Joint Africa-EU Action Plan 2011-2013.

Working with the United Nations

Cooperation with the UN takes place within an overall policy framework, which is outlined in two Commission Communications[21], backed up by the European Consensus[22] (which also applies to the international financing institutions) and completed by the strategic partnerships, of which six have been signed with UN entities[23]. Financial contributions adding up to around € 1.5 billion annually are jointly managed, which facilitates joint development of programmes and delegates their management to the international organisation, using its own procedures.

The EU's external cooperation via UN organisations was the subject of a major independent evaluation, which was published in May 2008[24]. The evaluation was positive about the added value for the Commission where:

- there were clear benefits to be obtained from the UN's coordinating role, its experience and presence in the field and its thematic expertise; the Commission also benefited from the neutrality and legitimacy of the UN system and the existence of UN-managed multi-donor operations;
- it enhanced the Commission's participation in policy dialogue with partner countries;
- the UN was the sole means of delivering aid.

Cooperation is less successful when the UN departs significantly from its area of expertise or where individual UN organisations push their agenda to the detriment of that of the EU and see the Commission merely as a source of funds, essentially to finance their own operations.

The Commission's Internal Audit Service and the Court of Auditors[25] have both carried out audits of the Commission's partnership with the UN. Together, their audits consider that the Commission is potentially exposed to risks because its control systems are not always applied effectively. The reasons for selecting the UN as a partner in given circumstances may be valid, but are not documented. Similarly, costs are accepted without including justifications in the project files.

SECTION 4. THE INVESTMENT FACILITY FOR THE PRIVATE SECTOR

The Cotonou Agreement entrusted the EIB with management of financial assistance for investment projects in ACP countries. The ACP Investment Facility is a risk-bearing instrument managed as a revolving fund (using loans, equities and guarantees) with the aim of being financially sustainable over the 20 year horizon of the Cotonou agreement, and with a total capital endowment under the 9th and 10th EDFs of € 3.1 billion[26]. The Investment

[21] COM(2001) 231 'Building an effective partnership with the United Nations' and COM(2003) 526 'The European Union and the United Nations: the choice of multilateralism'.

[22] Official Journal of the European Union C 46, 24.2.2006.

[23] Six strategic partnerships have been signed with UN entities to date: with the UNDP (June 2004), WHO, ILO (both July 2004), FAO (September 2004), UNHCR (February 2005) and WFP (September 2005). An EU agreement with the UNRWA existed even before the strategic partnerships were introduced.

[24] Evaluation of the Commission's external cooperation with partner countries through the organisations of the UN family — ref. 1252, May 2008.

[25] Special Report No 15/2009 — 'EU assistance implemented through UN organisations: covering decision-making and monitoring'.

[26] It is mainly allocated to meeting the financing needs of investment projects in regions with a broad range of flexible risk-bearing instruments and supports mainly private-sector investments by providing either direct support to the sector (infrastructure) or support for establishing the economic infrastructure (financial sector) on which the private sector depends. Alongside the ACP Investment Facility, the EIB can lend up to 2 bn€ from its own resources, with the EU Member States providing a 75% guarantee of total amounts opened by the EIB. Under the 10th EDF, both ACP Investment Facility and EIB own resources lending can be blended with EDF grants of EUR 400m for interest rate subsidies or technical assistance.

Facility is intended to support endogenous investment in ACP countries[27]. The principle of a revolving fund allows room for manoeuvre as regards risk-taking as net reflows are carried over.

The Commission conducted an evaluation[28] of the Investment Facility, including the EIB own resources operations in ACP countries[29]. This provided an indepth review of the relevance and performance of these operations and an assessment of consistency with EU development policies and strategies and of the EIB's relations with the European Commission and with other International Financing Institutions (IFIs).

In the assessment, the value-added of EIB operations were measured against three elements: the support of EU policy and Cotonou objectives respectively, the quality of the projects themselves and the financial and non-financial advantages brought in by the EIB operations compared to potential alternatives sources of financing.

While recognizing the difficult challenge represented by the Bank's mandate under the Cotonou Agreement, the Investment Facility was described as having a comparative advantage in its high risk bearing capacity, which not all IFIs/ DFIs (development Financing Institutions) possess. EIB's value added notably stemmed from its prudent project selection, its careful analysis of the creditworthiness of operators as well as its technical rigour, whilst it was acknowledged that EIB was exercising due care in intervening without distorting the markets and that specific improvements had been observed in the financial viability and governance practices of the enterprises supported by the Bank, as well as positive trends recorded in terms of employment generation at operation level.

Several factors had limited the ability of EIB to maximise its work, including notably the EIB's low visibility, its insufficient monitoring of the impact of its operations, as well as limited catalytic effect of the Investment Facility and own resources.

The evaluation underlined that the Commission and the EIB generally operated on parallel tracks with few synergies despite the potential benefits in terms of enhancing the impact on development. While mechanisms for coordination between the EIB and the Commission and the EU Member States exist at headquarters and operational level, coordination activities generally remained weak. Possible reasons for this include the difficulty of combining a Commission programming cycle spanning several years with the demand-led EIB approach, the fact that both institutions were often active in different sectors and a general lack of resources for ACP/OCT operations. As a result, EIB and Commission operations were 'compatible', but did not show strong synergies at operational or strategic/sector level, despite the scope for potential synergies where both institutions were involved in the same sector, in the form of combining EIB loans and equity with Commission technical assistance offering joint and mutual visibility. Coordination between the EIB and other EU initiatives also remained limited, despite some exceptions.

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[27] In parallel, a similar Investment Facility amounting to EUR 30 millions in the current financial framework is managed by the EIB for the OCTs, alongside EIB own resources (up to EUR 30 millions).

[28] Mid-term evaluation of the Investment Facility and EIB own resources operations in ACP countries and the OCTs, September 2010.

[29] On the basis of the Cotonou Agreement, the EIB contributes from its own resources to operations in ACP countries (direct guarantee to the EIB from the Member States). In this framework, an additional €2 billion are available for the period 2008-2013.

Synergies with other IFIs occurred at the level of co-financing specific projects, but were not part of more structured cooperation at country level. Coordination with other IFIs and DFIs took place at headquarters level and for specific co-financing, but was not structured at country level.

Finally, weaknesses were observed on the monitoring side and in the low visibility of the EIB operations. The evaluation finds that the European Commission and the EIB do not fully harness potential synergies at operational and strategic/sector level.

The evaluation overall acknowledged that EIB had thus far fulfilled the mandate it was given under the Cotonou Agreement and made recommendations on ways to enhance its impact and visibility. Ways to address the issues raised have already been identified jointly by the European Commission and the EIB and concern mainly:

- the need to secure supplemental grant resources for technical assistance combined with EIB loans and equity investments;
- the need to reinforce the coordination between the two institutions including notably the definition of common operational guidelines to their respective staff ;
- the need to ensure greater coherence between the EIB operations and the country and regional strategies led by the Commission ;
- the need to enhance joint EU visibility and communication.

MAIN LESSONS LEARNED: THE NEED TO REDUCE FRAGMENTATION AT EU LEVEL

In November 2010, the Commission published a Green Paper on 'EU development policy in support of inclusive growth and sustainable development: Increasing the impact of EU development policy'. A key concern is that *'European aid must bring strong value added and real value for money, and must focus on areas where a clear added value can be shown. Put simply it means that, in all relevant forms and all sectors, the EU has to demonstrate that its aid programmes will provide the greatest long-term impact and will be used as a key instrument to focus on achieving the MDGs and beyond'.*

In line with the European Consensus on Development, the 10th EDF focuses strongly on areas where size and critical mass are of special importance. Almost 50% of EDF national programming is concentrated on infrastructure and governance and almost 30% of funds are channelled via general budget support. In terms of presence, scale and focus of operations, EDF operations in these areas offer clear added value over national action.

With objective and transparent criteria for resource allocation, country-specific strategies and instruments and a new incentive approach, EDF programmes are built to provide the greatest long-term impact tailored to each individual situation.

Nevertheless, experience shows that effective, high-quality delivery to provide the greatest long-term impact needs a particular effort in terms of coordination and governance arrangements. Although the EU is rightly proud to be the world's largest development and humanitarian donor, with the EU and its Member States providing around 55% of total worldwide ODA, the assessment of the 10th EDF programming exercise shows that the EU can significantly improve the synergies between its aid flows.

EU aid is still very fragmented, causing inefficiencies with both financial and political consequences. The assessment shows two levels of aid fragmentation: (1) between EU and Member States' programmes and activities and (2) between EU instruments and EU levels of action.

WHICH DIVISION OF LABOUR WITH MEMBER STATES?

A 2008 study of the benefits of a European approach highlighted the efficiency gains to be made by enhancing joint programming between the EU and the Member States. Most significantly, the support from the EU and its Member States remains too fragmented, which would cost €2 to 6 billion per year. The lack of predictability of aid from the EU and Member States also reduces the value of their support by 8 to 20%. The sheer number of EU donors (27 Member States plus the EU) makes division of labour even more necessary and urgent two years ahead of a new programming cycle.

Since the European Consensus on Development was adopted in 2005, progress has been slow on pooling resources from all European aid donors to prevent overlaps and bring concentration.

The MTR of the 10th EDF national programmes was an opportunity to assess the progress made in practice on aid effectiveness. EU Delegations were asked to report on the progress made, with a strong focus on joint programming and in-country division of labour. The main conclusion was that, so far, the results are disappointing and that in very few cases has any actual division of labour taken place, meaning, for instance, withdrawal from a given sector or arrangements for delegated cooperation with another donor.

The overview below highlights the following key outcomes:

- In 68 % of the cases (or 46 countries), a formal strategy has actually been adopted or Paris/Accra principles have been integrated into current national strategies;

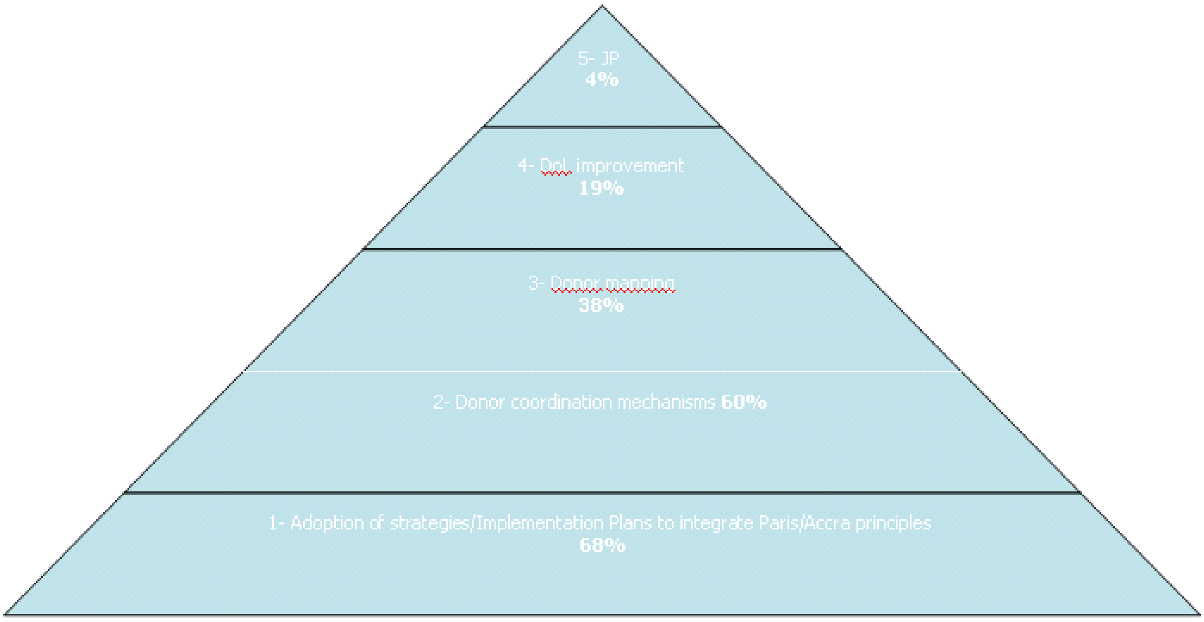
- In 41 countries (or 60 %), different forms of meetings or forums at national (or sometimes regional) level have been established — however, often limited to information-sharing and consultations;

- Donor mapping has been carried out in 26 countries (or 38 %); however, in many cases these are not comprehensive (often excluding 'new' donors or financial contributions) or are not effectively used for further division of labour processes;

- In 13 countries (or 19 %) practical action has been reported (like sector concentration and/or delegated cooperation arrangements);

- Real joint programming has taken place in only three countries (or 4 %): Sierra Leone, Somalia, and Tanzania (for the Joint Implementation Strategy only),.

Overview of implementation of aid effectiveness principles



WHAT DEGREE OF COHERENCE BETWEEN DIFFERENT EU LEVELS AND INSTRUMENTS?

If the national level is the first level of EU action and if there is usually a high degree of concentration of aid under the NIPs, it is not, by far, the only level. Interaction/harmonisation between different levels of EDF, national, regional and intra-ACP programmes, but also between these levels and some thematic programmes covered by the EU budget under the DCI, such as ICD food security or ACP accompanying measures for former Sugar Protocol countries, has proved very difficult and time-consuming.

The main added value of thematic programmes is to project the political soft power of the EU in a way which is supplementary (additional), complementary (to geographic approaches) and consistent (with other policies)[30]. Thematic programmes cover EU priorities and commitments to global challenges that are not necessarily geographic in nature and/or are not necessarily supported by the authorities of host countries but are implemented, none the less, in line with the EU agenda.

[30]Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, Article 11(2)(a).

Even though EDF implementing and financing procedures have been harmonised with EU budget procedures as much as possible, separate institutional frameworks, different financial regulations and, therefore, different logics remain. The relation between all these EU levels is not always clear and sometimes raises the questions of the EU's internal coherence and of duplication of funding sources.

CHAPTER II. THE RESPONSIVENESS OF THE 10TH EDF

The bulk of the EU support to ACP countries — as to other developing countries — is provided via programmed funds, based on a multiannual strategy agreed with the partner country. This should remain the cornerstone of EU assistance in order to ensure the long-term impact and sustainability of the EU support. Experience has shown, however, that, besides its programmable assistance, the EU also needs to be able to respond to political imperatives and changing circumstances.

This chapter presents a summary of the capacity of the EDF to 'expect the unexpected'. It gives an *ex-post* assessment of the use made of unallocated funds and procedural flexibility in different cases: breaches of the 'essential elements' of the Cotonou Agreement; crises and situations of fragility; exogenous shocks and global crises. The conclusions deal with two crucial issues: (i) Which is the right balance between predictability in aid levels and the need for an appropriate degree of flexibility? (ii) Do the current tools and rules allow swift and efficient responses in line with changing circumstances?

SECTION 1. RESPONSE TO BREACHES OF THE ESSENTIAL ELEMENTS OF THE EU-ACP PARTNERSHIP AGREEMENT

The political dimension of relations with ACP countries is reflected in Articles 8 (political dialogue) and 9 (essential elements and their link to Articles 96 and 97) of and Annex VII to the Cotonou Agreement.

Article 8 provides for a regular, comprehensive, indepth political dialogue with all ACP countries. The objectives of the dialogue are to exchange information, foster mutual understanding and define common priorities and shared agendas. No topic is excluded from the dialogue, which should cover all issues of mutual interest and concern, including cooperation strategies and policies and specific political issues. The dialogue should also include a regular assessment of developments relating to respect for human rights, democratic principles, the rule of law and good governance. No specific structures or rules were set in the Agreement in order to leave maximum flexibility when conducting the dialogue. It can be formal or informal, within or outside institutional frameworks, in an appropriate format and at the appropriate level. Regional and sub-regional organisations and representatives of civil society should be involved. The EU reviewed its internal guidelines on how to conduct Article 8 dialogues in ACP countries in December 2009.

Article 9 defines the essential elements of the EU-ACP partnership. These are human rights, democratic principles and the rule of law. Another fundamental element is good governance. Consultations are envisaged in cases of violation of one of those essential elements under Article 96 or in serious cases of corruption under Article 97.

Article 96 provides for appropriate measures, including the possibility to suspend the agreement or parts thereof when human rights, democracy or the rule of law are violated.

The aim of the consultations is to examine the situation in order to find a solution acceptable to both parties. If no solution can be found, or in emergencies, or if one party refuses consultations, appropriate measures can be taken. Such measures must observe international law, be proportionate to the violation and give priority to measures causing the least disruption to the Agreement. Suspension of cooperation is the last resort. So far, Article 96 consultations have been used in 22 cases, the vast majority because of coups d'état, and the Article 97 procedure only once, in the case of Liberia.

Appropriate measures include 'negative' measures (such as full or partial suspension of assistance) and 'positive' measures such as incentives to change (for example, a financial contribution to organisation of elections). A progressive and conditional approach links release of funding to adoption of specific measures by the countries concerned. In most cases, the decision to close consultations mapped out a gradual and conditional approach: appropriate measures related to a progressive resumption of EU cooperation in line with political progress.

Since appropriate measures are intended to urge the government to adopt corrective measures and comply with the essential elements, they are designed in a way that allows activities with a direct impact on the population to continue. Also, as appropriate measures are mainly targeted towards the government, projects or activities for non-State actors may also be allowed to continue. In practice, the European Union assesses, case by case, the political expedience of financing such projects, with the aim of striking a balance between political leverage and benefits for the population.

In Zimbabwe, for example, following the appropriate measures adopted by the Council for the period 2002-2010, financing from the 10th EDF has been re-oriented towards social sectors, democratisation and respect for human rights and the rule of law. The key provisions of the Council Decision state that: *'Financial support for all projects is suspended except those in support of the population, in particular in social sectors and those in support of the reforms contained in the Global Political Agreement (GPA). Financing shall be reoriented in support of the population in particular in social sectors and in support of the stabilisation process of the country, in particular with regard to democratisation, respect for human rights and the rule of law'*. Since 2009, short-term strategies are formulated annually to provide for a comprehensive approach, bringing together all sources of funding. The focal sectors are food security and rural development, social sectors and governance. The annual envelope is about €100 million.

Appropriate measures are linked to implementation of the Cotonou Agreement. Assistance which is not a result of a commitment undertaken in Cotonou cannot be affected by the Article 96 decision, but coherence has to be ensured case by case. As regards development instruments under the general budget, Article 37 of the Development Cooperation Instrument (DCI) allows the parties — in exactly the same vein as Article 96 of the Cotonou Agreement — to take appropriate measures if another party fails to observe the essential principles of the instrument. In addition, common foreign and security policy (CFSP) measures can complement appropriate measures taken under Article 96.

Since the beginning of the 10th EDF, the EU and the Member States have used Article 96 with eight countries: Equatorial Guinea, Fiji, Guinea, Madagascar, Mauritania, Niger, Sudan, , and Zimbabwe. In the case of Fiji, Article 96 was used in conjunction with Article 37 of the DCI in October 2007 and the appropriate measures included cancellation of the sugar allocations for 2008, 2009 and 2010[31]. Part of the 2010 allocation was set aside to provide direct assistance to the population directly dependant on sugar in order to mitigate the adverse social consequences. Comparing the initial CSP allocations for 2008-2010 to these countries with the corresponding amounts allocated after CSP *ad hoc* reviews and from general budget funding gives an idea of the scope of the suspension of EDF cooperation. On average, EU funding to Article 96 countries in 2008-2010 adds up to 21% of the initial CSP allocation, but with large discrepancies between countries (from 11% to 128%). Zimbabwe receives 28% more funds than initially allocated. This is the combined result of the budgetary reviews for food security, of an *ad hoc* allocation to replace Vulnerability FLEX (VFLEX) 2010 and of adjustment support for sugar producers.

One strategic issue is what are to be considered 'projects directly benefiting the population'. A broad definition would reduce the leverage of the measure. However, too narrow a definition would lay the EU open to criticism of punishing the population for the action taken by the government (amounting to double sanctioning of the people).

Observers often underline that different cases have been handled in different ways and some regularly ask for more standard procedures. Experience shows that it is important to keep the procedures flexible in order to adapt to each specific case. The procedural standards laid down in Annex VII to the Cotonou Agreement and in the Internal Agreement are relevant. The challenges concern coherence and flexibility. Countries with which the EU conducts consultations on the basis of Article 96 are often in a politically unstable situation. In such contexts, the EU has to be able to respond quickly to the dynamics on the ground. Although delays can sometimes be justified by the necessity to adjust the dialogue to the reality on the ground, internal decision-making procedures could possibly be speeded up, in particular at the end of appropriate measures to implement EU assistance.

SECTION 2. RESPONSE TO CRISES AND SITUATIONS OF FRAGILITY

1. Fragility: The conceptual approach

Originally, the Cotonou Agreement made no mention of fragility. However, this concept was introduced in the second revision, in Article 11, which now deals with 'Peace-building policies, conflict prevention and resolution, response to situations of fragility', with a specific paragraph 4 on fragility[32], and in Article 72 which now refers, in paragraph 2, to 'Situations of crisis, including long-term structural instability or fragility ….'

These new provisions are a recognition of the difficult challenges the EU is currently facing under uncertain circumstances, ranging from providing appropriate support to newly independent South Sudan, tackling drawn-out crises such as Somalia or Côte d'Ivoire or responding to new threats such as Al Qaida in the Sahel region. They should help the EU to provide a more adequate response to fragile situations in ACP countries.

[31]Council Decision 2010/589/EU of 27 September 2010 amending and extending the period of application of Decision 2007/641/EC concluding consultations with the Republic of the Fiji Islands under Article 96 of the ACP-EU Partnership Agreement and Article 37 of the Development Cooperation Instrument.

[32]'*In order to address situations of fragility in a strategic and effective manner, the Parties shall share information and facilitate preventive responses combining diplomatic, security and development cooperation tools in a coherent way. They shall agree on the best way to strengthen capabilities of States to fulfil their core functions and to stimulate political will for reform while respecting the principle of ownership. In situations of fragility, political dialogue is especially important and shall be further developed and reinforced.*'

In such fragile situations, donors are often confronted with a State which is unable or unwilling to discharge its basic functions or its obligations and responsibilities regarding service delivery, management of resources, rule of law, equitable access to power, security and safety of the population and protection and promotion of citizens' rights and freedoms and that does not have effective control over internal or external factors.

For donors, these are examples of extremely challenging contexts, where needs are huge in terms of crisis response, security and reinforcing weak institutions (at national and local levels) and where the timing of aid is challenging, with big risks and high volatility on the ground. The challenges of delivering a timely response in these circumstances have often meant that humanitarian support has been prolonged beyond its original purpose.

Over the last few years, the EU has improved its policies and practice in countries in fragile and crisis situations. The Commission Communication on situations of fragility and the subsequent Council conclusions (2007) highlighted the challenges donors face in such situations and paved the way for further work on the issue, at Commission, EU and international levels (participation in the work of the OECD/International Network for Conflict and Fragility (INCAF) in particular). As requested by the Council, a draft EU action plan on situations of fragility and conflict has also been developed.

Moreover, key determinants of fragility have been explicitly taken into account in the 10th EDF aid allocation criteria, together with the level of income/poverty, growth prospects and natural resource endowment. The criteria also integrate other specific factors recognised as potentially contributing to fragility: landlocked location, geographical isolation and geographical profile (population density and urbanisation).

At a more operational level, a number of measures have been taken, including adopting more flexible procedures for development cooperation in countries in crisis and internal guidelines for budget support in fragile situations (see box below), reviewing and broadening the approach to linking relief rehabilitation and development (LRRD), introducing the concept of transition which also highlights the stabilisation dimension better and preparing guidance on provision of technical assistance in situations of fragility.

Addressing fragility in country programmes

In Guinea Bissau, the country strategy paper and national indicative programme for the 10th EDF focuses on State-building ('Conflict prevention in fragile States'), to provide continuity with the action taken under the 8th and 9th EDFs. Support for State-building encompasses reform programmes on public administration, public finance management, security and justice. Furthermore, the European Commission and Member States are providing substantial budget support to help stabilise the country and, thus, create the conditions for implementation of the above-mentioned reforms.

In Liberia, there is one focal sector — LRRD (linking relief, rehabilitation and development) — with two main areas: rehabilitation (basic infrastructure and basic services, €104.8 million) and governance (institutional and capacity-building, €20 million). The lion's share of the rehabilitation budget is committed to the Liberia Reconstruction Trust Fund for the road transport sector (€60.2 million) and a €20 million contribution to the health sector. Education is the third area receiving support for rehabilitation.

Timor Leste is still a young country and a state with weak institutional capacity facing important challenges. The 10th EDF CSP/NIP consequently focuses on rural development, health and institutional capacity building.

2. Envelopes for unforeseen needs ('B envelopes')

Beside the programmable allocation to ACP partner States, which represent 90% of the global amounts of the 10th EDF, the programming of the EDF makes provision for allocations to cover unforeseen needs such as crisis and post-crisis situations (Article 72-73 of the ACP-EU Partnership Agreement), contribution to internationally agreed debt relief initiatives (Article 66) and short-term adverse effects of exogenous shocks (Article 68).

At the level of the entire EDF, €1. 8 billion was set aside for unforeseen needs, of which €601 million were initially allocated to national envelopes. In order to respond quickly to crisis situation and emergency assistance needs, 25% of the allocations for unforeseen needs were earmarked for ECHO use and mobilised by ECHO in coordination with DEVCO to respond to humanitarian needs in accordance with humanitarian aid principles and procedures. The mechanism for mobilisation by ECHO allows the EDF to provide a quick response to crisis/transition situations that has proved very effective under the 10th EDF. At mid-term, 85% of the ECHO share of national B-envelopes have been used.

National B-envelopes have largely been used. Over the last three years, they have been mobilised in more than 30 countries, and even exhausted for a quarter of the ACP countries (Burkina Faso, Togo, Kiribati, Salomon Islands…) A particular feature is that it is often the same countries that need such funds for unforeseen needs, for many of them because of their high exposure to natural disasters. To avoid funds for unforeseen needs being blocked in the B-envelopes of a number ACP States, the B-envelopes allocations have been globalised as a result of the Mid Term Review of the 10th EDF. National allocations will consequently be replenished upon requests when needs occur using accelerated procedures. To improve the response to unforeseen needs, regional B-envelopes will also be put in place following the revision of the Cotonou Agreement to address unforeseen needs of regional dimension, such as man-made crisis or natural disasters.

The flexibility offered by the EDF has proved extremely useful to respond to recent crises as well as small or medium-scale unforeseen developments at national level. For disaster of a very large magnitude however, the initial programming (NIP) usually has to be revised to adapt to the new circumstances and priorities on the ground and the B-envelope is only used, if at all, for the initial emergency assistance (which is also financed by the humanitarian assistance funds under the budget).

The B-envelope reserve at the level of the entire EDF has also been used, in accordance with the Cotonou agreement, to finance the Flex mechanism to mitigate the adverse effects of fluctuations in export earnings, as well as for the V-Flex to limit the impact of the international economic and financial crisis (see below).

Haiti — The aftermath of the earthquake

In 2010, special efforts were made to deal with the aftermath of the devastating earthquake that struck Haiti on 12 January. Immediately after the earthquake, the Commission put in place a series of measures to respond to the emergency. Ongoing projects and programmes were adjusted where needed and new programmes or top-ups of ongoing programmes were added in order to respond to needs and priorities better. Conditions for general budget support were thoroughly assessed and additional measures and guarantees were introduced. Between January and September 2010 budget support totalling €57.8 million allowed the government to maintain critical spending, notably on health, education and security. Kits were distributed to help schools take charge of the many extra pupils who had fled from the capital city, Port au Prince, to other parts of the country. School rehabilitation works were started. Tenders were launched for rehabilitation of the remaining section of National Highway 3 up to Cap Haïtien.

3. Flexible and accelerated procedures

Articles 72 and 73 of the Cotonou Agreement provide for flexible and faster procedures in crisis situations. Since the second revision of the Cotonou Agreement, situations of fragility are included in the definition of crisis situations. Such mechanisms are defined in the EU Financial Regulation and are therefore also applicable to non-ACP countries, if the Commission recognises that they are in a crisis. At the beginning of 2011, 19 ACP countries benefited from these procedures. Each application is subject to regular review and renewal if justified.

The possibility of using flexible procedures also extends to post-crisis countries/regions. In this case, the flexible procedures can be used for activities such as transitional measures leading to medium- and longer-term development.

The flexible procedures relate to tenders, calls for proposals and rules of origin and nationality. International companies (European or otherwise) are generally unwilling to operate in crisis countries. Consequently, the choice of supplier tends to be severely limited. As a result, standard tendering procedures and calls for proposals involving selection of suppliers from a number of bids often simply do not work. In some crisis countries, not only are reliable suppliers hard to find, but also they tend to be Asian or American and would therefore be barred from competing by EDF rules on origin and nationality. Derogation from the origin and nationality rules has been essential for effective and efficient implementation in these countries.

4. Budget support in situations of fragility

In 2007, to follow up the ‘Fragility Communication’, the Commission reviewed its experience of budget support in post-conflict countries and made recommendations on the approach to budget support in fragile situations and on the need to improve coordination and human resources. In 2008, the Commission established a thematic group on ‘budget support in situations of fragility’ in which consultations with interested EU Member States were held. Another thematic group was created with the IMF, the World Bank and the African Development Bank to design a framework for closer coordination of budget support in situations of fragility. These indepth consultations resulted in a common approach paper (CAP).

In parallel, a specific method was prepared alongside the programming of 10th EDF budget support for Burundi, Haiti, the Central African Republic, Sierra Leone and Guinea Bissau and arrears clearance operations for Liberia, Côte d'Ivoire and Togo. This method was approved in November 2009. It is contained in an annex to the European Commission Guide on general budget support and applies to ACP and DCI countries.

The results of the stakeholder consultation on the Green Paper on the future of EU budget support to third countries show use of such support in situations of fragility remains controversial. Although all stakeholders recognise the importance of providing support to countries in situations of fragility to avoid them deteriorating into failed States, some EU Member States deemed that budget support should be used in situations of fragility only in the most exceptional cases, with clearly defined goals and timeframes. The forthcoming Commission Communication on budget support will aim to frame use of budget support better and to improve risk management.

SECTION 3. EXOGENOUS SHOCKS AND GLOBAL CRISES

The last few years have brought successive crises and exogenous shocks, in particular the food, fuel and financial crises. All of these have had a big impact on developing countries' economies. The impact of the financial crisis in particular has been severe for the poorest countries, which proved to be more integrated into the global system than generally thought. The Commission responded to these crises with existing and new mechanisms, not only under the EDF but also under the budget.

1. FLEX, the response mechanism established by the Cotonou Agreement

Mechanisms to mitigate the adverse effects of instability of export earnings on development have been part of the ACP-EU framework since 1975, initially in the form of STABEX. The Cotonou Agreement set up 'a system of additional support in order to mitigate the adverse effects of any instability in export earnings, including in the agricultural and mining sectors', within the financial envelope for support for long-term development.

Under the Cotonou Agreement, in 2000 a new mechanism — FLEX — was established providing additional resources for countries facing major losses in their total exports or in exports of agricultural or mineral products. The aim of the new FLEX mechanism was to be more comprehensive and simpler than its predecessor, the commodity-related scheme, STABEX. Since then, FLEX has been providing support to countries that satisfy two qualifying criteria. Early evidence from using FLEX showed, however, that the initial eligibility criteria were too stringent, resulting in relatively few ACP countries being considered eligible and that the mechanism was not counter-cyclical enough. To address these limitations, FLEX was revised in 2004 and 2008.

1.1. Eligibility criteria

From 2000 to 2004, FLEX payments were activated if export earnings from goods were 10% below the reference level (2% for the least developed countries (LDC)). Alternatively, ACP countries could claim compensation if a sudden drop in earnings by 10% (2% for LDCs) was attributable to total exports of agricultural or mineral products and these sectors were considered highly relevant to their particular economy.

The main change made in 2004 was to reduce from 10% to 2% the increase that ACP countries had to record in their public deficit as a result of exogenous shocks on the export side. Furthermore, the provision regarding a 2% drop in export earnings was extended to landlocked countries and islands.

FLEX was amended for the second time by Decision No 1/2008 of the ACP/EU Council of Ministers of 13 June 2008. While the eligibility criterion tied to the magnitude of the shock remains the same, the main changes in the 2008 revision of FLEX were:

- the decision to eliminate the eligibility criterion concerning a worsening in the programmed public deficit;
- the exclusion of the most extreme year from the calculation of the reference value needed to measure the scale of the shock.

While the removal of the public deficit criterion makes FLEX less restrictive than before, at the same time a minimum impact threshold has been set: under the revised FLEX, the drop in export earnings 'must be 0.5% of GDP or more for there to be entitlement to additional support. Entitlement to additional support shall be limited to three successive years.'

Moreover, the amount of additional aid support, that is the theoretical effect of the export shortfall on the public budget, is now calculated as the product of the loss of export earnings in the year of application and the 'government revenue/gross domestic product' ratio (averaged over the last four years), excluding the most extreme value and capping this ratio at 25%.

Finally, the 2008 revision stresses that FLEX transfers should be used to 'develop market-based insurance schemes offering protection against the risk of fluctuations in export earnings' (Article 9(3) of the Annex to the Cotonou Agreement).

1.2. Modalities

In the original mechanism in 2000, qualifying ACP countries had access to FLEX support for a maximum of four successive years. Since the 2008 revision, this is limited to three successive years, in line with the aim to assist in situations of short-term fluctuations, but not in response to structural trends towards a fall in export earnings.

Under the 10th EDF, €600 million were set aside within the general EDF reserves for FLEX, with a decision that the maximum annual amount must not exceed €80 to €100 million. In 2008, €25 million were allocated to four countries, in 2009, €80 million to 14 countries and in 2010/2011, €100 million have been allocated to 17 countries (the total eligible requests added up to approximately € 750 million).

In countries not eligible for budget support, financing for short-term fluctuations in export earnings should be used for contributions to projects or programmes in focal or non-focal sectors, as defined in the CSP and NIP, or for mitigating measures or for promoting market-based insurance schemes.

1.3. Lessons learned

An external study was commissioned in 2008 to assess the initial results of the FLEX mechanism and propose some pointers for the future[33]. The consultants concluded that FLEX suffers from some constraints that limit its impact.

Although FLEX was introduced as recently as 2000, a great deal of attention has been paid to simplifying the eligibility criteria. The changes made to the FLEX operating rules in 2004 have, as expected, resulted in an increase in the number of eligible cases to be financed.

However, the ultimate aim of FLEX should not be to increase the number of countries eligible for support, but to provide quick and sizable payments to 'safeguard socio-economic reforms and policies that could be affected negatively as a result of a drop in revenue and to remedy the adverse effects of instability of export earnings, in particular from agricultural and mining products' (Article 68(2) of the Cotonou Agreement).

The main lesson to be learned, therefore, is that FLEX failed significantly to achieve its objective, mainly because of lack of funding and delays in financing.

With regard to financing, the increase in financial resources under the 10th EDF appeared to be enough to cover the requirements of ACP countries coping with exogenous shocks on the export side.

With regard to the time lag in providing financial support, the facility operates on the basis of an *ex-post* rather than a real-time mechanism. Because FLEX is based on actual export earnings, it incurs the delay associated with data recording, a process that takes time. This holds true whatever efforts the European Commission makes to collect, compile and validate data on export earnings.

The second revision of the Cotonou Agreement broadened the scope of this support mechanism beyond export losses to exogenous shocks.

2. The Food Facility and Vulnerability FLEX — *Ad hoc* responses to crises

In response to the successive global crises of recent years, which could not be addressed by the FLEX mechanism, the European Union adopted *ad hoc* complementary temporary schemes: V-FLEX and the Food Facility.

2.1. *Ad hoc* food prices Decision

In November 2008, in view of the severe negative economic and social impact of soaring food prices since late 2007 on many ACP countries, with adverse effects on poverty reduction and progress towards achieving the Millennium Development Goals (MDGs), the Commission reacted promptly by adopting a €200 million *ad hoc* Decision[34] for ACP countries (funded

[33]Feasibility study on compensatory financial schemes for exogenous shocks, revised final report, June 2009, Thierry Apotheker, TAC, IBM, TICO and DMI.

[34]Commission Decision concerning the adoption of special measures regarding the allocation of resources for

from the general reserve of the EDF). Allocations were calculated on the basis of vulnerability, impact and population criteria with the aim of mitigating the macroeconomic impact of soaring international food prices on the budget of the beneficiary countries and protecting the most vulnerable groups dependent on imported food, notably in urban areas. Twenty-nine countries received support under this Decision, the main beneficiaries being the Democratic Republic of Congo (€22.65 million), Ethiopia (€15.23 million) and Mozambique (€14.84 million).

2.2. V-FLEX

The existing FLEX mechanism aims to safeguard socio-economic reforms and policies that could be adversely affected as a result of a drop in export earnings, based on statistics from previous years. However, it could not respond adequately to the challenges posed by the international crisis, since it compensates only for export losses and does not provide for rapid counter-cyclical measures.

In close coordination with international organisations (international financial institutions, the United Nations, etc.), the European Commission carried out a review to assess the impact of the global crisis on the most vulnerable developing countries. It concluded that the crisis had a significant impact, especially on the most vulnerable ACP countries, adversely affecting progress towards achieving the MDGs. Vulnerability FLEX, set up for a duration of two years (2009-2010), was one of the EU responses to these challenges as part of the international effort targeting the most vulnerable.

V-FLEX was conceived as a demand-driven mechanism. The eligibility of requests submitted by the national authorities of the ACP countries was assessed in the light of three basic criteria:

- Vulnerability, as defined by worsening internal and external conditions, of the budget and balance of payments;
- Financing gap not covered by other sources, including financing by other donors;
- Capacity of EU aid to reduce significantly the residual financing gap by at least 50%;
- Absorption capacity of eligible ACP countries under existing budget support programmes or established social safety net mechanisms.

For States in a fragile situation, eligibility was to be demonstrated case by case in the context of the subsequent allocation decision by the Commission.

The Commission set aside €500 million from the 10th EDF general reserves for V-FLEX for the period 2009–2010. Under the 2009 allocation, 26 requests were submitted (25 by ACP countries and one by a regional body), of which 17 were initially considered eligible but two were subsequently withdrawn. Fifteen requests were finally considered to comply with the eligibility criteria and were allocated a total of €236 million.

unforeseen needs from the tenth European Development Fund to assist the ACP countries in addressing the budgetary, macro-economic and social impact of soaring international food prices.

Under the 2010 allocation, 36 requests were submitted, of which 19 complied with the criteria. A total of €264 million was allocated.

Support under V-FLEX is delivered using:

- either budget support, where feasible, as the most appropriate delivery method to address the impact of the crisis, in terms of timeliness, effectiveness, efficiency, accountability and sustainability;
- or alternative forms of aid, which can be used when budget support is not feasible or where effective and immediate social mitigation can best be ensured by existing projects, programmes or trust funds and in close coordination with other donors.

At the end of 2010, the Commission ordered an external early assessment of the impact of V-FLEX[35]. The key findings were generally positive:

- Given that the decision to introduce the tool was taken in April 2009, the European Commission had been extremely successful in developing a process to identify eligibility criteria, to coordinate responses with IFIs and regional banks in order to have a common approach to plug financing gaps — the target metric — and to allocate and disburse funds.

- There is a natural trade-off between speed of financing and the thoroughness of the financing process. On balance, the financing process was sufficiently robust without sacrificing the goal of rapid disbursement.

- Whilst it is too early to assess the *ex-post* impact of V-FLEX funding, there is a general sense that the tool has had the desired effect of saving countries faced with liquidity rather than solvency problems from further economic destabilisation. In this sense, the immediate impact as a counter-cyclical measure has worked.

- Tight time constraints for the financing process in 2009 meant that general budget support was the default disbursement option — correctly, as the alternative would have been delays in disbursement and resulting unfunded mandates or expenditure cuts for target beneficiary countries. On the other hand, in 2010 slightly more time was available, allowing the Commission to be more selective between general and sector budget support.

- The review of available country reports and IMF country reviews for the 2009 beneficiaries found no indication that, qualitatively at least, V-FLEX was in general pro-poor in its impact by reducing the incentive and need for Finance Ministries to cut pro-poor or development expenditure. An added impact was that V-FLEX helped recipient economies to ensure macroeconomic balances and prevented country risks posed by second-round macroeconomic destabilisation, for instance because of possible currency or bank runs.

3. <u>Orientations for the future</u>

[35] An Analysis on the Vulnerability FLEX and its Impact on Selected Countries, Rupinder Singh and Mirek Karasek, March 2011.

Developing these *ad hoc* crisis response instruments, which needed to be put in place quickly if they were to be relevant, was extremely time-consuming. Such *ad hoc* responses with shock-specific instruments are not satisfactory and ways should be sought to streamline the existing exogenous shocks mechanisms.

In line with the revised Cotonou Agreement, but not necessarily limited to ACP countries, the Commission is studying options for a broader, more generic mechanism (i.e. not related to a specific type of shocks), to avoid having to devise new mechanisms under extreme pressure each time a new exogenous shock hits developing countries, with the delays that typically implies.

The challenge will be to address the key limitations of the current FLEX and find ways for mitigating the negative impact of exogenous shocks and safeguard key government expenditure (in social sectors in particular) in order to avoid a long-term negative impact on the development strategy of the country. This kind of 'emergency' mechanism is not suited, however, to address the structural causes of vulnerability, which are better addressed by long-term measures to strengthen the resilience of developing countries (to economic shocks, natural disasters, etc.).

WHICH PROCEDURES FOR CRISES AND FRAGILE SITUATIONS?

Situations of fragility create extremely challenging contexts for donors, where needs are huge, among other things to reinforce the weak institutions at both local and national levels, but it is difficult to decide what the priorities should be. The risks are high (given the failing structures) and the situation on the ground is very volatile.

One critical aspect is that development aid, with a long time-frame and a structural dimension, must come in early, to start as soon as possible with supporting weak institutions (State-building), which is a prerequisite for returning to any development path. This implies that development instruments must be able to draw upon specific, more flexible and less risk-adverse procedures, from programming to implementation, so that they can respond adequately in such situations.

The EU, with its global reach in ACP countries and objective allocation of resources, is present in all difficult situations and, thanks to its unallocated funds, flexible procedures and *ad hoc* instruments, has been able to respond to situations of fragility. Nevertheless, the EU's responsiveness could be improved.

Programming, in particular, should be on a shorter-term basis than in more stable situations, with regular reviews to adapt to the volatile situation. This should, however, be set within a long-term framework, since long-term engagement is crucial for any sustainable impact. Such a long-term commitment is often lacking and this has a clearly detrimental impact on the country concerned.

Implementing procedures should also benefit — as necessary — from the derogations allowed for crisis situations (the possibility of direct contracting, without a call for proposals, for example).

Finally, acceptance of a much higher degree of risk is a prerequisite for intervening in fragile contexts.

WHICH BALANCE BETWEEN PREDICTABILITY AND FLEXIBILITY?

Economic studies on crises and price volatility show a trend towards greater volatility of commodity prices, on which many developing countries are highly dependent (for exports and/or imports). At the same time, climate change has already led to a significant increase in extreme weather-related events over the last decade. Both these trends point to the need for a more structural approach than *a posteriori* crisis response. Long-term cooperation should incorporate those elements better by building up the resilience of recipient countries to both natural hazards and economic shocks.

For climate change the Commission has already proposed such an approach in the recently adopted 'Implementation Plan for the EU Strategy for supporting Disaster Risk Reduction in Developing Countries', which draws on the EU strategy on the same issue adopted in February 2009 and the ensuing Council conclusions of May 2009. The objective is to integrate disaster risk reduction (DRR) better in the EU's external action and in developing countries' policies and planning processes. This would lead to greater recognition of DRR in CSPs and integration of DRR into partner countries' policies and strategies.

With respect to economic shocks, a growing body of evidence shows that they have a very negative impact on long-term growth trends in low-income countries. To limit any such impact, EU cooperation should help these countries to become more resilient with the aid of greater diversification of their economies, good economic governance (including building up sufficient monetary reserves) and development of social safety nets, which will help to soften the social impact of the crisis on poor people.

Any shock-absorbing mechanism should be only an emergency mechanism in the event of a major short-term impact, to ensure that certain critical expenditure (both on the social sector and on economic infrastructure) is not delayed or cancelled, with a potential negative impact on growth in the long run and on the poorest in the short term.

The same could probably be said for conflict prevention and State-building. Rather than relying extensively on *ad hoc* measures, more attention should be paid to this dimension in the programming documents for fragile or post-conflict countries.

All this points to better and more structural integration of crisis response in the long-term programming for countries which are vulnerable, in whatever way, with quick-response mechanisms being used only for short-term responses when a country's capacity to cope with a shock is clearly insufficient.

COHERENCE WITH EU BUDGET INSTRUMENTS

Greater coherence between EDF and EU budget instruments would improve the EU response to unforeseen events or crisis situations. In man-made crises, the EU always deploys a set of instruments, each responding to different objectives and different engagement principles: humanitarian assistance, development aid, Instrument for Stability programmes and, in some cases, CFSP/ European Security and Defence Policy missions.

Closer coordination between these instruments, starting from a joint analysis of the crisis, its root causes and the needs to be addressed, as advocated in the draft EU Action Plan on fragility and conflict would ensure a better, more coherent EU response to crises. In this regard, the European Consensus on Humanitarian Aid, accompanied by an Action Plan and followed by a Mid-Term Review in 2010 contribute to enhancing the coherence of EU Humanitarian Aid.

Coordination with EDF financing of emergency and humanitarian assistance is functioning well through the earmarking of 25% of the EDF allocations for unforeseen needs. Implementation of EDF financed humanitarian assistance by ECHO allows a swift mobilisation of financing and implementation of emergency assistance.

Humanitarian assistance is often still needed for a certain period of time to address the basic needs of deprived population but a key issue, in terms of coherence and effectiveness, is to ensure that development enters earlier and more efficiently in such contexts to start re-establish the bases for long term development, including the building of legitimate and responsible institutions at local and national level. In this regard, in addition to B-envelopes financed ECHO interventions to address crisis/transition situations, a built-in flexibility in long-term development programmes allows to integrate reintegration and rehabilitation activities, through Employment Intensive Approach (HIMO), in infrastructure programmes and crisis, post-crisis/natural disaster interventions. Article 73 of the Cotonou Agreement already foresees the use of A-envelope programme to respond to crisis and post-crisis. Employment Intensive Programmes (HIMO), Development-oriented Emergency and Transitional Assistance (DETA/ENUH) and Linking Relief Rehabilitation and Development (LRRD) need to explored further in order to ensure that Humanitarian Assistance and Development cooperation join efforts.

CHAPTER III. OVERVIEW OF THE RESULTS OF THE 10TH EDF

The Cotonou Agreement stipulates that the performance review should examine the implementation rate for commitments and disbursements under the 10th EDF and assess the results and impact of the aid provided. The 10th EDF Implementing Regulation also mentions that the results and impact should be measured in terms of progress towards achieving Millennium Development Goals and that the review should explore and recommend ways to enhance alignment of future European Union support to the ACP countries with the partner country's or region's existing strategies, programming and budget cycles and ensure further harmonisation among donors.

This chapter gives an overview of the financial and qualitative results in the main EDF sectors, where they are available and measurable. It also points to the EU's capacity to innovate and to adapt its aid instruments to meet new challenges like MDGs and climate change. On this basis, the question pervading this entire chapter is to reflect on ways to ensure 'high-impact' EU development policy and facilitate 'more and more inclusive growth in ACP countries'.

SECTION 1. ASSESSING THE IMPACT AND RESULTS

The Commission pays close attention to measuring the impact of its development cooperation action. This is a top priority shared by all donors. Measurement of the results, impact and sustainability of projects and programmes is pivotal to assess the effects of aid on actual poverty eradication. For several years, the European Commission has been assessing the effects of its development cooperation and the results.

The monitoring and evaluation system put in place by the Commission, which applies to EDF-funded programmes and projects as much as to assistance funded from the EU budget, assesses the aid following a pyramidal build-up:

- Projects and programmes are monitored internally and evaluated by the Delegations or at headquarters.

- The results-oriented monitoring system (ROM) provides a harmonised overview of the portfolio of projects and programmes based on the five internationally agreed evaluation criteria (relevance, effectiveness, efficiency, impact and sustainability). It has been in place since 2000 and plays a vital role in ensuring the quality of EU development aid and, thus, value for money for the European taxpayer. ROM forms part of the overall quality assurance cycle which starts during the design of projects and ends after their completion. This system gives a transparent, rapid and comprehensive review of how a project is progressing at a particular point in time. It is carried out on the spot in all regions covered by external cooperation by independent experts in coordination with EU Delegations, national stakeholders and the Commission departments in Brussels. ROM monitors conduct on-site visits to projects and programmes, review key project documents and interview all relevant stakeholders. Based on empirical data, they produce and deliver objective, impartial and comparable reports. The need to move from quantitative to more qualitative analysis of ROM data has been tackled since 2008 and, focusing on *ex post* ROM reports, a global study identifies project performance each year.

- Evaluations seek to identify the impact at a higher level. They are based on a theory of change, concentrating on the chain of results from outcome to impact, either at macro level for a given partner country or globally for a given policy/theme. The method focuses mainly on the different levels of impact (from specific to intermediate).

This pyramidal build-up is crucial for the external assistance policies as a whole and needs to feed back into the programming cycle. Evaluations are important for accountability to the public and teach lessons about what has worked and what has not and the reasons why. The Commission is an international leader in the area of complex evaluations, is very active in the OECD Development Assistance Committee (DAC) and is coordinating a network of the relevant evaluation services in EU Member States to promote common methods and joint evaluation. Several EU Member States have taken up its complex evaluation approach.

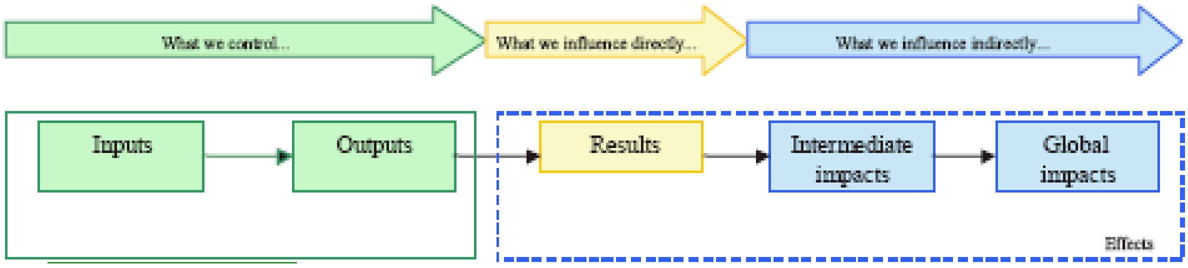
In recent years the Commission has sought to raise its standards for aid implementation, quality control, accountability and results monitoring. It has engaged in a reform to make its processes simpler, focus them on quality and results and bring them into line with internationally agreed objectives on aid effectiveness. The Commission has also developed more dynamic forms of partnership with beneficiaries and with other donors and has simplified its procedures. The progress made by the Commission has been recognised by its peers, in particular by the OECD DAC. The DAC 2008 survey showed that the Commission was performing above the average for all donors surveyed against the indicators from the Paris Declaration on Aid Effectiveness. A comparative study also found that Commission operations are well in line with those of other leading donors. The Commission time-frame for operations, from the start of programming to the start of operations, is comparable to that of the other leading donors (120 weeks for the Commission and the United Kingdom's Department for International Development, 122 for the Agence Française de Développement – AFD - and 100 for the Swedish International Development Cooperation Agency), although the nature of the EU decision-making process creates a longer approval period. The duration of the contracting phase is very similar to that of the other donors surveyed.

The positive trend which is emerging is the consequence of a consistent effort made over the last few years to take into consideration results of evaluations which systematically pointed to delays in implementation, complicated procedures and, more generally, lack of efficiency as the main weaknesses of aid managed by the Commission.

Impact *per se* is very difficult to define. The Commission carries out evaluations of projects and programmes and complex evaluations at country level. In its Practical Guide for evaluating EU activities[36], the Commission draws a distinction between several levels in the 'chain of results': the output (a product under direct control of the manager, e.g. a road), the result/outcome (immediate or initial effect of a measure, e.g. travel time and cost are reduced by the existence of the road) and the impact (longer-term effect of a measure, e.g. access to markets). The higher up the chain of results (impact level), the more complex is the correlation between a given EU measure and the impact.

[36]See 'Evaluating EU activities – A practical guide for the Commission services', DG Budget, Evaluation Unit, July 2004.

At output and outcome level, the link with an EU measure can be established relatively easily. However, at impact level, numerous other interacting factors (other players and policies) must be taken into account: an EU measure can, at best, contribute to the impact. When talking about the impact of EU development policy, attention must therefore be paid not only to the impact of EU aid programmes and projects, but also to the other aspects of EU development policy (such as policy and political dialogue, the international agenda, norm-setting and policy coherence for development).



SECTION 2. FINANCIAL PERFORMANCE

The financial resources available from the 10th EDF total €22.682 billion for a six-year period. The 9th EDF was initially allocated €13.8 billion, but transfers from previous EDFs and later decommitments raised the final total to €18.2 billion for a five-year period. Therefore the net increase in the 10th EDF's resources over the 9th EDF would be 4.5% if both EDFs lasted an equal period of five years[37].

As explained in more detail below, the upward trend in payments registered under the 9th EDF has been maintained and they are approaching the level of commitments. Also, around 50% of the 10th EDF (funds managed by the Commission) had been committed by the end of 2010, 2.5 years after it came into force.

1. Commitments

Overall, by the end of 2010, global commitments under the 10th EDF had reached €10.555 billion[38], approximately 50% of the total and leaving €10..597 billion to be committed by the end of 2013 (after which no further commitments are possible). Global commitments averaging €3.512 billion per year will be necessary in order to commit the entire remaining balance by the end of 2013. This is deemed feasible, considering that the average annual commitments over the period from July 2008 to the end of 2010 stood at €4.222 billion.

Looking at the year-on-year performance, the level of global commitments in 2008 was the highest ever for the Commission (€4.843 billion[39]), even though, because of the late entry

[37] The total financial volume of the 10th EDF corresponding to only five years would be: (€22 682 million*5)/6 = €18 901 million.

[38] A further €62 million was committed from additional funds (co-financing from Member States under the 10th EDF).

[39] In addition, the EIB, which manages the funds from the 10th EDF for the Investment Facility entirely autonomously, committed €399 million.

into force of the revised ACP-EU Partnership Agreement, the funds from the 10th EDF did not become available until 1 July 2008. The level of EDF commitments has traditionally shown a cyclical pattern, with high levels in the first years of each new EDF, followed by a levelling-off. The historic high in commitments in 2008 could therefore partly be explained by the fact that it was the beginning of a new commitment cycle.

In 2009, global commitments reached €3.502 billion. This was lower than in 2008 due to the fact that MDG contracts and other budget support programmes are multiannual and the commitments for them were made in 2008. The decrease in level is also due to the decrease in the average size of projects (from approximately €30 million to €15 million), which is the expected pattern of commitments as the cycle of implementation of the 10th EDF matures.

By the end of 2010, around 50% of the 10th EDF had been committed, well on track to meet the target of committing the entire 10th EDF before 2013, despite the fact that global commitments were below target.

EDF commitments (million €)									
	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
TOTAL managed by the Commission	3511	3408	3636	4843	3502	2.662	3250	3750	3900
TOTAL managed by EIB(1)	509	641	286	399	656	650	520	520	520
GRAND TOTAL the Commission + EIB-managed	4020	4049	3922	5242	4158	3312	3790	4270	4420

(1) 10th EDF instruments managed by the EIB (Investment Facility and interest subsidies)

The level of commitment of the different programmes under the 10th EDF (national, regional and intra-ACP) is shown in the table below. There are significant variations between the different programmes, from 67% in the case of intra-ACP cooperation (excluding the reserve) or 61% of the national allocations (excluding reserves; 55% when including reserves) to 20% in the case of regional indicative programmes and just 2% for OCT operational funds.

Execution of the 10th EDF by 31.12.2010 (net amounts)

	Appropriations	**Commitments**	**Payments**
<u>ACP</u>			
National allocations	15 976 212 908.00	8 414 016 451.21	2 324 707 130.85
Intra-ACP allocations	2 700 000 000.00	1 559 655 000.00	454 209 449.23
Regional allocations	1 816 100 000.00	361 115 360.00	9 449 336.20

Sub-total ACP funds managed by the Commission	**20 492 312 908.00**	**10 334 786 811.21**	**2 788 365 916.28**
OCT funds managed by the Commission	**250 000 000.00**	**4 300 000.00**	**—**
Support expenditure ACP + OCT	**467 712 383.96**	**215 583 903.00**	**183 663 542.95**
Funds managed by the EIB	**1 530 000 000.00**		
Total	**22 740 025 291.96**	**10 554 670 714.21**	**2 972 029 459.23**

2. Payments and disbursements

The level of payments follows the normal cycle of implementation of the EDF. The majority of the global commitments made in 2008 were converted into individual commitments in 2009 and 2010 from which disbursements take place gradually.

Disbursements are continuing to show an upward trend, with the level of payments approaching the level of commitments. The Commission disbursed €3.215 billion in 2008 and the EIB disbursed €268 million under the Investment Facility, taking total disbursements for both institutions to €3.483 billion, a record for the EDF (7% higher than the previous highest level of expenditure reached, in 2007).

In 2009, the level of disbursements was slightly lower (total: €3.355 billion). This can be attributed to the fact that some countries passed under prudential measures under Article 96 (Guinea, Madagascar, Mauritania, and Niger), others have not ratified the Cotonou Agreement (Equatorial Guinea and Sudan) and for others the budget support disbursements were awaiting confirmation of fulfilment of general or specific conditions (, , the Democratic Republic of Congo, Haiti Ethiopia, and Malawi).

In 2010, payments (by the Commission) reached €3321 million, confirming the general positive trend.

The forecasts for 2011 and 2012 are even higher, based on a conservative assessment of the ongoing projects, programmes and new projects in the pipeline, including crisis response measures.

EDF payments, in million € (* forecast)

	2005	2006	2007	2008	2009	2010	2011*	2012 *	2013 *
TOTAL managed by the Commission	2544	2826	2920	3215	3123	3321	3500	3800	3900
TOTAL managed by EIB (1)	160	236	331	268	232	410	350	370	370
GRAND TOTAL the Commission + EIB-managed	2704	3062	3251	3483	3355	3731	3850	4170	4270

(1) EDF instruments managed by the EIB (Investment Facility and interest subsidies)

Overall, an upward trend in global commitments (decisions) and disbursements was registered over the period 1990-2010 due to a speeding-up of implementation of aid. As expected, the gap between commitments and payments narrowed in 2009 and 2010 in comparison with 2008 (payments were equivalent to 89 % of commitments in 2009 and were 25 % higher than commitments in 2010, whereas in 2008 payments equalled 66 % of commitments), thus reflecting a trend where payment levels are drawing closer to commitment levels.

3. Decommitments

Article 1(4) of the 10th EDF Internal Agreement states that funds decommitted from projects under the 9th EDF or from previous EDFs after 31 December 2007 will no longer be committed, unless decided otherwise by the Council unanimously, on the basis of a proposal by the Commission.

In March, decommitments since the end of 2007 stood at € 360 million for ACP countries and € 7.5 million for OCTs.

Sudan has not ratified the revised Cotonou Agreement adopted in 2005 and therefore cannot gain access to the financial resources available from the 10th EDF. However, in accordance with Article 1(4) of the Internal Agreement, Council Decision 2010/406/EU allocated € 150 million of decommitted funds from the 9th and previous EDFs to address the needs of the most vulnerable populations in Sudan (Darfour and South Sudan).

A second Commission proposal for a Council decision has been prepared to allocate € 200 million to special support programmes for the population in South Sudan. This decision, based on Article 1(4) of the 10th Internal Agreement, to allocate funds decommitted from the 9th and previous EDFs to South Sudan is intended to bridge an expected funding gap in order to cover the immense needs of South Sudan until it accedes to the Cotonou Agreement and has access to financing from the 10th EDF.

After the second decision on allocation to South Sudan, the available balance of ACP decommitments was € 10 million. The European Commission expects further decommitments in the future and will make proposals to the Council on reallocation of these funds.

SECTION 3. IMPACT IN THE MAIN AREAS COVERED BY THE EDF

The Cotonou Agreement and the 10th EDF Implementing Regulation stipulate that the performance review shall assess quantitative and qualitative performance and, in particular, the results and impact, measured in terms of progress towards the Millennium Development Goals.

Considering the high number of evaluation reports already available, this Staff Working Paper presents an overview of the results and the lessons learned in the three main areas covered by the EDF: budget support, governance and infrastructure.

1. Budget support

Budget support is intended to foster partner countries' own development policies and reform processes, strengthen national accountability institutions and systems and facilitate growth, poverty reduction and achievement of development objectives. Via budget support, donors help partner governments finance key government functions, such as build schools and hospitals, pay teachers and healthcare staff, build infrastructure, improve human security and human rights, reinforce good governance and rule of law and achieve macroeconomic stability.

But budget support is not a blank cheque, nor is it provided to every country. Policy dialogue is a central part of the package. And eligibility criteria need to be met and conditions fulfilled in order to safeguard use of government resources, mitigate risks and create incentives for improving performance.

1.1. Financial performance of budget support

General and/or sector budget support programmes are currently being implemented in 39 ACP countries. Three more countries have received budget support under V-FLEX only. Another three have budget support in their 10th EDF programming pipeline. 32 ACP countries receive no budget support. The commitments and disbursements situation is presented below.

Year	Commitments			Disbursements		
	GBS	SBS	Total	GBS	SBS	Total
2008	2 183 679 936	473 714 370	2 657 394 306	26 000 000	-	26 000 000
2009	723 440 000	362 165 000	1 085 605 000	755 078 512	253 914 000	1 008 992 512
2010	464 910 000	511 910 000	976 820 000	663 686 003	160 217 000	823 903 003
Total			**4 719 819 306**			**1 858 895 515**

The high commitments figures for 2008 are explained by the commitment of around 45 % of total general budget support programmed under the 10th EDF in the first year, particularly of MDG-Contracts which made commitments for 6 years (see below). These programmes are now gradually being implemented.

The European Commission has pioneered use of outcome and result indicators in its budget support programmes as a basis for deciding the level of disbursement of variable tranches and as a focus for policy dialogue with governments. Linking disbursements to specific result indicators is expected to stimulate debate on the reasons why policies succeed or not in delivering results to citizens and to inform corrective measures to reverse negative trends.

1.2. Budget support and MDGs

In 2008, the Commission launched 'MDG contracts' for countries with a track record of successfully managing budget support and demonstrating their commitment to making progress towards the MDGs. In response to evidence regarding the costs arising from unpredictable aid, MDG contracts provide longer-term, more predictable commitments of budget support that enable governments to plan their strategies and budgets to achieve the MDGs with greater certainty about future resource inflows.

The aim of MDG contracts is to make budget support more effective at accelerating progress towards the MDGs by increasing predictability and focusing on results. Individual MDG contracts aim to provide six-year programmes with a larger base component (at least 70%) targeted at countries with a proven track record in implementing general budget support. In 2008-2009, MDG contracts were approved for eight ACP countries (Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Tanzania, Uganda and Zambia), accounting for over 40% of the general budget support programmed under the 10th EDF.

MDG contracts — Experience so far

Mid-contract reviews are due in most MDG-Contract countries during 2011. These will determine levels of payment of the MDG-based tranche in the second half of each programme and provide an ideal opportunity to assess progress and learn lessons in a more comparative and rigorous manner. These reviews will also provide an opportunity for both the beneficiary countries and the EU to review the programme, without having to formulate a fully fledged new budget support programme, as would have been the case with a 'standard' three-year general budget support programme. Some examples of progress made in selected MDG-Contract countries are set out in the box below.

MDG-C disbursements totalled €281m in 2009 (99% of intended disbursements) and a further €281m in 2010 (89% of intended disbursements) covering both the annual base tranche linked to fulfilment of the eligibility conditions and the annual performance tranche (APT) linked to fulfilment of progress indicators in key reform areas. In 2010, the APT was withheld in two countries — Mali and Uganda — and only partly disbursed in Ghana and Zambia. The request for and payment of Uganda's third MDG-C disbursement (initially also expected in late 2010) has also been delayed.

Evaluating budget support: In general, it has proved difficult to assess the impact of budget support on poverty reduction and other MDG indicators of ultimate interest. Questions of attribution, and also of assessing what might have been achieved with alternative instruments, have proved difficult to answer. A recent study[40] of the relationship between general budget support and MDG performance covering all aid recipients found that recipients of high general budget support performed better, often significantly so, on all four MDGs assessed (primary enrolment, gender parity in education, child mortality and access to water) and also in terms of improvements in the Human Development Index, over the period 2002-2007, even after allowing for the quality of the policy environment, income level and aid dependency. But other factors will also be key determinants of MDG performance. Further research is therefore needed to explore the extent and direction of any causal relationship between MDGs and budget support.

[40] Beynon, J. and Dusu, A (2010), "Budget Support and MDG Performance", Development Paper 2010/01, DG Development, European Commission.

Examples of impact of policies on MDG-related indicators in selected GBS recipient countries

Rwanda

— primary school completion rates increased from 52% in 2006 to 75.6% (80% for girls) in 2009/2010 (well ahead of the target of 56%);
— the transition rate from basic to upper secondary education rose from 82% in 2006 to 90% in 2009/2010 (ahead of the target of 82%);
— the proportion of assisted deliveries taking place in an accredited health facility rose from 28% in 2006 to 66% in 2009/2010 (well ahead of the target of 40%);
— the proportion of the population with access to hygienic sanitation facilities rose from 38% in 2006 to 58% in 2009/2010 (ahead of the target of 50%).

Mozambique

— the net enrolment rate of girls aged 6 in primary school rose from 70% in 2007 to 75.3% in 2009 (just short of the target of 76%);
— the primary completion rate for girls (second level) rose from 29% in 2007 to 42.3% in 2009 (just short of the target of 44%);
— the number of inhabitants per qualified health worker fell from 1381 in 2007 to 1261 in 2009 (ahead of the target of 1306).

Zambia

— the proportion of pregnant women with HIV receiving antiretroviral drugs increased from 40% in 2007 to 66% in 2009;
— the number of districts with pupil:teacher ratios exceeding 100 fell from seven in 2007 to zero in 2009 (against an original target of three).

Uganda

— the proportion of primary level 6 students achieving competency in literacy increased from 33.5% in 2006/07 to 47.9% in 2008/09 (though still somewhat short of the target of 52%);
— the proportion of primary level 6 students achieving competency in numeracy increased from 30.5% in 2006/07 to 53.5% in 2008/09 (well ahead of the target of 44%);
— the proportion of deliveries in health facilities increased from 32% in 2006/07 to 34% in 2008/09 (in line with the target).

1.3. Evaluations and improving budget support

In an effort to move forward the analysis of the impact of budget support on socio-economic development and poverty alleviation, the Commission is actively engaged in a multi-donor OECD/DAC task force piloting a new evaluation methodology for budget support.

This consists of three steps:

1. The first step aims to assess the inputs provided by budget support and their effect on the relationship between external assistance and the partner country's budget and policy processes (direct outputs) and the induced changes in the financing and institutional framework for public spending, public policy, policy management and service delivery (induced outputs).

2. The second step aims to assess the outcomes (beneficiaries' responses) and impact (e.g. sustainable growth, poverty reduction, etc.) generated by the government policy related to the explicit aims of budget support.
3. Finally, based on the findings in steps 1 and 2, step 3 aims to produce a synthesis and conclusions on how budget support has contributed to changes in the partner country.

The method addresses the fundamental difficulty of attribution of empirical effects to budget support, given that budget support funds are merged within the national budget. Pilot tests of this methodology are currently taking place in Mali, Tunisia and Zambia. Preliminary results indicate that budget support is in fact a useful tool for attaining poverty reduction objectives and MDGs, provided well defined policies with strong national ownership exist. The reports on these evaluations will be available in the course of 2011. This will allow conclusions to be drawn on the effectiveness of budget support and possible room for improvement. There are also plans to develop the evaluation method further into a common tool for OECD donors and to apply it in a larger number of countries.

In order to make budget support more sustainable, increasing attention is being paid to mobilising domestic resources in partner countries. In April 2010, the Commission adopted a Communication on *'Tax and Development — cooperating with Developing Countries on Promoting Good Governance in Tax Matters'* which proposes to (1) provide stronger support for mobilising domestic resources in developing countries, in the context of the broader efforts to strengthen good governance and public finance management in these countries, and (2) promote the principles of good governance in tax matters (i.e. transparency, exchange of information and fair tax competition) and support developing countries in their fight against tax evasion and other harmful tax practices.

In the 2011 budget, €780 000 has been earmarked to follow up the recommendations made in the Communication. Activities financed will include technical seminars organised by the African Tax Administration Forum, support for the Extractive Industries Transparency Initiative (EITI) Brussels Week and an event on domestic resource mobilisation. Other activities that have been funded from the same budget line are the Global Conference of the EITI in March 2011, a technical assistance project to help Vanuatu adopt legislation to implement tax information exchange agreements that have been signed with third countries and a study on supporting developing countries in adopting and implementing international standards on transfer pricing. To provide stronger support to developing countries in the revenue area, the European Commission also intends to engage with the IMF Topical Trust Funds on Tax Policy and Administration and on Managing Mineral Resource Wealth.

Questions about the quality, value for money and impact of budget support are increasingly being raised by a range of stakeholders, including the European Court of Auditors, the European Parliament, national parliaments and civil society. These need to be answered as the Commission works to improve its approach to budget support.

The European Court of Auditors has regularly scrutinised budget support in its annual reports on implementation of the EU budget. It has issued three special reports that cover different dimensions of budget support and recently published a performance audit of general budget support. The Court's recommendations have typically paved the way for revisions and improvements of the Commission's approaches and guidelines. In particular, the Court has contributed to the transition from targeted to untargeted budget support (Special Report 5/2001) and encouraged the ongoing efforts to structure assessments of performance in public financial management better (Special Report 2/2005). Although the Court acknowledged the Commission's dynamic approach to eligibility for budget support, it asked the Commission to apply a more 'structured' and 'formalised' approach. In the recently completed performance audit of budget support, the Court of Auditors raised a number of concerns and made recommendations on setting objectives and programming budget support, on risk management, conditionality, the importance of policy dialogue, capacity building and on progress monitoring and reporting. These, together with internal audit recommendations, will contribute to the ongoing evolution of the Commission's approach to budget support.

In October 2010, the Commission therefore launched a Green Paper on the future of EU budget support that invited contributions on the following issues: (i) political governance and the role of political dialogue; (ii) the role of policy dialogue and of conditionality and links to performance and results; (iii) domestic and mutual accountability; (iv) programming of budget support and its coherence with other instruments; (v) strengthening risk assessment and dealing with fraud and corruption; (vi) budget support in situations of fragility; and (vii) growth, fiscal policy and mobilisation of domestic resources.

Over 100 contributions were received from civil society organisations (46), citizens (19), partner country governments (16), EU Member States (14), EU national parliaments (6) and international organisations (4). Targeted consultations were organised with the Member States, the European Parliament and the Joint Parliamentary Assembly, ACP Ambassadors, international financial institutions and civil society organisations. In addition, Delegations organised local consultations with representatives of government, donors and civil society in 35 partner countries from different geographical areas.

The majority of the responses were positive about the role of budget support. Many argued that the European Commission should continue to be a leading donor in budget support, although several suggested that the Commission should be more selective and pay more attention to political governance issues and there were a few voices against budget support.

Views differed regarding whether the EU fundamental values should be linked directly to budget support arrangements and how this could be done best. Some, especially most of the Member States and several civil society organisations, argued that budget support should be more closely linked to human rights and democratisation issues. Others argued that budget support should not be made conditional on adherence to underlying principles. There was broader consensus that responses to concerns about political governance issues should be gradual and proportionate in all but the most serious cases and that more needs to be done to support and promote the engagement of a wider range of players, including national parliaments and civil society.

The Commission is currently preparing a new Communication on budget support, for adoption later in 2011, which will take into account the results of the consultation, together with financial and performance audits, evaluations and analytical work on budget support. This Communication will continue to make the case for budget support in a range of contexts, while giving greater prominence to a more coordinated EU approach to budget support.

The mandate for a coordinated EU approach follows on from an agreement reached by Development Ministers at the November 2009 Council meeting on general affairs and external relations to *'initiate dialogue towards a coordinated approach to budget support by early 2010'*. The primary objective of a coordinated approach to budget support was defined as being 'to contribute to increased effectiveness of this modality in order to achieve development results and to provide a response to challenges encountered in its application'.

A group of technical experts made up of budget support specialists from Member States and chaired by the Commission was given responsibility for drafting proposals on a more coordinated approach. The group has met several times. It has produced four background papers and discussed the results of the Green Paper consultation. Agreement was reached that the EU's coordinated approach to budget support would be set out in the Council conclusions on the Communication on budget support that the Commission will present later in 2011. This will ensure coherence between the policy process initiated with the Green Paper and the work of the EU technical group.

2. Governance

Governance is a crucial cross-cutting theme and a major area of activity of the 10th EDF. As a cross-cutting theme, democratic governance is crucial for development and for improving service delivery. Simply increasing spending at sector level does not suffice. The ways public functions are carried out, public resources are managed and spent and regulatory powers are exercised strongly influence the effectiveness of public services and of investments.

The Commission support for governance under the 10th EDF covers a number of areas, as described in Section 1.2. Some of the key areas of activity are presented below.

2.1. Democracy support

Democracy support has been an area of significant activity under the 10th EDF, with particular emphasis on electoral processes and, to a lesser extent, on representative institutions and media.

Elections are an essential component of democratic governance. Action supporting genuine elections makes a potentially relevant contribution to peace and development objectives. EU support for elections takes two complementary forms: electoral assistance and EU election observation missions. In many countries EU electoral support and observation have helped free and fair elections to take place, allowing broad participation and increasing the legitimacy of the elected government and representatives, as in Niger. The annual EU budget for electoral support is around €100 million, of which more than 80% is for ACP countries. The challenge for the years ahead is to make EU electoral assistance more sustainable and to implement the electoral cycle approach, with emphasis on capacity development and electoral framework reforms.

Electoral assistance is also very often an entry point for wider comprehensive democracy support and should be seen as complementary to other democratic governance operations. Current electoral assistance programmes, for instance, often already include a media support pillar promoting equal access to information and space for all engaged in elections. They usually also aim to increase participation by civil society via support for domestic observation and civic education. Efforts are being made to include parliamentary development more systematically in electoral assistance, thus helping to ensure that the benefits of democratic elections are reaped by strengthening elected institutions. Although there are a few examples of such complementary support (e.g. Tanzania), this is certainly not yet common practice and therefore needs to be further encouraged.

Scaling up the EU's work with **parliaments** is another promising area. There is growing consensus that effective parliaments are of fundamental importance to democratic systems. This is also reflected in a number of recent EU policy documents and statements. In 2009 a review of EU support for parliaments during the last decade in ACP countries painted a mixed picture of such support so far. EU support for parliaments in ACP countries added up to a bit less than € 100 million and was spread across about 22 countries between 2000 and 2009. The level of EU funding to parliamentary development projects and the quality of its contributions varied widely. The assessment revealed that the success of projects to strengthen parliaments depends on careful groundwork, a long-term and comprehensive approach and incentives for political players. There has often been an imbalance in EU support for institutional strengthening, with activities which have frequently focused on executives at the expense of legislatures. Currently 10th EDF support in this area is often focusing on strengthening parliament's oversight role, as in Timor Leste and Namibia.

Examples of successful parliamentary support

In South Africa the European Union support underlines the value of long-term, intensive engagement. The legislative sector approach taken by South African national and provincial legislatures ensures a common development agenda across national and sub-national legislative institutions. This innovative approach sets an example of good practice for other political systems with national and sub-national legislatures. The South African projects supported on the legislative sector placed strong emphasis on the representative functions of parliament and helped to institutionalise extensive participatory approaches.

In Tanzania, after the 2007 elections, the European Commission contributed € 1.4 million to a programme that has helped to improve the quality of review of the national budget in parliament and scrutiny of bills by committee chairpersons. It has also increased dialogue between parliament and civil society. The involvement of civil society in the review of bills has increased its influence over legislation. These efforts have helped to tighten up the system of checks and balances and make better use of scarce national resources. They have also allowed the voices of the citizens to be heard better and led to greater participation in national policy- and law-making.

2.2. Support for public administration reform and decentralisation

Support for public sector reforms is a key cross-cutting component for better public policy management and a necessary condition for successful sector reforms. European Commission activities so far have focused on public financial management (PFM), mainly on the expenditure component. Under the 10th EDF, some interesting programmes are starting, as in Sierra Leone, Guinea-Bissau and Mali, covering tax collection, policy formulation and civil service reforms.

As regards public financial management, more emphasis will need to be placed on the revenue side. The Communication on promoting good governance in tax matters in the context of development cooperation[41] recommends stepping up the support for domestic

[41] Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on 'Tax and Development. Cooperating with Developing Countries on Promoting Good Governance in Tax Matters'_ COM(2010)163 final, 21 May 2010.

resource mobilisation in developing countries in line with the principles of good governance in tax matters as a way not only to raise the necessary funds for national development but also to enhance democratic accountability and ownership. Article 33(3), (c) of the revised Cotonou Partnership Agreement will allow for further technical assistance in this respect.

Support for civil service reform is another sensitive area in which EU support needs to be more effective. Overall, results in this area are not as promising as for public financial management, as stated in an evaluation of the World Bank support for public sector reform. The EU support needs to be enhanced in order to complement efforts to improve public financial management.

The EU should continue encouraging the involvement of different stakeholders (civil society, the private sector, local authorities, etc.) in policy formulation, by promoting consultation mechanisms and building up the capacity of stakeholders to contribute to an effective participatory process. This is very important for improving the quality of public policies and getting the necessary public support for implementing them. Recent experience has shown the importance of public participation in the policy process for improving public management and political stability.

EU support for decentralisation is a traditional area of activity and remains a core sector under the 10th EDF, where financial contributions have increased significantly[42]. Over the period 2000-2009, the EU support has contributed to strengthening the decentralisation process in no fewer than 77 countries by providing support for policy formulation and implementation.

EU support has contributed substantially to decentralisation processes playing a key role in many ACP countries. In Benin and Mali, sector budget support has contributed to policy formulation and implementation, including definition of the expenditure framework. In other countries, the project approach is used with a focus on building up the capacity of key players involved in local governance. Support for local governments is a promising area of the 10th EDF, with a focus on improving service delivery and MDGs (as in Chad, Ethiopia, Mozambique, and Sierra Leone).

There is still a need to reinforce the ongoing reform processes with a long-term perspective in order to achieve the expected results in terms of improvements in service delivery.

Corruption is a major impediment to development and to achieving the MDGs in the ACP countries. Growing attention is being given to the fight against corruption as a topic for discussion in policy dialogue and for direct support under the 10th EDF. Promising measures are being implemented in Nigeria (support for the Anti-Corruption Commission) and in Liberia (support for the Auditor-General). Bottom-up measures are now are being piloted by programmes under the DCI (in Cameroon, Madagascar, Niger and Senegal) with a view to empowering citizens to make and pursue corruption-related complaints by providing legal advice and assistance to victims or witnesses. They may be complemented by EDF support in the future. Support for integrity and anti-corruption activities should be priority areas in the years to come. Further result-based evaluations of EDF support should also include indicators related to a beneficiary country's progress in addressing corruption.

[42]Around € 800 million have been committed to support decentralisation processes directly between 2000 and 2009.

Support for law enforcement against economic and financial crime in Nigeria

This project, implemented by UNODC, aims to enhance good governance and financial accountability and to fight fraud and economic and financial crime, by providing support for the Economic and Financial Crime Commission (EFCC), the Nigerian Financial Intelligence Unit (NFIU), the judicial system and other institutions and law enforcement bodies. The project focuses on four areas: equipment and IT for the EFCC, the NFIU and the Training and Research Institute (TRI); training for staff from the EFCC/NFIU and TRI; awareness campaigns aimed at specific target groups (banking sector, public and media); and support and capacity-building for the judicial system, in 10 states, to prosecute and bring to trial economic and financial crimes. With the support of the 9th EDF, the strong leadership of the EFCC has achieved great success: official data show that more than US$ 6 billion have been recovered, 320 criminals have been sentenced and more than 400 cases are pending before the courts. Nigeria is no longer considered a 'non-cooperative nation' by the Financial Action Task Force of the OECD and is now part of the Egmont group.

2.3. Justice and security

In the areas of justice and security, a sector-wide approach is commonly pursued under the 10th EDF, including a stronger sector policy dialogue and closer donor coordination. Evaluations of many projects financed under the previous EDF showed that classical stand-alone projects have a minimal impact on structural institutional reforms. Given that most of the ACP countries do not meet the eligibility conditions, sector budget support was used as the delivery method in only two cases: Rwanda (reconciliation, law and order) and Jamaica (security sector reform, including a justice component).

The operations under the 10th EDF aimed to strengthen the independence, impartiality and professionalism of the judiciary (Gambia), consolidate national legal frameworks guaranteeing a fair and timely trial (Niger), improve detention conditions and prison management (Nigeria), promote alternatives to imprisonment (Niger), improve the efficiency of the judiciary, notably through Court automation and case management (Malawi), but also to pay closer attention to traditional justice structures and agents (Rwanda and Gambia) and bridge the procedural gaps between the formal and informal justice systems (Malawi). Almost all the projects included an access to justice component, in an attempt to address the demand side and bring justice closer to citizens.

The EU is also addressing the fight against organised crime and drugs (Nigeria) taking a multi-faceted approach, tackling both the strategic and operational levels, by contributing to formulation of an anti-drug strategy while also improving operational capacity to fight organised crime and reduce demand for drugs.

Participation by civil society organisations is also secured in most of the justice support programmes under the 10th EDF, mainly by giving rights-holders easier access to justice. More politically sensitive but no less important, it was recognised that civil society could play the role of catalyst in achieving reforms of the justice system by monitoring issues such as the independence of the judiciary or its accountability (monitoring of human rights during trial or in custody), as reflected in the projects in Malawi, Nigeria and Niger.

The most common risks are linked to political instability, the low commitment of the beneficiary, weak absorption capacity and the balance between investing in the physical capacity of the justice system (buildings, equipment, furniture and IT) and pushing forward the reform agenda. The main challenge is to ensure that there is political will on the part of national authorities to drive the process and that programmes respond effectively to the needs and priorities of key national stakeholders, among both the government and the population. Appropriation and ownership are not always easy in this area. In this respect, political dialogue with relevant State and non-State stakeholders is of central importance in ensuring the sustainability of the projects supported by the EU.

3. Infrastructures

3.1. Transports

3.1.1. Analysis of EU Interventions in the Transport Sector in ACP Countries.

21 country-level evaluation reports in Sub-Saharan Africa published between 2003 and 2010 addressed road transport as one of the focal sector. An analysis of these reports, based on projects funded by the 7th and 8th EDF, showed that EU assistance went mainly to the construction or maintenance of trunk roads, and to institutional reform in the road transport sector.

This analysis has allowed the development of a new methodology to evaluate the impact of EU intervention at sector level in a beneficiary country, by taking into account the global context and the institutional reforms and the economic, social and environmental issues. This was the purpose of the work done by the Commission services in the framework of DAC/OECD group.

The conclusions of this work support the change of approach taken by the EU in the transport sector that is:

- Enhancing sector policy dialogue and using conditionalities to push for reforms;
- Using sector approach and where possible sector budget support;
- Focusing on road maintenance and on the rural network.

The evaluations analysed addressed effects at outcome and at specific impact level in order to cover, as much as possible, 'the missing middle' between outputs and the overarching objective of poverty reduction. The main findings are presented below:

- Lowering road transport time and cost: Road transport time and cost have decreased, but the gains have often been diverted by specific interests such as cartels, legal or illegal taxes, checkpoints, etc. To compensate for the tariff freeze, carriers have increased lorry loads, inducing a dramatic decrease in the life expectancy of roads and a higher risk of accidents. The sustainability of infrastructure remains a major challenge. The trade-off between the costs of quality road-building, of overloading and of road life expectancy needs to be analysed in depth. As a result,10th EDF support transport programs now include measures aiming at reducing transport prices paid by final customers rather than reducing transport costs paid by transporters (liberalisation of transport services, …)

- Improving institutional management of the road system: At country level, mixed results were observed. Capacity building has generally been effective at both private and public level; several areas need further improvements such as maintenance of roads, implementation of road regulations and the facilitation of road traffic by the removal of existing barriers to traffic and illegal taxes. At regional level, EU measures have contributed to the establishment of a better road network and to greater legislative and regulatory efforts towards harmonisation of national road sector policies. But these processes also need to be improved at regional level. In general, improved road conditions are perceived positively. However, the effects on international traffic and interregional trade are still limited. In most cases, rehabilitated roads will bring increase in the competitiveness of products if other non-physical measures such as common border custom facilitation, traffic liberalisation… are taken at the same time.

- Economic and social access: Trunk roads improve access to rural products or social facilities when they are built together with feeder or rural roads[43]. Practice has shown that, in order to do so, local contractors must have sufficient capacity to respond to and manage EU calls for tender. In landlocked countries bordering countries in conflict, newly rehabilitated or maintained trunk roads have a very positive economic impact as they provide alternative routes for imports and exports.

- Increased employment: This outcome was hardly addressed in programming documents or evaluations The issue has been subject to an appropriate study in 2010/2011 with a view to develop EU guidelines for UE Delegations and National authorities for the elaboration of the next transport cooperation programs. Information on the transfer of know-how in the road sector from developed to developing countries was also very limited.

- Environmental impact of roads: The issue is now addressed at the programming level but very little information is available on the ground and very few findings are available in evaluation reports. With the 10th EDF, studies (Environmental Impact Assessments) are carried out systematically, as they have a mandatory character.

[43]This conclusion has already been taken on board in 12 CSPs for the 10th EDF.

The road sector was chosen as pilot sector by the Commission evaluation services for developing an evaluation methodology of the EU cooperation at sector level in a beneficiary country

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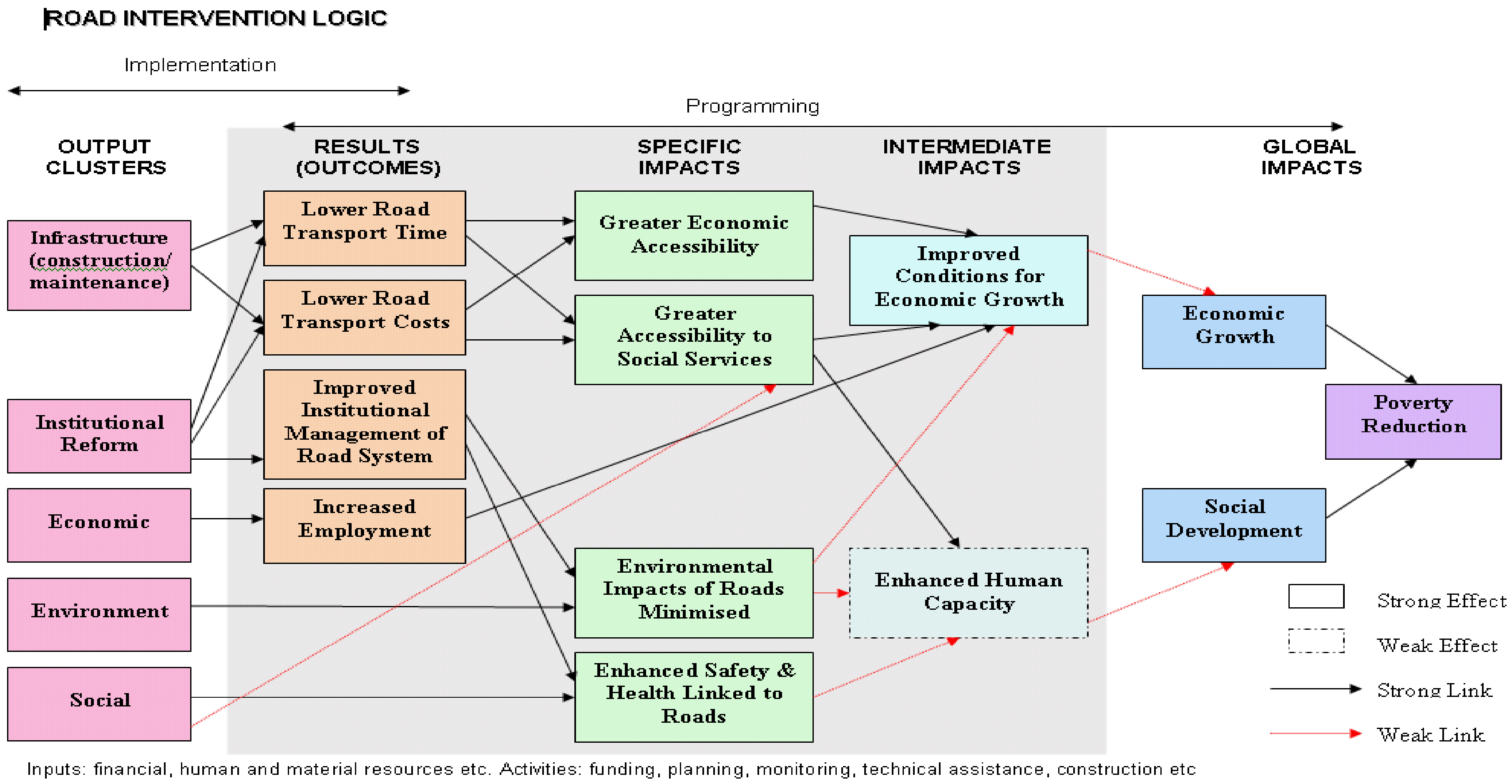

3.1.2. Main lessons learned

In the case of transport, a sector-wide approach has commonly been pursued under the 10th EDF, combined with continuously strengthening the sector dialogue. Evaluations of many projects financed under the previous EDF showed that the classical stand-alone projects (mainly road rehabilitation) had a minimal impact on the overall objective of reducing transport prices and, very often, a limited impact on the specific aim of reducing transport costs (especially in contexts where the sustainability of the project is not ensured).

Also, from the financial point of view, another constraint is the very high increase in road construction costs (by 300% in the last ten years) which, under the 'rehabilitation only' scenario, reduced the impact of stand-alone projects in terms of number of kilometres of road rehabilitated with a given budget. This point has also been noted by other donors such as the World Bank and the African Development Bank, but more dramatically in the case of bilateral cooperation, with many EU donors pulling out of this sector.

When talking about a sector approach to transport, there are some well known dimensions common to all sectors (holistic view of the sector, sector coordination, institutional support, governance, etc.) which have been actively pursued by the Commission under the 10th EDF and have been successfully implemented at country level in almost every ACP State. However, there are other factors, which are more specific to transport and which have been addressed under the 10th EDF in a more limited way (only in some pilot projects) but which will certainly be addressed more systematically after the 10th EDF. In brief, these are:

- Diagnostic transport master plans and transport investment plans: starting from the finding that in most ACP countries the necessary basic sector studies are missing or, if available, often relatively poorly carried out, the EU will promote schemes to consolidate transport policy and plan the structure in every country. More work is needed to bring every country up to an acceptable standard of programming, planning and prioritising of operations (including investment versus maintenance);

- Focus on other modes of transport: the EU will extend its development cooperation to rail, air and water transport. These modes require a different approach to that being used for roads;

- Inter-modality: it will not be sufficient to address other modes of transport without addressing their competitiveness and complementarity too by focusing on inter-modal exchanges of transport (such as dry ports);

- The sector approach: This implies working on four levels: (i) international corridors, connecting production centres and/or catchment areas for international ports and/or airports; (ii) the national transport network, which is the strategic network of the country sustaining its economic growth; (iii) urban mobility which is equally important for economic growth and poverty reduction, since an ever higher percentage of the population is concentrated in urban centres; and (iv) rural accessibility, which is very important for inclusive growth and poverty reduction.

All initiatives at continental level need to be stepped up: the African Union Commission has not the capacity to lead coordination of the various programmes: the New Partnership for Africa's Development, the Programme for Infrastructure Development in Africa, the Africa

Infrastructure Country Diagnostic, etc. Other initiatives such as the Infrastructure Consortium for Africa (ICA) also depend entirely on donors' contributions and show hardly any added value. The (quasi-)continental Sub-Saharan Africa Transport Programme (SSATP) needs to be re-oriented by reinforcing its operational and coordinating role at national and regional levels.

Governance in transport has received considerable attention in recent years and will remain on the agenda in the future. The issues to be addressed are: an institutional framework ensuring more competition between transport providers; application of the principles necessary to facilitate trade (harmonisation of tariffs, customs unions, agreed maximum axle weights, etc.); port management, railway concessions, etc.

Complementarity between the national, regional and continental dimensions is necessary to guarantee efficient and effective development cooperation on transport. In West Africa, under the leadership of the European Commission, a regional conference of transport stakeholders was organised to assess the weaknesses and problems affecting trade on the most important corridors. To mark the occasion, the Ministers of Transport signed a roadmap for putting in place effective measures to improve competition in the transport sector, remove informal barriers, reduce axle overloading, etc. More efforts are required at regional level to integrate trade facilitation aspects into physical infrastructure works.

Concerning financing methods, the European Commission has promoted sector budget support as the preferred and most effective way to support developing countries while also increasing government accountability. Six ACP countries moved to SBS under the 10th EDF (Benin, Ethiopia, Jamaica, Mozambique, Tanzania, and Zambia) and three or four more are ready to. Other innovative ways of financing infrastructure projects are being promoted, mainly blending grants with loans. One good example is the rehabilitation of the Great Eastern Road in Zambia, co-financed by an EDF grant for the NIP, an interest rate subsidy from the EU-Africa Infrastructure Trust Fund and loans from the EIB, AFD and AfDB.

EU-Africa Infrastructure Trust Fund (ITF)

The ITF became operational in June 2007. Its aim is to increase EU investment in regional infrastructure in Africa, by combining grants from the European Commission and EU Member States with the technical and lending capacity of the European Investment Bank (EIB) and EU development financiers, in partnership with the African Development Bank (AfDB). The Fund fosters co-financing and technical collaboration between numerous stakeholders, in line with the principles of the Paris Declaration on Aid Effectiveness and the European Consensus for Development. The Fund shares the same objectives as the Infrastructure Consortium for Africa (ICA), a network of bilateral donors, multilateral agencies and African institutions which supports infrastructure activities in Africa, encouraging information-sharing, good practice and project development.

The operations of the Trust Fund currently include (a) interest rate subsidies, (b) technical assistance for project preparation and capacity building, (c) direct grants for mitigating the environmental or social impact and (d) initial-stage insurance premiums necessary to launch projects.

To date, 38 grants have been approved by the ITF, releasing contributions totalling about €212 million associated with approximately €945 million in EU loans and about €1 230 million in additional financing, to finance projects costing about €2.4 billion (average leverage factor of about 11.5:1).

The geographical and sectoral spread is quite balanced, with projects on transport, energy, water and sanitation and information and communication technologies in most regions of Africa.

Example: Zambia's Great East Road rehabilitation project

This project aims to improve some 360 km of single carriageway highway on the Great East Road connecting central Zambia to its eastern province and on into the Nacala corridor linking Malawi and Zambia to the deep-sea port of Nacala in Mozambique.

The project applies the principles of the sector approach and is a product of effective sector dialogue between development partners and the Government of Zambia. The EU Delegation to Zambia has been leading these efforts on the donors' side in its role as 'sector lead' under the 'division of labour approach' following the principles of aid effectiveness. Pre-appraisal and appraisal of the project have been performed jointly by the EU, EIB, AfDB and AFD. Civil works will be co-financed by the EIB, AFD and EU (direct funds and via the ITF), known as the 'EU package'.

This project is considered an example of 'best practice' for blending loans and grants in the road transport sector under the umbrella of the Infrastructure Trust Fund (ITF). A €38 million grant from the 10th EDF was blended with an investment loan from the EIB's, AFD's and AfDB's own resources, with interest rate subsidies from the ITF to cover the total project costs of €250 million for the 360 km stretch of the Nacala corridor on the Zambian side.

The Delegation's brokering efforts made this innovative financing architecture possible, where €38 million leveraged an additional €212 million (multiplying effect: 5.5).

3.2. Water and sanitation

One of the MDGs is to halve the proportion of the population with no access to safe drinking water and improved sanitation by 2015. Progress towards better access to water has been most pronounced in Eastern Asia, but most countries in Sub-Saharan Africa and the Pacific are off-track to meet this MDG.

The rural-urban gap is much wider when only households with a piped drinking water supply to their homes are considered. The proportion of people who enjoy the health and economic benefits of piped water is more than twice as high in urban areas than in rural areas — 79% versus 34%. Disparities are particularly evident in Oceania and Sub-Saharan Africa, where rural coverage by piped water remains very low at 37% and 47%, respectively, compared with 91% and 83% in urban areas[44].

To respond to the need for greater focus on water in development policies, in 2002 the Commission and EU Member States agreed to launch the EU Water Initiative (EUWI) on the occasion of the World Summit on Sustainable Development. This political initiative helps partner countries to develop water and sanitation policies and strategies, so that existing resources can be used more effectively and new resources attracted. The EUWI provides the policy framework and a platform for dialogue for governments, regional organisations, local authorities, water operators, civil society organisations and businesses. It adds strength to the strategic dialogue with partner countries at global and regional levels, including for ACP countries.

[44] UN MDG Report 2010.

In Africa, the Africa-EU Strategic Partnership on Water Affairs and Sanitation was launched at the same time as the EUWI. Since 2002, cooperation has been developed with the African Ministerial Council on Water (AMCOW).

The Commission's approach to action in the water and sanitation sector is based on an integrated framework for collaboration with partner governments, EU Member States and all stakeholders concerned. The main sources of funding for water and sanitation projects are:

- National and regional indicative programmes, which remain the biggest source of EU funding in the ACP countries. The aid is delivered via classical projects (Angola, Chad, Congo, Gabon, Senegal, regional ENPI, etc.) or in the form of budget support (Lesotho, Burkina Faso, South Africa, etc.).

The ACP-EU Water Facility launched in 2004, which is part of this integrated framework for financing water and sanitation. Under the 9th EDF, €500 million were allocated to the Water Facility. Most of the funds went to 175 projects selected after two calls for proposals. A total of €200 million has been allocated to the second Water Facility under the 10th EDF. Two new calls for proposals were launched in February 2010 The EIB has launched the ACP Water Project Preparation Facility (EUR 3 million for the period of 2008-2010) through the ACP-EU Water Facility to fund technical assistance for project preparation activities in the water and sanitation sectors. Several projects financed by the EIB and other IFIs already benefitted from grant components from the ACP-EU Water Facility but to further enhance the level of blending grants from the Water Facility with loans from the EU multilateral and bilateral finance institutions, a new instrument - the ACP-EU Water Facility Pooling Mechanism - will become operational in April 2011. In the context of the Water Project Preparation Facility, with the help of the consultants recruited with these funds, four projects are being considered as candidates for the Pooling Mechanism, in the following countries: Ghana, Samoa, Cook Islands and Zambia.

The EIB was involved in eight projects from the ACP-EU Water Facility with a total cost of €325 million, where the grant component from the European Commission is 33% (€109 m) of the total cost and the EIB and other IFIs provide the rest of the funding. All of these projects (except for the Water Project Preparation Facility which is for preparatory studies) are investment projects which targeted the objectives of the Water Facility, providing access to water to an estimated 3 million people.

As a result, during the period 2004-2009, a total of 27.7 million persons in ACP countries were given access to safe water and 6.7 million to improved sanitation.

3.3. Energy

Access to modern energy services is considered a prerequisite for economic development and to improve social conditions. In particular, affordable access for the poorest swathes of society remains a barrier to eliminating poverty and achieving the MDGs.

Overall, in developing countries, 1.4 billion people still lack access to electricity and 2.7 billion people use traditional biomass for cooking. Most people without access to electricity live in rural areas of the developing world, mainly in South Asia and Sub-Saharan Africa.[45]

[45] Source: IEA World Energy Outlook 2010

In developing countries, energy security is threatened not only by the availability and price of fossil fuels but also by other factors. Variable precipitation due to climate change affects hydro-power generation. Poorly interconnected small national systems with low reserve capacities increase the vulnerability. Insufficient resources to maintain existing systems exacerbate the situation. Energy-related global CO2 emissions are increasing due to rising fossil-fuel use.

Africa, and in particular Sub-Saharan Africa, only contributes to global CO2 emissions by a very small percentage, and would continue to do so even if the basic needs of the population, that is electricity for lighting and modern fuels for cooking were provided to all those who currently rely on traditional fuels. Renewable energy systems do help address climate change, but for Africa they are essential to provide sustainable and secure energy. Protection against high oil prices further supports a focus on renewable technologies.

In order to advance the issues of energy security, access to energy and climate change the Africa-EU Partnership on Energy was launched at the EU-Africa Summit held in Lisbon 2007 and is now being implemented. Furthermore, in the National Indicative Programmes under the 10th EDF, a number of countries have chosen energy as their focal sector and energy is now included in several Regional Programs. Two new instruments have been created to complete the EU integrated framework of financing instruments for the energy sector: the ACP-EU Energy Facility, targeting increased access to energy services in rural and peri-urban areas, and the Infrastructure Trust Fund for Africa, which provides essential grant funding to leverage loans in the energy sector in Africa, enabling increased regional investments in investments hydropower and interconnections (which is important for enhanced trade in electricity from renewables). The first Energy Facility, launched in 2006 and operated mainly through call for proposals, has supported 74 projects across Africa reaching out to 6,7 million beneficiaries. The Commission contributed an additional EUR 200 million to the ACP-EU Energy Facility and launched it with focus on renewable energies.

Private sector involvement and loan financing have proved to be limited during the first Call for Proposals of the Energy Facility. In this context, a Pooling mechanism was created within the 10th EDF Energy Facility, with the aim of promoting, through the provision of grants, medium-size investment projects for access to energy in ACP rural and peri-urban areas. Thus, the Pooling mechanism provides for a leverage effect on private finance/loans by involving private sector/financing institutions in energy service provision and it supports public-private partnerships, innovative financing and management solutions. This new mechanism is complementary to funding objectives of the Infrastructure Trust Fund (ITF) under the Africa-EU Infrastructure Partnership.

In September 2009, Commissioner Andris Piebalgs launched the Africa-EU Renewable Energy Cooperation Programme (RECP) by providing EUR 5 million to its Start-Up Phase. The RECP addresses the factors which are crucial to the development of renewable energy in Africa. The programme mainly aims at contributing at economic growth, energy security and energy access, consistently with the fight against climate change; it is also expected to increase technology transfer between Africa and the EU.

SECTION 4. THE EU RESPONSE TO NEW DEVELOPMENT CHALLENGES

Even if the procedure for preparing and revising the 10th EDF national indicative programmes has proved more rigid than expected, the 10th EDF has demonstrated that the EU is able, with the aid of multiannual programming, to deal with new cross-cutting development challenges. This has been the case for two major challenges integrated into EU development policy: MDGs and climate change.

1. A re-affirmed commitment to the Millennium Development Goals (MDGs)

In April 2010, the Commission adopted a 12-point EU Action Plan to support the MDGs. This called for keeping 'an appropriate balance between rewarding performance and responding to need, re-allocating funding to the most off-track countries, taking into account national policies and capacities'. In its conclusions of June 2010, the Council confirmed this and set out the EU approach to MDGs with a view to the UN high-level event on MDGs in September 2010.

In line with these political pointers, the Commission President announced a € 1 billion 'MDG Initiative' during the United Nations New York summit on the MDGs in September 2010.

Financed largely from unallocated EDF funds, the MDG Initiative is designed to re-launch policy dialogue on MDGs and to boost EU support to the most needy and committed ACP States. A first instalment of approximately € 300 million is planned to reward 'good performer' countries, according to the results of the 10th EDF MTR. Another instalment of € 700 million is open to all ACP countries, including those that have already received a top-up to reward their good MTR performance and, case by case, those under Article 96 measures.

One key aspect of the MDG Initiative is the intenser policy dialogue on MDGs, in particular on MDGs 4 (reduction of child mortality), 5 (improvement of maternal health), 7.c (halve the proportion of people without access to drinking water and basic sanitation) and 1.c (halve the proportion of people who suffer from hunger), all of which were highlighted during the latest UN summit as being particularly off-track. Regarding the second instalment, additional funding will be granted only after submission by the ACP State of a quality proposal and acceptance by the Commission. It will take the form of topping up CSPs/NIPs with the aim of boosting the impact of existing operations. Proposals from ACP countries are expected by mid-June 2011 and should be screened and assessed by the end of the year.

2. Climate change and environmental protection

2.1. The Global Climate Change Alliance (GCCA)

Since 2003, the EU has been highlighting the strong links between climate change and poverty[46]. Least developed countries (LDCs) and small island developing states (SIDS) will be hit earliest and hardest by the effects of climate change and will have the fewest resources to adapt to them. In 2007, the Commission therefore launched a Global Climate Change Alliance (GCCA) between the EU and those poor developing countries. The Alliance is a platform for dialogue and practical cooperation to fight poverty and climate change, in support of the international climate negotiations.

[46] COM(2003) 85, Climate change in the context of development cooperation, 11.3.2003, and Council conclusions (15164/04), Climate change in the context of development cooperation, 24.11.2004.

The GCCA concentrates on five main areas: (1) adapting to the effects of climate change, (2) halting deforestation, (3) participating in and benefiting from the global carbon market, (4) (4) integration of climate change into development strategies and investments, and into development cooperation (5) reducing disaster risks.

The Commission earmarked €95 million of additional funding from the Environment and Natural Resources Thematic Programme (ENRTP) funded under the EU budget for 2008-2010 to start up the GCCA in 15 eligible countries. These include the following ACP countries: Belize, Guyana, Jamaica, Mali, Madagascar, Mauritius, Mozambique, Rwanda, Senegal Vanuatu, Tanzania, and Seychelles. More countries are being selected under the 2011 budget. Significant geographical funding will also serve the same objective. Under the 10th EDF intra-ACP funding, €40 million is allocated to the GCCA giving priority to regional action in Africa, the Pacific and the Caribbean.

Following the 10th EDF mid-term review, increases in the financial envelope to deal with climate change have been proposed for a number of Pacific islands (Kiribati, Micronesia, Nauru, Niue, Palau, Tonga, Tuvalu, the Solomon Islands and Vanuatu). As climate change was already part of the strategies for these countries, this did not require any change in the cooperation strategy. Furthermore, in a number of countries climate change was discussed in more detail without leading to changes in the cooperation strategy (the Bahamas, Belize, Dominica, Grenada, Guyana, Jamaica, St Lucia, and St Vincent). Finally, in Sierra Leone there is a possibility of an increase to address climate change. This demonstrates that, while climate change is firmly on the agenda, only the countries whose existence is most directly threatened (the Pacific islands) put climate change high on the cooperation agenda. For the other countries, climate change is not on top of the agenda. In such cases, a specific thematic instrument such as the ENRTP could help overcome this hurdle.

On the political side, GCCA dialogues resulted in joint declarations on climate change being adopted between the EU and the Caribbean (in May 2008), Pacific (November 2008) and African regions (December 2008), selected Asian LDCs (May 2010) and the ACP Group (May 2009 and June 2010).

2.2. <u>Disaster risk reduction (DRR)</u>

Climate-related disasters are becoming more frequent and more intense due to global warming. Disaster risk reduction (DRR) is an integral part of adaptation to the impact of climate change (though it must be kept in mind that disasters can also be non-climate-related — for example, earthquakes, tsunamis and volcanoes). However, even though there is agreement that prevention is better than cure, DRR solutions have not been fully acted upon by donors and partner countries alike.

DRR and climate change adaptation share similar aims, considerable overlaps and converging agendas. By linking them together, mutually reinforcing benefits can be gained. To address the lack of a coordinated response on DRR, in February 2009 the Commission proposed an EU strategy for supporting DRR in developing countries. The strategy proposes that the EU Member States work together more effectively by mainstreaming DRR into development cooperation/humanitarian aid, combined with targeted DRR investments in developing countries. The Communication on the implementation plan for the EU DRR strategy is due to be adopted in early 2011. All EU efforts on DRR form part of the global commitment on implementing the Hyogo Framework for Action (2005-2015), which is the international framework agreed for DRR.

The 10th EDF has started to support DRR specifically from an intra-ACP envelope of € 180 million. The Global Facility for Disaster Reduction and Recovery (GFDRR) of the World Bank has been selected to run a € 60 million programme focusing — among other things — on mainstreaming DRR at national and regional levels throughout the whole ACP region, starting in 2011. The remaining € 120 million will cover the specific needs in each of the six ACP regions.

CONCLUSION

As recently acknowledged at the UN High-Level Plenary Meeting on the Millennium Development Goals (MDGs), while significant progress has been made towards achieving some of the MDGs, notably those on poverty reduction, universal primary education and health, a great deal remains to be done. Around 1.4 billion people are still living in extreme poverty (51% of them in Sub-Saharan Africa) and one sixth of the world's population is undernourished. There has been almost no progress on reducing maternal and child mortality, quality of education remains a concern and prospects for access to sanitation are still bleak. Furthermore, progress has varied greatly from one region to another with, generally speaking, most progress being made in Asia, but less, and sometimes almost none at all, in Sub-Saharan Africa, although the picture there is also far from uniform.

The EU is firmly committed to supporting achievement of the MDGs globally by 2015. Over the last ten years, particularly since adoption of the European Consensus on Development in 2005, the EU has improved its performance in development cooperation, rallying Member States around shared policy approaches and the aid effectiveness agenda, modernising its partnerships, cooperation agreements and financial instruments and putting in place mechanisms to ensure policy coherence for development. Recognising partner countries' primary responsibility for defining their own development strategies while emphasising the key role of good governance, the EU has started to move from a donor-beneficiary type of relation to a partnership, involving contractual approaches, based on policy dialogue and linking results to specific cooperation programmes or instruments.

The ACP-EU partnership is the most elaborate component of this renewed development policy and is recognised as an original and progressive model of North-South relations. It is one of the few partnerships combining a strong political dialogue, trade preferences and considerable amounts of aid. It should be possible to leverage even better results by putting more emphasis on local/regional human and institutional capacity building and harnessing international research and innovation cooperation towards the MDGs. The relationship with ACP countries is based on mutual rights and obligations, emphasises the importance of predictability and security in resource flows and promotes local ownership at all levels of the development process. By strongly associating the ACP States, the EU-ACP relationship is the most elaborate example of a partnership approach between North and South.

For EU Member States, the ACP-EU partnership and EDF offer a global reach and a means to implement a consistent set of objectives across 77 ACP countries. In terms of presence, scale and focus, EDF operations offer significant benefits over national action. The EU's role, as the primary global donor in ACP countries, gives Member States a strong voice on such key issues as governance, budget support, regional cooperation, economic development and infrastructure, which would not be possible for individual Member States acting alone.

The non-reimbursable aid from the 10th EDF is channelled via three envelopes: national, regional and intra-ACP. In addition, reimbursable loans, risk capital and guarantees are provided by the EIB through an investment facility. The first years of implementation have shown how the balance and hierarchy between these levels were relevant:

- Considering the core objectives of ownership and alignment, the national level is the first level of EU action. EU development cooperation is country-specific, tailor-made to each partner, based on its own needs, strategies, priorities and assets. To ensure differentiation, country allocations are established by objective and transparent criteria, based on needs and performance. Multiannual strategies and indicative programmes are drafted jointly and endorsed by the EU and each ACP country. To respond to each specific situation, the EU has also been able to design specific instruments and methods and to use more incentive mechanisms, even though the EDF is built on the principle of predictability. The EU has been able to introduce a new results and outcome orientation in the 10th EDF.

- Considering its conviction that regional cooperation can play a key role in political stability, economic development and ensuring regional public goods, the EU is a reliable and vital partner for the ACP regional organisations and the most important one in terms of volume of assistance. Under the 10th EDF, the regional cooperation has acquired an added dimension with the preparation of the Economic Partnership Agreements (EPAs) and a greater emphasis on the political dimension of regional cooperation. This has resulted in a doubling of the financial envelope for this regional cooperation.

- Considering the need to respond to global challenges that are not necessarily geographical in nature or not necessarily supported by the authorities of partner countries, the EU designed, jointly with the ACP Secretariat, the intra-ACP envelope. This provides a means to support joint EU-ACP and pan-African institutions and instruments, including the African Peace Facility, and to complement and supply national programming.

- Considering the need to support endogenous investments by ACP countries, the EU has created the ACP Investment Facility to blend EIB loans and grants and has created innovative instruments to work with development banks and create more synergies to speed up infrastructure delivery.

In line with the European Consensus on Development and the Paris Declaration, in the EDF the EU has clearly identified the areas where it can offer added value and has focused its funds strongly on budget support, governance and infrastructure. Although the impact, measured in terms of progress towards achieving the Millennium Development Goals, is very difficult to demonstrate, the European Commission has developed strong and recognised added value in each of these areas. In some cases, it has been possible to describe specific impact of EU action.

The 10th EDF has also demonstrated its added value in the form of strong responsiveness. By keeping unallocated funds in the EDF to cover unforeseen needs and by means of innovative instruments such as FLEX and V-FLEX, the EU has been able to play a key role vis-à-vis ACP countries facing disasters or food, economic and financial crises.

The 10th EDF performance review has highlighted the value added by the 10th EDF thanks to its programming, including its breakdown over different levels — national, regional and intra-ACP — and its responsiveness and results. It has also highlighted lessons learned and room for progress. From a financial perspective, by the end of 2010, global commitments had reached €10.555 billion, approximately 50% of the total available from the 10th EDF.

Average global commitments of €3.512 billion per year will therefore be necessary in order to commit the entire remaining balance by the end of 2013, after which no further commitments are possible. Disbursements continue to follow an upward trend, with the level of payments approaching the level of commitments. This positive trend is the consequence of consistent efforts over the last few years to take into consideration the results of evaluations which systematically pointed to delays in implementation, complicated procedures and, more generally, lack of efficiency as the main weaknesses of aid managed by the Commission.

While the EU already has a sophisticated policy framework in place to guide its work, new challenges and opportunities have emerged in recent years. These, together with the priorities set in the Europe 2020 Strategy, have prompted the Commission to review whether the EU's development policy is fit for purpose or whether more could be done to add to its impact, especially given the urgent need to speed up progress towards the MDGs and to achieve inclusive and sustainable growth globally. With a new institutional set-up for EU external action in place and a multiannual financial framework (MFF) about to be agreed for the period after 2013, this is a particularly opportune moment to examine the development policy framework which will guide the activities of new external spending instruments.