



# How European Aid Works

**A Comparison of Management  
Systems and Effectiveness**

**Aidan Cox  
John Healey  
Antonique Koning**

collaboration with Paul Hoebink,  
and Naudet, Gorm Rye Olsen,  
Udsholt and Jürgen Wiemann





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Overseas Development Institute

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ODI Research Study

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**A CIP Publication data record may be obtained from the British Library**

ISBN 0 85003 243 1

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Published by the Overseas Development Institute,  
Portland House, Stag Place,  
London SW1E 5DP

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Printed by The Chameleon Press Ltd, London

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## Acknowledgements

This is a collaborative study between six research institutes: the Centre for Development Research, Copenhagen, (Director: Knud Erik Svendsen); DIAL, Paris, (Director: Jacques Loup); the European Centre for Development Policy and Management, Maastricht, (Director: Louk Box); the German Development Institute, Berlin, (Director: Hans-Helmut Taake); the Overseas Development Institute, London, (Director: John Howell); and the Third World Centre, Catholic University of Nijmegen. Each institute was responsible for funding its own contribution. ODI and ECDPM took the lead in the co-ordination of the project and organised a workshop in Maastricht, 11–12 May 1995, at which donor officials and research collaborators discussed the preliminary research papers and the issues arising from them. The record of this workshop has been drawn on in writing this book.

The authors would like to acknowledge the contribution of Adrian Hewitt, of the Overseas Development Institute, who conceived the idea of this comparative study and established relations with the collaborating institutes. Tony Killick made helpful suggestions on content and presentation. They are also grateful to the Directors of the Institutes for their co-operation and help, and to those officials from the six donor agencies who spared time to attend the workshop and contribute so constructively.

The authors of Part I would like to thank Geert Laporte of ECDPM for assistance with Chapters 7 and 8. Special thanks are due to the DAC Secretariat of the OECD for their advice, documentation and the statistical work undertaken specially for the project, as well as for attending the workshop. Each author of the six donor studies is appreciative of the assistance provided by the staff of the donor agencies and the European Commission through interviews and documentation. Thanks are due to Brigitte Bessems and Suzanne Cartigny at ECDPM for their hospitable and efficient organisation of the workshop, to Graham Hurford and Christopher Pescud in the ODI library for help with documentation, and to Margaret Cornell of the ODI for editing the book and preparing the index.

The British Overseas Development Administration (ESCOR) provided a grant to the Overseas Development Institute for its research contribution and co-ordination role in this project and also a grant to assist with the publication costs of this book. The Overseas Development Administration provides funds for economic and social research to inform development policy and practice. The views and opinions expressed in this study do not necessarily reflect ODA's official policies or practices but are those of the authors alone.

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## List of Acronyms

ACP	African, Caribbean and Pacific
AIDS	Auto Immune Deficiency Syndrome
ALA	Asia and Latin America
ATP	Aid and Trade Provision
AWZ	Ausschuß für Wirtschaftliche Zusammenarbeit
BMZ	Federal Ministry of Economic Development Cooperation, Germany
BPS	British Partnership Schemes
CAR	Central African Republic
CDA/PvdA	Center Democratisch Appel /Partij van de Arbeid (Dutch Labour Party)
CDA	Center Democratisch Appel (Dutch Christian Democrats)
CDC	Commonwealth Development Corporation, UK
CDG	German Training Institute for Developing Country Personnel
CDI	Centre for the Development of Industry
CDR	Centre for Development Research, Copenhagen
CDU	Christlich Demokratische Union (German Christian Democratic Union)
CEEC	Central and East European Countries
CeSPI	Centro Studi di Politica Internazionale
CEU	Countries of the European Union
CFA	Communauté Financière Africaine
CFD	Caisse Française de Développement (French Development Fund)
COP	Comité d'Orientation et de Programmation
CTA	Technical Centre for Agricultural Research
D-test	Screening Test for Project Proposals (Netherlands)
DAAD	Deutsche Akademische Austausch Dienst (German Academic Exchange Service for students)
DAC	Development Assistance Committee of the OECD
DANIDA	Danish International Development Agency, Danish Ministry of Foreign Affairs (South)
DEG	German Private Finance Agency for Developing Countries
DG	Directorate-General
DGIS	Directorate General for International Cooperation (Netherlands)
DIAL	Développement des Investigations sur Adjustement à Long Terme, Paris
DIE	Deutsches Institut für Entwicklungspolitik (German Development Institute)
DSE	Deutsches Stiftung für Internationale Entwicklung (German Foundation for International Development)
EAC	European Agency for Co-operation
EC	European Commission

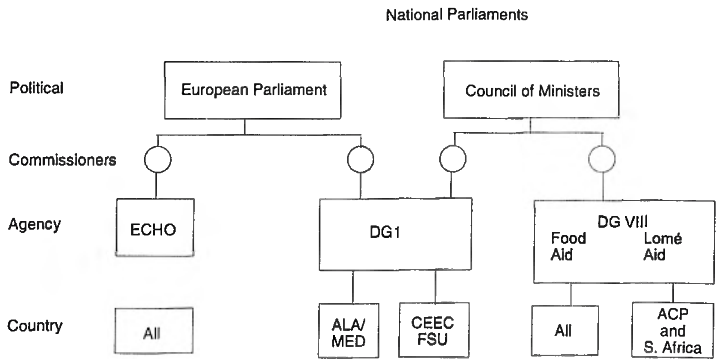
ECDPM	European Centre for Development Policy Management, Maastricht
ECHO	European Community Humanitarian Office
ECOSOC	Economic and Social Committee
ecu	European Currency Unit
EDF	European Development Fund
EIB	European Investment Bank
EP	European Parliament
ERO	European Research Office
ESCOR	Economic and Social Committee for Overseas Research (ODA/UK)
EU	European Union
EVINFO	Summaries of EC Evaluation Reports
FAC	Fonds d'Aide et de Coopération
FDP	Freie Demokratische Partei (German Free Democratic Party)
FMO	Nederlandse Financierings Maatschappij voor Ontwikkelingslanden (Dutch financing organisation for developing countries)
FSR	Former Soviet Republics
FSU	Former Soviet Union
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation Agency)
HDI	Human Development Index
HQ	Headquarters
IFI	International Financial Institution
IMF	International Monetary Fund
IOV	Operations Review Unit (Ministry of Foreign Affairs, Netherlands)
IRDP	Integrated Rural Development Programme
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MC	Ministère de la Coopération
MED	Mediterranean
MEP	Member of European Parliament
MP	Member of Parliament (UK)
MSEPA	Mission for Studies, Evaluation and Prospective Analysis
NAO	National Authorising Officer (Recipient Country)
NAR	Nederlandse Advies Raad (Dutch Advisory Council)
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Countries
NIP	National Indicative Programme (EC)
NIS	Newly Independent States
NRI	Natural Resource Institute, UK
OCT	Overseas Countries and Territories
oda	Official Development Assistance



ODA	Overseas Development Administration, UK
ODI	Overseas Development Institute, London
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PCR	Project Completion Report
PEC	Projects and Evaluation Committee (ODA/UK)
PHARE	Poland and Hungary Assistance for Economic Restructuring
PICS	Project Information Control System
PIMS	Policy Information Marker System (ODA/UK)
PNG	Papua New Guinea
RERR	Re-Estimated Rate of Return
RIP	Regional Indicative Programme
SAF	Structural Adjustment Facility
SNV	Netherlands Development Corporation
SPA	Special Programme for Assistance to Africa
SPD	Sozial Demokratische Partei Deutschlands (German Social Democratic Party)
Stabex	Scheme for Stabilisation of Export Earnings from Commodities (EC)
Sysmin	Financing facility to compensate ACP countries for losses in export earnings in the minerals sector
TACIS	Technical Assistance to the Commonwealth of Independent States
TC	Technical Co-operation
TEU	Treaty of European Union
TOM	Territoires d'Outre Mer
TRC	Tanzanian Railway Company
TSA	Technical Advisory Service
UN	United Nations
UNDP	United Nations Development Programme
USAID	US Aid Agency
VVD	Vereniging voor Vrijheid en Democratie (Dutch People's Party for Freedom and Democracy)
WID	Women in Development
WOTRO	Organisation for Scientific Research in the Tropics

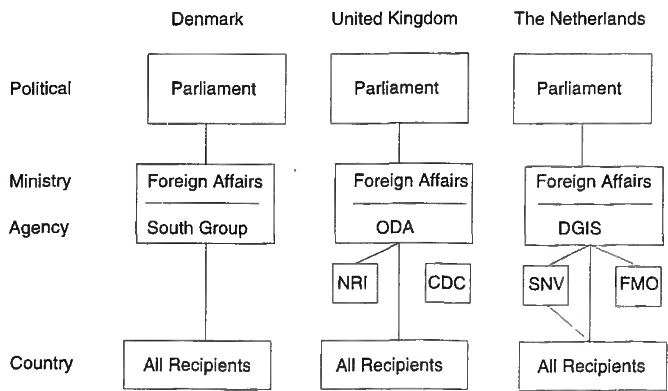
Charts 1–4: The Structure of EU Donor Organisations

Chart 1: The Commission



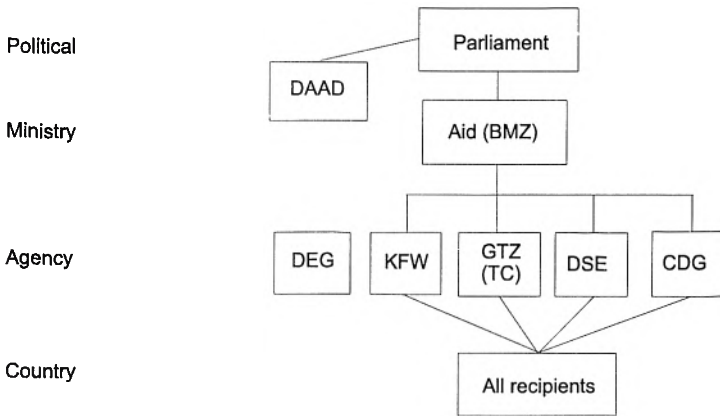
*note:* see list of acronyms

Chart 2: Denmark, UK, and Netherlands



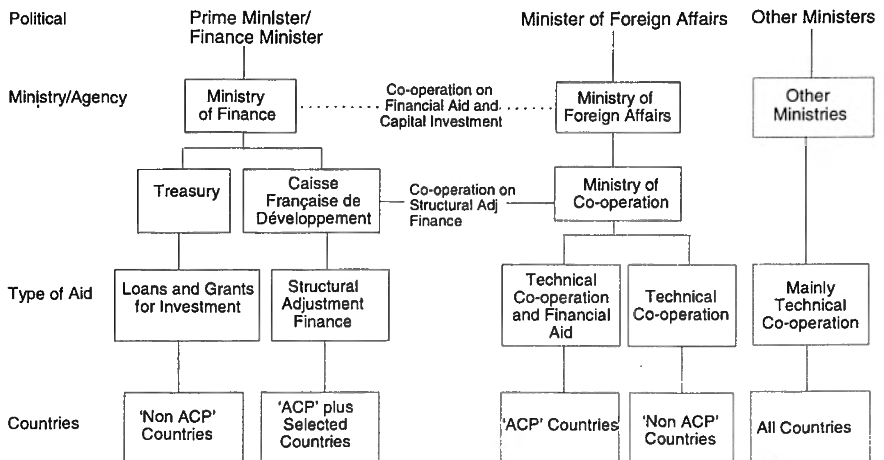
*note:* see list of acronyms

**Chart 3: Germany**



*note:* see list of acronyms

**Chart 4: France**



Key: — = reporting lines between agencies and to country offices/missions

*note:* see list of acronyms



# Introduction

## Objectives of the Study

This study has three aims. The first is to provide a systematic comparison of the aid policies and systems of six donors in the European Union: the Commission (DG VIII only) and the bilateral agencies of Denmark, France, Germany, the Netherlands and the UK. Surprisingly such a comparison does not already exist in one document, and this book aims, albeit partially, to fill this gap by covering six major European donors.

The second aim is to examine the implications of these donor systems for the effectiveness with which they use aid, and to venture some inter-donor comparisons. Effectiveness of aid delivery and impact can be judged in principle at several levels. The political structure, the personnel organisation, and the donor strategy can all be assessed from this perspective as well as the country programming mechanisms. Below this level, procedures for projects and programmes can be assessed for their likely effectiveness in delivering aid in the recipient countries and meeting the goals set by the donors themselves.

A final aim of the study is to review the extent, the effectiveness and the future prospects for EU donor co-ordination and also to explore the case for each donor to follow its 'comparative advantage' and specialise in different types of aid activity. These aspects are covered in Part I, Chapters 6, 7 and 8.

## Structure and Approach

The book is in two Parts. Part II contains studies of the development objectives and management systems of six major European donors. These describe the particularities of the donor agencies and make some judgements as to their individual strengths and weaknesses. With the exception of the chapter on the European Development Fund which was produced by the ECDPM in Maastricht, each study was prepared by a research institute within the country concerned, ensuring that the book was produced on a fully collaborative basis. A common list of areas for examination was agreed to ensure comparability between the studies.

Part I draws on these donor studies, together with other sources, to provide a systematic comparison of the donor systems, including some assessment of their comparative effectiveness. Four areas are covered: the structure and organisation of the various donor agencies; their objectives

and strategies, and their transmission into country programmes; project management; and finally the management of structural adjustment finance. Attention is focused on aid to the Lomé Convention signatories in order to ensure the greatest scope for comparison between the operations of the European Commission (DG VIII) and the bilateral donors' assistance. Some attempt is also made at limited sectoral comparisons for 'matched' projects of different donors, but these are, of course, subject to careful qualification.

The main focus is on the comparative effectiveness of the agencies' 'delivery' systems. The judgements must therefore be largely organisational and procedural in character. Hence *a priori* conceptions of efficiency and likely effectiveness predominate over rigorous empirical testing. The authors usually indicate their own conceptions of the type of organisation or procedure which appears most likely to have a beneficial impact on the welfare of poor people in recipient countries. There is a strong subjective element in this, but the criteria are made explicit for critical examination. Thus, effectiveness assessments are made in relation to the 'intermediate' rather than the 'final' objectives of the aid agencies.

The organisation and management structure of each EU donor resembles a pyramid. At the apex is a *political structure* and at the base, in the recipient countries, are the outposts and the individual aid interventions. The one clearly has a considerable influence on the other. It is not possible to test directly the effectiveness of any given political structure by its operations in the field, but it is possible to look at different models and make general observations and judgements on their probable implications. The study analyses the main dimensions of effectiveness at each level.

*EU donor organisations* are reviewed in terms of whether they unify all the agencies and instruments involved to achieve consistency, and how far those engaged in development activities are independent of foreign policy and purely diplomatic and commercial pressures on both their aid policy and their operations. Certain presumptions are made about the desirable balance between headquarters and overseas personnel and their respective responsibilities; the balance between specialist and generalist skills and the range and use of specialist skills; and the learning capacity of the organisation.

*Strategic* issues relevant to effectiveness include the way general development objectives are formulated and prioritised. Attention is given to the formulation of recipient country strategies and programming. Important aspects include the accountability mechanisms for objectives and strategies; the influence of domestic interest groups (parliaments, publics, civil groups); the management systems for converting objectives into plans and activities; and the relative involvement of the recipient

authorities, etc. It was not, however, possible to assess the nature of the donor-recipient relationship at first hand (see below).

At the level of *specific projects and programmes*, the procedures for identification, appraisal, incorporation into the design of development objectives as well as monitoring and review, may more easily be related to impact and sustainability.

*Co-ordination* among donors can in principle improve effectiveness of delivery and impact through more consistent prioritisation, minimisation of duplication and delay, and reduction of the burden on recipients of diverse procedures. The scope for this is explored at both the general policy and the in-country level. Particular attention is given to the experience of co-ordinating structural adjustment assistance. The scope for a division of tasks among donors to improve effectiveness through greater *complementarity* is discussed in three case studies: recipient country rationalisation; specialisation in certain sectors; and donor specialisation in a particular aid instrument (structural adjustment).

## Research Methodology

The individual donor studies were mainly based on official documentation of the agencies, internal memoranda and interviews with officials as well as aid reviews and memoranda of the OECD Development Assistance Committee. The comparative studies were mainly based on the individual donor studies in Part II and direct communication with the authors, as well as on a range of project evaluation and synthesis studies. Preliminary analysis and assessment were discussed by donor officials and researchers at a workshop held at Maastricht in May 1995. This book has benefitted from the comments and criticisms made, though its conclusions remain solely those of the authors.

It is important to record that this study has been completed from donor capitals. Interviews were conducted with officials at the headquarters of the aid agencies and no visits were made for the purposes of this research to donor offices or delegations overseas, nor to recipient country authorities. This will inevitably impart some bias to the evidence presented and the conclusions drawn, since the donor-recipient relationship could not be directly assessed for its impact on effective aid delivery.





## **Part I**

# **A Comparative Assessment of Organisation, Management and Approach in Six Major EU Donor Agencies**

# 1

## Comparative Political Structures

The formal organisational structure of the main EU bilateral donors can be approached via three major aspects which potentially influence the efficient and effective delivery of aid. The first is the degree of unification or integration of the different parts of the donor organisation and hence its co-ordination or coherence in the delivery of aid. The second is the degree of autonomy that the organisation has in relation to development policy vis-à-vis foreign policy/diplomatic direction. The third is the degree of autonomy in implementing the aid strategy, including the extent of diplomatic/commercial intervention. There is also a fourth aspect which relates to the organisation of personnel and the balance kept between headquarters and field offices and the degree of power delegated to the latter. This aspect is treated more fully under the personnel management aspects (see Chapter 2).

The formal bilateral structure conforms to three main models (see Charts pp. x–xi). The first is a unified and highly integrated structure in which the dominant direction is from the Foreign Affairs Ministry, and the development agency has a Minister responsible for aid expenditure. Denmark (probably the most unified), the Netherlands and the UK fit this pattern (see Chapters 10, 13 and 14). The second model – the German organisation – has a more fragmented structure of several separate implementing agencies but under policy direction from a Development Ministry which is not formally part of the Foreign Affairs Ministry (see Chapter 12). A third model represented by France has a more fragmented structure in which several virtually parallel Ministries/agencies have responsibility for the expenditure of aid funds.

The European Commission is a 'non-bilateral' model. It has a fairly fragmented structure with a division of country coverage between Directorates General I and VIII (DG I and VIII), each having different administrative heads, and with three European Commissioners responsible for different parts of the world (rather like the French model), plus an autonomous agency for emergency aid accountable to a fourth Commissioner. For development policy, the Commission as a whole is responsible to the Council of Ministers (Development and Foreign Affairs) of the 15 Member States and to the European Parliament in the case of aid from the EU budget, and in theory to the national parliaments in the case of the European Development Fund.

The three aspects of these organisational structures – their degree of

unification, autonomy in policy and autonomy in implementation – are considered in turn. In each case the *a priori* potential influence of these political structures on the developmental effectiveness of aid deployment is discussed and where possible the actual influence on development aid effectiveness is explored empirically. The focus is on bilateral aid, so the organisation of multilateral aid and policy in relation to multilateral aid activities is not considered here. Also it must be stressed that in this book attention and comparison is centred on *only* DG VIII and not on the European Commission as a whole including DG I.

## Unification and Fragmentation

The most unified agencies are those in Denmark, the Netherlands and the UK, where responsibility for all the recipients of aid and most of the aid instruments are contained in one development organisation which is embedded within a political bureaucracy. Hence policy and implementation are formally unified. They also integrate their bilateral and multilateral aid management which is especially important for adjustment assistance. Nevertheless, these countries have some implementing agencies (such as the UK's Commonwealth Development Corporation responsible for aid to the private sector) which are only partially integrated under single development policy direction.

In Germany, development co-operation is assigned to a range of semi-governmental organisations and some private ones, which have been created for the purpose or entrusted with specific tasks. The two main and separate implementing organisations – for financial and technical co-operation respectively – are the German Development Bank (KfW) and the German Technical Co-operation Agency (GTZ). Although these are subject to central policy direction from the Federal Ministry of Development and Co-operation (BMZ), there has been concern that this somewhat fragmented structure lacks co-ordination and consistency. In 1993 an agreement was concluded between them to ensure increased co-ordination subject to Federal Government guidelines with a broader programme rather than project approach. Co-operation between the two agencies has improved in the area of country programming and general issues, though there is still need for closer collaboration at the project level (see Chapter 12).

The French aid structure has traditionally been highly fragmented in policy direction and in implementation. Recently there have been moves towards integration by placing the Ministry of Co-operation under the political control of the Ministry of Foreign Affairs. In this respect France is perhaps beginning to move towards the same configuration as Denmark, the Netherlands and the UK. This change brings all the

signatories of the Lomé Convention (the ACP countries and not just the 'Champ' or 'Sphere'<sup>1</sup> countries) under the Co-operation Ministry, with the Ministry of Foreign Affairs covering the non-ACP countries. So far, the reform has been quite limited and leaves a range of aid operations unintegrated. The Ministry of Finance continues to finance projects in other than 'champ' countries and directs structural adjustment negotiations, while the Caisse Française de Développement covers a wide range of countries in parallel and reports to the Ministry of Finance and the Prime Minister (see Chart 3, p. xi). The system still lacks a 'lead organisation' in development policy, and it is inevitably difficult to ensure consistency and co-operation between agencies operating in different countries and responsible for different aid instruments, sometimes in the same countries, i.e. productive investment by the Caisse and the Ministry of Finance, social expenditure by the Ministry of Co-operation and structural adjustment assistance by a mixture of the three (see Chapter 11).

The European Commission's aid structure as a whole is fragmented partly because of its historical evolution. There is a division of coverage between non-ACP and ACP countries – in DG I and DG VIII respectively, while the Maastricht Treaty on European Union (Art.130w) has emphasised the distinction between the assistance to ACP and other developing countries. National aid programmes under the Lomé Convention's European Development Fund for ACP countries are subject to control by the different Member State governments (Council of Ministers, etc.) and ACP-EU institutions (e.g. Committee of Ambassadors, Joint Assemblies), the Lomé Convention itself, as well as the internal rules of DG VIII. Other aid is financed from the EU's 'annual budget' resources and is accountable to the European Parliament and the Council of Ministers. There is no formalised system for exchange of information between the different parts of the Commission concerned with development (see Chapter 9).

Overall, there have been some bilateral efforts in the 1990s to reduce the degree of fragmentation in the bilateral organisations. Although the separate German implementing organisations have moved towards greater co-ordination since 1993, their organisational model does not seem appropriate in current conditions where financial aid and technical assistance are having to be managed closely together. While recent efforts have been made to achieve greater unification in the French administration of aid, evidence so far suggests that this has been rather limited and leaves the organisation still the most highly fragmented among the bilateral donors considered here. The European Commission

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1. The 'Champ' or 'Sphere' countries are those with a special cultural and political relationship with France and centre mainly on French-speaking countries of Africa.

seems to have become more fragmented in its development aid operations, although this has not been such a strong feature of ACP operations.

## Autonomy in Policy

Most of the bilateral aid organisations are formally part of their Foreign Affairs Ministries. The Overseas Development Administration is part of the UK Government's Foreign Office, while the Netherlands since 1988 and Denmark since 1991 have merged their development organisation within their diplomatic structure. The French agencies have been more directly controlled by the President and the Prime Minister than the other agencies and recently the *Ministère de Coopération* has been incorporated into the Ministry of Foreign Affairs. The main exception is the German BMZ which is not formally part of the German Foreign Affairs Ministry but an independent Ministry with Cabinet status. It provides central policy direction and co-ordination to its implementing agencies. Nevertheless, in practice the Development Minister has to reach a compromise on development objectives with particular political and commercial goals with the more powerful Foreign Affairs Ministry (see Chapter 12). Thus, whether formally or not, national political or foreign policy interests effectively influence the development policy of all the main bilateral donors. This mainly means influence over the pattern of distribution of aid between different recipients.

The European Commission as a whole is accountable to the Council of Ministers. The EDF programme's development policy therefore has to reconcile the different perspectives and priorities of 15 Member States. The criteria for country allocation are more explicit and precise for the EDF than for most individual Member States. The Council of Development Ministers has increasingly attempted to influence development effectiveness through resolutions and directives.

## *Implications for Aid Effectiveness*

What are the implications for aid effectiveness of these dominant foreign policy and diplomatic interests within the organisations? It is true that Ministries of Foreign Affairs can provide an aid operation with some protection from the pressures of trade and domestic industry/promotion of other Ministries and bodies which can divert aid from its best or most cost-effective use. Also, aid programmes furthering foreign policy interests may gain greater political support. However, the dominance of national foreign-policy influences tends to operate mainly on the

distribution of bilateral aid among recipients. This in turn has implications for the effectiveness of the aid's implementation.

**Small programmes.** Under diplomatic influence aid is dispersed in small amounts allocated to a vast spread of countries. The extent of this is revealed by an examination of the distribution of aid by 12 EU donors in the ACP countries during the period 1991–3, as shown in Table 1.1. Of 775 aid programmes, 469 were for \$5m or less, and their average size was \$1m. Thus 61% of all programmes accounted for under 5% of EU bilateral aid, and no fewer than 34 of the 70 ACP countries had at least 8 'small' programmes (\$5m or less). For the UK 48 out of a total of 54 bilateral programmes (71%) were less than \$5m, while for the Netherlands the proportion was even higher (77%). The difference among donors is even more marked for programmes under \$1m.

A comparison between bilateral donors suggests that dispersion has been greatest for those donors – Denmark, the Netherlands and the UK – whose agencies have been most integrated into their Ministries of Foreign Affairs. A comparison between the dispersion of the EDF and the bilateral programmes also reveals a significant difference. While the Member States have an average of 31 'small' programmes, the EDF programme has roughly half that figure (18). Thus the EDF has the smallest number of programmes under \$1m and 26 % of its programmes are less than \$5m, compared with 67–77% for 3 bilateral programmes and 30–39% for 2 others. This tends to confirm that the foreign-policy and diplomatic interests of the individual Member States may have been diluted by the arrangement whereby they all contribute to the European Development Fund.<sup>2</sup> The allocation of National Indicative Programmes to ACP countries under the EDF allows less scope for individual national diplomatic interventions. Since commercial interests also favour a wide spread of aid, it may also reflect weaker commercial pressures on the EDF. Although there are procedures for consulting all Member States, the scope for 'technocratic' and development-oriented influence by the officials of the Commission on actual allocation may well be greater than in the national aid agencies.

The dispersion of aid which is prominent in several agencies may have an adverse impact on its effectiveness in at least three distinct ways. First, small country programmes characteristically reflect limited involvement in the recipient country, affording the donor little real insight into effective aid use. Secondly, small programmes incur disproportionately high staff costs relative to the sums disbursed. Data from the Commission indicate that while large country programmes

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2. Small programmes have been defined in absolute terms which is relevant for economies of scale. However, if defined relatively to the size of each donor's total aid programme, the differences are less marked.



(more than 30m ecu) require a modest 0.11 staff for every million ecu spent, small programmes require nearly six times that level, at 0.64 staff/m ecu (see Chapter 7).

**Table 1.1 Number and proportion of small programmes in the ACP countries, 1991-3**

	No. less than \$1m	No. greater than \$1m and less than \$5m	% of bilateral programmes less than \$5m
European Commission (EDF)	5	13	26
Denmark	15	14	67
France	11	9	30
Germany	16	10	39
Netherlands	26	13	77
UK	22	26	71

Source: DAC Statistics

While it is possible that the large country programmes are understaffed by the Commission, the results are nevertheless highly suggestive of a dispersed and uneconomic deployment of scarce administrative and specialist personnel. Lastly, aid in 'penny packets' contributes to an overburdening of the local administration, where each donor programme spawns a family of projects each with its own particular reporting requirements. The potentially greater effectiveness in the delivery of aid from greater economies from such reorganisation may be modest, given the scale of the staff resources involved, though there are also intangible benefits.

### *Distribution According to Poverty/Development Criteria*

The view is taken in this chapter that, in general, the most effective use of scarce concessional aid follows from its deployment in countries which are most 'needy' in terms of their average levels of poverty and human development, and which have inadequate access to external commercial resources. To the extent that foreign-policy or wider national-policy

interests limit the autonomy of aid agencies in pursuing these development criteria for the distribution of aid, then the lower the effectiveness of the aid.

While reasonable comparisons of income and levels of development can be made, there are difficulties in assessing a country's access to commercial funds and in particular whether it is outside its control to improve that access. Some insights may nonetheless be obtained from a closer examination of aggregate and individual EU donor distribution.

**Global distribution:** DAC estimates of the proportion of aid (bilateral plus imputed multilateral contributions) allocated to the low-income and least developed countries together for 1992–3 show that the shares were over 80% for Denmark and the UK, over 70% for Germany and the Netherlands, and 62% for France. The equivalent share for the Commission can be roughly estimated at 70%, which is in line with the weighted average for the EU Member States, but clearly falls below it. On the development criteria recommended here, the scope for redistribution towards less developed countries is considerable for the EU in aggregate. It would require a shift of aid away from a range of better-off countries, especially in the Mediterranean, Latin America and Oceania. France (with nearly 40% to the non-poor countries) and the Commission (30%) have the greatest scope for redistributing their aid in favour of the low-income countries.

**ACP distribution:** ACP countries can be classified into four categories according to their level of development and mean per capita income. There are significant differences in the aid allocation of individual donors to countries in the two lowest categories of development, with Italy, Denmark, the Commission and Sweden all allocating more than the EU average (73%) share to this group and with the UK allocating the least (59%). The distribution of EDF aid by level of poverty and development of recipients broadly reflects that of the EU members as a whole, as might be expected. It is also a feature of aggregate EU aid (per capita) distribution for the period 1991–3 that the smallest ACP countries receive more per capita EU aid in aggregate, and yet these countries have the highest levels of human development.

Within the ACP group, redistribution of EU aid from the better-off, smaller countries would have limited impact because of the relatively small amounts available for transfer to the less developed, larger countries. The scope for such redistribution is greatest for the UK.

**Economic policy conditions:** The effectiveness of aid even in needy countries depends on their policy performance. The national foreign-policy interests of EU Member States may favour continuation of aid with insufficient attention to whether the domestic economic policy environment is favourable to productive economic activity and continued effective use of the aid. France has been the most extreme example



among the EU donors. During the 1980s it was prepared to support political leaders and regimes in Francophone Africa and indeed to guarantee their currencies in the CFA Franc zone, apparently without concern for the economic conditions appropriate for development and good use of the aid. This approach has reflected the French objective (so far little changed) of maintaining its cultural and strategic 'sphere of influence' in Francophone Africa, although since 1993 it has switched to a more 'conditional' approach to its aid especially in the CFA Franc zone. Other bilateral EU donors were also reluctant to take a more critical look at recipient countries policies in the allocation of their import assistance during the 1980s, partly for wider foreign-policy reasons. The European Commission, despite its expected 'detachment', has shown rather similar tendencies. This partly reflected ACP country 'entitlement' to aid under the Lomé Convention, which has limited discontinuation except on human rights grounds. This unconditional approach clearly reflected the balance of foreign-policy pressures from the Member States on the use of structural adjustment funds till the late 1980s. Chapter 6 compares different EU donor approaches to structural adjustment finance.

## **Autonomy in Aid Implementation**

While autonomy in aid policy is primarily about the relative power to decide 'who' gets the aid, autonomy in aid implementation relates to the extent to which aid agencies have freedom on 'how' the aid is delivered in order to achieve the greatest potential impact on the welfare of those in the recipient country.

There are at least two aspects to this. The first is the degree to which aid agencies below the 'top' political echelons delegate responsibility for aid activities to implementing sub-agencies with considerable independence and specialism (whether they are public, semi-public or private). In Denmark, after the reorganisation of DANIDA to become part of the Ministry of Foreign Affairs (South Group), it is not clear how far this is reducing the autonomy of the development cadre, though some concerns have been expressed in terms of the greater diplomatic influence. In France, the autonomy of the Ministry of Co-operation and the Caisse in implementation is also difficult to judge, given the highly 'political' nature of French aid. In Germany, the specialised public sector implementing agencies, the KfW and GTZ, appear to have considerable autonomy, subject to policy guidelines and co-ordination from the Ministry of Co-operation (BMZ), and there is a spectrum of semi-public and private agencies commissioned to undertake different tasks (including the Deutscher Entwicklungsdienst for finance to the private sector and others for education and training activities). Germany appears

formally to have the largest spectrum of autonomous or semi-autonomous aid-implementing bodies. In the UK the ODA, despite its long integration into the Foreign Office, has had considerable autonomy in the execution of its aid policy. Like Germany it has some semi-autonomous or autonomous agencies such as the Commonwealth Development Corporation (for the private sector) and the Natural Resources Institute and the British Council in consultancy and education services. The Netherlands has had a rather similar configuration and the Directorate General for International Co-operation (DGIS) would seem to have a similar degree of autonomy to that of the ODA despite its integration into the Ministry of Foreign Affairs, though there have been concerns about diplomatic control over recruitment.

A further category of autonomous implementing agencies – independent non-governmental organisations – have become increasingly important for some official EU aid agencies. Those which have gone furthest in this direction, as measured by the proportion of official aid expenditure allocated to NGOs, are Denmark and the Netherlands (10%), Germany has allocated 7%, France and the UK 4% and the Commission 3%. The Commission and the French are planning to work more through NGOs in the future.

Once the Lomé Protocol has been settled, DG VIII of the Commission has considerable discretion in implementing development policy through the EDF, although its activities have to be cleared by the inter-governmental EDF Committee which represents the national interests of the Member States. The EU overseas delegations are free from intervention by Member States' diplomats in their in-country aid activities.

A second test of autonomy is the extent to which bilateral aid expenditure is tied to procurement in the donor country, since this limits the scope for the aid agencies to make the optimum choice of techniques and inputs to their projects. On the basis of DAC figures for 1991, the DGIS (Netherlands) has the least tied bilateral aid (5%), France and Germany are about 50% tied, while the UK is 72% tied. The relative strength of informal commercial pressures on donor agencies in the choice and implementation of individual projects is difficult to judge, however. The Commission certainly has a more autonomous position in respect of procurement untying of aid (at least within the EU), with strict rules for this. Large commercial companies can put pressure on officials in Brussels but it is probably easier for the Commission to resist these pressures than is the case for Member State agencies. However, in the case of disbursement of EDF aid, some European companies try to bring direct influence to bear on ACP governments.

## Conclusions: Implications for Effectiveness

The bilateral aid organisations of Denmark, the Netherlands and the UK follow a similar model (1) and are the most organisationally unified and centrally directed. The German model (2) offers the advantage of fairly autonomous, specialised implementing agencies which are not political bureaucracies but which are subject to direction from a central Ministry. However, the particular division of labour between finance and technical assistance seems inappropriate to current conditions and still poses problems of co-ordination which have had to be repeatedly addressed. Despite recent efforts, France remains the most fragmented model (3) and *a priori* the least appropriate for consistent and economical aid operations. There has been a trend towards model 1.

Whatever their formal political structure, all the EU bilateral agencies have been subject to strong diplomatic and foreign-policy influences in the distribution of their aid. Political and cultural objectives have kept French global aid distribution to the poorest countries lower than that of the other bilateral donors. In terms of its aid allocation to ACP countries, the UK is the least poverty-focused. Diplomatic influences have resulted in a high dispersion of small amounts of aid, especially by those three agencies – Denmark, the Netherlands and the UK – which are integrated into their Foreign Ministries. Denmark and the Netherlands have made efforts to concentrate on a few recipients, but with only limited effect so far.

All the agencies have been subject to commercial pressures in their operations. Measured simply by the degree of procurement tying, the Dutch have been the most autonomous and the British the least free of commercial pressures, with France and Germany in an intermediate position. Donors have tended to relax tying in recent years and the proportion of aid returning to domestic suppliers has fallen in the case of Denmark and the Netherlands.

The agencies seem to have enjoyed considerable discretion in managing projects and programmes according to development objectives. However, a challenge is emerging for Denmark and the Netherlands, which have in recent years merged their aid agencies fully into their diplomatic services: namely, how to counter the influence of a predominantly diplomatic ethos on the experience, turnover and motivation of development personnel at home and abroad.

The Commission has a more fragmented structure than the others, apart from France, and it has become more fragmented. DG VIII on its own, however, is a fairly well integrated organisation. Its allocation policy is determined by the need to reconcile the opinions of 15 Member States, and this dilutes specific national influences to some extent. Thus it has dispersed less of its aid in 'small packets' than the bilateral donors.

The distribution of aid among ACP countries by poverty/development level corresponds to the balance of Member States' revealed preferences. However, for the Commission as a whole, allocation to the poorest countries does not reflect the pattern of the five bilateral donors, but comes closest to that of France.

*A priori*, organisational fragmentation must contribute to inconsistency and/or delay and must threaten the effectiveness of aid delivery. Organisations which are largely unified like the Dutch, Danish and the British do ensure consistent and unified direction, and the integration of aid activities as well as easier transmission of experience and lesson-learning between different parts of the organisation.

The use of autonomous or semi-autonomous agencies which are vertically integrated also provides, in principle, centralised and consistent policy direction with specialist action-oriented agencies, as in the German model. There are, however, some management problems to be solved. The first is the basis of implementation specialisation. A division of labour into technical co-operation and financial aid as in the German case (and to some extent the French also) requires special efforts to achieve lateral integration and consistency in these operations. Secondly, the policy-making body (e.g. BMZ) can effectively formulate policy only if it receives a complete flow of information and is fully aware of experience in the agencies, aspects which have been deficient in the past.

Where autonomous or semi-autonomous Ministries and agencies work in parallel and are somewhat proliferated (as in France), there are more difficult problems in achieving effectiveness through consistent policy and implementation. As the DAC review of France (DAC, 1994b: 21) points out, 'co-ordinating the co-operation policies of the different protagonists, like shaping and implementing action programmes, is a difficult task that ultimately falls on the President of the Republic and the Prime Minister' (foreign and co-operation policy being a 'privileged' and 'shared' preserve). The learning of lessons from development experience is more diffuse and the communication of them more difficult, while there is bound to be substantial duplication or diseconomies in administration generally.

*A priori*, the more execution is delegated to specialist and relatively autonomous agencies the greater is likely to be the effectiveness of aid management since the objectives can be more single-minded in terms of development, and the staff can be more specialist and experienced and also more action-oriented than a political bureaucracy. However, the balance between autonomy and clear and consistent direction is an important factor in delegated systems.

There is very little empirical work to confirm these assumptions or to compare the effectiveness of different types of aid organisation. Nor would it be easy to specify empirical tests for some of them. However,

the particular case of delegation to NGO organisations can in principle be judged, and some recent evaluation and research work indicates that NGO projects (which are mainly located in poor areas) have been highly effective in meeting their 'immediate' objectives (such as establishing an asset or facility). There is as yet, however, limited evidence of their impact in a wider sense such as beneficiary participation, gender impact and sustainability (Riddell and Robinson, 1996). It is therefore not possible to say yet whether the donors which have gone the furthest in subcontracting to NGOs have been justified in doing so.

In this study considerable evidence is presented on the effectiveness of aid delivery systems and their impact. However, it has not proved possible empirically to confirm or reject these assumptions about the influence of the lack of a unified organisational structure.

## 2

## Management of Donor Personnel Compared

A major factor, if not the most important influence, bearing on the effectiveness of an organisation is its personnel management. Four main aspects of donor personnel management are compared here: the number of aid agency personnel; their composition, especially the balance between general administrative and specialist skills; the integration of specialist and generalist staff, as well as between HQ and field staff; and finally, the degree of delegation of responsibilities to personnel in the field.

A simple question to ask is whether aid agencies have the optimum number of staff, or at least enough staff to run the size of programmes according to the objectives set. It is not really possible for an outsider to suggest an ideal level of staffing for a donor; it is likely to vary, at the very least, with the relative importance of the technical assistance/institution-building activities of the aid agency. Reliable comparative data on donor personnel are also a problem. Differences in the share of resources devoted to aid administration are available, but are open to ambiguity in their interpretation.

Table 2.1 shows comparative staff figures for the six EU donors during the period 1991–4. The figures provided for headquarters staff usually refer to total staff including support staff, and for all the donors except Denmark they have been estimated as staff involved in bilateral expenditure. Some figures are provided for staff overseas but these are impossible to use for comparison, mainly because there is uncertainty about the line between those who are contracted for project operations and those who are managing the donor's programme overseas (i.e. the line between technical co-operation personnel who are part of the aid programme and personnel who are part of the donor organisation), especially now that subcontracting has become more widespread.

The ratio of HQ staff to bilateral expenditure (per \$10m) varies considerably between the donors. Denmark has the highest ratio but its personnel figures relate to its total programme and may reflect some diseconomies of scale. The German agencies seem the most adequately staffed, though this must be qualified by their limited overseas representation. The ratios for the UK and France are similar. Dutch staffing appears relatively low and there have been concerns expressed that aid spending has grown faster than the capacity to administer it and that there is understaffing within the aid organisation (see Chapter 13).



DG VIII in the Commission has the lowest HQ ratio, and on the basis of these figures it appears understaffed in relation to the other five donors.

**Table 2.1 Personnel and administration in aid agencies, 1991-4**

Donor	Bilateral Exp. \$m (1992-3)	Staff in HQ	Staff overseas	HQ staff per \$10m expenditure	Administrative expenses as % of bilateral commitments 1991
Denmark	686	308	133	5.5	6.4
France	6,530	c 1,931	1,142	3.0	3.2
Ministry of Co-operation	676				
Caisse		1,055			
Other Ministries		c 200			
Germany	5,507	2,338		4.2	3.9
BMZ		590	27		
KfW	2,113	380	-		
GTZ	1,116	1,568	1,539		
Netherlands (DGIS)	2,010	549		2.7	5.1
UK	1,570	489	c 102	3.1	4.3
European Commission (DG VIII)	1,500	330	c 200	2.1	n/a

Sources: DAC Annual Report, and authors of Chapters 9-14.

Notes: Figures for HQ staff normally include support staff and for Germany, Netherlands, UK and the Commission, they have been estimated for bilateral operations only, though not in the case of Denmark. Figures for France relate mainly to bilateral aid as they exclude the Ministry of Finance.

## **An ODA/DG VIII Staffing Comparison**

Is the Directorate General for Development of the European Commission really understaffed? In order to explore this question a more carefully matched comparison is made between the staff numbers of DG VIII and the UK (ODA) and their comparable aid expenditures. The adjusted and comparable figures for HQ and overseas staff in DG VIII and ODA are summarised in Table 2.2 for 1993/4. To ensure comparability with ODA's bilateral expenditure and staff, only DG VIII expenditure and staff who were estimated to be concerned with national and regional programmes and the Structural Adjustment Facility are included, and Stabex, Sysmin and food aid are excluded.

The main points to emerge are that the adjusted staff/expenditure ratios (per \$10m expenditure) for the general administration and the specialist staff together are very similar for the two agencies; DG VIII has a ratio of 2.7 and the ODA, 2.5. However, the ODA appears relatively much better staffed at HQ (1.9 compared with 1.4), though DG VIII appears relatively better staffed in its delegations. At the management level in Brussels and overseas together, DG VIII is not obviously understaffed. At the same time, it is weaker in support staff than the ODA and it can perhaps be argued that, since the Commission acts as a facilitator and its staff must spend much more time on co-ordination within the European Union – a role that is not significantly performed by bilateral agencies – it needs a higher staffing ratio.

## **Specialist Staff – Some Comparisons**

Given the ambitious objectives and the complexity of projects and programmes, a major influence on effectiveness is the availability of specialist staff and their integration into the operations of a donor agency both at HQ and overseas. Broad hypotheses are that a donor agency will be most effective if it has (a) a high ratio of specialists to general administrators; (b) an adequate range of skills in-house to help design, implement and monitor the different objectives of the agency; and finally (c) an organisational structure that integrates specialist and sectoral skills into the general management of country programmes. These propositions can be justified on the grounds that the range of donor objectives for projects has widened over the years and the complexity of projects has increased, in particular the failure rate among people-centred projects. All these point to the need for greater and more diverse inputs into design. General aid administrators do not normally have the time, even if they have the capacity, to attend to all dimensions of aid operations, but they need to have a close relationship with those who provide the specialist



Table 2.2 Comparison of personnel in DG VIII and ODA (1993/4)

1993/4		DG VIII				ODA (Bilateral Aid)			
Total Staff		HQ		Overseas		HQ		Overseas	
Category A (incl. Specialists)		178		191		170		)	
Category B		43		9		[125]		)	
Sub Total		221		200		295		102	
Category C		109		n/a		194		n/a	
Ratio Cat.C/Cat.A		0.6		-		1.1		-	
Aid expenditure (1993) \$m		1,560 NIPs, RIPs & SAF				1,570			
Ratio:	HQ	1.4				1.9			
Staff per \$10m (Cat. A & B)	Total	2.7				2.5			
Specialist staff	HQ	Overseas	Total	%	HQ	Overseas	Total	%	
Economic	29	60	89	31	16	14	30	23	
Engineering	18	58	76	27	8	7	15	11	
Natural Res and Environment	26	60	86	31	11	12	23	17	
Health and Population	8		8	3	2	4	6	5	
Education	1		1	-	4	7	11	8	
Social	4		4	1	12	16	28	21	
Institutional/ Financial	3		3	1	8	3	11	8	
Other	12		12	4	9	-	9	7	
Total	101	178	279	100	70	63	133	100	

Notes: Staff in HQ who are involved in multilateral aid, and central departments like finance, personnel, information, legal, etc. are excluded. For the Commission, Category A are those with academic qualifications, both general administrators and specialists. B are assistants and C are support staff. For ODA Cat. A staff are grades 5-7, HEO (Admin) and HEO (D), Cat. B are SEO/EO, Cat.C staff are Secretarial/AA/AO. Percentage errors due to rounding.

inputs and provide the warnings on the divergence of performance from the intentions.

To test these hypotheses on comparative effectiveness requires considerable comparable data for the six donors. A careful comparison of DG VIII and the ODA(UK) is attempted for 1994 in Table 2.2. In the case of DG VIII there is no separate specialist/professional cadre, but an attempt has been made to assess the specialist experience available in both Brussels and the delegations. For 1989, both agencies appeared to have broadly the same ratio of specialists to senior general administrators (Category A). By 1994 in DG VIII the balance had tilted more towards specialists with a ratio of specialists to administrative staff of 0.66, higher than that in the ODA (0.45).

A comparison of the range of specialisms in the two agencies indicates that they have good coverage in economics, engineering and natural resources. However, DG VIII is still deficient in the social and institutional areas both absolutely and relatively. The ODA had 54 specialists (41%) in the social and institutional areas in 1994, compared with 26 (24%) in 1988–9. DG VIII has increased numbers in this area to 16 (partly with national experts) but none appeared to be in the delegations, despite the well-known finding that poor effectiveness – especially in the sustainability – of projects has often been the result of a lack of understanding of the local institutional and social situation and lack of attention to these aspects in project design, despite the shift of priorities towards the social sectors.

For the other bilateral EU donors, less comparable information was obtainable and the insights remain tentative. In the Danish Ministry of Foreign Affairs (South) there would appear to be about 25 specialist staff out of a total of 198 – a very low ratio compared with DG VIII or the ODA. There seemed to be few economists, two environmental experts and one gender specialist (1991). Overseas there were 53 professional aid staff in the embassies. However, there appear to be plans to increase the professional specialist staff under the 1994 strategy. In Germany for the KfW there are 240 specialists out of a total staff of 380 working in the development finance field, which appears a more favourable ratio than that of the ODA or DG VIII. It also relies on 200 external experts who are employed on a case-by-case basis. The Netherlands seems relatively understaffed with specialists at HQ. The Technical Advisory Department is unlikely to have more than 50 specialists out of a total HQ senior administrative staff of nearly 300. In the Netherlands, however, subcontracted operations had risen to about two-thirds by the end of the 1980s as a deliberate policy. Embassy posts available for specialists at the end of 1993 were 57, mainly in education, health and the environment.

## **Diplomatic Ethos**

The integration of most EU bilateral donors' aid agencies into their Ministries of Foreign Affairs (the UK since 1979, the Netherlands since 1988, Denmark since 1991 and most recently the integration of the Ministry of Co-operation in France) can potentially influence the effectiveness of aid management by creating a predominantly diplomatic ethos in the organisation, especially if the senior posts are filled predominantly by diplomatic personnel. Within a 'diplomatic' bureaucracy there tends to be a generalist ethos and career aspirations that go beyond aid or even development issues. Sometimes a high degree of turnover of diplomatic staff occurs which undermines the development of the required experience. Career prospects are seen to lie in wider fields than just aid and this weakens incentives for the most effective management of aid funds, with quicker rotation of personnel reducing continuity at HQ and in the field. Such a tradition and ethos may also underplay the specialist skills which are necessary to maximise the potential effectiveness of aid design and use. This is not likely to be helpful, given the complexity of aid interventions and the growing awareness that effectiveness depends on the best possible insights into the local economic, social and cultural situations and experience of what has not worked in the past.

In the UK, the ODA has been within the Foreign Affairs Ministry for a long time. However, all its personnel including most senior positions have remained formally and effectively 'home civil service', recruited for development and not for diplomatic careers. In its overseas aid units it has specialist aid staff, though the diplomatic posts also do aid work in a number of countries. In the Dutch case, the Ministry of Foreign Affairs, and not the Minister for Development Co-operation, has been responsible for the recruitment of new personnel. This has overwhelmingly tended to favour generalists without a development background for some 60% of posts concerned with development tasks, and concerns are expressed about diplomats in senior and management positions (see Chapter 13). In the case of Denmark, the integration of DANIDA into the Ministry of Foreign Affairs (South) since 1991 has led a number of observers to the view that aid and development experience and specialism are being lost in the diplomatic ethos and the filling of top posts by diplomats. However, DANIDA is developing a core of permanently employed 'aid administrators' plus an expanded number of professional specialist staff especially in field missions. In France, it is too soon to assess experience from the recent change in status of the Ministry of Co-operation.

In the BMZ in Germany (which is not part of the Ministry of Foreign Affairs), the staff and the ethos are not diplomatic. The staff work exclusively on development co-operation throughout their careers.

However, a parallel aid cadre has not been allowed to develop within German embassies and diplomatic posts overseas. The staff of the implementing agencies (KfW and GTZ, etc.) are even more specialised during careers in development work.

In contrast to the bilateral agencies the European Commission (DG VIII and DG I) does not face the same risk of diplomatic bias in its operations. Its personnel are largely focused on aid expenditure and trade access issues for developing countries, and so there are no major distractions of a wider diplomatic kind. Personnel recruited expect to specialise and make their careers in development work.

## **Integration and Effective Use of Specialist Staff**

The effective use of different in-house specialist skills requires a multi-disciplinary team approach in which the specialist services are located close to the managers of operations, whether at HQ or in the field. In the DGIS (Netherlands), technical and financial groups appear to work closely together, although recent experience with rural development management gave rise to problems of covering too wide a range of activities with too few staff and remote from specialist staff located in the field offices (DAC Review, 1994c). In the ODA, most specialist groups at HQ work for, and are close to, the operational departments whether at HQ or in the overseas offices to which they are committed. At the same time, they also have reporting lines to senior staff in order to maintain professional standards and the independence and integrity of advice. In DG VIII the three geographical operational divisions are advised by specialist units for infrastructure and rural development and a newly created group with predominantly social and medical skills. These technical groups have a close relationship with the operational desks, and the delegations have specialist cadres. The overseas delegations are predominantly staffed with specialists, though these are primarily engineers, economists and agronomists.

## **Decentralisation: Overseas Organisation and Delegated Responsibility**

The balance of staff and responsibility between donor capitals and field offices and the degree of delegated responsibility to field offices are key issues in the effective use of aid. There are at least three major reasons to support the proposition that effective management requires the location of key aid programming and project design staff as close as possible to the local environment in which they will use the aid. First, the

weight of evidence from evaluations during the last decade points to a fundamental failure to understand the local situation in the ACP countries and to design aid projects which can be successfully integrated into the local environment and culture. The more decentralised the design and implementation of aid, the greater the scope for diversity of initiative. Although understanding of the local society does not necessarily require local residence and although local residence is not a sufficient condition for successful aid, nevertheless this type of management orientation, other things being equal, seems most likely to yield effective aid use. A second and related reason is that aid relationships tend to be most effective where there are good 'personal relations' between aid representatives and local key personnel; even the capacity to recognise the local personalities who are likely to be more dynamic requires local representation. Third, where policy and institutional change becomes a vital dimension, locally based staff are in the best position to read the political and cultural situation and formulate the most effective basis for dialogue.

There are broadly three main European types of overseas organisation. First, the special aid mission or office with specialised staff in countries where aid is concentrated. France fits this model, as does the European Commission with its country delegations. Variants are the specialist aid offices serving certain regions as well as the specialist aid units within individual country diplomatic missions, which are a feature of the UK system. The third and predominant model is the integration of aid staff within individual country diplomatic missions and embassies. More recently Denmark and the Netherlands have integrated their aid operations in their diplomatic embassies.

Denmark has followed a policy of decentralisation of both aid staff and aid functions to the field since 1988. About a quarter of its Ministry of Foreign Affairs (South) staff (133) were in the field in 1991, of whom 53 were professional aid personnel. A major share of the preparatory work for country programming is done by the field offices (DAC, 1992a: 27). Negotiations without the participation of HQ officials take place before the regular annual in-country negotiations. The financial responsibility delegated to embassies is limited to 10% of the budget. However, Danish embassies seem to be somewhat understaffed for this aid work (see Chapter 10).

France has large overseas representation in its countries of concentration. The overseas staff of the Ministry of Co-operation is larger than that of the Caisse, and the local Missions contain sectoral experts. The Missions formulate proposals for programming and negotiation, identify projects and monitor their implementation. They have responsibility delegated to them for 10–20% of the country programme expenditure. Nevertheless, there is still considerable central vetting of

decisions in Paris. There is some dialogue between the Ministry and the Caisse staff in the field but it is not clear how much duplication occurs or how much co-ordination exists in countries where both are operating. In 1990 an aid orientation and programming committee was established to ensure coherence of development policies in the field, but so far this has not proved very effective (see Chapter 11).

In Germany, the BMZ has no overseas offices and is not very well represented in embassies. Its overseas aid representation is less than that of the other EU donors reviewed here. Decision-making is highly centralised – probably the most centralised of the EU bilateral donors – and observers consider that there is not enough capacity overseas to achieve the developmental objectives set (DAC, 1992b: 2; Nolke and Obser, 1994). A distinction must be made between the BMZ, responsible for co-ordination and country strategy/dialogue, and the implementing agencies (e.g. the GTZ and KfW) which have very limited overseas representation. The GTZ uses subcontracted long-term experts in the field. The KfW has no overseas offices and relies mainly on short-term missions. Special efforts have been made to improve co-ordination between these two agencies since 1993, though there remains room for improvement (see Chapter 12).

The Netherlands has integrated its diplomatic and development personnel. However, this has caused problems in the field because of the different career aspirations. There has been a high turnover of staff for country posts – at HQ and in the field – which has tended to limit learning though rotation of personnel has been shared more recently. The approach has been to recruit specialist experts on a contract basis for up to four years. The system would appear highly centralised with little room for manoeuvre and little delegation of responsibility to embassies. Formally identification and supervision of projects are the tasks of the embassies, but HQ is involved at all stages of the project cycle (see Chapter 13).

The UK ODA has well developed overseas representation for aid, though available figures for staff overseas appear relatively low perhaps because of the substantial subcontracting of field management to (over 800) short-term experts. The ODA has been moving for some years towards a more decentralised structure and responsibilities. The overseas offices are responsible for the formulation of the country strategies, the identification of projects and the supervision of their implementation. Field staff can take decisions on expenditures below \$3m without reference to HQ except for programme aid, and it is currently estimated that some 50% (by value) of bilateral expenditure decisions are made in the field. The ODA is probably the most decentralised EU donor at the present time, at least in terms of decision-making (see Chapter 14).

The Commission (DG VIII) is well represented overseas in the ACP



countries with a high proportion of its staff in the field. However, there is a limited degree of decision-making responsibility devolved to the field offices (for expenditure only up to \$72,000). No formal powers are conferred on delegations in programming; pre-programming documents are formally drafted at HQ where the decision-making power largely resides, although the 'personal chemistry' between delegate and HQ officials can affect the degree of influence in the iterative process of drafting (Nolke, 1993; 12–13). The formal delegation of power for project expenditure decisions is very small compared with some bilateral donors (e.g. the UK). Delegations have a clear mandate to co-ordinate with Member States but they are restricted in the decisions they can take without reference to Brussels. The structure is decentralised but the decision-making procedures are centralised. This is because of the limited rotation of personnel between the overseas delegations and the HQ in Brussels, mainly due to the particular system of contracts for specialist overseas staff (see Chapter 9). Centralised decisions are less likely to be well-informed and hence less effective for the Commission.

## **Subcontracting Trends**

Finally, there has been a trend on the part of a number of EU donors towards the subcontracting of external private personnel and agencies for the management of aid projects. By 1988 the Netherlands Ministry of Development had subcontracted about 45% of its manpower expenditure and nearly as large a share of its aid execution. The UK also followed a similar strategy in the 1980s and recently had subcontracted 850 personnel for short-term contracts overseas on projects and programmes. The French do not seem to have adopted this approach. The Commission has used consultants heavily for the preparation, implementation, review and evaluation of projects. Although consultants are used for project implementation, financial monitoring is done by the delegations themselves.

The effectiveness implications of increased use of subcontracted staff for the management and supervision of official aid projects have so far not really been investigated, despite the strong commitment of some governments to these strategies. Nevertheless, there are some important questions relevant to effective aid delivery. Most EU bilateral agencies are part of political bureaucracies. In this type of organisation greater diversity of experience and approach may be possible by subcontracting staff who do not come from one background or from a bureaucratic tradition. At the same time, subcontracted staff require very effective experienced personnel within the agency (including specialists) to supervise them and ensure that they are pursuing the donors' own aims

and guidelines. Comparative donor experience was not easily available, but there has been evaluation evidence to suggest inadequate supervision or task management of external consultants working on Commission projects.

## Conclusions

It has not been possible to say categorically whether aid agencies have adequate personnel levels to fulfil their objectives. Headquarters staff/bilateral expenditure ratios were highest for Denmark and Germany but were fairly similar at a somewhat lower level for France, the Netherlands and the UK. Denmark and the Netherlands seem somewhat understaffed with in-house specialist personnel compared with the other agencies, and this may well reflect their policy of increased subcontracting of services.

It has not been possible to make an accurate comparison of overseas staff for all the agencies but the UK and France appear to be well represented in the field especially in comparison with Germany. Some agencies have made efforts to decentralise staff and their responsibilities. The UK, in particular, and Denmark have gone furthest, while France remains in a middle position. The Netherlands and Germany remain highly centralised in their aid decision-making.

A trend towards subcontracting the management of aid to autonomous agents, especially NGOs, has gone furthest for Denmark, Germany and the Netherlands, though the UK and France are also moving in this direction. In addition, there has been increased subcontracting of specialist services and the management and monitoring of projects especially by Denmark, the Netherlands and the UK. However, there is no conclusive empirical evidence as yet that aid delivery delegated to independent or semi-autonomous agents is more effective.

The personnel of the European Commission (DG VIII) have a primarily development agenda without the diplomatic ethos of some bilateral donors. They are also relatively less subject to (national) diplomatic interventions in their operations, they have had greater freedom in procurement, and national commercial pressures and interventions have probably been easier to resist. DG VIII does not appear significantly understaffed compared with other donors. It has a relatively high ratio of specialist to generalist administrative skills (though rather less than Germany). This specialist expertise is predominantly of a more traditional kind, and DG VIII has not yet developed as much as some bilateral donors (either at HQ or overseas) the wider range of more institutional and social sector skills which are required to meet its new objectives effectively. Its rotation of personnel between HQ and the field is more



limited than that of most bilateral donors. Although its structure is among the most decentralised in terms of overseas representation, its decision-making procedures are still highly centralised. The bureaucratic nature and slowness of its procedures have been a source of concern to observers but it has not been possible to compare its performance in this respect with Member State agencies.

## 3

Strategic Objectives, Accountability  
and Country Programming

It seems appropriate initially to assess the effectiveness of any donor agency by examining its avowed strategic objectives or 'mission statements' and the way in which it appears to have implemented them. However, there is some ambiguity in this. The avowed donor objectives are potentially a tool of both management and public relations. They can set management performance targets or give the agency a public image in order to maintain support for aid from its 'stakeholders' (civil interest groups, taxpayers and parliament).

A major motive has been to seek an image that would help sustain public support for aid. The specification of various objectives undoubtedly has reflected attempts to show that aid can influence outcomes in the desired directions. Objectives have multiplied over time as new concerns have been pressed from largely outside interests. Most of the agencies have responded to these concerns, though at different speeds. At the same time, until the last few years donors have made little or no attempt to 'account to their stakeholders' for the *implementation* of these objectives in any precise way.

The specification of development objectives does also perform an internal management function: to provide direction and prioritisation for the operational activities of agencies' staff. However, there is rather limited evidence of the precise procedures or systems used to ensure their transmission into spending plans and activities. The multiplicity and ambitiousness of donor objectives raise some questions about the donors' credibility in achieving them. This suggests perhaps that the public relations function has predominated over the management function of strategic objectives.

Recently efforts have been made by some donors to specify their objectives more clearly and to report performance on them more precisely. This reflects a new concern with accountability for government operations *per se* as well as an attempt to respond to a perceived weakening of support for aid expenditures. In the UK, the ODA has been prominent in its efforts to specify its objectives and account for its degree of implementation of its promises. Denmark has also moved in this direction. Others like France and the European Commission have been less active in this respect. These behavioural differences may reflect perceived or actual differences in the degree of domestic political (or public) support for aid (e.g. relatively weak in the UK compared with the

Netherlands).

'Accountability' of donor agencies to the political executive, parliament and public, including development interest groups in the donor country, is entirely appropriate. It is one measure of a donor agency's effectiveness that it specifies precise intentions and seriously reports on its fulfilment of them to its domestic 'stakeholders'. The more knowledgeable the stakeholders are about desirable objectives for aid use, the more effective the operations are likely to be. At the same time, analysts have increasingly come to see the effectiveness of aid use *in the field* as a function of the degree of participation and consultation with stakeholders (i.e. the civil interest groups, parliament, public, etc.) in the recipient country. This raises questions of the balance in accounting to both sets of 'stakeholders' and the implications for consistency and effectiveness.

The following sections of this chapter cover two related aspects bearing on effectiveness: the specification of intentions and accountability to both sets of stakeholders and the specification of intentions as a tool for internal management.

## Public Accountability

Only a preliminary comparison is attempted here of the accountability processes by which each EU donor is responsive to, and scrutinised by, its range of domestic 'stakeholders'. Of the five bilateral donors considered here, Denmark's aid strategy would appear the most open to public debate and the most subject to parliamentary and interest group examination. Parliament is active in policy formulation and has recently set eight objectives for the aid agency. Each year the Danish Foreign Ministry (South) has to report back to Parliament on its performance in relation to these objectives. The parliamentary Finance Committee plays an important role in strategy including formulating criteria for the allocation of aid. Various interest groups (NGOs, trade unions, industrial associations) have had an institutionalised involvement and influence on Danish foreign/aid policy which includes the formation of country programmes. Public debates on aid strategy have become increasingly important (see Chapter 10).

In France, Parliament exercises little influence on aid priorities and is hampered by the limitation of its right to debate only part of the aid budget and a considerable lack of transparency in the administration of French aid. In the past there were few examples of parliamentary initiatives influencing policy, though more recently various parliamentary bills and reports suggest a new desire to enforce greater accountability. Interest groups including NGOs have had little influence, although since

the end of the 1980s a coalition of NGOs has begun to express its opinions in favour of a greater poverty focus. Public opinion is poorly informed but largely appears to support aid and the French orientation towards Africa (see Chapter 11).

In Germany, the Bundestag takes an interest in development co-operation and a general consensus exists among the political parties. Parliamentary committees, especially the Budget Committee, scrutinise aid policy, including any inconsistency between BMZ programming and parliamentary guidelines. The Federal Court of Auditors also performs a scrutinising function. NGOs, especially the churches, have had substantial influence. Public support for development co-operation remains high in unified Germany (see Chapter 12).

In the Netherlands, parliamentary debates seem to be more thorough than in France and the UK, though they are considered by some observers to be rather superficial. Knowledge and interest are limited to specialist members of the Foreign Affairs Committees. The political parties have special commissions on development issues. The Development Ministry has published a series of White Papers on development to allow open debate on strategies. Development interest groups and commercial interests have both been influential (see Chapter 13).

In the UK, Parliament as a whole has shown limited interest in the wider development objectives of aid. Parliamentary interest in development issues has largely been confined to a small cross-party group of MPs and a standing Select Committee on Foreign Affairs. Debates on development strategy have been limited, perhaps because there have been no White Papers on aid for twenty years. However, there is an annual report from the Foreign Office to Parliament which since 1992 has provided increasing information on the ODA's objectives and its performance in relation to them. Scrutiny of past specific expenditure is exercised by the Public Accounts Committee. The ODA has become more responsive to outside interest groups since the mid-1980s and formal official dialogue has been conducted with NGOs, expert groups and interest groups for the environment and women's needs, etc. (see Chapter 14).

DG VIII in the European Commission is directly accountable to the Council of Ministers of the Member States and the Lomé institutions (e.g. Ambassadors' Committee, Joint Assembly, etc.). The European Parliament's influence in relation to Council directives/resolutions is formally strengthened under the Treaty on European Union, but it has less influence over the EDF than over the EU budget. In practice, the European Parliament does not have a significant influence on the formulation of DG VIII development objectives and it does not monitor or systematically review its aid programmes as the national parliaments

review the national programmes. The Lomé Convention, which directs EDF aid strategy, is controlled by the national parliaments, some of which take their task seriously (e.g. the UK Foreign Affairs Committees). NGO pressures on the Commission seem to have increased in recent years, notably through the establishment of European platforms for groups of development NGOs. The Court of Auditors' regular and highly critical scrutiny and reporting of some aspects of the aid programmes administered by the Commission provides information for parliaments and public. The new position of openness on evaluation documentation provides a significant addition to the Commission's performance accountability, though it is still difficult for the public to get a clear overall picture of all aid managed by its operations (see Chapter 9).

To sum up, among the Member States, processes for accountability to domestic stakeholders appear to have been most effective in Denmark, followed by Germany, the Netherlands and the UK, with France well behind. DG VIII is, of course, somewhat distant from national parliaments and publics. Compared with Member States other than France, it is more difficult for the public to obtain a coherent picture of the implementation of the Commission's complex aid programmes. Also the Commission seems sensitive to exploration and criticism by independent groups. At the same time, DG VIII aid operations are subject to the scrutiny of 15 member governments which bring to bear much more 'expertise' than that facing Member States with regard to their own aid activities. Unlike bilateral donors, aid policy under Lomé is formally accountable to the ACP states through the Lomé institutions, though this does not directly imply accounting to domestic civil society within these countries.

## **Strategic Management: Translation into Activities**

In terms of purely development priorities and objectives, the six aid agencies have accumulated multiple objectives over time. Environmental objectives and gender issues are common to all of them currently. The emphasis on economic reform and a greater market orientation through aid conditionality emerged earliest with the UK in the early 1980s, but by the end of the 1980s it had been embraced by Denmark, and Germany, as well as Netherlands and France though not so strongly. Poverty alleviation (including rural development) was more prominent for the Dutch, Danish and German agencies than for the French and British in the 1980s.<sup>1</sup> Sectorwise there has been a deliberate shift in

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1. It is a feature of donor behaviour that the intensity of commitment to any one common objective can vary over time – perhaps, but not always, with changes of

priority towards social sector expenditure, except in France which has traditionally given high priority to this sector. The sustainability of aid interventions has become a concern for all of them. All now include 'human rights' and 'good governance' objectives. France, however, differs from the other five donors in incorporating non-developmental objectives explicitly into its aid strategy, reflecting French cultural and strategic aspirations in Africa. It has been more sceptical than its partners about some objectives such as market liberalisation, gender issues and good governance/political rights. However, recently it has shown signs of convergence with the other donors on certain of the above 'development' aspirations. European Commission strategies have focused on building infrastructures, rural development, food security and regional co-operation. A shift towards structural reform assistance has been followed by new priorities for the social sector, poverty reduction and democratic governance.

There are at least two important management aspects bearing on effectiveness: the priority to be attached to multiple objectives and the effective translation of these sometimes imprecisely defined objectives into activities likely to fulfil them. Denmark's aid managers decided themselves to prioritise the eight parliamentary objectives, placing the main focus on poverty alleviation. The ODA has wrestled with this problem by defining seven objectives which recently have been reduced to four aims. The European Commission is still struggling with a wide range of objectives. The BMZ in Germany spends much time in defining objectives and prioritising them. The French seem more sceptical about grand objectives.

Effectively translating objectives into aid plans and activities remains a greater challenge. The UK seems to have gone furthest in introducing management systems to help translate objectives more effectively into plans and activities. These have included (a) a requirement for operational managers to take account of strategic objectives explicitly in their spending plans; (b) the recording and attribution of their committed expenditures against the multiple objectives – the agency can and does say how much is spent in fulfilment of the different strategic aims; and (c) more recently setting up Directorates and Senior Directors to pursue and monitor the implementation of aims.

DG VIII has also introduced new procedures to motivate and monitor the pursuit of priorities by programme managers using a logical framework approach, and Denmark also has similar intentions.

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political party or coalition in power. This, of course, makes it more difficult to achieve successful co-ordination or co-operative management among EU donors. See Chapter 7 on co-ordination issues.



## **Country Strategies and Programming**

### *Effectiveness Criteria*

It is suggested that procedures for country programming should have the following characteristics in order to achieve greater development effectiveness. First, they need to have a predominantly geographical orientation with an overriding focus on the use of aid in each recipient country; this seems preferable to central or cross-country decisions on spending. Secondly, an explicit strategy for each recipient should be based on careful analysis of the country situation which is regularly up-dated with a rolling plan of aid activities, and on financial commitments rather than disbursements in order to reduce pressure on managers to achieve time-bound spending targets and to assist incentives for attention to the quality of aid intervention. Thirdly, management procedures should ensure that country managers explicitly take into account the strategic objectives of the donor agency in the country plans and activities. Fourthly, there needs to be a process of dialogue/negotiation with the recipient in order to maintain a balance between the objectives or priorities of the donors and those of the recipient. Procedures for aid commitment should provide predictability, but should be adjusted to the recipient's performance and changing conditions. Fifthly, consultation between EU donors and preferably co-ordination between them in the drawing up of country strategies and in the programming of aid to these countries, would increase effectiveness.

How far do the six EU donors conform to these propositions; what are the similarities and differences in management and what changes are under way?

### *Country Orientation of Aid Programming*

Some of the six EU donors have a predominantly geographical orientation of aid delivery. The UK ODA bases its policy completely on a country management approach. In Germany since the late 1980s the BMZ has strengthened geographical desks in order to give more strategic orientation to country programmes and the GTZ was reorganised along geographical instead of functional lines. The Netherlands does not rely on a purely geographical orientation. While there is a large budget for country and regional programmes, there is a separate very large budget for 'special programmes'. Four of these are driven by largely cross-cutting objectives: gender issues, research, urban poverty and the environment, and are serviced by specialist staff units. The rationale appears to be the injection of innovative policy approaches and a focus

on dialogue with recipient governments. Questions have been raised about the consistency and integration of these special programmes with country programmes managed by the regional desks (DAC, 1994c: 19).

France lacks any integrated overall country programme covering all aid instruments and countries (see Chapter 11). The inter-ministerial committee has so far had little success in ensuring the complementarity, consistency and overall co-ordination of French aid between the ministries concerned.

For the European Commission, the process is mainly country focused. However, there are central units which manage non-programmed aid like Stabex and Sysmin for which all ACP countries can apply and also food aid and structural adjustment assistance. For some major recipients the National Indicative Programme is only a limited share of total aid, and the various other instruments (Stabex, food aid) have not been very well co-ordinated. Within the NIPs the emphasis is on certain priority sectors, and there is an increased dialogue on sectoral policies between the Commission and the ACP governments.

### *Programming Procedures*

Denmark's 'country strategies' are based on a comprehensive macroeconomic assessment and on the needs and priorities of recipients. These are updated annually and revised every 4-5 years. There is a rolling five-year indicative plan based on disbursement (not commitment) figures. In Germany, firmly based country strategies are now drawn up which set medium-term priorities and issues for dialogue. Once country papers are approved by the Minister they are binding and guide project selection, biennial and annual negotiations and policy dialogue on the macro economy and private sector development. There are annual two-year plans drawn up on a financial commitment basis. For the Netherlands country policy papers are prepared at HQ with the assistance of external specialists. These form the basis for bi-annual high-level dialogue with the governments in the target recipient countries. Four-year plans are prepared which determine initial priorities but under which disbursement remains flexible over time. However, as indicated earlier, special objective programmes have their own budgets which are not country-related. In the UK, the ODA draws up country strategies every two years for most major recipients which are formulated in the overseas offices and discussed and approved at HQ and by the Minister for Overseas Development. There are rolling three-year indicative plans for disbursement (not commitment). The levels of forward financial indicators are not explicitly revealed to the recipient. The Ministry of Co-operation in France seems to have annual



budgeted programmes for the 'sphere' countries.

For the European Commission, a National Indicative Programme is drawn up for each ACP country every five years. This is not a rolling programme but is based on financial *commitments*, not disbursement targets. The content of the programme is negotiated with the recipient authorities on the basis of pre-programming and final programming missions and discussions with the delegation. Under Lomé IV from 1995 onwards there is no longer a 'legal entitlement' to a five-year fixed amount from the next EDF. Allocations will now be phased so that after a first allocation (70% of the five-year entitlement) the next tranche(s) will depend on meeting performance criteria as well providing more flexibility in changing conditions (see Chapter 9).

### *Translation of Donor Objectives into Country Plans and Activities*

A key effectiveness issue is how the aid agencies' strategic objectives and priorities – relating to policy reform, poverty reduction, social and environmental concerns and more recently institutional and governance aims – are brought to bear on the formulation of country strategies and programmes. (See Chapter 4 for individual project design.)

In Denmark, the country strategy process provides for consultation with Danish domestic interests (NGOs, private companies, experts, etc.) with regard to 20 countries. There has been a recent move to concentrate on certain key sectors in recipient countries. There is no central mechanism to ensure that general aid objectives are actually reflected in the individual country programme portfolio. The French employ regular annual surveys of whole country aid programmes in order to assess the implementation of set objectives and policy coherence. In Germany external interests (e.g. NGOs and country experts) play a role in the formulation of country strategies which are finally approved by the Minister. Internally the different implementing agencies (e.g. the KfW and the GTZ) as well as specialist departments (e.g. Environment) play a major role in reflecting strategic objectives through the mechanisms by which more objectives (including poverty alleviation, the promotion of women and rural development) are brought to bear on design. In the Netherlands, some priorities – rural and industrial development, urban poverty reduction, environmental and gender objectives – have not been directed through country programme managers but, instead, have special budgets and are centrally arranged programmes. No evidence is available on how effective this approach has been, compared with the strategies directed via country programme managers. The UK may have gone further than other donors with a new system which sets very precisely defined strategic objectives and requires country managers to take

account of them in their expenditure plans. A senior official management committee and the Minister have always approved the country strategies. Their performance is now monitored by a 'Policy Information Marker System' and by new Aims Directorates (see Chapter 14).

In DG VIII it has been unclear in the past how the strategic objectives (mainly those of the Council) have been brought to bear on country programming. However, the country managers are now under greater pressure when drawing up country programmes to take account of EU objectives and to focus on a limited number of sectors and instruments. The disciplines include a 'logical framework' approach applied to country programming and a high-level internal screening committee to vet programmes before they go to the EDF Committee for approval by the Member States.

### *Dialogue with the Recipients*

In Denmark, there is consultation and dialogue with the recipients as well as with the domestic interests in relation to country priorities. The balance of influence seems to have tilted towards the former. Debates between NGOs and their social and poverty concerns and commercial interests favouring infrastructure are now influential in setting priorities for country programmes. There has been some shift towards more participation of the recipient authorities on macroeconomic policy. It is planned to have more intensified policy dialogue within the chosen sectoral authorities of the recipient country, though no modalities have so far been developed for this. In Germany until the end of the 1980s the BMZ took a fairly 'passive' attitude to recipients' requests in determining its country spending and did not have a strong country strategy framework. However, the balance has changed. There is now a firmer country strategy to take account of the donor's objectives, less willingness to respond to requests for projects and more concern to achieve agreement in negotiation. For the UK ODA the degree of serious dialogue with recipient governments has varied, depending on the nature of the recipient administration. The country strategy takes account of recipient country priorities and wishes. However, the ODA has increasingly been prepared to reject recipient requests regarding aid use, and some account is taken of recipient performance in the allocation of aid. For the French also, although significant dialogue takes place with recipient institutions, the initiative for action generally emerges from within the French system. The Netherlands has yearly consultations with all aid-receiving countries covering domestic and sectoral policies and priorities, and the adequacy of their domestic economic and social policies is a formal criterion for aid provision.

Under the Lomé Protocols I–III recipients had a legal entitlement to a fixed amount of aid over five-year periods. The European Commission has placed a high priority on ‘partnership’ with the recipient authorities in the negotiation of aid programmes. The balance has tilted from a high degree of responsiveness to local wishes to a greater consideration of the donors’ (Member States) own objectives and priorities. The continued emphasis on partnership and dialogue with recipients is being held responsible for growing delays in the disbursement of EDF funds under Lomé IV, but this can be viewed as a realistic and desirable implication.

### *Donor Consultation and Co-ordination*

Apart from Denmark, which co-ordinates to some extent with its Nordic neighbours, the bilateral donors do little or no consultation or co-ordination with each other on common country analysis or programming (see Chapter 7). For Germany consultation and co-ordination with other donors on country priorities have, in the eyes of some observers, been impeded by the centralised administration and the obscure division of responsibility among German agencies in the field (DAC, 1992b: 5), and also by rigid budgetary procedures and lack of incentives in these agencies to co-ordinate with other donors (Nolke and Obser, 1994). France has no formal exchange with other donors and its imperfectly internally co-ordinated country programmes present problems in this regard. The ODA goes in for little or no formal prior consultation with other bilateral EU donors on country priorities. The Netherlands has undertaken little co-ordination with other EU donors, and there is little co-ordination with those donors who are active in the same sectors. Only the European Commission undertakes prior consultations with Member States, mainly through a pre-programming document which is intended to take account of their objectives and views. The final country indicative programmes are also approved by the Member States in the EDF Committee.

### **Conclusions**

Most EU donors have not clearly prioritised their accumulating aid objectives. Parliaments have played a rather limited role in aid strategy, except in Denmark. Nevertheless, donors in recent years have become more responsive to civil interest groups on poverty, women and the environment. Accountability processes of the latter kind seem to have developed most fully for Denmark, followed by Germany, the Netherlands and the UK, with France fairly well behind, while

Parliaments and the European public have been even more remote from the Commission's objectives and operations, though the latter have been subject to continuous oversight from 15 member governments with considerable expertise on aid issues. This ponderous process of multi-member agreement to a change in strategies or priorities may well have been a factor in the slow response of the Commission to the adjustment problems of recipients in the 1980s.

The mission statements of EU donors have been designed more for publicity and support than for real accountability. Few accurately account for their implementation to parliaments or public. It is difficult, for example, to judge in retrospect (e.g. from expenditure patterns) the extent to which the individual EU donors have achieved their announced intentions to achieve greater social sector involvement or other social and institutional objectives. Recent attempts by the UK and Denmark to improve their public accountability for performance against objectives, would bear examination by the other EU donors.

Recent efforts to improve the accountability of aid agencies to their domestic stakeholders undoubtedly enhance their 'ownership' and hence the support for aid programmes. At the same time, this raises questions about the implications for effective aid use. First, and emerging most sharply in Denmark, there is greater 'politicisation' of decisions about objectives. Thus, sectoral priorities within Danish country programmes are being influenced by a domestic debate between NGOs and business interests which may be quite unrelated to the requirements of the local situation. Secondly, if greater effectiveness requires increased recipient country responsibility and ownership of policy and management for aid inflows, will the outcomes be acceptable to donor domestic stakeholders? It has not been possible in this study to investigate in depth (overseas) how different donors' management of aid has promoted local participation and ownership. This remains an important issue for future research on aid effectiveness.

In the 1980s the managers of country programmes in most EU donors seemed to pick up informally, and to some extent at their discretion, the strategic objectives which the donor agency had set itself. Recently, more formal procedures for the more effective translation of donor objectives into country priorities and plans have been introduced especially in the UK and the Commission (DG VIII). Experience with these procedures will repay wider examination among EU members.

Virtually no formal consultation takes place between EU members on their country strategies and programming. The exception is the Commission's consultations with Member States regarding national indicative programmes. Yet most member agencies deploy medium-term country strategies and programmes for their main recipients which they review and revise at intervals of 2-3 years. With EC programming now

more flexible under Lomé IV, there is now greater scope for some co-ordination. The Commission is currently pursuing co-ordination initiatives on a general policy level, focusing on poverty alleviation and in-country co-operation. Potentially, enhanced collaboration offers scope for or reduction of duplication, or at least exchange of experience, in the analysis and understanding of the country situation. It would be possible for country strategy meetings of individual donors to be open to other EU donor representatives. This might work towards agreement on common priorities and perhaps some division of labour among the donors within specific 'common' recipient countries. Nevertheless, this is likely to be a time-consuming and skill-intensive process, because it requires the integration of domestic interests and recipient authority interests as well as those of other donors within the common recipient country. There would also be practical difficulties, such as France's fragmented country programming and the non-geographical management of aid in the Netherlands.

Most donors now conduct bilateral dialogue and negotiation on a recipient country basis. The 'firming-up' of country frameworks has also seen a shift away from recipient-dominated priorities towards more concern with donor objectives, recipient performance and negotiation. This is most marked for the European Commission under Lomé, which was traditionally the most responsive to recipient government interests and has recently shifted its balance towards its own objectives. Germany and France have also shifted in this direction, as had the UK somewhat earlier. The shift is not so obvious for Denmark and the Netherlands except for structural adjustment support (see Chapter 6). The greater emphasis on the performance of the recipient when negotiating country programmes includes political and governance, as well as economic, criteria for a number of EU donors, including the Commission.



## 4

## Comparative Project Management

In the light of past experience, certain project management characteristics emerge as critical for the effectiveness of aid delivery and impact. These include the need for careful early project selection and adequate procedures during the feasibility/appraisal/design stage to ensure that the multi-dimensional aspects (economic, technical, environmental, socio-cultural, etc.) are adequately covered. Effective sustainability of projects following the termination of donor funding requires greater attention to strengthening national and local institutions and ensuring the adequate participation of those involved locally in all stages of the project cycle: identification, design, implementation and monitoring. Table 4.1 summarises information and some judgements on the practices of the six EU donors in order to assess similarities and differences of approach. The importance attached to certain project management aspects and procedures by different donors does not, of course, always ensure successful project outcomes.

### The Project Cycle

#### *Identification: Initial Selection*

The identification process, though vital for the effectiveness of aid, is inevitably somewhat indistinct, involving variously the recipient authorities, the embassies, missions, consultant teams, the World Bank, etc. The 'initial screening' of projects is especially important, given the importance of wider contextual priorities and objectives and some tendency for projects, once selected for appraisal, not to be rejected. The initial screening of projects is most developed and formalised in the case of Germany, though Denmark and the Netherlands also apply tests in the pre-appraisal stage. In the case of France, the Commission and the UK there are less clear screening systems and more discretion seems to be left to the overseas missions. Project identification has lacked rigour and clarity in the Commission (DG VIII), a weakness now recognised and being addressed with new procedures.

## *Design and Appraisal*

Key requirements in this phase are systems for adequately feeding into the project design the multiple dimensions and objectives necessary for effectiveness. All the agencies use appraisal systems for the design of projects and formal guidelines exist. DG VIII, Denmark, Germany, and the UK use a logical framework approach (the system is unclear for the Netherlands). The Commission has recently (1992) introduced a strengthened and more systematic approach and procedures: the Integrated Project Management Cycle.

Economic – cost-benefit and cost-effectiveness – considerations feature strongly for France (Caisse Française de Développement), Germany (KfW and GTZ) and the UK (ODA); but have been more limited for the Commission (at least until recently), Denmark and the Dutch systems. Technical appraisal appears strong in the CFD, DG VIII, KfW, ODA, but is less clear for the others.

## *Cross-cutting Issues*

Environmental, social, including poverty, and gender aspects of projects have high priority formally for all the donors. Most have guidelines and manuals, though the management systems vary somewhat. The Netherlands introduced a new screening system for poverty, environmental, social and Women in Development aspects in 1992. Germany uses a WID screening unit for projects. There are compulsory guidelines for staff to take account of environmental aspects in the CFD/France, Denmark, and the BMZ/Germany. Socio-cultural inputs to projects have been weak in DG VIII. The ODA relies heavily on in-house multi-disciplinary teams of specialists and 'monitor groups' whose role is to ensure the incorporation of cross-cutting objectives into projects and programme design.

## *Management for Sustainability*

At least four aspects of donor project management are important for sustainability, which has proved to be the weakest feature of donor project effectiveness.

First, project identification needs to respond to *local needs and conditions*; a 'participative' process is therefore highly desirable. The role of partnership has probably been strongest for the European Commission through the Lomé Convention which formally spells out the recipient government's role in identification, appraisal, contracts/tendering and

monitoring (and evaluation). However, the participation of target groups has been difficult to organise. DG VIII experience in rural development projects has not been very promising (see Chapter 5). Partnership has a particular emphasis in German project aid, which seeks the involvement of local target groups in planning and implementation. However, there seems to be some doubt about whether German country managers, under pressure to disburse aid, have allowed enough time for this process to be effective. The French ('sphere' countries), the Netherlands, and the UK have had rather donor-oriented systems. For the Netherlands, a commitment stage has now been introduced into the project cycle which requires that the recipient should accept responsibility for project implementation. A 'modalities' stage requires clear definition of the tasks for the different actors and risk assessments are used systematically to decide the degree of involvement of each in project implementation. The UK is currently seeking to be more participative, particularly in its African operations.

Secondly, given the high degree of uncertainty involved in many projects, a *flexible approach* to design and implementation is desirable. A flexible, learning-by-doing ('process') approach to the project cycle is a distinct feature of DANIDA and the Netherlands, partly perhaps because both have a high proportion of social sector projects. The ODA is also shifting in this direction, especially on projects in the social and institutional field. It is less clear for the other donors.

A third requirement is for the donor to ensure that the *institutional background* to its projects is satisfactory and, if not, to provide adequate strengthening of local institutions. This aspect has been weak for a number of donors. The Commission has neglected to pay attention to the structure and effectiveness of the implementing institutions in its projects. Commitment has usually ended with the physical completion of projects with little attention to long-term viability. Germany has recently introduced measures to improve the technical co-operation (GTZ) input to capital projects (KfW) and has developed in-house capacity in this field. Nevertheless, this seems to be focused mainly on environmental projects and programmes. The UK has given considerable priority to institutional aspects for a decade or so. It has switched to greater focus on institutions in the management of TC and has developed in-house expertise. The French agencies have no special procedures but their high level of aid representation and TC in-country potentially facilitates institutional analysis and improvement. Overall, there is limited evidence that most EU donors have changed their management style or capacity sufficiently to promote a more 'sustainable' approach to the design of projects.

Finally, the viability of projects depends heavily on sound economic and financial appraisal and the cost-effectiveness of the options chosen.



Some donors, in particular the Commission, have been too weak on these aspects, but there are question marks against the Netherlands and the French Ministry of Co-operation.

### *Quality Control/Approval*

Quality control on project design and final approval is effected in France (Ministry of Co-operation), the Netherlands and the UK by internal high-level management committees, at least for the large projects (but also in the Netherlands for politically sensitive projects or those under new policy directions). In Denmark there is no internal committee but an autonomous Board is used. In Germany large projects are approved by the senior official/Minister but there is no official senior inter-agency committee. In DG VIII there is no senior internal committee to vet or approve projects although the larger projects go to the inter-governmental EDF Committee for varying degrees of scrutiny.

### *Monitoring of Implementation*

Systems for regular monitoring of implementation and review of progress are a key effectiveness requirement. Integrating the recipient authorities into monitoring is also highly desirable from an 'ownership' and capacity-building perspective.

Only for DG VIII has monitoring been the formal responsibility of the recipient authorities, though they are assisted by the delegations. However, evaluation evidence suggests that monitoring has been rather weak in many projects. The Netherlands decides the division of responsibility case by case. The other donors, France (in the concentration countries), Netherlands and the UK, have largely assumed responsibility themselves for monitoring, although in recent years they have been seeking to involve recipients more.

Monitoring is substantially subcontracted by the donor agencies (to semi-autonomous or independent agencies and consultants and Technical Co-operation Officers), with the Commission, the Netherlands and Germany using their in-house staff to supervise. For the ODA subcontracting has increased rapidly over the last ten years. Only France may be an exception because of its strong presence in its concentration countries.

Mid-term reviews of projects, which fall somewhere between routine monitoring and evaluation, have been used increasingly by the Commission, the Netherlands and Germany and seem to be an effective management tool for assessing progress and deciding on the next steps

in design, implementation, termination, etc. The ODA appears to be shifting the emphasis from *ex-post* evaluation to monitoring (which may come closer to the mid-term reviews). Project Completion Reports are a feature of most donors. For Germany, the KfW's final project report takes place two to three years *after* completion, which gives a distinctively clearer impression of sustainability.

Only the Commission, the ODA and the Netherlands seem to have recently evaluated the effectiveness of their monitoring systems (at least in reports publicly available). For the Commission major weaknesses were revealed. For the others, the coverage seems to have been fairly widespread but revealed some weaknesses and variability in effectiveness.

## Learning and Communication of Lessons of Experience

### *Criteria for Effectiveness*

Aid organisations have a particularly high requirement to learn from experience to feed back to their operations in order to be effective. They have multiple and sometimes inconsistent objectives. They are making major decisions often a long distance from the scene of their major operations and where the environment – economic, social, and political – is rapidly changing. The following broad organisational propositions for effective learning and communication of lessons are suggested.<sup>1</sup>

- Specific lessons on project implementation are learned most cost-effectively if the operational staff are involved in the evaluation (and monitoring) process themselves. Evaluation is likely to be most effective at the project implementation level, where it can be oriented toward the project beneficiaries.
- Effective learning and feedback are likely to be greater if the evaluation systems involve multi-disciplinary interaction.
- There is a need for systematic follow-up mechanisms to check on the implementation of recommendations.
- More general 'strategic' or 'policy' lessons need to be learned at the

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1. Research on donor learning systems has so far has been confined to Norway and Sweden. The analysis in this section owes a debt to Forss, 1993: Cracknell, 1989, 1990, 1991.

level of senior central management and require the communication of changed directions and approaches to many agents who do not necessarily feel involved.

- There is a need for the systematic keeping of project records, and central storage of project and programme records documenting experience.
- Informal systems for communicating the lessons of experience are likely to be more effective if there is (a) continuity of staff; (b) rotation of staff between HQ and the field; and (c) a close relationship between the agencies involved in aid delivery at both HQ and in the field.
- Donor organisations which are 'open' to a wide range of 'outside' perspectives, scrutiny and advice, and are not secretive about their own documented experience, should learn more about their own effectiveness and become more responsive to performance deficiencies.

Table 4.2 provides comparative information and some provisional assessments in response to seven questions on donors' management aspects. Some of this information dates from 1990 and the situation in some cases may have changed since then. With this qualification the following comparative points emerge.

### *Learning and Feedback at Specific Project Level*

All the agencies have fairly decentralised evaluation systems. The more fragmented agencies have evaluation capacities in their individual organisations (ie. the BMZ, KfW and GTZ in Germany, and the two main Ministries and the CFD in France). Most agencies have a reasonably client-oriented evaluation, review and monitoring system for specific projects. Operational staff commission these evaluations and reviews and become 'involved' and learn the specific lessons from their on-going project activities. However, only Germany and the UK seem to have effective formal systems for ensuring that recommendations are actually fed back into new project proposals. The Commission system lacks disciplinary power. DANIDA has no formal checks. However, some doubts have been raised on whether evaluation findings are sufficiently utilised by operational staff for either DANIDA or the ODA (Chapters 10 and 14). France and the Netherlands are unclear. A multi-disciplinary approach seems to be taken by all the donors, except possibly Denmark.

*Learning and Feedback of Policy Lessons*

Evaluation units synthesise wider experience from the evaluation and monitoring records and disseminate their conclusions widely within the organisations in DG VIII, the BMZ, the Netherlands and the ODA, but not in Denmark. A central senior body responsible for absorbing the evaluation and monitoring experience, and ensuring policy, sectoral and directional guidance to staff, formally exists only for UK/ODA. In the Netherlands DGIS, the Projects Committee has no responsibilities of this kind and a recent internal review was critical of the role of evaluation in policy-making (DAC, 1994c: 27–8), especially through sectoral or country policy plans. In the BMZ, sectoral and policy guidance, including the preparation of country programmes, is drawn from project monitoring and evaluation experience. In the French agencies there seems to be no central focus of responsibility for making recommendations based on experience. DG VIII has no formal senior project committee for feedback of the lessons of experience.

*Corporate Memory and Informal Learning*

Most donors have a good stock of evaluation studies but for some (in particular, DG VIII and the Netherlands) systematic project completion documentation seems to be lacking. Informal interchange and learning are bound to be limited by fragmented agencies which are in different locations (most obviously in the French and German systems). For France, however, regular rotation between HQ and the Missions in ACP countries must assist the diffusion of experience. In those donor agencies, such as Denmark and the Netherlands, which have merged their development and diplomatic work, the turnover of diplomatic staff is bound to weaken continuity of experience, unless it is counteracted by a more experienced and extensive specialist cadre. The learning which comes from staff moving between HQ and overseas postings seems limited for DG VIII where a minority of the geographical desk officers have field experience. The BMZ and KfW have very few staff in the field, although GTZ staff do revolve on temporary missions overseas. In the ODA, most operational heads of geographical departments are located overseas and some at HQ have had field experience. Virtually all the specialist staff rotate between HQ and overseas.

*Openness*

The Danish and Dutch organisations are very open to outside scrutiny,

perspectives and advice. The ODA has become more open in recent years; various independent interest groups are now able to insert their views. The German organisations have been relatively open and have particularly involved the NGOs for their insights, although they have been relatively restrictive on the public availability of their evaluation work. The Commission is relatively open as an organisation and recently evaluation documentation has become publicly accessible. The French system has not been particularly open to scrutiny and outside influence, and most evaluation work is still confidential.

## **Conclusions**

All six donors now have fairly well developed project management systems. Nevertheless, this review suggests a number of weak points and some opportunities for donors to learn from each other.

First, with respect to the initial screening of project proposals, donors like the Commission and the ODA, which have more discretionary procedures, might benefit from an examination of the experience of the more formal systems of Denmark, the French Ministry of Co-operation and Germany.

Secondly, while all the donors have cross-cutting objectives regarding environmental protection, gender issues and sometimes poverty alleviation, it is not very apparent that they have efficient instruments for making these effective in project design and impact. The Netherlands seems to have developed the most finely tuned procedures, while the UK seems to have gone furthest in monitoring and recording the extent to which project activities reflect these multiple objectives. There may be lessons here for other EU donors.

Thirdly, expanded capability of improving local institutional weakness has been a well recognised factor in project effectiveness. Among the six donors observed, only Germany, the UK and to some extent Denmark have built up significant in-house specialist capacity and skills to work on this difficult dimension.

Fourthly, the use of rigorous economic and financial appraisal systems, which are essential for potential project viability, has been lacking in the European Commission and the French Ministry of Co-operation, and has been rather limited in Denmark and the Netherlands. Unlike most other donors, the Commission does not use appraisal for validation (approval) or for the design of projects and shares with Germany and Denmark the lack of a formal internal senior committee to help with quality control. Both may have lessons to learn from the Comité d'examen in the French Ministry of Co-operation, the ODA's Projects Committee and the DGIS senior committee.

Fifthly, while all six EU donors now have decentralised evaluation and review systems, with considerable involvement of managers in these processes at the project level, nevertheless, apart from Germany and the UK, they do not seem to have formal systems for ensuring that the lessons of evaluation are fed back into new project proposals.

Sixthly, it is not clear in most of the six agencies whether there are senior administrative bodies responsible for absorbing the more generalised (as opposed to operational project) lessons of evaluation and research experience and converting them into new directions or policies which are communicated to the organisation as a whole.

Seventhly, informal exchange of experience must inevitably be more limited where organisations are fragmented, most obviously France but also Germany; where there is little rotation of staff between HQ and the field (most obviously DG VIII and Germany) and where diplomatic staff have a high turnover (Denmark and the Netherlands), though Denmark is seeking solutions to this problem.

Finally, with the notable exception of France, the EU donors have become more open to outside advice and scrutiny and the freer circulation of documentation.



**Table 4.1 Project management**

<i>European Commission (DG VIII)</i>	
<i>Identification and selection</i>	Identification by recipient and delegations. The latter have considerable discretion. No clear criteria for screening but project should fit sectoral priorities etc.
<i>Appraisal and design</i>	
Formal Guidelines	Yes. Appraisal used for design.
Logical Framework	New Integrated Project Management procedures (1992). Logical Framework approach. Clear definition of objectives required.
<i>Attention to: (aspects)</i>	
Economic	Weak, lack of attention to cost effectiveness. More economic emphasis in Integrated Project Management Cycle. (1992)
Technical	Strong
Environment	New Environment Manual
Social/WID	Social criteria important. New WID manual
<i>Importance of:</i>	
Recipient Participation	Yes. Recipient government involvement in all project stages (including contracts/tendering and monitoring). But target groups for participation difficult to organise.
Flexibility (Process Approach)	—
Institutional/Management	Weak in design and implementation. Commitment usually ends with physical completion of project.
<i>Approval/Quality Control:</i>	
High-level approach	No internal senior committee approval (under consideration). Larger projects approved by EDF Committee (Member States)
Delegation of Authority	Approval delegated nominally to Heads of Geographical Divisions.
Implementation and Monitoring	Implementation by recipient assisted by delegation staff. Lack of clearly defined responsibilities for monitoring. In practice monitoring has often been weak. Mid-Term reviews have been increasingly used for management.

**Table 4.1** (*continued*)

	<i>France</i>	
<i>Identification and selection</i>	Identification by recipients and aid missions (countries of concentration). Proposals screened by Comité d'Examen).	
<i>Appraisal and design</i>	MC	CFD
Formal Guidelines	Yes	Appraisal used for design and validation.
Logical Framework	—	—
<i>Attention to: (aspects)</i>		
Economic	Limited	Strong
Technical	Moderate	Strong
Environment		Obligatory but no guidelines
Social/WID	—	—
<i>Importance of:</i>		
Recipient Participation	Yes in practice: agricultural projects especially. More participative approach to TC recently	—
Flexibility (Process Approach)	—	—
Institutional/Management	No formal or standard approach. Institutional aspects are receiving more attention recently by Missions and TC.	
<i>Approval/Quality Control</i>		
High-level approach	Comité d'Examen: senior management committee for large projects.	
Delegation of Authority	Very small projects delegated. 20% of budget decided by Missions.	
Implementation and Monitoring	Implementation mainly by French Missions generally supervised by MC or CFD overseas staff drawing in experts (countries of concentration). Recipient implements in other countries	



**Table 4.1** (continued)

<i>Germany</i>	
<i>Identification and selection</i>	Staged approach initially rapid screening of proposals to obtain a 'short list' for full appraisal.
<i>Appraisal and design</i>	
Formal Guidelines	Yes. KfW uses appraisal for design. GTZ uses the ZOPP system: objectives oriented project planning (logical framework) for TC.
Logical Framework	Yes (ZOPP system)
<i>Attention to: (aspects)</i>	
Economic	Well developed in KfW.
Technical	Yes
Environment	Yes. Obligatory guidelines (BMZ)
Social/WID	Yes. All projects must be approved by WID unit on design.
<i>Importance of:</i>	
Recipient Participation	Strong emphasis. Involvement of local target groups sought in planning and implementation.
Flexibility (Process Approach)	Yes. Regular adjustment. Original project design.
Institutional/Management	Yes. GTZ has in-house specialists.
<i>Approval/Quality Control:</i>	
High-level approach	Staged and consultative process involving BMZ/GTZ/KfW. Large projects approved by PS/Minister. No senior approval committee.
Delegation of Authority	Delegated authority to Dept. Heads., Division Heads, etc.
Implementation and Monitoring	Implementation mainly sub-contracted. Monitoring procedures well established within a 'logical framework' for project cycle. Progress and completion reports from KfW and GTZ to BMZ.

**Table 4.1** (continued)

<i>Netherlands</i>	
<i>Identification and selection</i>	Identification and formulation in Embassies. Initial screening through a 'development and management' test.
<i>Appraisal and design</i>	
Formal Guidelines	Yes. Appraisal used for design and validation. Staged approach: final appraisal centralised in DGIS.
Logical Framework	—
<i>Attention to: (aspects)</i>	
Economic	Limited formal cost/benefit analysis.
Technical	—
Environment	Environmental and gender aspects important since 1990.
Social/WID	Screening checklist system for cross-cutting aspects, poverty, WID etc. (since 1992)
<i>Importance of:</i>	
Recipient Participation	Commitment stage requires agreement of recipient. Responsibilities and tasks for recipient and donor/mission defined (Modalities stage).
Flexibility (Process Approach)	Flexible, learning-by-doing approach, mainly in social sectors.
Institutional/Management	Institutional assessment to determine degree of donor involvement with implementation.
<i>Approval/Quality Control:</i>	
High-level approach	Senior projects committee approves large projects and politically sensitive or policy innovative projects.
Delegation of Authority	Most decisions delegated to Head of division.
Implementation and Monitoring	New procedure to delineate tasks and responsibilities between recipient, agents, embassy, desk etc. No standard or obligatory procedures for monitoring; great variety. Donor-oriented system not integrated into recipient system. Mid-Term reviews of projects used as decision tool. Most projects monitored. Weaknesses in monitoring revealed in 1992. Review are being addressed.

**Table 4.1** (continued)

	UK
<i>Identification and selection</i>	Identification by recipient, mission, consultant, World Bank, etc. No formal screening system. Project concept note required before appraisal. Procedure under development.
<i>Appraisal and design</i>	
Formal Guidelines	Yes. Appraisal used for validation as well as design.
Logical Framework	Yes. Mandatory use and sets tasks/indicators for monitoring implementation.
<i>Attention to: (aspects)</i>	
Economic	Strong emphasis on cost/benefit analysis, cost-effectiveness.
Technical	Strong.
Environment	Yes. Guidelines (manual).
Social/WID	Yes. Guidelines.
<i>Importance of:</i>	
Recipient Participation	More participatory approach in initial stages being sought.
Flexibility (Process Approach)	Increasing use of 'process' approach with increasing support for social and institutional projects.
Institutional/Management	High priority. Multi-disciplinary team approach to project design via in-house experts. Guidelines well developed.
<i>Approval/Quality Control:</i>	
High-level approach	Large projects approved by senior management committee. Expects same standards under delegated authority.
Delegation of Authority	Delegation to Division and Department Heads, Country managers and Mission Heads depending on size of project. High percentage of decisions delegated to Missions.
Implementation and Monitoring	Involvement in implementation and field management / monitoring is increasingly subcontracted. Procedures well established. Donor oriented but some cases of joint donor/recipient monitoring. At least mid-term monitoring for projects; 'output to purpose' reviews. Large projects monitored 2-3 times a year. Most large TC projects (but not always small) are monitored.

**Table 4.1** *(continued)*

<i>Denmark</i>	
<i>Identification and selection</i>	Identification by Embassies and Ministry. NGOs identify 1/3 projects in priority areas. Screening and approval by DANIDA Board before full appraisal. No formal guidelines.
<i>Appraisal and design</i>	
Formal Guidelines	Yes. Formal guidelines (1992) for project preparation. Appraisal used for design and validation.
Logical Framework	Yes. Used for appraisal not pre-appraisal.
<i>Attention to: (aspects)</i>	
Economic	Moderate
Technical	Strong.
Environment	Strong. Obligatory and guidelines.
Social/WID	Strong. Social experts involved in design.
<i>Importance of:</i>	
Recipient Participation	Yes. Dialogue and active participation emphasised.
Flexibility (Process Approach)	Yes
Institutional/Management	Attention given but limited in-house capacity.
<i>Approval/Quality Control:</i>	
High-level approach	Parliamentary Finance Committee approves very large projects. DANIDA Board (autonomous) approves projects over £5m No internal projects committee.
Delegation of Authority	To Embassies up to 10% of budget.
Implementation and Monitoring	Embassies responsible. Annual project reviews by HQ technical service.

*Sources:* A Comparative Survey of DAC Member Project Appraisal Criteria and Procedures, DAC, Paris: OECD, 1989. Aid Reviews of Donors and Memoranda for Aid Reviews. Chapters 9-14 and personal communication with authors.

*Note:* Where no information was available = -.

Table 4.2 Learning and feedback

	CEU/DG VIII	Denmark
1. Is evaluation and review decentralised and client oriented?	Yes. Project evaluation and Mid-Term Reviews are largely initiated by country managers	Mainly on-going project evaluation
2. Is there central monitoring/checking on implementation of project evaluation recommendations?	Since 1993, evaluation unit checks on incorporation of evaluation experience into new financing proposals	No mechanism for ensuring action taken on evaluation recommendations.
3. Is there a central senior management body to learn 'policy' lessons and communicate them?	Central evaluation unit synthesises experience. No senior management body to learn and feed back lessons. 'Policy' department plays a role.	Small central evaluation Unit does not seek wider lessons from operational records. Macro Policy division absorbs evaluation experience in planning. DANIDA Board receives evaluation findings.
4. Width of coverage of project evaluation and review including post completion.	Usually multi-disciplinary evaluation but sustainability aspects weak.	Technical and economic coverage but inadequate institutional, environmental aspects.
5. Systematic records of project experience?	Good stock of evaluation studies. Other records less good.	Database established. Limited manuals for sector guidance.
6. Informal systems		
a) Continuity in staff?	Considerable turnover of DG VIII staff in early 1990s.	Diplomatic staff have limited careers in development work. Contract technical staff have corporate memory.
b) Staff revolve between HQ and Overseas?	Limited movement, except for some specialists to HQ.	Yes. Average posting 2-3 years (HQ & Overseas).
c) Interchange between agencies/staff?	Informal exchange within DG VIII. Heavy use of external consultants may inhibit house learning.	Effective informal network but loss of experience of in-house staff through heavy use of external consultants.
7. Openness: Are documents publicly available?	Recently open Evaluation documents now available.	Open. Evaluation documents widely available.

Table 4.2 (continued)

	<i>France</i>	<i>Germany</i>
1. Is evaluation and review decentralised and client oriented?	Three agencies have evaluation units; MC, Caisse and Ministry of Finance. No evaluation of TC in Ministry of Foreign Affairs.	Each agency has evaluation unit. Evaluation and monitoring is client oriented. KfW and GTZ have strong project progress reporting.
2. Is there central monitoring/checking on implementation of project evaluation recommendations?	No apparent mechanism.	Yes. BMZ Evaluation Unit checks implementation of post evaluation project recommendations. Also GTZ and KfW evaluation units play role.
3. Is there a central senior management body to learn 'policy' lessons and communicate them?	No recommended actions from Treasury. No feed-back from CPD board. MFA is to set up a committee to make recommendations. Evaluation department of Ministry of Finance disseminates findings.	Evaluation Unit in BMZ synthesises experience. BMZ incorporates into policy and sectoral papers but some restricted flow of project reporting from KfW. Lessons incorporated into country programming.
4. Width of coverage of project evaluation and review including post completion.	Multidisciplinary teams used.	Monitoring & evaluation work covers economic and technical but weak on sustainability issues.
5. Systematic records of project experience?	Project completion reports are rare. Evaluation Studies since 1987.	PCR records. Stock of evaluation studies.
6. Informal systems	Yes.	Low turnover of staff in KfW and GTZ.
a) Continuity in staff?	Yes. High rotation (ACP countries).	Very limited in BMZ. GTZ staff move overseas.
b) Staff revolve between HQ and Overseas?	Informal interchange between agencies difficult.	Separate locations of three agencies allow limited interchange/informal contacts. Special formal efforts recently.
c) Interchange between agencies/staff?	Not very open. Evaluation documents largely confidential.	Fairly open. Limited openness of BMZ on Evaluation Documents.
7. Openness: Are documents publicly available?		

Table 4.2 (continued)

	Netherlands
1. Is evaluation and review decentralised and client oriented?	Client-oriented; country managers commission mid-term special project reviews systematically.
2. Is there central monitoring/checking on implementation of project evaluation recommendations?	No central checking.
3. Is there a central senior management body to learn 'policy' lessons and communicate them?	Evaluation Unit reports directly to Minister via DG, with recommendations. Projects Committee is not responsible for evaluation experience formally. Recent review critical of feedback into policy making.
4. Width of coverage of project evaluation and review including post completion.	Multi-disciplinary approach but focuses on implementation not impact.
5. Systematic records of project experience?	Records weak. PCRs introduced recently. Good stock of evaluation studies.
6. Informal systems	
a) Continuity in staff?	Diplomatic staff normally move from DGIS after 4 years. Diplomatic recruitment limits those with development experience. Technical advisory staff and field specialists have corporate memory and are recruited by DGIS.
b) Staff revolve between HQ and Overseas?	Some movement of diplomatic staff. Contract specialists have overseas development experience.
c) Interchange between agencies/staff?	Informal learning with unified HQ location. However, heavy use of external consultants may limit in-house learning.
7. Openness: Are documents publicly available?	Open. Evaluation documents available.



Table 4.2 (continued)

<i>United Kingdom</i>	
1. Is evaluation and review decentralised and client oriented?	Evaluation work is initiated from managers' requests. Project Completion Reports (PCRs) are operationally focused.
2. Is there central monitoring/checking on implementation of project evaluation recommendations?	Yes. Projects Committee. New proposals must take account of evaluation lessons: target dates for recommendations and follow-up system.
3. Is there a central senior management body to learn 'policy' lessons and communicate them?	Evaluation Unit synthesises evaluation and PCR experience. Senior Projects Committee is responsible for Evaluation and absorbs findings. Senior policy committee also plays role.
4. Width of coverage of project evaluation and review including post completion.	Multi-disciplinary approach to evaluation and monitoring.
5. Systematic records of project experience?	PCR records good stock of evaluation studies. Statistics unit has memory.
6. Informal systems	Low turnover of staff.
a) Continuity in staff?	Most geographical. Dept. heads located overseas. Most HQ heads have field experience.
b) Staff revolve between HQ and Overseas?	Specialist staff regularly revolve between HQ and overseas.
c) Interchange between agencies/staff?	Informal learning possible in unified HQ location.
7. Openness: Are documents publicly available?	Open. Evaluation documents available.

Sources: Cracknell, 1989, 1990, 1991. DAC Donor Aid Reviews. Chapters 6-11.

Note: PCRs = Project Completion Reports.

## 5

## Comparative Donor Project Effectiveness

Is it possible to compare the effectiveness of different donor projects and identify each donor's comparative strengths and weaknesses in the delivery of project aid? In principle, this can be done on the basis of a fairly rich stock of evaluation studies which are now available for most EU donors.

Effective comparison requires that each individual donor project is well 'matched' with the others by being similar in character or in the same sector and located within the same country. It may then be assumed that, with the same country environment and type of project, any differences in effectiveness will predominantly reflect donor differences in management or approach. Comparisons of different donor experience in the same sectors, though not necessarily in the same countries, can also provide insights.

The key questions on effectiveness are the relevance of the project objectives and whether or how far they have been achieved. For projects and sectoral operations, comparison relates to four main aspects: the identification and planning of the interventions, their design and appraisal, the implementation process and outcomes, and finally, the impact of the interventions on the local people and their sustainability. These aspects are covered by most evaluation studies, though judgements on impact and sustainability tend to be the weakest of the four.

This study examines comparable evaluation work of the European Commission (EDF), and four bilateral donors – Denmark, the Netherlands, Germany and the UK. Lack of publicly available evaluation documentation for France did not allow it to feature in the comparison. The authors draw on 50 evaluation documents covering many specific projects, and synthesis or overview studies of sectoral experience. The main sectors covered are rural development, transport, energy and some aspects of training and institutional operations.

### *Approach and Qualifications*

The first qualification to be borne in mind in using evaluations is representativeness. Donors evaluate only a small proportion of their projects and programmes (typically 5%), which may not be sectorally or geographically representative of their expenditure. Here, only a relatively

small sub-set of 'matches' was used. The availability of sectoral synthesis evaluations made more comprehensive comparisons possible for the energy and rural development sectors.

A second qualification is that evaluation reports may describe donor interventions dating back 5–10 years, since which time lessons may well have been learnt. Although this remains a valid concern, there is some reason to think that evaluation evidence reaches its 'sell by' date less quickly than is sometimes assumed. Many reports are concerned with very recent project outcomes or even ongoing projects. There were a number of examples of reports echoing conclusions identified in earlier studies but which had not been resolved, presumably because of weaknesses in the feedback and learning process.

The lack of direct comparability between different donors' evaluation reports is an important constraint. Donor evaluation teams generally judge the achievements of projects on the basis of a standardised set of criteria and, in some cases, using a standardised rating method. However, these are standards *internal* to each donor system which are therefore not perfectly comparable.

Finally, the methodological weakness of evaluation studies in revealing management effectiveness lies in the fact that few of them conducted cost-effectiveness and alternative options analysis and almost none assessed impact as opposed to proximate effectiveness, while benefits were not sufficiently compared with costs. They often did not explore, or have the expertise to explore, the institutional aspects more generally.

In spite of the limitations and qualifications expressed above, the comparative evaluation exercise provides some indication of the strengths and weaknesses of different European approaches to development assistance.

## **Rural Development and Agriculture: the Commission, Germany, the Netherlands**

The rural development sector has traditionally received a major slice of European aid budgets, especially in the 1980s. The evidence presented here draws on a major sectoral review by the European Commission in 1993/4 (EC, 1994c), covering 60 out of 160 agricultural schemes in ACP countries financed between 1975 and 1989 as well as a sectoral evaluation of the Netherlands' Sector Programme for Rural Development, covering projects implemented mainly between 1985 and 1990 (IOV, 1992b).<sup>1</sup> A

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1. Although Africa was the largest recipient of the Sector Programme for Rural Development (Netherlands) funding, judgements necessarily also reflect project outcomes in Asia and Latin America.

comparison of European Commission and Netherlands rice projects in Mali and a European Commission and a German Integrated Rural Development programme in Zambia was also made.

Donors tended to define objectives vaguely, failing to set quantifiable goals. Where objectives were specified, they often focused on production targets or regional development rather than impact on beneficiaries *per se*. The Commission presented a rather dualistic approach to the agricultural sector by concentrating on large-scale production within the modern sector (rice, wheat) rather than on traditional small farmers (millet, sorghum) who constitute 70–80% of the agricultural sector. In contrast, the Dutch programme reflected a small-scale, participatory approach with a particular emphasis on employment and income generation. For all three donors, insufficient account was taken of the local and national socio-economic context.

Project identification and appraisal showed similar weaknesses for the European Commission (implementation without adequate preparation, followed by mid-term evaluations which served as delayed appraisals), and the Netherlands, where only 35% of the Sector Programme for Rural Development projects reviewed carried out detailed project preparation prior to implementation. Identification and design of rural development projects (the responsibility of the Dutch embassies) tended to be somewhat limited in scope.

Both the Commission and the Dutch programmes demonstrated deficient internal monitoring and evaluation, particularly in the case of the Commission, and a total absence of external supervision missions during project implementation. This prevented the swift rectification of difficulties in the Commission projects before they became intractable. Understaffing of the Dutch programme limited supervision to the day-to-day administration of funds. In the case of the Commission, the recipient governments were also seen as frequently undermining the effectiveness of implementation by their failure to respect commitments to provide counterpart financing, and a resistance to genuine participation on the part of beneficiary populations. The Dutch assessments also underlined the importance of the macroeconomic context, consistent rural development policies and sufficient government-provided personnel and resources.

### *Integrated Rural Development Projects*

The Dutch-funded *integrated* rural development projects were similarly unsuccessful in increasing production and income levels. This was partly due to an unfavourable economic context, but also reflected misconceived or inadequate project preparation and poor levels of participation.

Compared with the Commission, the Dutch projects took more account of women but achieved limited results. For both donors the biggest improvement concerned the delivery of social services, particularly health care and education. However, *single sector* rural development projects proved more successful because of a greater coherence of activities directed at increasing productivity and employment.

A carefully **matched comparison** of rice production projects in one country – Mali – by the European Commission and the Netherlands confirms the importance of rigorous feasibility studies or, at the very least, adequate attention to the local and national economic, social and political context. The Commission's financing of a rice project in the late 1980s proceeded without a thorough reappraisal of objectives, set out initially in the 1960s, or a re-examination of the economic viability of promoting extensive methods of cultivation combined with some irrigation. The result was poor yields at a price which was increasingly uncompetitive with imports. For both the Commission and the Netherlands the lack of a satisfactory monitoring and evaluation system and a mechanism for ensuring the feedback of evaluation hindered swift improvements, and in the case of the Commission allowed the project to continue little changed beyond 1985, when the main weaknesses had already been identified. An important donor difference was the lack of attention given to institutional strengthening by the Commission, despite the extremely poor maintenance record of the local implementing institution, compared with the Netherlands' catalytic role in improving communications between cultivators and its implementing organisation. The greater success of the Netherlands project in achieving a substantial social impact at reasonable cost, with fair prospects for long-term sustainability, may reflect a greater responsiveness to the institutional and social context. This contrasts also with the establishment of a parallel institutional framework in the case of the German integrated rural development project in Zambia.

### *Sustainability*

Both the Commission and the Dutch evaluations were pessimistic about the sustainability of the achievements of the great majority of projects because of the generally unfavourable macroeconomic environment, which reduced the ability of governments to finance operating costs following donor withdrawal, and because of shortages of skilled personnel. Commission projects often failed to emphasise the importance of economic and financial aspects at all stages of the project cycle, and the financial viability of both donors' projects was limited by their failure to build self-financing activities into the programme from the very

beginning. Insufficient attention was paid to institutional strengthening by both donors, and where attempts were made they were largely unsuccessful.

The German project in north-west Zambia (1978–90) (mainly promotion of maize production) achieved impressive levels of participation by households, but it represented an unsustainable drain on the government's budget owing to high recurrent and foreign-exchange costs. The project was nonetheless established as a separate entity outside the national institutional framework, with adverse implications for its long-term sustainability. The German management attempted to overcome constraints on implementation by expanding their own efforts rather than seeking solutions more in line with local financial and institutional capacities.

No clear comparative advantage emerged for either the Commission, the Netherlands or Germany; indeed they all revealed a considerable absolute disadvantage. Both the Commission and Dutch agricultural and integrated rural development projects showed similar weaknesses in identification, preparation and design and monitoring, although the Commission's projects demonstrated particularly poor economic and financial analysis. Insufficient attention was paid to sustainability, and this was reflected in financial and marketing weaknesses in design and a lack of institutional strengthening components.

The more detailed and comprehensive accounts of the Commission's projects indicate a general tendency to neglect issues of productivity, international competitiveness and price controls, which frequently resulted in non-achievement of the fundamental objectives of self-sufficiency and income generation through increased production. Overall too much attention was paid to production and insufficient attention to marketing, distribution, processing, competitiveness and diversification issues and non-agricultural products and services. The main benefit has been some improvement in living standards from improved roads and social infrastructure.

## **Transport: the Commission, Denmark, the UK**

Evaluation studies permit comparison of the different approaches and experience of the Commission (DG VIII), the UK and Denmark in providing transport infrastructure in the same two African countries. Three Commission road projects in Tanzania (1990–3) and two in Kenya (1986–8 and 1990–3) were examined and compared with two Danish road projects in Tanzania (1989–92) and two British-funded roads in Tanzania (1981–5) and Kenya (1981–5). Table 5.1 summarises the evidence.

*Planning, implementation and impact: strategic planning by all three*



donors was adequate in Tanzania and all roads were consistent with national priorities, but in Kenya both the Commission and the UK took little account of the wider sectoral framework. More generally, the Commission projects were not sufficiently co-ordinated with the National Plans and were sometimes inconsistent with policies in other sectors, thus reducing their overall economic impact. UK and Commission identification and appraisal procedures were weak compared with the Danish, failing to consider alternative options in the case of the British and lacking economic and financial rigour for the Commission. In contrast, DANIDA's project preparation covered appraisal, design and justification of the infrastructure comprehensively.

Technical implementation including monitoring by all three donors was satisfactory or good. Four out of the five Commission projects had moderate or positive, though unquantified, social impact, due to improved access to social and administrative facilities or reduced transport costs. Similar improvements were realised for DANIDA's roads, but insufficient account was taken of the needs of pedestrians and non-motorised traffic, resulting in increased accident rates. The ODA-financed road in Tanzania had only a limited social impact, whereas in Kenya more tangible benefits were achieved, including a 70% reduction in the real cost of travel and considerably increased access to social services. Both DANIDA and the Commission lacked a formal mechanism to assess social impact. The Danish and Commission projects achieved a strongly positive internal re-estimated economic rate of return (RERR), while the economic impact of the ODA's projects was mixed. Environmental concerns did not have a high priority in any of the donors' road work.

*Institutional strengthening and sustainability:* in the early 1980s none of the donors addressed the institutional weaknesses which lay behind Africa's chronic road maintenance problem, though some steps have been taken since then. Both DANIDA projects contained substantial provisions for training and one provided for routine maintenance, but the training was poor and there were only limited improvements in managerial capacity. The ODA recognised the importance of adequate maintenance relatively early, and successfully implemented the Songea-Makambako maintenance project (1986-9: Tanzania), although the long-term sustainability of the institutional changes effected remains uncertain. The Commission has been slow to address transport policy and the management structures concerned with the satisfactory operation and maintenance of roads. Like DANIDA, its project implementation was biased towards physical aspects, though with an increasing commitment to providing institutional arrangements for maintenance.

All three donors considered that the prime responsibility for ensuring the sustainability of the transport infrastructure lay with the national governments, which failed to allocate sufficient resources to maintenance



or to enforce road regulations, despite contractual obligations. There has since been a shift of attitudes in Tanzania and, to a lesser extent, Kenya towards a genuinely self-sustaining road sector.

### *Rail Projects by the Commission and DANIDA in Tanzania*

Neither donor demonstrated a strategic approach to transport sector planning or undertook any cost-benefit analysis of rail investment versus road maintenance, for example. Both lacked a rigorous or convincing justification for their financing. Project preparation for all four projects was flawed, especially in relation to local management and maintenance capabilities. This was particularly serious in two of the three Commission projects. The design of the Danish project and the most recent Commission project (TRC Block Trains) was more satisfactory. Both of these went beyond the provision of equipment and included a technical assistance component, with the objective of improving the capacity of the TRC for maintenance. DANIDA successfully achieved the narrower objective of rehabilitating a rail line, but its training impact was quite limited because of the poor specification of the training and maintenance components. The technical assistance component of the Commission's Block Trains project was highly successful because it imbued management with greater commercial spirit and encouraged learning by example.

### *Conclusions*

DANIDA was alone in thoroughly identifying and appraising projects, while the Commission revealed itself as the best at meeting road construction and cost schedules. All three donors demonstrated technical competence in road implementation, though the economic and social impact was better for the Commission and DANIDA than for the UK. Sustainability emerged as a problem for all three donors largely because of the inadequate maintenance of assets. The ODA and DANIDA were quicker to act, however, and more responsive to road maintenance problems, though none of the donors was sufficiently active in management or policy issues. Despite the scale of the Commission's involvement with the road sector in East Africa, it took no initiatives for donor co-ordination on policy and maintenance.

Table 5.1 Summary of indicators of effectiveness of transport projects in Tanzania and Kenya

Project	Country	Wider objs	Justif financing	Time scale/ budget limits	Cost effect	Implem effect	Economic impact (RERR%)	Social impact	Env Impact	Sustainability**
<i>Commission roads</i>										
*Njombe-Madaba (1990-93)	Tanz	+	n/a	+	+	+	+	+	+	0
Bukombe-Isaka (1990-93)	Tanz	0	0	+	+	+	(10.5)	0	0	0
*Songea-Mbinga (1990-93)	Tanz	0	+	+	+	+	(16.6)	+	+	+
Kabete-Limuru (1990-93)	Ken	0/-	-	-	-	+	(10.0)	-	0	0
Turbo-Webuye (1986-8)	Ken	0	-	+	0	+	(31.4)	0	0	0
<i>DANIDA roads</i>										
*Chalinze-Segera-Tanga (1989-92)	Tanz	+	+	0	0/+	+	+	0/-	n/a	0/+
*Bububu-Mkokotoni (1989-92)	Tanz	+	+	0	+	+	(12.0)	0/-	n/a	+
<i>ODA roads</i>										
Songea-Makambako (1981-5)	Tanz	0	-	-	0/-	+	-	0	0	+
Thuchi-Nkubu (1981-5)	Ken	n/a	n/a	-	n/a	0/+	(1.3)	+	n/a	n/a
							(10-11)			

Table 5.1 (continued)

<i>Commission rail</i>									
TRC Network Project (1982-90)	Tanz	n/a	-	-	-	-	0/-	n/a	n/a
TRC Central Corridor Emergency Prog (1988-pres)	Tanz	n/a	-	0/-	-	-	0/-	n/a	n/a
TRC Block Trains (1990-pres)	Tanz	0/+	-	0	+	+	+	n/a	n/a
<i>DANIDA rail</i>									
Rehab of TRCs Link Line (1988-91)	Tanz	0/+	n/a	+	0/+	0/+	0	n/a	n/a

n/a not available from report  
 + effective  
 0 partially effective  
 - ineffective/unsatisfactory  
 \* roads not fully completed at evaluation  
 \*\* maintenance provision by donor only  
 RERR Re-estimated Economic Rate of Return (cost savings)

Source: As for Table 4.1.

## Energy: the Commission, Denmark and the UK

Energy projects with different technology and scale, and mainly located in Africa, can be compared for the EC, DANIDA and the UK. As these were largely completed in the 1980s, the experience is somewhat historical and may provide little insight into current donor management practices.

*Planning.* The donors failed to give adequate consideration to the wider context of national and local systems of electricity generation, transmission, distribution and management. The Danish projects were particularly weak, with the older projects often failing to specify objectives altogether. While in the 1980s objectives tended to be over-ambitious and without operational content, they have markedly improved since the introduction of the logical framework approach in 1985.

Project identification in the case of the Commission and DANIDA was influenced by the commercial interests and technical capabilities of European and Danish contractors and consultants as well as by the actual needs of the recipient countries. Commercial pressures were also significant in British aid, since half the UK projects examined were funded under the Aid Trade Provision (mixed aid and credit).

In designing energy projects all the donors consistently underestimated the capabilities of local power utility staff and consultants, thus missing an opportunity to build up local capabilities. DANIDA, for example, increasingly used Danish contractors for the design work, which frequently resulted in the imposition of quality standards which were unnecessarily costly, hard to maintain and out of step with local capabilities and requirements.

Appraisal by donors was inadequate to a varying degree, though they all almost invariably overestimated demand as a result of poor demand analysis, causing substantial underutilisation of capacity. The Commission lacked criteria – technical, economic, and financial – against which to assess projects, with the result that once a project was identified by the recipient government it was rare for the Commission to reject it. In contrast Danish appraisals tended to include financial and technical criteria and in the late 1980s, as appraisal teams became more interdisciplinary, social aspects were increasingly considered.

*Implementation effectiveness:* With respect to large projects the Commission's monitoring procedures, often employing Delegation staff, were generally superior to those of the other two donors, though it failed to monitor smaller projects with any rigour. Danish monitoring procedures were vague, resulting in irregular and unstandardised reports, and site visits were very brief, though some improvements have been made recently. British monitoring was also variable, but following

evaluation recommendations (1985) has since been standardised.

*Institutional strengthening:* None of the donors made sufficient attempts to ensure that the organisational capacity of the local power utilities matched the technology of the projects. Their reluctance to address the shortage of managerial, technical and planning skills strongly affected the economic, financial and technical viability of projects. The failure to allocate sufficient time and resources to building up local capabilities had a serious negative impact on the smaller Commission projects. The British and Danish projects in particular tended to employ over-sophisticated technology beyond the local operational and maintenance capabilities, and neglected or underestimated the problems of building up local capacities. Danish-funded projects conspicuously failed to assess training needs, while British-supplied training was inappropriate and ignored management issues.

The technical objectives were generally achieved in the large projects executed by all three donors. Delays and cost escalation were widely experienced. The Commission's small rural projects, in contrast, were considered disastrous and DANIDA's rural projects, representing over half the classifiable aid to the energy sector, also largely failed to achieve their objectives.

*Impact:* The large hydroelectric projects funded by the Commission achieved an impressive average estimated rate of return of over 16%, while for the ODA's diesel and steam generators the figure was 4-5%. The Danish projects performed least satisfactorily, and none of the 28 rural power stations covered operating costs. Danish aid thus seemed less cost-effective than the ODA's assistance, possibly as a result of Danish tying restrictions raising costs above world market levels. The Commission projects revealed low cost-effectiveness, since its power generation was, relative to the other donors, often installed expensively in advance of demand at a very high opportunity cost. Generally the Commission's procedures indicate little concern to achieve cost economies, in part probably due to pressure to disburse the aid committed.

While the Commission's transmission and distribution projects reached their target population, most of its generation projects made little attempt to bring electric power to people outside the major towns. The smaller projects had little social impact since they were largely unsuccessful. The overall social impact of DANIDA's projects was disappointing. Indirect benefits were achieved in some cases, including street lighting and electricity provision in schools and health facilities. Environmental aspects were not considered in detail by any of the donors, though *ex-post* no significant adverse effects on the local environment were experienced.

*Sustainability:* Approximately 70% of the Commission's projects

evaluated were sustainable, partly because of the high proportion of hydroelectric projects (50% by value), with their very low running costs. The sustainability of the Danish-funded projects is far less certain, however. Sustainability will be heavily dependent on the power utilities' ability to provide technical assistance and supervision, particularly because of the high maintenance requirements of the Danish-supplied technology. The virtual absence of *ex-post* evaluations by DANIDA resulted in a failure to identify maintenance and spares needs. One DANIDA-funded power station in Tanzania was decommissioned after only 8 years of service, less than half its minimum expected lifetime, due to lack of spare parts and maintenance. The sustainability of the ODA energy projects lies somewhere between that of the DANIDA and Commission projects. The ODA identifies poor operations management, insufficient foreign exchange for spares, uneconomic tariffs and recurrent budget problems as the key constraints to sustainability.

*Feedback: lessons of experience:* The Danish and Commission projects provide little evidence that either donor applied the lessons from experience. Similar problems re-occurred regularly. Consultants employed by the Commission were not obliged to examine previous experience. Coupled with poor distribution of evaluation material, there was limited institutional memory stemming from excessive dependence on consultants. The virtual absence of *ex-post* evaluations by DANIDA or any systematic review of project performance rendered effective feedback impossible. The ODA made a number of procedural and personnel changes as a direct result of evaluation lessons.

*Conclusions:* For large energy projects, DANIDA planning was less effective than that of the other donors but its appraisal was better. The Commission emerged as relatively better at implementation including monitoring, though not with regard to the cost-effectiveness of large energy projects, where DANIDA and the UK were satisfactory. The UK emerged as most responsive to institutional and management issues. Effectiveness was reduced by commercial considerations for all three donors. In the case of the Commission, the designs were driven by European contractors and were costly and not always cost-effective. Economic impact (by re-estimated rates of return estimates) was highest for the Commission's large projects and 60% were considered successful. UK projects had marginal rates of return and DANIDA's were negative. Small-scale and rural energy projects implemented by the Commission and DANIDA achieved few tangible results.

## Training and Institutional Strengthening

Aid for training encompasses scholarships available in different locations,

in-service and on-the-project training, adviser-counterpart relationships and all components of programmes to strengthen the capacity of recipient country institutions. The considerable evaluation literature on training reveals that most donors have little knowledge of its cost-effectiveness or impact, beyond the immediate or short-term effects in terms of individuals trained, or the sustainability of any immediate or short-term benefits.

Hulme ventures some comparative judgements on the management procedures of different donors including France, Germany, the Netherlands and the UK. He asks whether or not they have a systematic approach to training needs, assessment and placement, and whether they evaluate effectiveness and quality of implementation and impact. The Netherlands, Sweden and the UK emerge by far the strongest in this respect. Germany was weak on several aspects and France was generally weak and 'seems to have a very haphazard approach' (Hulme, 1990: 44-47).

*Donor responsiveness to lessons:* An important test of the management effectiveness of different donors is the extent to which they appear concerned to learn lessons from their own and other donors' experience, and the extent and speed with which they respond to past weaknesses with new approaches. Some tentative evidence on this is available from 'synthesis' evaluations of the Commission, Denmark, Germany and the UK and also from DAC reviews of different donors.

For the *Commission* very limited evidence suggests that there were weaknesses in design, especially lack of adequate initial specification of the objectives and the results expected and lack of precision in the mandate for the experts in some institution-building projects, but some vocational training schemes had some beneficial effects. The Commission did not focus on its own capacity to handle institutional issues in its projects until 1994/5.

*Denmark* has focused considerable evaluation on the effectiveness of its technical assistance operations and their institutional impact. Priority was often given to building technical/operational capacities (often yielding efficient staff performance at peripheral levels) but it was not directed at improving management and planning capabilities at administrative headquarters. The most commonly used instrument was on-the-job training but in many cases it was poorly focused on institutional needs; there was little participation of user groups in project planning and implementation. Some projects designed as pilot projects in order to develop effective models for service delivery faced subsequent difficulties of integration into the existing administrative structure and of replication (DANIDA, 1992: 27).

DANIDA was aware early on of the lessons to be drawn from experience but it responded somewhat tardily by changing some of its



approaches only in 1993–4. These include more institutional focus for its projects and more concentration on central and local public institutional improvement, increased efforts to strengthen local expenditure control and audit, reduced direct control by Danish officials and more emphasis on the use of local advisers supported by short-term Danish consultants (DAC, 1994a.) DANIDA has limited in-house institutional capacity but a limited number of countries and sectors to which to apply it.

For *Germany*, a systematic examination of aid for 15 education and vocational training centres in Latin America (implemented mainly during the 1970s and 1980s) suggested that the programmes focused entirely on technical and pedagogical training of personnel in the field. However, the project goals did not encompass activities to assist the management and structure (including managerial training) of the institutions where they operated. There was a long-run decline in competence and half the projects failed because their organisations were incompetent and unsustainable (Stockmann, 1993). The GTZ has become sensitised and has a policy as well as an institutional department with 12 staff for the design of projects. It now emphasises links between German universities and recipient country counterpart institutions, but does not seem to have changed its traditional approach of providing individual experts and advisers to various organisations.

For *France* little or no published evaluation on technical assistance/training makes it difficult to judge. Cultural objectives have been as important or more important than development objectives, and in 1990 there were no data on training or scholarships, and no apparent policy on training women nor on institutional strengthening (Hulme, 1990). There appears to be only a small institutional unit which focuses on local government. However, more recently the technical co-operation initiatives run by the Ministry of Co-operation have been undergoing radical transformation from 'co-operation based on substitution' to 'co-operation based on partnership', especially in the field of education (DAC, 1994b: 28.) This is certainly a somewhat delayed response to lessons and experience which have been available since the mid-1980s.

The *UK* shifted from the mid-1980s to a more institution-centred and targeted use of training combined with other components, with less emphasis on free-standing assistance. Since then its appraisal has become more concerned with cost-effectiveness and has increasingly taken a 'process' approach to institutional projects and has strengthened monitoring. It has been innovative (compared with most other EU donors) in tackling institutional reform in the big and politically sensitive areas of central and parastatal administration especially in Africa, even

though the outcomes have so far been only partially successful.<sup>2</sup>

### *Evidence from Donor Performance Ratings*

Some information from donors on the ratings of their performance is available. Of the six donors examined here only Germany (KfW) and the UK (ODA) attempt systematically to rate their performance. The Overseas Development Institute has recently compiled retrospective ratings for the Commission from a sample of 50 projects in ACP countries – predominantly Africa (Healey and Rand, 1994). The ratings cannot be directly compared with each other, since they reflect standards internal to each system. However, firm conclusions can be drawn on the relative 'internal' effectiveness in different sectors for each individual donor, since each donor's rating system should retain its consistency across sectors. Table 5.2 uses each donor's performance ratings to rank the development effectiveness of four donors (Commission, KfW, ODA, World Bank) in five common sectors.

These ratings relate to the effectiveness of project implementation for the UK, but for the EDF and Germany they reflect an average of ratings for both implementation and impact. A striking consistency of sectoral strengths and weaknesses is revealed. (This includes the World Bank used as a non-EU comparator.) The worst performance for all donors was in the industry, manufacturing and trade sectors. All four donors show agriculture to be the fourth best performer, thus reinforcing the conclusion of absolute disadvantage outlined earlier. Generally donors performed best in infrastructure (transport and energy), and the strength of the Commission in the roads subsector emerged clearly. Three European donors appear to perform relatively well in the 'soft' education and training sector. However, most training was probably in the form of scholarships in developed countries, where 'success' is measured by the achievement of a qualification rather than the more demanding in-country capacity building.

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2. A recent evaluation of UK projects in central public administration reform in Uganda and Ghana suggests that both were only partially effective because of delays in implementation. An attempt to strengthen the management and performance of a large parastatal body – Kenya Railways – was unsuccessful. Weaknesses included lack of sufficient understanding of the social structure and attitudes in design (three cases) and failure to take sufficient account of the starting policy environment and provide appropriate and adequate training (one case) (Austin, 1994).

**Table 5.2 Donor sectoral effectiveness ranking (1 high to 5 low)**  
by percentage of successful projects for common sectors  
(sample size in brackets)

<i>Sector</i>	<i>Commission</i>	<i>KfW (Germany)</i>	<i>ODA (UK)</i>	<i>World Bank</i>
IRDP/Other Agric	4 (27)			
Agriculture/fishing		4 (12)		
Agriculture			4 (21)	4 (293)
Education/training	2 (9)	2 (9)	2 (13)	3 (87)
Energy/power	3 (10)	1 (14)	1 (8)	1 (92)
Industry/ raw materials		5 (10)		5 (44)
Manuf/trade	5 (9)		5 (11)	
Roads	1 (26)			
Transport & communications		3 (40)		
Transport			3 (11)	2 (81)

*Sources:* **Commission:** Reflects average of implementation and impact ratings, drawn from Healey and Rand (1994), Table IV.12, p.46. **KfW:** Reflects development success ratings, from KfW (1994); Table 4, p.21. **ODA:** Reflects implementation effectiveness ratings, from Project Completion Reports: ODA (1995b) Table A22. **World Bank:** Outcome performance rating for 1990-2, from World Bank (1994b) Annex Table 1.6, p.102

## Conclusions

No clear comparative donor strengths emerged. All the EU donors appeared weak in rural development activities, but most appeared to be relatively more effective in infrastructure investment. The Commission, despite weaknesses, appeared relatively more effective in the implementation and impact of road and (large) energy projects.

In terms of management styles the ODA revealed a capacity to learn lessons earlier than the other three donors studied. The *European Commission's* ability to learn lessons appeared less satisfactory; for example, transport, it persisted with new construction rather than

promoting the maintenance or rehabilitation of existing infrastructure, and in the agricultural sector (especially in respect of IRDP) it provided decades of assistance with little tangible benefit. Its assessment of economic and financial aspects lacked rigour, though changes are being made in the 1990s.

*DANIDA* demonstrated a bias towards physical aspects of implementation and training at the expense of developing management and planning capabilities in transport, energy, and training. All five donors demonstrated very limited concern for environmental impacts across all sectors, though this appeared to be improving. Similarly, all donors<sup>3</sup> demonstrated a poor or variable record at the appraisal stage.

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3. Germany excepted, since appraisal was not covered in the evaluation report examined.

## 6

## Comparative Policies and Management of Structural Adjustment Assistance

This chapter is concerned with the management of programme aid – variously termed balance-of-payments support or import assistance – primarily for economic adjustment objectives. Commodity (especially food) aid and debt-relief activities can also play a similar role because of the counterpart funds which they generate or release. The main focus here is on financial programme aid which has been made available for a wide range of imports on a quick-disbursing basis by EU donors. Different donors' strategies are reviewed against suggested criteria of effective management. The modalities of balance-of-payments support are then compared for the 1980s, while a final section briefly reviews the transition towards budgetary management during the 1990s.

### EU Donor Strategies

The five bilateral donors were committed to programme aid during the 1980s, with consistently large shares of total bilateral aid especially from the Netherlands and the UK. A general decline in volume is apparent in the 1990s, except for France which has greatly increased its efforts at balance-of-payments support. The European Commission effected significant adjustment assistance only during the 1990s but has devoted a rapidly rising volume and share of its funds to these purposes (see Table 6.1).

*Denmark* provided import support in the 1980s but the idea of policy-related aid was viewed with scepticism. Assistance was not linked to decisions of the Bretton Woods institutions and compliance with their conditions. Since 1988 there has been a change towards greater concern with economic reform especially in Africa. Denmark has become a participant in the Special Programme for Assistance to Africa (SPA) and places a strong emphasis on concern with the poverty impact of structural adjustment and 'local ownership' rather than externally imposed reforms. It has been flexible on the use of counterpart funds but is shifting towards budgetary support for sectoral programmes.

In *France*, policy evolution on structural adjustment and balance-of-payments support can only be understood against a background of its basic political and cultural commitment to the 'sphere' countries in Africa and in particular the CFA Franc Zone. Its programme assistance to these

countries was substantial in the 1980s and rose sharply in the 1990s. A major factor in this flow of balance-of-payments support was the French guarantee of the convertibility of the CFA Franc.

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**Table 6.1 Trends in EU donors' programme aid**

	Programme aid as % of total aid commitments								
	1985-6	1987	1988	1989	1990	1991	1992	1993	1994
Commission*	-	-	-	-	-	3.5	9.6	29.5	-
Denmark*	-	18.2	9.0	10.0	8.0	12.0	9.0	6.0	5.0
France	7.1	7.1	3.6	5.8	17.2	12.8	-	-	-
Germany	5.3	4.7	4.7	4.7	13.0	9.6	6.7	2.2	-
Netherlands	3.6	12.4	12.4	13.8	5.8	7.3	-	-	8.0
UK*	9.4	9.4	14.4	16.3	7.3	7.3	7.2	6.2	5.8

*Note:* \* Commission – figures are for payments of EDF programmable aid. Danish figures are for disbursements except for 1987. UK figures are for disbursements for 1992. Not available = -

*Sources:* DAC Chairman's Report (Annual); Tarp and Kragh, 1996; Eeckhout *et al.*, 1996.

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Until recently this assistance has not been linked to economic reform or policy conditions, nor was there a formal link with the IMF. The counterpart funds were usually allocated to identified budget expenditure or to a reduction of budget arrears (domestic debt relief). Since 1993 France has decided explicitly to co-ordinate its conditions with the Bretton Woods institutions and its funds are now tranché according to performance criteria set by the IMF. It does, however, continue bilateral dialogue (not formal conditions) with the recipient governments on budget levels and allocations, while its sectoral aid is not linked with that of the World Bank.

For *Germany* fast-disbursing programme aid seemed to become more significant when a new structural adjustment instrument was introduced in 1987, yet it has remained a modest part of the total aid programme. Most of it was not specifically related to agreed policy reform efforts in the later 1980s and only a quarter of it by 1990 (DAC, 1992b). While Germany supports co-ordination with the Bretton Woods institutions, it seems to have played a modest role in the SPA framework. The German

position favours the encouragement of markets and the private sector for development and puts strong emphasis on the social aspects of adjustment.

*The Netherlands* was one of the largest providers of programme assistance during the 1980s. The allocation of this type of aid seems to have been based on the perceived record of each recipient country on poverty reduction, women's needs and human rights – high priorities for the Dutch. During the 1980s its position on macroeconomic conditionality was somewhat ambivalent. Agreement between the recipient and the Bretton Woods institutions has been one important criterion in its own decision to provide aid. However, it was reluctant to link its assistance publicly with IMF/World Bank conditions. Since 1991 it has placed increased emphasis on the macroeconomic policy performance of recipient countries and their institutional capacities. The balance has shifted from import support towards budget support. It regards the tying of its bilateral counterpart funds as illusory but it also seeks budgetary 'additionality' at the sectoral and sub-sectoral level through sectoral conditions.

*The United Kingdom* was probably the earliest among the EU Member States to be converted to the need for policy reform as a condition for programme assistance. From the early 1980s it made programme aid available only where a recipient's macroeconomic policies had the IMF 'seal of approval'. It was, and still is, normally willing to release its import finance only when the recipient is complying with the reform conditions set by the Bretton Woods institutions. This finance was seen as meeting short-term balance-of-payments problems and quickly improving the utilisation of domestic capacity. The ODA has taken a lead role in the SPA since its foundation. With considerable progress on liberalisation of markets in recipient countries, it has shifted away from a balance-of-payments approach through imports or import-allocation mechanisms. The counterpart funds of programme aid are now used to reimburse budgetary expenditures in certain sectors such as health and education. This is often associated with technical assistance to improve budgetary processes and management in these sectors.

*The European Commission* provided programme aid to key sectors and engaged in some dialogue on sector policies under Lomé III (1985–90), but eligibility was not related to macroeconomic conditions or their reform. In 1987 a special programme for quick-disbursing assistance to highly indebted African countries was introduced and a Structural Adjustment Facility (SAF) was established. In 1988 the Commission became a partner in the SPA. Collaboration began with the Bretton Woods institutions and a criterion of eligibility for import assistance became the adequacy of the recipient's policies. Most special debt programmes between 1988 and 1990 were linked to IMF/World Bank



conditionality. It has since played a leading role in the SPA.

Following on the negotiation of Lomé IV (and coming into effect from 1995) there has been a shift away from the contractual nature of Lomé support towards deployment of funds which are less automatic and more conditional on the performance of the recipient. Instead of fixed allocations of aid, each recipient is provided with access on the basis of certain criteria which are modified by its performance; programming is phased in two instalments; and the scale of funds made available in the second tranche after a mid-term review will depend on economic adjustment performance as well as political change (democratisation and human rights criteria).

The Commission sees the pace and character of economic reform as sometimes genuinely threatened by a democratisation process and that the fragility of democratisation may require the modification of reform conditions. In its current strategy it does not support microeconomic (project) 'earmarking'. It now seeks to use the budgetary counterpart of its new aid a) to protect or increase a budget sector or budget line (e.g. primary health or primary education expenditure); b) to achieve sectoral policy conditions; and c) to improve budgetary procedures. Counterpart funds are to be managed within the framework of a single and coherent budgetary policy and regardless of the aid instrument used (whether programme aid under the SAF, food aid or Stabex).

### *Criteria for Assessing Effectiveness and Responsiveness to Changing Conditions*

To assess the effectiveness of these different donors' policies on import assistance and structural reform three criteria are used:

- How adequately and speedily did donors respond to changing conditions in recipient countries?
- Was eligibility for programme aid based on a satisfactory domestic economic policy environment or conditional on a satisfactory process of policy reform?
- Have the donors worked towards a common or co-ordinated policy position on the use of structural adjustment assistance?

This last test of effectiveness is explored in Chapter 7.

The provision of substantial programme aid or balance-of-payments support is only likely to be economically effective if there is some regard

for the character of the domestic economic environment. In a macro economy which is not stable and a micro economy which is distorted, there is little chance that the funds will be allocated and used well. At the very least, the funds should be related to intended improvement in policy and evidence of actual improved performance. How responsive were the donors to the deteriorated or deteriorating economic policy environment in the ACP countries during the 1980s?

Apart from the UK, the other four bilateral EU donors were slow to adjust to this situation. Although they provided quickly-disbursing funds to overcome foreign-exchange constraints on domestic output expansion, there was slow recognition that such funds are not appropriate in a distorted environment as well as a considerable unwillingness to become involved in reversing this decline through policy dialogue either directly or through links with the IMF/World Bank reform agreements. Denmark seems to have seen balance-of-payments support simply as a way of quickly disbursing funds rather than as an instrument for policy reform (Tarp and Kragh, 1995). In the 1980s, the Netherlands provided very substantial programme aid to a few recipients with its own (but not IMF/World Bank) macroeconomic objectives which were seldom based on clear analysis or specific conditions (Netherlands, 1989). However, it has in practice moved towards instruments with varying degrees of conditionality in order to select what seems appropriate to the country concerned (Eeckhout et al., 1996). Germany has devoted a smaller proportion of aid for general purpose support than the other donors. France, while providing a rising level of balance-of-payments support, was the slowest donor to convert to a strategy of linking its support to economic policy reform where conditions justified it, because of its high-level political commitment to its main recipient region. Since 1992, its strategy has changed and currently it will provide general purpose assistance only if an IMF programme is in place.

The Commission did not move quickly to provide large-scale quick-disbursing assistance, and did not link this with policy reform to deal with the economic situation in the ACP countries until nearly a decade later.<sup>1</sup> For its sectoral assistance, it ostensibly undertook dialogue on policy and institutional reform, but these suffered from poor design, weak conditions and limited compliance (see below). Up to 1990 there were very few cases where the Commission suspended disbursements because of non-compliance.

This tardiness of response in the 1980s seems to have stemmed partly

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1. This is a distinct weakness even though the structural adjustment process initiated by the IMF/World Bank did not prove particularly successful in Africa during the 1980s. No-one, including the Commission itself, doubts that structural reform was and is necessary. See EC., 1994d.

from the legal nature of the Lomé III Convention between co-equal partners, which made it difficult to negotiate major reforms as a condition of aid provision. There was also the reluctance of some of the Member States to agree to a new strategy and the time required for the 12 of them to agree on it. Finally, there was a sceptical view from within the Commission which saw structural adjustment pursued by the Bretton Woods institutions as politically and economically unrealistic. The Commission lacked the staff capabilities to appreciate the economic policy aspects adequately or to formulate such an approach at that time. Nevertheless, by the early 1990s, it had finally responded to changing circumstances. General purpose and sectoral funds became available and countries were eligible for structural adjustment funds only when they had agreements with the IMF/World Bank to ensure that the domestic policy environment was reasonably stable. Under Lomé IV a new generation of reform-based programmes for import assistance was launched. The main objective was to provide support for macroeconomic reform and recovery (within a multi-donor framework).

### *Choice of Recipients and Conditionality*

Have the different EU donors effectively implemented their emerging strategies of linking general purpose funds with macroeconomic policy reform to ensure that only countries with satisfactory economic contexts are eligible for such funds?

For the Commission, some evidence suggests that the new strategy is being implemented. It now releases a new allocation of SAF assistance only after an evaluation of the previous tranche, and hence subject to performance. At the end of 1993, for example, of 45 countries which were eligible for Commission structural assistance 25 did not receive funds largely because of non-compliance with IMF/World Bank policy agreements and also because of infringement of democratic processes and human rights. According to the Commission itself (EC, 1994d: 9) 'there has been no major problem in monitoring compliance with conditions imposed with regard to the implementation of Community measures'. However, the Commission's performance under Lomé IV has not lacked criticism. Execution of the performance conditions for the release of SAF funds has been criticised by the Court of Auditors for lacking clarity and justification.

Conditions for the release of funds are often still so general that it is not possible to make any objective assessment of their implementation. ...It is consequently always possible to release funds whatever the scale of the measures actually taken in the recipient country. This situation applies to

the programmes of Ethiopia, Ghana, PNG, Tanzania, Malawi and Zambia.... For special conditions, funds were (thus) unblocked by the Commission even though the conditions had not been properly complied with... (Benin, Burkino Faso, Cameroon, Côte d'Ivoire, Mali, Mauritania, and Mozambique)... (Court of Auditors Report 1993, November 1994, paras 15.83 – 15.85)

To provide a more systematic and comparative view, Table 6.2 assembles information covering the periods 1988–90 and 1991–3 on the country distribution of balance-of-payments assistance in respect of the European Commission, Denmark, Germany, the Netherlands and the UK. It is related to the state of the respective macroeconomic policy and the degree of state intervention and improvement in the period before the aid was provided in selected ACP countries. The judgements on each recipient's policy in 1990–1 and their degree of adjustment between 1981–6 and 1987–91 are drawn from the 1994 World Bank study, *Adjustment in Africa*. The macroeconomic policy assessments used indicators of fiscal balance, monetary policy, real interest rates and inflation as well as exchange-rate policies and measures of competitiveness. The ACP countries are classified into three categories according to their macro-policy rating. A judgement on the degree of state intervention in the micro economy (high, moderate or low) is also recorded for each country.

In interpreting these data, allowance must be made for the time-lags in disbursement, as they may sometimes give a misleading picture of bilateral donor policy decisions, though the data relate to decisions and not disbursement for the European Commission. Data are also not available beyond 1993. In addition, there were some countries where aid decisions were dominated by political/democracy issues. The most obvious cases after 1990 were increased aid commitments to Zambia (where economic policies were expected to improve) and reduced aid commitments to Kenya by a range of EU donors. Another somewhat special case was Mozambique, which was starting from a particularly retarded economic environment and received support from each of these six EU donors.

In the case of the *Commission*, import assistance during the later 1980s seems to have been fairly indiscriminating between those economies which were deteriorating and those which were improving. Large amounts of resources were channelled into Francophone countries (Benin, Côte d'Ivoire, Cameroon) as well as Zambia, despite a poor economic policy context, though the Commission did avoid Congo and the Central African Republic where the economic context was even more unfavourable. After 1990, when the differences in macroeconomic stance were clear, the broad pattern of EU allocation decisions (though not always payments) remains little changed. *Denmark's* balance-of-payments

Table 6.2 Donor import assistance and the macroeconomic policies of selected ACP recipient countries (\$m)

	Exports	Donors' import finance											
		EU Commission				Denmark		Germany		Netherlands		UK	
		1991	85-90	91-3	88-90	91-3	88-90	91-3	88-90	91-3	88-90	91-3	88-90
Substantial or small improvement in macroeconomic policies 1981-6 to 1987-91 but adequate macro-economic stance, 1990-1		1988	1991	85-90	91-3	88-90	91-3	88-90	91-3	88-90	91-3	88-90	91-3
Ghana	(m)	882	992	46*	59	0	0	10	42	0	0	83*	41
Gambia	(l)	-	-	7	5	0	0	neg	neg	0	0	1	12
Burkina Faso	(h)	249	116	61*	59	0	0	12*	16*	-	-	0.00	0.00
Nigeria	(l)	-	2000	0	0	0	0	6	34	0	0	126	6
Madagascar	(h)	282	344	0	0	0	0	1	4	0	0	0.00	0.00
Malawi	(m)	301	470	25*	24	0	0	7	25*	0	0	19*	16
Kenya	(m)	1034	1203	0	0	9	10	34	9	111	55	0.00	20
Mali	(m)	255	354	48*	48	0	0	24*	22*	0	0	0.00	0.00
Mauritius	(-)	1110	1193	-	-	0	0	0.00	0.00	-	-	0.00	0.00
Senegal	(m)	761	977	12	6	0	0	1	0.00	0	0	0.00	0.00
Uganda	(l)	298	200	20	17	5	28	10	16*	0	0	48*	77*
Improvement but poor macro-economic stance 1990-1													
Tanzania	(m)	373	394	?	55	51	34	11	10	183	109	54*	20*
Zimbabwe	(m)	1589	1780	-	17	4	11	14	27	32	47	1	36

Table 6.2 (continued)

		Exports	Donors' import finance									
			EU Commission		Denmark		Germany		Netherlands		UK	
			1988	1991	85-90	91-3	88-90	91-3	88-90	91-3	88-90	91-3
Deterioration in macroeconomic policies 1981-6 to 1987-90 & inadequate macro-economic stance, 1990-91												
Benin	(m)	225	103	35*	41	0	0	7	29*	0	0	0.00
CAR	(h)	132	133	0	0	0	0	3	1	0	0	0.00
Côte d'Ivoire	(m)	2360	3011	41	40	0	0	0.00	38	0	0	0.00
Cameroon	(m)	1640	2022	23	26	0	0	6	28	0	0	0.00
Congo	(h)	912	900	0	0	0	0	0.00	0.00	0	0	0.00
Mozambique	(m)	104	0	36*	16	6	14	27*	24	121	95	60*
Sierra Leone	(l)	106	145	14*	2	0	0	6	0.00	0	0	0.00
Zambia	(m)	1073	1082	85*	83	0	19	12	62*	48	61	46

Key: 0 = no assistance - = not available \* countries where the donor's aid is a significant share of its exports ( $\geq 5\%$ ). Degree of state intervention in markets is ranked High (h) Medium (m) or Low (l) for 1992

Notes: Figures for Commission are decisions for 1985-90 and 1991-3. Figures for Germany and the UK are disbursements. There is some risk therefore that disbursements in 1991 partly reflect decisions in this earlier period.

Sources: Aid statistics: For the European Commission: EC 1994g; EC 1993c. DAC, 1996. For Germany: Correspondence with KfW. For UK: *British Aid Statistics*. For Denmark: Tarp and Kragh, 1996. For Netherlands; Eeckhout et al., 1996. Policy information from World Bank, 1994b, pp. 58f.

support was much more limited in comparison in scale and range of countries. It avoided most poorly performing recipients, though it is not clear that this was by deliberate policy. The bulk of its funds were channelled to countries which had made some improvement but whose macroeconomic stance was poor. In the case of the *Netherlands* in the 1980s, allocation of assistance did not support the good performers, apart from Kenya. Instead, it mainly went to the very modestly performing countries (Tanzania, Zimbabwe) and Zambia during the late 1980s (with little hope of improvement at that time). Since 1990, despite a firmer policy on economic reform, its actual allocation so far shows a limited flexibility and a similar pattern of financial commitment. *German* allocation for import assistance seems to have been 'sprinkled' widely with little apparent regard to the better performers in the 1980s. In the 1990s, the much larger volume of flows shifted relatively in favour of the poorly performing countries, most obviously Benin, Côte d'Ivoire and Cameroon. The allocation of *French* balance-of-payments support is not published, but it is clear that the bulk of the funds went to the Francophone territories whose policy performance in the 1980s was not favourable, not least because of the overvalued currency of those in the CFA Franc zone to which France was politically committed. For the *UK*, programme funds were largely concentrated on countries whose macroeconomic stance had improved in the 1980s or had improved and was adequate in 1991. It largely avoided the 'losers'. Its judgement in supporting Nigeria in the 1980s may be questioned in retrospect, but the aid was drastically cut when the Nigerian reforms went off course in 1991.

Overall, therefore, the European Commission showed little flexibility in adapting its decisions to favour the better performing countries or a shift from the poorer performers. In the case of the *Netherlands* and *Germany* in particular, policy decisions over this period are questionable, given the amount of resources made available which had limited assurance of being deployed well domestically. The same judgement can be made about France, reflecting its unwillingness to devalue the CFA Franc or consider economic policy reform until 1993. Only the *UK* largely supported countries which performed reasonably well or were improving their economic policy.

## **Comparative Effectiveness of Operational Procedures**

The borderline between policy and operational management is somewhat hazy, but the modalities of implementing structural adjustment assistance need separate analysis and comparison. During the 1980s and to some extent still in the 1990s, the predominant mode was management of aid



through the balance of payments and import allocation. With the greater liberalisation of foreign-exchange markets in the 1990s, the modalities of reform-related support are in transition towards management through the budget process rather than through foreign-exchange and import allocation mechanisms.

For balance-of-payments management there are four main aspects which have a bearing on effectiveness. First, there is the need for appropriate and well-thought-out design and preparation of the use of funds in each country. Secondly, allocation systems for foreign-exchange/imports allocation should be transparent and should ensure access by the most efficient users. Also the donor's systems should encourage liberalised, decentralised and competitive decision-making systems for foreign-exchange allocation which is their policy aim. Thirdly, the donor procurement system should be efficient and consistent with the liberalisation objectives of the donor's own policies and should permit procurement from a wide range of sources. Fourthly, the aid funds should be speedily disbursed (if they are intended to improve utilisation of capacity) and the budgetary counterpart of the external funds should be fully accounted for.

More generally, in all these aspects of management, donors should be responsive to changing conditions and flexible in their responses. They should also move towards common or standard procedures (see Chapter 7).

Some 'comparable' donor evaluation studies are used to make judgements. Three 'synthesis' evaluation reports for the Commission, the Netherlands and the UK respectively covered the period from the mid-1980s to 1990 in Africa. In addition, comparative evaluation studies were available for assistance to Kenya (1986-90) and Tanzania (1983-90) for the Commission, Denmark, Germany, the Netherlands and the UK, and for Mozambique (1986-9) for the Commission and the UK. These comparisons therefore give a 'snapshot' of how the donor systems were operating in the late 1980s and permit judgements on the comparative strengths and weaknesses of each donor's management during this somewhat transitional period.

For the *European Commission*, the bulk of the programmes were sectoral. The strengths were that a number of them achieved some institutional reforms which were considered satisfactory (e.g. the Gambia, Guinea Bissau, Uganda), though not all of them did (e.g. cereals marketing reform in Kenya). Commission finance was untied among the EU and ACP states and offered a wide choice to users through directly controlled procurement systems following competitive bidding procedures which were fairly efficient (e.g. in Kenya) but were ill adapted to the conditions prevailing in Mozambique. Disbursement rates were also reasonably quick in the period 1987-90. The Commission was

more concerned than other EU donors with recovery and accountability for counterpart funds, though the actual recovery rate for counterpart funds was low. There was some evidence (though it was hardly firm or systematic) of positive impact on the economy.

A major weakness was hasty and weak preparation. Design was largely devolved to the delegations where skills were lacking. The sectors were not best chosen for optimising impact. Too many implementation conditions were set and there was a lack of adequate participation by the local authorities. Where reform objectives were established, there was a lack of clear prior indicators or targets for monitoring and the monitoring itself was weak.<sup>2</sup>

The delegations were often overloaded and did not devolve functions to reduce their excessive burden. The lessons of experience seemed to be slowly learned. In general the Commission used a centrally administered system which targeted allocation through positive lists of goods and users, but there was a lack of transparency and clear criteria in the selection of users and procurement. The system was distortionary in its economic impact; only a small number of importers benefitted from the finance and these were large modern companies, the majority of which were foreign managed or owned.

For *DANIDA*, evidence from programmes in Kenya and Tanzania indicates that there was very little prior appraisal; objectives were vaguely defined and the finance was not clearly linked to policy change. *DANIDA*'s procurement office generated most of the purchases in Denmark and in practice most goods were not competitive or suitable. There was little monitoring. *DANIDA*'s allocation system was directly controlled, not particularly transparent and did not achieve an efficient allocation of finance either to sectors or specific users.

The *Netherlands* achieved good value for money in procurement even with its largely tied finance and showed flexibility in adapting its degree of control to different and changing conditions in the recipient countries.

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2. Tanzania was also an example of inadequate preparation and design, and no clear memorandum of understanding was established for the roles of different participants in its import assistance. The Commission's Cereals Policy Reform programme in Kenya was not based on adequate diagnosis. The reforms were not properly negotiated with the Government of Kenya, nor were its reform conditions and finance co-ordinated with the other donors. On its own it lacked leverage in such a politically sensitive area. It was hardly an example of local ownership of policy reform in line with EC principles. The cereal sector reform objectives were not achieved; indeed the provision of the counterpart funds to the National Cereals Produce Board may have actually delayed reform in this sector. In Ethiopia, the Commission failed to engage in any dialogue on food security policy, despite being a major contributor especially to counterpart funds via food aid.

Its directly administered procedures for allocation were considered time-consuming and not very transparent. The allocation system was not based on prior economic analysis and the end-users chosen were not usually very competitive; small firms were ineligible. It showed limited concern with the recovery of counterpart funds.

For the *United Kingdom* a weakness was the failure to set itself the objective of ensuring a high recovery of counterpart funds and to monitor their recovery effectively. In retrospect, the appraisal and tight control of the allocation of imports deployed in the earlier stages seem unlikely to have ensured efficient allocation of these resources. But some flexibility was shown in relaxing initially tight and direct control over allocation and procurement as economic conditions in the recipient country improved and in acting consistently with the domestic liberalisation. Funds were also disbursed fairly quickly and did appear to obtain value for money for users, though only within the UK market (see Healey, 1996).

## **Policies and Modalities in Transition: the 1990s**

### *Shift from Balance of Payments to Budgetary Management*

As a result of change in microeconomic policy induced by the donors during the 1980s, unified market-related exchange rates and competitive bidding mechanisms for foreign exchange (interbank markets and auctions) had been established by 1994 in most ACP countries. EU donors channel their structural adjustment assistance through these market mechanisms, although in less liberalised countries the Commission and the Netherlands seem to have kept close control over import allocation.

The management focus for quick-disbursing structural adjustment assistance now seems to be shifting towards the central budget and the budgetary process in recipient countries. With progress on market and price liberalisation there is little rationale or scope for donor intervention in import allocation in most situations. At the same time, stabilisation, including budget control, often remains weak. The bulk of the counterpart funds from financial programme aid (though not necessarily from food aid) are now recovered early in order to support the central government budget, because most of the financial import assistance is channelled through foreign-exchange markets where private agents must deposit local currency with the Central Bank authorities. Actual records from the Commission show a satisfactory record of recovery of counterpart funds for Lomé III and IV as a result of special efforts in recent years.

Programme assistance continues to be linked to macroeconomic reforms agreed with the Bretton Woods institutions. At the same time, the budgetary process continues to be weak in many of these countries, in planning, control of expenditure, and accountability as well as in resource mobilisation. Effective use of structural adjustment funds is therefore most sensibly focused on the budgetary process itself, the sources of funds and their expenditure. The following criteria are suggested for the most effective management of programme (and equivalent) aid in terms of the budgetary process.

A first key requirement is that donors *collectively* focus on a single overall budget plan (preferably a medium-term framework) and agree on priorities with the recipient government. It is likely to fragment domestic management and possibly distort agreed priorities in allocation if individual donors pursue their bilateral objectives and conditions by 'earmarking' their own assistance to certain budgetary categories or sub-items.

Secondly, since individual donors need to account financially for their assistance, records are required that counterpart funds are recovered and spent according to the purposes and priorities agreed with the donors individually and collectively. Each donor's accountability for its budgetary support is not synonymous with its pursuit of 'additionality' for its *own financed* expenditures. Influence over effective restructuring needs to be achieved through collective negotiation. Multi-donor monitoring of the effectiveness of collective donor support is required in terms of expenditure intentions, estimates and outcomes or, ideally, monitoring of budgetary outcomes.

Thirdly, individual donors need to contribute to the reform and improvement of the institutional processes and procedures for managing and accounting for public expenditure in a range of recipient countries. This is an important aspect of 'good governance' objectives which will allow donors greater assurance that their budgetary support is justified and accountable through local rather than external forces.

### *Experience in the 1990s*

How have EU donors performed in relation to these criteria? First, during the 1990s there has been a significant movement towards greater commonality and collectiveness in the management of structural adjustment assistance among a group of EU donors within the SPA framework, including the Commission, Denmark, the Netherlands, the UK and more recently Sweden. The need for a collective approach within the framework of a single budget (and agreed expenditure priorities) for recipient countries is a concept being promoted by both the Commission

and the UK within the SPA framework, and the advance of these ideas is currently under discussion. Other donors who appear sympathetic are Denmark and the Netherlands. There is some movement towards greater involvement of EU donors in the public expenditure processes led by the World Bank (see Chapter 7).

EU donors seem to be increasingly 'targeting' their programme aid on certain budget sectors or items which they effectively support. Under Lomé IV the EU has targeted the domestic funds generated by its support (via the SAF, Stabex and food aid) on public expenditure sectors such as health and education, and sub-sectors such as primary health and education and retrenched workers, as well as on the private sector. The UK currently uses its programme aid in some countries to reimburse expenditure in certain priority areas such as health or education. The objective is seen as supporting reforms agreed in a multilateral framework, as part of the public expenditure review process. It also sometimes attaches special conditions of its own which relate, for example, to future shares of the budget devoted to certain purposes (Healey, 1996). Germany conducts a bilateral dialogue with some countries and has made it a condition of debt relief since 1989 that the domestic funds saved will be allocated to the protection of the environment and natural resources. It has also supported 'social fund' expenditures. The Netherlands 'targets' some of its programme aid on the use of imports and some on budgetary support (including debt relief) for priority expenditure programmes, mainly in those countries where reform is making slow progress. Danish aid does not seem to have budgetary objectives or to engage in significant local dialogue. French bilateral objectives are not known.

While these donor targeting practices are appropriate in 'accounting' terms, they are potentially distorting if individual donors seek individual 'leverage' on expenditures. Even if individual EU donors are operating in accordance with agreed expenditure priorities, too many donors insisting on channelling funds into (say) primary health can create distortions and difficulties.

The need for restructuring of public expenditure (apart from overall control) is well recognised. It involves a change in the balance between current and capital spending, between wage and non-wage expenditures and, of course, redistribution between different sectors. Limited evaluation work has been done on the effectiveness of donor assistance and their objectives in restructuring budgetary expenditures. The Commission's structural adjustment aid for restructuring public expenditure has been evaluated for three countries so far: Côte d'Ivoire, Ghana and Uganda. The evidence suggests that the use of General Import Programmes to support private investment and reserve imports for the private sector was ineffective in Ghana and Uganda, while the



tying of counterpart funds to specific budget lines (especially health and education) in the same countries was of limited effectiveness. However, in Côte d'Ivoire, Commission programmes designed to support reform of the supply and distribution of drugs, and other health measures to protect vulnerable groups from deterioration in the economic situation, had been successful, perhaps because Commission funds were dominant (80% of non-staff expenditure) and there was a detailed plan of action. Stabex has proved a very inflexible instrument for policy reform objectives (Caputo, 1996). For the UK, evaluation revealed compliance with the special conditions which the UK attached to its programme aid. Our criteria would suggest that the pursuit of these objectives and their effective monitoring and evaluation should be continued on a collective donor basis – at the least among the EU donors, which provide a high share of support for budgets in many ACP countries.

Finally, there is now a recognition among most EU donors of the importance of strengthening the budgetary and expenditure processes and the accountability institutions in recipient countries. So far only Germany and the UK seem to have established significant capacities and skills for this type of technical co-operation.

## **Conclusions**

Effective strategies for structural adjustment assistance emerged rather slowly among the EU donors during the 1980s. The UK, in retrospect, was the most responsive to the changing policy environment in which aid was being provided and the need for a strong approach to reform in policy. The other individual EU donors, while providing quick-disbursing funds to relieve foreign-exchange constraints, failed to pay enough attention to the inadequate domestic policy environment in which their funds were being deployed. Given this slow appreciation among most Member States and the Commission itself, and the lack of significant in-house capacity to carry it out, assistance related to policy reform did not emerge till the end of the 1980s – nearly a decade too late.

This delay was partly attributable to the political objectives of some donors, and to the Lomé Convention with its excessively rigid legal basis. During the 1990s a much more realistic approach to structural adjustment assistance has been emerging among EU bilateral donors, while the negotiation of Lomé IV has placed the provision of EU assistance on a more performance-related basis. However, the allocation of programme aid funds to ACP countries in Africa between 1988 and 1993 appears to have had little regard for the condition of the domestic economic policy environment, especially on the part of the Commission and also the Netherlands and Germany. A shift in the allocation of these general

purpose funds towards adequately performing recipients has yet to manifest itself.

During the 1980s operational management was rather patchy and much of the effort in the directly administered allocation of imports was not only lacking in transparency and efficiency but also showed limited evidence of their having reached efficient end-users. Donors differed in their procurement practices and their achievement of value for money. This created distortions in pricing. Quick disbursement of the funds was, however, achieved by most of them, though the recovery of counterpart funds was very poor till the 1990s. Some convergence in donor operations has also been achieved in the 1990s covering the channelling of funds through market-type foreign-exchange mechanisms, procurement practices and rules for the recovery and accounting of counterpart funds.

Economic reforms in ACP countries ultimately supported by most, though not all, EU donors were moderately successful in achieving economic liberalisation and shifts towards a market environment for the satisfactory allocation of foreign exchange and imports by the mid-1990s. The management of programme aid is increasingly focused on the domestic budget. This has implications which are currently being addressed by EU donors. Individual donors are tending to target their own assistance on particular budget sectors for accountability reasons. A few are focusing on institutional change in budgetary processes and developing capacities and skills for this. The Commission has sought to exert some leverage on the restructuring of domestic expenditures, with mixed success. This approach is too individualistic. The main need is for a collective multi-donor/recipient agreement on priorities within an expenditure/budgetary framework for each major recipient.



## 7

## EU Co-ordination: Experience and Prospects

This chapter reviews the various options in the area of co-ordination, the experience so far and the prospects. The concept of inter-donor co-ordination at the policy and in-country level as expressed in Article 130x long predates the Maastricht Treaty on European Union. Article 130x of the Treaty, however, provides an important statement of commitment by EU donors to working together more effectively.

### The Range of Options and Benefits

Inter-donor co-ordination at its most basic level relates to an exchange of information between donors concerning, among other things, their current and future activities, their policy intentions and their evaluation and monitoring results. Such collaboration should reduce wasteful duplication and increase the scope for learning the lessons of each other's experience. The Commission has improved the flow of information about its activities, although it remains patchy. Member States, however, appear less prepared to provide information about their own development activities to other donors, including the Commission. EU donors come together to concentrate on the Commission's programmes, but few meetings occur to exchange information and identify conflicting programmes and the scope for closer co-operation, though there have been meetings of Director Generals and Secretaries of the donor agencies and of their respective Heads of Evaluation. The latter's efforts have already resulted in successful information-sharing ventures, including joint evaluations. The sharing of information and experience represents only the most basic step towards co-ordination and can largely be seen as a precondition for more intensive co-ordination efforts.

The range of more intensive co-ordination activities includes general policy co-ordination, on the one hand, and in-country or so-called 'operational' co-ordination, on the other.<sup>1</sup> General policy co-ordination refers to attempts by different donors to agree on an identifiable and

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1. A third area of inter-EU donor co-ordination, 'international co-ordination', has not been covered here. Co-ordination at this level involves developing common policies and approaches within international fora.

coherent set of development objectives at a sectoral or other level. Agreement on general policies applying to a range of developing countries undoubtedly has potentially positive implications for aid effectiveness, including the avoidance of conflicting policy priorities and competing 'conditionalities', and providing a solid basis for co-ordination at the country level. Where a co-ordinated approach to policy is lacking, it may prove impossible to pursue objectives with any degree of effectiveness. A clear example of this was the lack of a common strategy towards the linking of balance-of-payments support to economic reform in the 1980s (see Chapter 6). More recently there was disagreement on the governance criteria which must be satisfied for aid to be disbursed or on sanctions when commitments to democratic government are broken.

Within recipient countries, the effectiveness of development activities is likely to be enhanced through co-ordination by means of agreement on a development strategy, or at least on particular sectoral or sub-sectoral policies for a specific country. Agreement at the country level offers a potentially powerful mechanism for the streamlining of procedures – of donor and recipient alike – and accelerating project implementation and aid disbursements, as well as promoting a more rational allocation of resources (see Raj Panday and Williams, 1990).

## Steps towards General Policy Co-ordination

Various initiatives are under way that aim to promote greater agreement among EU donors on the general thematic or sectoral development policies which flow from the legal requirements of the Maastricht Treaty (Articles 130u and 130x). EU donors are attempting to co-ordinate their aid policies with a view to gradually moving towards a common approach in four priority sectors: food security; health and population; education and training; and poverty alleviation. On each, Council resolutions have been accepted. In addition, experts of the Commission and the bilateral donor agencies have met to draw up a strategy for implementation.

For improved policy co-ordination in the field of *poverty alleviation*, the Commission has selected seven pilot countries.<sup>2</sup> The aim is the establishment of a common theoretical framework and policy guidelines for the effective implementation of poverty-alleviation interventions. The agreed guidelines will be presented to the Council for approval and for these to be adopted by the EU donor agencies.

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2. The seven are: Bangladesh, Ethiopia, Mozambique, Peru, Ghana, Mali, and Nicaragua.

In the area of *health*, consensus on common policies and, to some extent, implementation mechanisms was achieved in several areas. Five priority objectives were agreed: drugs and medical equipment; human resources development; health financing; decentralisation; and capacity building. Agreement on common principles for the design and implementation of health projects proved more elusive.

The EU has particularly lengthy experience of policy co-ordination with respect to *AIDS*. It has succeeded in building up an effective mechanism for representing EU positions within the international co-ordination framework led by the World Health Organisation. The existence of an international framework, concentration on a clearly defined target issue, the lack of a vested political or commercial interest in the sub-sector, and the new and urgent nature of the problem have provided an incentive for constructive co-operation. These specific characteristics warn against using this as a model for co-ordination in other areas, though undoubtedly there are lessons of experience which remain relevant. Success in moving towards common policies has been more limited in the case of *family planning and population*. With regard to *education and training* and *food security* Council resolutions were belatedly approved in November 1994 and pilot countries for the operationalisation of these policies were approved by the Council in April 1995.

### *Future Prospects*

There is widespread agreement that in-country co-ordination must be preceded by co-ordination on development policies in general and on a sector-by-sector basis (e.g. NAR, 1993: 15). In this way a wider framework for co-ordinated in-country project/programme planning and implementation can be established. However, co-ordination at the general or sectoral policy level is only likely to increase development effectiveness if effective transmission mechanisms are in place to ensure that these policies are taken into account in the programming and implementation of aid. Evidence from the comparative assessment indicates that most donors lack capacity in translating objectives and strategies into country programmes and projects (see Chapter 3). Furthermore, a study conducted by the Commission into the effect of 50 or 60 Council resolutions concluded that they had very little influence on development policy-making in the Member States. Some bilateral donors deal with the Commission through their multilateral rather than their bilateral aid departments and this may have negative repercussions on the transmission of EU-sponsored development initiatives (CeSPI, 1994: 16). Strengthening the transmission mechanisms and enhancing personal relations between Member States' experts and staff in DG VIII should

increase the effectiveness of EU policy co-ordination.

## Steps Towards Joint Country Programming

Increased co-ordination and consultation among EU donors in formulating country programmes would allow scope for economies and an increased depth of understanding when analysing a country's development context, as well as promoting agreement on common priorities and possibly some division of labour among donors. However, for many reasons, this is likely to be a time-consuming and resource-intensive exercise, which may explain why no formal common country programming among EU donors has yet taken place.<sup>3</sup> So far Member States, with the partial exception of Denmark, have shown little inclination to consult or co-ordinate on joint country analysis or programming, though the Commission does consult Member States on its own National Indicative Programmes for the ACP countries.

One reason for this rather unimpressive record is that donors exhibit a range of different approaches to the management of country programming. Nonetheless, there is some convergence (see Chapter 3). Most Member States use medium-term country strategies which they review at 2–3 year intervals, and with Lomé IV EC country programming has become far more flexible. While there remain practical difficulties – particularly in the fragmented nature of country programming in France and the Netherlands, and the non-geographically-controlled management of much aid by the Commission – the prospects for enhanced co-ordination seem quite favourable.

Furthermore, when framing their country strategies donors vary in the importance they ascribe to recipient priorities relative to their own objectives. In general, there has been a shift away from a somewhat passive, recipient-dominated approach, to one which reveals more concern with donor objectives, recipient performance and extensive negotiation. Although differences remain, with little evidence of such a shift for Denmark and the Netherlands except in respect of budgetary support, this would again seem to confirm that room exists for a more co-ordinated approach to country programming.

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3. Consultation on country programming between the Commission and some Member States has taken place in a number of countries recently in the process of defining the National Indicative Programmes for EDF 8.

## In-Country Co-ordination

Co-ordination at the country level is most likely to increase the development impact of aid when the recipient authorities direct the process (see, for example, Barry, 1988: 248). Yet recipient government institutions, particularly in the poorest countries, are often unprepared for the task of co-ordinating the differing priorities and procedures of large numbers of donors. The lack of a 'grand design' or strategy for development on the part of the recipient government (see Raj Panday and Williams, 1990: 3) and the inadequate political and managerial capacity within many developing countries' institutions hinder donors in generating and sustaining their own policy priorities and streamlined systems of aid administration.

From an inter-donor perspective, a number of conditions are necessary for effective operational co-operation in-country at the sectoral and project level, namely:

- The degree of common and significant donor involvement in the recipient country. For example, the UK in 1994 had an aid interest in 54 ACP countries, but in 31 of these it was too small to make co-operation worthwhile. In 10 there was some ongoing co-operation with EU donors and in 13 more it was planned or possible.
- Whether there are common sectoral interests among the donors.
- Whether the co-operating donors have specialist staff in the country or the region and whether those in the field have sufficient delegated authority to make decisions at the local level (see Chapter 2 on donor differences in this respect).

These complexities aside, it is possible to analyse a number of EU-specific steps which have been taken to promote co-ordination at the country level. The discussion below will concentrate on parallel and co-financing initiatives and other country-based co-ordination measures.

### *Co- and Parallel Financing of Projects*

Co- or parallel financing<sup>4</sup> with an EU focus has been undertaken in a

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4. Co-financing is when donors contribute to a common pool used to fund the project. In parallel financing, different donors support specific parts of an overall project/programme, and their particular contribution can be pinpointed. In both cases donors usually have a say in the design and preparation of the project/programme.

number of cases. For example, in Mauritania, Dutch, German and French agencies provided parallel financing for an agricultural credit programme, while an irrigation project was parallel-financed by the World Bank, France, Germany and the Commission. The transport sector, partly as a result of the high costs involved, reveals many cases of parallel financing. The advantage of this type of co-ordination is that different donors can contribute their expertise to a project/programme while maintaining responsibility for their own input.

However, in the vast majority of cases the World Bank (especially in the transport sector) or another non-EU donor, and not the European Commission, has taken the lead in co- or parallel-financed interventions, or devising sectoral frameworks. Not only is the scope for EU-led co-ordination at this level uncertain, given the failure of the Member States and the Commission to demonstrate a significant willingness or ability in this area, but the cost/benefit ratio for this type of co-ordination is not unambiguously proven. While multi-donor programmes might seem advisable and attractive from a burden-sharing point of view, dividing single projects between donors can cause considerable delays.<sup>5</sup> It also needs to be recognised that this type of co-ordination can involve complicated procedures and is likely to be time-consuming. Further research is required before it can be established that such projects/programmes are likely to be more effective than single donor projects/programmes.

### *Country-based EU Initiatives*

The Commission and the Member States have recently embarked on a series of initiatives designed to promote the co-ordination of policies and procedures at the country level. In 1993 six pilot countries were selected for operational co-ordination: Bangladesh, Costa Rica, Côte d'Ivoire, Ethiopia, Mozambique and Peru.<sup>6</sup> The intention is that within these pilot countries, EU donor agency representatives will jointly consult on macroeconomic and sectoral issues and co-ordinate their activities so as to ensure they are complementary rather than overlapping. To this end they have established open-access programme/project information files, organised regular meetings, and produced joint studies, evaluations, and projects. Sectoral priorities and lead donors for these sectors have been

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5. In one case (involving the Tanzanian Railway Corporation) the delay by a single donor in providing machinery held up the entire project.

6. Countries have been chosen on the basis of the presence of the maximum number of EU embassies, rather than from a distinctly development perspective.



agreed in all the pilot countries except Bangladesh, where co-ordination has been particularly successful but has taken place within the context of local Consultative Groups. Progress has been variable and to a large degree dependent on the quality of personal relations between Member State delegations in the field.

Côte d'Ivoire has relatively well-developed mechanisms for promoting co-ordination and a *de facto* division of labour among some EU donors is emerging, with the Commission taking the lead in health, France in education, and Germany in agriculture. Responsibilities were divided on the basis of volume of spending, investment in expertise and experience. In Peru and Costa Rica the pilot exercise has also systematised pre-existing co-ordination and defined a programme of activities. In Ethiopia the Commission has taken a lead role in both the transport sector and in monitoring the counterpart funds. EU-led co-ordination efforts have been slow to develop in Mozambique, but regular meetings of the heads of Member State delegations have been formalised.

### *Prospects for the Future*

First, while there has been some success in formalising arrangements in a number of pilot countries, the most effective co-ordination may have been taking place spontaneously outside of such frameworks in informal *ad hoc* consultation among donors, but so far there is no evidence available to indicate the measure of EU success in this regard. Secondly, it is not clear whether the existence of a political imperative to move towards greater EU-wide co-ordination of development activities has met with genuine enthusiasm among donor staff in the field, who may be more preoccupied with the successful implementation of their own bilateral programmes. Finally, there is no doubt that a heavier emphasis on consultation and co-ordination at the country and sector level carries with it staffing implications for the donor agencies. The effectiveness of these initiatives will to a large extent turn on the nature and size of the agencies' overseas representation, the range of specialist expertise and, most significantly, the level of decentralisation of decision-making. It is therefore important that certain donors should extend increased decision-making responsibilities to the field, and define these responsibilities with greater precision (NAR, 1993: 15).

### **Co-ordination of Structural Adjustment Assistance among EU Donors**

During the 1980s co-ordination of this type of assistance among EU



donors was very weak at both the general policy and the country level. The differences in policy and procedures have been assessed in Chapter 6. For a long period EU donors had different policy objectives for the use of their assistance and different approaches to conditions and links with the international financial institutions. Although there were consultations on whether a country should receive import support and how much, minimal attention was given to co-ordination or convergence of the different donors' implementation procedures. These differences applied to the tying of aid, the terms of payment by local users for foreign exchange in counterpart funds, the approach to the administration and allocation of these resources to end-users, the eligibility of goods and the conditions applied to the counterpart funds recovered. Tanzania and Kenya illustrate well the different donor terms for access to import finance by end-users during the later 1980s.<sup>7</sup>

The wide divergences in donor procedures created major ineffectiveness in aid delivery. They imposed economic distortions in the allocation and use of funds because the real price of access to imports varied so much between end-users. The World Bank estimated that the range might have been in a ratio of 2 to 1 in Tanzania, for example. Aid tying, when combined with value-for-money checking systems, did not seem in itself to be very distortionary. Yet, the desire to disburse the relatively less attractive tied aid quickly meant, *inter alia*, that the terms and tightness of rules for domestic end-users differed considerably. It was these differences in donor rules or in the permissiveness regarding the recipient government's rules, which resulted in the greatest distortion in the economic allocation of resources in the domestic economy. The system lacked any concept of consolidated budgetary accounting and co-ordinated donor influence over budgetary use as a whole.

### *Experience in the 1990s*

In the 1990s there has been a significant movement towards greater co-ordination at the general policy level, with agreement on common objectives and some movement at the country level towards more standardised operational procedures for the management of structural

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7. Some required initial deposits, some allowed zero-interest credit, some required bank guarantees and some allowed extended repayment of credit or even none at all. The official exchange rate was used for payment of local currency in some cases, although a more realistic lower value rate was applied to other users. Some users had access only on commercial credit and at market exchange rates. However, the rules for access to import finance were more or less the same for the EU, Denmark and the UK, but different for the Netherlands and Germany.

adjustment assistance among a group of EU donors.

This partly reflects EU Council resolutions but the SPA framework – membership of which, of course, extends beyond the EU donors – has probably been the most important driving force for common approaches and guidelines on such in-country assistance operations. There are now regular prior consultations of EU donors before international meetings of the SPA. Within this framework Denmark, the Netherlands, the UK and the Commission have played, and continue to play, an active role in the collective efforts to develop co-ordinated guidelines for the management of structural adjustment. The UK and the Commission have taken a lead role in seeking common guidelines for all donors involved (not just EU members), and have been involved in public expenditure reviews and Joint Evaluation Missions in specific countries.

Secondly, there would appear to be considerable commonality, although also some differences, at the general policy level, as revealed in the publicly stated economic and political objectives which form the basis of eligibility for programme aid and the conditions which apply to it. An examination of the most important objectives and priorities of five EU donors in 1994 (Hewitt and Killick, 1994) showed that all Member States place emphasis on the objective of promoting human rights and the rule of law, and that most of them favour good governance. There is less congruence about democratic government. The French position on governance/democratic criteria has remained the most ambiguous. Most Member States except France share a priority for social, human and environmental objectives, though there does not seem to be a common emphasis on the promotion of women. The Commission, Germany and the UK share the strongest commitment to efficient economic management and the development of private enterprise (market-orientation), while France has the greatest reservations about the latter. The Commission, Denmark and the Netherlands seem currently to be shifting in favour of these economic objectives.

A third, purely EU, feature is that the structural adjustment financing proposals of the Commission itself have so far been unanimously approved by the Member States in the EDF Committee. However, there has not been a clear consensus among EU members on the World Bank Board on structural adjustment issues and proposals. At the ACP recipient-country level there have been cases of agreement between EU members in seeking to modify World Bank economic reform proposals, but also disagreement on the withdrawal of adjustment assistance on political criteria (e.g. in Kenya). A weakness at country level is that donor staff are often not senior enough to co-ordinate on policy and are too preoccupied with projects.

Fourthly, there have been differences in attitude towards the lead role taken by the IMF and the World Bank in the strategy and design of

stabilisation and structural reform policies (see Chapter 6). However, since 1992 there have been signs of some convergence, including France, in relation to the IMF. The Commission has differed from the World Bank in placing a special emphasis on the need for local ownership of reforms; more realistic, fewer and less detailed conditions; and more adaptation of the modalities to different country situations especially in the pace and sequence of the reforms. It has lobbied for its strategic emphasis with some effect.

Fifthly, at the country level of policy conditionality, the Commission has wished to remain independent in its assessment of the general framework of adjustment especially because of concerns about the IMF/World Bank approach. It has therefore reserved the right to focus on a few specific macroeconomic and sectoral conditions ('the second level of conditionality') which seems to risk weakening a collective donor approach. Nevertheless, it accepts that there can be only one reform programme in any given country and, in practice, it has generally kept within the IFI framework. If countries are definitely off-track on World Bank conditions, the Commission does not undermine the process by continuing to disburse its structural adjustment finance.

At the level of modalities, evidence is limited on how far EU donors have moved towards more standardised procedures on counterpart funds management. There would seem to have been considerable moves by all the EU donors towards the untying of their programme aid which is now largely channelled through foreign-exchange markets. In terms of the management of counterpart funds, the evidence is rather anecdotal. For Ethiopia, for example, in 1993 there was agreement on convergent or standard rules for all donors and counterpart funds from different sources were 'pooled' in a consolidated central bank account. Common commercial terms for users were also agreed, and there was consultation between donors and government regarding budget priorities and the use of counterpart funds, with a review of progress on a half-yearly basis. It is not known if EU donors have been party to agreements of this kind with other countries.

### *Future Prospects*

So far there has been little evidence, at the recipient country level, of the Commission playing a lead role in policy dialogue, programme preparation and monitoring even in its priority areas (e.g. the social sectors). Only in the case of some CFA Franc countries did it take the lead, partly because they were able to provide direct budgetary support. However, in Ethiopia for example, it has not taken the lead on food security aspects despite the priority attached to this by the Council of

Ministers and its dominance as a food and general aid donor in the country. There is plenty of scope for it to do so at the country level, in terms of cross-cutting objectives such as poverty alleviation or food security or at the sectoral reform level. For the Commission to become a lead donor it will probably require more specialised capability and more devolved responsibility to the delegations.

Chapter 6 indicated an ongoing shift of policy/modalities from a 'balance-of-payments' to a 'budgetary' perspective on structural adjustment assistance. The focus needs to shift towards the budgetary process which is very weak in many recipient countries. Some EU donors, more especially the Commission, but also the UK and the Netherlands, currently seek to target or support certain priority sectors of public expenditure where currencies are now convertible. Individual EU donors cannot normally expect to have a separate influence on budgetary patterns of expenditure nor can they expect to generate genuinely additional expenditures except perhaps in small budgetary sub-items. There is a potential risk of proliferation of individual donor budgetary priorities and conditions of this kind. Effective delivery of this type of aid requires a collective multi-donor process of dialogue on public expenditure priorities and a discipline among EU donors (at least) to comply with the agreements on priorities. Within the SPA framework for individual recipients, there is a vision of counterpart fund management within a single co-ordinated budget plan agreed with, and effectively implemented and monitored by, the recipient and the Bretton Woods institutions. Since 1993 it has become possible for France to play a positive role with its EU partners.

## **Prospects for Improved Co-ordination**

Genuine progress has been made in the EU on agreeing an identifiable and coherent set of development objectives for a number of sectors at the general policy level. Nevertheless, achievements at the in-country level would appear to be highly variable. EU-led co-ordination at this level may generally be described as being in its infancy and information remains relatively sparse. Progress on the co-ordination of structural adjustment efforts in Africa has clearly been greater than in other areas but so far it has been slow. The SPA framework of co-operation has taken nearly a decade.

One element which tends to cloud the rationale of co-ordination is the lack of clear evidence on the balance of the 'transactions costs' and benefits for recipients and donors associated with co-ordination initiatives. From the evidence here it seems likely that benefits exceed costs with respect to measures regarding common priorities, and procedures for structural adjustment assistance. The balance with respect to project activities is less

predictable.

A number of other factors influence the potential and the enthusiasm for co-ordination. The ease with which EU donors may reach agreement on common policies and approaches will be adversely affected by the general difficulty some donor agencies have in co-ordinating their *internal* activities. Chapter 1 indicates that the organisational structure of some donors, particularly those of France and Germany, has presented internal co-ordination complexities which are likely to spill over into the field of inter-donor co-ordination. Two other factors that influence the drive for the co-ordination of aid interventions are the lack of interest of domestic aid constituencies in some donor countries and the level of enthusiasm and the capacity of the recipient authorities for greater co-ordination.

The rationale for an EU-led approach to co-ordination is founded on the political imperative recently amplified in the Treaty on European Union, rather than on a dispassionate assessment of development realities. Is there a sufficiently compelling rationale for EU-wide co-ordination on sectoral policies, administrative procedures, appraisal, implementation and reporting mechanisms, to the exclusion of non-EU donors who may well be more influential in the field? There is plenty of evidence to suggest that it is usually the World Bank or the UNDP, rather than the Commission, which takes the leading role in co-ordination, even if a country's major donors are European. This probably reflects the fact that the Bank possesses the characteristics of a lead donor in a way that the Commission does not: past experience, analytical capacity and innovative research; administrative capacity to lead co-ordination; transparent procedures; political and financial 'clout'; and established relationships with recipient governments.

Concern has been expressed that EU co-ordination efforts might distract from the 'big picture' – internationally-based co-ordination (CeSPI, 1994: Chapter 12). Should the Commission and the Member States set themselves up as an alternative to World Bank-led co-ordination? The evidence suggests that the provisions of the Maastricht Treaty may have served as a valuable spur to more meaningful and effective co-ordination at the *general policy* level, and a common policy stance among EU donors does at least sharply reduce the complexity (and thus the cost to donors and recipients) of subsequent negotiations to reach wider agreed positions. Something of the same argument may also be applied to *in-country* co-ordination, both at the level of policies and procedures and implementation. However, at the country level the realities on the ground are likely to prove dominant, and EU-led or EU-confined co-ordination initiatives may have relatively less to offer. In-country it is the financial mass, experience, relationship with the recipient, analytical and administrative capacity of donors – EU Member States or otherwise – which are likely to drive successful co-ordination.



## 8

## Complementarity: Three Options for Improving EU Aid Effectiveness

The concept of EU complementarity is susceptible to a broad range of interpretations, and in practice is often left ill-defined, probably in order to avoid open disagreement between Member States. The very lack of agreement as to what the concept signifies has fostered a certain scepticism about its relevance for increasing aid effectiveness. The UK House of Lords expresses this pessimism forcefully, stating 'Complementarity is a fiction at present. At best complementarity seems to amount to no more than an agreement that different donors should not impede each other's efforts' (House of Lords, 1993: 16). The Treaty on European Union itself provides little guidance as to how the concept might be translated into concrete actions, and has left the door open to competing interpretations.

In this study the concept is taken as implying a new *division of labour* between donors along geographical, functional, thematic or sectoral lines. Specific areas of development co-operation can be assigned to the Commission, to Member States, or to other donors (e.g. UN agencies or NGOs) on the basis of their respective comparative advantage, reflecting their experience, expertise or proven competence. Complementarity may be seen as an organising principle which recognises that the European Union and the Member States 'share competence in development co-operation and complement each others' efforts,' without any lessening of national control over development co-operation (Bossuyt *et al.*, 1993: 54). Donors would have to agree on the reallocation of tasks. This would be a voluntary gradual process, taking account of legal obligations towards developing countries, structural obstacles to change, and possible resistance among officials in donor agencies.

Specialisation potentially offers clear benefits for aid effectiveness in a number of ways, which may be ranked as follows: i) by allowing donors to achieve economies of scale by concentrating their expertise and experience in specific areas; ii) by limiting duplication which wastes donor and recipient resources, including reducing inter-donor competition to start projects beyond the capacity of the recipient to fund recurrent costs; iii) by minimising the administrative and financial burden on recipient governments by reducing the number of donors operating in a particular geographical or sectoral area and limiting the range of procedures involved.

Attempts to clarify the complementarity debate have met with only

limited success. Several meetings of the Directors-General resulted in a report in 1994 proposing an 'ideal' model for European development co-operation. This envisaged that the European Union would agree a common development strategy and objectives for each country, forming the basis for a reallocation of tasks between the Commission and the Member States as a function of their capacity and comparative advantage (EC, 1994f: 6). However, a year later complementarity met with an increasingly cool reception from the Member States, some of which feel that complementarity is too radical and want to concentrate on measures to improve co-ordination as 'the main instrument to... achieve complementarity in an evolutionary process of learning by doing' (Minutes of meeting between DGs: 20 March 1995).

Complementarity presents its own difficulties, in particular the challenge of agreeing the criteria for deciding the division of labour. Comparative advantage is complicated to assess, partly because of the intrinsic difficulty of judging the development effectiveness of interventions by different donors, and partly because of its dynamic quality whereby a donor's capacity (human and institutional) can change over time. For specialisation to be acceptable it clearly must be subject to negotiation at regular intervals and must be based on structural and durable comparative advantages that are neither definitive nor exclusive (EC, 1994f: 6).

Researchers have attempted to identify rational criteria for comparative advantage on a sectoral, instrumental and functional basis, and recognising specific characteristics of the Commission, such as its political and commercial neutrality, supranationality, legal competence, and financial critical mass (Bossuyt *et al.*, 1993). This chapter explores the benefits and implications of three different routes towards complementarity, involving the rationalisation of donor aid programmes at the country level, sectoral specialisation, and structural adjustment assistance.

## Country Rationalisation

Between 1991 and 1993, 61% of all ACP country programmes of the 12 Member States accounted for only 5% by value of bilateral EU aid to the ACP; 39 ACP countries dealt with 8 to 12 small EU donor country programmes (\$10m<sup>1</sup> or less). Chapter 1 indicated three ways in which a

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1. This figure was chosen because, for Commission programmes at least, economies of scale for staffing costs occur for programmes of 8m ecu or less, which corresponds to \$10m at 1991-3 exchange rates (using rates quoted in *National Institute Economic Review* (1994) No. 150, Table 20).



proliferation of small programmes could adversely influence aid effectiveness: the limited in-country involvement of the donor reduces insight into the effective use of aid; staff costs are disproportionately high; and there is an excessive burden on the local administration. In principle these adverse effects could be minimised through a process of rationalisation, either at a country programme or sectoral level, or a combination of the two. This section elaborates the case for country programme rationalisation.<sup>2</sup>

The case for rationalisation is strongest for category A countries in which at least two major EU Member State donors are operating (see Table 8.1). This would permit small donor programmes to be transferred to the dominant donors without creating a situation of monopoly, although there would be increased opportunity for a 'cartelisation' of aid.<sup>3</sup> There may be more questions politically and developmentally about merging small programmes for category B countries where only one

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**Table 8.1 Scope for rationalisation in 39 ACP Countries with 8–12 small country programmes**

<i>Category</i>	<i>No. of countries</i>	<i>Countries within the Category</i>
a) Countries with two or more major donors	19	Angola, Benin, Burkina Faso, Burundi, Côte d'Ivoire, Djibouti, Guinea, Madagascar, Malawi, Mali, Mauritania, Niger, Nigeria, Rwanda, Senegal, Somalia, Sudan, Togo, Zaïre.
b) Countries with only one major donor	7	CAR, Chad, Congo, Mauritius, Namibia, PNG, Sierra Leone.
c) Countries without major donors	13	Botswana, Cape Verde, Dominican Republic, Equatorial Guinea, Gambia, Guinea-Bissau, Haiti, Jamaica, Lesotho, Liberia, Seychelles, Swaziland, Trinidad & Tobago.

*Source:* DAC data referring to disbursement levels for 1991–3.

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2. The research is based on data kindly provided by the DAC Secretariat.

3. Some researchers would argue that an 'oligopoly of donors' could actually reduce efficiency by reducing competition and operating against the principles of the free market.

major EU donor is present. This could vest excessive power with a single donor, weakening the bargaining position of the recipient country and reducing cross-fertilisation of development approaches between donors.

In some cases the danger of monopolisation might be alleviated by the presence of large non-EU donors, such as the World Bank or USAID. Countries where no major donors are present (category C) present the least scope for effective rationalisation. In addition to the danger of donor monopoly, the absence of any large donor would make it necessary to merge a very large number of small programmes to create a sizeable enough programme to offer economies of scale. The negotiating (transaction) costs of subsuming such a large number of small programmes into a freshly created large programme are likely to be high especially as most recipient governments may be resistant to it. For categories B and C, therefore, a sectoral approach is more appropriate, whereby donors concentrate on streamlining and standardising their

**Figure 8.1 Staffing and size of aid programme in EC delegations**

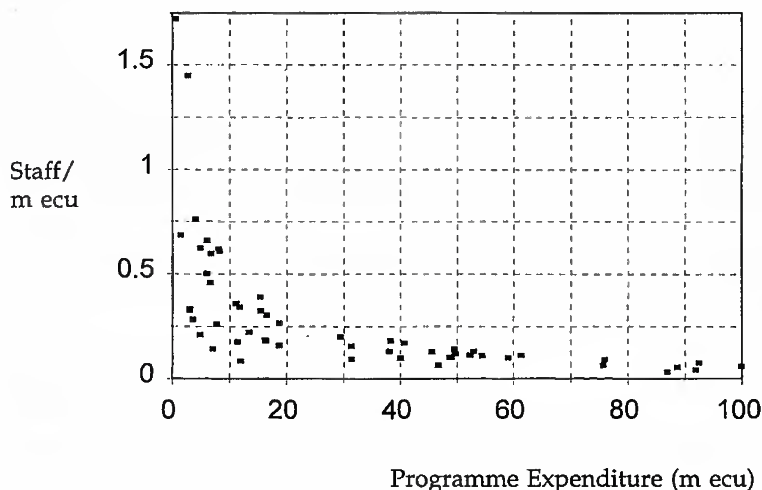


Figure 8.1 indicates that the staffing costs per million ecu spent by the Commission fall very substantially as programme size increases. Thus small programmes (under 8m ecu) required 0.64 staff/per million ecu, while large programmes (over 30m ecu) required only one-sixth that level, or about 0.11 staff/per million ecu.

activities to reduce the administrative burden on the recipient authorities.

The impact on aid effectiveness of country rationalisation is hard to estimate. The reduction of the burden on recipients is real but difficult to measure precisely. It could have various knock-on effects on all development activities in the recipient country resulting from a range of economies of scale, and produce benefits at donor headquarters, but such gains are hard to predict or quantify. However, it is possible to provide a qualified estimate of the staff savings that might be expected by pursuing ACP country rationalisation.

Commission data were available on the field staffing levels used per million ecu spent annually in 65 ACP programmes in 1991–3.

On these figures, savings on staff levels following country programme rationalisation have been calculated for countries with at least two major donors and 8–12 small donor country programmes (category A in Table 8.1). These are estimated at 163 staff for the 19 ACP countries, or an average of nearly 9 staff per country, that can be 'rationalised', assuming the marginal staffing cost of transferring the small programmes to large programmes is zero. Naturally the savings would be much higher – about 500 staff – if *all* 'small' ACP programmes were transferred to larger programmes (including categories B and C). These estimates only take account of savings overseas, while there may also be staff savings (e.g. country desk officers) at headquarters.

However, these figures have to be treated cautiously as they are subject to a number of qualifications. First, the calculations assume that the Commission's overseas staffing levels are representative of those of other donors and existing staffing levels. Where overseas representation is higher (e.g. France and others) the staff savings would be greater, and vice versa. Staff savings may be overestimated, as the small programmes are mainly run by embassies, perhaps requiring little administrative input. Secondly, the benefits of country rationalisation outlined earlier focus on staff and administrative economies and take little account of staff productivity or overall development impact. Thus, although it is unlikely that very small programmes maximise the impact/expenditure equation, very large programmes may also not be the most effective vehicle for development (see 'Wapenhans Report', *Effective Implementation: Key to Development Impact*, Washington DC: World Bank 1992).

Criteria for the allocation of countries or regions among EU donors could be drawn up on the basis of their being a major donor in a country, their experience in dealing with countries' main development activities (e.g. in irrigation, food security), or long-standing political (e.g. colonial) or cultural relationships (e.g. a division between Anglophone and Francophone ACP countries).

*Prospects for the Future*

For some donors it remains important that they are clearly identified with their contributions to development for diplomatic or political purposes, preferring to be recognised as being a generous state rather than one member of a generous Union. In addition, the lack of clear agreement on common EU priorities beyond the rather vague objectives specified in the Maastricht Treaty or in Council resolutions, and the lack of a genuinely common development policy, may lead some donors to resist moves towards greater complementarity through country rationalisation.

## **Sectoral Specialisation and Division of Responsibilities**

Data on the sectoral distribution of aid from EU donors indicate that most donors are involved in a wide range of sectors (see Appendix Table 8.1).<sup>4</sup> The Danish programme is the most concentrated, operating in 10 out of 17 sectors categorised by the DAC (partly due to the small size of the programme relative to those of other donors). The Netherlands operates in 12, France in 13, the UK in 14, the Commission 16, and Germany in 17).<sup>5</sup> This wide sectoral spread may partly be due to increasing donor concern about relatively new aspects of development (e.g. forestry), while remaining involved in more traditional sectors (e.g. energy, transport), or to external pressures (e.g. commercial/industrial or pressure from the recipient country).

Specialisation by EU donors in a limited number of sectors on the basis of their actual and potential comparative advantage and capacity is likely to improve aid effectiveness. Sectoral specialisation would permit economies of scale and experience in a limited number of sectors; in-house specialists could concentrate on a few sectors and therefore monitor and supervise programmes better. Generalist staff also, who require a basic level of knowledge and experience, would henceforth be able to concentrate their learning on a smaller number of sectors.

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4. Sectors are only included if the donors spend more than \$5m per annum in them. For the Commission most recent comparable DAC data are from 1987 but internal documents indicate that the range of sectors covered by the EDF has not been reduced. Also in the case of other donors there is no clear indication that they have moved on to a greater concentration of sectors.

5. These figures underestimate the range of specialisms because they do not indicate the skills required in multi-sector projects, and some of these categories encompass within them a further range of specialisation.

EU donors have been fairly flexible over time in shifting the direction and sectoral balance of their programmes (Appendix Tables 8.2 and 8.3). Between 1980 and 1990 (EDF 6 and 7) most donors reduced their involvement in agriculture (with the exception of the UK) and in directly productive activities like industry, mining, trade, banking and tourism (only the Commission increased its share of assistance to the trade sector). The data do not indicate an increased disbursement in sectors like health (except for the Commission), or population and education, but they exclude support through counterpart funds. All donors greatly increased their resources devoted to programme aid. Four out of the six donors (the Commission, Denmark, Germany and the UK) increased their relative attention and absolute resources devoted to public and community services (administration, planning development, water supplies and sanitation, etc.). The UK substantially increased its involvement in transport, communications and energy, while the Netherlands strongly phased down in these sectors, in particular in transport and other infrastructure. This could point to some *de facto* specialisation.

The evidence presented in Chapter 5 did yield a few heavily qualified pointers to donor strengths and weaknesses. First, sector-by-sector comparisons of performance within each of three EU donors (the EDF, the KfW, the ODA) show them all to be relatively ineffective in a sector grouping covering industry/raw materials, manufacturing and trade, followed by Integrated Rural Development Projects and other agriculture. All three were relatively more effective in education and training (though this is not a clear sector and the result is somewhat surprising in the light of other evidence). Two of the three donors (the KfW and the ODA) performed relatively better in the energy sector.

Secondly, comparisons of donor performance in the same sector are altogether more difficult to make. However, there is some evidence to suggest that the EDF has more effective impact in the roads sector than some other donors (the UK and Denmark).

The learning of lessons and the responsiveness of donor agencies to recipient needs as well as proper appraisal of projects/programmes (economic, financial) and attention to sustainability (e.g. maintenance/technology locally available and institutional strengthening) are aspects that influence not only donors' effectiveness but also their potential to be more effective than others. Comparisons of these aspects were presented in Chapters 5 and 6. Apart from using such lessons of experience to improve the effectiveness of all donors, these exercises could assist in deciding on a possible division of labour.

*Prospects for the Future*

Over time it is clear that donors have enlarged the spread of sectors in which they operate, and that they have also given varying emphases to different sectors at different times. This does indeed suggest that there is no structural obstacle to their embracing the concept of a sectoral division of labour, though it is likely that specialist donor agency staff would fight a strong rearguard action. There are a number of limited examples of moves towards such a specialisation. In the case of Germany there has been a certain amount of sectoral specialisation by default, where it has simply not proved practical to maintain such a broad spread of activities in all countries.

EU donors could argue that they do not need to specialise at an across-the-board general level, since they have access to a wealth of specialist expertise within their own countries or in Europe as a whole. Denmark, apparently the only EU donor among the six to have a conscious strategy of sectoral specialisation, has been particularly active in pursuing an alternative: specialisation at the country level. This kind of sectoral specialisation may well represent the most realistic and indeed effective way of achieving greater complementarity and effectiveness. Country-level sectoral specialisation is relatively straightforward to implement and allows donors to respond fully to the recipient's development priorities. It could be pursued unilaterally, while informing their partners, with a low level of transactions costs. It would, however, deliver lower staffing economies than general sectoral specialisation, though this would be less serious for donors with highly decentralised aid programmes, and the transactions costs of the country-level exercise would be much higher than at the general level.

There is also some evidence of *intra-sectoral*, as opposed to the *inter-sectoral*, specialisation among EU donors in a number of the countries participating in the EU co-ordination initiative. This has involved a division of labour within a particular sector rather than a withdrawal by donors from one sector and concentration on others. However, this could be seen as a starting point for the process of more far-reaching specialisation.

The feasibility of sectoral specialisation will be influenced by the level of commitment demonstrated by donors. It will require effective mechanisms for consultation, and will need to be supported by a continuous process of dialogue. Complementarity of this type, as discussed earlier, cannot be achieved overnight, but would involve a gradual process of strengthening capacity in different agencies and channelling experience and lessons learnt to the 'sectoral specialist' donor. The allocation of responsibilities would have to remain sufficiently dynamic that donors would never expect to have a 'monopoly for life',



but not so fluid that the advantages of specialisation would be undermined.

More research is certainly required, covering a wider range of sectors and in greater depth than has been possible here, if progress is to be made in assessing the actual and potential comparative advantages of EU donors. There are unlikely to be rigorous answers but it should be possible to make well informed judgements on the degree of 'competence' of donors in different fields. Faced with increased pressure on aid budgets and constant demands for increased levels of effectiveness, a truly complementary EU development programme would seem to be an avenue deserving far more exploration.

### **Instrumental Specialisation: the Example of Structural Adjustment Assistance**

Instrumental specialisation offers a further mechanism by which greater complementarity in the EU's development policy could be achieved. The prospects for the instrument of structural adjustment assistance are explored here. Does any EU donor reveal such a comparative advantage in the management of structural adjustment assistance as to justify its becoming the exclusive agency for the task in the EU? Should the Commission take such a lead?

During the 1980s, all the EU bilateral donors were involved in a difficult learning process in making structural adjustment assistance work in both policy and operational terms. The assessment in Chapter 6 suggests that in retrospect the UK was the most responsive to changing conditions, adapting its strategy and modalities earlier than the other EU donors. The UK is a modest contributor of adjustment funds in the 1990s, though it continues to be an experienced and lead donor within the SPA framework. The Netherlands has been and continues to be a large provider of general purpose funds and its strategy and management procedures have evolved in recent years. Neither Denmark nor Germany have been major players. France, a large and growing supplier of balance-of-payments support (currently providing more than the other four bilaterals examined here put together), has followed very much of a solo course in this area until recently when it made this aid dependent on a seal of approval from the IMF.

The Commission embarked on structural adjustment assistance relatively late, but in the 1990s has become a very large player. Its current Structural Adjustment Facility flows (excluding Stabex) are of the same magnitude as those of France. It has now developed considerable analytical capacity, and it has experience of both Anglophone and Francophone economies as well as overseas representatives in all of



them. The Commission's strategy on structural adjustment has evolved and it has now developed transparent and realistic criteria for eligibility and performance-related release of funds. So far all its proposals have been unanimously supported by the Member States in the EDF Committee.

The case for the Commission exclusively to provide structural adjustment assistance on behalf of the Union appears to be quite strong, particularly at the present juncture. Currently the essential need is for a collective approach to the negotiation of public expenditure priorities within recipient countries and the management of funds in support of domestic budgets and budgetary processes. While some EU donors could potentially progress on the co-ordination path they are already treading within the SPA, it might well be simpler to have the Commission alone operating in this area with a single set of procedures for the recovery of counterpart funds feeding into a consolidated domestic account. The use of one set of procedures instead of those of six donors would both simplify and unify without any need for further co-ordination between different EU donors.

If all EU funds for structural adjustment were channelled through the Commission, this would provide, first, greater donor influence in dialogue and negotiation with recipient countries, and second, a more effective countervailing influence to the World Bank in the approach and design of reform programmes.

### *Feasibility*

Although there is a powerful intellectual case for instrumental specialisation by the Commission, there remain some practical obstacles, not all of which would be easy to overcome.

For the Commission's structural adjustment assistance to the ACP countries to replace current aid from the bilateral donors (excluding France), without a highly unlikely augmentation of Lomé funding, would require the Commission to double its assistance and hence make a major reduction in its project or sectoral spending elsewhere. To replace France as well, it would have to treble its assistance. The only exception to this would be if Member States agreed to transfer to the Commission the resources currently allocated to adjustment within their own bilateral programmes. This also would seem extremely unlikely. The Commission would in addition be faced with the need to expand the existing specialist capacity of DG VIII, which still relies quite heavily on national secondment. This again would be unlikely to meet with Member State approval. Technical assistance, especially for the budgetary and institutional processes which are now so central to budgetary reform, has

been a non-existent or weak area of competence of the Commission, though potentially these tasks could be performed by the Member States. Finally, the Commission would have to reform its procurement guidelines if it became the monopolist for structural adjustment financing, since its current partially tied status would present difficulties.

Even if likely opposition from the Member States is put to one side, there is an important technocratic factor cautioning against instrumental specialisation in this area. This is that the 'task' of structural adjustment financing may well change substantially in character and it is far from clear that its concentration in the hands of a single provider would facilitate the evolution that will be required. Already balance-of-payments support is increasingly linked with sector reforms which are, or need to be, part of country programmes. The need for special instruments like structural adjustment assistance linked to short-term reform measures (conditions) and quick disbursement may shift towards national programmes agreed on the basis of longer-term conditions, as has recently been proposed by the Commission itself (EC, 1994d). It is to be hoped that the requirement for quick-disbursing assistance conditional on improved macroeconomic policy, especially better public expenditure control, will not be permanent. After all, substantial liberalisation of markets and prices in Africa has been achieved in the last decade mainly through aid linked to economic reform. If the responsibility for adjustment assistance were entirely shifted to the Commission, the future phasing-out of this instrument would present formidable readjustment in the use of aid which would be more easily achieved by the current shared responsibility among donors.

## **Prospects for Increased Complementarity**

There remains considerable disagreement as to what the very term complementarity itself signifies, and considerable uncertainty as to how the concept might be implemented. For co-ordination and specialisation there is currently little evidence on the balance of costs and benefits for recipients and donors alike in terms of aid effectiveness. The complexity of the cost-benefit equation is likely to be further complicated by the difficulty of establishing differences in comparative advantage among donors.

The scope for achieving greater complementarity through the rationalisation of small EU donor country programmes seems rather limited. For certain recipient countries, where there is a great proliferation of small EU donors and several large ones, development effectiveness could conceivably be increased by some sort of rationalisation. However, the measurable benefits do not appear very

substantial in relation to the considerable costs likely to be involved in negotiating and organising the transfers.

Instrumental specialisation of structural adjustment appeared to offer potential effectiveness gains when examined at a theoretical level. But there are substantial operational obstacles to this approach, including the large scale of the change in resource use and of the readjustment required when the need for quick-disbursing adjustment assistance falls away and assistance is entirely integrated into long-term national programming.

Complementarity through sectoral specialisation perhaps offers the biggest potential benefits and the least obviously high transactions costs among the three options examined here. It also has the merit of already being tried in practice, albeit in a limited fashion. Sectoral specialisation, particularly at the recipient country level, possesses a coherence and a developmental logic that is appealing, potentially simplifying co-ordination among donors and with the recipient authorities, and facilitating a concentration of sectoral expertise. The Commission and the Member States might demonstrate a readiness to begin exploring the benefits of sector-based complementarity in a number of pilot countries similar to that they have demonstrated in their approach to co-ordination.

## Appendix Table 8.1

Sectoral and sub-sectoral use of aid 1987–90 (\$m)

	CEU	Denmark	France	Germany	Netherlands	UK
<b>Social &amp; Public Services</b>						
Education Service	104	8	1443	792	164	168
Health	147	41	181	70	65	56
Water Supply and Sanitation	89	92	68	186	43	42
Population	41	–	–	12	33	n/a
Public Admin	13	–	118	48	27	48
Development and Planning Services	12	–	24	90	46	–
<b>Economic Infrastructure</b>						
Transport	188	21	254	656	56	91
Communication	53	13	191	128		11
Rural Development	23	6	70	8		35
Energy	89	17	228	592	11	131
<b>Productive Sectors</b>						
Agriculture	115	80	472	364	272	128
Manufacturing	68	26	} 215	256	36	27
Mining and Construction	176	61		96	35	58
Trade and Export	42	–	} 28	137	–	8
Banking	14	–		34	–	8
Tourism	–	–		103	–	–
Multi-sector	400	49	365	104	138	n/a
Programme Aid	–	–	916	489	120	258
Total Allocable by Sector	3110	445	4000	3728	1048	891

*Note:* Only expenditure of more than \$5m in each category is included. These are the absolute volumes of commitments which can be allocated sectorally.

*Source:* DAC, *Aid Reviews*, various.

**Appendix Table 8.2**

*Comparison of sectoral distribution of Member States' aid  
1990-80 (%)*

	<i>Denmark</i>		<i>France</i>		<i>Germany</i>	
	1990-2	1980-2	1990-2	1980-2	1990-2	1980-2
Education	9	6	31	34	20	19
Health and Population	16	13	5	11	2	3
Planning and Admin	2	—	4	3	3	4
Other Social	32	14	4	9	11	7
Transport and Communication	9	1	8	12	16	23
Energy	4	9	6	3	13	11
Other infra-structure	—	—	4	—	—	—
Agriculture	11	22	9	8	9	12
Mining and Construction	6	12	3	5	8	8
Trade/Banking/Tourism	—	—	—	—	2	6
Other prod.	—	—	1	7	—	2
Multi-sector	3	1	11	3	5	5
Programme Assistance	7	—	14	8	10	—

*Note:* Errors in adding up due to rounding.

*Source:* *Ibid.*

<i>Netherlands</i>		<i>UK</i>		<i>Italy</i>		<i>Sweden</i>	
90-2	80-2	90-2	80-2	90-2	80-2	90-2	80-2
15	14	18	21	9	10	9	13
7	6	5	3	7	6	13	8
4	1	5	3	1	1	6	1
16	18	7	2	12	8	9	6
7	17	15	3	13	7	9	3
2	4	24	18	22	10	6	5
1	3	2	—	3	—	1	—
20	25	15	8	13	17	16	17
7	5	10	9	—	11	10	25
1	1	1	4	—	1	2	2
—	4	—	26	9	1	—	11
9	3	—	2	5	11	6	9
13	1	12	2	5	15	14	2

**Appendix Table 8.3***Sectoral distributions of decisions and payments of EDF 6 & 7*

<i>Sectors</i>	<i>Lomé III</i>		<i>Lomé IV</i>	
	<i>Decisions (%)</i>	<i>Payments (%)</i>	<i>Decisions (%)</i>	<i>Payments (%)</i>
Education and training	3.24	2.53	3.89	0.05
Health	1.90	1.50	4.30	0.06
Transport, common	16.73	14.83	13.18	3.53
Energy Projects	1.97	1.92	2.72	1.15
Industry	8.16	7.77	6.82	4.80
Rural Production	27.57	23.06	12.96	3.28
Trade Promotion	1.6	1.25	2.08	1.34
Thematic actions	11.22	13.05	20.49	30.31
Exceptional aid, Stabex	23.92	30.60	22.82	48.04
Other	1.35	1.23	5.26	5.91

*Note:* Since disbursements under EDF 7 had only just begun, the sectors which have slower disbursement rates (e.g. the social sectors) are rather under represented among the payments of Lomé IV. Comparing the shares of decisions rather than payments seems therefore appropriate to judge on shifts in sectoral disbursements in this case.

*Source:* European Commission



## **Part II**

### **Six Individual Donors in the European Union**

## 9

## The European Commission: EDF Aid Management

*Antonique Koning, ECDPM/ODI*

### How European Development Aid is Organised

The European Commission is one of the largest donors in the European Union (EU) accounting for 15% of European aid. Since the Maastricht Treaty the Member States and the Union share competence for development policy officially. In general, EU development assistance is divided along geographic lines. About one third of all EU development funds is contributed directly by Member States to the European Development Fund (EDF) which is used to assist in the development of the 70 African, Caribbean and Pacific (ACP) countries that have signed the Lomé Convention. Aid to other developing regions, including Asia, Latin America and the Mediterranean countries, and developing countries in Central and Eastern Europe and the former Soviet Republics comes from the main EU budget to which the Member States contribute annually (see Appendix Table 9.1).

Responsibility for development co-operation is currently allocated to five parts of the Commission for which, since 1995, five different Commissioners are also responsible:

- External relations with the ACP and South Africa are dealt with by the Directorate-General for development (DG VIII) which is responsible for the Lomé Convention, and also for non-emergency food aid, decentralised co-operation and NGO co-financing.
- Relations with other developing countries are managed by the Directorate-General for external economic relations (DG I-B) which is responsible for development aid for the Southern Mediterranean, Middle East, Latin America and Asia.<sup>1</sup>
- External relations with Central and Eastern Europe and the former Soviet Union, Mongolia, Turkey, Cyprus, Malta and other European countries outside the EU are managed by DG I-A.

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1. Except for Japan, China, Korea, Hong Kong, Macao and Taiwan which are dealt with in DG I.

- Humanitarian aid is dealt with by an organisation called ECHO (European Community Humanitarian Office). It has a special position in the bureaucracy of the Commission outside DG I, DG I-A, DG I-B and DG VIII that is intended to avoid unnecessary delays and to ensure flexibility.
- The decision-making responsibility for all development co-operation rests with the Council of Ministers (Development Council and Council on Foreign Affairs) on which the 15 Member States are represented. However, the Commission has, especially since the Treaty on European Union, relative autonomy since it has been given the right of initiative and responsibility for elaborating strategies and implementing EU development policy.

This paper focuses on the management by DG VIII of EDF funds available to ACP countries under the Lomé Convention.

## **Europe and the ACP – Partnership by Convention**

The Lomé Convention, which forms the basis of the aid to the ACP countries, is a contractual agreement between the 15 EU Member States and 70 ACP countries. The content and coverage of the Convention has been greatly extended since it was first signed in 1975, both in terms of numbers of beneficiary countries and in scope. Formally, an equal partnership characterises the relationship between the EU Member States and ACP countries that are contracting parties to the Convention. ACP-EU co-operation is based on (i) equality between partners, respect for sovereignty, mutual interests and interdependence; (ii) the right of each state to determine its own political, social, cultural and economic policy options; and (iii) security of their relations based on the 'acquis' of their system of co-operation. However, it is argued that this partnership has become more unequal in recent years, as programming and implementation become more controlled by the EU, and as ACP actors often lack the political will and capacity to be equal partners (Bossuyt and Laporte, 1994: 2).

The Lomé Convention promotes a long-term development perspective through multi-annual financial allocations. The ACP states are notified of the amount that is allocated to them from the EDF for five years ahead. This assures stable and predictable relations and reflects the contractual relationship between the Union and the ACP. Since each ACP country is entitled to the money allocated to it, if it cannot all be disbursed in the lifetime of a financing agreement, the money is transferred to the country's allocation from the next EDF.

## **The Development Objectives of the EDF**

The development objectives for EDF funding in the Lomé Convention have changed and evolved over time. Lomé I and II concentrated on promoting industrial development; self-reliant development based on self-sufficiency and food security emerged as the principal thrusts of Lomé III; Lomé IV puts more emphasis on the promotion of human rights, strengthening the position of women, protection of the environment, decentralised co-operation, diversification of the ACP economies, and promotion of the private sector. The Convention has always emphasised regional economic co-operation. The eighth EDF states that priority will be given to activities that reflect not only ACP development policies, but also those of the Treaty on European Union. These are to foster:

- sustainable economic and social development of the developing countries, especially the poorest,
- smooth and gradual integration of developing countries into the world economy,
- the fight against poverty in developing countries, and
- the observance of human rights and fundamental freedoms and the development and consolidation of democracy and the rule of law (TEU, article 130u).

Following the Maastricht Treaty, the EU Development Council has agreed on guidelines for common policies (to be followed by Member States and the Commission) in four areas: food security, poverty alleviation, health, and education.

## **Implementation of Aid Objectives: Aid Allocation**

### *Geographical Aid Allocations*

The allocations of aid among developing regions (the ACP, Asia, Latin America, and Mediterranean), are strongly influenced by the political and security objectives of the EU. They are also a compromise between the priorities of the various Member States. Between Lomé I and Lomé IV the share going to Africa has remained at about 90%, with currently 7% to the Caribbean and 3% to the Pacific. The allocation of EDF funds to individual ACP countries is effected every five years by the Commission

on the basis of a formula which includes objective criteria, such as population, GNP per capita, external debt, and includes special considerations for landlocked and island states and Least Developed Countries as stated in the Lomé Convention. These criteria are agreed and accepted by the Member States.<sup>2</sup>

An examination of how aid was actually allocated to the ACP countries from EDF 7 compared with the population level, GDP per capita and Human Development Index (HDI) shows that allocations for smaller island states were relatively large in terms of per capita aid. GDP per capita aid allocations rise as country GDP per capita declines, though there are clearly some allocations out of line with this trend (see also Anyadike-Danes and Anyadike-Danes, 1992). The country allocation in relation to the UNDP Human Development Index for each country does not show a consistent pattern.

### *Aid Allocations and Commercial Pressures*

EDF aid is tied to EU- and ACP- wide procurement and is therefore rather liberal. Tendering procedures are fairly transparent and strict. Most calls for tender and the companies awarded contracts are widely publicised. Theoretically the system works according to free-market principles and direct commercial pressures are hard to pinpoint; however, most industries have their lobby groups well established in Brussels. Data on procurement show that ACP companies accounted for approximately 21% of all the contracts in 1994. Despite their preferences during tendering (10% on service contracts and 15% on supplies), the ACP share in supply and technical assistance contracts is relatively low.

### *Sectoral and Cross-cutting Allocations of Aid*

The main sectoral objectives of the earlier EDFs were indeed reflected in the expenditure. The ACP countries, as partners in country programme and project identification and implementation, play a major role in determining the sectoral distribution of funds and also their objectives and priorities. The funds of EDF 2-4 (under Yaoundé I, II and Lomé I) were mainly spent on economic and social infrastructure projects. During Lomé II approved projects were also concentrated in rural production,

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2. Representatives of Member States interviewed believed that alternative procedures that involved Member States more could not come to a better distribution in developmental terms, as national and political objectives would influence the debate.

infrastructure and industry sectors, which together accounted for 61% of EDF 5. Under Lomé III there was a shift out of industry, health and water supply and an increase in aid for refugees, energy and trade promotion. Lomé IV up to 1995 featured the introduction of the Structural Adjustment Facility which took up 14% of EDF 7, and a very large decrease in rural development and transport infrastructure projects in favour of the health and water supply sectors and Stabex<sup>3</sup> (see Appendix Table 8.3). The Lomé IV commitment to pay more attention to cross-cutting themes, such as the integration of women in development (already in Lomé III), democracy, poverty, population, decentralised co-operation and the private sector is not reflected in the statistics.

Guidance from the policy departments of DG VIII to desk officers and delegates (Commission Européenne, 1995b) on priority sectors for allocation of funds from EDF 8 is related to the multiple objectives in the Convention. They cover a wide range of sectors and cross-cutting themes, if not almost everything. Although it is mainly for the ACP countries to suggest priority sectors for their EDF allocation, it is a matter of concern that the sectoral and thematic coverage is so wide, especially when most administrators in DG VIII and some colleagues in the field are generalists who need some experience of each sector or theme, and given the narrow range of specialist support staff.

### *Allocations in relation to Political Conditionalities*

Increased attention in the Lomé Convention for human rights, democracy and good governance is reflected in the suspension of aid to countries that fail to move to a more democratic political situation or have violated human rights.<sup>4</sup> Recently, a suspension clause has been integrated into the Convention stating that in case of a suspicion of violation of human rights – except in cases of special urgency which are not yet clearly defined – the country will be invited to consultations with the EU-ACP Council of Ministers. If no solutions are found, the EU will take

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3. Although the intended shift to the social sectors is not so far reflected in the 1992 figures, nevertheless the health sector has also benefitted from earmarking of counterpart funds generated by structural adjustment (import) programmes, of which 30–40% accrued to this sector and which is not reflected in the sectoral breakdown of decisions (DAC, 1994: 32). Under EDF 7, decisions on aid to protect the environment, sanitation and urban development more than tripled, but remained only 5.8% of all decisions taken so far (EC, 1995: Annex 2).

4. At the end of 1994, aid was suspended to Nigeria, Gambia, Liberia, Somalia, Zaire, Sudan, Togo and Equatorial Guinea, while aid to Malawi, Kenya, Haiti and Surinam had been suspended but was later resumed (EC, 1995).

appropriate action which can include full or partial suspension of Lomé aid.

### *External Pressures on Aid Allocations*

The multiplication of priorities is likely to be influenced by external pressures (from development pressure groups, parliaments and industry). In recent years, European development NGOs have organised themselves in liaison committees (some funded by the Commission) and act collectively in their campaigns, which can be quite effective in influencing development priorities. Officially the Commission reflects the opinion of the consultative Economic and Social Committee (ECOSOC) on its activities.<sup>5</sup>

Although the European Parliament (EP) has no legal power over the EDF (as opposed to budget aid),<sup>6</sup> its development committee frequently raises vital issues such as the mid-term review of Lomé. However, the EP does not have a great impact and there is no dialogue between the Council and the Commission which the EP can effectively influence. The EP institutional memory is small and reactions are slow and therefore not effective. The EP does not undertake systematic reviews or any monitoring of Commission-administered programmes and members only occasionally visit developing countries (because of their tight budget). The Lomé Convention is officially controlled by the national parliaments, some of whom take this role rather seriously, like the United Kingdom where members of the Foreign Affairs Committee regularly discuss aid administered by the European Commission.

## **Translating Development Objectives into Programmes**

### *Programmable and Non-programmable Aid*

The EDF provides programmable and non-programmable aid. Programmable aid is a recipient country entitlement which is allocated in the form of national or regional indicative programmes, including support from the Structural Adjustment Facility. Non-programmable

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5. It represents different groups of people in the European Union, such as employers, consumers, researchers and farmers.

6. Since the TEU, Members of the European Parliament must be consulted more frequently than before. They can suggest changes to Council directives and amend or reject directives.



assistance, which implies discretion by the Commission as to its country allocation, is fixed per instrument and granted to ACP states on a case-by-case basis. It is conditional on certain criteria. It accounts for 65% of the total resources of EDF 6 and 57% of EDF 7, and includes grants for Stabex and Sysmin, risk capital, interest-rate subsidies, aid for refugees and emergency aid.

The focus here is on the main component of programmable assistance: the National Indicative Programmes (NIPs). These consist of project/programme aid on a grant basis that is programmed on a five-yearly basis. Regional Indicative Programmes (RIPs) are programmed in a similar way, although their negotiation is substantially more complicated because several countries are involved. To what extent do procedures take into account recipient priorities and how flexible are the NIPs? What changes in programming have been introduced to improve the effectiveness of aid and to deal with low disbursement levels?

### *Evolution in Programming and Dialogue from Lomé I to IV*

By means of the programming exercise the ACP government decides on the sectors that its NIP should support and the instruments or type of development assistance that are most appropriate for its development needs. The recipients have always played a large role in the programming, but the emphasis on dialogue with the EU partners has changed over time.

During the programming of Lomé I, dialogue between the ACP government and the EC was rather limited. Programming missions generally resulted in a shopping list of projects that the government wanted to get funded from the EDF. It was not always clear how the projects contributed to an overall development plan for the country, nor did the Commission have clear country strategies or its own priorities for EDF aid. Under Lomé II this situation did not change much, despite the introduction of a pre-programming stage intended to take account of the views of EU Member States on the aims for each NIP before the Commission started negotiating with the ACP partners (ERO, 1994).

In Lomé III, the Commission shifted from project-oriented support to more concentration on particular sectors to help ACP countries to implement sectoral development or reform policies. The Commission also introduced its Structural Adjustment Facility (SAF) in 1987 which intensified the need for policy dialogue between the Commission and the ACP countries, who were previously generally hostile to policy dialogue. Commission officials were not really prepared for this major shift from traditional project development work. A study by DANIDA concluded that EC delegates and country desk officers in the Commission lacked the

**Table 9.1 Programmable and non-programmable aid to ACP countries, Lomé I to IV (m ecu)**

	<i>Lomé I</i> (1975-80) EDF 4 <sup>a</sup>	<i>Lomé II</i> (1980-5) EDF 5	<i>Lomé III</i> (1985-90) EDF 6	<i>Lomé IV</i> (1990-5) EDF 7	<i>Lomé IV</i> (1995-2000) EDF 8
Total	3,462	5,409	8,500	12,000	14,625
EDF	3,072	4,724	7,400	10,800	12,967
Grants	2,150	2,999	4,860	7,995 <sup>b</sup>	9,592 <sup>c</sup>
Special	46	525	600	—	—
Loans	99	284	600	825	1,000
Risk	377	634	925	1,500	1,800
Capital	—	282	415	480	575
Stabex					
Sysmin					
EIB loan resources	390	85	1,100	1,200	1,658

<sup>a</sup> EDF 1 to 3 were related to Yaoundé Conventions which preceded the Lomé Convention.

<sup>b</sup> 1,150m ecu was set aside for structural adjustment. 350m ecu for emergency aid (including aid to refugees), 280m ecu for interest rate subsidies, the rest was allocated to NIPs/RIPs.

<sup>c</sup> 1,400m ecu is for structural adjustment support

Source: DAC, 1992.

analytical capacity which was needed for a true policy dialogue (DANIDA, 1991). The need to concentrate on priority sectors resulted in many large *integrated* rural development projects (that tried to cover many components) between 1986 and 1989.

Lomé IV reinforced the sectoral focus of the third Lomé Convention, requiring a mutual commitment to reinforce sectoral policies. Policy dialogue increased further with the expansion of the SAF, which in 1994 accounted for more than 25% of programmable aid disbursements. Capacity for policy dialogue has improved considerably in DG VIII, especially in the policy division (VIII A/1) and the division dealing with programming and structural adjustment.

After deciding the amount that has been allocated to the country, the programming exercise begins. The National Indicative Programme which is produced by the dialogue between the ACP country and the EU

includes the priority development objectives at the national and regional level, the focal sector(s) in which support would be most appropriate and the most appropriate measures/operations for them. The NIPs are considered fairly flexible and can be revised to take account of changes or shifts in priority at the request of the ACP government.

EU delegations play a key role in the negotiation of the NIPs and they provide the Commission with a draft strategic intervention document (Commission Européene, 1995a). The guidance given to the desks and delegates is substantial and it integrates past experience and information on the Union's policy objectives and how to take them into account. Country desk officers check the intervention strategy documents in Brussels where they are less pressured by the ACP governments.

Following exchanges of views with the ACP government, the document is screened by a committee that includes the main elements of co-operation in DG VIII (horizontal issues, sectoral experts, technicians, desk officers relevant to the country). The pre-programming document is then discussed and approved by the EDF committee and this gives the Commission the mandate for the official negotiations with the ACP government normally during a programming mission of officials from Brussels to the field. The programming agreement is later on formally adopted as the NIP.

### *The Introduction of Phased Programming*

By 1994, only 81% of allocated EDF 6 funds (1985–90) and 30% of EDF 7 funds (1990–95) had been disbursed (EC, 1995: 6). This is partly due to the extensive policy dialogue on country priorities and sectors which slows down the project management cycle in the identification stage, while the appraisal of projects has also been lengthened by the integration of new cross-sectoral priorities (EC, 1994a: 23). The joint responsibility of EU and ACP partners has also caused considerable delay to the delivery of EDF funds (Price Waterhouse, 1992). Delays partially reflect the working of partnership and new themes in aid delivery.

Regional Indicative Programmes (RIPs) under Lomé III (1985–90) which were mainly spent on infrastructure, animal health and protection of natural resources (EC, 1995: 13) had been only 65% disbursed by 1994. These projects experience greater difficulties in implementation because they are often complex, they involve a number of partners in different countries, and depend on the willingness of countries to work towards regional co-operation. Evaluation studies suggest that regional aid has had little effect on inter-country trade despite large national investment in transport under these programmes (Healey and Rand, 1994).

A system of phased programming has been introduced for the eighth EDF to make the NIPs more realistic. In contrast with the previous programming rounds, the NIP allocation, although known in advance, will no longer be committed for the five-year period but divided into tranches whose allocation will be performance-related. The first tranche, (70% of the funds), will be allocated at the beginning of the five-year period. The second tranche is no longer an entitlement but is allocated after an assessment of the performance of the first tranche after no more than three years. This is the first time that systematic reviews on a country level have been introduced. Criteria for determining the second tranche (size of the total allocation, progress in implementing the first tranche, the state of preparation for the second phase and the specific situation of the ACP state concerned) are still rather vague and not yet quantified.

### *Policy-based Lending: Structural Adjustment*

A Structural Adjustment Facility (SAF) was introduced in 1987. The EC was particularly late in recognising the importance of structural adjustment support, partly because of a lack of agreement among Member States. However, following the endorsement of a special facility for Structural Adjustment Support in Lomé IV, the Commission has increased the number of staff in the unit dealing with the SAF to 12 economists and set up a specialised unit to guide the design of programmes.

This quick-disbursing aid instrument accounted for 2.8% of payments in 1991 (excluding Stabex), 8.0% in 1992 and 23% in 1993. Deployment of funds is less automatic and more conditional than the NIPs and RIPs have been so far, and the programming of SAPs is phased in two instalments. Each country is initially provided with access to a pool of funds – the Structural Adjustment Facility – based on criteria of domestic and external financing needs. A second tranche is paid out depending on the economic adjustment performance as well as political criteria such as democratisation. In 1993, 42 ACP states were declared eligible for finance from the SAF. The Structural Adjustment unit pays a lot of attention to the management of counterpart funds, which are targeted on priority public expenditures (especially, health and education). The Commission has played an active role in the Special Programme for Africa, clearly stating its views on local ownership and realistic sequencing of reforms.

The main objectives of DG VIII's policy on support for structural adjustment are: to reconcile adjustment with long-term development, to adapt the pace of reform to the specific constraints and capacities of each country, to take account of the regional and social dimensions of

adjustment, to maximise consistency with other Community instruments which affect the balance of payments, to support reform in public finance and budgetary processes and to step up co-ordination with other donors (EC, 1995: 57).

## **Impact of DG VIII Staffing on Programme Management**

Effective management of the programmes on the EU side requires a good understanding of the social, cultural, institutional and policy context of individual ACP countries, especially since programmes have become more complex and ambitious in terms of their objectives, sectoral coverage and shift from infrastructure to 'people-centred' programmes. This raises issues of staffing and organisation in DG VIII.

### *Composition of Staff*

In January 1994, DG VIII employed 568 people at headquarters and 200 in delegations. In Brussels, there are roughly two types of staff: officials who work under a permanent contract and are recruited through the general recruitment (*concours*) of the European Commission, and external expert staff who work for a maximum of 3 to 5 years and are recruited through an open competition specific to a particular post. In January 1995, the staff included 16 national experts and 12 technical assistants employed in sectors in which DG VIII does not have particular expertise (e.g. population, gender, tropical forests).

A range of specialisms are available in DG VIII (see Table 2.2). There is a relatively high ratio (2:1) of specialists compared to general administrators, although specialists in delegations are very much concentrated on economists, civil engineers and agriculturalists. In relation to new priorities and concerns (women in development, social development and the environment) there are relatively few experts in DG VIII.

### *Policy, Operational Units and Advisory Departments*

DG VIII is divided into general policy groups and operational groups which are organised geographically (see Appendix 9.2). There are three geographical directorates responsible for West and Central Africa, Eastern and Southern Africa, and the Caribbean, Indian Ocean and Pacific. The African directorates each have two technical divisions, one dealing with infrastructure and the other with rural development. The

directorates dealing with the Caribbean, Pacific and Indian Ocean has one multidisciplinary technical unit. A fourth directorate has recently (October 1995) been created in the operational side of the house to include other advisory capacities related to sectoral implementation. The unit for development policy has been split into two, one for sustainable development and natural resources and one for human and social development including gender in development.

There is close interaction of the policy advisers with the operational desks and technicians in most cases, and steering groups (on country or sectoral issues) have been introduced recently to deal with the gap between the two sides of DG VIII, which in the past has caused some inconsistencies. The structural adjustment unit is an exception which integrates both policy and programme design.

### *Staff Turnover and Rotation*

Until five years ago, staff remained in the same services of the Commission and turnover was low. Since then, many DG VIII staff have moved, in particular to DG I where the creation of programmes for Eastern Europe resulted in a need for people with experience in programming. It has become a normal career development for people to move between DGs from time to time. This has caused some problems in particular departments weakened by the departure of experienced staff.<sup>7</sup> However, mobility is now regarded as an asset in terms of career development in the Commission. DG VIII now attracts people from different backgrounds and experience in other DGs. Although this will strengthen the capacity of DG VIII in various ways, these people are not always equipped with experience of developing countries.

There is no formal system to ensure that personnel revolve between headquarters and the field. Delegation staff can now ask for a two-year stay in Brussels after two periods (lasting four years each) in the delegation and every official recruited by DG VIII has a contractual obligation to go to the field when asked to do so. Movement between the field and the Commission has improved since the 1980s when specially recruited delegation staff were not allowed to work in the Commission. However, it still appears to be limited. In 1994, 3 officials moved from the Commission to work in delegations, while in 1995 the Commission sent 4 heads of unit to be delegates. It appears that approximately 1 out of 6 country desk officers has substantial experience in the field and almost two-thirds of the technical advisers have been overseas.

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7. The level of vacancies in DG VIII fell from 10% in 1992 to 4% in 1994.



*Delegations in ACP Countries*

DG VIII has 56 delegations for 70 ACP states. Most have a 'chef de délégation', and their size ranges from 1 to 10 staff (in Nigeria).

Following the creation of DG I-A, which is responsible for external policy, delegations of the Commission in developing countries are responsible for all external relations of the EU (rather like embassies). Despite the fact that the delegations play a more diplomatic role, all current heads of the delegations in ACP countries were previously DG VIII staff, and are therefore likely to be more involved in development than diplomatic relations.

The delegations play a key role in the negotiations with the ACP governments and co-ordination with other donors in programming, although the pre-programming document is finalised in Brussels. In the implementation of the programmes, delegates have low authority over financial decisions (up to 60,000 ecu) and formally have to refer to Brussels for decisions above that level. A study by Price Waterhouse (1992), also known as the Post-Fiji study, identified the lack of decision-making authority in the delegations as one of the reasons for delays and inefficiencies. The authority of the delegation staff seems to depend very much on the personal chemistry between the delegate and the country desk officer at headquarters (Nolke, 1993: 13).

**Implementation: Project and Programme Management**

In the light of past experience reflected in evaluation reports, certain project management characteristics emerge as important for the effectiveness of aid delivery, and are discussed in this section.

*Project Management Cycle*

In 1992, the Commission introduced a new approach to the management of aid: the integrated approach to Project Cycle Management, which covers the whole project cycle from the National Indicative Programme through project identification, appraisal, financing, implementation, monitoring and evaluation. The logical framework approach is used systematically. It is specifically aimed at strengthening the earlier phases of the project cycle, and especially at improving the clarity of objectives and rigour of appraisal of project proposals. It followed the publication of the Commission's Second Report on Development Co-operation Evaluation which indicated that many projects failed because development strategies were generally not well set out, identification



lacked rigour, and project objectives were unclear and neglected socio-cultural factors.<sup>8</sup>

After two years of training in the Commission and ACP countries, the integrated approach became fairly well accepted among desk officers and delegations. It is too soon to establish the success of the approach but it has systematised the preparation of projects and programmes and, at least in the first phase of the cycle, improvements in project proposals are visible.

### *Shared Responsibilities*

Throughout the project cycle, delivery of the aid programme is formally the joint responsibility of the ACP state and the EU (see Table 9.2). The ACP government, represented by the National Authorising Officer (NAO), is essentially responsible for the identification and preparation of projects and programmes, appraisal is a joint responsibility, and the EU approves financing proposals that are prepared by the EU delegate. In the Price Waterhouse study, it was indicated that this joint responsibility causes considerable delay in the project management cycle; however, a change in joint responsibility is not foreseen as it is feared that it will affect the partnership.

### *Identification, Appraisal and Screening of Project Proposals*

In the identification and preparation phase, an identification sheet is prepared by the country desk officer in DG VIII as soon as a project proposal comes from the NAO, generally through the delegation which assists in its preparation. Use of the logical framework systematically helps to ensure that all of the important aspects are addressed in every project proposal, and it makes it easier for the heads of division to check whether lessons from the past have been incorporated. The initial version of this sheet goes for approval to the deputy Director General.

Appraisal of projects is now guided by the Integrated Project Management Approach. Currently manuals are under preparation for economic and financial appraisal (to replace the earlier versions) and for sectors (such as health, transport) and thematic manuals (such as social concerns in development). The technical divisions assist delegates (and country desk officers) in the appraisal on the EU side. After appraisal, a financing document is prepared for submission to the EDF Committee.

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8. EC working document Sec.90902, 1990.

**Table 9.2 Lomé IV project implementation process for programmable funds**

<i>Activity</i>	<i>Responsibility</i>
Draw up project dossier	Recipient Government
Appraise project dossier	Jointly
Submit project dossier to EU	EU Delegate
Prepare financing proposal	EU Delegate
Submit financing proposal to EDF Committee for approval	EU Delegate
Review and decision by EDF Committee	Commission and Member States
Sign financing agreement	Jointly
Decide on tendering procedure	Jointly
Prepare tender dossier	Recipient (NAO)
Approve tender dossier	EU Delegate
Evaluate tenders	Recipient (NAO)
Approve tenders	EU Delegate
Sign contracts	Recipient (NAO)
Commence implementation	Recipient
Authorise payments	EU Delegate
Effect payments	Paying Agent
Monitor and evaluate	Jointly
Resolve disputes	Joint ACP-EU Committee

There is no formal *internal* high-level screening body for the project proposals (financing proposals) which could ensure that lessons are taken into account in new project proposals and help to guarantee senior, independent quality control and consistency in project standards. Informally the heads of unit of the relevant divisions check proposals and they are assisted by the evaluation unit. Although this system seems

to work fairly well, some project proposals still tend to slip through the screening process.

The Commission is currently considering whether to establish an internal committee to assess projects before they reach the EDF Committee.<sup>9</sup> It would act at two levels: a multidisciplinary working group to make sure the lessons from evaluations and new policy guidelines are incorporated, and a top-level quality control committee at the level of DG and heads of unit. Earlier attempts to introduce such a committee have failed, mainly due to the resistance of DG VIII country desk officers. They did not like the control, which was mainly exerted by the policy side of DG VIII, and feared the committee would delay the process and increase their workload.

The EDF Committee consists of representatives of the Member States and it plays a final role in scrutinising project proposals as well as approving pre-programming documents. The committee meets every four weeks to discuss and approve financing proposals exceeding 2m ecu, but in general only proposals exceeding 7m ecu are dealt with orally during the meetings.<sup>10</sup> Comments of Member States are usually detailed and scrutiny by some Member States is quite severe. While projects are regularly amended, they are rarely rejected. If a consensus cannot be reached among the committee members, qualified majority voting is used. In such cases, like-minded countries normally have intensive consultations beforehand.

Member States find it hard to keep up with the number of proposals that they need to scrutinise; the expertise of their representatives in the committee is variable and not all representatives are experts on aid management. Moreover, preparation for the meetings is time-consuming for officials.

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9. The idea is that if internal screening and presentation of proposals are improved, the EDF committee could engage in more strategic thinking rather than being concerned with the details of projects. Only the doubtful projects would come to the attention of the EDF committee, and for the rest of the projects the committee would be notified but no longer fully informed unless Member States ask for more information.

10. The exception to the four-week system is when a decision needs to be taken as a matter of urgency; in that case the procedure is reduced to 7 working days (art. 8). The committee can be convened in between at the request of the Chairman or a Member State, but this rarely happens.

## *Monitoring and Evaluation*

The monitoring of the implementation of the NIPs is largely left to the National Authorising Officer (NAO) and the EU delegate. Desk officers at headquarters play a more administrative role; since 1992 the responsibility for implementing projects lies with the technical units on rural development, infrastructure and education, who assist the NAOs and EU delegates and liaise with the desk officers.

Despite the many delegations and their close relations with the NAO which ensures that the EU can be well-informed about what is going on in the field, the monitoring of EDF projects has been weak according to many evaluations. This is because staff in both the delegations and DG VIII are overburdened with administrative and financial aspects of the management of consultants (DANIDA, 1991), and lack management tools/skills and information (Price Waterhouse, 1992: 9).

The recently introduced *Project Information Control System* (PICS) has improved the financial monitoring of projects. An *Early Warning System* was in place from the late 1980s whereby the delegations completed a progress report on each project in which they identified any problems and reported on sustainability. However, the system was too time-consuming and did not work. In November 1994, it was replaced by *Impact fiches* in which the delegate gives ratings concerning the projects, implementation, sustainability, etc. They can trigger an *ad hoc* evaluation, after which a decision will be made to correct or suspend the activity by stating the minimum conditions for viability. However, these fiches seem to give limited information to which to react. There are also *six-monthly hearings* (of 10 days: one per region) of desk officers on the progress of their programmes by the directors and heads of the regional divisions. These are quite intensive and fairly well backed up with statistical information (progress reports from PICS). *Midterm reviews* of projects are increasingly undertaken (partly due to pressure from the EDF committee). Feedback mechanisms include *EVINFOs*, which summarise evaluation results and are widely distributed. Evaluation results are also integrated in a *diversified set of policy guidelines* on sectors and themes ('Basic Principles') and manuals are prepared by the policy units. *Seminars* and *informal steering groups* are also organised for the follow-up of evaluation results and improved in-house co-ordination (e.g. for rural development projects).

The *evaluation department* has been expanded substantially since 1992, in terms of both staff and coverage, and the unit is now responsible for all evaluations concerning development co-operation in DG VIII and DG I North/South, and for ensuring more effective feedback of experience.

The evaluation unit has played a major role in introducing the logical framework approach as well as a manual on project cycle management,

and it is currently preparing a manual on financial and economic analysis. The 1995 budget for evaluations was increased to 4.5m ecu. In the last few years, the number of evaluations produced has increased enormously and its sample has become more representative of the aid budget since the big studies on rural development and transport were completed (1994). For 1995, the evaluation unit planned studies of the environment, health, and decentralised co-operation. Evaluations have to be done jointly with the ACP country according to the Lomé Convention, although they can delegate responsibility to the Commission. The Commission has had difficulties in the past in finding good ACP consultants (Healey and Rand, 1994: 4).

A weakness of the feedback system in the 1980s was the lack of operational relevance of some evaluations and guidelines for the desk officers and people in the field, partly due to the heavy reliance on external consultants for evaluations (Cracknell, 1989). Consultants are now being trained in the logical framework approach before undertaking the evaluations in order to reduce this problem. In addition, there is no strong discipline on officials to act on the lessons of experience. The internal screening committee might improve this situation. Because the EDF Committee is an external body, it is not well placed to ensure the effective feedback of evaluations or good practice in the organisation.

### *Openness of DG VIII and Accountability to External Bodies*

Compared to some other parts of the Commission, DG VIII is relatively open. The Commission produces a publicly available Annual Report with a section on aid expenditure, and it reports on its development activities to the DAC and has also published annual information notes since 1992. Its evaluation reports have also been publicly available since 1993. DG VIII has a transparent policy regarding tendering and lists all contracts publicly.

DG VIII's accountability to the EU taxpayer is obviously more distant than that of bilateral EU donors. DG VIII is accountable to the Council of Ministers, Member States' representatives in Brussels, National Parliaments and Lomé institutions such as the Joint Assembly<sup>11</sup> and the Committee of Ambassadors. Its expenditures are reviewed for the taxpayer by the Court of Auditors, which is an independent body responsible for examining all EU expenditure. The Court produces an

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11. This body consists of MEPS and a member from each ACP parliament. There is a rather uneven balance between the EU and ACP side at meetings as ACP MPs only see each other twice a year and are too distant from Brussels and all that is happening in the meantime.

annual report which presents an assessment of the cost-effectiveness of the implementation of EU policies and the budget for the preceding year. These reports generally tend to be negative. Commission officials complain about their bias and react against the purely cost-effectiveness angle, which ignores difficulties in disbursing aid to Lomé countries. This makes their feedback into DG VIII management more difficult. The Member States and the EP see the reports as an important source of information about the aid system.

## **Some Conclusions on the Management of the EDF**

This chapter has highlighted elements of the strategic approach and management of the EDF that have implications for its overall effectiveness. This section recapitulates the main points and conclusions.

### *Objectives*

Most of the traditional development objectives are reflected in both the geographical allocation and sectoral distribution of EDF aid. Newer priorities do not seem to be so well reflected. This may be due to a time lag in the disbursement of the aid. It may also be due to their more complex nature, and greater attention to cross-cutting and social objectives (as opposed to infrastructure) which typically require more time to implement. Not all ACP countries have been willing to accept the new priorities in their country programmes. This is a consequence of the partnership principle enshrined in Lomé. Political conditionalities concerning human rights, good governance and democracy are still very new and the positive measures that are under way still need to be tested to ascertain their impact.

Overall, the most significant external pressures have come from the various development 'communities' rather than from commerce or industry. Inflation of objectives, in the absence of clear prioritisation, does not facilitate management effectiveness. In setting the objectives of the Lomé Convention, as well as the additional ACP and EU priorities, the Contracting Parties to the Convention have set themselves a very ambitious task, and this certainly complicates the management of the EDF.

Allocation criteria are reasonably objective and geographical allocations among ACP countries broadly respond to poverty levels, though some allocations are disproportionate to the population size of the countries.

Dialogue has become more important and sophisticated in the ACP-EU relationship, not least because of the introduction of structural



adjustment support. Some observers doubt the equal weight of the partners in this dialogue. More dialogue, the ambitious nature of some of the programmes, and the introduction of the new system of performance-related phased programming, may have slowed down the implementation process and lengthened the disbursement period. The impact on aid effectiveness remains to be seen.

### *DG VIII Capacity in Brussels and in the Delegations*

Supporting specialists tend to be concentrated in traditional areas and are lacking in new priority fields such as the social sectors and institutional development, especially in the delegations. Although these gaps are generally filled by consultants, their adequate supervision is required. The ratio of junior support staff to senior staff is rather low, overburdening professional staff with administrative functions, both in Brussels and in the delegations.

Management systems and structures for ensuring the link between the policy and operational sides of DG VIII have been rather weak. The recent changes in the organisation (e.g. more attention for policy and sectoral implementation and a spread of the workload in the geographical divisions), cannot be evaluated yet.

The relatively high turnover of staff combined with a low level of rotation between the Commission and the field appears to limit DG VIII's corporate memory, especially with centralised decision-making. More decentralisation of responsibilities to the delegations and extension of their expertise are likely to improve aid effectiveness. There also seem to be few guidelines for new staff on Commission procedures.

### *Implementation of the Programmes throughout the Project Cycle*

DG VIII's identification and appraisal of projects has been weak but a new procedure based on a logical framework approach has been introduced. The extensive efforts to train staff in using the approach have already paid off in the preparation of new project proposals, but its wider impact can only be judged in a few years time.

New economic and financial appraisal guidelines and sectoral and thematic manuals are being produced. DG VIII still lacks consistent quality control of its financial proposals by an internal senior committee. This makes final screening of the proposals dependent on the EDF Committee which does not always have the capacity for this.

Monitoring of EDF projects, mainly by the ACP countries, has been weak. The recent attempts to improve this are not yet adequate.



Strengthening the evaluation capacity in DG VIII has improved feedback, although channels to transfer lessons from the field to headquarters remain rather unsatisfactory.

Overall, many lessons still need to be learned from the Commission's past experience, but DG VIII has a lot to build on. The future of the Lomé Convention is not indefinite and it is under threat. Both the ACP countries and the EU should safeguard some precious characteristics and update others. To maintain public support for the Convention, some of the weaknesses in its management should be addressed. A first step for DG VIII would be to consider its own strengths and weaknesses and prioritise its activities.

## Appendix Table 9.1

*Disbursements of EU aid, 1990-3 (m ecu)*

	1990	1991	1992	1993
European Development Fund <sup>a</sup>	1,256	1,195	1,942	1,354
General EU Budget	953	2,228	2,037	2,529
of which				
Food Aid	485	650	627	434
Asia and Latin America	245	253	319	354
Mediterranean	103	165	219	353
Humanitarian Aid <sup>b</sup>	20	116	121	341
NGOs	85	87	101	129
PHARE and TACIS <sup>c</sup>	-	305	484	719
Others <sup>d</sup>	16	651	165	200
<i>Total</i>	<i>2,209</i>	<i>3,423</i>	<i>3,979</i>	<i>3,883</i>

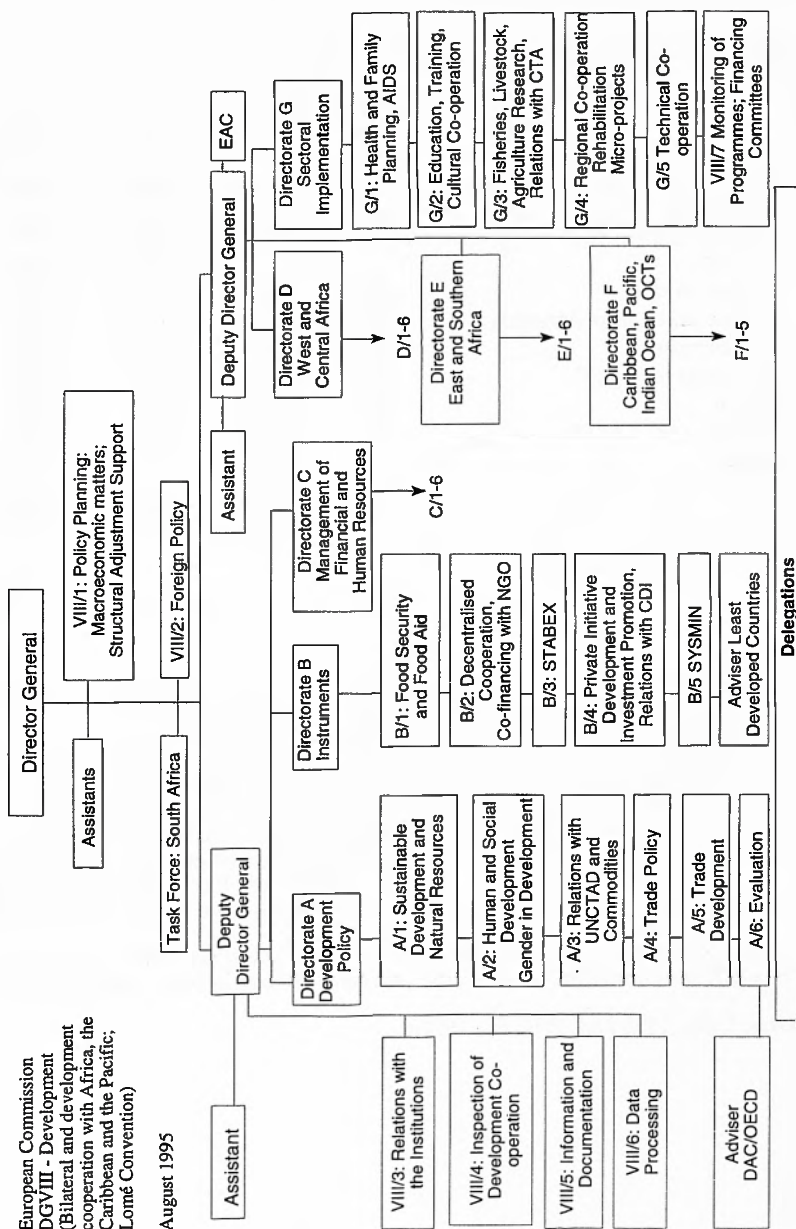
(1 ecu = US\$1.17 in 1993)

*Notes:*

- EDF disbursements fell in 1993 because there was no disbursement of Stabex funds (which took up 32% of EDF expenditures in 1992).
- Figures for humanitarian aid are not unambiguous due to the changes in the statistical series resulting from the creation of ECHO in 1992 and the fact that some forms of aid, especially food aid, may include humanitarian aid.
- Funds provided under the PHARE (Poland and Hungary Assistance for Economic Restructuring) and TACIS (Technical Assistance to the Commonwealth of Independent States) programmes exclude food aid in the form of funding provided between 1989 and 1993 from the Common Agricultural Policy Guidance Fund. ECHO funds have also gone to the CEEC and FSR.
- Includes aid to countries affected by the 1991 Gulf war (528m ecu), and (in 1993) environmental projects (15m ecu) and projects in South Africa (60m ecu).

*Sources:* DAC, 1993 and 1994; EC, 1994e.

## Appendix Table 9.2 Organogram of the Directorate-General for Development



**note:** see list of acronyms

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## 10

## Danish Aid Management

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**Aid Policy: Approach and Philosophy**

Danish aid policy can be viewed from different perspectives, as one element in the totality of Denmark's international relations. It can be fruitful to look at development policy as a particular area of policy which is characterised by strong norms and moral attitudes. It is then seen as 'marked by idealism and therefore it is more open to argument, that is to say, it is less tied to the common economic clash of interests' (Svendson, 1981: 11). Danish development policy can also be seen as a continuation of domestic welfare policies which lay emphasis on income transfers as a central element in the redistribution of wealth between rich and poor, or as a transfer of Danish welfare values to the international scene. The strength of these values is important in explaining the high degree of continuity which has characterised Danish development policy since the early 1970s.

Unlike other areas of Danish politics, the aid sector has shown a remarkable continuity regarding both the actors involved and the issues discussed. In spite of many public debates, Danish overseas aid policy has changed relatively little over the years. A recurrent feature is the tendency to place development assistance above traditional party politics, although concessions have, of course, been made to various interest groups from time to time (Svendson, 1995: 41). Thus, a majority as high as 80–90% of MPs has often backed the revisions of the aid policy agenda during the, usually annual, debates in Parliament on development assistance. The existence of an institutionalised 'policy community' may help to explain the lack of radical change in aid policy. The members of this community gain from participating in the policy process and from moderating their disagreements. Politicians, and probably also civil servants as well as most other interested parties, are agreed on the desirability of winning the broadest possible support for Danish aid. Political compromise has thus become the hallmark of aid policy-making. The emphasis has been on the broad humanitarian aspects of aid rather than on explicitly stated political objectives which have implied reduced backing from influential parts of the policy community.

Aid policy can also be seen as a field in which different constituencies

compete in favour of their respective goals. There is a broad popular aid constituency which champions normative aid objectives and builds on alliances between aid professionals in NGOs, research institutes, DANIDA, etc. Secondly, Danish business interests have been influential in securing and preserving quite substantial 'returns' to Danish companies by maintaining various models of tied aid. Finally, a looser grouping of actors closer to government and Parliament have steadfastly viewed support for international development co-operation as an integral part of overall Danish foreign policy.

While these processes have served to maintain a remarkable consensus about foreign aid, the indirect outcome (or 'costs') of this co-existence of competing demands has led to a complex of more or less independent objectives with conflicting aims and a lack of clarity in the way they are formulated and presented to the aid administration. Conflicts may occur between the explicit and implicit agendas for development assistance. All this places high demands on the political and administrative management of Danish development assistance.

Two basic principles have been influential in shaping that assistance. First, since the late 1960s it has been agreed to divide Danish aid on a fifty-fifty basis between multilateral and bilateral assistance, in general favouring the UN organisations in this context. Secondly, the volume of aid relative to GDP has been high for more than two decades; it was 0.7% of GDP in 1978, and rose to the current level of 1% of GDP in 1992. Parliament had set this target in 1985, a decision that implied a rapid growth in aid budgets during the late 1980s and early 1990s. In 1992, Parliament decided on a new and additional budget framework, due to reach 0.5% of GDP in 2002, which was outside the aid appropriations, to cover international environmental assistance (to developing countries as well as to Eastern Europe) and emergency assistance, mainly pre-asylum expenditures for refugees coming to Denmark.

### *Aid Objectives*

Since 1971, the overall objectives of Danish development assistance have been embodied in an Act which states:

the objective of Denmark's official assistance to developing countries is – in collaboration with the governments and authorities of these countries – to support their endeavours to achieve economic growth in order to contribute to securing social progress and political independence in conformity with the Charter of the United Nations.

Subsequent revisions of this Act have left the basic objective unchanged for more than two decades. Since the end of the Cold War and the



reorganisation of the Ministry of Foreign Affairs in 1991, development policy has been linked to broader areas such as the global environment, the debt crisis, and human rights.

At regular intervals Parliament has debated and added to these objectives. There has been a traditional sensitivity to the contemporary UN development agenda. The 1994 strategy defined seven thematic priority areas: poverty, women, population, the environment, trade, debt relief, and the promotion of democratisation and human rights. Of these, population, trade and debt relief are 'newcomers', while the others represent a continuation of normal practice. It has generally been left to Ministry of Foreign Affairs officials to draw up the respective strategies, usually in collaboration with various sections of the aid policy community. Generally, neither Parliament nor the DANIDA management have prioritised the various aid objectives, apart from the general commitment to poverty alleviation. This seems to be a recurrent source of frustration and tension in the design and implementation of individual projects and in country programming, as it is left to individual departmental sections and staff members to define the actual priorities for a particular intervention.

*Poverty alleviation.* Only very recently has the Danish aid administration tried to define more specifically how their activities can and/or have contribute(d) to poverty alleviation, the overall objective for Danish aid since the 1970s (Sano, 1993: 27). The current (1994) aid strategy maintains poverty alleviation as the overarching objective, albeit in a somewhat more detailed and outspoken programmatic manner than has previously been the case.

Prior to the 1994 Danish aid strategy paper the poverty-alleviation objective had traditionally been pursued in terms of a focus on low-income countries, on support for social sector development and, occasionally, on support for deprived local areas (e.g. integrated rural development programmes). So far operational guidelines to define different groups of poor people or suggestions to target assistance to a certain percentage of the absolute poor have not been prepared; these will be an integral component of the formulation of country strategies. Work is currently under way to review past performance in the poverty field and to include attempts to formulate an actual policy in this area. Over the last decade Denmark has allocated just over 40% of bilateral aid to the least developed countries. The share of the low-income countries had fallen from 40% in 1984 to 27% in 1994.

### *Strategy and Planning*

The main planning instrument for the implementation of aid policy is the

so-called 'rolling five-year plan' presented to Parliament. Normally, the plan does not serve as a motivation or specific 'platform' for parliamentary debates on aid policy issues. In 1988 'DANIDA's Plan of Action' was presented to supplement the rolling five-year plan (DANIDA, 1988). It had a five-year perspective and was the culmination of a strategic planning effort. It pointed to the need to focus Danish bilateral assistance on 20–25 programme countries. In 1994 *A World in Development – Strategy for Danish Development Policy towards the Year 2000* replaced the Plan of Action. This strategy was formulated against the background of the new situation emerging from the profound global changes which had taken place since 1989. It is an ambitious document that seeks to address the need for policy coherence in Denmark's relations with developing countries including aid recipients. Hence 'development policy' is intended to encompass 'all our relations with developing countries, economic and political as well as multilateral and bilateral', although aid policies still attract the main attention.

The new strategy was the result of a deliberate 'open door' policy in which the Ministry of Foreign Affairs invited comments from NGOs, business interests, researchers, etc. at various stages of the document's preparation. Hence, the process served to confirm and indeed promote the existence of the aid policy community with regard to a number of potentially controversial issues which were resolved prior to the finalisation of the document and its presentation to Parliament (Ewers, 1994: 37). This was most pronounced in outlining the respective roles of business and NGOs in Denmark's overall development co-operation. In these fields the strategy is quite innovative and sets out a series of fresh objectives which include demands on private enterprises and NGOs to ensure that they strengthen their capacities for a long-term development engagement with specific identities distinct from those of official development co-operation.

A novel feature of the 1994 strategy was the proposal to base Danish bilateral assistance on 'sector programme assistance' by concentrating on three or four sectors within each of the 20 programme countries. The aim is, first, to help the aid administration to build up more focused administrative expertise in key areas. Second, it is hoped to move away from the long-standing dominance of project assistance in Danish bilateral aid. DANIDA is now shifting from being a retailer with a 'speciality in projects' towards becoming a wholesaler in support of 'sector programmes' (Therkildsen, 1994: 7). The selection of sectors will be made on a country basis in connection with the current process of formulating country strategies for each of the 20 recipients. The overall objective is to pave the way for a greater integration of external assistance into the policies and programmes of recipient countries, hence improving ownership.

Throughout the 1960s and 1970s the combination of a strongly project-focused organisation and the strong support for the UN system had implied a somewhat reactive position vis-à-vis developing countries both within the UN system and in the bilateral aid programme. However, the Danish position in 1994 is more active or less neutral concerning recipient country policies.

The opening up of the policy formulation process has had several implications. Compared with 1988, the intensive involvement of the aid policy community in the preparation of the strategy during 1993–4 took place at the expense of intra-ministerial participation (*ibid.*: 6). Hence, ministerial 'ownership' of the strategy is less outspoken today than it was in 1988, especially with regard to the new concept of sector programme assistance which requires ministerial staff to move away from what has so far been a strongly project-focused organisational set-up (cf. Ewers, 1994: 39). The final result is a listing of varying objectives rather than a strategy setting clear priorities and outlining a distinct hierarchy of goals. On the other hand, the early strong involvement of the aid policy community ensured a much smoother and less antagonistic public and parliamentary debate, compared with the situation in 1988–9.

## Organisational Structure for Planning and Implementation

Since 1991 the Danish aid administration has been an integrated part of the Ministry of Foreign Affairs (South Group). Between 1986 and 1991 DANIDA was one of three separate departments within this Ministry.<sup>1</sup> Although Danish aid administration – bilateral and multilateral – has always been unified, since 1986 there have been two major management reviews of DANIDA, leading to substantial changes in the organisational set-up.

The first review and reorganisation (1986–91) focused on strategic planning as a key management instrument, with more attention paid to the *operational* purposes of aid in contrast to the previous situation where aid *policy* issues had dominated. The different aid modalities (tied aid, project aid and technical assistance) were integrated by means of administration by regional divisions and field missions, instead of functional divisions in the ministry. Rather than 'diplomats' rotating between different positions (most of them not aid-related), DANIDA would in future reduce staff turnover and base itself on a core staff of permanent 'aid administrators' in the regional departments, plus an

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1. The term DANIDA is used in this chapter to reflect a set of activities now taking place within a framework of Danish development policies and not to describe a single administrative entity.

expanded number of sectoral and technical professionals serving in support functions during project preparation and implementation. Finally, a decentralisation process was initiated whereby decision-making competence would be transferred away from the Ministry of Foreign Affairs in Copenhagen to DANIDA field missions in developing countries and on to staff at the individual, DANIDA-supported projects.<sup>2</sup> The basic administrative framework for these and other changes was to be a new separate department within the Ministry, DANIDA, with its own Permanent Secretary and direct access to the Minister of Foreign Affairs.

In 1990 a review of experience with the reformed DANIDA structure pointed to a number of achievements and problems related to the administrative set-up (Bruszt *et al.*, 1990). First, it was emphasised that the successful integration of the different aid modalities had strengthened DANIDA's policy and sectoral professional capacity, but this had been partly at the expense of the core element in the new structure, the regional departments, which had lost out to the newly established technical departments. The structure had become a highly complex matrix organisation with uncertain lines of command. The DANIDA management had not given the intended higher priority to the operational issues of aid and rapid staff rotations between different positions had not been achieved, especially for personnel from the general foreign service who came out with an average posting of 1.3 years (*ibid.*: 43f).

### *The 1991 DANIDA Reorganisation*

Following the recommendations of the Foreign Service Commission in 1990, a new organisational structure was put in place in the Ministry of Foreign Affairs in 1991 to create a unified foreign service with two administrative groups organised on the basis of geography rather than the previous three functionally divided departments. One group (North) covers the industrialised countries plus the former Communist countries in the East and the other group (South) covers all the developing countries. Each group is headed by a Secretary of State.

Two other major changes were included in the new structure: a unified foreign service in which staff members move between positions throughout the organisation rather than being confined, for example to DANIDA, and a system of joint representation in the foreign service abroad. However, in the South group the Technical Advisory Service

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2. The first five DANIDA field missions had been established in the mid-1970s, but it was a decade later that the number of field missions started to grow.

remains and the various technical and sectoral specialists are not part of the foreign service.

Finally, the 1986 decisions to devolve major decision-making competence to embassies abroad were confirmed, but separate DANIDA field missions and embassies were abolished, so that embassies would also be in charge of the aid programme. The basic idea was to establish units abroad of such a size that they would be self-sustaining, and where the head of the mission had considerable freedom to disburse his own yearly appropriations while acting within certain broadly defined policy guidelines.

The unique feature of the 1991 reorganisation is that each of the two groups is responsible for all aspects of Denmark's bilateral relations with a given country, i.e. political, economic, developmental and – to a certain extent – commercial. The degree to which the new structure represents a radical departure from the past should not be exaggerated (Christensen, 1992: 94). While DANIDA is no longer synonymous with an administrative entity, the aid programme is dominant within the portfolio of the South group (Brustz *et al.*, 1990: 71). The majority of the currently 19 embassies in the South group are based in DANIDA programme countries and so have a major emphasis on aid administration.

Decentralisation has been an administrative objective of DANIDA since the mid-1980s.<sup>3</sup> The precondition for effective decentralisation was perceived to be the formulation of a more strategic planning framework to guide individual aid operations. To devolve responsibility for tasks away from the top DANIDA management in Copenhagen to regional departments and further on to embassies in the programme countries, is seen as helping to overcome the tendency of DANIDA's management to focus primarily on policy advice to the Minister rather than involving themselves in aid operational and implementation issues.

Local embassies play a key role in project identification and monitoring, together with the recipient government authorities. Embassy staff are expected to conduct a regular dialogue with local authorities on sectoral policy as well as general development issues. However, with regard to appraisal, review, evaluation and annual negotiations, the involvement of headquarters is more pronounced, primarily through the regional departments and the Technical Advisory Service. DANIDA is currently examining the possibility of further decentralisation by transferring additional responsibility and decision-making competence from headquarters to the embassies.

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3. It has been argued that prior to the 1991 reorganisation, the Ministry as such (i.e. not only DANIDA) was characterised by a highly centralised mode of operation compared with the situation in several other ministries and public sector organisations (Christensen, 1992: 96).



**Table 10.1 Danish development administration staff and field missions, 1985-95**

	1985	1987	1989	1990	1991	1992	1993	1994	1995
Total DANIDA/ South Group	209	231	252	257	260	344	360	395	392
Assignments abroad	35	41	45	48	51	104	103	127	111
Field missions/ Embassies	7	8	9	10	12	15	15	16	19

Comparisons between 1985-91 and 1992-5 are not possible, since the latter years include the total number of staff employed in the South Group, i.e. also non-aid-related personnel. Furthermore, the figures for embassies 1992-5 include all Danish embassies in developing countries which have aid-related personnel assigned to them.

*Source: DANIDA, Annual Reports.*

In 1990 the embassies were authorised to approve small projects and enter into contracts with local private companies, local NGOs, etc. for amounts of up to DKK 3 million (the Local Grant Authority). DANIDA policy is currently to limit Local Grant Authority spending to a maximum of 10% of the total financing planned within the area covered by the embassy. This aid modality is generally seen as providing flexibility, the chance to test new partners on a limited scale before entering into a major engagement, and the opportunity of using the Local Grant Authority to support various national and local NGO initiatives. Problems have related to lack of staff at the embassies to assess new applications and to ensure satisfactory recipient accountability, with too many new activities being started and the neglect of project follow-up. Finally, co-ordination problems have been a recurrent feature with regard to the division of labour and information procedures between the embassies, the regional departments, the DANIDA policy department and the Ministry of Finance (DANIDA, 1994a).

Experience with the new 'South Group' structure is mixed. Some contend that aid professionalism has been lost because of pressures from objectives emanating from the traditional diplomatic service, and that swift rotation to ensure the training of 'generalists' for the foreign service takes place at the expense of much needed continuity both at headquarters and in the field. The direct administrative linkage of general foreign policy motives with aid implementation may mean less attention to complex professional aid issues. On the other hand, benefits have been observed from a more holistic approach and improved co-

ordination between different policy areas. The 'mainstreaming' of development aid administration mitigates the tendency to sideline aid in isolation from general foreign policy-making.

The appointment since 1993 of a Minister for Development Co-operation, for the first time since the 1970s, is probably as important as any reorganisation for the standing of the aid administration in the Ministry of Foreign Affairs and in the government itself. A politically appointed minister tends to imply a higher profile in public and parliamentary debates on aid than had been the case previously. Probably more important is the fact that ministerial management is now involved much more closely than before in aid policy formulation and administration.

While the organisation of the aid administration has been the subject of some debate (for instance, in the Council for International Development Co-operation), the major actors have generally abstained from direct involvement in debates on the virtues of reorganising the administration of aid. Thus, internal interests and pressure groups have inevitably had considerable influence on the situation. The Minister at the time (who had both foreign affairs and aid in his portfolio) and the top DANIDA management felt increasingly that the 1986 reorganisation was not working as intended. The aid administration had ended up with a centralised structure which concentrated decision-making power in the hands of technical and sectoral staff to an unintended degree (cf. Brustz *et al.*, 1990; Christensen, 1992: 102).

The Ministry of Foreign Affairs was itself subject to very strict budgetary limitations as were other ministries in 1987–90. However, aid budgets continued to grow, and already by 1990 the aid budget was six times the size of the budget for the rest of the foreign service. At the same time, there was a majority in Parliament in favour of increasing aid allocations so as to reach 1% of GDP by 1992. This inevitably led to considerable tensions between the different departments of the Ministry and to criticism of DANIDA. All these circumstances suggested a need to tighten up the whole organisation and also to carry out a decentralisation which changed the guidance system and the administrative procedures in order to make the Ministry and the Minister himself less vulnerable to criticism from the press, the public and from Parliament. They quite naturally supported a reorganisation which sought better co-ordination of the whole area of foreign affairs. Finally, the aid policy community was satisfied so long as the new structure provided it with sufficient entry points to question policy decisions and obtain access to aid funds.



## Country Programming

Since 1989 Danish aid policies have emphasised that bilateral assistance would be focused on 20–25 programme countries, in contrast to the early 1970s when four ‘main recipient countries’ (India, Bangladesh, Kenya and Tanzania) accounted for two-thirds or more of bilateral project aid while the remainder was widely dispersed. The criteria for the choice of programme countries and the countries suggested in the Plan of Action were the source of considerable public and parliamentary debate. In 1989 the parliamentary Foreign Policy Committee identified seven criteria that have so far remained the basis for the selection of 20 programme countries during recent years. These include: the level of economic and social development; the development needs of the country; the capability of utilising and benefitting from aid; the possibility of bringing about lasting improvements for the poorest groups of the population; the possibility of promoting respect for human rights; and, provided that the above-mentioned points have been taken into account, the possibilities for promoting the participation of the Danish business sector so long as it is competitive with regard to appropriate technology, price and quality.

The process of concentrating on 20 countries for the major part of bilateral assistance was initiated in 1989 and completed in 1994. These countries are mainly low-income countries. A comparison of the 1994 figures with the ten-year average shows Nepal as the only newcomer, while China is the only country no longer figuring among the top ten in 1994. Although relative positions have changed during the period, this shows the strong continuity of Danish bilateral assistance. There have been significant reductions in aid to the four previous ‘main recipient countries’ and currently there appears to be more flexible country programming.

The 1994 strategy stated that at least 60% of bilateral aid would go to Africa, 30% to Asia, and up to 10% to Latin America. Currently sub-Saharan African countries make up 12 of the 20 programme countries. Africa received 52%, Asia 30% and Latin America 6% of Danish bilateral aid in 1994, with aid for asylum seekers also included at 11%.

Danish bilateral assistance is dispersed for a number of different purposes. Of the total bilateral aid budget, only 55% is allocated for official assistance in the 20 programme countries. The average budget framework for each country programme is around \$24m. The remainder is mainly spent on assistance in other countries (including transitional assistance), other technical assistance programmes, the mixed credit programme, and support for asylum seekers in Denmark and for NGOs. 67% of bilateral aid to ACP countries involved very small programmes (see Chapter 1, Table 1.1).

The pressures to extend bilateral aid beyond the 20 country

programmes stem from three main sources. First, Danish business interests tend to argue that their best export markets are not low-income countries in sub-Saharan Africa, but rather some of the fast growing East and South-East Asian countries. The choice of programme countries in recent years has confirmed the tendency for traditional business interests to 'lose the battle' when new programme countries are being introduced. Danish business 'interest groups' (though not necessarily private companies) seem to fear lack of flexibility in their access to aid funds, if major shares of bilateral aid are tied to use in a limited number of programme countries. The introduction in 1993 of a mixed credit scheme seems to have satisfied at least some of the business critics, however; this facility will be available in developing countries with a GDP per capita below \$2,230, irrespective of their status as DANIDA programme countries. It will take about 6% of bilateral aid.

Secondly, general foreign-policy motives tend to disperse aid. Both government and parliamentary foreign-policy spokesmen and various NGOs see aid money as flexible funds that can be used to 'reward' promising trends in individual developing countries. The aid strategy therefore includes the concept of 'transitional assistance' to be employed in such situations. Currently, such programmes have been established in eight countries with a total amount of DKK 5,578m, for programmes of typically three to five years duration, with their implementation often involving Danish NGOs, the Danish business sector and a number of multilateral organisations.

Finally, as noted earlier, it has been agreed that the rapidly growing expenditures for asylum seekers from developing countries should be gradually phased out from the aid budget, and that a new budget should be initiated for environmental and emergency assistance.

Thus, the current general allocation of the bilateral aid budget can in some ways be seen as a direct expression of the 'costs' related to the continuous involvement of the aid policy community in policy formulation and implementation.

### *Donor Procedures*

Prior to 1987/8, country programming was essentially reactive and based on project proposals emerging from field staff and others. The DANIDA management would promote those ideas that were felt to be in line with current aid policies, while discouraging others. Strategic planning was introduced in DANIDA only from 1987.

In the 1988 Plan of Action considerably more work was initiated with regard to the preparation of country analyses and strategies. It is remarkable, however, that DANIDA chose to contract external

consultants to prepare the first range of reports rather than relying on in-house staff. This may be explained as the result of a combination of lack of Ministry capacity (both staff availability and experience with general policy analysis), fear of conflictual relations with the recipient authorities and the general politicisation of the choice of DANIDA programme countries since 1989.

The aid strategy envisages that, for each of the 20 programme countries, a country strategy will be drawn up on the basis of an overall assessment of the national economic and political situation. The country strategies are required to set out guidelines for the overall allocation of bilateral assistance, and its concentration on, and allocation between, a limited number of sectors and cross-cutting themes. The 1994 strategy places considerably more emphasis on involving the recipient authorities and the Danish aid policy community. The process is devised to enable consultation with both the recipient government and actors among the Danish 'resource base', i.e. private companies, NGOs, research institutes, etc. with potential knowledge about, and interest in, a particular country. It is currently expected that the country strategies will be updated on a regular basis and revised every four to five years. Currently, seven have been prepared and a further six are near completion. By 1996 every strategy is to be publicly available and translated into the language of the respective programme country.

So far the process has been rather uneven, both with regard to the involvement of actors external to the Ministry and concerning the content and approach of the individual papers. Some strategies have been finalised mainly by DANIDA staff prior to their presentation to Danish actors and the recipient authorities. Only in a few countries has the process included workshops with local resource people to identify the key development needs of the particular country before the various elements of the strategy were compiled. The papers also differ quite considerably with regard to the treatment of cross-cutting themes in Danish aid, for example poverty.

The choice of sectors has been subject to internal ministerial debates as well as quite intense lobbying by various actors in the aid policy community, since, following the completion of the choice of programme countries, the sectoral priorities are currently perceived to be the only major means left to influence the future direction of Danish bilateral aid. NGOs and representatives from the business community have clashed in debates on choosing between social sectors perceived to be more poverty-oriented, on the one hand, and infrastructure and productive sectors believed to ensure higher returns to Danish companies, on the other.

So far, however, there has been no central mechanism to ensure *ex ante* that general aid objectives were satisfactorily reflected in the individual country programme portfolios. This may change with the new country

strategies, since they are presented in draft format to the DANIDA Board after being debated with the Danish actors and the recipient government authorities. Furthermore, the papers are also presented to the parliamentary Foreign-policy Committee.

### *Sectoral Distribution and Sector Policies*

In recent years the sectoral distribution of Denmark's bilateral aid has seen a decline in aid to 'productive sectors' and 'economic infrastructure', while 'social infrastructure' has maintained a high share of the total. Public health, agriculture, transport, and water supply and sanitation stand out as major sectors during the first half of the 1990s, accounting for about a third of bilateral assistance on average during 1992-4. The declining figures for productive sectors and economic infrastructure are, *inter alia*, a result of changes in the tying procedures for Danish aid agreed in 1988. Prior to 1989 high shares were achieved in agriculture, industry and energy, for example, as a result of the tying of aid to these sectors to Danish goods.

The 1994 aid strategy specified the following priority sectors for future Danish assistance: agriculture, natural resource management and food production; infrastructure; social sectors (including water and sanitation). It stated that the shares of productive sectors and of economic infrastructure would be increased, while aid to the social sectors would be maintained at the current levels.

The formulation of sector-based policies has occasionally been a source of tension between the 'Technical Advisory Service' (TSA) and the DANIDA Policy Department. Generally, the tendency seems to be for the Department for Policy and Planning and the respective regional departments to gain increasing influence in decisions on sectoral priorities and country portfolio design, while the TSA focuses increasingly on issues related to project design and periodic project reviews. The current move towards sector programme assistance may change this division of labour, although the modalities for the planning and implementation of the new form of aid have yet to be clearly resolved.

Increased sectoral concentration and emphasis on general programming and policy issues rather than project interventions should improve impact by achieving the necessary 'critical mass' of resources and professional expertise in aid efforts. However, four observations with regard to the concentration on key sectors should also be made at this stage. First, the final result of the current country strategy process will probably be highly diversified in terms of both a relatively large number of total sectors in which Denmark will be active, and with regard to how

sectors and sector programme assistance are defined and delimited. Thus, while country programming may improve at the level of individual programme countries, this does not necessarily imply an easing of the pressures at the level of the central DANIDA management.

Secondly, it appears plausible that Danish interests (particularly in the aid administration and among the business community) will carry significantly greater weight in the actual choice of sectors than those of the recipient authorities. Despite the generally increased transparency in the country strategy process, less openness and more hidden agendas may result from seeking increased returns to Danish business. The difficult art of balancing Danish commercial interests with other aid objectives remains an issue in Danish aid administration despite the 1994 strategy. Since 1988 tied aid has been the means of ensuring that 50% of bilateral aid is spent on goods and services procured in Denmark. In 1989-93 the proportion of bilateral aid that 'returned' to Denmark declined from 68% to 51%. However, the more narrowly defined 'business-related' returns (i.e. the share of a delivery actually produced in Denmark) from bilateral aid expenditure dropped from 56% to 27% during the same period.

Thirdly, it will take time before the sectoral concentration is reflected in budgetary allocations. Despite good intentions there is still considerable 'informal pressure' from missions abroad, from the business community, from government, etc. to maintain a certain 'flexibility' and not to predetermine the use of every available krone.

Finally, the general tendencies in recipient countries and among official donor organisations may also imply less room for manoeuvre for DANIDA at the sectoral levels. This emphasises the need for Danish aid to identify and exploit existing and potential comparative advantages both for establishing effective links between sector and project interventions, on the one hand, and general policy dialogue, on the other.

### *Relations with other Donors and Recipient Governments*

Denmark takes part in co-ordination in a number of settings such as World Bank Consultative Groups, UNDP Round Tables, within the European Union, between the Nordic countries and on an *ad hoc* basis with various groups of donors, with a primary emphasis on the programme countries and in particular those where embassies have been established. The picture varies considerably between the 20 programme countries. This depends not only on the effectiveness of the arrangements for donor co-ordination and the attitudes of recipient governments vis-à-vis donors' 'ganging-up', but also on the relative size of the Danish country portfolio compared with those of other donors, and interests



among individuals at the Danish embassies. Generally, the move towards country programming has meant a greater awareness of the position of Danish aid in relation to other donors.

In recent years, DANIDA has gradually put somewhat more emphasis on participation in the policy dialogue concerning macroeconomic issues, particularly within the framework of the World Bank's Special Programme of Assistance for Africa (SPA). Denmark has participated in public expenditure reviews in the preparation of sectoral master plans to support the policy framework and capacity of local line ministries. Such work will often take place between a smaller group of bilateral donors and one or two multilateral organisations.

The decision to concentrate Danish aid on fewer sectors in programme countries is expected to be accompanied by more intensified policy dialogue at the sectoral level with the recipient authorities. Guidelines are currently under preparation. At present negotiations take place annually on the progress made with regard to implementing the country portfolios and on particular problem areas (often related to individual projects). The negotiations take place in recipient capitals with a Danish delegation headed by senior officials from the Ministry of Foreign Affairs in Copenhagen assisted by staff from the local embassy.

### *The Future Course of Country Programming*

The general trend in country programming is towards increasing politicisation; the drafting of country strategies and the choice of sectoral focus both imply a more open and aggregated presentation of how it is intended that general Danish aid objectives will be achieved. This implies an increasing 'externalisation' of country programming and implementation compared with the situation when the DANIDA administration acted somewhat autonomously. Thus, one may in the future witness fewer general policy debates (on tied aid, poverty alleviation, the environment, etc.) and increased discussions on specific country and sectoral programmes that are felt not to be in line with the various objectives among the policy community. More country- and sector-focused debates may change the role of the aid policy community, as this will place increasing demands on the actors in terms of more specific information and experience as well as more capability to combine this insight with analyses of general trends in Danish aid. It may imply less scope to shift priorities and focus at short notice, as the more strategic planning will require longer-term commitments.

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## 11

## French Development Aid

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This chapter deals with the main characteristics of French official development assistance, and its major objectives, priorities, and strategies. It does not aim to provide a comprehensive survey of the French aid system, but rather to highlight certain specific aspects. It is essentially descriptive, however. In some cases, where information was not explicit, the author has given his personal perception of positions, strategies and orientations drawn from earlier studies and from interviews with representatives of the French aid system.

**The Principles of French Development Assistance***Objectives and Rules of Conduct*

In 1993 French official development assistance amounted to US\$7.95 billion, representing 0.63% of GNP. French oda (which includes aid to the overseas territories – TOM) is considerably higher than the DAC average and has been maintained. Since the beginning of the 1980s, the objective has been to reach a level of 0.7% of GDP, excluding the TOM. More recently, however, French aid no longer seems to be guided by a precise quantitative objective.

Close scrutiny reveals the three main rules directing French aid policy to be:

- to adhere to multilateral strategies and policies and contribute to major development issues (the environment, public health, etc.);
- to work from the inside to influence the policy of developed countries in favour of greater solidarity with developing countries;
- to demonstrate a 'difference' in its bilateral policy within a group of partner countries (the 'sphere' countries), by trying to promote a 'French model' in the field of relationships with developing countries.

These objectives appear at first sight to have a degree of coherence. The idea is to be 'an advocate for the poor amongst the rich' and to illustrate this by means of the model of French bilateral co-operation with Francophone Africa. In this way France affirms its international presence by preaching a universalist philosophy, and ensures a strong local influence in the South representing an extension of the French-speaking community. Examples of France's way of dealing with its privileged partners (the 'sphere' countries), include: the franc zone, Franco-African summits, the Francophone community, special raw materials agreements (on Algerian gas, uranium from Niger), the emphasis on technical assistance and military co-operation, special defence agreements and frequent use of budgetary support. These are vectors both of solidarity and of 'friendly interference'. The relationship between France and its privileged partners is unique in this respect, and is highly 'politicised'. The aim has been to encourage the emergence of a mutually supportive group comprising France and the countries within its 'sphere', with particular emphasis on the security, stability and cohesion of France's main regional partners.

This stance has carried little weight with the international financial institutions where French influence is limited. However, France's intervention was a decisive factor in setting up special instruments such as the Special Programme of Assistance for Africa (SPA), the special World Bank programme in favour of the poorest and most indebted countries of sub-Saharan Africa, and the IMF Structural Adjustment Facility. French influence has been strongest, however, in European aid policy.

France has also wanted to participate in the collective strategy of the international institutions. There have been French initiatives on environmental issues, and structural adjustment formed part of French development policies even when its principles were strongly disputed by a large number of analysts and decision-makers. This reflects an obligation of solidarity and the desire to share the management of foreign aid with the international community.

However, France often appears to be divided between a universalist development philosophy and a much more regional approach in practice: most initiatives involving international bodies which it supports favour African countries very directly. Maintaining a particular model of co-operation with countries in the French 'sphere' is, on the one hand, seriously compromised by the critical situation in these countries and, on the other hand, sometimes in conflict with international strategies, as in the case of the operation of the franc zone. French overall strategy, which has consisted of setting up a mutually supporting group of countries under the leadership of France and going beyond the North/South divide, is and will be increasingly difficult to maintain as a new element

enters French aid policy: the concern to alleviate the pressure on France (in financial and especially migratory terms) of the on-going crisis on the African continent.

To sum up, the shape of current and future French policy reflects a compromise between historic objectives and new concerns deriving from the crisis in Africa.

## A Description of French Development Assistance

The first priority for French aid is sub-Saharan Africa, followed by North Africa and Oceania (the overseas territories). Concentration on Africa has increased over the last decade, mainly to the detriment of Oceania, with the proportion of French aid given to sub-Saharan Africa rising from 50% in 1982 to over 60% in the 1990s. French aid is also oriented towards French-speaking countries: in 1992 seven of the ten top recipients of French aid were Francophone countries.

### *Sector-based Priorities*

French aid is distinguished by its broad-based nature.

[French co-operation policy] is designed to orient our development aid activities around three main axes: human development, productive development and cultural development... With regard to developing countries, some new priorities have recently been defined in addition to France's traditional focus [agriculture, health, education, culture, etc...]. These relate in particular to the environment, institution-building and the fight against poverty. Improving the debt situation is also a vital theme. (Ministère de la Coopération, 1992: 4,10)

The importance given to cultural co-operation is a specific feature of French aid. The wide-ranging nature of French aid, especially in the countries within its sphere of influence, is demonstrated by the distribution of commitments according to the type of activity.

French non-sector-based aid has increased, mainly to the detriment of the share of aid to the productive sectors. The great diversity of activities, apart from the concentration on support for education, is as much the *ex-post* result of the instruments used as of any attempt to specialise. The privileged status of education is connected with the traditional importance given to technical co-operation. Nevertheless, even this has declined considerably in recent years. In 1992, technical co-operation represented 27% of total oda.

### *Tied Aid and Aid to NGOs*

While French aid is highly concessional (about 70% consists of grants) it is also currently highly tied (52% in 1991).

This [tying] condition, laid down by law, reflects concern to obtain maximum public support in France for aid to developing countries. It also reflects a desire to associate as many partners as possible (especially from the private sector) in implementing the aid programme... (DAC, 1994: 18)

France has not followed the overall trend towards untied aid. On the contrary, the proportion of tied aid increased during the first half of the 1980s (though it subsequently diminished).

According to DAC figures, only about 0.2% to 0.4% of total French bilateral aid is allocated to NGOs. France is fifteenth among the 18 OECD countries in terms of the share of public development aid channelled through NGOs (Duffaure, 1993: 153). However, there is a clear trend towards greater NGO participation in official aid activity. Parliamentary has suggested increasing the share of oda devoted to non-governmental co-operation from 1% to 5%<sup>1</sup> (Cazenave Report: 1994). This objective may remain only a pious hope, but the Ministry of Co-operation is planning an increase of 30% in credits allocated to NGOs.

## **The Conduct of French Development Assistance**

### *Agencies Involved*

#### **Ministry of Co-operation**

The Minister for Co-operation defines and directs development policy connected with the 'sphere' countries (37 countries, mainly Francophone, in sub-Saharan Africa, the Indian Ocean, and the Caribbean). The Minister participates in international negotiations, particularly those relating to the implementation of the Lomé Convention, and chairs the steering committee of the Aid and Co-operation Fund (FAC), for whose expenditure he is responsible. This rôle was extended in May 1995 to cover all the Lomé signatories (the ACP countries) which involved placing the Ministry of Co-operation under the direction of the Ministry of Foreign Affairs.

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1. The difference from the DAC figures is due to the method of accounting. The point is that the share of aid passing through NGOs is quintupled.

The FAC, the main tool used by the Ministry (for about 35% of its budget) for investment, enjoys managerial and financial freedom from the rules of French public accounting to some extent. The Ministry of Co-operation is represented in countries within the French 'sphere' by 32 co-operation and cultural missions attached to French embassies. These missions play a role in defining the policies and activities to be undertaken, and are responsible for their implementation, monitoring and performance.

### **Ministry of Foreign Affairs**

The Ministry of Foreign Affairs is responsible for official development assistance outside the 'sphere' countries. It manages technical co-operation with respect to 'non-sphere' countries and co-operates with the Ministry of Finance with regard to financial aid and support for capital investment. In addition, it handles the multilateral aspects of French aid and France's contributions to United Nations bodies (excluding the financial institutions). The recent creation within the Ministry of a NGO liaison office and a humanitarian action unit reflects a concern to co-ordinate activity in these new fields. Finally, in 1995 the ministry acquired administrative supervision over the Ministry of Co-operation, and is thus in principle able to co-ordinate aid interventions more closely across all developing countries.

### **Ministry of Finance**

The Treasury Department of the Ministry of Finance has four functions relating to French development assistance: it allocates loans and grants for investment projects in 'non-sphere' countries (the role played by the FAC in 'sphere' countries); it is in charge of monetary co-operation with countries in the franc zone and plays a pivotal role in determining structural adjustment aid; it is responsible for dialogue and monitoring activities with the international financial institutions; and it negotiates debt consolidation agreements within the Paris Club framework.

### **The French Development Fund**

The French Development Fund (CFD; Caisse Française de Développement) is a public financial institution under the administrative direction of the Prime Minister and the Finance Minister. The Fund finances public or private productive investment in all sectors of the recipient economy. It also funds adjustment programmes on behalf of the state, and provides technical assistance and proficiency courses for senior officials. The CFD has local representation in the countries in which it is most intensively involved.

Formerly, responsibility for public aid to countries within the 'sphere' was shared out according to the nature of the transfers involved: the

Ministry of Co-operation managed grants and the CFD managed loans. This pattern has become somewhat more complex in recent years. First, since 1990 the tasks have been divided more in terms of sectors: the CFD deals with the productive and economic sectors, whereas the Ministry concentrates on the social sectors. Secondly, the Fund's field of activity has become broader than that previously occupied by the Ministry of Co-operation, though it does not encompass all developing countries.

Many other ministerial departments have some involvement, mainly with regard to technical co-operation, in particular the Ministries of Education, Research, Health, Agriculture, Industry, Social Affairs, Youth and Sport. They sometimes operate through specialised institutes under their supervision.

### *Organisation and Co-ordination*

There is no real 'leader institution' in French aid. The Ministry of Finance is certainly by far the largest donor (administering 42% of bilateral aid in 1990), but the contributions of other agencies are considerable. Furthermore, the bulk of technical expertise relating to development tends to be found within specialist institutions (in particular, the Ministry of Co-operation, 21% of bilateral aid and the CFD, 12%). The Ministry of Foreign Affairs is responsible for 9%. Responsibilities are divided among agencies on the basis of a compromise between geographical criteria and criteria relating to the instruments employed and the sector involved. Thus financial support is under the Ministry of Finance; adjustment and investment in the productive sectors under the CFD; investment in the social sectors and technical assistance under the Ministry of Co-operation; and specialist interventions under other ministries.

The large number of structures involved, their respective responsibilities for particular spheres and instruments, and the scale of representation abroad mean that there is a remarkable lack of concentration in the French aid system. This should be seen as a particular feature of French aid. Development aid, mainly to Africa, is rather diffuse within the French administration. The result is a broader understanding of development problems, but also an obvious lack of coherence and co-ordination.

The problem of co-ordination also arises in terms of representation and dialogue between France and international institutions. For example, the Ministry of Co-operation has until now only been able to deal with the European Union or the World Bank with respect to France's 'sphere' countries. Only the Treasury has a geographical remit extending to the whole of the developing world; it is thus the natural negotiator with the international financial institutions and is responsible for dealing with



these bodies. However, it is not really in a position to represent the French position with regard to project aid or technical co-operation, for example, which fall within the remit of other institutions.

In fact, French activities with respect to development aid can only be reconciled at the interministerial level. This sometimes happens under the aegis of the Prime Minister or the President's Office. Another interministerial mechanism, reserved for the 'sphere' countries, was set up in 1991 within the Ministry of Co-operation – the Policy and Programming Committee (le Comité d'Orientation et de Programmation, COP) – which was supposed to ensure the complementarity and coherence of co-operation activities in the 'sphere' countries. Chaired by the Minister for Co-operation, the COP brings together representatives from its own ministry, the Ministry of Foreign Affairs, the Finance Ministry and the CFD. The DAC report (1994) notes, however, that it is having considerable difficulty in fulfilling this role.<sup>2</sup>

### **Sector-based aid (projects and technical co-operation)**

Selection and consultation in the 'sphere' countries and development interventions are administered by means of a process of continuous dialogue between the Ministry of Co-operation, its missions and the recipient country authorities. The central administration defines sectoral policies and oversees project selection, providing the parameters within which the missions operate. Sectoral policies constitute a new element in the aid system for 'sphere countries', which had previously revolved around projects or, since the 1980s, programmes.

This change in the co-ordinating structure for aid programmes has influenced the development of consultation between the French authorities and recipient countries. Joint bilateral commissions, which used to meet very frequently (usually once a year) to discuss the activities to be implemented, now meet much less frequently (every three or four years) and now deal with sector-based policies. The negotiations define the programming framework implemented by the local missions and serve as the basis for the preparation of annual rolling three-year forecasts of the activities to be undertaken. These forecasts, known as mid-term orientations, are prepared jointly by the local missions of the Ministry of Co-operation and CFD and reviewed by the COP. In addition, local French representatives take part in long-term consultation procedures such as round tables and advisory groups, between the local authorities and donors. Apart from such formal consultation mechanisms, a decentralised approach to project management is intended to allow

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2. 'In 1992, the COP held only one meeting and it seems that the government departments concerned have still not succeeded in defining the use they can make of this joint forum for debate and consultation' (DAC, 1994).



continuous consultation with the authorities in recipient countries and other donor agencies.

### *Programming*

'French aid programming is carried out in accordance with the budget ceiling agreed for the various branches of the administration, each department being responsible for managing its own budget. The rules allow budgeting, and thereby programming, over several years in the case of aid for capital investment (FAC, Treasury protocols), but there is only a single annual budget for technical cooperation.' (DAC, 1994: 24). However, programming is done separately for each relevant department; there is thus no overall programming for each recipient country.

With regard to 'sphere' countries, the co-operation budget is initially divided into country-level activities (handled by the local missions), inter-country activities and general interest activities. In 1990, these three types of activity represented 55%, 12% and 33% respectively of the total FAC budget. Funds destined for country programmes are then divided amongst the various departments/agencies.

At the Ministry of Co-operation, a department for programming has the job of drawing up 'country programming', i.e. by 'concentration' recipient. In doing so, the Department must respect the MC budget prepared by the Sub-directorate for the Budget, Audit and Markets (of the Directorate for General Administration). Once the budget has been debated and passed by the parliament (in October–December), the department apportions allocations to the co-operation missions: one for technical co-operation, another for investment projects funded by the FAC, and a third for smaller-scale operations such as the training of grant recipients, and the shipping of vaccines or books. Missions are requested to submit projects and programmes consistent with the allocations... Once the co-operation mission proposals have been received in the autumn, the MC – or, for investment programmes, the Governing Board of the FAC – decides on each country's programme for the coming year. (*ibid.*)

For 'non-sphere' countries, capital investment (Treasury protocols) programming is carried out at the behest of the Ministry of Finance, while for technical co-operation programming an overall budgetary allocation is agreed. Technical co-operation with countries outside the 'sphere', which is directed from within the Ministry of Foreign Affairs, is not systematically programmed in advance for each country. The allocation available for such interventions has to be used in accordance with requests from the authorities in the recipient countries. (*ibid.*: 28)

### *Project cycle*

For 'sphere' countries, responsibility for the identification of projects and technical assistance is generally devolved to the local co-operation missions. The initiative may come from the recipient country or from the mission itself in consultation with the local authorities. The mission has discretionary funds available (10–20% of country programmes), which enables it to contribute towards small projects (under 1 million francs). Budget control over such projects is effected *ex-post* on the basis of an annual report on the use of these credits.

With respect to larger activities, the mission prepares a preliminary plan which is reviewed in stages at the local and central level. Proposals which survive are referred to the FAC steering committee for final decision. Once approved, specific funding conditions are drawn up. The average length of the entire procedure, from identification to the start of implementation, is around 18 months. Implementation falls either to the mission or less commonly to the recipient authorities. In the latter case, credits are allocated to the relevant local authorities, but the missions retain the power of veto over expenditure.

For inter-country and general interest projects, the Ministry of Co-operation plays the key role. It takes the initiative on activities and consultation with the countries concerned and is responsible for project implementation. The Ministries of Finance and Foreign Affairs are responsible in non-sphere countries, which generally participate to a greater extent in both suggesting and implementing activities.

### **General purpose aid**

In 1992, about 40% of financial aid went towards debt servicing, 25% towards budget support, and 20% towards structural adjustment assistance. Budgetary support is granted in an *ad hoc* manner on the decision of the French authorities and does not, in principle, result in a signed agreement or commitment to a programme.

France funds its own structural adjustment programmes in some 'sphere' countries. The Ministry of Finance is responsible for the negotiations, and the assistance associated with such programmes is managed by the CFD in close co-operation with the Ministries of Finance and Co-operation, the latter supplying the grant element (grants and interest subsidies). Structural adjustment programmes are prepared according to a tripartite process involving the CFD and the Ministries of Finance and Co-operation, and result in a signed agreement with the recipient country. Each disbursement is itself the result of a three-phased tripartite procedure: identification mission, financial mission, and consideration by the supervisory commission of the CFD.

Until recently, French structural adjustment programmes operated more on the basis of apparent need rather than strict conditionality.

Structural adjustment assistance was, in the main, granted for specific budgetary expenditures (often with priority for reducing internal arrears) or, to a lesser extent, to reduce financial pressures. Although French structural adjustment agreements did contain 'particular commitments' to be undertaken by the recipient government, these were usually of a technical nature (for example, conducting an audit) and rarely led to real conditionality. However, since September 1993, the Prime Minister has decreed that French structural adjustment programmes can relate only to countries which implement an IMF programme. The French stance on adjustment thus seems to be moving towards conditional programmes co-ordinated with those run by the Bretton Woods institutions.

### **Evaluation**

Most of the institutions responsible for administering a development aid programme have their own structures for evaluating the results of the activity funded.

At the Ministry of Co-operation, since 1989, a Mission for Studies, Evaluation and Prospective Analysis (MSEPA) organises as one of its tasks reviews of French assistance in the 'concentration' countries (about two surveys a year on recipient countries and six to eight by aid sector). Surveys are carried out by multidisciplinary teams who consult with all those involved: members of the French embassy co-operation mission, technical co-operation personnel, the MC, the CFD and local authorities. Where the private sector is involved in the activities being evaluated, French and local enterprises are also consulted. The MSEPA draws up summary reports of evaluation findings. They are for government consumption only and are circulated to the governments of partner countries on a case-by-case basis. The MSEPA also produces an annual activities report available to the public. Assessments are carried out by independent multidisciplinary teams from within or from outside the Ministry; they must not have taken part in the preparation or performance of the activities being assessed. (DAC, 1994: 26).

At the CFD, an evaluation section performs a similar role. At the Ministry of Finance also, the evaluation unit of the Treasury Department has, since 1987, organised evaluations of French aid to 'non-sphere' countries. Every year, about 12–15% of all projects are evaluated by sector, type of aid and beneficiary country, and an annual summary of evaluations is prepared. This ensures wide internal dissemination of the evaluation findings among the departments involved in bilateral co-operation. The unit feeds the conclusions of evaluations into the decision-making process. It leads an evaluation working group responsible for development co-operation programmes (the Ministries of Co-operation and Foreign Affairs, and the CFD) to ensure co-ordination

and exchange of information with regard to evaluation (*ibid.*: 27).

At the Ministry of Foreign Affairs, however, there has been little evaluation capacity up to now for technical co-operation policies and activities, though a unit is to be set up (*ibid.*).

## French Aid Policy in Perspective

### *Recent Developments*

The French aid system is distinguished, above all, by a high degree of continuity. It is no exaggeration to say that the structure of the system and the major principles which govern it have remained unchanged since the period following decolonisation. The instruments used and the sectoral and geographical priorities have undergone some modifications (e.g. the emergence of programme aid and conditionality, the broadening of the French 'sphere', new priorities), but continuity remains predominant.

Though the major orientations of French aid remain little changed, the current period could prove to be the occasion for a marked shift in orientation and stance. Since September 1993, French financial assistance has been conditional on the existence of programmes agreed with the international financial institutions. This decision clearly demonstrates recognition of the latter's leadership in conducting the dialogue with recipient countries and co-ordinating bilateral aid. It also reveals an unqualified acceptance of the principle of donor conditionality for programme and economic policy interventions. These two features indicate a degree of divergence from the positions taken by French institutions in the past. Subsequent modifications in the management of the franc zone (limiting convertibility, devaluation) have led some observers to speak of a breakdown of French policy with respect to its traditional sphere of influence. This would appear to be confirmed by the reforms under way in the Ministry of Co-operation which extend the 'sphere' to embrace all ACP countries.

While the scope of such developments should not be underestimated, it is also important to recognise the elements of continuity. Thus, for example, the changes in the operation of the franc zone must be seen within the context of support for the strengthening of Francophone regional bodies, in particular the West African Economic and Monetary Union, which reflect long-standing French aid objectives. Distribution by sector or aid instrument reveals only gradual changes, the most notable being the reduction in technical assistance which began in the 1980s and looks set to continue. In recent years, the environment and institution-building (civil society) have emerged as two new priorities of

French aid. Recent changes reflect a long-term process whereby increasing account is taken of economic constraints and international competition in the relationship between France and its main partners, as opposed to a relationship moulded by purely political considerations.

### *Accountability of French Aid*

#### **Disseminating information**

French aid lacks transparency, partly as a result of the dispersal of the administrative structures involved. Little effort is made to disseminate aggregate information or statistics dealing with French aid as a whole, and it is extremely difficult to estimate the total of all aid transfers per recipient country in any given year. Assessment of French aid strategy in general is also difficult, because the interventions are spread between agencies according to their own specific objectives and there are insufficient overviews available to the public which attempt to place overall activities within a coherent framework. This is recognised by the French authorities. Evaluation evidence of the performance of aid programmes and projects is exclusively intended for internal consumption.

#### *Accountability to legislative bodies*

The influence of Parliament, which sometimes complains about the lack of transparency of the aid system, has been slight. To date there have been no examples of parliamentary initiatives having a significant influence on French aid policy. However, it is possible that things are changing (e.g. the Cazenave Report, following the Duffaure Report from the Economic and Social Council). The authorities now seem to recognise, especially in responses to parliamentary questions, the need for institutional rationalisation and greater use of the private sector in aid delivery.

In 1989, MPs from the principal political groupings drew up a bill (popularly known as the Survival Law), signed by 416 of 557 MPs, aimed at setting up 'contractual co-operation in favour of the most disadvantaged people and led by civil society'. It has still to be put on the agenda of the National Assembly, but it does indicate some interest, however feeble, on the part of Parliament.

#### *Accountability to civil society*

Like Parliament, civic associations seem to have played an insignificant role so far in shaping French development policy. However, recent developments could indicate a change. In recent years, a certain number of non-governmental organisations have made their voices heard,



expressing a (usually highly critical) opinion of the aid system and its policies and sometimes putting forward proposals. Permanent mechanisms to present regular critiques of French aid and the relationship between France and developing countries, have recently been established. Civil society generally shares a vision of French aid as too political, too statist, excessively tainted with clientelism, and failing to reach the poor. It proposes instead a contractual form of aid, aimed essentially at the poorest and channelled increasingly through civic associations in both North and South. It is too early to estimate the influence these currents of opinion may exert on the future directions of official aid.

#### *Accountability to public opinion*

Even more than its political and civil representatives, French public opinion has been poorly informed about France's aid activities and has had very little influence on the directions taken. Surveys of public opinion reveal that the French generally support current levels of aid and do not question the priority given to Africa, although this concurrence with official policy is declining. However, the general impression that aid works has been badly shaken.

#### *French Aid and the New Priorities of International Aid*

The priorities of French aid have been somewhat removed from the constantly changing international priorities. Despite the sometimes large (and often long-standing) commitment of French aid to some of these priorities – institutional capacity, decentralisation, the environment, the social sectors – there is a widespread feeling of mistrust within the French system with regard to new priorities, such as private enterprise, gender equality, poverty. These are sometimes considered as 'fashions' which are likely to alter or disappear as new ideas emerge which are capable of affecting the continuity of activities whose single overall objective should be development. The French stance may thus be called constant or conservative, depending on the point of view of the observer. This distance from international priorities is partly the result of the French aid system's independence of public opinion, which itself is relatively unmoved by the new priorities.

A second factor is the broad-based vocation of French development co-operation, with its emphasis on human, productive *and* cultural objectives, rather than sectors. Also, French aid is not easily reconciled with a strategic sectoral approach, because of its decentralised nature which aims at accommodating the priorities of recipient countries. This current strategic deficit may become worrying for the French aid system,

since it runs against the growing concerns of public opinion and civil society and contributes to a certain isolation of France in the international context.

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## 12

## German Development Aid

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The basic philosophy of German aid was spelt out in 1982 and reconfirmed in 1986 in the *Basic Principles of the Federal Government's Development Policy*:

The aim of German development policy is to improve the economic and social situation of the people in developing countries and to provide scope for their creative growth. It therefore helps meet the basic needs of the people and enables them to help themselves. It contributes to the development of a viable economy and social diversity as the prerequisite for the country's self-sufficient development. And it promotes regional co-operation and facilitates the integration of developing countries into the world economy. (Press and Information Office of the Federal Government, *The Basic Principles of Federal Government's Development Policy*, Bonn, 1986, p. 20)

There is little controversy between the major political parties on these principles. What had sometimes been termed 'a change of direction' in Christian Democratic development policy since 1982 compared with that of the previous Socialist-Liberal era, was in fact a reaction to the new issues of the 1980s, the debt crisis and the resultant need for structural adjustment, and the incapacity of development assistance to achieve poverty alleviation. Such changes would have occurred under any government. The influence of the deregulation debate of the 1980s on German development co-operation is evident in several aspects: more emphasis on 'helping people to help themselves', more emphasis on private aid initiatives including NGOs both in Germany and in the recipient countries, and more emphasis on private business co-operation.

**New Challenges in the 1990s**

New threats to regional and global stability have emerged since the end of the Cold War. An increasing number of Central and East European (CEEC) and developing countries are going through deep economic and

political crises. There are fears that these crises may spill over to Western Europe, and to Germany in particular through an increasing influx of refugees and migrants from the East and the South. German development co-operation needs to take these fears seriously and to focus some of its resources and instruments on the prevention of migration – by reducing its causes – and on the reversal of at least part of the migratory flows – by helping refugees/migrants in Germany to return to their home countries. This raises the difficult question of what role development co-operation can play in countries that do not meet the criteria of political stability and government commitment to development which would normally be among the preconditions for effective co-operation. German development aid has given high priority to encouraging more effective protection of the environment and the sustainable use of natural resources in developing countries. At the same time, there is the risk of a growing credibility gap if the lack of policy coherence with domestic environmental and energy policies which have a major impact on climate and other global commons becomes too obvious.

There is an increasing public awareness that poverty, environmental degradation and destruction, civil wars, terrorism and organised crime, migration, population explosion, and indebtedness are global and interdependent problems that cannot be solved by isolated measures and individual governments alone. Development policy is therefore currently conceived of as a *global structural policy*, combining relevant adjustment policies of OECD countries at home with the structural adjustment efforts and reform strategies of developing countries. There is a search for coherent policies affecting developing countries both at the level of the Federal Government and the European Union.

Germany perceives a special responsibility for supporting the reform policies of the East European and Asian countries which are making the transition to market economies. Up to 1993, this has not led to a major diversion of development assistance from the South to the East. Germany is expected to mobilise additional resources but, if reforms fail, future German development assistance might well be diverted away from the more needy developing countries. In 1992, German official aid disbursements to the more advanced CEEC and the New Independent States (NIS) of the former Soviet Union (excluding those countries which have in the meantime been recognised by the DAC as recipients of official development assistance) amounted to US\$3.3 billion, 0.17% of GNP, compared with a level of oda to developing countries of 0.39% of GNP. In 1993, German official aid disbursements to the CEEC and NIS decreased to US\$2.4 billion, or 0.13% of GNP (DAC, 1994; Table IV-4).

The new challenges have to be met within increasing budget constraints resulting from both the financial implications of German

unification and increasing financial assistance to Eastern Europe and the successor states of the former Soviet Union. This gives rise to two consequences: first, more emphasis is placed on the quality of aid, and on aid efficiency in particular; second, the flow of private funds (bank loans, portfolio investment, and foreign direct investment) is seen as a natural substitute for oda for the rapidly industrialising countries. German development co-operation puts increasing emphasis on improving the framework conditions for functioning markets and private investment. Therefore, market reforms are absolutely necessary in developing countries in order to pave the way for the gradual transition from oda to private flows. German development assistance has now learned the lesson that isolated projects do not generate the expected benefits if the general conditions in the recipient country are not conducive to sustainable economic development.

The credibility of the whole German aid system is now at stake. On the one hand, the German aid community is tempted to promote the use of development assistance in preventing migration. On the other hand, the budget constraints call for a more cautious view of what can realistically be achieved, particularly given the deep-rooted structural impediments to dynamic economic development in many countries in the South and the East. This dilemma has provoked a debate about the risk of a growing credibility gap between exaggerated promises to alleviate poverty and the limited financial means to fulfil them. One way out of the crisis of legitimacy is to improve the efficiency and effectiveness of development co-operation. A new division of labour between the Federal Ministry for Economic Co-operation and Development (BMZ), on the one hand, and the implementing agencies, on the other, is under consideration, and there is a growing awareness that the BMZ lacks a comprehensive mandate for all German development assistance activities. Critics of this situation argue that the BMZ will not be able to assume its development policy-making role as long as other Ministries can interfere from their sometimes more domestic perspectives, and that if Article 130v in the Maastricht Treaty on European Union, which stipulates the coherence of all European development policies, is to be taken seriously, the BMZ should become the overall German North-South (and East) Ministry. At present, however, these ideas appear rather unrealistic.

## **Distribution of Aid**

The new emphasis on the general political and economic conditions in the recipient countries is reflected in the five criteria by which German development co-operation assesses the development commitment of governments when deciding on country allocations of aid. The five

criteria are: (i) human rights; (ii) popular participation in the political decision-making process; (iii) the rule of law and security of the judicial system; (iv) economic and social conditions and general economic policies favourable to establishing a market economy; and (v) the commitment to development of the government and the public administration (good governance).

Of course, there is a degree of flexibility when applying these criteria. On the one hand, there are countries in the process of democratisation and market reform which would not meet all five criteria to the full but where development assistance can play an important role in encouraging the reform process. On the other hand, there are large developing countries where German export interests overrule a strict application of the criteria. Thus applying double standards to different types of developing countries puts the credibility of the whole concept at risk. There is considerable debate on how much Germany's development policy respects its own criteria. The only justification for being more flexible in the case of countries opening up in the economic sphere, while maintaining authoritarian political systems and committing human rights violations, would seem to be that business co-operation and private sector development might make an important contribution to preparing these countries for political liberalisation, at least in the long run. Excessive military spending is taken as an indication of a lack of development commitment and can lead to a reduction of German assistance. However, if developing countries make efforts to reduce their military sector, Germany is ready to support programmes for the demobilisation and reintegration of the troops.

The geographical distribution of German development co-operation is fairly widespread as a result of the Federal Republic's earlier attempts to 'buy friends' by means of foreign aid after the Second World War, especially at the height of its competition with the German Democratic Republic in the 1960s and 1970s. In 1992, financial or technical assistance projects were ongoing in no fewer than 158 countries. The 10 major recipients have accounted for about 38% of total bilateral oda disbursements for a long period (DAC, 1994: Table 45). Recently, the BMZ has made some efforts to reduce the number of recipient countries. This was possible because a handful of newly industrialising countries (NICs) have graduated from being eligible for financial assistance, while a number of other countries have offered little scope for development co-operation owing to civil wars or other obstructions to economic development. On the other hand, with the collapse of the socialist economies, new recipients have come to the fore, such as the South-East European, the Caucasian and the Central Asian states. Currently 35% of bilateral aid goes to the 10 major recipients and 80% of bilateral commitments are concentrated in 32 countries. In 1993, the least

developed countries' share of Germany's bilateral oda commitments was 22%, and its share to all low-income countries over 70%.

The government concentrates its development co-operation activities in three broad areas:

- Poverty alleviation, which is the key prerequisite for socially just and peaceful development. This also includes the support of structural reforms at the levels of government and society as a whole, as well as the promotion of private sector initiatives in small and medium-scale industries.<sup>1</sup>
- Protection of the natural resource base through environmental protection programmes, measures to use natural resources in a sustainable way, increased use of renewable sources of energy and greater energy efficiency, institutional development for environmental capacity-building, use of economic instruments, and assistance in the formulation of environmental policy.
- Promotion of education and training in the developing countries.

However, there are no binding rules for the sectoral distribution of aid, since this must take account of the different conditions and needs in the recipient countries. It is usually the result of policy dialogue with the recipient government in which the Federal Government focuses on the three key areas above but with special emphasis on rural development and the promotion of women. The sectoral distribution of bilateral German development assistance is shown in Chapter 8, Appendix Tables 8.1 and 8.2.

Domestic interests play an important role in German aid. In 1993, 52.1% of total German oda was tied to German supplies (in 1992, 55.2%). Although there was a gradual shift towards more tying of aid during the 1980s, the arguments against are still being taken seriously enough to prevent a total retreat from the earlier commitment to the untying of aid. German aid is trying to comply with the new rules of the game

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1. The BMZ sees poverty alleviation as a cross-cutting objective in the broadest sense, i.e. all co-operation activities should be assessed according to their contribution to poverty alleviation. This should be reflected in country concepts, sector concepts, delivery procedures, instruments and projects. A distinction is made between direct and indirect poverty alleviation. Direct poverty alleviation means projects where the target groups are mainly poor people. In addition direct support is provided to self-help groups. Indirect poverty alleviation comprises all projects that contribute to macroeconomic or sectoral policies of the recipient country which redistribute in favour of the poor or increase their productive opportunities.

stemming from the OECD-based Arrangement on Officially Supported Export Credits (the Helsinki package) of 1993.

Germany is the largest contributor to European development assistance, and the Federal Government has always supported it as an important element of European policy. Germany advocates a more global outlook for European aid.

The Federal Republic considers it important that the European Community should look beyond its historical ties and seek co-operation on a global basis. It should therefore intensify its relations with the developing countries of Asia and Latin America (BMZ, 1986).

It welcomes the fact that, for the first time, development co-operation has been fully endorsed by the Maastricht Treaty on European Union as a Community task and that the goals for European development co-operation as mentioned in the treaty are highly congruent with the goals for its own bilateral development assistance.

Germany supports the efforts to improve the efficiency of European aid management through better co-ordination between Member States' bilateral aid programmes and the European Commission's programme, and through the application of the principle of complementarity laid down in the Maastricht Treaty. Consequently, it has encouraged the attempt towards operational co-ordination in a number of recipient countries. It emphasises the importance of evaluation in the management of European development assistance, as has been declared by recent Development Councils. The BMZ supports the proposal of joint evaluations, conducted by independent bodies, of bilateral and European aid projects/programmes in order to identify areas of comparative advantage.

## **Organisation and Staffing**

The German aid system is subdivided into a large number of government, public, semi-public and private agencies and organisations. In contrast to most other donors where the foreign ministries are responsible for development co-operation in general, Germany has a separate, fully fledged Ministry for economic co-operation and development (BMZ). The BMZ is responsible for: (i) policy formulation, planning and control of development co-operation; (ii) financing development assistance programmes and projects on the basis of its own budget; (iii) the co-ordination of all programmes of bilateral development co-operation; (iv) negotiations with developing countries; and (v) co-ordination with other bilateral and multilateral donors.



For its part the BMZ has to co-ordinate with several other Federal Ministries (e.g. Foreign Affairs, Finance, Economics) in policy formulation and financial programming, especially with respect to multilateral development assistance where other Ministries are the direct counterparts of the respective specialised international organisations. The implementation of development assistance is assigned to semi-governmental organisations which have either been created for that purpose or have been entrusted with specific tasks of development co-operation. There are two separate organisations for financial and technical co-operation: the KfW and the GTZ. In addition to these two main pillars, there are other parastatal and semi-governmental organisations implementing specific components of German development co-operation. Moreover, a large number of NGOs and private consultancy firms perform specific project implementation tasks, or receive funds from the BMZ budget for their own projects and programmes. The most obvious weakness of the German aid system which has been repeatedly criticised by the Development Assistance Committee is its inadequate overseas representation. The BMZ has no field offices of its own because the Foreign Ministry does not accept a parallel structure to the embassies. However, the BMZ has succeeded in having economic co-operation counsellors posted in the German embassies in key countries for German development co-operation. In 1993, 27 BMZ staff were acting as counsellors for development co-operation to German embassies.

### **BMZ, KfW, GTZ: Staffing**

The BMZ has three departments, one for the regional programming and supervision of bilateral development assistance, with general sections for the co-ordination and integration of the different aid instruments (in particular, the KfW and GTZ); one for general planning and efficiency control of development co-operation; and one for development co-operation in the field of education and training and co-operation with other German public and private aid agencies. Its staff numbers 590.

The KfW is a public sector bank for channelling funds not only domestically but also for bilateral financial assistance (loans and grants) to developing countries. In 1993, DM 3 billion in loans and grants were committed from Federal budget funds to 61 developing countries (53% to Asia, 31% to Africa, 14% to Latin America, and 1% to Europe). Two-thirds was given as low-interest loans, and one-third in the form of grants.

380 of the total KfW staff work in the field of financial co-operation with developing countries, of whom 240 are specialists. In addition, the



KfW relies on a pool of approximately 200 external technical experts who are employed on an 'as necessary' basis. Up to now, the KfW has operated exclusively from its head offices in Frankfurt. Field offices with limited technical support functions are being tested in selected major recipient countries.

The GTZ is the principal executing agency for technical co-operation activities. It also supports development and reform processes, in particular in the CEEC, on behalf of other German government departments and is sometimes commissioned by recipient-country governments and international organisations. It performs its tasks on a public-benefit basis whereby surpluses are used exclusively for developmental purposes. In 1994, GTZ operations totalled DM 1.6 billion. Of this, over 90% represented public-benefit development assistance, while the rest was reimbursable technical co-operation (with the OPEC countries, in particular). In 1992 the number of staff employed at head office was 1,368. GTZ field staff, including field staff based in the Federal Republic and project assistants, numbered 1,539 in 1994. Locally contracted personnel, recruited for projects in the recipient countries in 1994, were 5,461. The GTZ has taken a first step towards decentralisation. It now operates offices for Project Administration Services in about 25 developing countries; these provide technical and administrative support for projects. Project Services Offices operate in another 30 countries, but with a narrower competence.

## **Co-operation between KfW and GTZ**

In 1993, a new agreement was concluded between the KfW and the GTZ in order to optimise German development assistance by ensuring increased co-ordination between the two institutions within the framework of the political guidelines laid down by the Federal Government. The aim is to concentrate more strongly on focal areas and, where necessary, replace the individual project approach with a broader programme approach. Projects in the new focal areas, especially areas like environmental and resource protection, poverty alleviation and education, frequently require a complementary input of financial and technical co-operation. Co-operation between the two agencies and the BMZ has improved in the area of country programming and general subjects. There is still a need for better co-operation at the project level, where a culture of agency competition sometimes prevents closer collaboration and exchange of information.

Besides the KfW and GTZ, other semi-public and private aid agencies are commissioned to undertake different tasks, such as the DEG (the German counterpart of the International Finance Corporation), the DSE

(training of experts and managers from developing countries), the DIE (postgraduate training of Germans/EU citizens in development co-operation, research and consultancy activities in the field of development policy), the CDG (training of private-sector experts and managers from developing countries), to name but the most important. The Bundesländer (federal states) are also involved in technical assistance programmes with developing countries.

## Country Programming

The concept of country programming has undergone remarkable change during the evolution of Germany's development assistance policies. The comprehensive 'country aid programmes' of the mid-1970s came closest to the idea of deriving projects and programmes from a general analysis of the needs of the recipient country and the comparative advantage of German development assistance. During the 1970s and 1980s, Ministers became hostile to comprehensive country aid programmes, viewing them as straitjackets which prevented quick decision-making. Recently, however, the idea has gained ground again, reflecting the new emphasis on the importance of general conditions for sustainable development and development co-operation in the recipient countries.

The BMZ aims to concentrate its efforts on a smaller number of recipient countries. The application of the new framework criteria has already resulted in the suspension of bilateral aid to a number of countries, thus allowing a shift of resources towards those which have made significant progress in improving their framework conditions.

Since 1992, about 40 country (concept) papers have been introduced which identify country-specific problems and strategies and provide the overarching framework for development assistance. These form the basis for setting medium-term priorities and thence the agenda for annual or biennial negotiations with the recipient governments.

The papers are prepared by the BMZ, supplemented by analyses of the economic situation (by the KfW) and of the socio-cultural conditions for co-operation in the recipient country (by research institutes specialising in the region). Suggestions made by NGOs, international organisations and the private sector can be included in the country papers. Implementing agencies (the KfW and GTZ, in particular), NGOs and country experts are convened by the BMZ in so-called 'country discussions', where they can comment on the papers and the proposals for future co-operation. Once approved by the Minister, the country papers are binding for official financial and technical co-operation and serve as a basis for the selection of project proposals, preparation of government negotiations, policy dialogue, and co-ordination with other

donors. In 1992 and 1993 the BMZ prepared four regional concept papers for development co-operation with Africa, Asia, Latin America, and the Middle East and Mediterranean countries. These serve as a link between the overall conceptual framework and the country strategy papers.

For the selection, design, preparation, monitoring and evaluation of projects and programmes, the BMZ is applying a variety of sector (and subsector) concepts. Besides these specific concepts, there are a number of cross-sector concepts: poverty alleviation; socio-cultural conditions of development co-operation; promotion of women in developing countries; protection of the environment and natural resources; rural development. The cross-cutting objectives (poverty alleviation, women in development, environment) are fed into project designs through the participation of the respective sector desks in project preparation. Specific codes indicating the relevance of the project for these objectives are attributed to the project files so that the cross-cutting objectives are taken into account throughout the decision-making process.

## **Project Management**

### *Appraisal, Preparation and Design*

With the division of labour between the BMZ and the implementing agencies, highly elaborate administrative procedures for project management have been developed over the years. A set of rule books defines the responsibilities of the various agencies, the co-operation between the Ministry and the implementing agencies, and the communication between country and sector desks within the Ministry.

In principle, the BMZ decides which of the projects/programmes that have been presented by the recipient government or have emerged from the regular meetings between donors and recipients are to be studied and appraised by the implementing agencies. Different steps of rapid (*ex-ante*) and detailed appraisal are undertaken, and there are various possibilities to assist the partner institution in the recipient country in the design and preparation of a project/programme (Studies and Experts Fund). The weak institutional capacities of the local executing agencies, especially in African countries, have made technical assistance increasingly a prerequisite for the sound financing of large-scale investment projects. Under these circumstances the strict division between financial and technical co-operation can no longer be maintained. This has led to closer co-operation between the KfW and the GTZ, both of which are now commissioned to study and comment on project proposals before the decision is taken as to whether it will be a financial or a technical co-operation project or will be implemented by both agencies jointly.

## *Implementation and Monitoring*

The BMZ pursues a highly elaborate system of project monitoring. The implementing agency, in particular the KfW and the GTZ, has to report to the BMZ on the project's progress at least once a year. These reports are based on information from the internal project monitoring unit of the respective agency. They are evaluated by the regional desk in the Ministry with regard to the original planning of the project, the probability of achieving the objectives, and any necessary adjustments in the project design and implementation. After the completion of a project, the implementing agency sends a final report to the BMZ for a quick evaluation of the results and the lessons to be learned from the project.

The institutional capacity of the executing agency and the broader question of the sustainability of a project, with respect to the framework conditions including the local capacity to finance the recurrent budget, are prominent issues of project reports. In the case of deficiencies, the German aid agencies can provide a number of additional support measures (e.g. short-term experts) to strengthen the institutional capacity of the local agency.

## *Evaluation and Feedback*

The BMZ regularly examines the effectiveness of German development co-operation by means of central efficiency control measures. 'Evaluations' of both ongoing and completed projects and programmes, and other aid instruments, are carried out by the implementing organisations themselves (e.g. continuous project monitoring, regular progress reviews, and final evaluations after the termination of German aid contributions). However, in view of the large number of projects, the BMZ is only able to carry out spot-checks. The aim of the evaluations is to assess the effectiveness of projects and programmes and to identify any weaknesses in planning and implementation and find out what lessons can be learnt. An example of the usefulness of the feedback into the design, planning and implementation process is the increasing importance attributed to the political, ecological and socio-economic framework conditions for sustainable projects which have been identified as critical in most evaluation reports.

All evaluation reports are analysed by the evaluation unit of the BMZ, which is not itself involved in project planning and implementation. The results are made available to the Minister and to all responsible units within the Ministry, as well as to the implementing organisations. Moreover, the Central Efficiency Control unit supervises the implementation of the evaluators' recommendations. In addition, general

recommendations and criteria derived from the findings of these evaluations are incorporated into the BMZ's policy and sectoral papers, which serve as guidelines and a basis for decisions concerning the selection, planning and implementation of similar projects in the future.

In 1993, a total of 50 efficiency control measures were carried out, which included 40 evaluations of individual projects or programmes, 5 thematic serial evaluations and 5 thematic cross-section analyses. Since the evaluations cover only a small fraction of the measures financed from the BMZ budget (1990/1: 2%), the results cannot be considered as representative of all German development projects/programmes. Projects selected for evaluation are mainly those which go through a critical phase owing to changing framework conditions and other events, or which are pilot projects/programmes. The results are therefore likely to be more negative than would be the case if a representative sample of projects was evaluated.

The findings of the individual evaluations are confidential and are primarily intended for the internal use of the agencies responsible for the projects, so as to improve planning and preparation of future projects and programmes. Nevertheless, Parliament and the general public are kept regularly informed through the publication of condensed cross-section analyses of all the evaluations carried out, mainly through a series of 'BMZ aktuell' publications. The open presentation of findings on the effectiveness of development assistance and the shortcomings of projects is meant to promote a better understanding of particular difficulties and problems involved in development co-operation.

The implementing agencies follow their own quality control systems. KfW projects in the field of financial co-operation undergo a double check, first through internal quality control, and then through external control by one of the leading German auditing companies. The GTZ also has its own internal quality control unit which directly feeds the results back into project implementation. It does regular cross-section analyses of ongoing and completed projects.

### *Non-project Assistance*

The Federal Government supports structural adjustment efforts by means of the new instrument of structural aid ('Strukturhilfe') which was added to the arsenal of development policy instruments in 1987. Structural aid is provided in the form of foreign-exchange support for import programmes on condition that the recipient government carries out visible and effective reform programmes. The German approach is reviewed in Chapter 6.

Since 1989, debt relief agreements have been concluded with Kenya,



Zaire, Ethiopia and Laos on condition that the equivalent domestic funds saved are allocated to the protection of the environment and natural resources. Since 1993 Germany has offered partial debt relief to poor countries (e.g. Honduras, Jordan, and Vietnam) provided they use 30% to 50% of the domestic resources saved for environmental protection.

## Accountability

### *The Bundestag*

The Parliamentary Committee specialising in development co-operation – Ausschuß für wirtschaftliche Zusammenarbeit (AWZ) – comments on German aid policies from a political perspective. It organises hearings on special issues of importance for both German aid policies and developing countries where controversial projects and policies affecting developing countries are debated. The Bundestag Budget Committee has a more direct influence on the government's development policy through its – sometimes restrictive – impact on the overall budget and its structure (e.g. the percentage allocated to multilateral vs. bilateral development assistance). It can also call for inquiries where it sees inconsistencies between BMZ aid programming and the guidelines adopted by Parliament. There is also the Federal Court of Auditors, which examines the use of funds *ex post*, and has frequently uncovered problems that have embarrassed the Federal Government and resulted in extensive reforms.

### *Public and Media Interest*

There is a steady increase in media coverage of themes affecting the developing world, with a growing number of journalists specialising in this field. Nevertheless, development issues rank below domestic issues in public perception. Reports on projects/programmes of development co-operation represent only a minor part of the reporting of development issues. The flow of information on development co-operation is more from the BMZ to the media (through press releases, interviews and sponsored travel of journalists to developing countries) than the other way round. The BMZ is a relatively open ministry, aware that it has to educate the public on development issues and provide a realistic assessment of both the problems and the limited capacity to solve them with the present aid volumes, in order to enhance public support for development co-operation. The BMZ publishes regular reports on German development policy in general, on sectoral concepts and

strategies and on the results of project evaluations. Public support for development co-operation was relatively high in West Germany before unification. A new survey carried out in 1994 for both West and East Germans indicated that a large majority take an interest in development co-operation, and that the great majority – 75% of West Germans and 69% of East Germans – were in favour of development assistance. About one-fifth of both West and East Germans expressed a strong or very strong interest in issues of development policy. There is thus surprisingly little difference in basic attitudes towards development co-operation between West and East Germans, despite their different personal backgrounds and political environments before unification in 1990.

In addition to a basically supportive public, the business community takes a direct interest in aid-supported contracts in developing countries, and the development NGOs advocate and conduct disinterested support of developing countries and their partner organisations in the South.

### *Civil Interest Groups*

Development policy-oriented NGOs have a substantial impact on German development assistance. Besides planning, financing and implementing aid projects, they contribute to better public understanding of development issues and put pressure on the government to keep the traditional commitment to allocate 0.7% of GDP to foreign aid and to improve the quality of German aid by untying it and by increasing the allocation of funds to promote poverty alleviation. The Protestant and Catholic Churches and their specialised aid agencies play the most important role in the NGO community. Their annual campaigns against hunger and poverty raise substantial amounts of private money and contribute to raising the public's awareness of developing countries' problems and needs. The political foundations of the major parties, the Konrad Adenauer Foundation of the CDU, the Friedrich Ebert Foundation of the SPD, and the Friedrich Naumann Foundation of the FDP, are also active in development policy-making and are involved in direct co-operation with like-minded groups and parties in developing countries. The political foundations are a peculiarity of the German scene. As long as their parties are represented in the Bundestag, they receive government subsidies for their project work and for development education in Germany. Hundreds of other NGOs involved in development co-operation activities are entirely dependent on donations. The BMZ provides grants of about DM 60 million (1990) for the projects of about 80 of these NGOs. Compared with the Churches and the political foundations, these NGOs have only a limited influence on German development co-operation.



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## 13

## Netherlands Aid Management

*Paul Hoebink**Third World Centre**Department of Development Studies (Nijmegen)***Philosophy behind the Dutch Foreign Aid Programme**

There have been some fierce debates with regard to the character and content of Dutch foreign-policy and the policy changes since the Second World War. Given the country's commercial power and its interest in uninterrupted trade, Dutch foreign-policy can generally be described under the rubric of *Peace, Profits and Principles* (the title of the doctoral thesis by the present Minister of Defence, J. Voorhoeve (1979)). The principles, however, only came to the fore when they did not interfere with the profits. Moreover, peace and principles play their most important roles in public and political discussions and debates, while profits are mostly emphasised in the execution of foreign-policy.

A first point of contention is whether there is a major difference between the neutral position of the Netherlands at the beginning of the nineteenth century and its NATO-oriented foreign-policy since the Second World War. In the opinion of the present author, there is no break in continuity since the current policy clearly has its origins in the old Dutch search for collective security in order to protect foreign trade. In its fear of continental imperialism – whether from Spain, France, or later Germany – the Netherlands has always sought alliances with potential protectors such as Britain. Only the short-term commercial advantages sought by Dutch merchants might cause policy-makers to stray from this line. With fierce continental power struggles and no superpower at hand, the most logical line of defence for Dutch commercial interests was neutrality. Power relations clearly changed after the Second World War and the most logical line of defence now became alignment with the dominant superpower, one who would and could rule the seas, namely the United States. The Netherlands therefore forsook its neutrality to become *The Most Loyal Ally* (the title of the 1974 doctoral thesis by A. van Staden, Director of the Institute for International Relations 'Clingendael').

The ethical content of Dutch foreign-policy represents a second point of contention, and is currently the focus of debate. It is often said that the Calvinist heritage behind Dutch foreign-policy biases it towards

principles rather than interests or profits. The conservative liberal (VVD) party leader, Bolkestein, has recently argued along these lines that national interests should play a major role in the conduct of foreign-policy.<sup>1</sup> A certain amount of 'multilateral naiveté' has certainly been a feature of Dutch foreign-policy in recent years, with diplomatic activity having only limited success in meeting short-term Dutch interests (e.g. contribution to the European Union, number of votes in the EU, location of EU organisations). The multilateralism of the Netherlands sometimes appears to have fostered a quite uncritical attitude towards international fora.

### *Evolution in Priorities*

Most authors writing on Dutch foreign-policy see the foreign aid programme as belonging exclusively to the domain of principles. The Netherlands is seen internationally as a humanitarian aid donor: it spends more than the UN target of 0.7% of GNP on foreign aid, in the 1980s between 0.9% and 1%, and a large part of the aid goes to the least developed countries. It is a strong supporter of international organisations, including the UN organisations. A significant part of its sectoral spending is presumed to go to meet basic human needs, the so-called social sectors. A review of the history of the Dutch foreign aid programme, however, shows this to be a rather naive view.

Bertholet and his colleagues (1984), for example, completely overlooked the economic/commercial interests present in Dutch foreign-aid policy from the beginning. Stokke (1984: 17) wrongly concluded: 'Except for the colonial background, the origin and rationale of Dutch aid had much in common with those of the Scandinavian countries.' The aid programme came under sharp attack from aid organisations, politicians and research groups in the Netherlands itself in the 1960s and 1970s because of its commercial underpinnings, but this critique does not appear ever to have reached international audiences.

In the period from 1949 to 1960, the twilight zone between colonial politics and the formulation of a new development policy, Dutch development co-operation existed only as a small programme with limited funds. Furthermore, the Netherlands showed a clear preference for a multilateral approach. A shift towards bilateral aid was initiated in 1965 and has increased steadily. The Ministry of Economic Affairs already administered 20% of the project programme in order to finance

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1. See his articles in the main Dutch newspapers: 'Ontwikkelingshulp is toe aan moratorium', *De Volkskrant*, 6 February 1995; 'Hard knokken voor het nationale belang', *NRC/Handelsblad*, 25 February 1995.

projects initiated by trade and industry. Its influence in the actual spending of aid money expanded until 1973.

In May 1973 Jan Pronk, a representative of the 'New Left' in the Labour Party, became Minister for Development. It was only in the White Paper of 1976 on Bilateral Development Aid that the new goals and framework of the development co-operation policy came to the fore. Development aid was to be 'for the poor, as much and as directly as possible'. This change can be seen as the second turning point in the history of Dutch development co-operation, because 'Dutch aid policy is now finally being explicitly formulated' (Bol, 1976). There was a preference for large projects in which significant sums of aid money could be spent, preferably on projects involving the Dutch business community. Despite the humanitarian outlook, the commercial interests in the aid programme were quite high. The percentage of aid actually spent in the Netherlands itself decreased only a little, from about 90% at the beginning of the 1970s to about 75% at the end of the decade.

In 1978 aid continued to be directed at 'the most direct improvement of the position of the target groups', but was now also intended to 'stimulate political and economic self-reliance'. This two-track directive became the central guideline for policy (Budget Paper, 1979). In April 1984 a White Paper indicated that the goals of development policy should be pursued 'in a balanced synthesis of both policy tracks, those of poverty alleviation and the promotion of self-reliance.'

Since 1989 three events have contributed to a new and dynamic period in Dutch development co-operation: the publication of the White Paper, *A World of Difference*, 1990, continued attempts to cut the budget for development co-operation, and the cancellation of aid to Indonesia. One can again speak of a turning point in the history of Dutch aid. *A World of Difference* (1990) contains an analysis of the place of development co-operation in a decade distinguished by the end of the Cold War. It was concluded that 'sustainable poverty alleviation' should be the central goal of Dutch development policy. Three elements constituted sustainable development: growth of production, equitable distribution and the maintenance of the environment. Three elements were thought to be of central importance for poverty alleviation: first, investment in people and their productive potential; second, provision of basic needs; and third, broadening poor people's participation in political decision-making. The translation into concrete proposals is perhaps the weakest part of the White Paper. Implementation of the new policies was clearly hindered by the lack of evaluations of several aid instruments and the failure to learn from the existing evaluations of other donors. A marked naiveté with regard to the workings of aid in practice was also apparent.

In 1993 a new White Paper appeared under the title *A World in Conflict*. The optimism that was part and parcel of *A World of Difference*

had totally vanished. Rather than the bricks falling from the Berlin Wall, the guns of Liberia, Sudan and Somalia now determined the tune. Instead, Pronk saw conflict in the Third World spreading like a bushfire. In his eyes the Cold War had mitigated conflict in the Third World. Now one had to think about establishing collective security prior to poverty alleviation and development. The barriers between foreign-policy, defence policy and development co-operation should therefore be minimised and vertical bureaucratisation should come to an end. The Ministry of Foreign Affairs should also be prepared to pay for peace enforcement and peace-keeping out of the aid budget.

In 1994, the Christian Democrats and the Socialists suffered heavy losses in the parliamentary elections. The so-called 'purple coalition' emerged as the first government without the Christian Democrats in the present century, but it could not reach agreement on defence and development co-operation policies. A reappraisal of foreign-policy was therefore announced and this expected to be finalised before the summer of 1995. It was emphasized that Dutch foreign-policy, including development policy, will be placed more in the context of Dutch national interests. To this end, a reorganisation of the Ministry of Foreign Affairs was due to take place in the summer of 1996, decreasing the role of country programmes and strengthening the sectoral programmes.

### *Trade Promotion*

The degree of effective promotion of Dutch trade through the aid programme seems to have fallen over time. Most Dutch aid is in effect partially untied; it can be spent on goods and services from the Netherlands or any of a group of developing countries. However, the best indicator of trade promotion is the so-called 'flow-back percentage' or that part of the bilateral aid budget that is spent in the Netherlands on Dutch goods and services. It is not presented in the official figures for the Development Assistance Committee of the OECD. Also, in a highly internationalised economy such as the Dutch, it is very difficult to say what is Dutch; the value-added to the Fokker plane – one of the controversial deliveries under Dutch aid throughout the 1960s, 1970s and 1980s – is less than 50%, for example. Estimates suggest that in the initial years of the foreign-aid programme the 'flow-back percentage' was quite high, some 90% at the beginning of the 1970s. It gradually decreased to about 75% at the end of the decade, 55% in the mid-1980s and is 40–45% at present (Hoebink, 1988; DAC, 1994).

The reorganisation of the Ministry of Foreign Affairs at the end of the 1970s also had an influence. Aid to a particular country was put in the hands of a single country desk and was therefore easier to oversee. 'Dead



wood' projects which had been running for years with little result, were also removed. The scope for Dutch business in the identification of (its own) projects was drastically reduced. Another factor contributing to the diminished flow-back percentage was the economic crisis starting at the beginning of the 1980s in developing countries. This meant that donor countries could finance new projects only when local costs were also paid for. While the percentage of Dutch aid spent in the Netherlands decreased, the percentage of aid spent in the recipient countries and other developing countries increased.

## Aid Distribution

The volume of Dutch aid has been high since the 1970s: between 0.95% and 1% of GNP was spent on official development assistance, but from 1982 onwards the budget has been under continuous pressure. Nevertheless, the CDA/PvdA government explicitly stated that the budget for Development Co-operation should not be further 'contaminated' by meeting the budget problems of other ministries. The CDA pleaded constantly for an increase in aid to Eastern Europe at the expense of developing countries. Pronk succeeded in resisting this. In 1992, the extra aid for Eastern Europe was not taken from the aid budget, which did, however, have to start paying for the salaries of those teaching the Dutch language to foreign immigrants, as well as for the Dutch military contingent in Cambodia. The budget decreased, however, from 0.92% in 1990 to 0.81% of GNP in 1995.

The distribution of aid among recipient countries has been a matter of continuous fierce debate. Parliament and the Minister for Development Co-operation have constantly quarrelled about the choice of countries, the criteria for this choice, etc. The criteria have changed frequently over time. Among the initial criteria were the trade relationship with the Netherlands and the request for specific technical expertise from the Netherlands. The final criteria consisted of: the existence of a consortium or consultative group, the current level of development, and the economic relations of the Netherlands with the countries in question. In practice, however, the existence of aid relationships and trade relations with the Netherlands played the most important role.

By 1975 there were three criteria for the selection of the so-called concentration countries: the degree of poverty in the country in question; the actual need for foreign aid; and 'the degree to which the country in question is adopting policies that are especially beneficial to the poor'. In practice, there was little change in the countries selected to receive aid. The third criterion was sacrificed to political reality. It was unthinkable, for example, that such countries as Indonesia or Pakistan should be

struck off the list. Only in the case of Cuba and Jamaica was the third criterion applied. The greater policy flexibility Pronk introduced corresponded to the wishes of the Dutch employers' organisations, which felt they had not sufficiently benefitted from the limited selection of countries in the past and wanted to be able to take advantage of export opportunities where they occurred.

By the late 1970s a policy of concentration on specific developing countries was introduced. The new criteria for exclusion<sup>2</sup> were formulated as: income per capita no higher than \$550; the degree to which policy aimed at distribution was implemented; and the degree to which human rights were being respected (Budget Paper, 1979). The result of implementing the first threshold criterion was the removal of Jamaica, Peru and Tunisia from the list of concentration countries. The striking thing about the selection was that the first criterion was strictly applied, while the second and third criteria were certainly not applied as threshold criteria.

Later there was a reduction in the number of concentration countries. The criteria for selection were now: per capita GNP not exceeding \$795; the implementation of a social and economic policy that is clearly aimed at progress; and the possibility of sustainable development relations with the country in question. Both the distribution and the human rights criteria were dropped. Three countries were struck off the list (Colombia, Zambia, and Burkina Faso), but these would still receive aid via regional programmes. Three regions were identified for aid, namely, Southern Africa, the Sahel, and Central America (to which the Andean region was later added). Aid should henceforth be provided only to programme countries and regions and the possibility of contributing with Dutch expertise, services and goods would also be taken into consideration.

Between 1990 and 1993, the number of programme countries was reduced to four (India, Bangladesh, Pakistan, and Indonesia). Indonesia ended its aid relationship with the Netherlands in 1992. By 1992 most bilateral aid went to Africa (41%) and Asia (36.4%), with Latin America receiving 18.4%; 45% of total aid went to low-income countries and 28% to the least developed. New countries were introduced to receive money from special programmes, including development-related export funds (China, Philippines, Nepal, and Sri Lanka). Seven regions were also indicated for co-operation (Mekong, Sahel, Nile/Red Sea, East Africa, Southern Africa, Central America, Andean region). Emergency aid to ex-Yugoslavia and Somalia brought new countries onto the list again. And

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2. Until this time only inclusion criteria were applied. From 1979 these criteria were also used as threshold criteria, which meant that countries not fitting one of the criteria (i.e. a GNP per capita of no more than \$550) would no longer receive Dutch aid.



last but not least, 14 East European and Central Asian countries were added to the list in 1993, in part because they were members of the Dutch voting group in the IMF and World Bank (White Papers, 1990 and 1993).<sup>3</sup> In practice by 1992–3, although 15 countries were omitted from the list, the total number of countries receiving Dutch aid rose to 60 (58 in 1989). The 15 most heavily aided countries took 31% of Dutch bilateral aid in 1992–3, compared with 51% in 1980–1. Dutch aid has thus become more thinly spread than ever.

Sectoral distribution has not attracted the same degree of debate. The emphasis has always been on agriculture and water supply. In the 1980s, Integrated Rural Development Projects became important. Education dropped sharply in the 1980s, largely because of decreased funding for vocational training schools and the restriction of financing to university co-operation. Investments in health went down, but health support rose again when programme aid included essential drugs. Due to political crises, in former Yugoslavia and Rwanda *inter alia*, the amount of emergency aid has rapidly increased in recent years.

## Organisation and Staffing

The Netherlands has a Minister *for* Development Co-operation – a minister with no budget of his own and no ministry. The development co-operation budget is a special category within the budget of the Ministry of Foreign Affairs. The Directorate-General for International Co-operation (DGIS) is one of three directorates within the Ministry of Foreign Affairs. The Minister for Development Co-operation has a final say in nearly all (about 85%) of the expenditures out of his part of the foreign affairs budget. The remainder of the budget, for instance expenditures by the multilateral banks (about 8%), falls under the Finance or other Ministries (Erath and Kruijt, 1988).

The management system is highly centralised, which leaves little room for manoeuvre and little delegation of responsibility to the embassies. Identification and monitoring are officially the tasks of the embassies, while project preparation, approval and evaluation are the domain of the Ministry and its country desks. In practice, however, the country desks are heavily involved in the first tasks as well. The subdirectorates for Technical Advice officially has the task of making specific sectoral recommendations and suggestions. In the 1980s, however, the country desks made little use of this information, because the subdirectorates was understaffed and lacked the necessary country-specific knowledge (IOV, 1994).

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3. Members of the Dutch Voting Group included Armenia, Bulgaria, Georgia, Moldavia, Romania and ex-Yugoslavian states which became aid recipients in 1990.

The DGIS has a matrix structure which means that aid to a specific country is provided in the form of a country allocation but also out of budgets for special programmes. There are now special programmes for balance-of-payments support, research, urban poverty alleviation, and women in development.

### **Staff levels and recruitment**

Staff levels and deployment are set out in Table 13.1. The Netherlands has ten large embassies, three of them related to aid (Jakarta, New Delhi, Paramaribo). There are 34 middle-sized diplomatic posts but only three have important development tasks (Bogota, Dar es Salaam, Dacca).

The rapid expansion of aid over more than two decades has not been matched by increases in the administrative capacity needed to inspect and guide the new outlays. In the 1970s, the situation was particularly acute in the subdirectorates of Financial Aid, where 19 civil servants were responsible for the distribution and inspection of the entire bilateral financial aid budget. This inevitably led to greater pressure for expenditure. Over the last five or six years, less than 10% of those recruited have had a development background, while more than 60% of staff have development co-operation tasks. The minister's ability to select his staff is limited to technical advisers and sectoral specialists for the Ministry and the embassies. In recent years, therefore, the number of development specialists in the embassies has increased sharply.

In the 1980s, staff at headquarters and in the diplomatic posts were replaced and transferred every three years. Those replaced were not necessarily transferred to another development co-operation job, but could be sent to any area of foreign affairs. It was actually recommended that staff should not remain for the duration of their whole career in one particular field, say development co-operation. To the detriment of building up institutional continuity and memory, this policy of integration was supported by the diplomats' union. In the 1990s this policy has changed. The replacement periods have been extended to four years, and it is more usual now to make a career in one policy field.

A final problem is that of management at the highest level. The top officials (the Director-General for International Co-operation and one Supplementary Director) are recruited from high-ranking diplomats and thus bring to the job little experience of running large and complex organisations like the aid agency. Steering problems have therefore been found to lead to undue interference in some issues and neglect in others.

### **Subcontracting and consultancy**

Until the mid-1980s, large parts of the aid programme were executed by the Ministry itself. Experts were sent out and were supervised by the Ministry and the embassies. In 1984 it was decided that all activities

**Table 13.1 Staff levels of the Ministry of Foreign Affairs**  
(in numbers of senior staff or all personnel)

	1980	1995
Management and Policy Preparation	21	1.5
Country Desks	67	68.5
Sector Programmes and Technical Advice	14	46
Private Sector Programmes	13	31.5
Volunteer Service	12	23
Personnel Department Development Co-operation / Technical Aid	11	9
Multilateral Aid/International Organisations	33	50.5
Evaluation/Inspection	6	11
Administration/Financial Control	5	19
Total Directorate General for International Co-operation		
lower and middle	276	259
senior	182	290
grand total	458	549
Embassies and Diplomatic Posts	2,159	1,961.5
Supporting Services	804	1,034.5
Total Ministry of Foreign Affairs	3,795	3,703.5

should, in principle, be subcontracted to the private sector. Subcontracting to government organisations should be limited to those fields where the private sector did not operate. The rationale for this policy lay in the understaffing of the DGIS.

In 1988, the policy was evaluated. Subcontracting had gone up from 45% of the person months paid for by the Ministry to 61%, with a concomitant fall in in-house execution. In contrast, the participation of the larger commercial consultancy bureaux had dropped from about 50% to 40% (IOV, 1988). This trend is confirmed by another survey showing the medium and small (even one-person) bureaux to have especially profited from the policy of subcontracting (Hoebink and Schulpen, 1990).

The IOV survey also showed the levels of subcontracting to differ considerably across country desks, with almost full subcontracting in India and Indonesia and very little subcontracting in Tanzania and Sri Lanka. The IOV evaluation concluded, however, that the practice of subcontracting had brought little reduction in the workload of the DGIS. Nevertheless, it gave the Dutch consultancy sector a springboard for the internationalisation of its activities (*ibid.*).

## Country Programme Planning

It was only at the end of the 1970s that the Netherlands introduced country programmes and even later that it introduced a more detailed programming of its aid to the concentration on programme countries. At the beginning of the 1980s, only one-year programmes were drawn up. From 1986 four-year country programmes were introduced and presented to Parliament and thus made available to the interested public. Currently there are five programme countries (India, Indonesia, Pakistan, Bangladesh, the Philippines) and seven regional programmes (Central America, Andes, East Africa, Sahel, Southern Africa, Nile and Red Sea, Mekong). A normal programme will describe the political and socio-economic policy of the recipient country in some detail. The target sectors and regions, the special features (rural development, the environment, women and development, urban poverty alleviation, education and research) and other sectors are set out. In the initial phases country programmes are discussed with academics, NGOs and other interested resource people.

However, evidence from the programmes in Tanzania and Sri Lanka has shown that it is difficult for the country desks to fully implement the plans presented in the programmes (Hoebink, 1988). The concentration on sectors and on certain types of aid appeared to be problematic. In Sri Lanka, for instance, the concentration of aid on a few sectors, for efficiency reasons and to deal with problems of understaffing, gave rise to considerable debate with the Ministries of Economic Affairs and Agriculture and with Dutch private companies. Changing views of the appropriate level of aid were also difficult to achieve quickly.

## Negotiations and co-ordination

Annual consultations are undertaken with all the recipient countries; in the South Asian countries a mid-term review is also often held. The consultations consist of discussions of the general policies of the recipient country, of ongoing projects and sector policies and of new commitments. In the light of IMF and World Bank policies, in the 1980s general macroeconomic policies increasingly became an issue in the aid

negotiations, with African countries in particular. Similarly, human rights became an issue in the second half of the 1980s and 1990s, in particular in some so-called 'grey area' countries (Pakistan, Indonesia, Sri Lanka). In general, the annual negotiations on aid commitments could be said to be much tougher in the Asian than in the African countries. Countries such as India and Sri Lanka, for instance, were consistently trying to get as much flexible balance-of-payments support as possible (IOV, 1994; Hoebink, 1988).

With respect to the co-ordination of the various programmes, the Netherlands usually follows the advice of the IMF and the World Bank quite uncritically, though it may deviate with regard to the social impact of the adjustment programmes. There is very little co-ordination with other EU donors. With regard to certain sensitive issues (for instance, acute human rights violations), negotiations may be undertaken to achieve a European point of view, particularly in aid consortia or aid groups. Co-ordination with other donors active in the same sector is virtually absent.

## **Project Management Cycle**

Aid management follows the normal project management cycle. The different responsibilities in the various phases of the cycle are clearly laid down in an instruction handbook ('Procedure bundel'). From 1989 onwards there have been efforts to delineate responsibilities more clearly between the different levels and to regulate administrative procedures. In 1992 and 1993, some major changes were made in the instructions. The so-called D-Test (Development-test) and a new administrative computer system were introduced, as well as an attempt to prioritise and to impose stricter financial procedures. The emphasis was largely on auditing.

The embassies are officially responsible for the identification of projects. A new idea is first submitted to a small 'development and management test', to see if it fits in with the general policy goals and country programme planning. This is done in the development co-operation department of the embassy. If the proposal passes the test an identification memorandum is drawn up. The regional director at the Ministry then decides together with the country desk whether the proposed project should be considered further.

The embassy is also largely responsible for the second phase of formulation/preparation. The head of the development co-operation department will invite the local authorities to draw up a project proposal and – if necessary – will offer support from the Netherlands. The embassy comments and advises on the format and outline of the proposal. When the project proposal is sent to the Ministry the appraisal



phase of the project cycle starts. This phase is the responsibility of the DGIS alone.

In practice, several other agents are also involved in the identification. First, the Dutch business community gets involved by winning tenders or by bringing the recipient national authorities into contact with its products.<sup>4</sup> This was particularly the case in the 1970s, when the local authorities had problems spending tied Dutch aid. National authorities are a second agent, presenting clear-cut projects sometimes stemming from five-year plans or other planning instruments. This is more the case in Asia than in Africa and is particularly true of Indonesia. The sectoral plans of international donors, particularly the World Bank, constitute another source of identification, when these organisations are looking for co-sponsors for specific parts of a programme. Project leaders or consultants willing to stay longer or looking for new contracts constitute a final important group involved in identification. In this case the identification memorandum and the D-test may be performed by the group itself.

At the start of the appraisal phase, the country desk will draw up an appraisal memorandum which constitutes the basis for a decision on the project as well as for its final structure and evaluation. The memorandum must provide clear answers to questions regarding long-term goals, project goals and targets, input, organisation and results. Feasibility, sustainability, sensitivity, institutional backing and risk control are keywords for approval. It was not until the mid-1980s that gender assessment became a serious issue in the identification and approval of projects (Brouwer, 1983; Baud and Andersen, 1987). The situation was even worse with regard to ecological considerations. Serious attention, in the form of policy, staff training and project choice, was not paid to ecological issues until 1990 (Hoebink, 1991). Now a D-Test in the memorandum must show the contribution of the proposed project to poverty alleviation, gender and ecological issues. The appraisal memorandum is written by a member of the country desk staff and approved by the regional director. If the project is large, politically sensitive, or involves new policies, it must be presented to a high-level official committee and the Minister.

In a newly introduced 'modalities' phase, the tasks and responsibilities of the recipient, the executing agent, the country desk and the embassy need to be clearly delineated. Judicial and policy responsibilities and supervisory, management and executive tasks should be laid down in contracts and letters. Research on the financial control structures in seven aid-receiving countries indicated that in only two of them (South Africa

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4. This information is based mainly on the author's research in the 1980s and 1990s in Tanzania, Sri Lanka and Indonesia and on the files of the DGIS.



and India) was the auditing reliable. To the implementation, monitoring and evaluation phases of the project cycle has been added a finalisation/transfer phase formulated in response to the fact that the projects were often not officially ended and the project goods transferred to the local authorities.

### **Evaluation and feedback**

The DGIS has had an evaluation unit called the Inspectorate of Development Co-operation in the Field (IOV) since the mid-1970s. It is a semi-autonomous body within the directorate, which means that it makes its own decisions about what to evaluate in consultation with the Minister. The country desks are represented on a panel committee which steers the execution of the research. In 1994, the unit had a budget of about 0.06% of the total oda. Evaluation work is undertaken by both the unit's own staff and external consultants, usually covering sectors (drinking water, livestock projects), programmes or instruments (programme aid, export subsidies, evaluation and monitoring) and countries (Tanzania, Mali, India). Apart from the evaluation done by the IOV, the country desks also commission project reviews or mid-term or final reviews. Several hundred of the more than 4,000 activities sponsored by the DGIS are evaluated in this way each year.

The field research for these evaluations is typically rather short and often quite superficial, and most of the research is built on file studies and not on real impact assessment. Feedback is generated by a wide circulation of the evaluation reports, with internal discussions of them as well as discussions in Parliament. Some sectoral reports, on livestock for example, have led to the formulation of a totally new sectoral policy and new sector policy papers. Only synthesis or overview evaluation reports are published now.

Dutch aid can be transparent for those who understand the language. Many documents are available to the public. Minister Pronk in particular, but also other aid officials, are willing to hold public debates and are eager to enter into discussion. For researchers, the Law on Public Information gives them a personal (research)interest in information and thus an access to even the most recent files and documents.

There are very few critical studies of foreign aid based on research. This is partly due to the lack of interest in the subject in the Dutch academic community; up to now no critical research on aid effectiveness has been sponsored by the Organisation for Scientific Research in the Tropics (WOTRO). The aid budget provides very little sponsoring of long-term aid-related research; contract research is mostly short-term.

## **Parliament and Pressure Groups: Accountability**

Until the last elections, Parliament had a special committee for development co-operation. This was abolished in 1994 and development co-operation became an issue for the Second Chamber Standing Commission on Foreign Affairs. Apart from a few specialists, MPs can be said to know little about development co-operation. Even the foreign affairs specialists of the various political parties are often unaware of the specific problems, goals and targets of Dutch co-operation policy. The specialists in development co-operation are generally relegated to the back benches and rank below the foreign affairs specialists.

Although development co-operation has always had its place in Dutch political debates, the same cannot be said of official party documents. The interest of political parties in development co-operation does not appear to be overwhelming and does not reflect debates in civil society. Election manifestoes generally stick to the official goals and motives for development co-operation and repeat that the Netherlands should pay at least the same amount or more than in the previous four years. The Labour Party goes in for the most active internal discussion, with one commission on development co-operation and several regional commissions. It also has a special foundation (the Evert Vermeer Foundation) dealing with education and lobbying on development issues. The Christian Democrat Party also has a special commission for development co-operation and with the conservative liberals (VVD) has published a few reports dealing with development issues over the last fifteen years.

The parliamentary discussions that have occurred have not been particularly deep and are mostly related to the same range of issues or a special issue appearing in the press at the time. The issues have been the volume of aid, its concentration on specific countries and organisations, development education in the Netherlands, human rights violations and – increasingly in recent years – the quality of aid. The high levels of aid expenditure went uncontested until the end of the 1980s; however, in line with the austerity cuts experienced by the other Ministries, development co-operation has also come under fire. A brief analysis of written questions directed at the Minister for Development Co-operation supports the idea that ‘the initiative of the morning paper’ governs parliamentary interventions on development issues. Thus a broad range of issues appears before Parliament almost by chance.

### **Pressure and interest groups**

The most powerful interest group involved in foreign aid policy has been the Dutch business community. It is the Commission for Developing Countries of the Employers’ Organisations that has set the tune for Dutch

export interests since the beginning of the 1960s, supported by the Ministries of Agriculture and Economic Affairs which have been defending export interests in interdepartmental committees or in negotiations with developing countries. This employers' commission is not representative of Dutch industry in general, but only of certain large firms. These business groups favour very tight concentration of aid on specific developing countries, more business involvement in the identification of projects, a special programme with regard to private investments, and the provision of aid in the form of goods and services from industries in economic difficulties.

A second pressure group is the old missionary and traditional Christian organisations and some private aid organisations which are involved in co-financing Dutch government programmes. In general, they defend the volume of aid and aid to specific countries. They have particularly close relations with the Christian Democrat and Labour Parties.

The influence of Third World solidarity groups has been decreasing fast since the mid-1980s. Some, like the India Working Group, were actually able to achieve policy change when their research was supported by empirical evidence. Most solidarity groups, however, have had little influence on Dutch foreign aid. The lack of impact of environmental groups, in particular, is striking.

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## 14

## UK Aid Management

*John Healey, Overseas Development Institute*

**Strategic Approach**

The Overseas Development Administration is now an administration within the Foreign and Commonwealth Office. It has its own Minister, and is relatively autonomous in the management of aid, but the distribution of aid is subject to considerable diplomatic influence. The Administration co-ordinates informally and formally with other departments on official development assistance. It unifies all aspects of aid management, including bilateral and multilateral aid, though the Commonwealth Development Corporation which is mainly responsible for the funding of the private sector in developing countries has considerable autonomy subject to some strategic control from the ODA.

*Bilateral Aid Distribution Strategy*

British strategy for bilateral aid expenditure is concerned with two major aspects: its distribution to various recipients and the objectives for the specific use of these monies. In a well established interdepartmental process of consultation and negotiation, officials and Ministers decide annually the distribution of aid (the 'Aid Framework') for the current year together with indicative figures for three years ahead. This process can involve significant tensions between political and development objectives.

Since the foundation of the ODA in 1964, the development strategy has placed the main emphasis on the allocation of aid to the poorest countries. The most recent mission statement is that 'ODA's goal is to improve the quality of life, and reduce poverty and suffering in poorer countries' (ODA, 1995). Nevertheless, the share of low-income countries has declined over time at the expense of those in the lower-middle-income category. In 1994/5, just over two-thirds of bilateral aid allocable by income group went to developing countries with a per capita GNP of \$675 or less. Just over one-third of these countries were British ex-colonies so the strength of the historical links has also weakened over time. About 40% of bilateral aid is currently allocated to sub-Saharan

Africa and 36% to Asia. These shares have not changed greatly in recent years. Apart from poverty levels and Commonwealth status, the main criteria for aid distribution have been countries which can make best use of the aid and their policy record. Since 1990, these have been complemented by a focus on 'good governance' concerns; the legitimacy, accountability, competence and human rights records of recipients have been taken into account in the annual allocation process. In some extreme cases, aid to traditional clients which fail to meet certain civil and political rights conditions, has been cut or modified in concert with other donors. The government was usually told the reasons for the decisions in order to maximise impact.<sup>1</sup>

Foreign-policy/diplomatic pressures have tended to spread aid to more and more countries, especially the middle-income ones where small sums of money are thought to buy some political influence (e.g., Latin America and South-East Asia). There has also been the addition in the 1990s of technical assistance programmes to the Central and East European countries to support the transition to market economies and democracy. The number of countries aided had risen from 137 in 1989 to 167 in 1993. The wide dispersion of UK country programmes involves higher unit management costs, particularly as many of the smaller programmes are wholly of the technical co-operation variety. However, the ODA has expanded and will continue to expand its 'British Partnership Schemes' (BPS) to replace small country programmes which it believes will reduce management costs (see Table 1.1 for dispersion in small programmes to ACP countries).

## *Objectives*

Since 1991 **seven explicit development priorities** have been pursued: economic reform, enhancement of productive capacity, promotion of 'direct' poverty reduction, good government, human development, the improvement of women's status and tackling environmental problems. In 1996 these objectives have been compressed into four basic aims. The

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1. Recent examples of the influence of these principles on country aid include Malawi where the UK took the lead and with other donors suspended programme aid and restricted other aid subject to improvement in the human rights record. In Kenya the UK did not take the lead but assistance was also suspended. In The Gambia new aid was suspended on a serious breach of good governance principles. In Nigeria where earlier programme aid has ended, new aid will only be considered where the degree of support needed from the Nigerian authorities is realistic in current circumstances and if it directly supports poverty reduction. In Ethiopia programme aid has been linked to human rights performance explicitly.



degree of implementation of these aims is considered in a later section of this chapter.

For over a decade the official strategy has taken account of industrial and commercial considerations as well as development objectives. British commercial interests have had two significant influences on the character of the UK aid programme. First, they have undoubtedly helped to maintain a high level of procurement tying of bilateral aid. In 1992, 67% of commitments were tied, i.e. not available for procurement in OECD and developing countries.<sup>2</sup> Second, combined with pressures from the Department of Trade and Industry, they have contributed to the persistence of the Aid Trade Provision (of mixed aid and credit). The ATP has been applied to about 10% of bilateral aid, although since 1993 its use has been confined to countries with under \$750 GNP per capita. Outside the ATP, the influence of commercial pressures on the character of the bilateral country programmes seems to have declined, partly because of the more limited amount of infrastructure spending in recent years and perhaps because the ATP has acted as a 'lightning conductor'. Domestic interest groups and pressures seem to have become more powerful than the earlier pressures from politicians/Ministers from recipient countries in influencing the policy and to some extent the allocation of the bilateral aid.

## Country Programming

The ODA controls expenditure on an annual disbursement basis (not a commitment basis). It plans annual disbursements over three years ahead (the Aid Framework ceilings) and these are not normally divulged to the recipient authorities, although they may be given some indication of the amounts involved.

Country Strategy Papers are drawn up or revised every two years for most major recipients and are approved by a senior committee and the Minister. The country spending programmes which are planned over four years are now formulated largely in the overseas offices of the ODA.

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2. The higher than average degree of untying of structural adjustment assistance has actually increased the untied proportion of ODA assistance over time. Also a significant proportion of UK structural adjustment assistance which is formally tied is, in effect, untied because it is made available retrospectively for the financing of UK-sourced imports which have already been procured without restriction. Although there is an EU Directive for member donors to advertise for tenders and to decide procurement in the whole of the EU on a fair basis, in practice members including the UK do not observe this.

They are fairly sharply defined, though they leave some room for manoeuvre for changing circumstances especially in the later years. Now they must take explicit account of the priority development objectives as well as the situation, policies and capacity for effective use of aid of the country concerned. The assistance and activities of other donors are also taken into account, though usually there is no formal co-ordination or consultation with the European Commission or other EU Member States in the drafting of the programme.

Aid negotiations take place with most recipient countries, but the degree of serious dialogue varies. Although the country programmes take account of the recipient government's wishes, the ODA does not automatically respond favourably. Increasingly it has been prepared to reject local requests for aid if they do not meet ODA priorities and concerns about effective use. However, the ODA's priorities can only be met if the recipient also finds them acceptable. The process is therefore a compromise between donor and recipient interests.

ODA operations have become increasingly transparent. It now provides major recipients with statements of their UK country aid programmes. Tighter and more systematic management procedures have been introduced in recent years to try to ensure that the defined objectives are effectively brought to bear on actual decisions about the country use of aid.

### **Organisation of aid delivery**

The country programmes are managed by operational departments which are supervised in London within two major divisions for Asia and Africa. With one exception (West Africa), these operational departments are now located overseas. Thus regional offices exist for East Africa (Nairobi), Central Africa (Harare), Southern Africa (Pretoria), the Caribbean and Latin America (Barbados), East Asia (Bangkok) plus aid management offices for Bangladesh and the Pacific Islands, to which India will soon be added. The comparative efficiency of the different models has yet to be evaluated.

There has been a trend towards greater decentralisation of aid delivery, especially in Africa and the Caribbean. Responsibility is delegated to departments located overseas which are authorised to spend on projects up to £2m without reference to London. The decision-making authority for 50% of ODA's bilateral expenditure is decided by overseas offices, which formulate country and sectoral strategies, identify, appraise and design projects and monitor their implementation. ODA policy is that projects should be fully managed by the organisation in the recipient country. However, when this is judged to require supplementing, the ODA departments now largely subcontract the 'field management' of projects to outside individuals and agencies for tasks like recruitment,

implementation, procurement, etc. Furthermore, through the Joint Funding Scheme, increased aid has been channelled through NGOs in order to achieve more participation and grassroots project implementation.

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**Table 14.1 ODA staffing, 1994**

	<i>HQ</i>	<i>Regional Offices Overseas</i>	<i>Total</i>
General administrators	147	42	189
Specialists	70	60	130

*Note:* The figures in this table are not precisely comparable with those in Tables 2.1 and 2.2.

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For bilateral aid ODA has a high ratio of specialist to general administrators both at headquarters and in its overseas regional offices as Table 14.1 indicates. In recent years, it has both increased and widened the range of specialist skills on its payroll. The 130 specialists listed in the table include not only economists, engineers, educationists, and national resource and environmental specialists but also social and financial management, institutional and governance skills (see Table 2.2 in Chapter 2). The specialists have been increasingly 'dispersed' to work within, or close to, the operational departments which control the planning and spending of country aid – both at home and abroad. Quality control is exercised by the professional heads of the specialist groups. The emphasis has been on an inter-disciplinary approach to working practices. Staff revolve between overseas and London, which assists in transferring experience from the field to headquarters and aids consistency of approach within the organisation as a whole. Staff turnover has also been low, thus providing considerable continuity in personnel though this may reflect the difficulties of the UK labour market in recent years.

## **Project Management Systems**

The basic structure of ODA's project management has been in place since the early 1980s. Its characteristics are summarised in Chapter 4. The main changes during the last ten years include the following. There is an

increasing use of a range of specialist disciplines for project identification, design and appraisal, with strengthened capacity in cross-cutting aspects (social, environmental and institutional) in addition to economic and technical aspects, and greater emphasis on teamwork among these disciplines. Use of the logical framework as a management tool is now mandatory, and monitoring according to this framework is now the aim. Increased emphasis has been placed on a more flexible learning-by-doing approach to projects, particularly in grass-roots projects and those involving considerable institutional reform. A more participatory approach to the early stages of project planning and design has been sought in recent years, with a shift towards more complex people-centred projects involving public and community social services and infrastructure. Emphasis is put on establishing a wider sectoral and policy framework for projects within recipient countries rather than pursuing isolated *ad hoc* projects, and attention is paid to more focused institutional strengthening to make aid more effective. More emphasis is also placed on monitoring and learning lessons from it, relative to *ex-post* evaluation.

## Translation of Objectives into Practice

In the past, programme managers have received *ad hoc* directives from senior management. Country managers for the major programmes have also had to subject their strategies bi-annually for scrutiny and approval by a senior inter-departmental management committee as well as the Minister. However, the system has been relatively loose and informal. Recently tighter and more structured control and monitoring systems have been introduced.

In 1993, the Policy Information Marker System (PIMS) was brought in to provide a basis for analysing project commitments and expenditures in terms of ODA's objectives and policies in order to improve accountability and assist the design of projects in accordance with these objectives. Internal 'monitors' were set up to track performance against each of the priorities, drawing on monitoring and evaluation records, and to report to senior management and to Parliament every other year. This system currently covers about 70% of bilateral aid and potentially serves two purposes. First, it is a management tool to ensure that country programme managers indicate the extent to which their committed expenditures/activities meet the specified ODA objectives as well as Ministerially approved sectoral priorities. It therefore provides a potentially more rigorous and effective way of ensuring the translation of objectives into actual spending intentions. Country Programme Reviews must list sectoral expenditure aims and subsequently report on

their achievement. Secondly, it provides a record of how far objectives are being met at least in respect of the 'inputs' of aid expenditure. Logically the ultimate 'outputs' of effective implementation and development impact will need to be tracked over subsequent years. The system is in its infancy but it is considered quite promising, despite some teething problems. This recent innovation in the management system has clearly enhanced senior management's overview of how effectively the aid programme is being implemented.

A more recent (1996) major reorganisation makes some senior officials (who are not directly involved themselves in operations) responsible for the promotion of these aims as well as monitoring them. The procedure now is to have a cascading system of objective-setting which relates to the major aims. The challenge is to devise satisfactory measures and hence incentives for individual personnel, departments and the whole agency's performance.

The ODA has now moved to consolidate its development objectives into four major aims: to encourage sound development policies, efficient markets and good government; to help people achieve better education and health and to widen opportunities – particularly for women; to enhance productive capacity and conserve the environment; and to promote international policies for sustainable development (ODA, 1995). Expenditure inputs to these objectives – sometimes meeting several objectives – have been recorded (ODA, 1994b).

*The economic reform objective* covers policy-based assistance, institutional reform, sectoral reform programmes and capacity building; these aim to promote the efficient operation of markets and support economic growth. About 25% of ODA bilateral expenditure since 1991 has been disbursed in support of this objective. *In pursuit of good government*, the UK co-ordinates its response with other governments, notably in the EU. It has maintained or expanded its traditional areas of activity, such as civil service reform, but there is as yet no large direct expenditure on certain newer areas for the ODA, such as civil society, the media or judiciary. Under the Know-How Fund programme to Central and Eastern Europe and the former Soviet Union, the ODA is seeking opportunities to bypass central government authorities and provide aid through channels where it believes it will be more effectively used.

*Enhancing productive capacity* – comprising broadly defined investment in public infrastructure and in natural resources development – is a rather wide-ranging objective. Some 60% of bilateral aid contributes principally or significantly to it. Important sub-objectives are being pursued under this rubric; namely, emphasis on large new infrastructure projects, which shows signs of being implemented with a fall in the share of economic infrastructure in the bilateral programme since 1990. There is also an emphasis on maintenance and rehabilitation and on energy



efficiency. Expenditure to meet *national environmental problems* now constitutes about 20% of bilateral aid. The main focus has been on forestry, biodiversity and energy conservation. Thus expenditure on forestry more than quadrupled in the period 1987-93 to £32m, while urban development doubled to £19m.

The *human development* objective is beginning to focus largely on the quality of, and access to, education especially at the primary level. The health and population strategy is primarily concerned with reformed management to ensure accessible and better quality basic health services (including interventions during emergencies); better reproductive health and 'children by choice'; and interventions against communicable diseases. While commitments may have increased very recently, actual expenditure on health, population and education has risen little in the 1990s and has remained fairly unchanged as a share of bilateral expenditure at about 16% for education and 11% for health and population in 1993/4. The *status and needs of women* are now taken into account in most country strategy papers, and the ODA has been very active on the subject in the DAC and the EU, with a recent marked improvement. Expenditure on ODA projects meeting Women in Development criteria almost doubled in 1993/4 and now represents 13% of the total programme.

*Poverty reduction* appears now to be an overarching objective of the aid programme. Direct poverty reduction expenditure can be assessed from the monitoring system; it has risen rapidly in recent years to about 10% of bilateral aid expenditure. A further 9% has been channelled through emergency and refugee aid, which probably goes largely to the poor though not necessarily in income-generating form. An increasing amount is being channelled through NGOs. Much of the direct poverty programme is innovative and expenditure is diffused throughout the programme. A number of countries (e.g. India, Bangladesh, Ethiopia and Tanzania) are major recipients of this form of aid.

These changing priorities have been accompanied on the 'supply side' by a major shift towards much greater use of technical assistance especially for country programmes. Technical co-operation rose from 27% to 50% of bilateral aid between 1980 and 1992/3. This major increase has altered the whole character of the bilateral aid programme and over the last six years has occurred mainly in forestry, water and sanitation, public administration, and business and financial services. It partly reflects the more complex, manpower-intensive character of aid for environmental, social and community services and the increased efforts to strengthen weak institutional capacity in the public sector in many recipient countries. A major supply-side challenge to ODA's effectiveness, especially in institutional work and in certain relatively new areas (e.g. management of health care or good governance), has been to find or to



stimulate sources of skilled and experienced consultants and field managers.

## **Effectiveness of Implementation and Impact**

To track the effectiveness of aid implementation systematically, the ODA relies on records of the monitoring and completion of projects. This system also allows somewhat speculative judgements on the impact and sustainability of projects. The Project Completion Report system does not yet provide complete coverage of programmes. This evidence is supplemented by a small set of annual *ex-post* evaluation studies by independent consultants. These provide firmer evidence on impact, inevitably with a substantial time-lag between the aid decisions and their final impact (which might be as long as a decade).

Most current evidence on the effectiveness of ODA aid necessarily relates to past expenditures. A sample of some 80 evaluated projects covering the 1980s indicated that 54% (by value) largely or fully achieved their objectives and significant overall benefits in relation to costs, 29% were partially effective and 17% were unsuccessful (ODA, 1990). Performance in over 100 projects which were completed between 1991 and 1993 has been assessed from Project Completion Reports (i.e. based on monitoring records). These indicate that 'immediate' outputs of implementation were entirely or largely realised for 82% (by number) of projects; in Africa the figure was lower (72%). In terms of the likely achievement of immediate objectives, it was judged that 68% would be successful (55% for Africa). Sustainability judgements could not be drawn with certainty (ODA, 1994a). These results for 1991–3 seem to indicate a fairly high degree of effectiveness especially in meeting immediate objectives, but the sample was not considered representative geographically. A more recent assessment for 1995 suggests some decline in effectiveness since 1990 (ODA, 1995).

Sectoral performance has varied. About three-quarters of mining/energy and transport projects were satisfactory overall, compared with less than two-thirds of water and natural resources projects. Evaluation found that forestry projects were successfully established but brought limited environmental and social benefits, and there were questions about their sustainability. Two-thirds of education projects were considered sustainable. There is little evidence yet on the performance of health and population projects (ODA, 1993).

In the field of direct poverty reduction and aid to vulnerable groups, ODA's slum improvement projects were found to have been partially successful. Evaluations of ODA-supported NGO projects, though not representative, indicated that eight out of twelve were found to have

been successful, three partially successful and one largely unsuccessful in achieving their objectives of delivering benefits directly to the poor. However, concerns were raised about project sustainability, replicability and cost-effectiveness. The impact on women in 12 projects from the mid-1980s (evaluated in 1992-3) indicated that five had been positive, six neutral and one negative.

### *Feedback Systems and Learning Lessons*

There are a number of formal mechanisms for learning lessons and feeding them back into new spending proposals. The senior Projects and Evaluation Committee (PEC) and the Evaluation Department are probably the most important. The PEC approves all new large projects and programmes, but also receives, and is responsible for, ODA evaluation work. It is now mandatory for new proposals over a certain expenditure threshold to use a project framework and to demonstrate that this takes account of any documented relevant past experience. The Evaluation Department distils lessons and makes recommendations (especially on implementation) from its individual evaluation studies, from synthesis studies produced for sectoral or thematic clusters of evaluation studies and from Project Completion Reports. The secretariat of the PEC monitors follow-up action by managers in response to these recommendations.

In addition, a distinctive structural feature has been the memory of the large advisory cadre in ODA whose careers revolve between London and overseas. More informally the low turnover of staff – senior, middle management and professional – in recent years has no doubt contributed to more effective learning from experience. This, of course, cannot be guaranteed to continue.

ODA learning and feedback systems are well developed overall. Evaluation studies have lacked representativeness but they have not been a biased sample in relation to category of performance. They have been carried out by independent consultants usually with a member of the Evaluation Department in the team, which has facilitated two-way learning. However, the scale of the evaluation budget has been modest. PCRs have had wide coverage if not consistently high standards. It is not easy to judge how far in practice the ODA has avoided 'avoidable' past mistakes revealed by this system. A recent review suggested, for example, that a small proportion of those designing new projects consulted evaluation evidence (ODA, 1995). Current ODA thinking seems to place relatively greater emphasis on monitoring than on *ex-post* evaluation systems.

## Accountability

The ODA has been 'open' in stating and explaining its policies and making its evaluation reports available to Parliament and the public. However, its procedures are not entirely 'transparent', particularly in its decisions on the allocation of bilateral aid between different countries and on aid strategies within particular countries, although it has recently become more 'open' about its country plans. It has also become more responsive to outside interests and pressure groups since the mid-1980s. Formal dialogue has been conducted with expert groups and interest groups for the environment, women's needs, etc.

Like all public expenditure aid expenditure is subject to scrutiny and approval by Parliament. This is done annually through the Estimates, and there is an annual Departmental report which is examined by the House of Commons Select Committee on Foreign Affairs. The Public Accounts Committee has scrutinised past aid expenditure, usually on the basis of reports from the National Audit Office. Parliament as a whole has shown interest from time to time in scandals<sup>3</sup> and disaster situations. Continuing interest in the development issues of the aid programme has been limited to a small All-Party group of MPs and the Select Committee on Foreign Affairs which produces regular reports on various aspects of aid. However, there has recently been increasing parliamentary interest in aid provided through the European Commission.

## Conclusions: Comparative Advantages and Prospects

The ODA organisational structure has the advantage that it unifies all aspects of development aid – both in terms of geographical coverage and of the different instruments of aid, together with responsibility for relations with the international financial institutions. It is well structured to ensure consistency in its handling of development issues with

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3. Much attention was given in 1994 to aid expenditure on a specific project – the Pergau Dam in Malaysia – under the ATP, the mixed aid and credit facility. The offer of aid for this project had early links with UK defence contracts in Malaysia. The project was known to be economically unsound before the decision to proceed with it indicated the willingness of Ministers to commit money in breach of their own guidelines, when driven by commercial motives. It also illustrated the threat to accountability in expenditure decisions implicit in the ATP mechanism (see Healey and Howell, 1994.). Subsequently the High Court ruled that this decision was illegal in terms of the Overseas Aid Act, following a case brought by the World Development Movement.

minimum duplication and problems of communication. It has also evolved procedures for specifying its strategic development objectives and monitoring their inclusion in spending plans by the operational departments. Project management procedures are well established, with a central senior body to establish quality control over project and programme design, and for feedback of lessons learned from experience, including evaluation work.

The management structure is predominantly geographically oriented and responsibilities are highly decentralised to overseas offices, which permits more effective understanding, identification, planning and monitoring in-country. It has a diversified body of specialist skills covering not only the 'traditional' areas (economics, natural resources and engineering) but also the health, social, institutional, and environmental fields, which are in the new and challenging areas of aid to more complex people-centred projects which require intensive management. Specialist and administrative staff are well integrated and enough staff revolve between home and overseas posts to assist the learning of lessons and consistency within the organisation as a whole.

The ODA has long experience and a strong capacity in managing technical co-operation, especially in the recruitment and provision of expertise at short notice and its supervision in the field. It has been involved with the most institutionally complex projects.

The weaknesses from the standpoint of development effectiveness are long-standing. The relatively small aid programme is far too widely dispersed, even though 20 of the largest recipients receive about 80% of the bilateral aid. Diplomatic pressures diffuse the remaining 20% in small amounts among some 140 countries and not always the poorest ones. A falling proportion of the aid programme is allocated to low-income countries. Also the ODA has spread its activities over at least 20 major sectors, which seems too many for a donor of its small size. A further weakness is the considerable degree of tying to procurement in the UK which still persists. Moreover, some 10% of bilateral aid has been persistently spent on mixed credits for the promotion of British exports, and this offers very little scope to influence the project design or the policy and institutional situation affecting these expenditures.

Currently the UK is showing considerable willingness to co-ordinate and co-operate with its EU partners for common objectives. Its highly decentralised management system puts it in a good position to co-operate with other donors in common recipient countries. The ODA's comparative advantages suggest that it should specialise in institutional work involving a high proportion of technical co-operation inputs and concentrate on complex 'people-centred' projects or aspects of projects and programmes to meet environmental and direct poverty-alleviation objectives and institutional public sector reforms. It might specialise more

in experimental, innovative and pilot projects and programmes in areas where too little is still known about how to improve project design and outcome. Its growing experience in the participatory, flexible, learning-by-doing approach to project design and implementation offers much scope for it as an innovator using a range of skill- and management-intensive inputs. With its limited financial resources it makes sense for the ODA to avoid expenditure on large infrastructure projects but instead to work co-operatively or jointly with other EU donors – especially the Commission – which have a larger volume of financial resources. Its macroeconomic skills and the leading role it has played in the formulation of the Special Programme for Assistance to Africa, together with its institutional and specialist sectoral capabilities, suggest that it should retain a role in the provision of programme aid in co-ordinated multi-donor structural adjustment programmes.

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## Conclusions





## Summary

In this final chapter the comparative observations are summarised and are followed by some reflections on possible ways to improve management effectiveness.

### Political Structures and Organisation of Donor Agencies

No ideal model emerges but donor structures and organisations are considered in this study more likely to be effective in aid delivery and potential development impact if: (a) they unify all aid instruments and aid recipients under one single direction; (b) they have the maximum possible autonomy in relation to diplomatic and commercial pressures in the distribution of aid; (c) they enjoy a high degree of operational freedom in the use and management of aid expenditure within recipient countries.

The bilateral aid organisations of Denmark, the Netherlands and the UK follow a similar model. They are the most organisationally unified and centrally directed, and report to the Ministry responsible for Foreign Affairs. The German model offers the advantage of fairly autonomous, specialised implementing agencies which are not political bureaucracies but are subject to direction from a central ministry. However, the implementation of financial and technical co-operation by two separate organisations continues to pose problems of co-ordination. The French model remains, despite recent efforts, the most fragmented and *a priori* the least suited for efficient aid operations. A comparison of the European Commission (mainly DG VIII) with the bilateral EU donors yields some interesting differences with a bearing on effectiveness. The Commission as a whole is a more fragmented organisation than the other donors apart from France; DG VIII on its own, however, is a fairly well integrated organisation.

All the EU bilateral agencies, whatever their formal political structure, have been subject to strong diplomatic and foreign-policy influences in the distribution of their aid. Diplomatic influences have resulted in a wide dispersion of small amounts of aid especially by the three agencies – Denmark, the Netherlands and the UK – which operate within their Ministries of Foreign Affairs. Political and cultural objectives have focussed French global aid distribution on the poorest countries less than the other bilateral donors. In terms of the proportion of aid allocated to the poorest ACP countries, however, the UK provides the smallest share.

European Commission allocation policy is determined by the need to reconcile the approaches of 15 Member States, and this dilutes specific national influences to some extent. This may explain why the Commission has dispersed aid in 'small packages' less than bilateral donors which are more influenced by commercial and diplomatic interests. The distribution of EDF aid among the ACP countries according to their poverty/development levels, reflects very closely the pattern of the EU members' bilateral aid distribution when aggregated. For Commission aid as a whole, allocations to the poorest countries are also in line with the weighted average for the Member States, though they fall significantly below those of Denmark, Germany, the Netherlands and the UK.

All the bilateral agencies have been subject to commercial pressures in their operations but they seem to have had considerable discretion to manage projects and programmes according to development objectives. Measured simply by the degree of procurement-tying, the British have been least free of commercial pressures and the Dutch have been the most autonomous, with France and Germany in an intermediate position. All bilateral donors seem to be currently relaxing tying restrictions.

## **Personnel Management**

It has not been possible to say whether the bilateral agencies have adequate total personnel levels to fulfil their objectives. Headquarters staff/bilateral expenditure ratios were highest for Denmark and Germany but were fairly similar and somewhat lower for France, the Netherlands and the UK. Denmark and the Netherlands seem somewhat understaffed with in-house specialist personnel compared with the other agencies, which may partly reflect their policy of increased subcontracting of services. Accurate comparison in respect of overseas staff is difficult, but the UK and France appear to be well represented in the field while Germany is under-represented overseas. Some agencies have made efforts to decentralise staff and decision-making. The UK has gone furthest in this, while France remains in a middle position; the Netherlands and Germany remain very centralised in their decision-making.

Those agencies which have recently been incorporated into their Ministries of Foreign Affairs – the Netherlands and Denmark – face a particular challenge in maintaining their focus on development effectiveness. Within a 'diplomatic' bureaucracy, a generalist ethos and the high turnover of staff may reduce the development experience and motivation of staff. This has been less of a problem for the UK where the merger with the Foreign Office is less far-reaching.

Subcontracting the management of aid to NGOs has gone furthest for Denmark, Germany and the Netherlands, although the UK and France are also moving in this direction. Denmark, the Netherlands and the UK have increasingly subcontracted specialist services and the management and monitoring of projects. The implications for effectiveness of such a delegation of aid delivery to independent or semi-autonomous agents have yet to be fully assessed, however.

DG VIII personnel are relatively less subject to (national) diplomatic interventions in their operations; they have greater procurement freedom and national commercial pressures and interventions have probably been easier to resist. DG VIII does not appear significantly understaffed compared with other donors. It has a relatively high ratio of specialist to generalist administrative skills, similar to the UK and only less than Germany. However, it has not yet developed (either at headquarters or overseas) the wider range of skills which is required to respond effectively to the growing emphasis on institutional development, the social sectors and cross-cutting issues such as the environment. Its rotation of personnel between HQ and the field is more limited than for most bilateral donors. Although its structure is among the most decentralised in terms of overseas representation, its decision-making procedures are still highly centralised.

## Strategy and Accountability

Most EU donors have failed to prioritise their accumulating aid objectives clearly. Parliaments have played a rather limited role in aid strategy, except in Denmark. Nevertheless, donors in recent years have become more responsive to civil interest groups, most fully for Denmark, followed by Germany, the Netherlands and the UK with France fairly well behind. While parliaments and the public have been fairly remote from the Commission's objectives and operations, the latter have been subject to continuous oversight from 15 member governments and to some scrutiny from the European Parliament and from several national parliaments.

The mission statements of all EU donors have been designed for publicity and support more than for real accountability to parliaments or public. It often remains difficult to judge, for example, the extent to which policies placing greater emphasis on social and institutional objectives have been successfully achieved. Recent attempts have been made by the UK and Denmark to account better publicly for their performance against objectives.

In their country programming the EU Member State agencies became less ready by 1990 to accept recipient government priorities and requests

passively. Donors' own objectives have become more dominant. Recipient performance has become a more prominent criterion in aid allocation in the 1990s. Under the Lomé Convention, the European Commission has traditionally been the most responsive to recipient government interests, but it also now gives greater weight to its own objectives. New procedures for the more effective translation of donor objectives into country priorities and plans have been introduced in the UK, and to a lesser extent in the Commission.

## **Project Management and Learning from Experience**

A comparative review by outsiders inevitably tends to concentrate on the formal procedures which are more readily observable. A number of potential weak points emerge. Initial screening procedures for projects seem more discretionary in the Commission and the UK than in Denmark, the French Ministry of Co-operation and Germany where project proposals are screened at quite a senior level or formal shortlists with clear criteria are used.

All donors have cross-cutting objectives covering the environment, gender issues and sometimes poverty, but apart from the Netherlands, they tend to lack formal procedural instruments for making these effective in project design and impact. While institutional weakness has been recognised for some time as a factor in project effectiveness, among the six donors observed only Germany, the UK and to some extent Denmark have built up significant in-house specialist capacity in the complex field of institutional strengthening.

Several donors, particularly the Commission but also the Netherlands, France and Denmark appear to have been weak on economic and financial appraisal and assessing cost-effectiveness. Quality control on project design and approval varies in its rigour, with Germany and the Commission lacking a senior internal committee to approve projects. There are signs in Denmark and Germany of a deliberate shift away from a project-by-project approach to management towards a broader sectoral or programme approach. The extent and speed of learning from past experience of project intervention seem to have been rather limited from the evidence of evaluation documents, especially for the EDF. While all six donors had well developed and client-oriented evaluation and review systems, none of them, apart from Germany and the UK, appeared to have formal systems for ensuring that particular evaluation lessons from projects are fed back into new proposals.

*A priori* informal learning from experience would seem to be more limited in the fragmented donor organisations (France, and also Germany), where there is little rotation of staff between HQ and the field

(DG VIII and Germany), and where advisory staff work in specialised compartments rather than on a multi-disciplinary team basis at HQ and in missions. High turnover of diplomatic staff presents similar potential disadvantages for Denmark and the Netherlands. All six donors except France have become far more open to outside advice and scrutiny.

## Comparisons of Effectiveness

Available evaluation studies were used to attempt a comparison of project performance for the Commission, Denmark, Germany, the Netherlands and the UK, in the areas of rural development and agriculture, transport, energy and training. The evaluation evidence suggested varying strengths and weaknesses within different sectors, although these conclusions are subject to major qualifications. Similar weaknesses among donors were revealed in the identification, preparation, design and monitoring of rural projects. Donors were all relatively better at the implementation of projects than ensuring their sustainability. The social and economic impact of Commission-financed roads was relatively better, but the Commission was slower and less effective in its response to the institutional lessons of experience (especially on maintenance) than DANIDA and the UK. For large energy projects, the Commission emerges as the most effective manager with satisfactory impact and sustainability, although the UK was the most responsive to management and institutional issues. From the limited information on the management of aid for training, the UK, the Netherlands and to a lesser extent, Germany emerge as systematic, thorough and responsive to the lessons of experience. The strongest finding was that the donors' performance, ranked on their own evaluations, was strong or weak in almost identical sectors. Infrastructure (roads and large-scale power mainly) was best for most donors. The weakest sectors were rural development/agriculture and industry and trade.

## Structural Adjustment Assistance

Effective strategies for structural adjustment assistance and policy reform emerged slowly among the EU donors during the 1980s, except for the UK. While providing quick-disbursing funds to relieve foreign-exchange constraints, the EU donors failed to pay enough attention until the end of the 1980s to the inadequate domestic policy environment in which their funds were being deployed. Because of this delayed response among most Member States, and the excessively rigid legal basis of the



Lomé Protocols, the European Commission emerged only by the early 1990s with a significant in-house capacity for structural adjustment and a policy. During the 1990s in general a much more realistic and performance-related approach to structural adjustment assistance has been developing among the bilateral donors. However, the allocation of programme aid funds to Africa between 1988 and 1993 still appeared to be little related to efforts by the recipient governments to improve the domestic economic policy environment, especially in the case of the Commission but also for the Netherlands and Germany.

During the 1980s operational management was rather patchy and the directly administered allocation of imports was not only often lacking in transparency and efficiency but there was limited evidence of their having reached efficient end-users. Donors differed in their procurement practices and their achievement of value for money. This created distortions in pricing. Quick disbursement of the funds was, however, achieved by most of them, though the recovery of counterpart funds was very poor till the 1990s. Some convergence in donor operations has been achieved in the 1990s covering the channelling of funds through market-type foreign-exchange mechanisms, procurement practices and rules for the recovery and accounting for counterpart funds.

## **Co-ordination**

New incentives for policy co-ordination among EU donors have appeared since the Maastricht Treaty on European Union, including Council resolutions covering poverty alleviation, food security, health and education. Objectives and general policies have been identified and are being applied in pilot country cases.

Virtually no formal consultation takes place between EU donors on their country strategies and programming. The exception is the Commission's consultations with member states on national indicative programmes. Most member agencies deploy medium-term country strategies and programmes for their main recipients which they review and revise at intervals of two to three years. In-country co-ordination among EU donors is still at an initial and experimental phase, and information about its concrete results is sparse.

Although co-ordination is considered beneficial, there is as yet no clear evidence of the balance of costs and benefits. The benefits of EU co-ordination of policy and management of structural adjustment assistance appear large and the transaction costs small. Yet, in the 1980s little was achieved and the Commission did not take the lead generally or in specific countries. Only in the 1990s have the Commission and the UK taken the lead within the SPA framework in trying to move towards

common policies and procedures. Only France has remained outside this movement. Currently, the management of programme aid is increasingly focused on the domestic budget rather than the balance of payments. The implications for management are currently being addressed by EU donors. Individual donors are tending to target their own assistance on particular budget sectors for accountability reasons. The Commission has sought to exert some leverage on the restructuring of domestic expenditures with mixed success.

Certain factors which affect the potential for progress on inter-donor co-ordination have been highlighted; e.g. lack of lobbying from the 'aid community', and donors' different in-country capabilities and responsibilities. Donors' capacity to co-ordinate with other agencies depends partly on their capacity to co-ordinate their own activities internally.

## **Complementarity**

Complementarity to enhance the effectiveness of EU development assistance is defined here as a new division of labour among donors along geographical, instrumental, thematic or sectoral lines on the basis of their respective comparative advantage, reflecting experience, expertise or proven competence. The scope for achieving greater aid effectiveness through the rationalisation of small donor country programmes was found to be rather limited. Benefits from rationalisation appeared to be modest, and the organisational and political costs involved are expected to be significant. Secondly, a division of labour for structural adjustment assistance by means of a transfer of responsibilities for this assistance to the European Commission was appealing at a theoretical level but the operational obstacles seemed very significant. Sectoral specialisation at the recipient country level seems to offer the greatest potential benefits, without obviously high transactions costs. Several donors have made progress at this level, while only Denmark has achieved sectoral specialisation at a general policy level.

## Reflections and Suggestions

All six EU donors have achieved a substantial proportion of effective projects and programmes in regions of considerable challenge and difficulty. Some have also made adjustments in their policies and procedures as circumstances have changed. Nevertheless, this comparative study has stimulated some reflections on areas for improved effectiveness.

All EU donors need more prioritised and precise strategic aims and objectives and especially more effective formal and informal mechanisms to translate these into country plans, activities and impact. Of the donors studied, so far only the UK(ODA), DANIDA and to some extent the EDF have addressed this problem. The ODA has probably gone the furthest and its evolving experience with management change in this area would repay general EU donor attention.

EU donors' programming approaches and procedures in recipient countries have tended to converge in recent years, especially with more flexible Commission programming under the Lomé Convention. This should allow a major initiative to achieve common country priorities for the use of aid including structural adjustment finance. A multi-donor rather than the present bilateral dialogue with the recipient authorities and mutual agreement on medium-term public expenditure plans and priorities would provide a wider and more coherent framework for aid provision and monitoring. The gains in effectiveness compared with the transactions costs of achieving common procedures for the management of structural adjustment assistance appear high.

Ideally the bilateral donors (especially the UK) need to concentrate their aid on fewer countries. They could usefully reduce the number of very small programmes by a rationalised EU distribution, although the benefits in aid effectiveness may not be particularly great relative to the difficulties of achieving this. It would seem more promising to reduce the scope of donor sectoral involvement at the country level and thus achieve greater specialisation. Initial research has not established clear comparative advantages by sector or instrument, and further research may not be fruitful. Nevertheless, some judgements on different donor competencies should be possible. *A priori* the benefits of specialisation based on comparative advantage appear considerable, and would seem best pursued within recipient countries.

Aid is likely to be more effectively managed if some donors delegate to overseas missions not only a range of specialist personnel but also decision-making responsibilities, as is done in the UK and to a lesser extent France. Closeness to the recipient scene should permit better

understanding of the local culture and conditions, better design and more effective dialogue. In addition, decentralisation is a prerequisite for more effective donor co-ordination. Since the EDF, France and the UK (ODA) have gone the furthest in decentralising their personnel, their experience could usefully be examined, especially by Germany and the Netherlands.

Although systems and procedures for the management of projects have developed reasonably well, from the evidence available this does not appear to have ensured particularly high effectiveness of impact and sustainability of projects generally. Donors need to react more quickly in areas where their performance is particularly weak, most obviously in agriculture and rural development and in efforts at local institutional improvement. No donor has the secret of success, but they might learn from each other how to improve their procedures in certain aspects. Thus the ODA and the EDF, with discretionary systems for initial project screening, might benefit from the experience of Denmark, the French Ministry of Co-operation and Germany which initially screen project proposals at quite a senior level and have shortlists with clear criteria. Dutch experience with systems for ensuring the integration of cross-cutting objectives into projects may offer useful lessons, while the EDF and the BMZ might examine the experience of the French Comité d'Examen and the senior-level Projects Committees of the UK ODA and the Netherlands DGIS for achieving more consistent standards of design and appraisal.

For greater effectiveness, EU donors require a better understanding of the local culture and conditions in the ACP countries as well as mechanisms within their own organisations for more effective learning from past experience and quicker and more effective feedback to those who are embarking on new aid interventions. There is a range of management improvements which might help specific donors. These include less fragmented donor organisation, for example, for France; more decentralisation of personnel (especially multi-disciplinary teams) to in-country missions/offices, especially for Germany and the Netherlands; more delegation of decision-making responsibility to existing overseas personnel and more rotation of staff between HQ and the field, especially for the EDF; and for DANIDA and the Netherlands with their dominant diplomatic ethos, the need to ensure an adequate permanent cadre with experience and specialised skills.

With Denmark at the forefront, recent efforts by EU agencies to increase their openness and accountability to their own stakeholders do increase 'ownership' and probably support for aid programmes domestically. At the same time, this greater 'pluralism' in decisions about donor objectives and plans 'at home' may not necessarily take sufficient account of the requirements of the local recipient situation. If donors do locate their operations closer to the local situation and seek greater

participation by recipient country stakeholders, will the outcomes necessarily be acceptable to donor domestic stakeholders? This study did not investigate (overseas) how far these EU donors were seeking or achieving local participation and ownership in their management. This remains an important issue for future research on aid effectiveness.

All the changes suggested here could be taken forward by bureaucratic action, with the exception of endeavours to concentrate geographical allocation and rationalise country distribution among EU donors, which will continue to face formidable political and diplomatic obstacles. There is no doubt that the structures and procedures of aid bureaucracies need to be radically and critically re-examined from time to time in order to achieve greater effectiveness of their operations. Certain bilateral agencies have undertaken 'internal' reviews and some reforms of their management structures over the years, most notably Denmark, the Netherlands, and the UK. The French agencies are now under review. The European Commission, which has never had a major re-examination of its structure and management procedures, should also undertake a major review.

All the agencies can learn lessons from one another. While fora exist for this exchange of views and procedures on aid issues (e.g. the OECD Development Assistance Committee), a forum is also needed for a serious cross-agency examination of formal structures and management systems within the EU.

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ODI Research Study

## How European Aid Works

### A Comparison of Management Systems and Effectiveness

Aidan Cox, John Healey, and Antonique Koning

In this first comparative study of European aid, six donor agencies are critically assessed: Denmark, France, Germany, the Netherlands, the UK and the European Commission (DGVIII). With the focus on aid effectiveness, agency comparisons cover their political structures, objectives, management and procedures. Questions explored include mechanisms to translate objectives into practice, country strategic programming, adequacy of personnel and how agencies learn the lessons of experience.

The authors conclude that the prospects for specialisation by EU donors on particular countries, or on structural adjustment operations, appear limited. However, sector specialisation and co-ordination on structural adjustment could potentially increase effectiveness.

£15.95

ISBN 0 85003 243 1



Overseas Development Institute

European Centre for Development Policy Management