



Reviewing the evidence:
how well does the European
Development Fund perform?

Mikaela Gavas
Research Associate, Overseas Development Institute

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The views presented in this paper are those of the author alone.

Introduction

The European Union (EU) is in the process of concluding a complex and contentious negotiation about its future seven-year budget, the Multi-Annual Financial Framework (MFF) for 2014-2020. In parallel, the EU is negotiating the budget for the European Development Fund (EDF), which covers the same period. The EDF is the EU's main instrument for delivering development aid to the 78 African, Caribbean and Pacific (ACP) countries under the ACP–EU Cotonou Partnership Agreement. The Agreement is the world's largest and most advanced financial and political contractual framework for North–South cooperation. Although the EDF is not part of the EU budget itself, the negotiations around the level of funding it receives are an important part of the broader debate and the outcome will be decided in conjunction with the MFF.

However, development aid has historically been considered a low political priority in the negotiations. And the development budget has suffered disproportionately from lower EU resource ceilings. Competing agendas include the Common Agricultural Policy (CAP) and structural funds. The EDF, in particular, with the main focus of its spending in sub-Saharan Africa, is at risk, with a proposed cut of around 11%.

This paper begins with an introduction to the EDF and its finances, and goes on to review the EDF's performance in recent evaluations and assessments. It considers the main criteria typically used to assess the performance of the EDF and reviews the existing evidence against three critiques made by some Member States:

- That the EDF targets middle-income countries (MICs) at the expense of a focus on poor countries.
- That the EDF is inflexible in its procedures and unable to adapt quickly to changing circumstances.
- That the EDF suffers from weak forecasting and slow disbursement of funds.

The paper concludes that these critiques overlook important considerations and thus do not present an accurate picture of the performance of the EDF.

Background to the EDF

Established in 1957 by the Treaty of Rome and first launched in 1959, the EDF is the EU's main instrument for delivering development aid to the ACP countries. It is funded outside the EU budget by voluntary contributions from the EU Member States on the basis of specific contribution shares, or 'contribution keys', for a multi-annual period. The EDF is the only EU policy instrument that is financed through a specific key distinct from the EU budget key. EDF resources are channelled through two instruments:

- The Grant Facility, which encompasses a wide range of long-term operations including sectoral policies and macro-economic support, managed by the European Commission (EC).
- The Investment Facility, administered by the European Investment Bank (EIB), which provides loans, risk capital, and guarantees, with a view to supporting development of the private sector and of a commercially run public sector, alongside its own resources.

The Grant Facility makes up the majority of the Fund (93% of the 10th EDF and a proposed 98% of the 11th EDF). This stands in contrast to the World Bank's International Development Association (IDA), where one-fifth of funding is provided as grants and the rest in the form of interest-free, long-term credits. While various documents guide decisions on funding, the EDF Committee, made up of Member States, approves the programming.

The EDF's overarching objective is the eradication of poverty consistent with sustainable development and the gradual integration of ACP countries into the world economy. This is enshrined in the Cotonou Agreement, which covers aid, trade and political relations with an emphasis on equality, ownership, mutual obligations and dialogue. It also includes provisions on humanitarian and emergency assistance that foresee 'flexible mechanisms' for post-emergency action and transition to the development phase.

Article 2 of the Cotonou Agreement outlines four fundamental principles that govern relations between the EU and the ACP:

- Equality of the partners and local ownership of development strategies. As the text states, *"the ACP states shall determine the development strategies for their economies and societies in all sovereignty"*.
- The fostering of the widest possible involvement and participation in political and economic affairs. The partnership is open to *"all sections of society, including the private sector, and civil society"* as well as to central government.
- *"Dialogue and the fulfilment of mutual obligations"* are pivotal to enacting the intent of the partnership.
- *"Differentiation"* or distinguishing between states more able to compete in the global economy and the least-developed countries that retain special protection has become a fundamental principle.¹

The Cotonou Agreement is unique in among current development architecture in terms of its mutual accountability (Article 2) and political dialogue (Article 3-4) provisions. It is also

¹ Consolidated Version of the ACP-EC Partnership Agreement. Cotonou, June 2000, p. 18 - http://ec.europa.eu/europeaid/where/acp/overview/documents/cotonou-consolidated-fin-ap-2012_en.pdf

unique in terms of the institutions that it enshrines to oversee cooperation (e.g. the ACP-EU Joint Council of Ministers and the Joint Parliamentary Assembly) and its arbitration procedures (Article 96-98). The Agreement commits countries to cooperation and dialogue with the EU on good governance, human rights and democratic principles and the rule of law, including support for the International Criminal Court (ICC). For example, in 2009, following the ICC's issuing of an arrest warrant for the President of Sudan, Omar al-Bashir, over two counts of alleged war crimes and five counts of crimes against humanity, Sudan was denied access to €297 million of funds that would otherwise have been made available to it under the 10th EDF.

Although there are a number of existing mechanisms at the international level that incorporate some dimension of mutual accountability (e.g. the Paris Declaration on Aid Effectiveness), the Cotonou Agreement is the only one that is contractual by nature. Others are limited by the absence of any means for recipients to sanction donors, and by any means of enforcing donor commitments. Unlike the Cotonou Agreement, they lack a 'contract' and an organised forum for recipient countries to meet and develop a collective response to donor policies. As Maxwell (2012) argues:

"The Cotonou Agreement establishes principles and criteria governing aid, and also dispute resolution mechanisms which have been agreed with the ACP countries. It also provides a role for a joint EU-ACP Council of Ministers and a joint EU-ACP Parliamentary Assembly. In that sense, it exemplifies a model of joint ownership and mutual accountability which does not apply to the EU budget, nor to the aid of other donors".²

The EU and the ACP share 40 years of contractual partnership, common values, joint institutions and political dialogue. Despite divergent interests and recently strained relations over some specific issues, many objectives of the Cotonou Agreement – including democracy, human rights, poverty eradication, peace and stability – remain highly relevant to ACP-EU relations.

² Maxwell, S. (2012) 'EU budget surprise: Member States proposing budgetisation of the EDF', EDCSP Opinion 16. London: Overseas Development Institute.

Background to EDF Finances

The EDF is part of the EU's Official Development Assistance (ODA) contribution. The current (10th) EDF has a budget of €22.7 billion over six years, from 2008 to 2013. This represents about 30% of EU spending on development cooperation, with the remainder coming directly from the EU budget. Negotiations are underway for the 11th EDF, which is proposed to cover a seven-year period from 2014 to 2020. This one-year extension allows the end of the 11th EDF to coincide with both the expiration of the Cotonou Agreement in 2020 and the end of the EU budget period.

For the next MFF, the EC put forward five key proposals to strengthen the EDF and determine its future direction:

1. Maintain the EDF as a separate fund outside the main EU budget.
2. Increase the overall amount of the EDF by 13%, from €26.93 billion (10th EDF recalculated over seven years) to €30.32 billion (2011 prices).
3. Further align the Member States' EDF 'contribution key' with the key used for the EU budget (based on GNI per capita).
4. Improve the democratic scrutiny of the EDF.
5. Increase administrative and support expenditure of the EC from 2% to 5%.³

The EDF is recognised by other donors as a framework through which a large group of eligible countries can be reached through a single financial mechanism.⁴ Its coverage of recipient countries has increased from 18 in the 3rd EDF (which ended in 1975) to 79 in the proposed 11th EDF (which would begin in 2014). Table 1 charts the evolution of financial allocations to the EDF.

Table 1: Budgets of EDF1 to EDF11 in €million (current prices)

	EDF 1	EDF 2	EDF 3	EDF 4	EDF 5	EDF 6	EDF 7	EDF 8	EDF 9	EDF 10	EDF 11 (EC Proposal)
	1957	1963-1969	1969-1975	1975	1979	1984	1990-1995	1995-2000	2003-2008	2008-2013	2014-2020
Amount	569	730	887	3,053	4,207	7,882	11,583	13,151	14,300	22,000	34,275
No. of ACP countries		18	18	46	58	65	68	70	77	77	79
No. of EU countries		6	6	9	9	10	12	15	15	25	27

Source: Reconstructed from van Reisen, M. (2012) 'Future Perspectives of the ACP Group'. Brussels: ACP 3D.

The EC proposal for the 11th EDF is €30.32 billion over a seven-year period (2014 to 2020) in 2011 prices, and €34.28 billion in current prices. This represents a 13% increase in 2011 prices.⁵ Part of the rationale for an increase to the EDF (and the EU aid budget) is about the EU's aid market share. Without an increase in funding its market share will fall, thus weakening the EU's common effort towards the commitment of spending 0.7% of EU GNI on aid by 2015.

³ Gavas, M. (2012) 'Replenishing the 11th European Development Fund', Background Note. London: Overseas Development Institute.

⁴ Van Reisen, M (2012) 'Future perspectives of the ACP Group'. Brussels: ACP 3D.

⁵ Gavas, M. (2012) 'Replenishing the 11th European Development Fund', Background Note. London: Overseas Development Institute.

In its proposal for the 11th EDF⁶, the EC proposed the further alignment of Member States' EDF contribution key with the key used for the EU budget. Nevertheless, there is still substantial variation in the contribution keys for the EDF and the EU budget.⁷ The Member State contributions keys are subject to ongoing negotiation.

In November 2012, the European Council President, Herman van Rompuy, presented an updated proposal for the EU's seven-year budget. He proposed a 12.8% (€13.16 billion) cut to external spending as a whole (including the EU budget Heading 4, the Emergency Aid Reserve and the EDF). The proposal reduces the amount for the EDF from the EC's suggested €30.31 billion to €26.98 billion, effectively freezing the amount for the EDF at 2011 levels (see Table 2).

Table 2: Herman van Rompuy (HvR) and EC proposals for the 11th EDF compared in 2011 prices (€billion)

	Current amount	EC proposal	Growth (current vs. EC proposal)	HvR proposal	Growth (current vs. HvR proposal)
11th EDF	€ 26.93	€ 30.32	13%	€ 26.98	0.2%

Source: European Commission and Herman van Rompuy figures

Table 3 shows the current Member State contributions to the 10th EDF, and their contributions to the 11th EDF under two scenarios: the EC proposal and the van Rompuy proposal. The EC has extrapolated figures for the 10th EDF to seven years to enable a comparison with the 11th EDF. For the EU-15, there is very little variation in the proposed contribution shares from the 10th to the 11th EDF, as proposed by the EC. Belgium, Denmark, France, Italy, Luxembourg, the Netherlands and the UK would see a decrease in their shares, although slight increases in the contribution level. Without exception, the EU-12 would see quite substantial increases in their contributions, both under the EC proposal and the van Rompuy proposal. However, under the van Rompuy proposal, Austria, Belgium, Denmark, France, Italy, Luxembourg, the Netherlands and the UK would see slight decreases in their contributions from the 10th to the 11th EDF.

⁶ EC Communication (2011), 'Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period (11th European Development Fund)', COM(2011) 837 final. Brussels: European Commission

⁷ Gavas, M. (2012) 'Replenishing the 11th European Development Fund', Background Note. London: Overseas Development Institute.

Table 3: Member State contributions to the 10th and 11th (EC proposal and van Rompuy proposal) EDF compared in €million⁸

Member State	10th EDF contribution key	10th EDF Total	11th EDF contribution key (EC Proposal)	11th EDF Total (EC Proposal)	HVR Proposal	Amount change from 10th to 11th EDF (EC Proposal)	Amount change from 10th to 11th EDF (HVR Proposal)	Amount change from HVR Proposal to EC Proposal
Austria	2.41%	649.01	2.40%	727.66	647.6	78.64	-1.40	80.04
Belgium	3.53%	950.63	3.25%	985.37	877.0	34.74	-73.65	108.39
Bulgaria	0.14%	37.70	0.22%	66.70	59.4	29.00	21.66	7.34
Cyprus	0.09%	24.24	0.11%	33.35	29.7	9.11	5.45	3.67
Czech Rep.	0.51%	137.34	0.80%	242.55	215.9	105.21	78.53	26.68
Denmark	2%	538.60	1.98%	600.32	534.3	61.72	-4.32	66.03
Estonia	0.05%	13.47	0.09%	27.29	24.3	13.82	10.82	3.00
Finland	1.47%	395.87	1.51%	457.82	407.5	61.95	11.59	50.36
France	19.55%	5264.82	17.81%	5,399.81	4,805.9	135.00	-458.96	593.96
Germany	20.50%	5520.65	20.58%	6,239.65	5,553.3	719.00	32.66	686.34
Greece	1.47%	395.87	1.51%	457.82	407.5	61.95	11.59	50.36
Hungary	0.55%	148.12	0.61%	184.95	164.6	36.83	16.49	20.34
Ireland	0.91%	245.06	0.94%	285.00	253.6	39.94	8.59	31.35
Italy	12.86%	3463.20	12.53%	3,798.97	3,381.1	335.77	-82.10	417.88
Latvia	0.07%	18.85	0.12%	36.38	32.4	17.53	13.53	4.00
Lithuania	0.12%	32.32	0.18%	54.57	48.6	22.26	16.26	6.00
Luxembourg	0.27%	72.71	0.26%	78.83	70.2	6.12	-2.55	8.67
Malta	0.03%	8.08	0.04%	12.13	10.8	4.05	2.71	1.33
Netherlands	4.85%	1306.11	4.78%	1,449.25	1,289.8	143.14	-16.27	159.41
Poland	1.30%	350.09	2.01%	609.41	542.4	259.32	192.29	67.03
Portugal	1.15%	309.70	1.20%	363.83	323.8	54.13	14.11	40.02
Romania	0.37%	99.64	0.72%	218.30	194.3	118.66	94.64	24.01
Slovak Rep.	0.21%	56.55	0.38%	115.21	102.5	58.66	45.99	12.67
Slovenia	0.18%	48.47	0.22%	66.70	59.4	18.23	10.89	7.34
Spain	7.85%	2114.01	7.93%	2,404.30	2,139.8	290.29	25.83	264.47
Sweden	2.74%	737.88	2.94%	891.38	793.3	153.50	55.45	98.05
UK	14.82%	3991.03	14.68%	4,450.83	3,961.3	459.80	-29.77	489.58
HR			0.20%	60.64				
Total	100%	26,930	100%	30,319	26,930			

Source: European Commission data

⁸ Figures for the 10th EDF have been recalculated over seven years to enable a comparison with the 11th EDF.

How does the EDF perform in recent evaluations and assessments?

There have been four major assessments of EDF performance in the past five years. These are the UK Department for International Development's Multilateral Aid Review (MAR) (2011),⁹ the Centre for Global Development's Quality of Official Development Assistance (QuODA) review (2011),¹⁰ the EC's Impact Assessment of the EDF (2011)¹¹ and the OECD DAC's peer review of EU aid (2012).¹² Whereas the MAR and QuODA focused on the performance of the EDF and EU budget aid in relation to a set of criteria and relative to other donors, the EC's Impact Assessment focused exclusively on the EDF with lessons learnt and areas for improvement. The OECD DAC reviewed progress over the last five years on the performance of the EC, with regards to both the EDF and EU budget aid, and highlighted areas for further improvement.

Overall, the assessments have drawn positive conclusions about the performance of the EDF. They found the EDF to be strong in the areas of bilateral policy dialogue with the host governments and alignment with partner government national development strategies. Most importantly, the assessments have rated the EDF more effective than other EU financial instruments in its contribution to the Millennium Development Goals (MDGs), financial resource management, monitoring, transparency and predictability of funding.¹³

The evaluations found that ACP countries have received specific benefits from the EDF including:

- Country allocations based on clear and transparent needs and performance criteria;
- Use of best development practices such as fully consultative strategies that give partners a key voice;
- Support for, and alignment with, local priorities and partner countries' poverty reduction strategies;
- Multi-annual budget commitments;
- Adherence to the European Consensus on Development; and
- Extensive use of budget support with strong country ownership.

The Cotonou Agreement called for a review of the 10th EDF to assess financial, quantitative and qualitative performance. The review examined, in particular, the results and impact of the EDF in terms of progress towards achieving the MDGs.¹⁴ The review highlighted that,

⁹ DFID (2011), 'Multilateral Aid Review: Assessment of the European Development Fund'. London: DFID - <http://www.dfid.gov.uk/What-we-do/Who-we-work-with/Multilateral-agencies/Multilateral-Aid-Review-summary---European-Development-Fund-EDF/>

¹⁰ Birdsall, N., Kharas, H., Mahgoub, A., Perakis, R. (2010) 'Quality of Official Development Assistance Assessment'. Washington: Centre for Global Development

¹¹ EC Communication (2011), 'Impact Assessment – Accompanying the document: Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period_(11th European Development Fund) and covering the subsequent implementing and financial regulations of the 11th European Development Fund (EDF)' SEC(2011) 1459 final. Brussels: European Commission

¹² OECD DAC (2012), 'European Union Peer Review 2012'. Paris: OECD - <http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf>

¹³ DFID (2011), 'Multilateral Aid Review: Assessment of the European Development Fund'. London: DFID.

¹⁴ EC Communication (2011), 'Impact Assessment – Accompanying the document: Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period_(11th European Development Fund) and covering

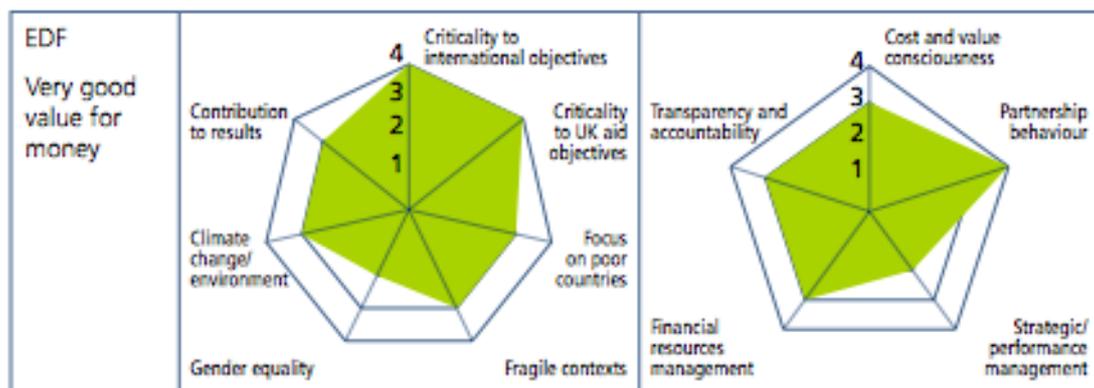
with regards to the EDF's contribution to the MDG process, it "widely supports the efforts of governments to reduce poverty through an important contribution to macro-economic stability while partly covering budget deficits, and a support to selected country strategy priorities".¹⁵ It further noted:

"... the value added of the 10th EDF thanks to its programming, its responsiveness and results. In the programming, the EU clearly identified areas where it could offer the best added value and focused its funds strongly on budget support, governance and infrastructure."¹⁶

Nevertheless, the review also noted that EU aid remains fragmented between EU instruments (the EDF and the budget); among levels of action in the EU (national, regional and thematic/horizontal); and among EU Member States' bilateral programmes and EC and EIB interventions.¹⁷ The review also highlighted weaknesses in aid programming in crisis and fragile situations, risk reduction and managing exogenous shocks.

A total of 43 organisations were assessed as part of DFID's MAR in 2011. A range of criteria was used to assess their contribution to UK development objectives and their organisational strength. Grouped under 10 different 'components' the assessments looked at a total of 41 specific criteria, ranging from poverty focus and management of financial resources, to likelihood of positive change. All these were investigated, scored and then aggregated into a single 'value for money' chart which classified agencies into four categories: very good; good; adequate; and poor. The EDF was one out of a total of nine multilateral organisations that qualified as 'very good'. Figure 1 summarises the performance of the EDF in the MAR.

Figure 1: The EDF in the DFID MAR



Source: DFID (2011) 'Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations'. London: DFID

The MAR highlighted the EDF's ambitious objectives, good evidence of innovation, strong financial accountability processes, clear and transparent resource allocation procedures based on need and performance, long programming cycles offering a high degree of predictability, and a full range of instruments. The external assessments indicated good performance with many examples of contributions to outputs and outcomes at the country

the subsequent implementing and financial regulations of the 11th European Development Fund (EDF)' SEC(2011) 1459 final. Brussels: European Commission.

¹⁵ Ibid p. 10.

¹⁶ Ibid p. 9.

¹⁷ Ibid p. 10.

level. Negative aspects of the review focused on the EDF's limited flexibility after funds had been programmed and lack of clear results framework.¹⁸

Since the MAR was completed in March 2011, other independent assessments have examined the EDF and EU budget aid. Birdsall et. al. compared the quality of aid of 23 donor countries and over 100 donor agencies as part of their QuODA assessment.¹⁹ A total of 31 indicators were grouped into four dimensions of aid quality: maximising efficiency; fostering institutions; reducing burden; and transparency and learning.

Using 2008 data, the EC (including the EDF and other EU institutions) was found to be above average on all four components (see Table 4). It scored better than France and Germany on all four components, better than the UK for maximising efficiency and transparency, better than the average for bilateral agencies on all four components, and better than the average multilateral. It scored the highest on transparency.

Table 4: QuODA (2011) score comparisons (2008 data)

	Maximising Efficiency	Fostering Institutions	Reducing burden	Transparency and learning	Average
EC	0.15	0.23	0.39	0.62	0.35
France	0.07	-0.21	-0.43	-0.6	-0.29
Germany	-0.47	0.2	-0.2	0.01	-0.12
United Kingdom	0.08	0.51	0.54	0.23	0.34
Bilaterals	-0.16	-0.08	-0.14	0.00	-0.09
Multilaterals (excl. the EC)	0.43	0.23	0.39	-0.01	0.26

Note: higher numbers represent better scores

Source: http://www.cgdev.org/section/topics/aid_effectiveness/quoda & Geddes, M (2012) 'Where do European Institutions rank on donor quality'. London: Overseas Development Institute.

¹⁸ DFID (2011), 'Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations'. London: DFID

¹⁹ Birdsall, N., Kharas, H., Mahgoub, A., Perakis, R. (2010) 'Quality of Official Development Assistance Assessment'. Washington: Centre for Global Development - http://www.cgdev.org/files/1424481_file_CGD_QuODA_web.pdf

Table 5 compares the findings of the QuODA and the MAR for the EDF, as defined by the four indices.

Table 5: Summary of QuODA (2011) and DFID MAR scores

	QuODA (2011) – EDF	MAR (2011) - EDF
Strengths	Fostering institutions Reducing burden	Partnership behaviour
Average	Transparency and learning	Focus on poor countries Financial resource management Transparency and accountability Cost and value consciousness
Weaknesses	Maximising efficiency	Strategic and performance management
Overall	Above average	Strong

Source: Geddes, M (2012) 'Where do European Institutions rank on donor quality'. London: Overseas Development Institute.

The OECD DAC noted in its 2012 peer review of EU aid²⁰ that, since the last review five years earlier, the EU has taken steps to make its aid more effective and give it more impact, although further progress is still needed. According to the OECD DAC, figures on the use of country systems reported from countries covered by the EDF are higher than those covered by the EU budget's Development Cooperation Instrument (DCI). Figures are particularly strong in those countries where the EU used budget support. The OECD DAC also noted that, while partners find the EC's predictability helpful, they would value more flexibility. The review highlighted tools in the EDF which could introduce greater flexibility. The OECD DAC commended the EDF for its "built-in state ownership and mutual accountability", with both the EC and the ACP countries involved in programming, implementing and reviewing the fund.

Notwithstanding the systematic evaluations of EDF performance against indicators derived by the MAR, QuODA and OECD, three criteria have consistently been articulated by the Member States to judge the strengths and weaknesses of the EDF. These are poverty focus, flexibility and disbursement rate. With evidence drawn from the above reviews, the following sections test three standard critiques of the EDF using these criteria.

²⁰ OECD DAC (2012), 'European Union Peer Review 2012'. Paris: OECD

Testing the Critiques

Testing critique 1: “The EDF targets Middle Income Countries (at the expense of a focus on poverty)”

There is broad consensus that poverty in today’s world is mainly a middle-income country (MIC) phenomenon. Sumner’s figures suggest that, using standard official definitions, 72% of today’s poor live in mainly stable MICs, 16% in stable low-income countries (LICs) and 12% in low-income, fragile and conflict-affected states.²¹ Research by Kharas and Rogerson (2012) suggests that the predominance of poor people in MICs is likely to be transitory as high growth rates make poverty a largely African and fragile state phenomenon by 2025.²² It is clear that the simple assumption that the majority of poor people are located in the poorest countries may no longer be valid. However, it is also generally accepted that LICs and Least Developed Countries (LDCs) do still account for very significant numbers of the poorest people.

Despite the nuance of this analysis, debate about the poverty focus of the EDF typically hinges on its relative engagement in LICs and MICs. The MAR rated the EDF as ‘satisfactory’ with regards to its poverty focus, but marked it down because of the resources it spends in MICs in the Caribbean and the Pacific.

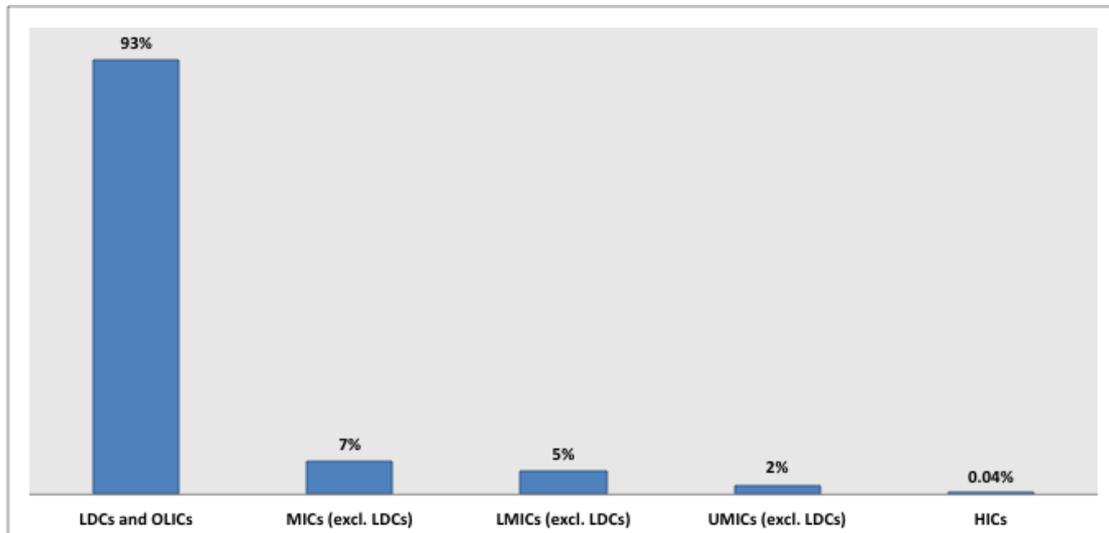
The EC’s approach to aid allocation is based on standard country income criteria. However, the EDF has a relatively sophisticated aid allocation model in comparison with, for example, the World Bank’s IDA. The main factor that determines the allocation of resources with IDA is country performance in implementing policies that promote economic growth and poverty reduction. For the EDF, apart from the standard needs and performance criteria (with the exception of the political criteria), the allocation model includes a set of vulnerability indicators (growth volatility, environmental sustainability of growth and geographic isolation) and investment climate indicators. The EC monitors the results at mid-term and end-term, both on the basis of needs and performance. Performance is assessed on the basis of financial absorption capacity, sectoral performance in the focal areas of EC interventions, and macro-economic and budgetary performance.

²¹ Sumner, A. (2010) ‘Global poverty and the new bottom billion’. IDS Working Paper. Brighton, UK: Institute of Development Studies.

²² Kharas, H. and Rogerson, A. (2012) ‘Horizon 2025: Creative destruction in the aid industry’. London: Overseas Development Institute.

Figure 2 illustrates the poverty focus of the EDF, using the standard categories of country income status. That shows 93% of EDF funding directed to LDCs and LICs between 2008 and 2013.

Figure 2: 10th EDF allocation (geographic envelope) according to OECD DAC income groups, 2008-2013



Source: European Commission data

In an effort to ‘differentiate’ between the diverging needs and capacities of developing countries, the EC has initiated a multifaceted approach which involves differentiation not only in aid policy, but also in trade, climate change and shock facilities.²³

Differentiation is already a well-established principle in EDF allocation. It has gained prominence since 2011 and is now a key feature of the EU’s new development strategy – An Agenda for Change.²⁴ According to the new strategy, differentiation will be applied at three levels:

- Eligibility for grant-based bilateral aid (leading to ‘graduation’);
- Aid volumes; and
- Selection of policies and instruments.²⁵

It is at the first of these levels that the policy of differentiation is new. The EC has never previously proposed aid graduation. The test run for this policy is the DCI under the EU budget, where the EC is proposing to cut bilateral aid to 19 countries from 2014. 17 of these are upper-middle-income countries (UMICs). While the remaining two are lower-middle-income countries (LMICs), their GDP is larger than the threshold of 1% of global GDP. This

²³ Herbert, S. (2012) ‘Reassessing aid to middle income countries: the implications of the European Commission’s policy of differentiation for developing countries’. Working Paper Issue 349. London: Overseas Development Institute.

²⁴ EC Communication (2011) ‘Increasing the impact of EU Development Policy: An Agenda for Change’, COM(2011) 637 final. Brussels: European Commission - http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf and http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/130243.pdf

²⁵ Ibid.

could, potentially, free some €3 billion, or 25% of the geographic envelope, for investment elsewhere.

The EC is expected to shortly release more details regarding how it could apply the policy of differentiation to the EDF. It has already indicated that it will not propose applying differentiation of eligibility to the EDF (i.e. ‘graduation’), but it plans to propose an increased differentiation of aid volumes – the levels of which will be determined at the programming stage. The EC Development Commissioner, Andris Piebalgs, has stated that the Cotonou Agreement makes the EU-ACP a ‘special relationship’ so the policy approach may differ for the group:

“...what we intend to propose is strong differentiation according to the level of income. But for the Caribbean I have a bit of a soft spot because the countries are vulnerable to two major challenges: climate change and natural disasters. It is the same with the Pacific...They are vulnerable economies that in a way deserve some attention even if the income per capita is there.”²⁶

Nevertheless, it is interesting to note the impact that the policy of differentiation would have if it were applied to the EDF in a similar fashion as it has been for the DCI. 21 UMICs and high-income countries (HICs) would qualify for ‘graduation’ from grant-based bilateral aid from 2014. Box 1 lists the countries. Note that out of the 21 UMICs, 17 score highly on the Environmental Vulnerability Index.

Box 1: Countries no longer eligible to receive EU bilateral aid if DCI graduation criteria were to apply to the EDF

Africa:	Caribbean and Pacific:	
1. Botswana	1. Antigua and Barbuda	9. Nauru
2. Gabon	2. Bahamas	10. Niue
3. Mauritius	3. Barbados	11. Palau
4. Namibia	4. Cook Islands	12. St. Kitts & Nevis
5. Seychelles	5. Dominica	13. St. Lucia
	6. Dominican Rep.	14. St. Vincent & the Grenadines
	7. Grenada	15. Suriname
	8. Jamaica	16. Trinidad & Tobago

During the current budget period, the 21 countries listed in Box 1 were allocated approximately €619 million in ODA through the national and regional indicative programmes of the EDF – making up approximately 5% of the EDF budget. Assuming a similar percentage saving of 5% in the same envelope for the next budget period (2014-2020) and an overall amount of the EC’s proposed €30 billion for the 11th EDF, less than €1.5 billion would potentially be freed up over the seven-year period.²⁷

Given the already strong focus on the poorest countries (93%), the application of aid graduation to the EDF using the DCI model would yield little financial gain. Nevertheless, in order to further strengthen the focus of the EDF on the poorest countries, the EC will most likely continue to differentiate aid volumes in the 11th EDF (as it has done in previous EDFs) by increasing the weight of income criteria in the aid allocation model to ensure funds are

²⁶ <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/uc1680-ii/uc168001.htm>

²⁷ Herbert, S. (forthcoming)

directed to LICs and LDCs.²⁸ LDCs and LICs received larger shares and increases in country allocations from the 9th to the 10th EDF and this trend will most likely continue under the 11th EDF.²⁹

With 93% of EDF funding directed to LDCs and LICs, and a commitment by the EC to strengthen this further with the continued application of differentiation in aid volumes, the EDF will continue to have a strong poverty focus. In spite of the number of UMICs in the ACP group, it is important to note that income figures can mask needs. Hence, the importance of other criteria beyond income, like vulnerability and fragility, which are built into the EDF aid allocation model.

Testing critique 2: “The EDF is inflexible in its procedures and unable to adapt quickly to changing circumstances”

The EDF is criticised by the MAR and the EC’s performance review for its limited flexibility after funds have been programmed and its rigid and cumbersome procedures. The EC’s performance review of the 10th EDF³⁰ highlighted that the EU’s responsiveness could be improved in relation to aid programming in crisis situations, fragile contexts, and building up the resilience of recipient countries to natural hazards and economic shocks. The review underlined that the EDF programming cycle was not sufficiently flexible to respond quickly to new crises and unforeseen events like floods or earthquakes.

On the other hand, the EDF is credited by the OECD DAC for its flexibility and adaptability to changes in the political and economic climate. The allocation of EDF funds to each country is divided into two elements. Envelope A is reserved to cover the forecasted, regular support the EC will provide. Envelope B covers unforeseen needs, debt relief and additional support in case of fluctuations in export earnings. Resources can also be drawn from Envelope B and transferred to Envelope A if the country is performing very well and needs a replenishment to finance the regular programme. This mainly happens through the mid-term review.

Compared to the 9th EDF, the 10th EDF has a relatively lower level of Envelope B resources that are actually allocated to individual countries, with a large percentage remaining unallocated to facilitate interventions and retain flexibility. Furthermore, the EC’s Humanitarian Office (ECHO) can directly access 25% of each country’s Envelope B for programmes under the Humanitarian Implementation Plans. The EC can transfer the remaining funds to ECHO for use in crises, for example during the recent crisis in the Horn of Africa. Extra funds can be transferred from Envelope A if development programming is not yet feasible, promoting links from relief to long-term development programmes.

A specific positive example of the EDF’s flexibility relates to South Sudan. Following South Sudan’s independence in July 2011, ratification of the Cotonou Agreement and eligibility for

²⁸ Gavas, M. (2012) ‘Replenishing the 11th European Development Fund’. Background Note. London: Overseas Development Institute.

²⁹ ECDPM (2012) ‘Differentiation in ACP-EU Cooperation: Implications of the EU’s Agenda for Change for the 11th EDF and beyond’. Discussion Paper No. 134. Maastricht: ECDPM.

³⁰ EC Communication (2011), ‘Impact Assessment – Accompanying the document: Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period_(11th European Development Fund) and covering the subsequent implementing and financial regulations of the 11th European Development Fund (EDF)’ SEC(2011) 1459 final.

EDF support was not expected to be completed until 2012. However, given the numerous humanitarian and socio-economic challenges in the context of very low state capacity, the EC proposed that an additional fund of €200 million (South Sudan had already been allocated €285 million of 'de-committed' funds from the 9th and previous rounds of the EDF) be created from 'de-committed' EDF money for programming in South Sudan alone, enabling rapid disbursement.

Similarly, the EC's Vulnerability FLEX (V-FLEX) instrument provides an example of flexibility through ad-hoc and rapid, counter-cyclical financing to mitigate the social consequences of the economic downturn in the worst hit countries. Used to top up the B-envelope of the National Indicative Programmes, allocations under V-FLEX were drawn from the reserves of the 10th EDF (€500 million for two years). The financial repercussions on EU Member States' contributions were therefore minimised. V-FLEX has been credited with ensuring quick disbursement and smooth coordination between donors on the ground.

Although the EDF's rolling programming means that the initial priorities and budget allocations agreed by the EC and the ACP during the programming phase can be revised, in practice there is limited flexibility to re-programme funds away from poorly performing projects. The EDF has also often been criticised by Member States for its lack of flexibility in reacting quickly to emerging needs. However, flexibility has already been built into the EDF through Envelope B and the possibility of transferring funds between Envelope A and B. There have been positive examples in South Sudan and through the V-FLEX, which suggest opportunities for enhanced EDF flexibility in practice. Nevertheless, flexibility implies the maintenance of significant reserves. This reduces the level of disposable funds for programming and can work against efforts to increase predictability. Ensuring flexibility in volatile situations, whilst sustaining long-term funding to strengthen security, development and humanitarian linkages, remains a challenge for the EDF.

Testing critique 3: "The EDF suffers from weak forecasting and slow disbursement"

The EDF has a good track record in financial management, consistently gaining an annual 'statement of assurance' from the European Court of Auditors – something the EU budget has failed to achieve for over a decade. At the same time, the EDF has consistently been criticised for its slow disbursement of funds. This highlights the tension that effective financial management and stringent accountability requirements may counter efforts towards more rapid and predictable disbursement.

The MAR rated the EDF's financial resources management as 'satisfactory'. It highlighted that financial accountability is 'strong' and 'well-established'. The statement of assurance by the European Court of Auditors in 2010 on the annual report on the activities funded by the 8th, 9th and 10th EDFs³¹ was accompanied by an overall assessment of 'partially effective' for supervisory and control systems (Figure 3).

³¹ <http://eca.europa.eu/portal/pls/portal/docs/1/7158769.PDF>

Figure 3: European Court of Auditors' results of examination of systems for the EDF

Assessment of selected supervisory and control systems					
System concerned	Ex-ante controls	Monitoring and supervision	External audits	Internal audits	Overall assessment
Central services EuropeAid	Effective	Effective	Effective	Partially effective	Effective
Delegations	Partially effective	Partially effective	Partially effective	N/A	Partially effective

Overall assessment of supervisory and control systems			
Overall assessment	2009	2008	2007
	Partially effective	Partially effective	Partially effective

Legend

	Effective
	Partially effective
	Not effective
	N/A Not applicable: does not apply or not assessed

Source: European Court of Auditors (2012) 'Annual Report on the Activities funded by the eighth, ninth and tenth European Development Funds'. Brussels: European Court of Auditors.

The Court of Auditors also noted that EDF interventions are implemented in and by countries in which internal control systems are generally weak. They highlighted the lack of capacity of most National Authorising Officers in beneficiary countries and weaknesses in the establishment and application of financial procedures and controls by implementing organisations and supervisors, constituting a high risk for the regularity of transactions. The remoteness of many project sites and the existence of conflicts in certain regions also increase the difficulty of performing verifications. These factors also have an impact on the disbursement rate.

Following the introduction of the N+3 rule under the 9th EDF financial regulations (obligation to contract funds within the 3 years following the year of the global commitment of funds) and of the sunset clause (which implies that de-committed funds cannot be recommitted), the EDF's disbursement rate has improved.

In 2011, however, the EDF was criticised on two accounts in relation to its disbursement: slow speed, and weak forecasting which resulted in downward revisions of Member State contributions. EDF spending in 2011 fell substantially below the EC's initial forecast. As a result, in 2012, the EC had to reduce the contributions of Member States to the EDF by €1 billion.

The reasons for the under-disbursement and downward revisions in 2011 were fourfold.

First, there were several delayed payments to large infrastructure project contracts due to delays in launching calls for proposals and calls for tenders, as well as cases where financial guarantees were not received from contractors. Delays to project implementation, problems in cooperation with implementing agencies and delayed signature of delegation agreements also impacted on payments.

Second, there were lower disbursements on budget support programmes caused by poor country beneficiary performance where benchmark and eligibility criteria had not been met.

As noted by the House of Commons European Scrutiny Committee, *“there is no point in a system that is (properly) linked to beneficiary country performance if failure to meet benchmarks and eligibility criteria has no adverse consequences.”*³²

Third, there was a slowdown as a result of the re-orientation of the EC’s aid programme as part of the EU Agenda for Change and the new stricter guidelines for budget support eligibility.

Fourth, there were EC staffing constraints in EU Delegations and inadequate human resources. The EC has proposed an increase in the proportion of administrative expenditure of the EDF from the current 2% to 5% on the basis that the latter figure reflects the real support expenditure that is needed for programming and implementing the EDF. In the meantime, the EC is already in the process of rebalancing staff at headquarters and in the Delegations towards future priorities, in particular, in Sub-Saharan Africa.³³

Low disbursements in 2011 to 2012 have been a particular focus of this discussion. Delays to contracts and calls for proposals clearly need to be addressed by the EC. At the same time, the EDF should not be penalised for lower disbursements as a result of countries not meeting budget support eligibility criteria. The policy re-orientation is now complete and there are lessons that need to be taken on board to prevent such delays in the future. Increasing the share of support expenditure in the EDF and the use of joint programming will help to address the issue, as will rebalancing staff at headquarters and in the Delegations towards future priorities, in particular, in Sub-Saharan Africa – a process already initiated by the EC. Finally, it is important to recognise that the EC’s financial management and stringent accountability requirements may counter efforts towards rapid and predictable disbursement.

Emerging data for 2012 reveals substantial improvement in EDF expenditure. According to EC internal documents, committed funds exceeded the target by €0.34 billion (110% execution) and EDF payments exceeded the target by €0.24 billion (107% execution).

³² <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmeuleg/86-xiii/8610.htm>

³³ http://ec.europa.eu/europeaid/who/whoswho/index_en.htm

Conclusions

This paper has briefly reviewed the evidence from the main assessments and evaluations of EDF performance. It has selected three criteria consistently raised by the Member States in relation to the strengths and weaknesses of the EDF. It has assessed the extent to which the oft-cited critiques of the EDF against these criteria are valid.

The assertion that the EDF targets MICs at the expense of poor countries fails to take into account the importance of other criteria beyond income, like vulnerability and fragility. As a result of its sophisticated aid allocation model, the EDF has a strong focus on poor countries. This emphasis will become stronger with further differentiation in aid allocation. The assertion that the EDF is inflexible overlooks its current mechanisms to permit flexibility and has proven capable of responding to changing political and economic situations. The EDF does, however, continue to face the challenge of being flexible enough to re-programme funds and to respond to crises, whilst at the same time ensuring long-term funding to strengthen security, development and humanitarian linkages. The assertion that the EDF is slow to be disbursed needs to be put into the context of 2011 when a number of changes to the policy and eligibility for budget support were introduced. It also needs to take into account the impact of stringent financial management procedures on the speed of disbursement. The EC has started to address some of the weaknesses regarding disbursement by boosting staff levels and expertise. Importantly, this shows the potential for the EC to institute improvements to further enhance the performance of the EDF.

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For further information

Mikaela Gavas, Research Associate, Overseas Development Institute
m.gavas.ra@odi.org.uk

Eloise Todd, Brussels Director, ONE
eloise.todd@one.org