

**The**  
**EU's Footprint**  
**in the South:**

**Does European Community  
development cooperation make  
a difference for the poor?**



report

**March 2007**



**CIDSE**  
Coopération internationale pour le  
Développement  
et la Solidarité



This document has been written by Walter Eberlei, University of Applied Sciences Düsseldorf (analytical report) and Denise Auclair, CIDSE and Caritas Europa (conclusions and recommendations, overall editing). It draws upon background country study papers by Thomas Costa (Bangladesh); Denise Auclair (Cameroon); Eshetu Bekele and Gweneth Barry (Ethiopia); Ana Vassallo (Guatemala); Marcos Membreño Idiáquez (Nicaragua); Walter Eberlei (Zambia); and Thomas Siebold (desk studies on Tanzania and Mauritania); and upon the contributions of a reference group of CIDSE and Caritas Europa member organisations on EU development policy.

**This document has been endorsed by the following CIDSE and Caritas Europa partner organisations:**

Bureau des Activités Socio-Caritatives (BASC) – Caritas Cameroun  
Caritas Bangladesh  
Civil Society for Poverty Reduction (CSPR), Zambia  
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Nitlapan – Universidad Centroamericana, Nicaragua  
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JCTR



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CIDSE is a coalition of 15 Catholic development agencies in Europe and North America which share a common vision on poverty eradication and social justice and a common strategy on development programmes, development education and advocacy. CIDSE's advocacy work covers trade and food security, resources for development, global governance, and EU development policy. <http://www.cidse.org>.

Created in 1971, Caritas Europa is one of the seven regions of Caritas Internationalis, the worldwide confederation of 162 Catholic relief, development and social service organisations working to build a better world, especially for the poor and oppressed, in over 200 countries and member organisations, working in 44 European countries. Caritas Europa focuses its activities on policy issues related to poverty and social inequality, migration and asylum within all countries of Europe, and issues of emergency humanitarian assistance, international development and peace throughout the world. With regard to all these issues, the organisation develops policies for political advocacy and lobbying at European level as well as at national level. The organisation is strongly involved in supporting the activities of its member organisations and those in the wider Caritas Internationalis confederation. <http://www.caritas-europa.org>.

**CONTACT DETAILS**

**Contact person**  
Denise Auclair, CIDSE and  
Caritas Europa Secretariats

**Address**  
Rue Stévin 16  
1000 Brussels, Belgium  
Tel: +32 (0)2 233 37 58  
Fax: +32 (0)2 230 70 82  
Email: [auclair@cidse.org](mailto:auclair@cidse.org)

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# Foreword

In 2005, following the worldwide call to Make Poverty History, European and other Northern governments promised to increase the aid and debt relief that they give to poor countries. Now, two years later, governments must be held to account for the promises they made, and called upon to ensure that aid works for poverty reduction. With the G-8 summit in June set to focus on Africa under the German presidency of both the G-8 and the European Union, 2007 represents another crucial year for decisions and reforms to advance the fight against poverty and injustice.

As Catholic networks inspired by the gospel and by Catholic Social Teaching, CIDSE and Caritas Europa are called to speak out against the injustice of global poverty, a scandal that affects all of us – whether we see ourselves as rich or poor. This year, CIDSE and Caritas Internationalis have joined forces in a global campaign entitled “*Make Aid Work—The World Can’t Wait!*” Through this campaign, CIDSE and Caritas Europa are working to mobilise both Northern and Southern public support for policy changes needed to make aid work in a way that supports poor countries and communities to make their own path out of poverty.

This requires broad-based national ownership in policy making, and subsidiarity in decision-making including participation of local communities. Development outcomes depend on the quality of processes to achieve them, and the challenges of poverty require local and national responses and bottom-up solutions. And human rights must be placed at the core of human development initiatives if we are to realise a more just world, in which every man and woman can realise his or her full potential.

At European level, 2007 marks the beginning of a new seven-year cooperation period with Asia and Latin America, and the finalisation of programming for African, Caribbean and Pacific countries under the six-year 10<sup>th</sup> European Development Fund. If there were ever a time to take a closer look at European Community (EC) aid, representing the collective commitment of EU Member States, and its effectiveness in bringing about a better world, that time is now.

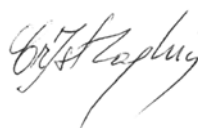
This report aims to help fill the information gap on the impact of EC aid, in the interests of European policymakers and citizens, as well as governments, Parliaments, and civil society in developing countries. It draws upon multiple sources, most importantly upon evidence and views of local actors gained from research in Bangladesh, Cameroon, Ethiopia, Guatemala, Nicaragua, and Zambia on EC cooperation in the 2002-06 period. In line with the Catholic identity of the networks, guided by the values of partnership and participation, the research was carried out with the collaboration and cooperation of a number of our civil society partner organisations in the six countries.

The report demonstrates that some progress has been made towards more effective EC aid, but that much more could be done so that these precious resources make a visible difference in the lives of people living in poverty. Its recommendations set out concrete ways in which the EC can improve the impact of its aid for the poor, supported by good examples from current EC practice demonstrating that change is possible.

CIDSE and Caritas Europa express their appreciation to all the individuals and organisations which have contributed to this report, both within the two networks and especially our Southern civil society partner organisations who have made this a truly joint effort. A special thanks goes to Walter Eberlei, University of Applied Sciences Düsseldorf, the main author of the analytical report, for his professionalism and enthusiasm for the report’s participatory approach. Our warmest thanks go as well to the authors of the background country study papers for the report: Thomas Costa (Bangladesh); Denise Auclair (Cameroon); Eshetu Bekele and Gweneth Barry (Ethiopia); Ana Vassallo (Guatemala); Marcos Membreño Idiáquez (Nicaragua); Walter Eberlei (Zambia); and Thomas Siebold (desk studies on Tanzania and Mauritania). Thank you!

Paul Chitnis  
President of CIDSE

Iosefina Cristina Loghin  
President of Caritas Europa





# 1. Conclusions

The urgency of a closer look at the real impact of EC aid is thrown up by the record on poverty eradication of the six countries in our field research sample. Only one of the countries – Bangladesh – has seen steady improvement in poverty reduction, while the other countries have seen relatively small gains, have stagnated or even regressed. Many factors influence a country's record on poverty eradication, including the overall macro-economic situation and the government's will to carry out pro-poor policies. However, the expectation both of citizens of developing countries and of European taxpayers is that development assistance will make a difference for those living in poverty. We thus have an obligation to ask whether this is indeed the case.

Recent years have seen EU and other donors working more closely together to direct their joint assistance in support of partner country strategies and policies, rather than each donor funding its own separate projects. This is intended to lead to more sustainable results for development as well as a reduced burden for developing country governments in dealing with different donors. However, this also leads to questions of identifying the responsibility of any one donor in development results, and indeed the share of donors' credit (or blame) versus the government's share. Despite these challenges, we believe it is necessary to try to identify the precise role played by EC aid and the EC as a donor.

While developing country governments clearly have a central role in deciding upon the use of aid, we cannot either shy away from the question of EC responsibility, hiding behind a shield of "government sovereignty." The EC is not a neutral financier, and in fact has many clear policies on the standards of behaviour it expects from governments. In line with its fundamental values of the promotion of democracy, the EC has a responsibility to promote through its cooperation the democratic accountability of Southern governments to their citizens. European citizens also expect the EC to ensure that their taxpayers' money is used for the benefit of the poor.

For EC development assistance to contribute to real and lasting changes in the lives of the most vulnerable populations requires robust policies. Most essential, however, is to know whether virtuous policies are carried out in practice, the focus of this report.

## Policy and principles: The right rhetoric

This report takes as its starting point the EC commitment to poverty eradication and the achievement of the Millennium Development Goals in its key policy documents. The principles of ownership, partnership, and participation are now systematically included in EC policy documents. And the European Commission has been a driver in the Paris Declaration on aid effectiveness, which commits donors to working together in support of developing countries' own policies.

## Country strategies: Poverty focus or European interests

The principles of subsidiarity and of participation require that people living in poverty be able to make their voices heard on the use of government and donor resources intended to improve their living conditions. In theory, the EC like all donors has committed to orienting its development assistance in support of national development strategies that have a broad basis within the countries and the support of government, Parliaments, and civil society. The establishment of the Poverty Reduction Strategy Paper approach (1999/2000) and of the Millennium Development Goals (2001) were meant to improve the ownership and poverty focus of development aid. This report finds that:

- The new generation of EC Country Strategy Papers indeed makes increasing reference to the national PRSP, though in several cases the PRSP is considered to be more donor-driven than broadly shared by national stakeholders. Moreover, the focal sectors chosen also often reflect EU interests, including the EC's own perceived "comparative advantage" or political priorities (e.g. transport infrastructure and governance in Africa), but also economic interests (regional trade integration in Africa and Latin America).
- In several countries, civil society strongly contests the choice of focal sectors, and/or the focus within sectors as having little relation to the needs of the greater population. This is particularly the case for EC support to the transport sector in Africa, which focuses to a large extent on main structuring roads rather than roads in and leading to rural areas that would have greater impact on rural poverty. In parallel, an insufficient emphasis on rural development is criticised.
- These observations are borne out by a look at EC indicators for country programmes. While the sole presence of indicators in the new generation of Country Strategy Papers is a significant improvement, these indicators are rarely explicitly linked to poverty reduction. MDG indicators are frequently mentioned, but little link is made with EC cooperation. Neither do EC indicators precisely match PRSP indicators where available.
- Despite the promising EC policy on participation of non-state actors and some encouraging signs of greater openness, dialogue with civil society on EC aid during the 2002-06 period has been very weak. Consultation of civil society in the new programming cycle often repeats the same shortcomings, being ad-hoc and informative rather than consultative.

### Aid mechanisms: Need to reinforce democratic accountability

Donors are increasingly directing their assistance in support of broader government policies. While this is certainly a step in the right direction, donors risk engaging in detailed discussions on policy orientations or performance that displace the role and participation of national actors including the Parliament and civil society. While it indeed is first and foremost the responsibility of governments to engage with national stakeholders, donors also have a responsibility to promote frameworks that reinforce national accountability rather than government accountability to donors. EC development assistance is increasingly channelled through budget support, and the EC is placing higher importance on issues of governance. This report finds that:

- While the EC has an important potential to play a constructive and leading role in budget support and matters of governance, its impact is limited by a technical approach that focuses on narrow issues such as public finance management, with the government as its sole interlocutor. This approach risks undermining the democratic role of Parliaments and civil society in national budget discussions and efforts towards improved governance.
- At the global level, the EC has stimulated a dynamic in EU donor coordination; however at country level, progress is uneven and slow. And in the majority of cases, the EC still takes a signalling role from the IMF particularly in relation to decisions on budget support, meaning that its aid is conditioned by the IMF's macro-economic policy prescriptions. Joint donor frameworks for assessment of government performance in relation to budget support are rarely open to participation of Parliaments or civil society.



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### Impact and evaluation: Stakeholders in the dark

This is the last but most important question: only information about the impact of aid for poverty reduction can confirm whether all the policies, strategies, and instruments are correctly shaped to meet the stated objectives of development assistance. If it cannot be demonstrated that aid is bringing sustainable changes in the lives of people living in poverty, then fundamental changes must be made. They cannot wait for improvements in overall economic development to trickle down to rural areas or urban slums; we have a more immediate responsibility to make aid work for the poor. The report finds that:

- Poverty eradication is the primary objective of EC aid, yet the main tools for guiding and assessing that aid (indicators, mid- and end-term reviews, evaluations, annual reports) do not explicitly focus on its impact. Instead, reporting tools mainly cover operational progress in implementation of cooperation programmes.
- There is a consistently low level information available about EC aid operations, both in country and in Brussels. While evaluations are systematic, their results are often not made public, and the quality of the evaluations is criticised for taking a “checklist” approach on activities, rather than a fundamental look at the impact of programmes.

In sum, EC aid has great potential, and some progress has been made in its effectiveness. However, EC aid requires significant changes if it is to have more immediate and lasting impact on the futures of people living in poverty.



## 2. Recommendations for EC aid that makes a difference for the poor

### IMPACT FOR POVERTY REDUCTION

1. Impact on poverty reduction should systematically drive European Community aid and its principal planning, monitoring and evaluation tools.

- Country Strategy Papers and their performance indicators, mid- and end-term reviews, evaluations, and annual reports should explicitly address this impact. CSPs should include baseline indicators to allow for measuring of progress.
- Assessments of social impact, including gender aspects, should be carried out in a participatory manner, based on local analysis and involving affected communities.
- The EC must prove that its aid for economic development has an impact for poverty reduction, through a clear pro-poor growth strategy and/or through monitoring of this impact.

*Good examples: The 2006 evaluation of the European Commission's support to Tanzania follows a methodology with a substantial focus on the impact for poverty reduction. The more limited 2002-06 evaluations of EC support to Cameroon and Zambia also have impact for poverty reduction as a central issue, though the Commission has expressed reservations on their conclusions.*

2. EC aid must be based upon broadly shared national priorities for poverty reduction, and the EC should vigilantly exclude European economic or foreign policy interests from influencing its aid.

- If alignment with national development strategies is to be meaningful, the EC should invest further in improving the PRSP process, based upon local analysis of policy choices and involving national stakeholders.<sup>1</sup>
- The EC should align its performance indicators with national PRSP indicators, and demonstrate how its support helps to meet the Millennium Development Goals.
- EC programming should become much more flexible and adapted to partner country PRSP timelines.

*Good examples: In Ethiopia, the draft 2007-13 Country Strategy Paper better aligns with the national development strategy in some key areas such as rural-urban linkages, though the CSP's emphasis on regional integration is still more informed by EU priorities. In Cameroon, EC support has helped to bring about civil society involvement in monitoring the implementation of the PRSP. In Guatemala, the indicators in the 2002-06 Country Strategy Paper take their origin in the country's 1996 Peace Accords.*

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<sup>1</sup> See also: "PRSP as Theatre – backstage policy-making and the future of the PRSP approach," CIDSE-Caritas Internationalis background paper, September 2004.



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### 3. EC support to the transport sector should have a clear and explicit link with poverty reduction.

- The EC must convincingly demonstrate that a coordinated government-donor infrastructure strategy at country level ensures that the full road network, including routes to rural areas, is covered. Where this is not yet the case, greater priority should be given to rural roads.
- Planning, implementation, and evaluation of transport support should ask the question of its impact on poverty reduction as a core element, using tools such as social and environmental assessments.

*Good examples: In Zambia, there are plans to monitor annually the impact of roads on poverty eradication, and the EC plans to increase its funding for feeder and rural roads. In Cameroon, the next major road project will start with a baseline social impact study, to be paired with an impact study on an adjacent completed road.*

### 4. The EC must reduce bureaucratic impediments to the effectiveness of its aid, privileging instead quality analysis and integration of local actors.

- Delegations should have sufficient capacity and institutional decision-making responsibility to prevent delays in implementation.
- EC procedures and the Financial Regulation should be amended to allow for more flexibility, to increase the EC's reactivity.
- Targets should be established for concrete indicators, such as reduction in the average time needed for project approval.

## NEW MECHANISMS AND DEMOCRATIC FRAMEWORKS

### 5. The EC should use its leading role on the topic of governance to ensure that its approach supports broader efforts of national actors toward democratic accountability.<sup>2</sup>

- The EC should effectively give special emphasis to the themes of democracy, human rights and the rule of law, in the EU political dialogue and as a condition for aid, in line with its official policy.
- Discussions on the governance profile, its indicators, the EC assessment and incentive tranche should involve not only governments but also Parliaments and civil society before final decisions are made.
- The EC's approach to governance must include an examination of the EU's own credibility, i.e. ways in which it may be undermining national governments' accountability to citizens and efforts

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<sup>2</sup> See also: "Governance and Development Cooperation: Civil Society Perspectives on the European Union Approach," CIDSE background paper, August 2006.

to fight corruption (e.g. tax havens, lack of transparency and predictability in aid practices and commitments).

*Good examples: In Ethiopia, the EC has visibly used its political dialogue to address repression of political opposition by the government, though with only mixed results. In Zambia, first steps have been taken to share the EC governance profile with civil society.*

## 6. The EC should use its leading role in budget support to ground this mechanism in national democratic frameworks and accountability, so that resources are used to the benefit of the poor.

- The EC should promote the participation of legitimate Parliaments and of civil society in establishing transparent conditions for budget support, and in assessments of government performance.
- The EC should support the capacity of legitimate Parliaments and of civil society to participate in annual budget debates and monitoring, and should fund local research into the real impact of budget support on the lives of poor people.

*Good examples: In Zambia the EC has asked the Civil Society for Poverty Reduction (CSPR) network to study the impact of budget support on poverty reduction. In Nicaragua, the EC and other donors have pressed for the governmental auditing body to undertake a public audit of the execution of the budget for the first time in 2007.*

## 7. The EC should systematically take a strong role in stimulating and monitoring EU donor coordination at country level, to reduce the burden on governments, Parliaments, and civil society and improve results for development.

- These efforts should aim at achieving Joint Assistance Strategies in support of broadly-owned national development strategies, through processes transparent to national stakeholders.
- The EC should advocate and implement stronger staff incentives for donor coordination.
- The EC should have a robust monitoring and reporting role, for example through the EU Donor Atlas, annual reporting on progress in aid effectiveness, or the annual orientation debate on EU aid.
- Decisions on EC aid should not depend on an IMF signalling role, which should be replaced by national-level agreements on the criteria under which aid would be reduced, suspended or increased.

*Good examples: In Ethiopia the EC has taken a leading role in establishing a joint EU strategy and Road Map for 2008-13, signed by nine of the twelve EU donors present. In Nicaragua, a budget support tranche was released by the EC in 2005 despite the country's IMF programme being "off track".*



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### ACCOUNTABILITY AND INVOLVEMENT OF LOCAL SOCIETY

8. The EC should publish a “transparency charter” making a significant commitment to systematically make available information to local and European actors, in a timely and accessible way.

- Overall and programme-specific planning, monitoring and evaluation documents, as well as statistics including data on payments, should be made public.
- As a priority, end-term reviews and evaluations for the 2002-06/07 period should immediately be made available.
- The overall review of the 9<sup>th</sup> European Development Fund in 2007 should be an open and transparent process. Any global review of aid spending from the EC budget in the 2002-06 period should be made public.

*Good examples: In Cameroon, the Delegation has pledged to publish all documents on its website at the same time as transmitted to Brussels, and it posted there the draft 2007-13 Country Strategy Paper. In Guatemala, each EC programme has its own specific website which includes information on tenders, regulations, and activities.*

9. The EC must considerably improve the participation of Parliaments, civil society and local communities in EC development cooperation, with the aim of real consultation, not simply information or validation.

- As a priority, the process for approving the Country Strategy Papers for the 10<sup>th</sup> European Development Fund should be slowed down in order to ensure quality consultation of local actors, with drafts immediately made available.<sup>3</sup>
- Meaningful participation by civil society requires increased EC funding for strengthening analytical capacity through e.g. training on the Cotonou Agreement and EC aid, as upstream preparation for mid-term reviews, annual reports etc. This is an essential complement to North-South civil society cooperation for capacity building.
- A permanent and regular dialogue should be established where desired by local civil society, through jointly agreed structures.
- The EC must invest in Delegations to ensure adequate human resources capacity and skills for this dialogue.

*Good examples: In Ethiopia, the Cotonou Task Force civil society group has participated in four consultations on the new Country Strategy Paper, with their comments taken up in subsequent drafts. In Guatemala the Mesodiálogo allowed for structured dialogue with civil society during the 2002-06 period (but has since been abandoned).*

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<sup>3</sup> See “ACP-EU relations: Will the EU deliver on its promises? Challenges of the 10th EDF programming process,” CONCORD Cotonou Aid Working Group briefing paper, January 2007.

## 10. The EC must improve conditions for access to EC funding by civil society.

- Within the new 2007-13 EC budgetary framework, there must be a variety of mechanisms and greater flexibility in conditions to allow access for local and European civil society including grassroots organisations.<sup>4</sup>
- Civil society capacity building programmes should support the endogenous work, projects, processes and structures of civil society, in coordination with other donors.

*Good example: In Bangladesh, a significant amount of EC funding is channelled through civil society, however access is difficult for smaller local grassroots organisations.*

This report has aimed to aid a more informed discussion about the current quality of European Community assistance, and steps needed to increase the effectiveness of EC aid. The European Commission has the first responsibility to make the changes needed to improve the impact of EC aid on poverty reduction. Responsibility also lies with EU Member States and with the European Parliament, with their decision-making and controlling powers in relation to EC aid.

Governments of developing countries and civil society must also take their responsibilities. Governments need to commit to transparency and the prioritisation of poverty reduction; and to show leadership in bringing national stakeholders together to frame plans for poverty reduction as well as aid agreements with donors.

Civil society must increasingly invest in grassroots-based and national-level policy monitoring and analysis, in order to ensure that evidence-based advocacy can be carried out and to enable the marginalised to fulfil their right to participate in the decisions that affect their lives. CIDSE and Caritas Europa, together with their Southern civil society partners, will continue to engage with the European Community as a donor, to make EC aid work for the poor – the world can't wait!

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<sup>4</sup> As a priority: a) less strict eligibility criteria (particularly regarding the 10-15% own co-financing contribution, and the requirement to present reference projects of similar actions in the past); b) minimum and maximum project levels appropriate for absorption capacity of eligible actors, and c) procurement rules that are realistic in the specific settings. See also: "Ten recommendations to improve EC cooperation with civil society," CIDSE-Caritas Europa Co-Financing Forum letter to the European Commission, May 2006.



## 3. Introduction

The European Union is the biggest development aid donor worldwide. This includes the 27 Member States plus the EU as multilateral donor of aid implemented by the European Commission (EC). European aid in total counts for around 44 percent of the worldwide *Official Development Assistance (ODA)*.<sup>5</sup> The EC is the biggest *multilateral* donor (followed by the World Bank's International Development Association) and the third largest official donor (after the United States and Japan). In 2005, the EC contributed around 7.5 billion Euro (6.9 b€ in 2004) of development assistance (see Table 1), representing 20% of Global European aid.

Development cooperation has long been a part of the European project, European values and the role the European Union wants to play on the world scene. European Community (EC) assistance represents the collective commitment of EU Member States to a more just world. This vision is strongly supported by European citizens.

The past years have seen important commitments to poverty eradication by the international community as a whole, and by the European Union in particular. In 2005, the EU responded to the call by civil society around the globe to "Make Poverty History" by making a series of commitments to improve both the quantity and the quality of development assistance. The European Commission played and continues to play a central role in stimulating more effective European aid as a whole.

In the last two years, much attention has been focused on the policy, financial and legal frameworks for EC aid. The European Consensus on Development (2005) reinforced the primary objective of poverty eradication in EC assistance. This year marks the beginning of the 2007-13 cooperation period with Asia and Latin America under the new Development Cooperation Instrument. 2007 will also see the final phase of programming for the 2008-13 cooperation period with African, Caribbean and Pacific countries under the 10<sup>th</sup> European Development Fund.

Significantly less attention has been given to the real impact of EC aid on poverty reduction in developing countries. Community development assistance represents important and precious resources, but these resources must be well targeted if they are to make a visible difference in the lives of people living in poverty. As a new cycle of EC aid opens, it is thus crucial to understand the tangible effects of EC aid.

With poverty reduction now the overarching and primary objective of European aid, Chapter 4 looks first at whether European Community aid is truly oriented in support of developing countries' own poverty reduction strategies and efforts to achieve the Millennium Development Goals, and then examines to what extent Europe's own economic, foreign policy, or other interests still play a role. Chapter 5 reviews the available information about the actual impact of EC aid on populations living in poverty, then takes a look at the potential pro-poor impact of important new EC aid mechanisms such as budget support. In Chapter 6, new aid mechanisms are treated from another angle, namely their influence on democratic governance within developing countries. Finally, Chapter 7 covers issues of accountability in EC aid as well as the role of civil society.

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<sup>5</sup> It is even 57 percent of all ODA spent by members of the OECD Development Assistance Committee (DAC).

**Methodology of the report****Box 1**

The title of this CIDSE and Caritas Europa report is “The EU’s Footprint in the South”. While the overall “footprint” of the European Union in the South could be considered to result from the full range of development, trade and foreign policies of both the European Community and the 27 EU Member States, this project has aimed at getting a clearer picture of the “footprint” of European *multilateral aid*, specifically in *poorer developing countries* of the South. It therefore focuses on the EC’s development cooperation, primarily in the 2002-06 period, in countries belonging to the low income and lower middle income group. 46 percent of EC aid in 2005 was going to *Low Income Countries (Least Developed Countries, LDC, plus Other Low Income Countries, OLIC)*. Another 28 percent was used for *Lower Middle Income Countries (LMIC) (EC 2006a, 16)*. Most of the LIC belong to the Africa, Caribbean, Pacific group of states (ACP), which has a specific relationship to the EU (based on the *Cotonou Agreement 2000*).

To reflect the different development regions of the South and the mentioned income groups as well as the distribution of EC aid to poorer countries, six countries were chosen for an in-depth country analysis: Bangladesh (LDC), Cameroon (OLIC), Ethiopia (LDC), Nicaragua (OLIC), Guatemala (LMIC), and Zambia (LDC).

Based on a first literature review (including reports from civil society organisations in developing countries) as well as on eight desk studies (on the above mentioned six countries plus Tanzania and Mauritania), preliminary hypotheses as well as a number of guiding questions were formulated and integrated into an analytical framework. This framework was used by the authors of the six mentioned country studies. They have analysed the available literature and documents dealing with EC aid in the respective countries and have conducted between 15 and 20 expert interviews each (in November 2006). In all cases, staff of the EC delegations have been interviewed as well as representatives of the government and civil society actors.

A central focus of the research has been the impact of EC aid on poverty reduction. However, it has neither been the aim, nor within the possibility, of this study as such to undertake an own impact analysis of EC aid (challenges in assessing impact are treated in chapter 5.1). The methodology chosen for the field research, with both its advantages and constraints, has set the frame for the study’s results. On the one hand, the research was dependent upon the ability to access relevant EC documents, which was unequal across countries (e.g. reviews and evaluations, or on the programming of Country Strategy Papers; see also chapter 7.1). On the other hand, interviews conducted with stakeholders knowledgeable about EC aid invariably presented both converging and contradicting views. Overall, the conclusions of the study can also be seen as a mirror reflecting a general perception and understanding of EC aid.

The study at hand is a synthesis based on these six country studies enriched by information from the two additional country desk studies as well as a review of literature on EC aid. The study has been embedded in a strongly participatory approach: Civil society partner organisations of CIDSE / Caritas Europa in the six countries have either led the research, coordinated or participated in interviews; while member organisations of the networks in Europe have steered the entire process. A final workshop in Brussels in February 2007 with representatives from the countries in the sample discussed the draft report as well as the policy conclusions and recommendations.



## The EU's Footprint in the South

Table 1: EC's Official Development Aid 2001-2005 (total and to the sample countries)												
(Commitments and Payments)												
	2001		2002		2003		2004		2005		Total 2001-05	
M€	Com.	Pay.	Com.	Pay.	Com.	Pay.	Com.	Pay.	Com.	Pay.	Com.	Pay.
EC ODA – Total	5.994	5.892	6.533	5.920	7.372	5.729	7.537	6.926	9.287	7.497	36.724	31.965
Sample Countries												
Bangladesh	107	83	32	26	133	46	36	47	187	63	494	265
Cameroon	67	47	24	43	14	65	9	37	35	32	149	224
Ethiopia	69	116	210	129	112	137	170	96	96	135	657	613
Guatemala	30	23	17	34	29	22	9	19	3	24	88	122
Nicaragua	45	35	16	36	49	47	40	49	7	43	157	210
Zambia	60	58	44	119	147	87	89	104	49	89	388	457
Sources: EC: Annual Reports 2002-2006 (see Financial Tables)												

### The Development Cooperation of the European Community

### Box 2

The overall objectives of European Community development cooperation are outlined in Article 177 of the EU Treaty: sustainable economic and social development; gradual integration into the world economy; and the campaign against poverty. The *EC Development Policy Statement* (2000, revised within the *European Consensus on Development*, 2005) sets the objectives and principles as well as the focal areas of the European multilateral development policy (EU 2005). The main objectives are poverty eradication and, since 2005, the achievement of the Millennium Development Goals.

EC strategies for individual developing countries – the *Country Strategy Papers (CSPs)* – are also influenced by regional strategies and agreements. The most important of these is the *Cotonou Agreement* signed in 2000 with 79 African, Caribbean, and Pacific (ACP) countries. This document provides a legal framework for joint EC-partner country agreement on policy, programming, and evaluation, as well as for civil society participation. ACP cooperation is funded by the European Development Fund (EDF), an inter-governmental fund outside the normal EC budget with its own set of procedures. *Country Strategy Papers* for non-ACP countries are finalized by the Commission only. The 2003 *EU-Central America Political Dialogue and Cooperation Agreement* is another example of a regional strategy.

Sectoral allocation of EC aid spending varies across regions (see Table 2).



	ACP / EDF	Asia	Latin America	Thematic <sup>1</sup>	All EC aid <sup>2</sup>
Social infrastructure (education, health, water, government & civil society)	28%	59%	38%	34%	34%
Economic infrastructure & services (transport, communications, energy)	24%	6%	9%	0%	12%
Production (agriculture, forestry & fishing, industry, mining & construction, trade & tourism)	9%	8%	14%	5%	8%
Cross-cutting (environment, gender)	3%	10%	17%	7%	7%
Budget support, food aid / food security	26%	2%	0%	30%	15%
Other (emergency, reconstruction)	10%	15%	22%	24%	24%
Region / thematic as % of total EC aid	33%	9%	5%	12%	100%
<sup>1</sup> Thematic budget lines covering all regions <sup>2</sup> Managed by EuropeAid and other DGs					
Source: Own calculation on the basis of EC 2006 / Annual Report, table 7.12, p. 173					



## 4. Poverty Reduction as the overarching goal of European Community Aid

The expectation both of citizens of developing countries and of European taxpayers is that development assistance will make a difference for those living in poverty. The fight against poverty has been incorporated into all important EU policy documents and partnership agreements of the past few years. Article 19 of the *Cotonou Agreement* states: “The central objective of ACP-EC cooperation is poverty reduction and ultimately its eradication; sustainable development; and progressive integration of the ACP countries into the world economy.” (Cotonou 2000/2005) The *European Consensus on Development* affirms: “The Community development policy will have as its primary objective the eradication of poverty in the context of sustainable development, including the pursuit of the MDGs [Millennium Development Goals], as well as the promotion of democracy, good governance and respect for human rights.” (EU 2005, para. 42)

### 4.1. Alignment with country-owned poverty reduction strategies

The principles of subsidiarity and of participation require that people living in poverty be able to make their voices heard on the use of government and donor resources intended to improve their living conditions. In the context of the new aid architecture – formulated, for instance, in the *Paris Declaration on Aid Effectiveness* (2005) – the EC like all donors has committed to orienting its own country strategies in support of national development strategies, especially the Poverty Reduction Strategy Papers (PRSPs), that have a broad basis within the countries and the support of government, Parliaments, and civil society.

It can be stated that the EC is making efforts towards this goal; however so far the alignment with country-owned PRSPs cannot be called convincing. There are a number of important reasons for this: Firstly, many PRSPs are still thought to be strongly donor-driven rather than broadly shared by national stakeholders<sup>6</sup>. This leads to a tendency to align the PRSP with existing donor programmes, in order to continue to satisfy all donor priorities. Secondly, many PRSP documents are weak, often set too broadly, and formulated in an all-embracing way without clear priorities. This makes a strategic orientation more difficult (e.g. Bangladesh, Cameroon and Zambia). Thirdly, many donors use this weakness to keep shaping their programmes according to their own priorities. These fundamental problems apply to all donors, i.e. not only but also for the EC.

Generally, it can be seen that the EC is making noticeable efforts to refer to existing PRSPs in its Country Strategy Papers (CSPs). In principle, the obligation for alignment is thus met at country level. While in the 2002 generation of CSPs this usually occurred only in the margins, the draft CSPs for the 2007/8-2013 period regularly refer to the country strategies. The new CSP in Ethiopia, for example, is explicitly seen as a strategy to support the country's new PRSP (submitted at the beginning of 2007, see Box 3). It furthermore includes existing sectoral programmes of the government in its own programme justification. However, in other cases the references to PRSPs in the CSPs remain sporadic and general. A systematic derivation of its own work from the country's PRSP – as, for example, the World Bank has at least tried to do in its country strategy for Zambia – is still not visible in the new CSP generation. Regarding the PRSP process itself, particularly in relation to participation of national stakeholders, a positive example exists of EC efforts to improve

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<sup>6</sup> Initiated by the International Monetary Fund and World Bank as a condition for debt relief, Poverty Reduction Strategy Papers have been criticised as following a donor-defined “blueprint”.

the quality of the process: In Cameroon, EC support helped to bring about civil society involvement in monitoring the implementation of the PRSP.

#### Ethiopia: CSP and PRSP

#### Box 3

The current draft CSP clearly locates its work as supporting the PASDEP [*Plan for Accelerated and Sustained Development to End Poverty*, the Ethiopian PRSP] and working within its framework. However there are a few key areas of difference. Principally the CSP gives a lot of emphasis to non-state actors but they receive only a passing reference in the PASDEP. It also puts much more emphasis on governance from the previous CSP. The current draft states that “the PASDEP recognizes that both the effectiveness of economic management and the quality of political governance will have a direct impact on development results” as a justification for the ‘Macro-economic support and governance’ core area. As this section of the PASDEP is still under development it is difficult to know how the CSP corresponds with this. Judicial and legal reforms are outlined in the current draft of the PASDEP which fits the aim of capacity building in this sector outlined in the CSP. Gender equity is also a theme of the current draft but developing non-state actors is not. The CSP also emphasizes regional integration which is not a strong theme in the PASDEP and therefore appears more informed by the Cotonou priorities than those of the Ethiopian Government. (Bekele / Barry 2007: 5)

A specific problem is that the EC does not undertake its own country strategy development based on the dynamics of the respective partner country, but strictly follows its own calendar: CSPs are developed simultaneously worldwide (currently to begin in 2007 or 2008) and are all valid through 2013. This makes the harmonisation of the implementation phases of PRSPs and CSPs extremely difficult from the very beginning. The analysed country examples emphasise this. In some cases – Ethiopia, Zambia – new PRS documents happened to be available, and could be used for CSP preparation. In other cases – Bangladesh, Guatemala, Cameroon – the respective timeframes do not match at all.

The insufficient alignment of the EC strategy with the PRSP is also visible in the lack of a systematic derivation of impact indicators for EC aid from the PRS indicator systems. In Guatemala, indicators in the 2002-06 CSP take their origin in the country’s 1996 Peace Accords, the national reference document. However, even in cases where PRS indicators are included in the CSP (as in Nicaragua), EC indicators do not attempt to measure its contribution to achieving the goals of the PRS. EC support in Zambia, for example, links budget support disbursements to the government’s attainment of PRS indicators. But it is unclear to what extent EC aid contributes to good performance, as opposed to many other factors influencing the successful, or less successful, work of a government, in this case e.g. the copper industries’ boom as well as debt relief under the international Heavily Indebted Poor Country (HIPC) initiative. A notable exception is Ethiopia, where the new EC CSP tries to formulate indicators that can measure its contribution to reaching the overall PRSP aims.

In addition, allocations as well as actual disbursements show a prioritisation that raises doubts about EC aid’s poverty focus. EC investment in the transport sector in African ACP countries is a specifically striking example. All PRSPs in Africa refer more or less to the necessity of expanding the road network as one important element of development. The EC takes this as justification to keep its strong and long-standing priority in road construction and maintenance (see Cameroon, Ethiopia, Mauritania, Tanzania, Zambia as examples). In the five years after PRSPs came into being in most countries (2001-2005), the EC has spent almost exactly the same amount of aid (around 2.2



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billion euro) in ACP countries on transport as during the previous years 1995-2000.<sup>7</sup> The EC's annual report for the year 2001 – the year in which the Millennium Development Goals were formulated and most of the poorest countries published their first PRSPs – shows that these new developments in the sphere of poverty reduction were not the driving forces behind the EC's priority setting in their CSPs. It is worth quoting the report at length:

*“In May 2001, in response to the Commission communication of July 2000 on promoting sustainable transport in development cooperation, the Council adopted a ‘resolution on sustainable transport in development cooperation’. These two documents, taken together, establish a strong and clear policy platform for EU interventions in the sector. (...) Based on the principles and strategy outlined above, ‘programming guidelines’ for the programming of transport sector support under the ninth EDF were developed and made available to all Commission delegations in 2001. These included formats for analysing transport policy, the problems and issues arising in strategy implementation and recommendations for the formulation of the EC transport response strategy. Of the 44 ACP country strategy papers presented in 2001, 23 countries — almost all in Africa — proposed transport, transport infrastructure or roads as a priority sector, for a total of approximately € 1.7 billion. The CSPs for these 23 countries have all based their proposals for the EC response strategy in the sector on the Programming Guidelines.”*  
(EC 2002: 28)

In light of this statement, it is not surprising that a recent analysis of the EC's CSP approach found that the EC stands out among other EU donors by its focus on the same sectors across countries, rather than adopting a clearly country-specific approach (CDC 2005: 43).

This supports the impression that EC – like other donors – uses the often broadly-formulated PRSPs to pick what best fits its interests. Country strategies acknowledge that the EC's own “comparative advantage” in the context of other donors present and “previous experience” are important factors to decide what the EC will do in each country. There are without a doubt some arguments for this position. This perspective nevertheless bears the high risk of undermining the ability of the EC strategy to support the country's own priorities for poverty reduction. New approaches in countries' PRSPs which do not fit into the EC's own portfolio can be overlooked or simply neglected. For example, the PRSPs in several countries highlight the importance to give more attention to rural development (strongly supported by civil societies) – why shouldn't the EC invest more in this area? Another example: Gender equity has been mentioned frequently as one core approach to fight poverty – it is not visible that this has led to any significant new element in the EC's country strategies.

Of course, the EC is not the only donor present in a country. And with recent commitments by donors to better coordinate their support within a country, the EC argues that it must specialise in certain sectors, while other donors will cover other priorities. However, on the one hand, it is not necessarily demonstrated that a country's priorities are indeed adequately covered by all donors. On the other hand, this appears to contradict the principle of *ownership*, whereby the partner country government, along with national stakeholders including Parliament and civil society, take a lead in setting the priorities for donor support (this is treated further in Chapter 6).

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7 Own calculation, based on EC 2000b and the EC annual reports for 2001-2005.

## 4.2. Importance of the MDGs for EC programming and implementation

The establishment of the Millennium Development Goals (MDGs) in 2001 was meant to improve the ownership and poverty focus of development aid.<sup>8</sup> All poverty reduction efforts by EU Member States as well as the Commission are today embedded in the global political framework of the MDGs. In 2005 the EU made a series of commitments towards more and better aid, as well as improved coherence of its trade and other policies with development objectives, in order to strengthen the EU's contribution to reaching the MDGs. These engagements are reaffirmed in the *European Consensus on Development*. The Cotonou Agreement, signed in June 2000, was amended in 2005 to make reference to the MDGs in its preamble (EC 2005a).

For the EC as a donor, however, the MDGs have played only a lesser role so far. While the Country Strategy Papers (CSPs) for 2002-2006/7 did not mention the MDGs at all, since around 2004 the MDGs have at least been mentioned in country documents, e.g. in the EC's *National Indicative Programmes (NIP)* or mid-term reviews. It cannot be said, though, that EC aid from 2002 to 2006 took the MDGs strongly into consideration.

The new CSP generation reflects the growing significance of the MDGs. All new CSPs (for 2007/8-2013) declare the MDGs to be a frame of reference for the EC's work. This new alignment has, however, remained mainly on a rhetorical level so far. MDG needs assessments, produced for example in Ethiopia and Zambia, are not dealt with in the new CSP drafts (see Box 4). It is unclear how EC cooperation will contribute to reaching MDG indicators (e.g. Cameroon, Ethiopia, Nicaragua, Zambia). Recommendations to clarify this, for example in the end-term evaluation of the EC's country programme for Zambia, have not been taken into consideration so far.

The Annual Report on EC external assistance for 2005 contains only some very general information on the contribution of EC aid to reaching the Millennium Development Goals. For ACP countries, the report states: "The main way the Commission contributed to tackling poverty and achieving the MDGs in 2005 was by prioritizing the most MDG-specific sectors – education and health – in the ACP's poorest states. In addition, the EC helped lay the foundations for attainment of the MDGs: peace, security, good governance, and regional integration." (EC 2006a, 72) The first statement contrasts with the figure given in the report for EC aid to the health and education sectors in ACP countries, namely 11% of total aid (see Table 5).

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8 See also: "More than a Numbers Game: Ensuring the Millennium Development Goals Address Structural Injustice," CIDSE-Caritas Internationalis position paper, March 2005, and "Europe: A True Global Partner for Development? CIDSE Shadow Report on European Progress Towards Millennium Development Goal 8," April 2005.



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### Ethiopia: MDG needs assessment

Box 4

The Ethiopian Government has stated that it will work to achieve the MDGs through the implementation of the PASDEP [Ethiopian PRSP]. One of the key strategies of the PASDEP is scaling up for the MDGs and the PASDEP contains clear information on the status of the MDG targets. In order to inform this the government produced an MDGs needs assessment. This was presented in November 2004 but drew mixed reactions due to the quality of some of the analysis (UNDP: Linking National Poverty Reduction Strategies to the MDGs – Ethiopia a case study. Addis Ababa 2004). However this study found that aid would have to double to achieve the MDGs in Ethiopia to a total of \$120 billion. This figure may be inflated but there is still clearly a need for action as Ethiopia will fail to meet any of the MDGs in current trends (according to a DFID paper: 'DFID Ethiopia Country Assistance Plan 2006-10 – Consultation Draft' P15). Although Ethiopia is heavily reliant on foreign assistance, levels per capita lag behind other sub-Saharan Africa. The average ODA per capita from 2000-04 was \$19.2 in Ethiopia but \$27 in Sub-Saharan Africa. The CSP does not discuss this needs assessment or address the issues of scaling up aid to reach the MDGs. The 10<sup>th</sup> EDF indicative spending of €535 M is an increase on the 9<sup>th</sup> EDF of €446 (at the mid-term review) but it does not reach the doubling that the needs assessment indicated. (Bekele / Barry 2007: 6)

### 4.3. Pro-poor priorities versus European non-development interests?

Giving priority to poverty eradication means that EC development assistance should first and foremost work in the interests of the poor, not in the self-interest of the European Union. As mentioned above, the EC has committed itself to coherence between the development objectives for its external assistance, and its other policies impacting developing countries. Reality shows a number of contradictions between aid and other policies, in particular trade policy or foreign policy.

The European trade and/or other economic interests are very small in the poorest countries, looking at them *as individual countries*. But the *group* of poorest countries is important, for example as suppliers of raw materials and as markets for European products. This can be seen at various levels: Firstly, the EC is pressing the poorest countries to further integrate their economies in the world market – the Economic Partnership Agreements (EPAs) currently being negotiated with ACP countries reflect this global economic interest. Civil society actors in several of the countries in our study expressed their severe concerns regarding the incoherence between EU development and trade policies (see Box 5). In Zambia, civil society representatives formulated the view that the EU is pushing the EPA process too fast and is not giving enough space to formulate alternatives. Secondly, economic growth is still seen by the EC as the engine for development and poverty reduction – despite the fact that reaching the MDGs is not possible through top-level economic growth alone, as long as this growth does not benefit the poor. The priorities of EC aid formulated against this economic background – such as the construction of trunk roads that serve as trade routes (see Zambia or Cameroon as examples) or the strong support for regional integration<sup>9</sup> through aid (e.g. Ethiopia, Guatemala, Nicaragua) – can therefore be discussed: Is poverty reduction really the overarching goal of these approaches, meaning the poorest of the poor will benefit within a certain time? A third EU economic interest mentioned in some countries (e.g. Cameroon) is the benefit to European companies from certain EC programmes, especially in road construction.

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<sup>9</sup> The EC justifies its strong support for regional integration based on the EU's experience and role as a regional actor.

**Cameroon: Conflict between trade and development policies?****Box 5**

The EC has a clear interest in Cameroon as a regional economic actor: it represents 50% of the GDP of the Central Africa Economic and Monetary Community. Civil society sees EU economic interests as having a strong influence on choices in EC programming. This was commonly heard in relation to roads projects, namely that the main roads leading from the port of Douala to the regional capitals (N'Djamena, Bangui) are meant to facilitate the arrival of European products in those countries. This is strongly denied by the Commission. Some also expressed the belief that European companies benefit the most from road-building contracts, with the suggestion made that a certain percentage of funding should be directed to national companies. In the context of the Economic Partnership Agreements to be in place by 1 January 2008, civil society but also the government expressed a frustration with a perceived incoherence between European trade and development policies. Many believe that the country's small agricultural producers and enterprises will not be able to compete with the inflow of European goods, and that EC aid is not providing support for real endogenous development and industrialization, several noting pessimistically that it is logical that the EC won't help Cameroon to be its competitor (Cameroon is ranked 111 of 117 countries in competitiveness, according to the World Economic Forum). However, given the EC's experience in building economic structures (including through EU enlargement), some felt that the EC would be well placed to support work on productive capacity. (Auclair 2007: 5-6)

In a few cases, EU foreign policy interests are clearly visible and influential. Mauritania is an example, showing that besides a number of economic interests, the interest to stem African migration to Europe is also a strong factor behind EC aid to this country (see Box 6). The case of Ethiopia might serve as another example in which non-developmental political interests play a significant role. The major donors, among them the EC, stopped their General Budget Support after the bitterly contested elections of May 2005. Government troops opened fire on demonstrators protesting against alleged fraud, and hundreds of opposition activists were arrested. However, aid has not been suspended but redirected towards a new mechanism (see Box 11). The EC and other donors have tried to influence the Ethiopian government through political dialogue. Donors justify their position on the basis of their perception of the Ethiopian government as having a strong pro-poor orientation in its socio-economic policies (see Box 7). However, there is little doubt that Ethiopia is regarded as a strategic ally in the Horn of Africa.

**Mauritania: Aid used for stemming migration to Europe****Box 6**

**Migration:** For some years now Mauritania has been in focus as a transit country for illegal black African migration to Europe. Particularly the port of Nouadhibou is the starting point for small, overloaded boats to the Canary Islands. Having no agreement with Mauritania to deal with immigrants originating from this country, Spain pushed for an early resumption of EC aid after the coup in August 2005. In the meantime the EU acknowledged immigration problems at its southern borders as a problem that affects all member countries. Under the Rapid Reaction Mechanism, the EU Commission adopted a 2.45 million € programme "to help Mauritania contain the flow of illegal immigrants to the Canary Islands" (Press Release 10.07.06). The aid is to cover the running costs of four patrol vessels, given by Spain to Mauritania (September 2006 to February 2007) and expenses for detention and return of migrants to their place of origin. Evidently the sum was increased to 4.45 million € in late July 2006; press reports now mention a "component to allocate resources for the management of migrants detained in centres pending repatriation to their countries of origin" (Panapress 24.7.06). EU Commissioner Franco Frattini meanwhile disclosed that Mauritania (and Senegal) have permitted European patrolling boats to enter the territorial waters of the countries. (Siebold 2006a: 6)



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### **Ethiopia: Economic and political interests**

**Box 7**

Ethiopia has a key strategic position in the Horn of Africa which has implications for security – increasing the importance of the aid programme. Ethiopia is also recovering from a period of conflict. Donors have mentioned informally that withdrawing aid and therefore weakening the state would lead to more negative poverty outcomes as the government currently has a high commitment to poverty reduction. These factors will have influenced the decisions around suspending General Budget Support. However it is difficult to unpick the support for the government as a development actor and the support for the government as a key strategic partner.

The emphasis on regional integration in the new CSP does seem to be following the EU's agenda rather than Ethiopia's. The support based around strengthening integration is consistent with the vision for Economic Partnership Agreements and supporting the goal of the Cotonou Agreement of 'the gradual integration of ACP countries into the world economy' (CSP 2008-2013 draft). The CSP also highlights that this 'fits with the context of promoting peace and security in the Horn of Africa' (ibid.).

Civil society representatives interviewed also felt that the rise of the influence of China may sway the EC's decisions, making development decisions more likely to be influenced by security and trade concerns.

(Bekele / Barry 2007: 9)



## 5. Results-based perspective: Impact of EC aid on poverty reduction

For EC development assistance to contribute to real and lasting changes in the lives of the most vulnerable populations requires robust policies. Most essential, however, is to know whether virtuous policies are carried out in practice. Only information about the impact of EC aid for poverty reduction can confirm whether all the policies, strategies, and instruments are correctly shaped to meet the stated objectives of its development assistance.

### 5.1. Results-based perspective: Pro-poor Outcomes and Impact

Poverty trends in developing countries vary strongly. East Asia and Southeast Asia have already reached the first Millennium Development Goal of halving poverty by 2015. South Asia and Latin America have at least maintained their chances to reach the goal by 2015, although one finds a lot of differences between individual countries. Poverty in Sub-Saharan Africa has stagnated at a high level. This poorest region of the world will not reach the MDG poverty goal within the next ten years (cf. UN 2006, 4). The countries in our research sample reflect these diverse poverty trends.

**Table 3: Human Development in the six analysed countries**

Rank	Country	Human development index (HDI) value, 2004	Life expectancy at birth (years)	Adult literacy rate b (% ages 15 and older)	Combined gross enrolment ratio (all 3 school levels) (%)	GDP per capita (PPP US\$)
112	Nicaragua	0.698	70.0	76.7	70	3,634
118	Guatemala	0.673	67.6	69.1	66	4,313
137	Bangladesh	0.530	63.3	..	57	1,870
144	Cameroon	0.506	45.7	67.9	62	2,174
165	Zambia	0.407	37.7	68.0	54	943
170	Ethiopia	0.371	47.8	..	36	756

HDI = Human Development Index; GDP = Gross Domestic Product; PPP = Purchase Power Parity  
Source: UNDP (2006): Human Development Report 2006, New York, p.285-286

**Bangladesh** has reduced its poverty rate over decades, although the absolute number of poor has increased. The EC applauds Bangladesh for having made “notable progress on some MDGs (...) prompting UNDP to rank Bangladesh among the ‘medium developed countries’ in its last Human Development report“ (EC 2005d: 6). According to the International Monetary Fund and the World Bank, Bangladesh appears to be on track to meet most of the MDGs – despite strong difficulties in the governance area – “thanks to the priority given in the budget to delivery of essential services and the space made for non-governmental activity in the sector” (IMF / World Bank 2005: 3). In **Cameroon**, slightly positive developments are to be observed: The *Human Development Index* has improved since the year 2000. There have also been gains towards the MDGs in **Ethiopia** (access to education; HIV/AIDS infection slowing down; improvements in access to drinking water). However, the challenge remains enormous with 81% of the population living on less than \$2 a day and a rank of 170 out of 177 in the HDI index. The overall poverty rate in **Guatemala** has stagnated, with the number of people living in extreme poverty having increased in recent years. In **Nicaragua** both figures have gone up, the number of all poor as well as the number of people living in extreme poverty. Looking at the long-term development in **Zambia**, poverty remains at a very high level. Two-thirds of all Zambians live below the line of extreme poverty. Little progress can be seen during the last two decades, if at all: The human development situation in Zambia today is worse than it was in the 1980’s. When talking about the impact of donor aid on poverty in developing countries,



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these facts and figures should be borne in mind. Many factors influence a country's record on poverty eradication, including the overall macro-economic situation and the government's will to carry out pro-poor policies. However, the strong variances between the countries and the increase in poverty in some of them demand an open debate about the impact of development aid.

Discussing the 'footprint' of a donor like the EC in developing countries needs to take a differentiated look at various levels of aid – *input*, *output*, *outcome* and *impact*. *Input* is referring to the budgetary allocations for specific programmes, this also reflects the strategic priorities of a donor. While *output* documents the actual financial flows and the immediate results (e.g. buildings for health centres or purchases of school material), the *outcome* describes the indirect results, e.g. the increased number of patients in a health centre or the increase in school enrolments. Only indicators measuring the *impact* might demonstrate the real changes in the lives of the people (e.g. fewer sicknesses / healthier people, more education). The *results-based perspective* has replaced the earlier input- and output-oriented accountability of donors as well as of governments in developing countries in the last ten years. The results-based perspective became, for example, one of the core principles of the PRS approach. Getting a full picture of the reality of EC aid needs to take all four dimensions into consideration. But official EC publications as well as the voluminous aid evaluations that are undertaken on behalf of the EC include predominantly information about commitments (input) and payments (output) while the discussion of results (in terms of outcomes and impacts) is much less frequent. Outcome or poverty reduction impact indicators are used only in a few very recent evaluations: the EC's country strategy evaluation in Tanzania can serve as a positive example. The EC's *Results-oriented Monitoring (ROM)* does at least try to give some overall assessments, albeit quite superficial (see further below).

Table 4: EC aid to developing countries (disbursements, US-\$)

Amount (\$ Million)	Years									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Developing Countries, Total	5261	5156	5123	4910	4414	5517	5149	6445	8067	8686
Least Developed Countries (LDCs)	1441	1332.	1447	1275	1013	1499	1686	2309	2642	2909
Other Low Income Countries (OLICs)	603	450	435	283	291	508	447	460	684	913
ACP Countries	1822	1611	1704	1403	1054	1671	1691	2276	2796	3072

Source: OECD / DAC databank / Destination of Official Development Assistance and Official Aid - Disbursements (Table 2a), online access 16.2.2007

Looking at input and output, the EC has increased its aid budget significantly in recent years, especially for the poorest countries (see Table 4). A further increase of ODA has been announced.<sup>10</sup> 35 percent of the total EC aid is flowing into the ACP countries, with actual payments on the rise since 2003. More than 80 percent of the total flows into ACP countries are going to Sub-Saharan Africa. Looking at the sectoral purposes (2005), EC aid is distributed widely (see also Table 1). Economic infrastructure projects, especially transport projects, have the biggest share – around one quarter on average. General Budget Support – which might serve economic as well as social purposes – counts for one-fifth of EC aid to ACP countries. Social programmes, among them health and education, get around one-sixth of the spending, followed by programmes to support good governance and civil society (see Table 5). The aid increases during the last five years went disproportionately into

<sup>10</sup> EU Member States have agreed to meet the UN goal of 0.7% of Gross National Income for aid in 2015. However, due to decisions on a restricted EC budget for 2007-13 and 10<sup>th</sup> European Development Fund for 2008-13, EC multilateral aid will not increase at a rate equivalent to the planned increases of individual EU member states.

governance, transport and macro-economic budget support while the proportion of aid for explicit social sectors (education / health) was more or less constant.<sup>11</sup>

**Table 5: EC Aid to ACP countries - Breakdown by selected sectors**  
(Commitments)

M€	2001	in %	2002	in %	2003	in %	2004	in %	2005	in %
Health	191	9,3	149	6,5	287	7,0	102	3,7	185	4,8
Education	94	4,6	57	2,5	181	4,4	84	3,1	239	6,2
Govt. And Civil Society	n.a.		218	9,5	280	6,9	495	18,2	513	13,2
Transport (2)	315	15,3	352	15,2	706	17,3	21	0,8	817	21,1
Budget Support (1)	262	12,7	555	24,1	647	15,9	475	17,4	750	19,4
Grand total for ACP	2.056		2.307		4.079		2.723		3.873	

(1) not fully comparable due to different categories in the annual reports: 2001/2002: Macroeconomic Support / Structural Adjustment; 2003/2004: General Programme and Commodity Assistance; 2005: GBS  
(2) Figure for 2004 according to EC annual report, but might be a mistake; inexplicable variance  
Source: Own calculation on the basis of EC Annual Reports 2002-2006

The question of whether programme priorities (and the respective input/output) lead to the most favourable results for the poor, is usually not raised in EC documents. This question, however, should be discussed, for example regarding the transport sector, which is one of the focal areas of EC work. In 2005, EC aid for transport projects in ACP countries amounted to around 817 million Euro in 2005 while spending on education or health stood at 185 million and 239 million Euro (see Table 5). Projects in the transport sector may be justified by good arguments in every individual case, but does the overall allocation reflect an optimised poverty-oriented approach? Or would more social investment or investment in productive, labour-intensive sectors serve the poor better than the building of a road supporting international trade interests? And if money is spend on transport: What kind of roads are useful for the poor? Following the views of civil society representatives in the analysed countries, rural roads are especially pro-poor, much more than trunk roads. But rural transport investment plays a minor role in EC aid for most countries so far.<sup>12</sup>

11 It is difficult to get an exact picture on EC aid trends by sector. This has, of course, one understandable reason in the reality and complexity of the aid process leading to varying commitments as well as actual payments from year to year due to many factors. But there are also methodological problems: Statistics in the EC Annual Reports have changed their methodologies (e.g. categories of budget aid) in the last years, which makes it difficult to compare figures. In some cases, figures are highly aggregated – and sometimes misleading: Under the rubric of ‘social expenditure’, for example, the EC also includes spending for governance programmes.

12 The EC argues in some countries (e.g. Cameroon) that governments prefer to use large EC grants for investment-heavy big roads, and also that the EC concentrates on big roads while – in the context of a joint donor strategy – other donors fund rural roads. The latter would be a good argument in an environment of perfect donor coordination in which sufficient development funds are available to finance all programmes necessary to make aid work for the poor as soon as possible. As long as this ‘optimised aid’ does not exist in a given country, the EC argument does not convince.



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Commitments for CSP period 2002-2006/07 in M€	Bangladesh	Cameroon	Ethiopia	Guatemala	Nicaragua	Zambia
<b>Social development</b>						
-- Health and education	245				40	20,2
<b>Governance (1)</b>	30	28	28,4	46	17	56,1
Economic development						
-- Transport		80	171			93,2
-- Production (2)	59			16		
-- Rural / Local Development				20	118	
Budget support		15	186,6		15,9	182
Food security	120		60			
Other	60			11	30,5	
(1) Including human rights, democracy, institutional capacity building, support for CSOs/NGOs						
(2) Including agriculture, industry, mining & construction, trade & tourism						
Sources: EC Country Strategy Papers; analysed in background country study papers for this report						

Looking at individual countries, the sectoral picture varies strongly (see Table 6).<sup>13</sup> While the focus in Bangladesh has been on social development and on governance in Guatemala, the transport sector is highly important in Cameroon, Ethiopia and Zambia. Budget support receives the highest allocations in Zambia and Ethiopia. The bulk of EC aid in Nicaragua was initially intended for programmes to foster rural development, but finally went most to education. In Cameroon, two-thirds of EDF funds in recent years have been used to build or maintain roads. Neither the launching of the Cameroon PRSP, nor the MDGs, have had much changing influence on the input composition of EC aid – an input that may have limited impact on the lives of the poor people in the country (see Box 8). In Bangladesh, the support for social sector programmes has tradition – and might have contributed to the above-mentioned positive social development in this country. According to the original CSP, two-thirds of the total EC budget for 2002-2006 was foreseen to support human development with a strong emphasis on the health and education sector (EC 2001: 9, 25-27, 34). The EC's financial contribution to social development sectors in Bangladesh is significant, with the EC the largest donor in the health sector (MWH 2003a : 3).

<sup>13</sup> Unfortunately, the EC does not publish exact and comparable figures on payments per sector for countries. The figures in Table 6 are commitments, actual payments might differ strongly. For additional available figures, see the Brief Country Profiles.

**Cameroon: Two-thirds of EDF funds used for roads****Box 8**

Support to the transport and roads sector is not driven primarily by pro-poor interests, but by national and regional economic interests. The focus is on large national roads and regional roads (N'Djamena, Bangui) connecting to the port of Douala. (...) The EC has also shifted the focus of its own funding to maintenance rather than construction under the 9<sup>th</sup> EDF, driven mainly by the EC assessment that investment in further road construction would be wasted as long as maintenance of existing roads was not guaranteed. (...) Road projects take poverty and gender issues into account less at the stage of prioritisation of projects and more at the stage of implementation through “accompanying measures” such as involvement of local companions to identify negative social and environmental impacts, and raise awareness on risks of HIV/AIDS among women. (...) The 2002-06 evaluation looked specifically at impact on poverty reduction, concluding that EC support made a greater contribution in terms of job creation (e.g. maintenance work by local companies) than through improved access by the poor to markets or services [The EC has expressed reservations on the conclusions of this evaluation.] The evaluation states that the poor are not the target of international roads (this would be rural roads), this is not denied by the Commission. (Auclair 2007: 4)

**Zambia: EC aid's focus on trunk roads**

So far, EC has neglected significant support for rural roads, but this will change: The EC plans to give 20 m€ sector budget support in future for the rehabilitation of feeder roads and even rural roads. However, the big share of funds is still on trunk and main roads: It is foreseeable that a full third of the total road sector budget under 10<sup>th</sup> EDF will be spend on just one trunk road (Luangwa-Chipata). And within the rural areas, those regions with a “high agricultural potential” will get priority treatment which might strengthen the focus on a few economically “viable” regions (in terms of agro-industrial usage of land), but extend the exclusion of small-hold farmers in excluded areas even more. (...) From the perspective of civil society, especially the priorities in the sector have been criticised. So far, almost all the money in the sector has been used for main roads and too little is done for transport in the rural areas. Therefore, civil society representatives advocate for a fundamental shift towards rural roads. (Eberlei 2007: 6)

The implementation of EC programmes and projects – the *output* – has been monitored and documented in plenty of evaluations as well as an extensive EC monitoring system. All evaluations indicate some weaknesses (e.g. bureaucratic procedures of the EC, slow disbursement, lack of integration in national strategies, lack of understanding of context because of insufficient human resources in Delegations). Nevertheless, they overwhelmingly attest that the Commission is implementing its projects and programmes effectively and efficiently (see for example the country evaluations for Ethiopia, Tanzania or Zambia, or a number of comparative sectoral evaluations).

While input and output of EC aid are documented quite well, information on outcomes and impact are rare. The recent evaluation on Tanzania has been mentioned already as a positive example (EC 2006d, see Box 9). This evaluation concludes with an overall positive assessment without hiding weaknesses and problems. A clear discussion of outcome and impact indicators show, for example, that positive outcomes – in this case higher school enrolment rates – are not automatically followed by positive pro-poor impact: Overcrowded classrooms created a new challenge for the quality of education. The evaluation also demonstrates, to mention another example, how the construction of roads between urban centres and remote areas lead to positive outcomes for the poor.



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### Tanzania: Positive outcomes of EC aid

### Box 9

The evaluation for the European Commission observes that most expected progress has occurred in intervention areas, with two exceptions: quality of education and corruption. In achieving 'basic education for all' impressive quantitative changes took place since the abolition of school fees (in 2000); "the EC contribution to the achievements is significant" (EC 2006d, 36). However there was "too much focus on quantity at the expense of quality, and lack of a strategy covering the sector as a whole, as opposed to the current programme that has focuses purely on primary education" (ibid.). Despite policy dialogue and two years of reduced disbursements under the General Budget Support (due to corruption charges) the evaluation team did not find evidence that the EC had been able to significantly contribute to the reduction of corruption (ibid. 43ff.). Addressing backlog maintenance and rehabilitation of both the trunk and regional road networks, EC aid achieved "impressive impacts" in terms of poverty reduction, "especially through 'equitable access to basic services'" (EC 2006d: v). The evaluation for the European Commission gives numerous examples for noticeable improvements: farmers' access to regional marketplaces; more frequent visits of health workers to villages; teachers travel to town more easily; etc. (ibid. 34). Also for achieving the goal 'stable farmers' income' EC aid receives high marks: "The EC has adequately promoted a decentralised approach of the Agriculture Sector Development Programme. Generally good and sometimes excellent impacts have been achieved by EC funded projects, although they remain limited by the lack of a coherent rural development approach." (ibid. 39) And in the pursuit of supporting 'trade and regional integration' the EC played "a precursory and successful role" (ibid. 42). (Siebold 2006b: 4)

There are some informative reports about poverty-relevant results of EC aid at individual project or programme level. In Guatemala, for example, an EC funded health project in Alta Verapaz has contributed to the decrease of children's and mothers' mortality rates – definitely an impact dimension of aid (Vassallo 2007: 6). In Nicaragua, a project approach to support targeted women has contributed, as an evaluation attests, to an improvement in their lives (Membreño Idiáquez 2007: 3). A mid-term evaluation of the budget support program to the Nicaraguan educational sector (PAPSE) showed some positive results: With €52.5 million (around 20% of the Education Ministry's budget), the PAPSE helped formulate the National Education Plan, create the sector-wide Education Table and fulfil 19 of the 24 programmed indicators. In Cameroon, two bridges funded by the EC have helped poor farmers in the southern part of the country to sell their goods in Gabon for higher prices – a contribution to increase their incomes and decrease their economic poverty (Auclair 2007: 4). Investment by the EC in the education sector in Bangladesh has contributed to a higher enrolment rate, while funding for health programmes show mixed results only (MWH 2003: 3-6).

These are examples of important 'success stories' of EC aid. However, the question of the relevance of individual project or programme impact with regard to the overall situation in a country has been raised frequently. EC work in Bangladesh has promoted some improvement in access to, and levels of health and nutrition, however: the approach is "too supply driven", partially inappropriate to the context; benefits did not 'adequately' reach the poorest. The Sector-Wide Approach (SWAP) in the health sector, initiated and advocated by the EC, shows "fewer benefits than expected"; it "failed to meet its ambitious objectives". In short: little improved health outcomes, especially for the poorest; institutional reforms were not implemented by the government (MWH 2003: 3-6). While mixed results might be offset by e.g. pilot projects finding imitators or initiating bigger programmes, any single project, even if it shows individual outcomes, has to be confronted with this question of relevance. According to its own evaluations, the EC considers the impact of its projects for rural development in Nicaragua to have been positive, but with limited effects in time and geographic space due to the weakness of institutions and the lack of political will to resolve

land tenure problems. A similar assessment was made in Cameroon: rural and urban development projects appear to have had at best short-term results that were not sustainable.

In many cases there is a clear lack of information on pro-poor impact of aid.<sup>14</sup> The overall evaluation on the EC work in Bangladesh, for example, criticised the “non-availability” of information on a number of important aspects: “Crucially, attempts to relate interventions actually undertaken to strategic objectives, or to infer a possible relationship, were only partially successful.” (MWH 2003a: 1). In its own Bangladesh CSP, the EC states: “Donors generally agree that most programmes aiming at poverty reduction, including major NGO programmes, have predominantly benefited the moderate poor, but failed to reach the poorest of the poor.” (EC 2001: 8) In Ethiopia, like in Cameroon or Zambia, the available EC mid-term or end-term reviews “did not specifically analyse the impact of EC aid on different groups” (Bekele / Barry 2007: 7). Recently published analysis supports the view that EC mid-term reviews focused more on management or disbursement of resources than on outcomes for development (Mackie 2006, 3; Rasmussen / Scott 2006, 6; CDC 2005, 49).

Besides qualitative in-depth evaluations on outcomes and impacts at sector and country level (so far limited), the EC tries to assess the overall impact of its aid projects through a recently introduced *quantitative* instrument, the *Results-oriented Monitoring (ROM)*.<sup>15</sup> One driving factor for the introduction of this instrument was the EU decisions in 2000, to increase the aid effectiveness of EC aid and – among others – “to improve the impact and visibility of EC development co-operation and aid” (see EC 2000a, 7). Other factors were the introduction of the PRS and the MDGs; both approaches underline the need for results-oriented poverty reduction efforts. ROM is a database fed by consultants on behalf of the EC. These are scoring the relevance, efficiency, effectiveness, sustainability *and impact* of EC funded projects (not sector approaches or budget support). ROM is using a simple system of 4 point: 4 points means very good, 3 = good, 2 = some problems, 1 = major problems. 2.5 is defined by the EC as reference average, meaning the project or the specific aspect of the projects is “on track”. While the instrument was introduced in 2002, its methodological approach has been adjusted since then, not least as a reaction to criticism.<sup>16</sup> In its Annual Report 2006 on EC external assistance, the EC publishes for the first time a multi-year overview of impact based on the ROM system. While the instrument shows positive developments in some regions, it is negative with regard to the EC aid in the poorest countries (EC 2006a, 73): For ACP countries, the assessment declined from 2.59 in 2001 (just above the reference average) to 2.45 in 2005 – meaning that the average impact performance of EC aid to ACP countries has fallen below the “on track” line in the last five years. These figures should not be overestimated (neither the positive, nor the negative) as ROM faces a number of methodological shortcomings.<sup>17</sup> However, the fact that EC projects in ACP countries have been rated for years just around the average can be seen as a critical

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14 It might be the case that information is available in the Delegations, but not publicly. In most of the countries for this study, impact assessments were not accessible.

15 Unfortunately, there does not appear to be any publicly available, comprehensive EC paper documenting the principles, definitions (e.g. of “impact”), guidelines and implementing procedures of ROM. One finds only bits and pieces here and there (and a few results in the annual reports on EC aid).

16 The European Court of Auditors, for example, assessed ROM as a useful instrument. “However, further development is needed before the statistics produced can be converted into indicators of quality” (Court of Auditors 2005, 20). In 2005, the Commission stated in an own assessment: “Although indicator frameworks have been improved, the basis of performance assessment against indicators remains to be strengthened. More remains to be done in terms of sector-level and region-level aggregated monitoring of results and impact.” (EC 2005b, 18)

17 The changes in methodology, the usual flaws in the introductory phases of such tools (due to lack of experience and capacity), the high aggregation of results, and the questionable assessment of hundreds of “experts” looking at projects with a limited score scale (leading unavoidably to significant variances) put ROM results in a wider perspective. For further methodological aspects of ROM exercises by donors see Marleyn 2003.



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factor as such. And the negative downward trend since 2001 should be another alerting result which – surprisingly – finds no explanation in the Annual Report.

These few examples shall not and cannot give a representative picture about EC aid. Neither has it been the aim, and/or within the possibility, of the CIDSE and Caritas Europa study as such to undertake an own impact analysis of EC aid. However, the examples demonstrate the mixed results of EC aid with regard to impact on poverty reduction. They underline the necessity to replace the still-dominant reporting system on inputs and outputs with in-depth evaluations on outcomes and impacts of aid. In theory, the EC has agreed upon this need (e.g. by signing the *Paris Declaration on Aid Effectiveness*). The reality is still far from the theory. In a limited number of cases, the EC has started recently to analyse the poverty impact of its work. In Zambia, there are plans to monitor annually the impact of roads on poverty eradication; in Cameroon, the next major road project will start with a baseline social impact study, to be paired with an impact study on an adjacent completed road. However, in these and other countries, both earlier CSPs and the new 2007/8-2013 generation lack explicit and systematically developed poverty impact indicators.

### Zambia: Critical evaluation of EC impact on poverty

### Box 10

With regard to the impact of EC aid on poverty reduction, the end-term evaluation of the Zambian CSP came to a very critical conclusion: "Fighting poverty is at the centre of the CSP. Yet the analysis of poverty in Zambia presented in CSP is insufficient. The specific aspects of poverty in Zambia are not fully analysed. In particular, the CSP does not analyse the geographical dimension of poverty. It is not sufficient to state that poverty is omnipresent in Zambia. Since poverty reduction is the core of CSP it should have been the object of an in-depth analysis before deciding on the appropriate programme entirely devoted to poverty reduction. There was insufficient justification of sector selection. More generally, the determinants of poverty are not fully analysed. This may partly be due to limitations in available statistics at disaggregated geographical levels. As a result, there are no means to ensure that the proposed programme will effectively have an impact on poverty reduction; nor is there any demonstration that the allocation of funds between the various focal and non focal areas corresponds to any optimum in terms of expected efficiency in contributing to poverty reduction." (SOFRECO 2006, 42) [The EC has expressed reservations on the conclusions of this evaluation.]

The measuring of impact is not easy. Complex realities with a number of intervening factors in development processes and the time lag between intervention and potential impact are only two factors making impact assessments a challenge. However, as the EC and other donors are requesting "results orientation" from their partners in the South, they should also make efforts to deliver the same. A key problem seems to be that results-oriented systems like the EC's ROM are technocratic instruments implemented by (expatriate) consultants and publicly not even fully accessible. The alternative would be a system of participatory impact assessment instruments, conducted publicly and transparent, giving especially the (potential) beneficiaries a voice. The *Uganda Participatory Poverty Assessment Process (UPPAP)*, conducted jointly by the Government, NGOs and some donors together, as well as other examples demonstrate that a more transparent and meaningful impact assessment of complex processes is possible.

In our six country cases, the following structural weaknesses limiting a potential positive impact on the poor are frequently mentioned:

- Under-emphasis on rural and/or local development and the improvement of social living conditions in remote areas (mentioned in all six country studies). This is the aspect which is criticised most by civil society organisations. As a civil society representative in Zambia



formulated it with regard to the EC focus on trunk roads instead of rural roads: “Donors should shift their attention to rural people, they are the majority of Zambians.”

- Despite some progress in gender mainstreaming: a still existing lack of gender considerations or weaknesses in gender equity strategies (Bangladesh, Cameroon, Ethiopia, Guatemala, Zambia).
- Institutional hindrances, like: heavy, slow, and inadapted procedures, a bureaucratic approach and centralised decision-making; excessive influence of individuals on decision-making, rather than a consistent institutional line; superficial evaluations based on a “checklist” approach rather than thorough review (Cameroon, also Guatemala).

## 5.2. New aid instruments and their potential pro-poor impact

Like many other donors, the EC has opted for new *aid mechanisms* in recent years: from projects to sector programmes, sector budget support or even general budget support (see for example EU 2005). Especially *General Budget Support (GBS)* has become the preferred mode of delivery. The following paragraphs contain a brief discussion about the pro-poor potential of sector-wide approaches and GBS. Chapter 6 addresses the political implications of these new mechanisms.

Budget support, as a relatively new instrument of development cooperation, has been discussed intensively in the last couple of years. A number of pros and cons of budget support are frequently mentioned in recent studies, among which the extensive evaluation on behalf of a number of donors (University of Birmingham 2006).<sup>18</sup> On the positive side, the following is usually highlighted: Budget aid supports the overall macro-economic stability of recipient countries. It strengthens the administrative and financial capacity of central governments. In a number of budget aid recipient countries, expenditures for social sectors have increased steadily, and discussion about the link between the national budget and social development has been stimulated. An always mentioned positive effect of budget aid is the reduction of transaction costs of aid (concentrated negotiations between governments and budget aid donor group instead of numerous individual negotiations with plenty of donors about single projects). Experience shows that budget aid contributes to better donor coordination and leads to a more comprehensive debate about development. In countries such as Mozambique and Tanzania, budget aid has also initiated discussions about “donor performance”, vis-à-vis the demanded “government performance”.

However, some potentially negative effects of budget aid are also obvious. Budget aid strengthens the negotiation position of donors and their influence on core decision-making processes of governments. Parliaments – which are constitutionally responsible for final decisions on the budget – risk being bypassed. Similarly, core budget negotiations between governments and donors often also exclude civil societies and the general public. So far, budget aid has strengthened policy-making behind closed doors. A specific problem is the role of the International Monetary Fund (IMF) in budget aid. The Fund’s financial aid (e.g. through Poverty Reduction and Growth Facility/PRGF programmes) is not embedded in the overall budget support framework, but treated separately, usually with signal function for other donors, and always with its own macro-economic conditionality. Budget aid strengthens the central government, but this could lead to the neglect of other important arms of government, e.g. local administrations. Budget aid gives governments more flexibility, but this might lead to expenditures favouring the middle class or elites instead

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<sup>18</sup> The following overview takes results from UoB 2006 into consideration as well as the new EC guidelines for budget aid (EC 2007: 18-19), but also other publications, especially Gerster 2006a/b; Eurodad 2006; Schmidt 2005.



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of the poor (or even to the misuse of funds, given the fungibility of budget support). On the one hand, budget aid strengthens predictability of financial aid in the short run, but it can create unpredictability in the medium term as budget aid is volatile to quick changes (e.g. withholding of funds) when relationships between governments and donors deteriorate. Looking from the donors' perspective, this might be an advantage as donors are able to react quickly, e.g. in cases of human rights violations.

But what is known about the impact of budget support on poverty reduction? The above-mentioned recent evaluation of GBS on behalf of several bilateral and multilateral donors (including the EC) drew a positive balance for GBS in five out of seven analysed countries: "In all but two cases, the overall assessments by the country studies were clearly positive" (University of Birmingham 2006: S3). The focus of the study was, however, more on macro-economic and macro-political processes, and less on poverty impact. But the study stated at least, that 'Partnership General Budget Support' (PGBS) in the five countries showed positive results at output level as it "has supported increases in PRSP priority expenditures ('pro-poor expenditures')", especially expenditure to finance basic health and education services (ibid., S5,7). However, the question could not be answered if budget aid really shows an impact on the lives of the poor: "Several country teams stressed the fallibility and limitations of available poverty statistics. They cautioned against attempts to seek too mechanical a relationship between PGBS inputs and poverty outcomes, especially in view of the likely lead times for PGBS effects and the potential for exogenous factors to swamp the predicted effects of PGBS. Study teams could not confidently track distinct (separately identifiable) PGBS effects to the poverty impact level in most countries. This applies more particularly to income poverty and empowerment dimensions. There are some clear links from PGBS to improved basic services, through funding and through a collective commitment of donors and government to service delivery targets." (ibid., 7).

The evaluation is in line with the findings from our country cases. With the exception of Guatemala where GBS may be introduced in the next phase of cooperation only, all countries in this study have experience with EC funding for Sector-Wide Approaches (SWAPs), sector budget support and/or GBS. The EC argues that SWAPs and/or GBS are the most appropriate way to support governments in their fight against poverty. However, it is very difficult to demonstrate an impact of budget support in these countries. The EC Delegations in these countries argue mostly at output level to underline the rationale of budget aid. It is assumed for example, that increased government expenditures for health and education in Ethiopia and Zambia are a direct consequence of budget aid and linked to respective conditionalities. But this is not entirely convincing. First, it is impossible to prove this link (as other factors like debt relief or increased aid in total could also be the driving forces behind the actual increase in social spending in these countries). Secondly, as civil society representatives in some countries believe, alternative approaches might have higher impact on the poor at least in some countries, although GBS also finds a lot of support from civil society. But in Ethiopia, for example, civil society actors argue that "with the suspension of GBS and the move to PBS [Protection of Basic Services, an approach comparable with previous programme funding] there is the potential to impact more directly on poor people as more money will be channelled to lower levels of government. However there may well be implementation problems as capacity at this level is weak" (Bekele / Barry 2007: 1, see Box 11). Thirdly, civil societies in some countries fear that the GBS money could be used by the government for purposes other than development (e.g. Nicaragua or Guatemala, see also Box 12).

**Ethiopia: Suspension of GBS****Box 11**

Previous to 2005 the EC has supported the Ethiopian government through General Budget Support (GBS) and indicates that this would still be the ideal mechanism. (...) The EC has since 2005 suspended GBS and the decision to resume it or not will be taken in close consultation with the Government, Member States and other key donors in Ethiopia. (...) The resumption of GBS will impinge upon improvement in the governance situation and on the degree of stability of the macroeconomic situation. Civil Society was not consulted in the decision to suspend direct budget support and decisions around this were taken by donors in Paris.

Donors had concerns that were also shared by Civil Society, that the suspension of GBS would have negative impacts on poverty. This led to the introduction of an alternative aid modality – the *Protection of Basic Services* (PBS). PBS gives support directly to the regions and woredas to ensure that basic services are delivered. This should in theory direct aid where it is needed more but there is the problem of weak capacity at the woreda level. (...) PBS will have to operate within a number of constraints and its execution might be plagued by gross financial inefficiencies.

The PBS grant contains a component for funding of Civil Society projects on social accountability to try and increase citizen oversight of the funds spent in the woredas. (...)

The new indicative programme of the EC states that ‘GBS is the preferred modality for predictable macro-economic support and will be considered when the governance situation allows’. However it is possible that PBS could contain elements that would be more beneficial in the long run for the poorest as funding is channelled directly to the lower tiers of government where it is spent on basic services, although the details of implementation will need to be worked out. The channelling of resources to lower levels, the increasing or reporting on spending at the lower levels and the component for Civil Society oversight all could produce very real benefits that would not be found in GBS. Therefore any reversal to GBS without taking on board the lessons of PBS would be a hugely missed opportunity. (Bekele / Barry 2007: 10-11)

What are the best ways to reach poverty reduction in the fastest possible way? It is interesting to see how little discussion appears to take place on which (new) instruments might be the best from the perspective of the poor (see Box 13). Looking at the positive as well as negative effects of budget support, many civil society actors do welcome budget support as an additional aid modality complementing other instruments, but are demanding changes in its framework (especially regarding transparency, accountability to Parliaments and the general public, and the de-linking of budget aid from IMF conditionality – see Chapter 6.3).



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### Zambia: More money for poverty reduction programmes?

Box 12

The EC delegation in Zambia attributes the increase in Government budget allocations for health and education to the EC initiated budget support programme PRBS (Poverty Reduction Budget Support) and the strong influence of the EC in the PRBS reviews. Indeed, allocations (and possibly also releases to line ministries) for social sectors have increased between 2003 and 2005. However, there are no data available on the actual spending as the “Activity-based budgeting” (ABB) has been introduced on the allocation side only. Due to a recent survey not only civil society members, also a number of representatives of local governments fear the shifting of funds for poverty programmes to other areas. Furthermore, the danger of money misuse for personal gains of people involved in the “poverty machinery” (workshops in expensive hotels, expensive trips to “monitor” poverty reduction projects, allowances) has been mentioned in several interviews. Another danger is already obvious: The Government intends to increase the defence budget significantly. All these developments at the output level have to be taken into consideration when discussing the impact of (EC) budget aid. Dimensions of outcomes and impact e.g. for the very poor strata of the population are not even touched by these debates. It is more than interesting that the EC has asked the civil society network CSPR now to undertake a study on the impact of budget support on poverty reduction as the first attempt to get a clearer picture. (Eberlei 2007: 5)

### Cameroon: Pro-poor aid mechanisms?

Box 13

There is not a clear EC vision on the relevance of aid instruments for the poor. Particularly those working with projects believe that they best ensure that aid reaches the poor, even if administrative costs are significant. Others believe that EC instruments cannot effectively reach the poor, and that the EC's role is to help governments reach the poorest through sectoral strategies, prioritisation, and a differentiated approach (e.g. variable fees for services). Yet one interviewee observed this paradox: “The EU thinks the government should take the initiative to reach the poorest. But the population thinks the government is too slow and wants the EU to take the initiative.” The view was also expressed that civil society is best placed to reach the poor, however this was not seen as a basis for an EC policy on funding for NGOs; but rather that the government should fund civil society in this context. It was also mentioned that the EC tries to concentrate on regions where there is a confluence of factors of poverty, for example in the extreme north of the country.

There has not been any review of mechanisms in the 2002-06 cooperation specifically for their impact on the poorest segments of the population. The general trend is towards sector approaches and programmes and away from projects, following from the belief that the former can have better long-term impact. There is no significant change in the policy of funding through NGOs. As mentioned further below, the ability to disburse appears to take greater importance in relation to choice of mechanisms than does an explicit examination of pro-poor impact.

(Auclair 2007: 3-4)

## 6. The Influence of EC Aid Mechanisms on Democratic Governance

In line with its fundamental values of the promotion of democracy, the EC has a responsibility to promote through its cooperation the democratic accountability of Southern governments to their citizens. While it indeed is first and foremost the responsibility of governments to engage with their own national stakeholders, donors also have a responsibility to promote frameworks that reinforce national accountability, rather than government accountability to donors.

The EC has developed a number of important aid reform steps (together with other major Western donors) and has formulated these in new policy documents, most importantly in the *European Consensus on Development* and the EC Communication on aid effectiveness (EC 2006c), as well as in a number of other, more technical documents. The reforms can be distinguished at three inter-linked levels:

- New principles have been introduced (e.g. in the context of the PRS approach and/or OECD/DAC principles), like the multi-dimensionality of poverty; country ownership of strategies with broad-based participation; medium-term orientation and results-based approach, and others.
- A strong process to ensure coordination between donors has been started (*Paris Declaration on Aid Effectiveness*).
- New instruments have been introduced, especially sector-wide approaches and budget support.

Voices from civil society have welcomed most of these new developments in principle (which actually reflected many demands from previous decades) but the overall positive feedback has been combined with a number of critical views, either on shortcomings of approaches right in principle, or on limited willingness to truly implement good principles (cf. for example EURODAD et al 2005). Especially the importance of country-owned, democratic and participative structures in the countries of the South are emphasised for meaningful poverty reduction efforts. The following chapter asks how the new aid mechanisms used by the EC affect *democratic governance* in developing countries. It is focussing thereby on the following questions:

- *Country ownership*: in the context of donor coordination, who sets the priorities of (EC) aid? (4.1)
- *Governance*: how does EC aid support 'good' governance? (4.2)
- *Budget support*: how are new aid mechanisms, especially budget aid, embedded in democratic processes? (4.3)

### 6.1. Country Ownership versus International Donorship

Recent years have seen EU and other donors working more closely together to direct their joint assistance in support of partner country strategies and policies, rather than each donor funding its own separate projects. This is intended to lead to more sustainable results for development as well as a reduced burden for developing country governments in dealing with different donors. However, a prerequisite for *democratic* decisions on strategic choices regarding poverty reduction efforts in the countries of the South is that these decisions are *made in the South* – and not in the donor headquarters or in institutions dominated by Northern governments. The principle of



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*country ownership*, introduced 1999 in the context of the PRS approach, should ensure this is the case. Its introduction was based on the negative experience with donor-dominated development strategies, especially the IMF/World Bank structural adjustment blueprints. The EC supports the principle of country ownership in its policy, both in the *European Consensus on Development* and the *Cotonou Agreement*, as well as in international declarations such as the *Paris Declaration on Aid Effectiveness*.<sup>19</sup> In the context of increasing donor coordination, does the Commission implement this principle in practice?

On the basis of our analysis, it must be concluded that the aim of coordinated donor strategies being aligned with country-owned poverty reduction strategies has in reality not yet been reached. In most of our six case studies, one can find mixed results of, and feedback on, donor coordination (see Box 14). However, the EC is actively involved in efforts to create at least a joint donor framework for individual country strategies (e.g. Bangladesh, Ethiopia, Zambia). The *Joint Assistance Strategy for Zambia (JASZ)* for example describes among others a clear division of labour. In every sector, donors have chosen a “lead donor” and listed further “active donors” as well as “background donors”. The EC is lead donor in budget aid and transport. The Government of Zambia is seeing a number of positive effects of donor coordination (e.g. easier to communicate with “lead donors”, smaller meetings; predictability of funds; better information about what donors are really doing in the country). However, some observers doubt whether these initiatives and reforms are “owned” by the government, with national stakeholders generally not included in these processes, felt to lack transparency. In certain countries, the EC has played a positive role in stimulating a coordinated European strategy, e.g. Ethiopia (see Box 15).

### Bangladesh: Donor coordination – a mixed picture

Box 14

The EC is actively involved in harmonization initiatives in Bangladesh; but the process is still at the pilot level, with two sectors, viz. education and health only. Various problems have been mentioned in the interviews:

- Donors find it difficult to come to consensus on many major issues because their own country organizations' priorities and regulations. (...)
- Most interviews opined that harmonization will kill flexibility and many donors will be forced to fit their programmes into the same format, even if they may have less priority for certain sectors.
- The recent changes in the name of programme-aid, SWAPs and donors harmonization are creating mixed views among the people and they are considered as a process of weeding and eliminating varieties of interventions and large number of small rural-based NGOs and civil society groups. (...)

(Costa 2007: 8)

Nevertheless, the country strategies of donors – including the EC's CSPs – often still follow individual priorities. In Bangladesh, as in other non-ACP countries, the EC CSP is still an EC document, adopted after consultations with the government and EU Member States, rather than a joint strategy. The choice of aid modalities also reflects EC preferences in: The EC is for example advocating sector-wide approaches (SWAPs); in Bangladesh however, SWAPs are seen by the Government “as donor-driven without adequate consultation with the GoB counterpart” (Particip 2004: 48 f). Joint donor strategies, too, are often formulated against the background of strong interests, due to many

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19 The ‘ownership’ principle is explicitly mentioned in several articles and explained as follows: “The ACP States shall determine the development strategies for their economies and societies in all sovereignty” (Art. 2 Cotonou Agreement). Art. 9 and 19 of the Agreement clearly embed this ‘sovereignty’ in democratic structures within the countries including civil society participation.

factors including a lack of staff incentives for donor coordination, although in some cases donors are trying to align these with countries' own strategies (see Box 15).

**Ethiopia: Joint EU strategy**

**Box 15**

In the new CSP the EC and Member States have tried for the first time to develop a joint response strategy that will bring all the EU efforts together. The aim of this is to increase coordination, harmonisation and alignment of efforts to increase aid effectiveness. The first stage was to develop a joint Country Diagnostic Survey which is not yet publicly available, and an EU road map. The EC then developed its focus areas and after this the decision was made to bring strategies together. This has led to a paper where the EC and selected EU member states' contributions to those focal areas are outlined. However not all member states are willing to sign the strategy, although they have been part of the process (Ireland and Sweden). Some other member states are willing to sign up to the strategy but wish to keep their own separate bilateral programme with its own priorities (UK). However other member states are happy to sign up to the strategy and align their programmes with it (currently Austria, Finland, France, Germany, Greece, Hungary, Italy, Netherlands, and Spain). The strategy outlines some areas of work that will contribute to the focal areas that Member States will undertake, not the EC itself, for example direct support to health, education and water and sanitation. (...)It is also unclear exactly how far this form of harmonisation could go. The EC's agreements mean that the government also signs their strategy and so every word must be agreed. However individual states consult with government but draw up their own strategies. This means that areas that the government and donor may not agree on can still be included and this may be significant in Ethiopia in terms of human rights or the nature of support to civil society. Some bilateral agencies also will always wish to retain an independent programme and not sit under an EU umbrella so although harmonisation may be useful it may find it has limits. (Bekele / Barry 2007: 13)

Aid harmonisation can increase the influence of donors vis-à-vis recipient countries. In the case of Ethiopia, strong political interests forced donors to find joint positions. The joint suspension of budget aid in 2005/2006 (see above Box 11) put pressure on the government, though this did not lead to substantial political changes. In other cases, less visible political influence of the donor group on the governments is reported.

The International Monetary Fund is still an important 'gate-keeper' for donor-supported programmes in virtually all countries, a function which contradicts with *country ownership* (Cameroon, Nicaragua, Zambia). The link between aid through budget support and the Fund's overall macro-economic assessments has even strengthened this role (the IMF assessment is part of the general 'eligibility criteria' for budget aid, formulated in the new EC guidelines for budget support (EC 2007, 47). In Zambia and Nicaragua, IMF criteria are part of the *Performance Assessment Frameworks*, on which basis decisions about budget support are made annually. These links between budget support and IMF conditionalities increase the financial risks for the government, as one bilateral donor representative in Zambia explained: If the IMF's programme goes "off track", a withdrawal of budget aid is for donors much easier than to stop aid projects (with personnel etc.). It has been criticised in several countries that the EC links its own development aid to IMF programmes (see Box 16 on Nicaragua). Budget aid tranches have been withheld or interrupted in Cameroon and Zambia after IMF programmes went "off-track". It should be noted that there are limited exceptions, such as for an EC disbursement in 2005 in Nicaragua despite the country's "off-track" status, and in Ethiopia where there is no IMF programme.



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### Nicaragua: Tying of aid to IMF programmes harms the poor

Box 16

No one in Nicaragua, including even the most radical critics of the IMF programmes, questions the need and importance of maintaining a certain macroeconomic stability to promote sustainable development and reduce the poverty in the country. Almost all the sectors (central government, parliamentarians, local governments, small and medium businesses, etc.) agree that the problem rather resides in the application of macro-economic policies that excessively restrict social spending, as has been occurring throughout the fourteen years that the IMF has been the guardian of the national economy. The EC decision to tie the disbursement of its cooperation funds to the government's compliance with the agreements signed with the IMF subordinates the poverty alleviation aid to the government's implementation of several economic programmes that are not pro-poor (Acevedo, 2006). By tying the aid to the poor to IMF conditionalities, the EC is denying itself the possibility of obtaining better results from its own poverty reduction programmes and projects, because while it is helping reduce poverty in the country with one hand, with the other—that of the IMF—it is helping increase it or at best maintain it unvarying over time. An evaluation of the impact of the budgetary aid conducted by the University of Birmingham (2006) revealed that the tying of the Budget Support Group's disbursements to the IMF's PRGF and the resulting delays could affect the flow of funds to the sectors that provide pro-poor services. (Membreño Idiáquez 2007: 6)

Finally, *country* ownership is more than *government* ownership. It also includes the anchoring of important decisions in democratic institutions of the country as well as enabling a lively civil society to influence them. The cases of Cameroon, Nicaragua and Zambia criticise the by-passing of the legislative as well as of civil society when important decisions are made between governments and donors only, e.g. in the budget process (see Box 17).

### Nicaragua: Do the IMF and World Bank respect the Constitution?

Box 17

In the opinion of legislators and civil society representatives, the risk of the budgetary support mechanism resides in the institutionalization of direct intromission by the IMF and World Bank in the budget formulation, without either institution having to enter into negotiation and democratic concertation arenas between the executive and legislative branches or among the different political forces represented in the latter. The EC has given no signs up to now of being willing to demand that the IMF and World Bank respect the Constitution and the country's fragile democratic institutions. (Membreño Idiáquez 2007: 6)

### Cameroon: The IMF and World Bank more important than the Parliament?

The IMF remains dominant in macro-economic matters, on the positive side pressuring the government to publish information on the execution of the annual budget, but also playing a prominent role in budgetary frameworks. The government first discusses its future annual budget with the IMF and World Bank, and then makes its proposal to the Parliament (this was not seen as inappropriate by the Budget Committee member interviewed, as long as the government comes ready to negotiate with the Parliament). (Auclair 2007: 7)

## 6.2. The approach to Governance in EC aid

Governance has become central to the development discourse in the past decade or more. This is largely founded on the recognition that strong and accountable institutions, political commitment to effective management of the State, and a vibrant and organised civil society are fundamental to equitable development. The EC is further developing its approach to governance in view of stronger coordination at the European level, based on its Communication on "*Governance in*



*Development Cooperation*” (EC 2006b). This means strengthening the focus on programme support to governance; and for ACP countries, a governance “profile” is meant to form the basis for decisions on an “incentive tranche” representing an additional 25-50 % of the 10<sup>th</sup> EDF national programme.

All six countries of our study refer to the extensive and often increasing importance of governance programmes within EC cooperation. In Cameroon and Zambia, the EC is involved in activities to strengthen public finance management systems. In Nicaragua, the EC has aimed to contribute to the strengthening of the judicial system and the modernisation of the cadastral property systems, and in Guatemala to the reform of the tax system. These programmes and projects are without a doubt important. However, as a whole they represent a more technocratic approach to governance, focusing on limited issues such as capacity of government administrations to handle public finances, while neglecting the wider democratic framework. Support of parliaments, free media, political parties, trade unions, civil society organisations – in other words, for democratic checks and balances within a country – do not have a significant weight in EC aid portfolios to date. In Zambia, lead donors, among them the World Bank and the EC, have favoured this technical approach to governance for years (cf. Eberlei 2005). This is still reflected in the recently developed core instrument for budget support, the *Performance Assessment Framework* (GRZ / CP 2006), which focuses on more technical issues in the governance-related sections (only one indicator mentions the role of the Parliament’s Public Accounts Committee). In Cameroon, “The EC sees itself in a bilateral relationship with the government, centred mainly on public finance management, rather than working on the democratic context and national counterpowers.” (Auclair 2007: 7).

In some countries, programmes to support civil society have emerged in the last two years, including in Bangladesh, Ethiopia and Zambia. The political crisis in the aftermath of the 2005 elections in Ethiopia has clearly led to more donor support for civil society. They have received support, for example, to play a monitoring role in donor-financed social service programmes. In its dialogue with the Ethiopian government, the EC has also proposed to start trust-building dialogue process with stakeholders in the country, “with a view to reinforcing partnership between State and Non-State actors” (Bekele / Barry 2007: 15). In Zambia, the EC intends to support the involvement of civil society organisations in the budget process in future (albeit with a programmatic approach that finds some criticism, see Box 18). Unfortunately, support for Parliaments as institutions, not only individual members, especially to strengthen them in their constitutional oversight role in the budgeting process, is not high on the EC agenda to date (see next chapter).



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### Zambia: EC support for Civil Society – positive and negative aspects

Box 18

A new EC programme aiming at support for civil society is planned (2007 ff.: 5 M€; EC / AIDCO 2006). It includes a number of interesting ideas and approaches (e.g. strengthening legal framework for civil society activities and strengthening the links between CSO at national and grassroots level). It is positive that the steering committee for this new programme includes representatives of CSPR and of the 'INGO group' (EC / AIDCO 2006, 14). However, the project proposal deserves also some critical comments: First of all, some formulations in the proposal tend to disregard the work of many people in the Zambian civil society at national and local levels, when stating for example that "with the exception a few notable key players, there is little evidence that is genuinely analytical, addressing fundamental policy issues and, more importantly, represents the legitimate voice of the poor. (...) (EC / AIDCO 2006, 6); (...). These 'assessments' of civil society are even less understandable if one recognizes that the EC Delegation in Zambia has more or less ignored civil society over years (little or no support, little involvement in own programming process; very little support for Govt-CS dialogue, e.g. on budget aid; donor harmonization etc.) (cf. PARTICIP 2006, 73). In any case, the assessments do not reflect the comparatively strong development of civil society in Zambia.

A second critical aspect is the fact that the EC is still excluding itself from demands of accountability: The project intends to strengthen the "empowerment of local communities... (it) aims at ... holding both the local government and CSO accountable" (ibid., 8) – the programme does not explicitly mention the EC – CSO dialogue.

Thirdly, the programme includes EC calls for proposals which are strongly donor (demand)-driven instead of supporting the civil society in *their* ongoing work. This approach is functionalising civil society (see the example of the study on impact of budget aid). According to close observers, this approach actually divides and weakens civil society as CSOs are competing for the same funds. It encourages CSOs to focus on consultancy work. Instead, it would be better to support the ongoing work of civil society independent of the question if that actually fits into EC agendas. The EC is criticising "opportunism that exists as a result of donor funding" (EC / AIDCO 2006, 6), but is not reflecting this regarding its own approach. (Eberlei 2007: 10-11)

The EC has not only increased the number of governance programmes and projects. Questions of good governance are in some cases an issue for the EC political dialogue, too. Examples from Ethiopia and Mauritania illustrate this (see Box 19). It is not publicly clear, however, how strongly the EC actually pushes for human rights, democratic reforms, participation, freedom of the press etc. The case of Ethiopia has been criticised by some observers who are of the opinion that the EC came in too late and too reluctant to make a real difference for the arrested members of opposition parties, journalists and NGO activists (cf. Brüne 2007). In the cases of Cameroon and Guatemala, civil society and the general public know little about the political dialogue between the EC and the respective government. Often the EC seems to be hesitant to criticise publicly the governments of their partner countries. In Nicaraguan for example, the EC has "adopted a quite discreet posture with respect to the Bolaños government's acts of corruption" (Membreño Idiáquez 2007: 9).

**Ethiopia: Policy dialogue aiming at democracy and human rights****Box 19**

The EC has tried to use its leverage to challenge the government following its treatment of opposition politicians. In the aftermath of the 15 May general elections in Ethiopia, Commissioner Louis Michel has developed an intense political dialogue (exchange of letters, visits and declarations) with Prime Minister Meles Zenawi, the opposition leaders and the civil society in general. These dialogues aimed at supporting the democratisation process, respect of human rights and the rule of law in order to contribute to a peaceful solution of the political crisis. Article 8 of the Cotonou Agreement provided EC with a structural avenue to political dialogue. This dialogue according to the 2008-2013 CSP, the democratization process, respect for human rights and the rule of law, and regional peace and stability and the EC claimed this helped increase mutual understanding during a difficult period. (Bekele / Barry 2007: 15-16)

**Mauritania: EU partially suspended cooperation after coup**

Although the CSP in 2001 characterised the political situation as “stable” and the democratic system as “consolidating”, in August 2005 a bloodless coup replaced President Ould Taya by Colonel Ely Ould Mohamed Vall. The EU condemned the coup, suspended cooperation partially and held consultations under Article 96 of the Cotonou Agreement. After the new regime had committed itself to (a) the return to democracy within 24 months; (b) the improvement of the judicial system (a fairer system for individuals and a more attractive investment climate), (c) reforms in the public finance sphere and (d) a new constitution (endorsed by referendum in June 2006) and presidential elections to be held in March 2007 the EU decided in May 2006 to fully resume aid and unblocked 66 million € for the transport sector. The World Bank officially re-engaged in January 2006. (Siebold 2006a: 4)

Civil society voices have critically commented on the new EC governance approach (see for example CIDSE 2006, ECDPM 2006, CONCORD 2006). Some of the frequently mentioned critical views can be confirmed on the basis of our six case studies, among them: the limited evaluation of the 9<sup>th</sup> EDF programmes on governance in the majority of countries; the question if the new governance profile creates a new set of conditionalities; the restricted time to discuss the governance profiles in the preparation of the next CSPs; the lack of consultation of Parliaments and civil society. Only in Zambia have first steps been taken to share the EC governance profile with civil society.

In a 2006 survey by CIDSE of more than fifty of its Southern civil society partner organizations,<sup>20</sup> there was agreement that the first imperative for work on governance is enhancing the accountability of the state to its citizens. The survey stresses that governance reforms must above all be located in the national context, deriving from national debates and consensus on development objectives, and local analysis of how these are to be achieved. This means that donors like the EC should not unilaterally define what governance means for a given country, but instead should as a priority involve and support stakeholders within a country, including Parliaments and civil society, in their work on public accountability. In line with *mutual accountability*, the European Commission must also take responsibility for its own role in governance problems, whether this be related to a conducive environment for corruption (e.g. banking secrecy, or lack of transparency in aid practices) or difficulties in public finance management (e.g. unpredictability in delivering on aid commitments).

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<sup>20</sup> “Governance and Development Cooperation: Civil Society Perspectives on the European Union approach,” CIDSE background paper, August 2006.



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### 6.3. Embedding Budget Support in Democratic Processes

New aid mechanisms, especially budget aid (sector budget aid or General Budget Support, GBS) have become an important mode of aid delivery for the EC (see Chapter 3.2). While budget aid to ACP countries counted for almost one quarter of EC aid in recent years (see Table 7), the Commission intends to increase this share to more than 50% under the 10<sup>th</sup> EDF. With the exception of Bangladesh and Guatemala, the case studies in our analysis have received EC budget aid in recent years. It has been outlined earlier that budget aid as such has been welcomed by voices from civil society although its impact on poverty reduction is not clear as of yet. In the context of this chapter, the question arises how this new instrument is embedded in democratic processes.

Experiences in Cameroon, Ethiopia, Nicaragua and Zambia demonstrate that the role of the national Parliaments of these countries as well as the role of the respective civil societies in budget support is unclear and very limited as of now. This has to be assessed in light of the constitutional rights of legislatures in these countries, as well as against the background of the *country ownership* principle. For example, the EC's budget support to Cameroon was stopped in 2004 when the country's IMF agreement went off-track. Neither the Parliament nor civil society had any involvement in this decision, nor have they participated in any discussions on the set-up of budget support particularly in case of its reinstatement. There was a similar situation in Ethiopia, where our research found only very limited roles for the Parliament and civil society in debates related to budget aid, despite some informal meetings between the EC and individual members of Parliament. However, some civil society actors underline that a precondition for parliament's participation in budget support debates should be the legitimacy of the institution.

In Nicaragua, budget support is planned to account for up to 85% of EC support under the 2007-13 Country Strategy Paper. An influential Budgetary Support Group has been established between government and donors to implement budget support in the country. While the Commission notes that delegations of the Nicaraguan National Assembly are periodically invited to the Group's meetings, the research for our study underlines that the Assembly's Economic Commission is not officially invited as an entity to participate in debates and decisions in this forum that influence the Nicaraguan budget directly. Information about the decisions and assessments carried out by the Budgetary Support Group are not publicly accessible. While the EC argues that only the government has the faculty to provide any information in this regard, the government claims it is not empowered to report publicly about decisions that affect resources belonging not to it but to the EC (Membreño Idiáquez 2007: 5). A positive development is that the EC and other donors have pressed for the Nicaraguan governmental auditing body to undertake a public audit of the execution of the budget, which will take place for the first time in 2007.

In Zambia, the *Memorandum of Understanding (MoU)* on the *Poverty Reduction Budget Support (PRBS)* programme does not describe any role for Parliament or civil society in the budget support process (GRZ / PRBS Group 2005). The highly important bi-annual PRBS review meetings are attended by government and donors only, they are not public, and agreed minutes are not published. Civil society is not even mentioned in the MoU, although it declares in its preamble the "highest degree of alignment with the budgetary and accountability system", including the aim "to strengthen domestic accountability" (ibid., 2-3). The National Assembly is mentioned in the MoU, but not with a specific role. The end-term evaluation of the EC CSP criticised the limited participation of civil society in the process (SOFRECO 2006, 59-60).

**Table 7: EC Total Budget Support 2002-2005  
(Commitments)**

	<b>Billion €</b>	<b>Share</b>	<b>% of total commitments</b>
ACP	2,9	59	23,5
Latin America and Asia	0,5	10	11,7
Other Developing Countries	1,5	30	./.
<b>Total</b>	<b>4,9</b>	<b>100</b>	<b>18,6</b>
of which			
General Budget Support (GBS), total	3	61	11,2
GBS to ACP	2,5	51	
Sector Budget Support (SBS), total	1,9		7,3
SBS to ACP	0,4		
Source: Jonathan Beynon: Budget Support - EC Perspectives and the Results-oriented Approach. Presentation ÖFSE Conference in Vienna, 5 December 2006, p.4 (unpublished)			

In not giving enough attention to Parliaments and their constitutional function, donors risk engaging in detailed discussions on policy orientations or performance that displace the role of the legislative. One crucial institutionalised element of budget support mechanisms is the frequent budget support review meetings including government and donors only (e.g. PRBS review meeting in Zambia, see Box 20). Through this mechanism, donors are strictly overseeing and controlling the government's performance – a function that due to the constitutions in all these countries must be first and foremost the responsibility of Parliaments.

<p><b>Zambia: Donors displacing the National Assembly?</b></p> <p>During the bi-annual PRBS review meetings and even more frequent meetings of a steering group, donors are strictly overseeing and controlling Government's performance on the basis of a comprehensive set of 20 indicators and a number of reports that have to be delivered in time (precisely described in the MoU). Included are also major macroeconomic indicators taken from the IMF PRGF agreement. The PRBS meeting in June 2006 assessed Government's performance in 2005 as "satisfactory" (GRZ / PRBS Group 2006, 4) despite some "areas of less impressive performance", especially in the health sector and in public sector reforms. Based on this assessment, commitments for next year's budget support are made. (Eberlei 2007: 8)</p>	<p><b>Box 20</b></p>
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The February 2007 revised version of EC guidelines on budget support does mention Parliaments and civil societies as possible actors in the budget aid process – but only in weak formulations, very much like in the first version of the guidelines from 2002. A "structured dialogue" with Parliaments and non-state actors is "recommended" (EC 2007: 67), "the gradual promotion of participation by other key stakeholders such as Parliament, local governments or non-state actors all along the process of implementing budget support and at key moments in the joint government/donors reviews of budget support" is mentioned as a "good practice" (ibid.: 70-71) – but not as a prerequisite for EC budget support. Neither do the newly formulated eligibility criteria for EC budget aid require any role for Parliaments, nor are Parliaments mentioned in the "key steps of decision-making process of General Budget Support" (ibid.: 29-31 and 34-36).

Civil societies in many countries have fought to be more strongly included in budget processes, and have build up significant capacity regarding this crucial political process in their countries (for an overview see Claassens/van Zyl 2006). Our research confirms this positive development: In Zambia, the *Catholic Commission on Justice, Development and Peace*, the network *Civil Society for Poverty*



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*Reduction (CSPR)* and others present pre-budget statements every year. Meanwhile, some CSOs are invited to comment on the annually reframed *Medium-Term Expenditure Framework (MTEF)*, which is the core instrument to prepare the annual budget. Civil society representatives confirm that some proposals have been taken on board (e.g. critical comments on defence budget led to some changes). In Cameroon, the civil society network *Dynamique Citoyenne* presented to the government an analysis of the 2007 draft budget, and is undertaking physical research into the local use of government funds. In Nicaragua, civil society actors have fought to be heard in the debates about the budget and, in some cases, these voices have translated into seriously documented analyses and technical proposals. However, civil society voices still assess the budget process in their countries as a “closed system” without any legal provisions for participation (e.g. Mali 2006, 4 for Zambia; Acevedo 2005 for Nicaragua). As in Nicaragua, there is still a “lack of institutional space for budgetary debate in which civil society has an ongoing presence”.

Does the EC support the involvement of civil societies in budget processes? Indications from Cameroon, Nicaragua and Zambia support a reserved view on this, although things may change in future. During the mid-term review of the EC's CSP in Zambia, civil society representatives demanded more support: “EC should strengthen the role of non-state actors in the budgeting process so as to make it more participatory, transparent and accountable,” was one of their concrete demands (FES 2004: 6). Following a mapping study on non-state actors in Zambia (Sanz Corella et al 2006, see para below), the EC is now ready to support civil societies' role in budget process. The delegation assigned the network CSPR as consultant for this project (EUR 200.000). Components are: a) research on budget aid and poverty reduction, b) capacity-building efforts, c) organising grassroots feedback on the impact of budget aid. An additional project aims at supporting civil society in the budget process in the next years. This may mark a shift in the EC's attitude towards civil society in budget (aid) processes, not only in Zambia but also in other countries, but must still be confirmed. In its new guidelines on budget aid, the EC formulates some self-criticism: “There is often a temptation in GBS operations to focus attention on discussion and dialogue with governments, overlooking the potential for discussions and consultation with organisations and groups outside of government, such as NGOs, professional associations, and trade unions. Consultations with these groups can be used to better formulate the GBS operation, assist in implementation, as well as help in improving understanding of the EC's approach to giving budget support.” (EC 2007: 57)

## 7. Accountability in EC Aid and the Role of Civil Society

### 7.1. Transparency and Accountability in EC aid within the countries

Transparency, accountability and civil society participation are principles upheld in official EC documents as well as in its definition of good governance. Donors need to be transparent about their resource commitments, making public their practices and intentions, not only once decisions are taken but also while policies are being considered. Access to information is needed in order to foster transparency, which should make it easy for citizens, including as a priority the poor and marginalised, to hold governments to account for delivery of services and fulfilment of basic human rights and democratic rules. The EC has an obligation of accountability towards European citizens and institutions, but also towards partner country societies through the principle of *mutual accountability*.

Our research demonstrates a serious lack of transparency in EC aid within the partner countries. Though all EC delegations have their own website, the available information is limited, often outdated and more of a ‘public relations’ type of information. None of the websites offers a complete overview of current programmes (e.g. including actual disbursements, programme documents, evaluations, important new or planned programmes etc.). Important papers like the draft *Country Strategy Papers* cannot be found, with the notable exception of Cameroon, where the Delegation posted the draft 2008-2013 CSP, and has pledged to publish all documents on its website at the same time as transmitted to Brussels. In the case of Guatemala, EC programmes do have specific websites including information on tenders, regulations, and activities – though their link does not seem to appear on the Delegation’s site. The complex website of the EC is already a problem for European researchers; for academics, Parliamentarians or civil society activists in Southern countries usually having slow connections to the web, the EC website is relatively inaccessible.

Besides websites with their mentioned problems and being technically available for a small elite in the countries only, there is very little useful information material on the work of the EC within the countries in printed form. In Nicaragua, “There is a strong imbalance between the abundant availability of printed material that contains information about the EC’s actions in Europe and the world in general, and the meagre printed material providing information about the EC’s specific actions in Nicaragua. In general this material offers very little information because it usually consists of small bulletins or folders. In addition, much of the available information is printed in English, which is an obstacle for people who do not know that language.” (Membreño Idiáquez 2007: 8) Similar observations are reported from other countries.

The research for this study was dependent upon the ability to access relevant EC documents (see Box 1 on the report’s methodology), which was unequal across countries. Only in Cameroon did the Delegation release all documents requested, including the draft 2008-13 Country Strategy Paper, project and country level evaluations, mid- and end-term reviews, annual reports, a sectoral agreement, a financial audit of budget support, the governance profile, and financial tables on annual payments per project. In other countries, access was partial depending on individual contacts, or in some cases minimal. This reflects the lack of a consistent EC approach, despite various official policies on transparency and public access to documents.<sup>21</sup>

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<sup>21</sup> Including the EC Secretariat General Guide for Staff, “Public access to Commission documents.”



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### 7.2. The European Commission's cooperation with civil societies

Participation is central to building a more just and equitable world, encouraging a culture of self-help and a commitment by people to the development of their own communities. The participation of civil society has become a key feature of the development debate in recent years. The *Cotonou Agreement* (2000) underlines the importance of a lively and active civil society being involved in the development process in general, as well as specifically in the cooperation between the EC and the partner country (see e.g. Art. 1, 2, 4, 9, 19 and others). Article 4 states that non-state actors shall “be informed and involved in consultation on cooperation policies and strategies, on priorities for cooperation especially in areas that concern or directly affect them, and on the political dialogue.” The 2002 EC Communication on “The Participation of Non-State Actors in EC Development Policy” laid out a policy for greater participation in all partner countries, though it carries less legal weight than the Cotonou Agreement for ACP countries only. How has the EC put these progressive policies into practice?

According to the research in our sample countries, there has been little dialogue between EC delegations and civil society organisations (CSOs) during the period 2002-2006. To give an overview: In Bangladesh: “very little systematic dialogue”. In Cameroon: “Dialogue with civil society is minimal, ad-hoc, and late in the process.” In Nicaragua: “consultations more formal than real”. In Guatemala: “backward movement with respect to the previous mechanism (*Mesodiálogo*)”. In Zambia: “Participation insufficient.” Only the Ethiopian report states that “the EC has been making efforts to engage in direct dialogue with the civil society”.

Participation during the 2002-06 cooperation period has been assessed as insufficient in most of the countries in our sample: Limited participation in the preparation of the CSP 2002-2006/7, if at all; with only some consultations in certain countries with regard to the mid-term review (positive example: Tanzania). Consultations have often an ad-hoc character (Bangladesh, Cameroon, Nicaragua, Guatemala, Zambia). In the majority of countries, there is no institutionalised dialogue between the EC and non-state actors, except in Ethiopia and formerly in Guatemala (see Boxes 21, 23). In Zambia, for example, the EC states itself: “Non-state actor involvement in EC cooperation in Zambia is at an early stage of development” (GRZ / EC 2006, 38). A study on behalf of the EC delegation in Zambia sees insufficient access to information for Zambian non-state actors and demands a “greater disclosure” on the side of the EC (Sanz Corealla et al 2006, 36). According to the authors, it is further necessary to give a clear feedback on civil society proposals (there was no feedback on civil society input to the mid-term review, for example). These and other shortcomings have already led to participation fatigue among some civil society organisations (cf. Mali 2006, 4).



**Guatemala: The positive example of Mesodiálogo – unfortunately suspended** **Box 21**

*Mesodiálogo* was formed by the government, CSOs, representatives of the EU's Member States and the EC delegation in 2001. (...) Thanks to work committees, the social actors debated and drew up propositions concerning the cooperation policies with the EC. Thanks to this process, the debate was possible and a consensus between the different approaches was reached. (...) *Mesodiálogo* was born from the convergence of interest between the EC delegation and Guatemalan and European CSOs. (...) The *Mesodiálogo's* mission was to prepare propositions for the Terms of Reference of the Programming and Identification Missions (Misiones de Identificación y Formulación, MIF), to take part in the drawing up of an agenda for the MIF's experts, to agree operative intervention strategies, to provide technical input and information to the EC and the experts and, finally, to control the programme implementation. To achieve all this, thematic subcommittees were set up. In accordance with the EC and CSOs activists, the contribution of *Mesodiálogo* was varied: contents of each programme, integration of follow-up mechanisms, propositions for identification missions and above all, generating consensual propositions despite the different points of view. The EC played an important role in boosting this project. The project experienced problems and contradictions. According to the members of CSOs the change took place when Brussels decided that *Mesodiálogo* was transcending its role by intervening in topics that were exclusive competences of the EC. (...) However the *Mesodiálogo* experience, its contributions and weaknesses have neither been assessed by the EC in Brussels nor by all the actors that participated in it. A sector of civil society has carried out a systematisation of the experience in which we can find its track record. *Mesodiálogo* does no longer benefit from any support. Currently, the structure has split into the follow-up committees for the EC's programmes (...). The relationship has radically shifted after the changes in EC officials and the EC restructuring. Nowadays there are few meetings between the delegation and the social movement and as far as the participation of CSOs are concerned there are neither formalized rules nor clear proceedings. The delegation points out that the meetings will not be held regularly but only when it is required by the project. Clearly, this is a backward movement with respect to the previous mechanism. (Vassallo 2007: 4)

The preparation process for the next CSPs seems to repeat a number of mistakes and shortcomings of recent years: ad-hoc character instead of institutionalised dialogue, no roadmap for consultations, invitations on short notice, limited information before the meetings and others (see Box 22, also Eurostep 2006). One important factor underlying this is certainly a continuing shortage of human resources capacity and skills for dialogue with civil society in Delegations. Only the Ethiopian example indicates that a different approach is possible (see Box 23).



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### Consultations on 10<sup>th</sup> EDF programming – examples

Box 22

**Cameroon:** A Forum on the 10<sup>th</sup> EDF was organized in October 2006 including a few civil society representatives and Parliamentarians, however the invitation was at very short notice and documents given only at the meeting. The government report from this event states that the objectives were to “allow for a better comprehension of EC interventions” and “assure better ownership of the 10<sup>th</sup> EDF programmes and projects” – more information than influence. The main civil society group following EC cooperation, Les Jeudis de Cotonou, published a statement following the Forum underlining that its contribution had not been taken into account, specifically the request for a greater focus on rural development. (Auclair 2007: 8)

**Guatemala:** The influential organisations of Guatemala (*Copenhagen Initiative for Central America/CIFCA*, *Incidence Programme in Central America* and *Grupo Sur*) in front of the European Parliament (EP) and the EC reckon that the consultation process for the 2007-2013 CSP was punctuated with many methodological mistakes. Preliminary documents were absent, the consultation objectives were not clearly defined, the follow-up mechanisms were weak (...) CSOs did also issue propositions but they were not given any feedback. (Vassallo 2007: 4)

**Nicaragua:** Civil society's participation in the preparation of the CSP 2007-13 was not conceived as feedback to a process, but as an isolated gathering that had a more informative than consultative quality and was limited to a one-day protocol workshop on May 11, 2005, with 100 representatives of civil society. Nearly half of the 100 people invited to this event decided to leave after learning of its merely informative protocol nature. (...) Some of these people say that the EC has to date still not given them a copy of the current draft of the CSP 2007-13, or invited them to participate in a second workshop to collect whatever contributions they have to offer to this document. These testimonies and the fact that the current draft of the CSP 2007-13 is not available on the Delegation website [as of November 2006] reveal that it is not EC policy to consult and involve civil society in an ongoing way in the programming of its aid. (Membreño Idiáquez 2007: 9)

**Zambia:** There has been a meeting in August 2006 with a few civil society organisations (among them CSPR, JCTR, CCJDP) on the programming of the 10<sup>th</sup> EDF. Information during the meeting was on the issue paper for CSP preparation, governance profile, and intended allocations for the 10<sup>th</sup> EDF. CSOs have been informed during that meeting that the draft CSP will be submitted to Brussels by end September 2006. No draft of the CSP has been distributed yet (as of November 2006), no roadmap for the further 10<sup>th</sup> EDF preparation process shared with CS (Mali 2006, 4), everything “ad hoc as usual”. (Eberlei 2007: 12)

**Ethiopia: Strengthened dialogue between EC and civil society****Box 23**

The EC has been making efforts to engage in direct dialogue with the civil society groups both in structured and non-structured modalities. Article 8 of the Cotonou Agreement provided EC with a structural avenue to hold dialogue with CSOs. The dialogue between the EC and non-state actors was often facilitated through the Cotonou Task Force. The Task Force, which consists of some 17 CSOs, was started in 2003 to involve the civil society group in trade, poverty and development-related issues with the EC and government. Using this set-up the EC had four rounds of discussions on the CSP and the CSOs have critically commented and contributed constructively. The Task Force also is very much active in the EU CSO fund operations. Members of the Cotonou Task Force represent civil society on the national steering committee (which consists of government, EC, and civil society representatives). (...) Civil society groups participate in mid-term reviews of the EC CSP implementation but not in the EC-Government Joint Annual Review exercise, but are now pushing for their inclusion therein. CSOs have been asked for their comments on the results of the Joint Annual Reviews for the previous three consecutive years. With regard to specific EC-funded programmes that are managed by NGOs, only mid-term reviews and monitoring are conducted but the final evaluation is done by an external consultant. The evaluation approach used by the consultants allows no community participation, hence is entirely EC-owned. (...) Beyond these developments (...) there were no mechanisms in involving the ordinary citizens and the poor in the process and especially in assessing the impacts of EC aid in Ethiopia and on poverty reduction. (Bekele / Barry 2007: 18)

The EC has planned some support programmes for capacity-building of civil societies which may also strengthen the voice of civil society actors vis-à-vis the EC (Cameroon, Ethiopia, Guatemala, Zambia). In Cameroon, a programme for civil society will begin in 2007 (following a two-year delay), centring on capacity building – training as well as organisational assessments and support for specific organisations – and funding for micro-projects. In Guatemala, however, a focus on activities such as studies and trainings is not seen as entirely satisfactory, given that the civil society strengthening project does not renew the dynamics of the *Mesodiálogo* (see Box 21). The 2008-2013 CSP for Ethiopia has put forth the objective of further strengthening the capacity of non-state actors, among others in advocacy and service delivery. The initiative called the *Civil Society Fund* is welcomed by civil society representatives, although the funding for the programme seems to be inadequate (more than 200 applications competing for only 20 grants).

Civil society access to EC funding for project and programme work remains difficult. In Bangladesh, because of the weak fund absorption capacity of the government, a high proportion of EC funds are channelled through NGOs. However, most of the funding is concentrated on a limited number of large NGOs, while smaller grassroots organisations face great difficulties in accessing funding. In Guatemala, a new generalised competitive bidding system and its associate conditions are perceived as putting civil society organisations at a disadvantage compared to specialised (international) consulting companies. And in Cameroon, the EC's nearly exclusive focus on government funding is considered to be an approach that trails other donors willing to invest in non-state actors. Even in limited cases where funding is accessible, the difficult EC financial procedures, especially pre-financing requirements, were cited as a significant obstacle for civil society. The EC is generally perceived to be the most difficult donor in terms of its conditions for civil society funding, with significant room for improvement.



## 8. Summary of findings

### Poverty reduction as the overarching goal of European Community aid

1. Alignment with country-owned poverty reduction strategies: It can be stated that the EC is making efforts towards aligning its strategies with countries' PRS; however, the results are not yet satisfactory. While the 2002-2007 Country Strategy Paper generation usually referred only marginally to existing Poverty Reduction Strategy Papers, the draft CSPs for 2008-2013 frequently take the national poverty reduction strategies into consideration. However, the impression arises that the EC – like other donors – is using the often broadly formulated PRSPs to pick what best fits their interests (example of support for transport in Africa). Major shortcomings include: references to PRSPs in the new CSPs remain sporadic and general, a systematic derivation of its own work from the countries' PRSPs is still not visible; limited or non-systematic links between CSP and PRSP impact indicators; own bureaucratic parameters (especially timeframe and other formal aspects) instead of individual consideration of dynamics in the respective partner country; relatively little transparent discussion about how aid funds can be used *best* to support the poverty reduction agenda: e.g. greater support to social sectors compared to economic infrastructure? Support to rural infrastructure instead of funding for regional integration?
2. Importance of the Millennium Development Goals for EC programming and implementation: The MDGs have become a political reference framework for EC aid (explicitly, too, for the *Cotonou Agreement* in its revised version 2005). For the concrete EC aid in partner countries, the MDGs have played only a lesser role so far, though this seems to be changing now, albeit still slowly and rather verbally. All new CSPs for 2007/8-2013 declare the MDGs to be a frame of reference for the EC's work, but the EC does not demonstrate how its work on the ground helps contribute to progress in MDG indicators.
3. Pro-poor priorities versus non-development interests: Economic and foreign policy interests are still influential factors for EC aid operations. The *Economic Partnership Agreements (EPAs)* currently being negotiated reflect the EU's global economic interest to further integrate the economies of the poorest countries into the world market. Aid funds are allocated to support the further integration. While the EC is arguing that integration into the international trade system serves poverty reduction in the long run, voices from civil society are expressing their concerns regarding the incoherence between development and trade policies. The priorities of EC aid formulated against the background of its 'economic paradigm' – e.g. construction of trunk roads that serve as trade routes instead of small roads connecting people in remote areas to urban centres – can be discussed in the light of these critical reflections. The EU's foreign policy interests are usually less visible, but some important exceptions to this rule are worthy of discussion (e.g. Ethiopia, where for the EC and other Western donors, the current government represents stability in a volatile region and has a relatively good record on poverty reduction, despite the troubled elections in 2005; or Mauritania, where EC support is linked to the interest of stemming African migration towards the EU).

**Overall assessment:** Poverty reduction has become the overall goal of European Community aid, formulated in fundamental policy documents as well as expressed in strategy papers for individual countries. However, questionable alignment with country-owned strategies and priorities, a lack of clarity on EC aid's contribution to the MDGs, and the presence of influential non-development interests in certain respects are serious hindrances to putting this theory into convincing practice.

## Results-based perspective: Impact of EC aid on poverty reduction

4. Pro-poor outcomes and impact: Poverty trends in developing countries are varying strongly, in short: positive developments in Asia, slow improvements in Latin America and stagnation in sub-Saharan Africa. Exceptions in every region prove the rule. The significant variances among the countries and the increase of poverty in some of them demand an open debate about the 'footprint' of development aid in all its dimensions (input, output, outcome, impact). *Input:* The EC has increased its overall aid budget significantly in recent years, especially for the poorest countries, but has not significantly changed its focal areas of work, including strong support for economic infrastructure in Africa. *Output:* The large majority of EC-initiated evaluations are concentrating on this level and draw a mixed picture of EC aid outcomes – numerous positive examples are documented, but a number of weaknesses become visible as well (e.g. bureaucracy and slow disbursements, lack of integration in national context, etc.).

Outcomes and impact: While input and output of EC aid are documented quite well, information on outcomes and impact are rare. The question of whether programme priorities and financial outputs lead to (optimal) impact at poverty level, is usually not raised in EC documents; this report questions positive impact with regard to the transport investment in Africa. Some evaluations about poverty-relevant results of EC aid are available at individual project or programme level and demonstrate positive examples. At country level, at least one limited evaluation concluded there was little direct impact on poverty reduction or gender equity, which would have required different approaches or foci, e.g. on rural development or on access to social services for the poorest (Cameroon). However, in most cases there is a clear lack of information on impact of EC aid on poverty. In theory, the EC has agreed upon the need to replace the input/output focus with a broader evaluation of outcomes and impact, however with few exceptions this is not yet matched by reality. Some structural weaknesses limiting a potential positive impact on the poor can be identified, especially the low emphasis on rural and/or local development and the improvement of social living conditions in remote areas, as well as a continuing deficit in considering gender issues in all dimensions of operations.

5. New instruments and their potential pro-poor impact: The EC has opted for new *aid mechanisms* in recent years: especially *General Budget Support (GBS)* has become the preferred mode of delivery. The EC argues that sector-wide approaches and/or GBS are the most appropriate ways to support governments in their fight against poverty and that budget support has a number of advantages compared to project aid (reduction of transaction costs, better coordination of overall development cooperation, improving the pro-poor orientation of recipient governments, especially increasing national pro-poor expenditures). A recent comprehensive study on behalf of donors documents positive assessments. However, the question of whether budget aid has really showed an impact on the lives of the poor could not be answered. Civil society groups and independent researchers see potential advantages in the new approach, but have also formulated some critical views on: First, with the growing share of budget aid it will become even more difficult to discuss aid impact as donors argue that the full responsibility for any outcome and impact rests with the respective government. Second, budget aid is a strong instrument in the hands of donors to influence governments, and to increase conditionality further. Third, in some countries, civil societies fear that the GBS money could be used by the governments for purposes other than development, e.g. military spending (problem of fungibility), financing inadequate bureaucracies (including an exorbitant 'workshop industry'), or even personal use (corruption).

**Overall assessment:** Important changes in EC aid programmes are underway. Some of them offer prospects to improve the impact on poverty reduction, others risk limiting it. Despite all efforts, improvements and intentions, the measurable impact of EC aid on poverty reduction leaves a lot of room for improvement. Structural weaknesses and programmatic shortcomings – e.g. in the area of



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rural development and sectoral priority setting – have to be dealt with to improve and optimise aid impact.

### The influence of EC aid mechanisms on democratic governance

6. Country ownership versus international donorship: New aid mechanisms such as donor coordination can have a number of effects on political structures and processes within the countries. The principle of *country ownership* lays the foundation for democratic development: Decisions on all relevant strategies and priorities should be made within the countries' constitutionally-framed political institutions. The EC supports the principle of country ownership in its policy documents; in practice, however, many shortcomings are visible. The country strategies of donors – including the EC's CSPs – often still follow individual priorities. Joint donor strategies, too, are often formulated against the background of strong interests. The International Monetary Fund is still an important 'gate-keeper' for all donor-supported programmes including EC aid, a function which contradicts *country ownership*. The link between aid through budget support and the Fund's overall macro-economic assessments has even strengthened this role.
7. The approach to governance in EC aid: The EC is further developing its approach to governance in view of stronger coordination at the European level, based on its 2006 Communication on "*Governance in Development Cooperation*". The EC is strengthening its focus on programme support to governance, with more financial means under the 10th European Development Fund. Governance programmes have visibly become more important in the EC's aid portfolio. Thus far, however, the EC favours a more technocratic approach to governance programmes, focusing on limited issues such as public finance management. Support of parliaments, free media, political parties, trade unions, civil society organisations – in other words, for democratic checks and balances within a country – do not have significant weight to date. However, programmes to support the role of civil society have emerged in the last two years (albeit with financial or conceptual limitations). Support for Parliaments, especially to strengthen their constitutional oversight role in the budgeting process, is not yet high on the EC agenda. Besides the aid portfolio, good governance is also an issue for the EC political dialogue, although it is not publicly clear how strongly the EC actually pushes for compliance of human rights, democratic reforms, participation, freedom of the press etc. as the available information is limited and certain cases (e.g. Ethiopia) has raised some doubts. It remains to be seen how the EC's new approach to governance will be implemented in the new aid cycle (2007/8-13).
8. Embedding budget support in democratic processes: New aid mechanisms, especially budget aid (sector budget aid or General Budget Support, GBS) have become one of the most important modes of aid delivery for the EC. The experience in several countries demonstrates that GBS procedures are not yet well integrated in the political structures of the countries. In particular, the role of national Parliaments in these countries as well as the role of the respective civil societies in budget support is unclear and very limited as of now. Important decisions such as the start or suspension of budget aid, performance assessment frameworks for budget aid, etc. are made with rare involvement of legislatures or civil societies, with a lack of transparency that keeps the public in the dark. The highly important and influential meetings between donors and governments, such as the biannual budget support review meetings which crucially influence the budget process, mostly do not allow external observers. In a number of countries, donors are neglecting Parliaments and their constitutional function, even more, donors risk displacing the role of the legislative in overseeing and controlling the performance of governments – a function that due to the constitutions in all these countries must be first and foremost the responsibility of the Parliaments. Despite institutional hindrances, civil societies in many countries have fought to be more strongly included in budget processes, and have build up significant capacity regarding this crucial political process. In a number of cases, their activities included serious analyses and technical proposals, some of

which have been taken into consideration during the budget process. However, voices of civil societies from various countries still assess the budget process as a “closed system” without any legal provisions or institutional structures for participation. In the past, the EC has not prioritised support for civil society involvement in budget processes. Very recently, some new projects on capacity building have emerged; their implementation and impact remain to be confirmed.

Overall assessment: New aid mechanisms used by the EC and other donors are a step into the right direction for poverty-oriented aid. However, they are currently not sufficiently embedded in democratic processes.

### Accountability in EC aid and the role of civil society

9. Transparency and accountability in EC aid within the countries: In the partner countries, publicly available information about EC aid operations is very limited. Though all EC delegations have their own website, these contain relatively few significant data or reports, often outdated and more of a ‘public relations’ type of information. Neither websites nor printed material offer complete overviews of current programmes. Important papers such as the draft Country Strategy Papers are usually not posted. While the EC headquarters’ website in Brussels contains a lot of information, its complex system makes it very difficult for the interested public in developing countries – without high-speed connections – to find relevant data in a timely manner. There is very little useful printed information material on the work of the EC available within the countries, which tends more to public relations brochures.
10. The European Commission’s dialogue with civil societies: While the *Cotonou Agreement* and EC Non-State Actor policy underline the importance of involving civil societies in the development process in general, as well as specifically in the cooperation between the EC and the partner country, the reality is characterised by limited dialogue between EC Delegations and civil society actors. Participation during the 9<sup>th</sup> EDF has been assessed by civil society groups as well as researchers as insufficient throughout the process (preparation of CSPs, mid-term and end-term reviews, other evaluations); with some notable exceptions such as Ethiopia. The preparation process for the next CSPs seems to repeat a number of mistakes and shortcomings of recent years: ad-hoc character instead of institutionalised dialogue, no roadmap for consultations, invitations on short notice, limited information before the meetings and others.

Overall assessment: Transparency and accountability are key programmatic elements in all good governance programmes of the EC as well as in the Cotonou partnership agreement. The reality of EC aid reveals a significant gap between these principles and its own practice. The EC’s transparency vis-à-vis recipient countries’ societies is in many respects not up to standard, and the dialogue with civil society representatives insufficient.

### EC development cooperation: Does it make a difference for the poor?

The European aid architecture has undergone significant changes since the beginning of the decade, when the *Cotonou Agreement* was signed and the *Millennium Development Goals* agreed. Poverty reduction in Asia, Africa and Latin America within a democratic, participative environment has become the overarching objective of the European development approach. Additional financial means are complementing new principles and new instruments. All these are positive developments. Nevertheless, the reality of EC aid shows that much more needs to be done to put theory into practice, to implement principles convincingly, to systematically introduce impact-oriented aid mechanisms, and to overcome bureaucratic hindrances as well as non-developmental interests, in order to improve the lasting ‘footprint’ of EU aid in the South.



## 9. Brief Country Profiles

### 9.1. Bangladesh

#### EC aid at a glance

Bangladesh is a Least Developed Country (LDC) outside of the African, Caribbean, Pacific (ACP) group. The European Commission's aid share in Bangladesh is smaller than in a number of ACP countries, however, it is still significant (6<sup>th</sup> rank among donors). Following its general views on aid instruments, the EC advocated strongly for the introduction of a sector-wide approach (SWAP) in the health sector as well as in the education sector (the latter launched in 2004). There is, however, no discussion about general budget support in Bangladesh. The biggest share of the EC budget is supporting programmes and projects in social sectors, especially in health and education. Governance issues have become more important for EC aid in recent years (as Bangladesh's administration is increasingly seen as highly corrupt and inefficient). The weak absorption capacity of the government is seen as a reason for the big gap between commitments and disbursements, as well as a reason for the high proportion of EC money being channelled through NGOs. The total allocation of funds under the 2002-06 Country Strategy Paper (CSP) amounts to M€ 560, although the actual commitment will fall far behind that theoretical budget.

#### Poverty Focus

According to the 2002-06 Country Strategy Paper, poverty reduction is the overall aim of EC aid to Bangladesh. It is not clear, however, how strongly the concrete EC approach is aligned with the government's actual priorities. Unlike in ACP countries, where the CSP is a joint EC-Government document, the CSP for Bangladesh is adopted by the Commission only. The Poverty Reduction Strategy (PRS) document is strongly criticized as donor-driven (WB, IMF and others) and prepared on the basis of their prescription, although some think it might be a good beginning of a process for formulation of national policy and strategy.

#### Impact

Despite the difficult governance situation, the long-term economic and social development of Bangladesh is remarkable. The country seems well on track meeting the MDGs. A lack of available information on EC aid impact does not allow to assess exactly the EC's contribution to this overall positive development. However, an evaluation on behalf of the EC sees significant contributions in the health and education sector. But a lack of transparency and results-oriented monitoring hinders any clear evidence of EC impact on poverty reduction. The same evaluation on EC work in Bangladesh criticised the "non-availability" of information on a number of important aspects: "Crucially, attempts to relate interventions actually undertaken to strategic objectives, or to infer a possible relationship, were only partially successful." (MWH 2003a: 1)

#### New Aid Mechanisms and Democratic Governance

The programme approach and SWAPs as well as donor coordination are new aid mechanisms in Bangladesh. Civil society acknowledges the 'good intentions' of new aid mechanisms, but does not consider them as sufficiently embedded in democratic processes. The recent changes in aid policies have created mixed views among the people; they are considered as a process of weeding and eliminating varieties of interventions and large numbers of small rural-based NGOs and civil society groups. Voices from civil society urge the EC to continue with the programme aid mechanism and



SWAPs mechanism with government in the driving seat, on the one hand building partnership with NGOs and civil society groups, but on the other hand to continue direct funding for NGOs to support grassroots empowerment. It was proposed to set up a new financing body (model could be the so-called *Manusher Jannah* organisation) for reaching the large population group of the extremely poor, and for democratic learning and practices at local level.

### Accountability

There has been very little systematic dialogue developed between EC and civil society groups/actors. The EC consults civil society organizations/individuals before preparing policy documents like the CSP, but all these are on an ad-hoc basis, not institutionalised.

**Table 8: EC Aid to Bangladesh 2002-2006**

Focal area	Indicative allocation, M€	%
Human Development		
▪ Health	120	21%
▪ Education	125	22%
▪ Food Security	120	21%
▪ Employment	10	2%
Economic Development and Trade Capacity	49	9%
CHT Programme	60	11%
NGO Co-financing	30	5%
Human rights and Democracy		
Others	46	8%
<b>Total</b>	<b>560</b>	<b>100%</b>

Source: National Indicative Programme of European Community Support 2006 Bangladesh, Annex 1; revised figures after the Mid-Term Review

## 9.2. Cameroon

### EC aid at a glance

European Community aid has represented on average 7% of the total ODA received by Cameroon annually since 2000. The European Union as a whole represents more than 60% of the ODA contributions. Based on the 2001-2007 Country Strategy Paper, the initial 9<sup>th</sup> EDF allocation contained a total of M€ 226.5. A significant reduction took place following the Mid-Term Review of 2004, attributed to difficulties in fund absorption, the unsuitability of budget support, and problems in the cooperation. The new allocation was M€ 135. However, for the period of the current CSP, cooperation has been funded not by the 9<sup>th</sup> EDF but mainly by the 8<sup>th</sup> EDF, due to programming delays. The national indicative programme for the 8<sup>th</sup> EDF foresaw two focal sectors, transport (50-55%) and decentralized rural development and agricultural reform (25-30%). A single priority sector was chosen for the 9<sup>th</sup> EDF, namely transport. EC aid has mainly taken the form of project aid, with some sectoral support (transport, health).



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### Poverty Focus

The Cameroon PRSP (2003-2015) is a general strategy whose priorities are macro-economic conditions, economic diversification for growth, infrastructure to support the productive and social sectors, regional integration, investment in human resources, and improvement in governance. It does not contain specific goals, objectives, indicators; these are planned to be operationalized in the future through sectoral strategies and mid-term expenditure frameworks. In this context, donors have a wide margin to claim that their strategies are aligned with the PRSP, without being bound to any specific indicators.

### Impact

The 2002-06 period considered in this study has not seen significant nor steady improvements in the lives of the majority of the population in Cameroon. The research conducted in Cameroon leads to the conclusion that the European Community as a donor is not having an optimal impact on poverty reduction. The study concludes that within the context of difficult EC-government relations and delays in cooperation which marked the period, additional factors within EC control are limiting the impact of EC aid.

- Impact on poverty reduction is not the main driver in EC priorities. The lion's share of EC aid goes to the transport sector, where the poor are not the central target of EC interventions, though the EC argues it plays a role in pressuring the government to maintain rural roads.
- Civil society contests the EC focal sectors, in particular its under-emphasis on rural development as the majority of poor households live in rural areas.
- There is a lack of explicit consideration of pro-poor impact in evaluations and in thinking on mechanisms. EC processes and procedures also limit the impact of its aid.
- Serious questions are raised around EU economic and trade interests (Economic Partnership Agreements), particularly in relation to prioritising international roads and to under-investment in core economic sectors.

### New Aid Mechanisms and Democratic Governance

Public finances and budgetary issues are discussed exclusively with the government, despite the increasing capacity and interest of Parliament and civil society in budget monitoring. Neither Parliament nor civil society was involved in the 2004 EC decision to stop budget support and cut substantially funds for Cameroon under the 9<sup>th</sup> EDF. The EC is becoming more political with its governance profile, however national actors are excluded from these discussions. The extent to which the EC record on matters like predictability, aid modalities and conditionalities may undermine governance in Cameroon is not considered. The donor coordination agenda is bringing first indications of change, but not yet real effects.

### Accountability

Limited information is publicly available on EC aid, though this is planned to change. Dialogue with civil society is minimal, ad-hoc, and late in the process, though there appears to be an evolution in attitudes towards more openness. The agenda of the political dialogue between the EC and the government is not publicly known.

Focal area	Actual spending 2002-05, <sup>1</sup> M€		9th EDF indicative allocation after Mid-Term Review, M€		10th EDF indicative allocation, M€	
	Value	%	Value	%	Value	%
Transport	108	67%	80	63%	85	45%
EPAs, competitiveness, agricultural production and export capacity	-	-			35	19%
Governance	-	-	19	15%	29	15%
Macro-economic support and public finances	20	13%	15	12%	14	7%
Civil society	-	-	9	7%	3	2%
Rural and urban development	20	12%	-	-	18	10%
Health	11	7%	-	-	-	-
Other	1	1%	-	-	4	2%
Reserve	-	-	3.3	3%	-	-
<b>Total</b>	<b>160</b>	<b>100%</b>	<b>126.3</b>	<b>100%</b>	<b>188</b>	<b>100%</b>

Sources: European Commission / Government of Cameroon, Addendum to Country Strategy Paper 2001-07 following Mid-Term Review; Draft Country Strategy Paper 2008-13, November 2006  
<sup>1</sup>EC Delegation financial payments on annual payments under (mostly 8th) EDF national and regional indicative programmes.

### 9.3. Ethiopia

#### EC aid at a glance

Ethiopia has for many years been the foremost beneficiary of EC development assistance amongst ACP States. More than € 2.3 billion has been allocated to the country since 1975, of which some 38% has been in the form of food aid. The 9<sup>th</sup> EDF allocation contains around M€ 520. 80% of the indicative allocations of the 9th EDF A envelope (M€ 446) go to the transport sector and to macro-economic support, the latter of which includes general budget support for the Ethiopian PSRP. Political tensions are high following violence after the disputed elections in May 2005. This led to donors, including the EC, suspending General Budget Support (GBS) replacing it with a new mechanism, Protecting Basic Services (PBS). Relationships between the government and civil society remain tense and the human rights situation is still difficult.

#### Poverty Focus

The choice of EC focal sectors in the CSP is consistent with government priorities, with EC self-defined added value, and with previous EC programmes. Part of the macro-economic / budget support went directly to support the PRSP, and the Commission is seen as a leader in this alignment (MWH 2004: 29). Furthermore, the EC puts forward the poverty reduction focus of its choice of the transport sector in the CSP 2002-07. The new EC country strategy paper for 2008-13 is still in draft form, as is the latest poverty reduction strategy paper in Ethiopia, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). However indications so far show that the latest CSP does show a high level of coherence to the PASDEP. Overall: The focus of the EC appears more to be on the context for poverty reduction – such as growth and good governance – than direct impacts on the poorest sections of society.



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### Impact

The direct impacts on poverty are difficult to assess as this has not been included in the latest evaluations from the EC. However the spending on social sectors has increased in recent years and is forecast to reach 71% of the budget in 2007/08. Some of this could be related to the provision of GBS. With the suspension of GBS and the move to PBS there is the potential to impact more directly on poor people as more money will be channelled to lower levels of government. However there may well be implementation problems as capacity at this level is weak. PBS also engages civil society through a component on social accountability. The PBS remains untested but there is a danger that the EC will revert back to GBS without retaining the strong elements of the PBS, as GBS is the preferred mechanism for the EC worldwide.

### New Aid Mechanisms and Democratic Governance

The new developments in aid modalities by the EC do contain positive developments for political and social development although the roles of Parliament and civil society are not yet fully institutionalised. In an emerging democracy such as Ethiopia there will always be improvements that can be made, but change can only be incremental with the government while it still feels under threat. However, the danger lies in the fact that some of the changes have been forced on the EC by political circumstances and may be lost when the EC reverts back to traditional mechanisms.

The introduction of the new aid modality 'Protecting Basic Services' Grant has the positive inclusion of funding for Civil Society social accountability projects and the inclusion of Civil Society members on the steering committee. However the EC has stressed that GBS is the preferred form of support and so these benefits could be lost if the EC reverts back with out considering the benefits. The role of Parliament in the mechanism is also still underdeveloped.

The approach to governance also shows some positive trends in terms of working on the environment for NGOs and supporting democratic institutions. However funding is still low for these areas.

### Accountability

The EC is consulting civil society through the Cotonou Task Force, a group of 17 NGOs who have been engaging in the development of the new CSP. This group has been asked to comment on the annual reviews of the EC programme but has not been invited to participate in the actual process. The emerging drafts of the CSP do show that the EC has been responsive to civil society comments, but generally civil society feels its role is one of consultation not actual involvement. Decisions around the move from GBS to PBS did not engage Parliaments or civil society in a significant way and so did not help build accountability that way.

Focal area	9th EDF indicative allocation after Mid-Term Review, M€		10th EDF indicative allocation, M€	
Transport	171	38%	220	41%
Private Sector Development and Trade (Support for EPA)	-	-	30	6%
Macro-economic support / Basic services delivery	186.6	41%	100	19%
Governance and civil society	28.4	7%	35	7%
Food security	60	14%	100	19%
Rural development: agricultural markets and livestock; management of natural resources	-	-	30	6%
Non-Focal Sectors	-	-	20	4%
<b>Total</b>	<b>446</b>	<b>100%</b>	<b>535</b>	<b>100%</b>

Source: European Commission / Government of Ethiopia Country Strategy Paper 2002-07; Draft Country Strategy Paper 2008-13, Indicative Programme.

## 9.4. Guatemala

### EC aid at a glance

The European Commission is at present Guatemala's most important multilateral donor in grants, although its overall aid to the country is low, compared with the other case studies. The main EC financial instruments for the implementation of the country strategy have been the following budget lines: Financial and technical cooperation and economic cooperation, and other budget lines covering specific sectors such as democratisation and human rights, decentralised cooperation and environmental protection. Out of the overall budget of M€ 93 for 2002-06, about M€ 40 were foreseen for local development and decentralisation of the State and M€ 26 for the consolidation and modernisation of government, democratisation and protection of human rights.

### Poverty Focus

The 2002-2006 EC strategy, and its priorities, revolved around the reinforcement of the governance focus, the modernisation of the state, the democratisation and the respect of human rights. The governance aspect accounted for 71% of the financial means to implement this strategy and poverty eradication for the remaining 29%. Those figures confirm that in terms of strategy and financial backing, good governance was the EC's priority relative to other aspects of cooperation. The new cooperation strategy for Guatemala that covers the period 2007-2013 would include new aspects that the European Union decided together with the Latin American governments during the Monterrey and Vienna summits. Those aspects are mainly centred on social cohesion, in the perspective of the Millennium Development Goals and the implementation of the Peace Accords.

### Impact

According to recent figures, poverty levels have remained at 56.6% (2001 / 2004) but extreme poverty has increased to reach 21.5% in 2004. This would be a sign that the impact of donors' aid for poverty reduction might be somewhat limited. Looking at specific EC interventions, one can conclude that the EC's support helped to improve the living conditions of the people being targeted directly, but this is not enough to have a real impact on poverty reduction at national level.



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During the previous CSP, for example, the EC supported the Health Reform Project (APRESAL) in Alta Verapaz, whose cost was 11 million euros, on the basis of an agreement with the Ministry of Health. In this region the project registered a positive balance (with other donors), a decrease in infant-mother mortality and in the fertility rate. Quantitatively we can point out tangible outcome as far as infrastructure is concerned: building and restoration of health centres, sanitation (toilets) in schools, sewage treatment, rural pharmacies, innovation in education equipment and self-learning guides. The findings show that the quality of life has gotten better, but the projects did not support the public policies on the health sector reform.

### New Aid Mechanisms and Democratic Governance

Up to now Guatemala has not been allotted budget support, although it was proposed in the new CSP. Therefore, the Guatemala case cannot contribute information on this aspect of the study.

### Accountability

The EC's responsibility towards the Guatemalan society has expressed itself under different forms. The first stage was initiating a political dialogue with the government and civil society through the *Mesadialogo* and the *Grupo Consultivo* of donors, and clearly committing to support the implementation of the Peace Accords. This process generated forums in which all the social sectors could participate in the definition of the contents and planning of the projects. The failure lies in the fact that this participative mechanism was not kept and its outcome was not assessed. As for new participative mechanisms, they do not boost an appropriation process of the contents and strategies of the projects. This tendency to favour a technocratic approach to elaborate and implement political aspects moves away from the sectors in which the EC's cooperation should be a priority. The lack of updated information does not further transparency and weakens the trust in the EC as a development actor.

<b>Focal area</b>	<b>Indicative Allocation, M€</b>	<b>%</b>
<u>Consolidation and modernisation of government, democratisation and protection of human rights</u> Support programme for the Justice system Support programme for civil society Programme for the fight against exclusion, promotion of human rights	26	28%
<u>Local development and decentralisation of the State</u> Support programme for decentralisation Support programme for local development	40	43%
<u>Equitable and sustainable growth of the economy and of employment</u> Economic cooperation programme	16	17%
<u>Non-focal sectors</u> Support programme for the tax system	11	12%
<b>Total</b>	<b>93</b>	<b>50%</b>

Source: European Commission Country Strategy Paper Guatemala 2002-06

## 9.5. Nicaragua

### EC aid at a glance

European Community aid has represented on average 5% of the total ODA received by Nicaragua annually since 1990, with Nicaragua being the most important EC and EU aid recipient in Latin America. The European Union as a whole approaches 50% of the ODA contributions. The Country Strategy Paper 2002-2006 included an indicative work programme with commitments totalling M€ 221.4. This CSP marked a substantial change in the form of co-operation, evolving from a project-based approach towards a sector-oriented approach supporting the national programmes, including budget support. The EC along with the World Bank is a leading donor of general budget support, with GBS representing roughly 25% of annual EC ODA commitments in 2004-05.

### Poverty Focus

According to the Country Strategy Paper, the EC strategy represents the European Union's contribution to the Nicaraguan programme to fight poverty. The strategy is based on three main sectors: Socio-economic development in rural areas; Education, and Good governance. The field research confirmed that the CSP 2002-06 was generally aligned to the 2001 Nicaraguan Poverty Reduction Strategy.

### Impact

In the 2002-06 period, the impact of the EC aid on achieving the poverty reduction goals was more modest than had been anticipated by the Nicaraguan PRS and by the corresponding CSP for that same period. Nonetheless, the specific EC projects helped improve, although very modestly, the living standard of the poor in the urban zones of the Pacific and in the central rural zone of the country. The aid doesn't seem to have had the same effect on the large national programmes, which did not have adequate financial backing from the national treasury due to the government's decision to increase the debt payment (particularly the domestic debt) and the international monetary reserves, as well as pay the Central Bank's operational losses. In addition, a significant proportion of the foreign debt earmarked for the sector-wide programmes did not get into the hands of the poor because it was used to pay the high salaries of government officials and the high costs of innumerable consultancies. In general, foreign cooperation (including EC cooperation) failed to prevent poverty from increasing slightly at the national level in recent years.

### New Aid Mechanisms and Democratic Governance

The future success or failure of the EC projects and programmes to reduce poverty will not be determined by the intrinsic goodness of some new aid instrument or mechanism. Despite whatever positive aspects the budget support modality may have (reduction of the transaction costs derived from the administration of innumerable dispersed projects, etc.), this mechanism is already facing various factors that will prevent it from generating significant results in reducing poverty. Among these factors is the IMF policy of continuing to shrink social spending; the existence of a General Budget of the Republic that, because it is not an instrument designed to reduce poverty, earmarks 20% of its resources to payment on the foreign and domestic debt; the state's institutional weaknesses in efficiently and responsibly bringing on board and using a new aid scheme; the costs for the country implied by the dismantling of the governmental institutionality corresponding to



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the previous aid mechanisms and their replacement with another institutionality that corresponds to the new mechanism adopted; and the little or no participation of legislators, local governments and civil society in the implementation of the budgetary support modality.

### Accountability

In general terms, there is very little transparency and accountability to Nicaraguan civil society by the EC regarding the results and impact of its aid to the country. In addition, the EC does not regularly involve organized civil society in the programming and evaluation processes of its aid.

Table 12: EC aid to Nicaragua 2002-2006 and 2007-2013

Focal area	2002-06 indicative allocation, M€	%	Rough estimate of 2002-06 actual spending <sup>1</sup>	2007-13 indicative allocation, %
Rural development	118	53%	30%	-
Education	40	18%	40%	35%
<u>Governance</u>	17	8%		
Governance Facility				2,5%
Governance & democracy			30%	15%
<u>Economic and Trade Issues</u>				
Macro-economic support	15.9	7%		20%
Investment and business climate	16.5	7%		22,5%
Rehabilitation	14	6%		-
Institutional support for sector programmes	-	-	-	5%
<b>Total</b>	<b>221.4</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: European Commission Country Strategy Paper Nicaragua 2002-06; Country Strategy Paper Nicaragua 2007-13, December 2006  
<sup>1</sup>Interview European Commission. The Government of Nicaragua provides annual payment data for all donor cooperation, including EC projects and programmes, on its website <http://sysoda.cancilleria.gob.ni>.

## 9.6. Zambia

### EC aid at a glance

The European Commission has been one of the major donors for Zambia in the last two decades – and the weight of the EC aid increased significantly during the last five years (EC's share of the total ODA to Zambia is around 13 %). As an ACP country, Zambia is eligible for funds under the 9<sup>th</sup> EDF. Between 2002 and 2005, the EC actually contributed about 400 M€ aid to Zambia (payments). While project or programme-related aid covers still the biggest share of EC aid, the EC's funding policy is clearly developing towards sector-based support or budget aid. Around one third of the EC aid was foreseen as *General Budget Support (GBS)*, and first tranches have been disbursed under the *Poverty Reduction Budget Support Programme*.

The sectoral breakdown of allocations clearly reflects the priorities of EC aid in Zambia: Around 51 percent of the financial means fall under the category of macro-economic support. This includes, however, the general budget support that is intended to co-finance the overall poverty reduction strategy implementation of the Zambian Government. Besides, the transport sector receives an especially high share of the EC aid budget (around 26 %).



EC aid to Zambia seems to be in the process of changing approaches, modalities and instruments strongly: better impact orientation, stronger focus on democratic governance, enhanced accountability and dialogue. However, most of this is still in an early stage. It remains to be seen whether or not these conceptual ideas will materialise.

### **Poverty Focus**

According to its own statements, the current EC strategy in Zambia is clearly in line with the priorities reflected in the country's 2002 PRSP. The EC argues that especially its budget support programme (signed in 2004) intends to support the implementation of the government's poverty reduction policies. But some voices from civil society criticise that the EC strategy was more or less based on its own priorities (cf. Mali 2006, 5). However, the very broadly formulated, comprehensive, but poorly prioritised Zambian PRSP covered almost all areas in which donors are active – this gives donors a lot of room for the alignment argument.

### **Impact**

With regard to the concrete measurable results of EC aid for the poor, there is (very) little knowledge about the pro-poor impact of EC aid available. This is especially apparent in non-social sectors like transport and macro-economic support. In the road sector, for example, no explicitly poverty-related evaluations have been made yet, but they shall be an integrated part in the future. The heavy concentration of EC aid on trunk and main roads raises doubts on the pro-poor effect of EC aid's priorities. But new thinking in terms of performance and impact assessment with regard to poverty reduction has led to new instruments in EC aid, too. Budget support is seen as such an instrument. Some argue that it has helped to increase expenditure in health and education. But there is no direct link visible between donor aid and poverty reduction impact – overall pro-poor impact might need more time, however. But there is also a problem of pro-poor expenditure tracking, the fear that funds are misused and administrative overhead costs overspent.

### **New Aid Mechanisms and Democratic Governance**

There is no sufficient democratic framework for budget support in Zambia, on the contrary: budget support is influencing the whole budget process without involving the legislature. Civil society plays a bigger role in the budget process nowadays but still limited due to capacity and political constraints. For many years, the EC has not prioritised involving civil society in budget aid decisions, but this is changing slowly. The EC has started to support civil society involvement in the budget processes, however there are also some weaknesses in the new approach. The coordination of donor policies is strongly advocated by the EC, a development which is seen positive by important voices from the Zambian civil society although it is criticised that the harmonisation process is taking place behind closed doors. The Zambian Parliament and civil society representatives are not involved in these debates.

### **Accountability**

EC aid operations in Zambia are not very transparent for the general public or even better-informed civil society activists. The website of the Delegation or printed materials offer limited up-to-date information on actual EC aid to Zambia, its implementation and impact. There has been limited involvement of civil society in the programming process of the 9<sup>th</sup> EDF, and the recent process



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preparing the 10th EDF does not look significantly different. There is still no institutionalised dialogue mechanism in place.

Focal area	9 <sup>th</sup> EDF real implementation envelope, M €	% of 9 <sup>th</sup> EDF	10 <sup>th</sup> EDF proposed initial allocation, %
General Budget Support	175	47,9%	40-45%
Transport	108	29,6%	25-30%
Capacity Building (PEMFA, MCTI – Private Sector)	36	9,9%	-
Human Development (including health and education)	24	6,6%	10-20%
Food Security, Agriculture	17	4,7%	10%
Non-State Actors	5	1,3%	5%
Governance	5	-	5%
<b>Total</b>	<b>365</b>	<b>100%</b>	<b>100%</b>

Source: Eurostep 2006: We decide, You "own"! An Assessment of the Programming of European Community Aid to ACP countries under the 10th European Development Fund (EDF); A Zambian perspective: 6.  
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# List of interviews

Name	Title	Organisation
<b>Bangladesh</b>		
Dr. Benedict D' Rozario	Executive Director	Caritas Bangladesh
Francis A Sarker	Development Director	Caritas Bangladesh
Abdul Majid Mallick	Director, Development Education	Caritas Bangladesh
Mosarraf Hosain	Executive Director	Action on Disability and Development (ADD)
Mahbubul Islam	Programme Coordinator	DIPSHIKHA
Raseda K Chodhury	Executive Director	Campaign for Popular Education (CAMPE)
Philip Gain	Executive Director	Society for Environment and Human Development (SEHD)
Sharif A Kafi	Executive Director	Bangladesh Development Partnership Centre (BDPC)
Ali Forder	Health & Population Adviser	United Kingdom Department for International Development DFID
Dietrich Stotz	Consultant	German Cooperation Agency GTZ
Peter Herzig	Health Advisor	EC Delegation in Dhaka
Dr. Stefan Lock	Second Secretary, responsible for education sector	EC Delegation in Dhaka
Fabrizio Senesi	Programme Officer, NGO Affairs	EC Delegation in Dhaka
<b>Cameroon</b>		
Léopold Mamtsaï	Coordinateur National	BASC/Bureau des Activités Socio-Caritatives – Caritas Cameroun
Isabelle Muller	Assistante Technique	BASC/Bureau des Activités Socio-Caritatives – Caritas Cameroun
Pie Kateihabawa	Coordinateur	PCPA/Programme Concerté Pluri-Acteurs
Christine Andela	Présidente Coordinatrice	COSADER/Collectif des ONG sur la Sécurité Alimentaire et de Développement Rural Les Jeudis de Cotonou
André Marie Afouba	Coordinateur Général Adjoint	CANADEL/Centre d'Accompagnement de Nouvelles Alternatives de Développement Local
Rigobert Ntep	Secrétaire Général	Global Environment Cameroon
Jean Jacques Mbelle Abega	Président	Fondation Conseil Jeune
Benoît Essiga	Président confédéral	Syndicat CGT-Liberté
Jean-Marc Bikoko	Président	Centrale Syndicale du Secteur Public du Cameroun
Babissakana	Chairman	Prescriptor
Isaac Tamba	Secrétaire Exécutif	CREDDA/Centre de Recherches pour le Développement Durable en Afrique
Joseph Claude Gwed-Bi-Minyem	Coordonnateur National	Coopération Cameroun-Union Européenne – Ministère de l'Economie et des Finances – Cellule D'appui à L'ON-FED
Roger Mbassa Ndine	Secrétaire Général	Ministère de la Planification, de la Programmation, du Développement et de l'Aménagement du Territoire
Dieudonnée Godwin Zonou	Directeur des Investissements et de l'Entretien Routier	Ministère des Travaux Publics
Louis-Claude Nyassa	Député – Président de la Commission	Commission des Finances et du Budget de l'Assemblée Nationale du Cameroun
Michel Bua	Conseiller Secteur Economie-Finance	Ambassade de France – Service de Coopération et d'Action Culturelle



## The EU's Footprint in the South

Emile Jeannée	Coordinateur de la Coopération	Délégation de la Commission européenne
Efrstratios Pegidis	Chef de Section	Délégation de la Commission européenne
Vincent Nougarede	Section Socio-économique et Thèmes Transversaux	
Ioannis Tzartzas	Section Infrastructures	Délégation de la Commission européenne
Isabelle Hubert	Section Economique et Commerciale	Délégation de la Commission européenne
Alvise Forcellini	Jeune Expert	
Michel Schleiffer	Section Développement Rural	Délégation de la Commission européenne
Dominique Davoux	Chef de Section Finances et Contrats	Délégation de la Commission européenne
Clodagh O'Brien	Chargée de relations Cameroun	Commission européenne – Direction Générale Développement
Luigi Brusa	Coordinateur géographique Afrique Centrale	Commission européenne – EuropeAid Office de Coopération
<b>Ethiopia</b>		
Ato Yibrah Hagos	Fundraising Officer	Relief Society of Tigray
Ato Ahmed Ali	Acting Programme Manager	Oxfam, GB
Ato Bekele Nigussie	Planning Manager	Ethiopian Road Authority
Martin Kerridge	Team Leader – working on the National transport Master Plan of Ethiopia	COWI- COWI Pan-African consultants
Ato Mesfin Tilahun	EU Cooperation Unit, Expert	Government Representative: MOFED
Ato Solomon Shewaye	Head of Aid and Loan Audit Division	Government Representative: OFAG (Office of the Federal Auditor General)
Margaretha Sundgren	First Secretary	Bilateral Organisation, Swedish Development Agency SIDA
Fiona Shera	Deputy Head of Office	United Kingdom Department for International Development
Nicola Delcroix	Head of Co-operation	EC Delegation
Joris Heeren	Second Secretary (Economic Advisor)	EC Delegation
<b>Guatemala</b>		
Henry Morales	Ex coordinador del Mesodiálogo	TZUM KIM-POP – CAD
Juan Antonio	Coordinación C.A.	Asociación para la Promoción y el Desarrollo de la Comunidad (CEIBA)
René Silvestre	Responsable	Asociación Servicios a Programas de Desarrollo e Investigación (ASO-SEPRODI)
Leonicia Pocop Saloj	Directora	Cooperación Indígena para el Desarrollo Integral (COINDE)
Guillermo Barrios	Responsable C.A.	Coordinación de ONGs y Cooperativas (CONGCOOP)
Lidia Morales		Instancia Nacional de Salud (INS) / Medicus Mundi
Luis Linares	Secretario Ejecutivo Adjunto	Asociación de Investigación y Estudios Sociales (ASIES)
Sotero Sincal	Presidente del Fongi	Foro de ONGs Internacional (FONGI)
Benjamín Soj	Responsable de proyectos	Cooperación para el Desarrollo Rural de Occidente (CDRO)
Carlos Rodríguez	Responsable programa descentralización	Servicios Jurídicos y Sociales (SERJUS)
Esmeralda Alfaro	Responsable	Tierra Viva
Claudia María Mazariegos Sánchez	Coordinadora	Asociación femenina para el desarrollo de Sacatépequez



Martha Godinez	Coordinadora	Sector de Mujeres
Tiss Pérez	Miembro	Sector de Mujeres / Centro de Investigación y Educación Popular (CIEP)
Blanca Blanco	Coordinadora	Trócaire, Guatemala
Marta Ibero	Secretaría Ejecutiva	Iniciativa de Copenhague para Centroamérica y México (CIFCA)
Ing. Víctor Leonel Ramírez Hernández	Presidente de la Comisión de Finanzas Públicas	Congreso de Guatemala
Alfredo De León Solano	Diputado por el distrito metropolitano	Congreso de Guatemala
María Elena Ortiz Estrada	Sub-Directora de Cooperación Internacional Multilateral	Presidencia de la República Secretaría de Planificación y Programación (SEGEPLAN)
Licda. Ana María Ruiz García	Consultora de cooperación internacional	Presidencia de la República Secretaría de Planificación y Programación (SEGEPLAN)
Peter Luhman	Director	Cooperación Técnica Alemana (GTZ)
Francisco Sancho López	Coordinador General	Agencia Española de Cooperación Internacional (AECI)
María José Risco Cenicerros	Adjunta al coordinador general	Agencia Española de Cooperación Internacional (AECI)
Beat Roht	Representante residente	Programa de Naciones Unidas para el Desarrollo (PNUD)
Philippe Dewez	Representante en Guatemala	Banco Interamericano de Desarrollo (BID)
Mariano Naoshi Yano	Especialista sectorial	Banco Interamericano de Desarrollo (BID)
Eric Beaume	Responsable Guatemala	CE, Bruselas
Federico Zorzán	Director Desk Guatemala	CE, Bruselas
Luis Godinho	Jefe de la Cooperación	CE Delegación Guatemala
Graciano Tonelloto	Jefe Asistencia técnica	Proyecto Tinamit
Jesús Villatoro	Responsable Nacional de Planificación	Proyecto Tinamit
<b>Nicaragua</b>		
Francisco Gutiérrez	Executive Director	Acción Médica Cristiana
Gerardo Gutiérrez	Programmes Director	Acción Médica Cristiana
Juan Sebastián Chamorro	Director General	Millennium Challenge Account
Théodulo Báez	Director	Nicaraguan Institute of Tax Research and Studies
Sinforiano Cáceres	President	National Federation of Cooperatives (FENACOOOP)
Carlos Pacheco Alizaga	Programme Officer	Trócaire
Alta Hooker	President	University of the Autonomous Regions of the Caribbean Coast of Nicaragua (URACCAN)
Néstor Avendaño	Consultant	Freelance economist
Miguel de Castilla Urbina	Currently research coordinator at the Central American University's Education Institute	FSLN-delegated Minister of Education (beginning 10/01/07)
Violeta Granera	Director	Consejo Nacional de Planificación Economica (CONPES)
Carlos Benavente	Representative to CONPES	Civil Coordinator
Adolfo Acevedo Vogl	Coordinator of the Economic Commission	Civil Coordinator
Mario Quintana Flores	National liaison	Civil Coordinator
Mauricio Gómez Lacayo	Secretary for Economic Relations	Ministry of Foreign Affairs
Miguel Aguilera Medal	NGO Director	Ministry of Foreign Affairs
Guillermo Osorno Molina	Second vice-president of the National Assembly and member of the Assembly's Economic Commission	National Assembly



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Michaela Ellmeier	Office Director	Development Cooperation Office – Austrian Embassy in Guatemala
María Rosa Renzi	Coordinator of the Gender Approach Programme	United Nations Development Programme UNDP
Emilio Canda Moreno	First Counselor	Delegation of the European Commission
María Dolores Monge	Advisor on cooperation issues	Delegation of the European Commission
Mónica Peiró	Advisor on cooperation issues – budgetary support.	Delegation of the European Commission
Marta Gallardo	Advisor on cooperation issues - rural sector	Delegation of the European Commission
Elena Getino	Advisor on cooperation issues - education sector	Delegation of the European Commission
Enrique Sáenz	Advisor on cooperation issues – governance sector	Delegation of the European Commission
<b>Zambia</b>		
Besinati Mpepo Phiri	Co-ordinator	Civil Society for Poverty Reduction (CSPR)
Thomas Mateo	Research & Policy Analysis Officer	Civil Society for Poverty Reduction (CSPR)
Pete J. Henriot	Director	Jesuit Centre for Theological Reflection (JCTR)
Nachilala Mkombo	Co-ordinator Debt and Trade Project	Jesuit Centre for Theological Reflection (JCTR)
Mulima Kufekisa	Economic Justice Programme Coordinator	Catholic Centre for Justice, Development and Peace (CCJDP)
Namukolo Liywalii	Assistant Programme Officer Economic Justice	Catholic Centre for Justice, Development and Peace (CCJDP)
Edmond Kangamungazi	Programme Manager	Economic Association of Zambia
Venkatesh Seshamani	Professor	University of Zambia, Lusaka, Department of Economics
Crispin Matenga	Senior Researcher	University of Zambia, Lusaka, Department of Development Studies
Fred Mutesa	Senior Researcher	University of Zambia, Lusaka, Department of Development Studies
Isabel N.L.Tembo	Senior Programme Officer	Programme Against Malnutrition
Erasmus Chilundika	Manager – Planning & Design	Road Development Agency (RDA)
Thomas Krimmel	Development Co-operation Advisor	Ministry of Finance and National Planning, National Authorising Office of the European Development Fund
David Ndopu	Director Economic and Technical Cooperation Department	Ministry of Finance and National Planning
Philip Graf von Schwerin	Senior Project Manager	Kreditanstalt für Wiederaufbau (KfW), Lusaka
Markus Nuding	Team Leader	German Cooperation Agency GTZ Lusaka, Capacity Building for Civil Society Organisations
Chris Pain	Advisor	German Cooperation Agency GTZ Lusaka Office, Capacity Building for Civil Society Organisations
Birgit Pickel	First Secretary, Head of Division for Development Cooperation	German Embassy
Jürgen Kettner	Second Secretary, Head of Infrastructure Section	EC Delegation Lusaka
Juan José Villa Chacón	Attaché, Private Sector Development and Civil Society	EC Delegation Lusaka

# Abbreviations

ACP	African, Caribbean, Pacific [EU partnership agreement group of countries]
AIDCO	EuropeAid Co-operation Office
CBO	Community Based Organisation
CE	Caritas Europa
CCJDP	Catholic Commission for Justice, Development and Peace (Zambia)
CIDSE	Coopération Internationale pour le Développement et la Solidarité
CONCORD	European NGO Confederation for Relief and Development
CP	Cooperating Partner(s)
CSO	Civil Society Organisation
CSPR	Civil Society for Poverty Reduction (network in Zambia)
CSP	Country Strategy Paper (EC development cooperation)
DFID	Department for International Development
EC	European Commission
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
EURODAD	European Network on Debt and Development
EUROSTEP	European Solidarity Towards Equal Participation of People
GBS	General Budget Support
GRZ	Government of the Republic of Zambia
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
IDA	International Development Association (World Bank)
IFI	International Finance Institution (IMF and World Bank)
IMF	International Monetary Fund
INGO	International NGO
JCTR	Jesuit Centre for Theological Reflexion (Zambia)
LIC	Low Income Country / Countries
LDC	Least Developed Country
LMIC	Lower Middle Income Country / Countries
MDG	Millennium Development Goals
MoU	Memorandum of Understanding
MTEF	Medium-term Expenditure Framework
NIP	National Indicative Programme
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD / DAC	Organisation for Economic Co-operation and Development / Development Assistance Committee
OLIC	Other Low Income Country / Countries
PASDEP	Plan for Accelerated and Sustained Development to End Poverty (Ethiopia)
PBS	Protection of Basic Services (Ethiopia)
PRGF	Poverty Reduction Growth Facility
PGBS	Partnership General Budget Support (PGBS)
PRBS	Poverty Reduction Budget Support (Zambia)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
ROM	Results-oriented Monitoring
SWAP(s)	Sector-wide Approach(es)
UNDP	United Nations Development Programme



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# Members of the CIDSE-Caritas Europa reference group on EU Development Policy

## Broederlijk Delen

Contact person: Bart Bode  
165, Huidevettersstraat  
1000 BRUSSELS – BELGIUM  
Tel: (32) 2 213 04 30  
Fax: (32) 2 502 81 01  
Email: bart.bode@broederlijkdelen.be  
Web: <http://www.broederlijkdelen.be>

## CAFOD - Caritas England & Wales

Contact person : George Gelber  
2 Romero Close, Stockwell Road  
LONDON SW9 9TY – UK  
Tel : (44) 20 70955424  
Fax : (44) 20 72749630  
Email : ggelber@cafod.org.uk  
Web : <http://www.cafod.org.uk>

## CCFD

Contact person: Nicolas Vercken  
4, rue Jean Lantier  
75001 PARIS – FRANCE  
Tel: (33) 1 44 82 81 61  
Fax: (33) 1 44 82 81 43  
Email: n.vercken@ccfd.asso.fr  
Web: <http://www.ccfid.asso.fr>

## CORDAID – Caritas Netherlands

Contact persons: Izabella Toth and Rick van der Woud  
Lutherse Burgwal 10  
Postbus 16440  
2500 BK DEN HAAG – THE NETHERLANDS  
Tel: (31) 70 31 36 300  
Fax: (31) 70 31 36 152  
Email: izabella.toth@cordaid.nl / Rick.van.der.Woud@cordaid.nl  
Web: <http://www.cordaid.nl>

## KOO/Horizont3000 – Austrian Organisation for Development Co-operation

Contact person: Thomas Vogel  
Wohllebengasse 12-14  
1040 WIEN - AUSTRIA  
Tel: (43) 1 50 3000 3 77  
Fax: (43) 1 50 3000 4  
Email: thomas.vogel@horizont3000.at  
Web: <http://www.horizont3000.at>

Misereor

Contact persons: Maria Winnubst and Corinna Broeckmann  
9, Mozartstrasse – Postfach 101545  
52015 AACHEN – GERMANY  
Tel: (49) 241 44 20  
Fax: (49) 241 44 21 88  
Email: [winnubst@misereor.de](mailto:winnubst@misereor.de) / [broeckma@misereor.de](mailto:broeckma@misereor.de)  
Web: <http://www.misereor.de>

Secours Catholique – Caritas France

Contact persons: Anne-Marie de Vassal and Michel Roy  
106 rue du Bac  
75341 PARIS Cedex 07 – FRANCE  
Tel: (33) 1 45 49 73 00  
Fax: (33) 1 45 49 94 50  
Email: [anne-marie-de-vassal@secours-catholique.asso.fr](mailto:anne-marie-de-vassal@secours-catholique.asso.fr) / [michel-roy@secours-catholique.asso.fr](mailto:michel-roy@secours-catholique.asso.fr)

Trócaire – Caritas Ireland

Contact persons: Caoimhe de Barra and Aoife Black  
Maynooth – Co. Kildare – IRELAND  
Tel: (353) 1 629 3333  
Fax: (353) 1 629 0661  
Email: [cdbarra@trocaire.ie](mailto:cdbarra@trocaire.ie) / [ABlack@trocaire.ie](mailto:ABlack@trocaire.ie)  
Web: <http://www.trocaire.org>

CIDSE and Caritas Europa Secretariats

Contact person: Denise Auclair  
Rue Stévin 16  
1000 BRUSSELS – BELGIUM  
Tel: (32) 2 233 37 58  
Fax: (32) 2 230 70 82  
Email: [auclair@cidse.org](mailto:auclair@cidse.org)  
Web: <http://www.cidse.org> and <http://www.caritas-europa.org>



# Member organisations of CIDSE and of Caritas Europa

## CIDSE member organisations

Broederlijk Delen	BELGIUM
Catholic Agency for Overseas Development (CAFOD)	ENGLAND AND WALES
Comité Catholique contre la Faim et pour le Développement (CCFD)	FRANCE
CORDAID (Catholic Organisation for Relief and Development)	NETHERLANDS
Développement et Paix/Development and Peace	CANADA
Entraide et Fraternité	BELGIUM
Fastenopfer der Schweizer Katholiken	SWITZERLAND
Koordinierungsstelle	AUSTRIA
Manos Unidas	SPAIN
Misereor	GERMANY
Scottish Catholic International Aid Fund (SCIAF)	SCOTLAND
Trócaire	IRELAND
Volontari nel Mondo - FOCSIV	ITALY

## Associate members

Bridderlech Deelen	LUXEMBURG
Center of Concern	USA

## Caritas Europa member organisations

Caritas Albania	ALBANIA
Caritas Andorrana	ANDORRA
Caritas Armenia	ARMENIA
Österreichische Caritaszentrale	AUSTRIA
Caritas Belarus	BELARUS
Caritas Belgium - en Communauté Francophone et Germanophone	BELGIUM
- Secours International de Belgique	BELGIUM
- Vlaanderen	BELGIUM
Caritas Bosnia-Herzegovina	BOSNIA-HERZEGOVINA
Caritas Bulgaria	BULGARIA
Caritas Croatia	CROATIA
Caritas Czech Republic	CZECH REPUBLIC
Caritas Denmark	DENMARK
Catholic Fund for United Kingdom (CAFOD)	ENGLAND AND WALES
CSA - Caritas Social Action	ENGLAND AND WALES

Caritas Estonia	ESTONIA
Caritas Finland	FINLAND
Caritas France- Secours Catholique	FRANCE
Caritas Georgia	GEORGIA
Deutscher Caritasverband	GERMANY
Caritas Hellas	GREECE
Caritas Hungarica	HUNGARY
Caritas Island	ISLAND
Trócaire (Caritas Ireland)	IRELAND
Caritas Italy	ITALY
Caritas Latvia	LATVIA
Caritas Lithuania	LITHUANIA
Caritas Luxembourg	LUXEMBURG
Caritas Macedonia	MACEDONIA
Caritas Malta	MALTA
Caritas Moldova	MOLDAVIA
Caritas Monaco	MONACO
CORDAID (Caritas Netherlands)	NETHERLANDS
Caritas Norge	NORWAY
Caritas Polska	POLAND
Caritas Portuguesa	PORTUGAL
Confederatia Caritas Romania	ROMANIA
Caritas Russia - Federal Caritas of Russia	RUSSIA
- Caritas of the Asian Part of Russia	RUSSIA
- Caritas of the European Part of Russia	RUSSIA
Scottish Catholic International Aid Fund (SCIAF)	SCOTLAND
Caritas Serbia and Montenegro	SERBIA AND MONTENEGRO
Slovenska Katolicka	SLOVAKIA
Caritas Slovenia	SLOVENIA
Caritas Española	SPAIN
Caritas Sweden	SWEDEN
Caritas Schweiz	SWITZERLAND
Caritas Turkey	TURKEY
Caritas Ukraine - Caritas of the Greek Catholic Church	UKRAINE
- Caritas of the Roman Catholic Church	UKRAINE











The European Commission is the third largest donor of development assistance in the world, and like all donors has committed to improve the effectiveness of its aid. Drawing upon research in Bangladesh, Cameroon, Ethiopia, Guatemala, Nicaragua, and Zambia, this report asks: Does European Community (EC) aid support developing countries' own priorities for poverty reduction, or do European interests still play a role? How do new EC aid mechanisms, such as direct budget support, affect the accountability of developing country governments to their citizens? To what extent is local civil society involved in EC aid? And what do we know about the actual impact of EC aid?

The report demonstrates that progress has been made towards more effective EC aid, but that much more could be done so that these precious resources make a visible difference in the lives of people living in poverty. It sets out concrete ways in which the EC can improve the impact of its aid for the poor, supported by good examples from current EC practice demonstrating that change is possible.



Caritas Europa has 48 members in 44 European countries, many of which are involved in development work.



CIDSE member organisations

